

A STRATEGY takes WINGS

ANNUAL REPORT

2006 ~ 2007



**SUBEXAZURE**  
...Powering the ROC





Individual forces with distinctive strengths. CHOSEN WITH DISCRETION, NURTURED WITH CARE. Flowing in harmony, strengthening each other.

## STRENGTHS in SYNERGY

Like fingers that work magic together, Subex Azure's five elements of strategy complement each other. Forming a robust, imaginative growth strategy. Evolving smart and sustainable plans. Creating a vision that goes beyond current success: a global leader in OSS solutions, an empowering partner to telecom enterprises, the pioneer of the ROC concept...

Five currents seamlessly forming a single, potent stream. One that will create ripples well into the future.



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## HIGHLIGHTS OF 2006-07

- Acquired Syndesis Limited, added Fulfillment and Assurance as its third business unit (BU)
- Launched new brand identity for integrated suite of revenue maximization solutions - Rocware™
- Subex Azure listed on the London Stock Exchange (LSE)
- Unveiled ROC at the 3GSM World Congress in Barcelona
- Successfully integrated Subex and Azure businesses, people and products
- Launched Prevea – the latest addition to RevMax solutions
- Won over 23 new customers, apart from several other sales wins from existing customers
- Raised US \$180 million through the issue of convertible bonds





## INVESTING INCREMENTALLY to NURTURE SUCCESS

At Subex Azure we believe in a sustainable investment model, investing incrementally for better returns. The investment is stepped up only in relation with the returns and not with the hype.



## KEY FINANCIALS AND RATIO ANALYSIS

Year ended March 31, 2007

Particulars	Figures in INR Million, except key indicators
Total income	3,710.91
Export sales (incl. sales from overseas subsidiaries)	3,701.24
Operating profits (EBDIT)	812.46
Depreciation & amortization	148.53
Profit before tax	576.61
Profit after tax	675.66
Equity dividend	35%
Share capital	348.16
Reserves & surplus	8,059.12
Net worth	8,286.31
Gross fixed assets	821.73
Net fixed assets	358.55
Total assets	17,787.98
<b>Key Indicators</b>	
Earning per share (year end) - Rs.	19.41
Cash earning per share (year end) - Rs.	12.74
Book value per share - Rs.	238.00
Debt (incl. working capital) equity ratio - Rs.	1.02
EBDIT / Sales	24%
Net profit margin	20%
Return on year end net worth	8%
Return on year end capital employed	5%

Revenue

Up **87.89%**

FY07 Rs. 3409.00m

FY06 Rs. 1814.34m

Basic EPS

Up **19.75%**

FY07 Rs. 21.10m

FY06 Rs. 17.62m

Profit After Tax

Up **78.51%**

FY07 Rs. 675.66m

FY06 Rs. 378.49m

EBIDTA

Up **52.96%**

FY07 Rs. 812.45m

FY06 Rs. 531.15m



## NICHE FOCUS *for a* CLEAR VISION

We have always chosen to operate in a clearly defined, focused area with respect to products and markets. This has brought us considerably better returns and accolades from investors.





## LETTER TO THE SHAREHOLDERS

### Subash Menon

Founder Chairman, Managing Director & CEO

Dear Shareholder,

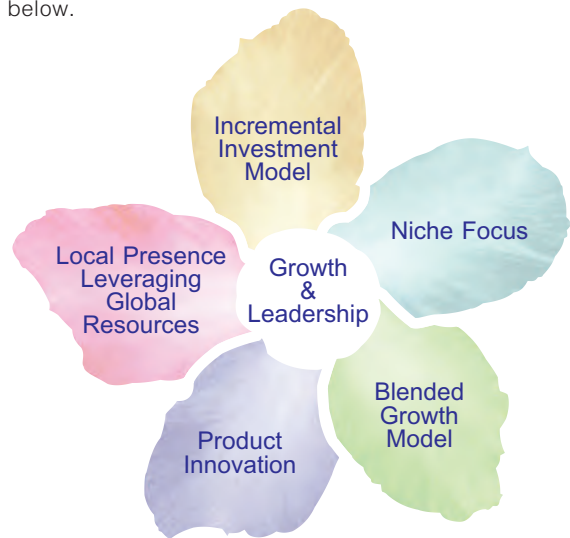
Financial year 2007 has been a very eventful one for your company. We acquired Azure Solutions Limited, UK and Syndesis Limited, Canada. Further, we listed on the London Stock Exchange vide a Sponsored Global Depository Receipt (GDR) and also raised US\$ 180 million through a Convertible Bond offering with a tenure of 5 years. The year was indeed action-packed. The kind of action that will have a salutary effect on the future prospects of your company and result in investments that will bring good returns in the future.

The question is, are these isolated actions? Or are they part of a strategic plan? But before we get to that, let me take you through the key financials for FY07. While the total revenue of the company increased by 101% to reach Rs. 3,711.2 million, product revenue recorded a growth of 96%. The contribution of products to the total revenue stood at 67% and Profit After Tax grew by 79% to reach Rs. 675.66 million.

Let us now go back to the strategic plan. Your company formulated its long term objective and the strategic plan in 2003 and has been executing that plan ever since, in phases. The first phase was the acquisition of the fraud management businesses of Alcatel and Lightbridge and the objective was to enter developed markets. The second phase was the acquisition of Azure Solutions and the objective was to achieve market leadership and to gain stature and credibility. The third phase was the acquisition of Syndesis and the objective was to expand our offering to become a provider of the entire telecom Operations Support Systems (OSS) suite. This plan that has had three phases till date is based on an overarching strategy that we call the Five Petal Strategy. I believe that the success achieved by the company in software products, in competition with global companies and on a global scale, establishes the effectiveness of our strategy.

### The Five Petal Strategy

As the name indicates, the strategy has five equally important elements, depicted as five petals as shown below.



### Product Innovation

This is a critical element for the success of any product company as the features and functionalities of the product and the timing of the launch of different versions go a long way in making the company competitive in the market place. Product companies should be able to gauge the needs of the market in advance, comprehend fully and devise solutions to meet those needs. The race is to perform these tasks more effectively than and ahead of the competition and that calls for innovation. Subex Azure has been quite innovative from the very early stages of its existence in this space including the design and launch of features like subscriber pre-check for the fraud management product. We have also been quite innovative with our road map, with the conceptualization and launch of platforms like the Revenue Operations Center.

## Local Presence Leveraging Global Resources

Today's flat world is highly networked and leading companies now practice integrated resource management on a global scale. This essentially utilizes optimal and specialized resources located in dispersed geographies to effectively perform multiple tasks and projects. Subex Azure conducts its business in a very similar manner. We have personnel in every major location to handle sales and the first level of support as expected by the customers in the respective region. This enables us to perform sales and support in accordance with the local practices using teams with relevant expertise and regional exposure. These teams are ably supported by engineering and back-end support based in Bangalore. The large team in Bangalore also provides on-site personnel to fulfill the demands from other regions. This structure enables us to meet the needs of the customers in an effective manner while ensuring control over costs.

## Incremental Investment Model

Software product companies generally have a tendency to invest enormous amounts of money in sales and marketing at the very beginning of their life to generate substantial hype. Actual revenue generation lags these investments. If the lag is longer than what was planned for initially, such cash burn results in the continuing need to raise more funds and might even lead to bankruptcies, if the investment climate is not supportive. At the very least, companies in this mode fail to be profitable for very long periods of time. Subex Azure adopted a very different model right from the beginning – one where investment and return go hand in hand without one lagging the other too much. In this model, we invest a small amount and wait for the return. Once the return happens, additional investments are made. This model enables quick feedbacks providing an opportunity for mid-course corrections, should the need arise.

## Niche Focus

Focus is another key element of our strategy. This keeps the company on track without getting derailed due to other enticing opportunities. Any product company will

come across multiple possibilities in the product space, all of which look quite attractive. Responding to such attractions, some companies commence investing in those areas. The result is an organization that has spread itself too thin and has lost its specializations that were wrought by its initial focus. Investment in the relevant areas gets choked and the company fails to achieve leadership in its core area. Subex Azure has steered clear of such an eventuality by maintaining its razor sharp focus in a particular area. This has equipped us with the necessary power to excel in our business and to attain leadership.

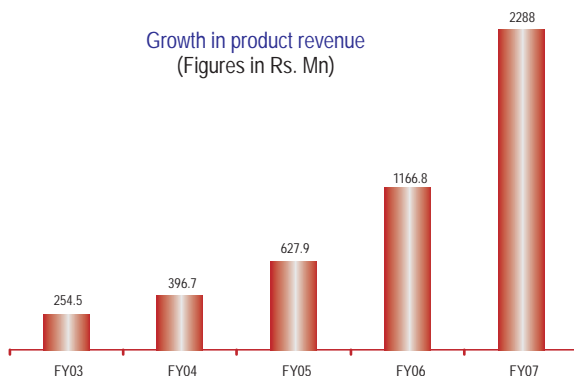
## Blended Growth Model

That brings me to the last element of our Five Petal Strategy. Products companies worldwide have used acquisitions as a way to grow. However, statistics tell a different story. Almost 67% of all M&A transactions fail, leading to significant loss to shareholder value and even bankruptcy, in some cases. In all these cases, the desired growth fails to materialize and the M&A transactions become counter productive. In certain other cases, while abject failure is not the result, the sought after growth proves elusive. The primary reason behind such a poor performance is the



wrong choice of target coupled with poor execution. At Subex Azure, we have adopted a model that ensures growth. The first step towards achieving that is to choose the target very carefully ensuring that the strategic fit is not sacrificed. Given the strategic fit with the continuing business, the acquired entity lends itself to be leveraged, leading to excellent organic growth on top of the acquired business. Such a unique combination of organic and inorganic growth models is very potent and has powered the organization ahead. Given the blend of both organic and inorganic growth, internal synergies get leveraged, the inherent strengths are employed well and the resulting entity attains superior positioning vis-à-vis competition.

As stated above, your company has been employing this Five Petal Strategy since 2003 and has now accumulated considerable evidence to prove the efficacy of the strategy. The overall results have been quite impressive with product revenue growing at a CAGR of 73% from FY03 to FY07 as shown in the following graph.



## Syndesis

It is now time to go back to the third phase of our growth. In this phase, we have acquired Syndesis, a Canadian company operating in the telecom service fulfillment space. Syndesis is a leader in the service activation space and has strong offerings in service provisioning and network inventory management. The products from Syndesis embellish the Revenue Operation Center framework from Subex Azure and make the overall offering a very attractive one for our customers. This is

expected to boost the prospects of the continuing business of Subex Azure while paving the way for cross selling opportunities for both the Revenue Maximization Solutions and Fulfillment & Assurance Solutions business units. Therein lies the strategy that we always seek and establish prior to any acquisition.

## Looking Ahead

Today, your company is the global leader in Revenue Maximization and we are driving towards leadership in the entire telecom OSS space. All the necessary ingredients are in place, including a time-proven strategy – our very own Five Petal Strategy. Above all, we are powered and are being propelled forward by a committed and highly qualified group of individuals – Subexians. A group of individuals who excel as a team and have brought superior returns to the shareholders, ever since we went public in 1999. It is my honour and privilege to thank each and every Subexian, for having provided me with every reason to believe that they will continue the pursuit of excellence, in the supreme interests of the shareholders.



## THE **IOCVARE™** ROSTER

### Revenue Maximization solutions

**Moneta™** Revenue Assurance System is a first-of-its-kind, complete RA solution, designed to tackle critical revenue assurance challenges across the entire revenue chain. It offers a set of pre-configured solution templates to address RA challenges inherent to individual service verticals – Wireless, Fixed, Cable, MSPs & MVNOs.

**Nikira™** Fraud Management System is a state-of-the-art solution built to deliver on a 3-step philosophy of Detect-Investigate-Protect. Nikira detects known fraud types and patterns of unusual behaviour; helps investigate these unusual patterns for potential fraud and uses the knowledge thus generated to upgrade and protect against the future.

**Prevea™** Risk Management System empowers operators to continuously assess and mitigate risk presented by subscribers throughout their lifecycle, by tracking risk in realtime during subscriber acquisition, ongoing usage and collections & recovery.

**Concilia™** Interconnect Billing System allows operators to quickly and accurately settle charges with their network partners. It provides operators with the ability to manage these major costs & revenues on a day-to-day, hour-to-hour basis.

**Symphona™** Interparty Management System enables operators to bill their customers and settle with their partners on a single modular platform. The system is able to support multiple business models and multiple currency transactions within a single implementation through seamless addition of necessary modules.

**Optima™** Route Optimization System is designed to provide operators with the tools to manage network cost information. The system is capable of taking into account factors such as call quality rate information, capacity and network costs in calculating the optimum choice of operators.

### Fulfillment and Assurance solutions

**Syndesis Adaptive Resource Manager** is the industry's only 'live' inventory management solution which offers service providers a low-risk path to operational transformation and highly accurate inventory management.

**Syndesis Application Configuration Manager** automates the configuration, management, and detailed discovery of applications, policy servers, subscriber databases, and other service delivery platforms, making self-service a reality for the mass market.

**Syndesis Controller** offers pre-integrated, best-in-class Order Management, Service Catalog Management and Technical Workflow solution, providing the basis for the automation of the complete order-to-bill cycle and enhancing scalability and visibility for the entire fulfillment process.

**Syndesis Express** provides complete subscriber-centric fulfillment for IPTV, VoIP, and other targeted advanced service offerings from a wholly integrated architecture, enabling rapid service definition; integrated service design and activation across connectivity and applications; and real-time subscriber self-management.

**Syndesis NetOptimizer** takes the risk, time and effort out of the toughest service migrations through service-aware automation, transforming over-engineered network into right-sized networks.

**Syndesis NetProvision** increases your revenues and drives down your time-to-market and operations costs by automating the design and activation of complex, application-aware connectivity, enabling flow-through provisioning of next-gen data and IP services across multi-vendor, multi-technology networks.

**Syndesis TrueSource** employs an operations-wide approach to solving data integrity problems, combining three powerful data integrity functions: multi-layer network and service discovery, data reconciliation, and discrepancy analytics.



## OPERATIONAL DEXTERITY: THE NEXT FRONTIER

*Sudeesh Yezhuvath, Chief Operating Officer*

Worldwide, telecom markets are changing at a frenetic pace and telecom operators (telcos) are faced with challenges like never before. Change is all-pervasive – in network technologies, evolution of IT, shifting customer needs, emergence of new competition etc. – and the whole sector is going through the pangs of evolution into the next generation. Telcos used to operate within the cocoon of regulated markets where profits were assured and simply arrived at by adding the agreed margin on top of costs. In today's de-regulated, free markets such luxuries are long gone; the market decides the price, and margins – if any – are earned through efficient and agile operations. In short, telcos will have to differentiate based on their ability to practise operational dexterity.

To fully understand operational dexterity, let us examine what telcos need to do to overcome the challenges as mentioned above. On the one hand, volumes and complexity are increasing and today's highly demanding customers have ever changing needs. On the other, Average Revenue Per User (ARPU) is constantly eroding and the focus is shifting to Average Margin Per User (AMPU). This means that telcos need to be very proficient in their internal operations so that they can:

- Turn up and provide services to customers rapidly
- Meet and possibly exceed the quality of service expectations of customers
- Ensure revenue-efficient operations so that they do not lose out on margins

Indeed, the battle for telecom supremacy will be won or lost based on the telcos' ability to achieve these three objectives. The practice of operational dexterity encompasses all of the above.

Our objective is to be a key partner to the telcos in their quest for operational dexterity. In keeping with this objective, we have focused on and built a significant presence in revenue maximization – the element of

helping telcos to be efficient in their revenue management function. With more than one hundred and sixty customers in seventy countries world wide, we are clearly the market leader. The acquisition and successful integration of Azure Solutions Ltd. has cemented our position at the top in this space. We have solutions that cover the entire breadth of revenue maximization, namely:

- Moneta Revenue Assurance System
- Nikira Fraud Management System
- Prevea Risk Management System
- Concilia Interconnect Billing System
- Symphona Interparty Management System
- Optima Route Optimization System

This integrated suite of solutions form the basis of our industry-leading revenue maximization platform, the Revenue Operations Center (ROC). ROC was demonstrated successfully at 3GSM World Congress, Barcelona in February 2007 and was enthusiastically received.

After having established supremacy in revenue maximization, we have now branched out into the adjacent space of service provisioning with the acquisition of Syndesis. Syndesis was a market leader in service provisioning with a unique, best-in-call, carrier-grade platform designed to meet the stringent needs of world's biggest Tier-1 telcos. With the acquisition of Syndesis, we are now equipped to help telcos in areas of service fulfillment like:

- Automated, subscriber-centric fulfillment
- Data integrity management
- Inventory/ resource management
- New service creation & order management
- Service & network migration & optimization

This acquisition is a strategic step that helps us fill out an important piece in our product strategy.



At this juncture, it might be worthwhile to examine this product portfolio and its relevance in the context of our 'Five Petal Strategy'. The Five Petal Strategy is aimed at achieving Growth & Leadership, based on the themes of:

- Incremental Investment Model
- Niche Focus
- Blended Growth Model
- Product Innovation
- Local Presence Leveraging Global Resources

Product Innovation has always been our not-so-secret weapon and is all about anticipating and understanding the changes that happen in our market place and translating those into product related features.

Telcos look to thought leadership and solutions from vendors like us, to solve these new challenges that come in this dynamic market.

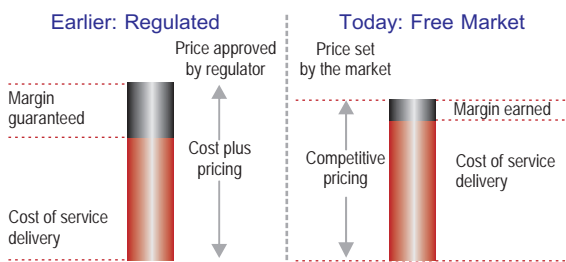
We have always been able to demonstrate these capabilities and our growth clearly sets out how we are leading from the front and setting new trends and thought leadership in our space. We can now help telcos to provision their customers rapidly, while enabling them to be revenue efficient in their operations. In short, we are now in a position to partner even more closely with telcos in their need to achieve operational dexterity – *we can now help them win the battle!*



## SWEEPING CHANGES IN THE ECONOMICS OF TELECOM BUSINESS

*Sanjeev Gadre, Vice President - Marketing*

Fundamental shifts are sweeping across the economic wings of the telecom business. Telecom operators have seen their margins dramatically shrink as the business model has changed from a regulated market to a free one. The key challenge therefore is to build a strategic framework that fosters sustained, profitable growth.



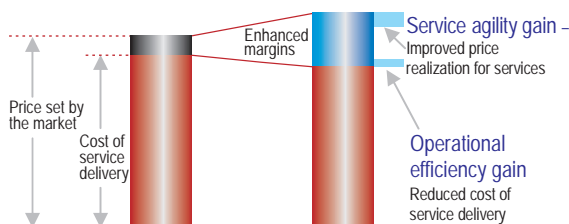
Telecom operators now need to focus on a combination of:

- *Service agility*
  - by reducing time-to-market for new services,
  - achieving rapid service provisioning,
  - by maintaining high quality of service delivery,

and doing all of this with,

- *Operational efficiency*
  - through cost efficient delivery of service.

We call this combination operational dexterity.



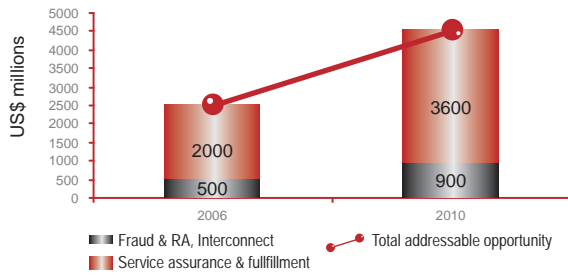
Operational dexterity ultimately allows operators to reverse the pressure on the margins by enjoying improved price realization through better quality of service and reduced cost of service through an efficient operation.

Subex Azure's articulated business goal is to be a leading vendor of telecom OSS solutions. A key element of our strategy is to offer a wide portfolio of software solutions that help telecom operators build competitive advantage. In line with the blended growth model which is part of the five petal strategy, Subex Azure recently completed the acquisition of Syndesis which has been a technology innovator and leader in providing solutions for many of these areas, most notably provisioning and automation of service creation, design and activation.

Therefore, through this acquisition, Subex Azure becomes an industry leader, offering a solution portfolio that truly enables operational dexterity for telecom operators. We see multiple synergies across product suites and many up-selling and cross-selling opportunities that will further fuel our growth and enable us, realizing our vision to become a leading vendor of telecom OSS solutions.

### Market Size and Growth

Subex Azure, prior to the acquisition, addressed the Fraud & Revenue Assurance and Interconnect segments of the OSS solution space. Post the acquisition, Subex Azure has added Service Assurance and Service Fulfillment segments to its total addressable market. Leading telecom analyst OSS Observer reports that the total addressable market size in 2006 for the combination of Fraud & Revenue Assurance, Interconnect, Service Assurance and Service Fulfillment segments is US \$2.5 billion. Moreover, this market size is expected to grow to US\$4.5 billion by 2010.



Further, it is our estimate that Subex Azure enjoys almost 25% market share of the Fraud & Revenue Assurance solution market. It will be Subex Azure's endeavor to replicate this success in all the addressed segments.

## Revenue Operations Center (ROC)

Subex Azure postulates that the Revenue Operations Center (ROC) is the key to telecom operators delivering operational dexterity.

The ROC is a centralized, integrated infrastructure that telecom operators can use to foster operational efficiency and service agility and thereby operational dexterity. Subex Azure's software solution portfolio helps power the ROC. The Rocware portfolio allows operators to monitor, control and ensure revenue chain integrity (operational efficiency) while delivering new network and application experiences to their customers (service agility).



## SUBEXIAN PRIDE AWARD WINNERS

Subexians who made us proud in 2006-07

Name	Division	Location
Achintya Kumar G	Engineering	India
Ajay Jose	Engineering	India
Ajitha B G	Engineering	India
Ajmal Yusuf	Engineering	India
Arun Murali	Engineering	India
Arun Rozario	PSO	India
Arvind P	PSO	India
Bernie Ingrams	BT Operations	UK
Binu K	Engineering	India
Blaze Thomas	PSO	India
Chetana R	Engineering	India
David Williams	PSO	UK
Deepa Sashindran	HR	India
Geetha Rao	Finance & Accounts	India
Girish Bhat	Sales	India
Graham Ellis	PSO	UK
Harish H S	System Administration	India
Howard Miller	PSO	UK
Jaideep Gopinath	Marketing	India
James MacEwan	PSO	UK
Jubin David	Engineering	India
Julia Davis	BT Operations	US
Karthikeyan R	PMG	India
Kurian Abraham	PSO	India
Mahesh Verma	Engineering	India
Manjunath Rao P R	System Administration	India
Muralidhar I M	Finance & Accounts	India
Neville Collins	PSO	UK
Nigel Camp	PSO	UK
P C George	Engineering	India

Name	Division	Location
Prajay Shah	BT Operations	UK
Pratik Shah	Engineering	India
Prema Menon	Finance & Accounts	India
Raghavendra M V	Commercial	India
Rahul Alexander	System Administration	India
Rajan R N	Engineering	India
Reji Kumar V	Engineering	India
Robin Booth	Engineering	UK
Rohan D Rendalkar	Engineering	India
S K Reddy	Engineering	India
Safiya Omar	Finance & Accounts	UK
Sanjaya G S	Engineering	India
Santosh S	Engineering	India
Sathish R	Engineering	India
Shilpa Joshi	Engineering	India
Srikanth Nayak	Finance & Accounts	India
Stuart Barnes	PSO	UK
Subha Chakraborty	BT Operations	UK
Subhadip Duttagupta	PSO	India
Suman M S	System Administration	India
Sumith Varghese	Engineering	India
Suresh Rao V R	Finance & Accounts	India
Syed Rehan Sajjad	Engineering	India
Thyagarajan K	Finance & Accounts	India
Troy Rowe	Engineering	Canada
Tushar Gopinath Shenvi	PSO	India
Vijaya K	System Administration	India
Vishal Joshi	Engineering	US
Will Richards	PSO	UK



## SUPPORTING LOCALLY to WIN GLOBALLY

We ensure that each global market is served by Subexians based locally. They are powered by large teams in India - a highly efficient delivery structure offering consistently high returns.





## HARNESSING THE PEOPLE FACTOR POST ACQUISITIONS

*Sanjay Paul Antony, Senior Vice President - Human Resources*

We have grown three-fold by measure of human resources in the last one year, reflecting our growing global status. During this period, we grew from around 325 Subexians to over 1000 today through a combination of acquisitions, lateral hires and campus recruitments.

The challenge that emerged from the two acquisitions was the seamless integration of the organizations. A lot of meticulous planning and execution went into this, making this a remarkable feat. Today as we look back, we are proud of the results, as the entire process was driven through teams created internally. It was a true demonstration of Perseverance, Commitment, Quality, Customer Orientation and Leadership, some of the essential Subexian traits. Another significant indicator of our success with this has been the single digit attrition percentage we have had for the past one year.

While we have taken on the acquisition mode, our strategy has always been to identify talent with expertise in the geographies we operate in. Our workforce is a blend of nationalities across geographies. We have also ensured that cost effectiveness is given a premium while utilizing this talent spread.

We faced challenges associated with our acquisition and the integration that followed. Hence one significant focus area has been cultural integration across the various organizations. The fundamental premise we used was 'Understand our differences and appreciate them, so that, together we work as an effective team'. There was significant involvement by the senior management team to reach out to new Subexians. This was to ensure execution of a clear action plan with tight deadlines on closure of any issues raised during these meetings. This instilled a great deal of confidence in the new Subexians who then witnessed that Subex

Azure indeed 'walked the talk'. The foundation of credibility was laid there.

Next on the action plan were objective-driven outbound learning experiences with an eye to build an effective team. The effort started off with an event in Bangalore for the senior members in the new team and then, two such events were rolled out in London. This helped us cover the critical distance towards becoming a single organization that spoke the same language and appreciated working together, understanding cultural differences.

While lateral hiring is a key source for us, we do look at developing people from within. We have a very strong foundation for hiring from engineering schools. Last year, 13% of the total hires came from campuses. Out of the new roles which emerged due to our growth, 40% were filled from within and the rest through experienced hires.

We had spoken about Phase 1 of the Subex Azure Leadership Program in our last report. During this year, we implemented Phase 2 of the program for all Subexians with people management responsibilities for the India region. This involved classroom sessions spanning 12 days. Next year, the focus will be to drive a similar initiative for other geographies as well.

As a product development organization, innovation is the key. We have initiated a process to roll out 'Innovation Days' within our engineering organization. Every Subexian can work on ideas that are of interest to them and also help the product/ domain they are working on, or fuel ideas for new products. During this period, Subexians will not be working on their assigned areas, but on areas of interest to them which can also be beneficial to the organization. That is 24 days in a year!



## BLENDING MODELS, SECURING GROWTH

We realize the need to harmonize the best of organic and inorganic growth models. Hence we build significantly in an organic manner, besides utilizing inorganic growth opportunities.



## GOOD GOVERNANCE, GREAT PERFORMANCE!

*P. P. Prabhu, Director*

*P. P. Prabhu is a retired Indian Administrative Service Officer, who has served in the Central Government and the state government of Karnataka for nearly 36 years. Positions held by him include, Chairman and Managing Director of Vikrant Tyres (now taken over by J. K. Tyres); Managing Director of Karnataka Power Corporation; Chairman of Coffee Board; and Commerce Secretary, Government of India. He has participated in several inter-governmental discussions and bilateral/multilateral trade negotiations.*

Splendid growth and outstanding financial performances have earned Subex Azure a well deserved and enviable reputation in the software sector. The recognition is all the more sweet because it has come in the software product space, rarely ventured into by Indian companies.

The performance of Subex Azure has been remarkable by any standard; excellent growth, globally acceptable products, significant enhancement of shareholder value, and most important, a very promising future.

The revenue of the company has grown from Rs. 315.86 million in 1999-2000 to Rs. 3409.01 million in 2006-07. The profitability has also been consistently good, enabling the company to maintain an excellent dividend record. Shareholders have every reason to be happy with the performance, as an investment of Rs. 75 in 1999 is worth Rs. 2258.60 (as on 2007) after taking into account 1:1 bonus issued twice, in the years 2000 and 2006.

The satisfying growth and excellent financial performances have been achieved, along with deep commitment to good corporate governance. In Subex Azure, good governance has been an article of faith right from the beginning and not limited to mere compliance with the prescribed regulations, such as audit committee, disclosure requirements etc. Independent directors were a majority on the Board of Subex Azure

even before the regulations were introduced. The key elements of Subex Azure's corporate governance are - apart from significant enhancement of shareholder value - openness, accountability, ethical conduct of business by conviction and self discipline.

Protection of shareholders' rights is given highest priority and the empowered committee hardly gets to hear of any shareholder grievances. The dissemination of information through the website of the company and adequate responses to queries and demand for information is again evidence of the culture of communication and openness displayed by the management. The quality of management is another noteworthy feature and the standard of accomplishment can be appreciated from the ease with which the company has been able to quickly absorb the technologies, and seamlessly integrate the operations of as many as seven companies, acquired overseas, in the last eight years. The fact that all the clients of the acquired companies decided to continue their association with Subex Azure testifies to the confidence developed by the clients in the competence and ability of the company to provide the right solutions and is as much a tribute to the maturity of the management as to the superiority of the products and the quality of service provided.

The high standard of internal audit and the depth of examination of financial accounts and other operational details by independent audit and remuneration committees have been the other healthy and strong features. The constructive and purposeful supervision of the accounts, expert review of financial performance and extensive analysis of risks are good examples of the culture of good governance practices followed in Subex Azure.

The personnel policies of Subex Azure are farsighted and innovative and that partly explains the company's

strength, the quality of its products and growth. An attractive ESOP package, recognition of outstanding talent and contributions and fostering of an environment that encourages and facilitates active participation of all Subexians in the process of development and delivery of products are bright aspects of the personnel management.

The Board of Subex Azure plays a constructive supervisory role; the directors critically review operations and performance, and provide the external objectivity to various issues and critical decisions. This approach is purposeful and a fine balance is maintained between responsibility of overseeing and avoidable interference and micro management. The Board also focuses on values and ethics of business conduct.

Going forward, the challenges for the management will be greater as strong competition in the space in which the company has decided to grow is anticipated from large multinational players. The products of the company will also have to be continuously tailored to the requirements of customers in light of evolving technological changes and the dynamic economic environment. The management and the Board would need to devote greater time and effort towards study and

analysis of technological developments and evolving customer needs, besides monitoring the policies and plans of competitors and market trends and their possible impact on future growth. Thus the management and the board will have to move beyond the traditional - though essential - functions and duties of performance review and risk assessment, and increasingly focus on crafting growth strategies and development models, formulation of pro-active policies that will help development of products and maintenance of services which exceed customers' expectation, besides fashioning appropriate personnel policies that will attract, train and retain qualified and competent professionals and ensure that the bright and promising talent are motivated to give their best.

The growth prospects in the space in which Subex Azure has chosen to expand and grow in the future are bright and promising. The expectations of investors are also higher in view of the excellent growth and financial performance of the company so far. The management and the Board will have to deliver on the promise of strong and sustained future growth and healthy performance of the company and thus fulfill the high expectations of investors, also serving the larger interest of all stakeholders.



## THE LARGE-CAP IT PRODUCT COMPANY OF TOMORROW

*Vinod Sethi, Director*

*Vinod R. Sethi is a director of Subex Azure. He is a graduate in Chemical Engineering and also holds a degree in B.Tech from IIT, Mumbai and an MBA in Finance from Stern School of Business, New York University. His earlier assignments include working with Morgan Stanley as Chief Investment Officer and Portfolio Manager of Morgan Stanley Asset Management managing over US \$2.4 billion of investments in India. He is also a director on the board of several companies.*

Over time, the scarcity premium that markets accord on companies, will inevitably shift from 'labor-intensive' IT to 'knowledge-intensive' IT. The strengthening rupee will further accelerate this process. History also tells us that labor-intensive businesses haven't been able to sustain high valuations for sustained periods of time. Capitalism loves businesses with disproportionate labor/ capital efficiencies, rather than disproportionate labor/ capital dependencies. High-end IT product companies rather than IT services companies will be the market darlings of tomorrow. I think India is ripe for its own 'desi' equivalent of a Microsoft/ Oracle/ Google over the next 5-10 years. Can Subex Azure be one of the large-cap IT product companies of India? I think so. It has the critical mass of ingredients for this to happen.

I have known Subash for a long time and I have been investing in Subex Azure since its IPO in 1999. What has struck me about Subex Azure is its remarkable ability to mutate and stay ahead of the curve. Subex Azure today is a very dynamic and low-inertia organization. Seamless execution and quick assimilation of acquisitions have become a fine art at Subex Azure. The ability to see reality for what it is and to respond rapidly is a Subex Azure hallmark. It is also an intensely focused organization, with management processes far superior to its peer group. I believe that Subex Azure has painstakingly set up the building blocks over the last decade.

It hasn't been an easy road. For years, Subash bought discounted economy class tickets to go to the remotest parts of the world to kick start the business. All that is bearing fruit now. I have seen Subash through good and bad times. Through it all, he has remained the same. I haven't seen him 'swell up' with good times. That to me is a very important criterion while looking for investments. The swollen head ones are usually on a slippery wicket. Subash is also a very attentive listener; and he delegates very well. Consequently, he always has the free time and mental space to brainstorm and look ahead.

The challenges are many. Tectonic plate shifts are impacting both the telecom industry and the way IT products are sold. For instance, the whole Google phenomenon presages a world where the product is free and is funded by advertising. The other thing that is happening worldwide is that telecom is becoming an indispensable part of our lives. Soon humans will be born with a name and a phone number! Telecom is moving from being a means of communication to being the main intermediary of many human activities; commerce, entertainment, data, search, mobility. Telecom is now virtually the central nervous system of the global economy. I believe these are incredible opportunities for a dominant, world class player like Subex Azure.

At the end of the day, it all boils down to the people driving an organization. Subash is among the best entrepreneurs I have met and Sudeesh is among the best COOs I know. The combination is lethal. Consequently, Subex Azure has great potential going forward. The next decade will likely see the rise of Subex Azure as a large-cap, high-end IT product company. Obviously, risks and uncertainties are aplenty. And there is many a slip between the cup and the lip. However, I do strongly believe that Subex Azure management has the wherewithal to profit from these changes. There is a great future ahead.





LETTING INNOVATION

SET THE TUNE

We pioneered the single-vendor concept for fraud management and revenue assurance before it became an industry norm. Our path breaking innovation – Revenue Operations Center (ROC) – is the toast of the market.



## A COMPELLING PROPOSITION IN THE GLOBAL OSS SPACE

*Andrew Garman, Director*

*Andrew Garman is a director at Subex Azure. He is a managing partner of New Venture Partners LLC, a venture capital firm focused on investments in information technology and telecommunications companies. The firm results from the combination of people who drove new venture development activities at Lucent Bell Labs and British Telecom.*

New Venture Partners, a technology investment firm based in the United States and England, of which I am a managing partner, was Azure's main investor since its spinoff from the BT Group in 2003. By early 2006, we were in the final stages of signing the terms that would lead to the merger of Subex and Azure. It was clear from our discussions with the leadership team at Subex that we shared similar views of the future market opportunity.

The simple truth is Operational Support Systems (OSS) power telecom companies. Without them nothing would happen. No service would be provided, no network managed and no bill raised. These systems underpin the telecom services industry worth almost US \$1.5 trillion.

In 2007, the OSS market will be worth US \$15 billion per annum and over 80% of the OSS/ BSS spend market will come from the largest of 40 Communications Service Provider (CSP) groups. This means anyone who wants to be a major OSS player needs to be a credible supplier to these 40 CSPs. Easier said than done. These 40 groups are very demanding and want to buy best-in-class solutions from financially sound, reputable vendors. However, whilst all vendors claim some technological differentiator, the majority of the 200 OSS vendors are small companies with revenues of less than US \$10 million per annum. This means most OSS vendors have limited portfolios, limited geographic coverage and limited financial resources. That leaves a great market opportunity for any vendor who can break into the virtuous circle of winning business from inside the

largest 40 CSP groups, to grow their portfolio offerings, widening their geographic footprint and building financial scale. But where do we start?

At New Venture Partners, we had been interested in the Fraud and Revenue Assurance sector of the OSS market for a number of years. There was growing evidence that CSPs were consistently failing to collect all of their revenues and as their profit margins were more and more under pressure, we believed this had to be one area of future investment. Independent research confirmed that on an average CSPs were failing to collect 10-12% of their revenues. In extreme cases, CSPs were failing to collect 30% of their possible revenues. In the large, tightly run CSPs, the missing revenues were much lower at 1-3% of turnover. But in such cases these were 1-3% of the huge revenues. We also found that more than half the CSPs were using in-house fraud and revenue assurance solutions. Even while their best efforts were keeping losses low, the CSPs were tying up skilled people as well funding all the development work and software maintenance. In Subex, we saw a vendor that also believed that CSPs wanted to buy COTS (Commercial Off The Shelf) solutions and not develop in-house solutions. Subex was also approaching the OSS market from the Fraud and Revenue Assurance sector. Both companies had similar views of the market opportunity, bringing highly complementary skill sets. Azure's BT heritage meant it had extensive telecom experience whilst Subex brought software product development and management skills. Azure was an EMEA (Europe, Middle East and Africa) headquartered company. Subex was an Asia headquartered company. Both companies had recognized the importance of acquisition to grow and enter new geographies. Both had acquired companies in the US. We firmly believed the two companies could be stronger together than apart. We had the same vision and complementary skills.

The integration of the two companies has been completed in less than a year. This has been a significant piece of work that has included merging the product portfolio and re-organising the company. The customer base, product set and geographic footprint have expanded.

The opportunity in the OSS market continues. There have been a number of large mergers and acquisitions amongst CSPs and the growth of the CSPs in China, India, Russia and Brazil mean the market value is even more focused on a limited number of operators. We see the opportunity to expand the product portfolio to address other OSS needs within these groups. Chief Technology Officers (CTOs) and Chief Information Officers (CIOs) want less complexity in their systems. One way of achieving this is to buy new applications from existing OSS suppliers that can be supported on existing platforms. This reduces the need for new supplier

interfaces whilst simplifying integration and support. It is true that most CSPs want a level of multi-supplier provision to ensure they get a level of vendor competition and 'best of breed' products. At the same time, too many vendors result in unacceptable complexity.

Subex Azure's recent acquisition of Syndesis is a logical move into an adjacent market sector. The sector covers provisioning, activation and inventory. The telecom industry has recognised the enormous cost burden of poor provisioning and service activation. Adding this capability to the existing Subex Azure portfolio creates a compelling proposition for the CSPs and the market.

CSPs will welcome more and more components of the OSS stack, sourced from a single vendor. Subex Azure is well positioned among a small number of global OSS companies to do exactly that.

## BOARD OF DIRECTORS



**Sudeesh Yezhuvath**  
*Chief Operating Officer*



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



**V. Balaji Bhat**  
*Director*



**K. Bala Chandran**  
*Director*



**Vinod R. Sethi**  
*Director*



**S. N. Rajesh**  
*Director*



**P. P. Prabhu**  
*Director*



**Harry Berry**  
*Director*



**Andrew Garman**  
*Director*

## MANAGEMENT TEAM



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



**Sudeesh Yezhuvath**  
*Chief Operating Officer*



**Sudha Madhavan**  
*Chief Financial Officer*



**Mark Nicholson**  
*Chief Technology Officer*



**Vinod Kumar**  
*President - Revenue Maximization  
Solutions Business Unit*



**Mark Fowlie**  
*President - Fulfillment & Assurance  
Solutions Business Unit*



**Paul Skillen**  
*President - BT Business Unit*



**Greg LeNeveu**  
*President - Americas*





**Saul Nurtman**  
*President - EMEA*



**Dean Smith**  
*President - Asia Pacific*



**Anuradha**  
*Senior Vice President - Engineering*



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



**Eric Palmer**  
*Senior Vice President -  
Corporate Development*



**Sanjay Paul Antony**  
*Senior Vice President - Human Resources*



**Sanjeev Gadre**  
*Vice President - Marketing*



**Rajkumar C**  
*Chief Counsel & Company Secretary*

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GENERAL REVIEW &  
ACCOUNTABILITY

Your directors have pleasure in presenting the 13<sup>th</sup> Annual Report of the Company on the business and operations together with the audited results for the year ended March 31, 2007.

## FINANCIAL RESULTS

Amount in Rs. million

	Consolidated		Standalone	
	2006-07	2005-06	2006-07	2005-06
Total revenue	3710.92	1843.25	2361.84	1841.19
Profit before Interest, Depreciation & Amortization	812.46	531.15	447.83	539.44
Interest, Depreciation & Amortization	235.85	119.39	188.74	117.21
Profit before tax	576.61	411.76	259.09	422.23
Provision for taxes	(99.05)	33.28	50.95	30.73
Profit after tax	675.66	378.49	208.14	391.50
<b>Appropriations</b>				
Interim dividend	-	-	52.11	16.28
Dividend proposed on equity shares	-	-	69.63	21.76
Provision for tax on dividends	-	-	20.95	5.60
Transfer to general reserve	-	-	23.20	39.50
Surplus carried to balance sheet	1238.02	741.14	785.67	756.30

## RESULTS OF OPERATIONS

Your Company performed well during the financial year ended March 31, 2007. The total revenue grew by 101% to reach Rs. 3,710.92 million. Profit after Tax (PAT) for the financial year 2006-07 was Rs. 675.66 million witnessing a growth of 79%. The revenue composition was 67% from products and 33% from services.

Products business, our focus area, is continuing to contribute a higher proportion to revenue with every passing year. Over the past 6 years, software products have increased their contribution in the overall revenue from a low figure of 7% in FY01 to 67% in FY07. Further, Average Revenue Per Subexian has increased to US\$ 108,000 from US\$ 53,000 in FY04.

## BUSINESS

Your Company is a provider of solutions in the Operations Support Systems area for telecom applications. This area can broadly be classified into Service Fulfillment, Service Assurance and Revenue Maximization. The Company has traditionally been operating in the Revenue Maximization space, but has expanded into the Service Fulfillment space consequent to the acquisition of Syndesis Limited, Canada. While Revenue Maximization solutions improve the revenues and profits of the communications service providers through identification and elimination of leakages in their revenue chain, Service Fulfillment solutions enable the carriers to fulfill the needs of their subscribers through provisioning and activation of

services. 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, UAE, India, China and Australia. Subex Azure is the global leader in revenue maximization for communications service providers.

Carriers today are facing a variety of challenges. The key among them are (a) the competitive requirement to provide high quality services faster and cheaper and (b) the operational requirement to have a well integrated Operations Support System (OSS) to meet the competitive requirement. Subex Azure provides software solutions to meet these critical requirements. Carriers have been building the support structure by acquiring disparate pieces of software and that has resulted in stove pipes getting built over time. Our well integrated platform called Revenue Operations Center (ROC) addresses this issue of a solid structure within their networks. The solutions that form part of the ROC enable the customers to achieve Operational Dexterity which is a combination of Operational Efficiency and Service Agility. While the former ensures that cost of operation is maintained at a low enough level, the latter ensures adequate service levels are achieved.

Prior to the acquisition of Azure Solutions Limited, we were present only in fraud and revenue assurance. That market is expected to have a size of about US\$ 300 million in 2010. The acquisition of Azure Solutions added a new segment (Interconnect Billing) thereby taking the combined market opportunity to US\$ 900 million in 2010. That acquisition also helped us to cement our position in the traditional space of fraud and revenue assurance.

The recent acquisition of Syndesis has further changed the market opportunity quite dramatically. Service Fulfillment, the addition, is slated to grow faster than revenue maximization to reach a market size of US\$ 2,150 million in 2010. Thus, Subex Azure will be addressing a market opportunity of US\$ 3,050 million in 2010, as against US\$ 300 million prior to our acquisition of Azure Solutions and Syndesis. Needless to say, the inorganic growth strategy has helped us to increase the addressable market almost ten times thereby ensuring a strong base for growth in the future.

## ACQUISITIONS

Your Company has acquired Syndesis Limited on April 1, 2007 which will enable it to consolidate its position in the Operations Support Software (OSS) market. The management is in the process of integrating the two companies. Based on the successful track record with several acquisitions in past, including that of Azure Solutions, we are quite confident of integrating Syndesis well with Subex Azure and of leveraging that in the coming quarters and years.

## CHANGE OF NAME

Subsequent to the acquisition of Azure Solutions Ltd, the name of your Company has been changed from Subex Systems Limited to Subex Azure Limited with effect from June 23, 2006.

## DIVIDEND

In January 2007, 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 Rs. 2 per share (20% on par value of Rs. 10) fortifying the company's tradition of enabling shareholders to participate in

its progressive performance. If approved by 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, the application monies received during the IPO in 1999-00 and the unclaimed interim dividend amount declared during the FY 1999-00 have been transferred to Investor Education and Protection Fund.

The register of members and share transfer books will remain closed from Monday, July 23, 2007 to Thursday, July 26, 2007, both days inclusive. The Annual General Meeting of the Company is scheduled to be held on Thursday, July 26, 2007.

## CHANGES IN THE SHARE CAPITAL

### ESOP SHARES

During the year, your Company has allotted 2,13,264 shares under its ESOP 2000 scheme and 6,287 shares under its ESOP 2005 scheme to the option holders on their exercise of stock options.

### ISSUE OF GLOBAL DEPOSITORY RECEIPTS (GDRs)

During the financial year 2006-07, your Company has issued 11,728,728 GDRs as a part consideration towards the acquisition of Azure Solutions Limited. Each GDR represent one underlying equity share of Rs.10 each, which has been allotted to The Bank of New York, the Depository for the issue.

### ISSUE OF FOREIGN CURRENCY CONVERTIBLE BONDS (FCCBs) AND SPONSORED GLOBAL DEPOSITORY RECEIPTS

During the financial year 2006-07, your Company has issued FCCBs amounting to US\$ 180 million and sponsored an issue of 28,23,713 Global Depository Receipts. The FCCBs carry an initial coupon of 2% per annum and are redeemable on completion of five years i.e., in March 2012.

## SUBSIDIARIES

The accounts of the following subsidiaries are consolidated with that of your Company.

### SUBEX TECHNOLOGIES, INC

For the year ended March 31, 2007, Subex Technologies Inc (STI) earned an income of Rs. 1006.13 million and a net profit of Rs. 12.07 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.

### SUBEX TECHNOLOGIES LIMITED

For the year ended March 31, 2007, Subex Technologies Limited earned an income of Rs. 41.75 million as against Rs.12.26 million last year and a net profit of Rs. 2.72 million as against a net loss of Rs. 15.26 million last year.

### SUBEX AZURE (UK) LIMITED

On June 23, 2006, the Company acquired the entire share holding of Azure Solutions Ltd, UK. The consideration was paid partly by issue of 11,728,728 GDRs each representing one equity share of Rs. 10/- at a premium of Rs. 522.24 per share and partly by cash of Rs. 214,570,000/-. For the year ended March 31, 2007, the consolidated income of Subex Azure (UK) Ltd is Rs. 1415.88 million and the net profit is Rs. 452.66 million.

### SUBEX AZURE (ASIA PACIFIC) PTE. LTD

For the year ended March 31, 2007, Subex Azure (Asia Pacific) Pte. Ltd has incurred a net loss of SGD 0.35 million. Subex Azure (Asia Pacific) Pte. Ltd is a 100% subsidiary of Subex Azure (UK) Ltd.

### SUBEX AZURE, INC

For the year ended March 31, 2007, Subex Azure, Inc has incurred a net loss of US\$ 2.10 million. Subex Azure, Inc is a 100% subsidiary of Subex Azure (UK) Ltd.

## EMPLOYEE STOCK OPTION PLANS

Your Company has introduced various Stock Option plans for its employees. Details of the plans, including grants made to directors and senior management during the year, are given below.

### EMPLOYEE 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. Since the scheme was formulated prior to the promulgation of SEBI guidelines on ESOP dated June 19,1999, the Company has discontinued the scheme.

### EMPLOYEE STOCK OPTION PLAN-2000 (ESOP- II)

Under this scheme, a corpus of 5,00,000 options were created for grant to the eligible employees. Each option is convertible into one fully paid-up equity share of Rs.10/- each. 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 3,87,125 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 is 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 vests 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 March 31, 2007, 19,291 options were available in this scheme for further grants.

### EMPLOYEE STOCK OPTIONS 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/- each. 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. The corpus of the scheme was enhanced by another 15,00,000 options pursuant to the approval of the members at their meeting held on April 23, 2007.

As per the scheme, the compensation committee 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 vests 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 March 31, 2007, 71,180 options were available in this scheme for further grants.

ADDITIONAL INFORMATION AS ON MARCH 31, 2007 PER SEBI GUIDELINES

SL.NO	PARTICULARS	ESOP 2000	ESOP 2005
1	Options granted as on March 31, 2007	4,80,709	4,28,820
	Options granted during the year	1,12,200	3,82,200
2	Pricing formula	As mentioned above	As mentioned above
3	Options vested but not exercised as on March 31, 2007	24,634	2,963
4	Options exercised as on March 31, 2007	2,19,507	6,287
	Options exercised during the year	1,06,632	6,287
5	Money realized by exercise of options during the year	15,745,064	2,156,441
6	The total number of shares arising as a result of exercise of options as on March 31, 2007	3,26,139	6,287
7	Options lapsed as on March 31, 2007	3,93,791	24,360
	Options lapsed during the year	1,08,393	24,360
8	Variation of terms of options	None	None
9	No. of employees covered	340	406
10	Employee wise details of options granted during the year under review to:		
	(i) Senior managerial personnel		
	Mr. Saul Nurtman	-	10,500
	Mr. Dean Smith	-	15,000
	Mr. Greg LeNeveu	-	5,000
	Mr. Paul Skillen	-	8,400
	Mr. Sanjeev Gadre	-	10,100
	Mr. Sanjay Paul Antony	12,800	-
	Ms. Anuradha	15,000	-
	Ms. Sudha Madhavan	-	12,700
	Mr. Vinod Kumar	26,700	-
	Mr. Sekharan Y Menon	25,400	-
	Mr. Raj Kumar	-	5,000
	(ii) other employee who receives 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 Earning per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20 'Earning per Share'	Rs 6.48	Rs 6.48
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:	(85,37,654) Basic EPS (Proforma): 6.23 Diluted EPS (Proforma): 6.21	
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. 522.32	Weighted average exercise price is Rs 442.38
14	Description of the method used during the year to estimate the fair values of options. Significant assumptions used to estimate the share value of options granted during the year:	Black Scholes method of valuation	
	1 risk-free interest rate	6.03%	
	2 expected life	3 Years	
	3 expected volatility	62.78%	
	4 expected dividends	0.37%	
	5 market price on grant date	460.62	



## 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.

Your Company has complied with all the requirements of the new Clause 49 of the Listing Agreement of the Stock Exchanges. The auditor's certificate on compliance with Clause 49 is annexed elsewhere in this report. In addition, your Company has documented its internal policies in line with the corporate governance guidelines. The Management Discussion & Analysis of the financial position of the Company is provided in this annual report and is mentioned hereby for reference.

### AUDIT COMMITTEE

The audit committee presently comprises 6 directors as its members viz. Mr. V. Balaji Bhat, Mr. K. Bala Chandran, Mr. Vinod R Sethi, Mr. Subash Menon, Mr. S. N. Rajesh and Mr. Andrew Garman. Except Mr. Subash Menon, all other members of the audit committee are non-executive independent directors. Mr. V. Balaji Bhat is the Chairman of the Audit Committee. The role, terms of reference, the authority and power 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

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

### DIRECTORS

The Board of Directors at their meeting held on April 30, 2007 re-appointed Mr. Subash Menon as the Chairman & Managing Director of the Company for a further period of 5 years, which is proposed for approval before the members in the Annual General Meeting to be held on Thursday, the July 26, 2007.

Mr. Andrew Garman and Mr. Harry Berry were inducted on the Board by the members in their Extraordinary General Meeting held on May 29, 2006.

As per Article 87 of the Articles of Association of the Company, atleast two-third of your directors shall be subject to retirement by rotation. One-third of these retiring directors must retire from office at each Annual General Meeting of the shareholders. Mr. V. Balaji Bhat and Mr. K. Bala Chandran retire by rotation and being eligible, offer themselves for re-appointment at the ensuing Annual General Meeting.

### 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, through the Amendment Rules, 2004, with effect from March 24, 2004, the particulars of employees of companies engaged in information technology sector posted and working outside India, not being directors or their relatives, drawing more than Rs. 24 lakhs per annum 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 OF 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. 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 2006-07 total foreign exchange inflow and outflow is as follows:

- i) Foreign exchange earnings Rs. 1825.73 million (previous year Rs. 1378.70 million)
- ii) Foreign exchange outgo Rs. 1744.32 million (previous year Rs. 1000.91 million)

### SOCIAL RESPONSIBILITIES - SUBEX CHARITABLE TRUST

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

### HUMAN RESOURCE MANAGEMENT

At Subex Azure, the most important asset is Subexians. Your Company has created a favorable work environment that encourages innovation and meritocracy. Your Company has set up a scalable recruitment and human resource management

process, which enable it to attract and retain talented people. As on March 31, 2007, your Company had over 688 Subexians on its rolls. They are highly trained and motivated people. This is critical to the success of your Company. Pursuant to the acquisition of Syndesis on April 1, 2007, around 300 employees of Syndesis have become Subexians.

## NEW CAMPUS

In order to leverage scale and synergies of integrated business operations, your Company has decided to move its office to a new state-of-the-art campus. This move will integrate all existing business offices of the Company at Bangalore. The new campus will have a built up area of approx. 125,000 sq.ft.

## DIRECTORS' RESPONSIBILITY STATEMENT

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

- That in the preparation of the accounts for the year ending March 31, 2007, the applicable accounting standards have been followed and there are no material departures there from.
- That the accounting policies have been selected and applied consistently (except with respect to change in provision for depreciation) and judgments and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2007 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 March 31, 2007 has been prepared on a going concern basis.

## APPRECIATIONS / ACKNOWLEDGEMENTS

We thank our clients, vendors, investors and bankers for the 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

Place : Bangalore  
Date : June 18, 2007

Subash Menon  
Founder Chairman,  
Managing Director & CEO

## 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 March 31, 2007.

Sl. No.	Name	Designation	Qualification	Age	Experience (No. of years)	Date of commencement of employment	Remuneration received Rs.	Previous employment
1	Prashant Shah	Senior Project Manager	BE & MBA	35	12	24-Mar-03	2,496,319	Apogee Networks India
2	Ashwin Chalapathy*	Product Unit Head	MSC	35	12	15-Jan-07	625,000	Siemens Public Communication Network Pvt. Ltd
3	Nitin D	Product Unit Head	B Tech	36	15	04-Oct-04	2,733,795	Siemens Public Communication Network Pvt. Ltd
4	Sanjeev Gadre	Vice President - Marketing	PGDM	36	13	01-Sep-03	3,400,000	Hughes Software Systems
5	Sekharan Y Menon	Senior Vice President - Professional Services Organisation	Eng Diploma in IT	40	21	01-Sep-96	4,194,020	Yokogawa Blue Star
6	Alok Dashora*	Director - Professional Services Organisation	BE,IIS(Mgmt),PMI	34	12	04-Nov-06	866,666	Wipro
7	Anuradha	Senior Vice President - Engineering	MS	42	16	30-Jun-03	4,716,767	Mistral Software Pvt Ltd
8	Vinod Kumar	President - Revenue Maximization Solutions (BU)	B Tech	37	15	15-Oct-97	3,924,016	Crompton Greaves Ltd
9	Sudha Madhavan*	Chief Financial Officer	ACA, ACS, AICWA, LL.B	42	18	10-Jan-07	963,000	IBM
10	Sanjay Paul Antony	Senior Vice President - Human Resources	BE, PM&IR	41	17	10-Oct-05	5,400,000	Goldman Sachs
11	Sudeesh Yezhuvath	Chief Operating Officer	B Tech	38	16	13-May-93	1,26,36,430	Transmatic Systems Limited
12	Subash Menon	Chief Executive Officer	BE	42	20	01-Jun-91	1,23,09,709	Eltel Industries
13	Suresh Rao V.R.	Vice President - Accounts & Finance	ACA	42	18	16-Feb-04	3,260,017	BPL Telecom Limited

\* Worked for part of the year.

Statement pursuant to exemption received under Section 212(8) of the Companies Act, 1956, relating to subsidiary companies for the FY 2006-07

Name of the Subsidiary	Subex Technologies Limited	Subex Technologies Inc	Subex Azure (UK) Limited	Subex Azure Inc*	Subex Azure (APAC) Pte.Ltd*
Financial period ended	March 31, 2007	March 31, 2007	March 31, 2007	March 31, 2007	March 31, 2007
Holding company's interest (in equity shares)	100%	100%	100%	100%	100%
Shares held by the holding Company in the subsidiary	1,000,000 of Rs. 10/- each	3,000 of US\$ 0.67 each	5,039,565,245 of £ 0.00001 each	1,000 of US\$ 0.01 each	2 of SGD 1 each
The net aggregate of profits or losses of the subsidiary for the current period so far as it concerns the members of the holding Company					
a. dealt with or provided for the account of the holding Company					
b. not dealt with or provided for in the accounts of the holding Company	2,780,058	12,071,815	493,645,563	(34,607,375)	(6,373,260)
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 account of the holding Company					
b. not dealt with or provided for in the accounts of the holding Company	(15,487,051)	3,964,436	(2,392,674,252)	(19,386,822)	(63,935,383)
Issued & Subscribed share capital (equity shares)	10,000,000	87,070	4,242,250	460	58
Reserves	(12,706,993)	16,036,251	329,965,514	(55,033,862)	(77,557,493)
Loans	15,671,846	48,646,500			
Total assets	12,964,853	274,584,657	886,892,404	309,229,379	49,440,892
Total liabilities	12,964,853	274,584,657	886,892,404	309,229,379	49,440,892
Investments					
Long Term	-	-	518		
Current	-	-			
Total	-	-	518	-	-
Turnover	41,387,116	1,006,128,562	1,049,874,045	311,420,220	57,266,425
Profit/(Loss) before taxation	3,434,074	15,817,760	339,245,563	(34,607,375)	(6,373,260)
Provision for taxation	654,016	3,745,945	(154,400,000)		
Profit / (Loss) after taxation	2,780,058	12,071,815	493,645,563	(34,607,375)	(6,373,260)
Proposed dividend	-	-			
Country	India	US	UK	US	Singapore

\* Wholly owned subsidiaries of Subex Azure (UK) Limited

Note: The reporting currency for the above-mentioned subsidiaries is Indian rupee. The Indian rupee equivalents in the accounts of the subsidiary companies are based on the exchange rates as on March 31, 2007.

## I. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

Corporate governance is about commitment, values and ethical business conduct. It is about how an organization is managed. Therefore ownership, performance, transparency, integrity in operations besides the structure, activities and policies of the Company attracts the investors and enhances the trust and confidence of the stakeholders in the organization.

Subex Azure's compliance with the corporate governance guidelines as stipulated by the Stock Exchanges is described in this section. The Company believes that sound corporate governance is critical to enhance and retain investor's 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 of the law and not just the letter of the law.
2. Be transparent and maintain a 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 uniformity in its decisions towards 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 January 25, 2000 and amendments made thereto.

## II. BOARD OF DIRECTORS

The Board of Directors of Subex Azure comprises 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 March 31, 2007

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 memberships in committees as on March 31, 2007.

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 a member ■
Mr. Subash Menon	Founder, Chairman Managing Director & CEO	7	6	Yes	1	-	1
Mr. Sudeesh Yezhuvath	Chief Operating Officer and Wholetime Director	7	4	Yes	1	-	1
Mr. V. Balaji Bhat	Non Executive Independent Director	7	6	Yes	4	2	-
Mr. Vinod R.Sethi	Non Executive Independent Director	7	4	Yes	9	1	3
Mr. K. Bala Chandran	Non Executive Independent Director	7	2	No	1	1	3
Mr. S N Rajesh	Nominee Director	7	6	No	1	-	1
Mr. P.P.Prabhu	Non Executive Independent Director	7	7	Yes	3	2	1
Mr. Harry Berry+	Non Executive Independent Director	7	3	No	-	-	-
Mr. Andrew Garman+	Non Executive Independent Director	7	3	No	-	-	1

▲ Excluding private limited companies & overseas companies.

■ Includes only audit committee and shareholder's grievance committee. Memberships in committees in Subex Azure Ltd are included.

+ Mr. Harry Berry and Mr. Andrew Garman were inducted on the Board with effect from May 29, 2006.

### C. Number and dates of Board meetings

7 (seven) Board meetings were held during the financial year 2006-07. The dates on which meetings were held are as follows:

April 25, 2006; May 15, 2006; July 27, 2006; October 28, 2006; December 15, 2006; January 18, 2007; January 29, 2007.

### D. Brief details of directors seeking re-appointment

Mr. V Balaji Bhat is a Chartered Accountant and Management Consultant, specializing in Merger & Acquisitions, Advisory Services and International Taxation. He is also associated with various medium and large corporations in India and overseas as an Advisor and Director. He is the Managing Director and CEO of Primus Retail Pvt Ltd (formerly Gitanjali Lifestyle Products Pvt Ltd). Primus Retail Pvt Ltd is a retailing and distribution of lifestyle products with specific regard to apparel, shoes and related accessories.

Mr. K. Bala Chandran is a Graduate in Physics, from Loyola College (Madras University) and a Post-Graduate Dip. in Business and Industrial Management. He has completed courses in Finance Management, Advanced Sales Management & Quality Management. Mr. Bala Chandran took charge as the CEO in December 1997 after joining KRONE Communications Ltd., in 1991 during which period he was responsible for the Sales & Marketing operations of the Company. He was designated as the Managing Director of the Company subsequently in October 2000. He started his career with Lawrence & Mayo (I) Pvt. Ltd., responsible for Sales Engineering of Edwards High Vacuum Systems of UK. He subsequently served the S&J Group as its regional manager in the Industrial Clean Systems Division.

## III. AUDIT COMMITTEE

### A. Terms of reference

The audit committee has, inter alia, 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 of 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	Nominee Director
Mr. Andrew Garman	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 2006-07, five audit committee meetings were held. The dates on which meetings were held are as follows:

April 25, 2006; May 15, 2006; July 27, 2006; October 28, 2006; January 29, 2007.

### Attendance of committee members at the audit committee meetings held during the financial year 2006-07:

Member	No. of audit committee meetings held	No. of audit committee meetings attended
Mr. V. Balaji Bhat	5	5
Mr. K. Bala Chandran	5	3
Mr. Vinod R. Sethi	5	3
Mr. S. N. Rajesh	5	4
Mr. Andrew Garman*	5	2
Mr. Subash Menon	5	5

\* Mr. Andrew Garman was inducted as the member of the committee with effect from July 27, 2006

## IV. REMUNERATION COMMITTEE

### A. Composition of the committee

Mr. S. N. Rajesh - Chairman  
Mr. Vinod R. Sethi  
Mr. K. Balachandran  
Mr. V. Balaji Bhat\*  
Mr. Harry Berry\*\*

The committee considers the performance of the Company as well as general industry trends while fixing the remuneration of executive directors.

\* Mr. V. Balaji Bhat was inducted as the member of the committee with effect from May 15, 2006

\*\* Mr. Harry Berry was inducted as the member of the committee with effect from July 27, 2006

### B. Meetings and attendance during the year

During the year under review, the committee had one meeting on April 25, 2006. All the members of the committee as on April 25, 2006 were present at the meeting.

### C. Details of remuneration to directors

Amount in Rs.

Name	Designation	Salary	Commission	Total
Mr. Subash Menon	Founder Chairman, Managing Director & CEO	1,26,36,430	-	1,26,36,430
Mr. Sudeesh Yezhuvath	Chief Operating Officer and Wholtime Director	1,23,09,709	-	1,23,09,709
Mr. K.Bala Chandran*	Non - Executive Independent Director	-	5,00,000	5,00,000
Mr. V.Balaji Bhat*	Non - Executive Independent Director	-	5,00,000	5,00,000
Mr. Vinod R. Sethi*	Non - Executive Independent Director	-	5,00,000	5,00,000
Mr. S.N.Rajesh	Non - Executive Independent Director	-	-	-
Mr. P.P.Prabhu*	Non - Executive Independent Director	-	5,00,000	5,00,000
Mr. Andrew Garman	Non - Executive Independent Director	-	-	-
Mr. Harry Berry	Non - Executive Independent Director	-	-	-

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 March 31, 2007
Mr. K. Bala Chandran	Non-Executive Independent Director	7,500	7,500
Mr. V. Balaji Bhat	Non-Executive Independent Director	7,500	7,500
Mr. Vinod R. Sethi	Non-Executive Independent Director	7,500	7,500
Mr. P. P. Prabhu	Non-Executive Independent Director	7,500	4,875

The above stock options were granted on the same terms and conditions as applicable to the employees in accordance with the ESOP plans 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. In case of severance from the Company, Mr. Subash Menon is eligible for getting compensation of not less than twenty times and Mr. Sudeesh Yezhuvath is eligible for getting compensation not less than fifteen times of their total remuneration for 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 option plans 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 the year

The Company holds share transfer committee meetings upto 3 times a month, as may be required, for approving the transfers/transmissions/rematerialisation 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 November 6, 2001. The share transfer committee has met nine times during the financial year 2006-07 on the following dates:

Date of the meeting	No. of transfer deeds received	Shares pursuant to the deeds	Rematerialisation requests received	Shares involved
April 15, 2006	-	-	1	4
May 31, 2006	2	200	-	-
August 21, 2006	1	1	-	-
October 16, 2006	-	-	1	20
September 30, 2006	13	1300	-	-
October 31, 2006	1	2	-	-
November 30, 2006	2	200	-	-
December 15, 2006	4	400	-	-
January 02, 2007	-	-	1	1

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 2006-07 on the following dates:

April 25, 2006; July 27, 2006;  
October 28, 2006; January 29, 2007

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

## VII. ESOP COMMITTEE (Compensation committee)

The Company has instituted employee stock option plans in line with the SEBI Guidelines. In order to grant options under the plans to eligible employees, an ESOP Compensation Committee has been formed.

### A. Composition of the committee

The committee comprises the following directors:

Mr. V. Balaji Bhat, Chairman  
Mr. K. Bala Chandran  
Mr. Subash Menon

### B. Meetings during the year

The committee met 6 (six) times during the current financial year 2006-07 on the following dates:

April 1, 2006; July 7, 2006; August 21, 2006; October 21, 2006;  
January 2, 2007; February 23, 2007.

Mr. V. Balaji Bhat chaired all the meetings

## VIII. GENERAL BODY MEETINGS

### A. Location and time of the last three AGMs held

Year	Date of AGM	Venue	Time
2004	August 24, 2004	Le Meridien – Bangalore	3:00 p.m.
2005	July 28, 2005	Le Meridien – Bangalore	3:00 p.m.
2006	August 28, 2006	Le Meridien – Bangalore	4:00 p.m.

### Location and time of the last three EGMs held

Year	Date of EGM	Venue	Time
2006	May 29, 2006	Le Meridien - Bangalore	3:00 p.m.
2007	January 29, 2007	Le Meridien - Bangalore	3:00 p.m.
2007	April 23, 2007	Corporate office	4:00 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 3 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. Shareholders' rights

We communicate with investors regularly through emails, telephones and face to face meetings like investor conferences, Company visits or on road shows. We announce quarterly financial results within one month of the close of a quarter. The Company

publishes the quarterly financial results in leading business newspaper(s) as well as upload them 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 endeavour to move towards a regime of unqualified 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 behaviours, 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 : June 18, 2007

## 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 March 31, 2007, 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*

Place : Bangalore  
Date : June 18, 2007

Membership No. 84494

## 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 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 March 31, 2007.

*for Subex Azure Limited*

Place : Bangalore  
Date : June 18, 2007

Subash Menon  
*Founder Chairman,  
Managing Director & CEO*

## OVERVIEW

Subex Azure Limited (Subex Azure) is listed on the National Stock Exchange of India Limited (NSE), the Bombay Stock Exchange Limited (BSE) and The Bangalore Stock Exchange Limited (BgSE). The Global Depository Receipts and the Foreign Currency Convertible Bonds of the Company are listed on the London Stock Exchange (LSE). Consequent to the acquisition of Azure Solutions Limited, UK by the Company in June 2006, 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 here under, 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 judgements 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 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

1.1 Subex Azure is a provider of solutions in the Operations Support Systems (OSS) area for telecom applications. This area can broadly be classified into Service Fulfillment, Service Assurance and Revenue Maximization. The Company has traditionally been operating in the Revenue Maximization space, but has expanded into the Service Fulfillment space consequent to the acquisition of Syndesis Limited, Canada from April 1, 2007. While Revenue Maximization solutions improve the revenues and profits of the communications service providers through identification and elimination of leakages in their revenue chain, Service Fulfillment solutions enable the carriers to fulfill the needs of their subscribers through provisioning and activation of services. 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, UAE, India, China and Australia. Subex Azure is a global leader in Revenue Maximization for communications service providers.

Carriers today are facing a variety of challenges. The key among them are (a) the competitive requirement to provide high quality services faster and cheaper and (b) the operational requirement to have a well integrated Operations Support System (OSS) to meet the competitive requirement. Subex Azure provides software solutions to meet these critical requirements. Carriers have been

building the support structure by acquiring disparate pieces of software and that has resulted in stove pipes getting built over time. Our well integrated platform called Revenue Operations Center (ROC) addresses this issue of a siloed structure within their networks. The solutions that form part of the ROC enable the customers to achieve Operational Dexterity which is a combination of Operational Efficiency and Service Agility. While the former ensures that cost of operation is maintained at a low enough level, the latter ensures that adequate service levels are achieved.

## 2. OPPORTUNITIES AND THREATS

### 2.1 Strategy

For the past 5 years, we have been employing an internally developed strategic model called The Five Petal Strategy. One of the key elements of this model is the Blended Growth Model wherein we have adopted a judicious mix of organic and inorganic avenues for growth. Our industry is quite fragmented with scores of players and is consolidating at a quick pace. Given the consolidation on the carrier front, this consolidation among vendors is inevitable. We view this as an opportunity to acquire some of the well positioned vendors and expand our customer reach while widening our product offering.

In keeping with our long term objectives, we have been identifying specific companies that mesh well with our plans and strategy. This has resulted in 6 well executed acquisitions in the product space over the past 6 years. While the initial 4 were small, the last 2 have been truly transformational. They have propelled us to leadership in several areas and have also expanded the management bandwidth, domain expertise and positioning of the Company. The improvement in stature and credibility is significant and that is fuelling further organic growth.

The organic part of our Blended Growth Model is achieved through multiple means like growth in license revenues linked to the subscriber base, cross selling of products, upselling of additional modules etc. More than half of the customer base has been acquired organically.

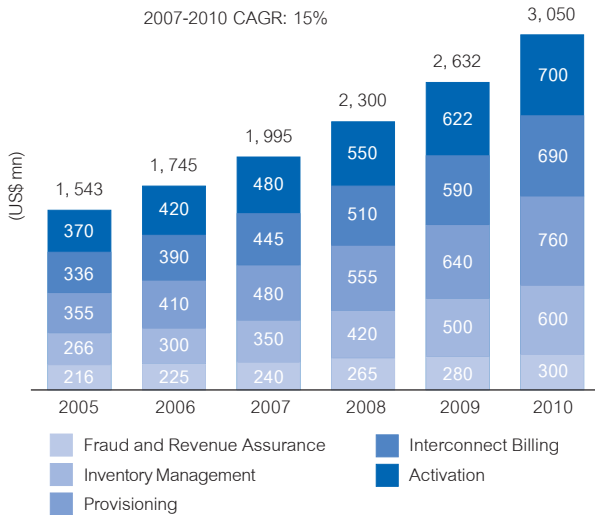
### 2.2 Market opportunity

As time goes by, companies need to expand their addressable market to ensure a sustained rate of growth. We have been doing this by focusing on the issues being faced by telcos worldwide and by widening our offering to cover those areas. While we started life as a vendor of fraud management systems, we have now morphed into a provider of a variety of solutions across the OSS chain. These include both Revenue Maximization solutions and Service Fulfillment solutions.

Prior to the acquisition of Azure Solutions, we were present only in fraud and revenue assurance. That market is expected to have a size of about US\$ 300 million in 2010. The acquisition of Azure Solutions added a new segment (Interconnect Billing) thereby taking the combined market opportunity to US\$ 900 million in 2010. That acquisition also helped us to cement our position in the traditional space of Fraud and Revenue Assurance.

The recent acquisition of Syndesis has further change the market opportunity quite dramatically. Service Fulfillment, the addition, is slated to grow faster than Revenue Maximization to reach a market

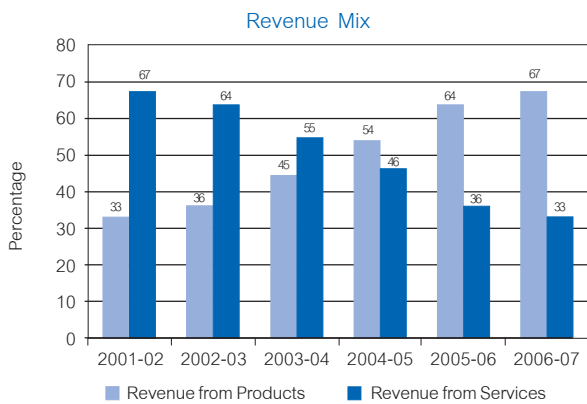
size of US\$ 2,150 million in 2010. Thus, Subex Azure will be addressing a market opportunity of US\$ 3,050 million in 2010, as against US\$ 300 million prior to our acquisition of Azure Solutions and Syndesis. Needless to say, the inorganic growth strategy has helped us to increase the addressable market almost 10 times thereby ensuring a strong base for growth in the future. The data on market size is provided below.



### 3. BUSINESS SEGMENTS AND INDUSTRY OUTLOOK

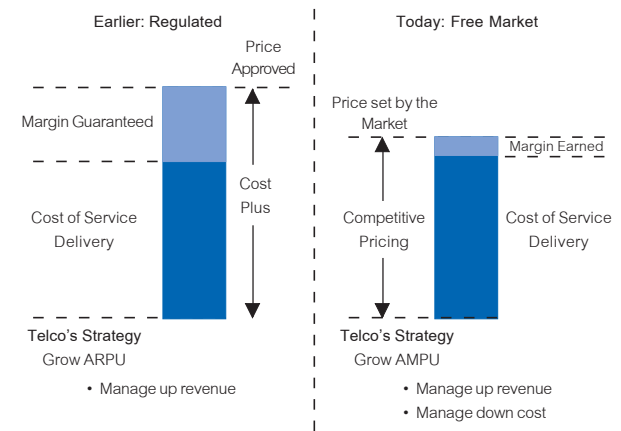
#### 3.1 Business segments

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

There is a fundamental shift in the telecom business economics. Telecom operators have seen their margins dramatically shrink as the business model has changed from a regulated market to a free market. In a regulated market, operators could easily add their desired or guaranteed margin to the cost and set the price. In today's free market, they need to eke out their margin as the pricing is fixed by the competitive environment. This situation has been pictorially represented below.



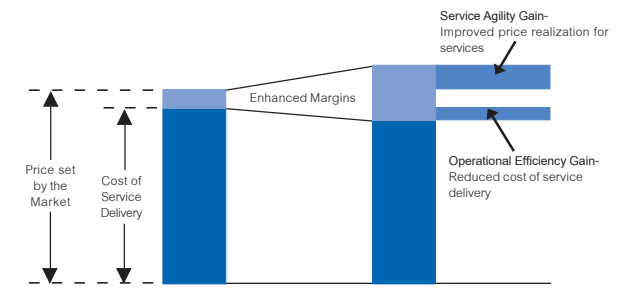
The key challenge therefore is to build a strategic framework that fosters sustained profitable growth. Telecom operators now need to focus on the combination of:

#### Service agility

- by reducing time-to-market for new service
- achieving rapid service provisioning
- maintaining high quality of service delivery and

#### Operational efficiency

- reducing the cost of delivery of service



We call this combination as Operational Dexterity.

Operational Dexterity ultimately allows operators to reverse the pressure on the margins by enjoying improved price realization through better quality of service and reduced cost of service through an efficient operation. Thus, we enable them to expand their margin by increasing the revenue through service agility gain and by reducing the cost of operation through operational efficiency gain. In short, we help them gain Operational Dexterity by providing two sets of solutions as detailed below.

#### Solutions for Operational Efficiency Gains

There are six products in this solution category. They are Nikira, Moneta, Prevea, Concilia, Symphona and Optima.

#### Nikira

Nikira™ Fraud Management System is the next generation fraud management solution built to deliver on a 3-step philosophy of Detect-Investigate-Protect. Nikira detects known fraud types and patterns of unusual behaviour; helps investigate these unusual patterns for potential fraud and uses the knowledge thus generated to upgrade and protect against future intrusions.

Nikira is differentiated by its unique architecture that harnesses

the power of proven rules-based alarms and pattern matching driven by advanced statistical techniques. Adding power to this hybrid detection system is a set of strong case management tools.

These tools provide all relevant case data which are made easily accessible through a single window in a fast web-based GUI.

Nikira's high flexibility allows operators of different sizes to customize rules to suit unique network and business requirements. Moreover, seamless visual alarm linking using 3rd party visualization software reduces investigation efforts, thus decreasing case turnover time. Nikira has the ability to detect fraud types in all telecom environments - Wireline (PSTN, ISP, VoIP), Wireless (2G, 2.5G, 3G) and across all services - postpaid, prepaid, VAS, MMS, M-commerce.

### Moneta

Moneta™ Revenue Assurance System is a first-of-its kind, complete RA solution, designed to tackle critical Revenue Assurance challenges across the entire revenue chain. Moneta offers a set of pre-configured solution templates to address RA challenges inherent to individual service verticals - Wireless, Fixed, Cable MSPs & MVNOs. These solution templates address Revenue Assurance issues across multiple functional areas such as service fulfillment, usage integrity, retail billing, interconnect/wholesale billing and content settlement.

Each solution template is ready-to-use and includes:

- Set of appropriate health checks to monitor
- Control points & interfaces to extract data
- Reports & dashboards to present results, and
- Workflow to monitor, action & close cases

Using these solution templates, operators can dramatically reduce the time required to implement or extend the coverage of their RA practice. Moreover, operators can easily reconfigure or remodel existing templates to accommodate changing business requirements.

### Prevea

The Prevea™ Risk Management System empowers operators to continuously assess and mitigate risk presented by subscribers throughout their lifecycle.

Prevea tracks risk in a near real-time during:

- Subscriber acquisition
- Ongoing usage
- Collections and recovery

Prevea provides the operator with a holistic view that helps in understanding subscriber risk profile and thereby aids its management. Further, Prevea can quickly and seamlessly, accommodate new service information to provide an accurate picture of the exposure at any point in time.

Prevea allows the operator to easily and quickly define various risk indicators and controls, there by enabling adaptation to local, cultural and regulatory requirements. This also enables the operator to stay agile in changing socio-economic conditions that affect the overall level of risk in a region.

### Concilia

Concilia™ Interconnect Billing System allows operators to quickly

and accurately settle charges with their network partners. Shrinking margins have highlighted the increased need for visibility of each deal's impact on operator's bottom line. For interconnect agreements with domestic and international operators, Concilia provides with the ability to manage these major costs and revenues on a day-to-day, hour-to-hour basis.

New types of interconnect agreements, in areas such as IP and SMS, require new system capabilities to ensure that operators have accurate data available to assure revenues. Concilia's flexibility, scalability and ease of use empowers all types of operators – fixed or mobile, a national PTT or a new entrant, giving them the edge needed to survive and prosper in today's market.

### Symphona

The Symphona™ Interparty Management System enables operators to bill their customers and settle with their partners on a single modular platform. Symphona supports all operational and management information needs. Its unique architecture allows calculation of multiple charges for each transaction, and the correlation of retail revenues with interconnect cost. As product bundles and their related tariff plans become more complex, this ability to see all revenues and related costs is vital to ensuring a healthy bottom line.

Symphona is able to support multiple business models within a single implementation through seamless addition of necessary modules. Examples of such modules include Retail, Wholesale, Satellite, IP and Inter-Company. The Symphona framework has been designed to evolve with minimal impact to ongoing operations.

### Optima

Optima™ Route Optimization System is designed to provide operators with the tools to manage network cost information supplied by other operators. Additional analysis on the impact of current operator tariffs as well as forecasts on potential future operator tariffs is also featured. The system is capable of taking into account factors such as call quality rate information, capacity and network costs in calculating the optimum choice of operators.

Optima ensures that the entire end-to-end processes from dial code/destination operator rate imports to switch updates is controllable and auditable. Optima is fully supported by a comprehensive list of reports, and when generating an optimized routing table the system provides an integrated management of the routing table changes across multiple business functions. The automated routing management functionality converts the routing table into MML script for either manual or automatic implementation on the switch.

### Solutions for Service Agility Gains

Solutions in this category can be grouped into four categories as given below.

Automated, Subscriber-centric Fulfillment

- Syndesis Application Configuration Manager
- Syndesis Express
- Syndesis NetProvision

Data Integrity Management

- Syndesis TrueSource



## Inventory/Resource Management

- Syndesis Adaptive Resource Manager

## New Service Creation, Order Management

- Syndesis Controller

## Service & Network Migration & Optimization

- Syndesis NetOptimizer

## Automated, Subscriber-centric Fulfillment

### Syndesis Application Configuration Manager

Syndesis Application Configuration Manager (ACM) automates the configuration, management, and detailed discovery of applications, policy servers, subscriber databases, and other service delivery platforms, making self-service a reality for the mass market. With its high-performance, event-driven bus architecture, scalable J2EE platform, and high-volume activation capabilities, ACM supports thousands of requests per second with instantaneous response time. This enables subscribers to manage their services 24 hours a day, 7 days a week and supports zero-touch provisioning, self-care and multi-media impulse buying.

ACM validates service request attributes against pre-defined service logic, generates application configurations based on service needs, and activates affected control nodes or databases (e.g., IPTV servers, Unified Messaging servers, HLRs, HSSs, softswitches, VoIP feature servers, etc.) via Syndesis Application Modules. A wide range of off-the-shelf, productized Application Modules is available for market leading vendors such as Alcatel, Microsoft, Nortel, Siemens, Sonus, Sylvania and others, speeding time-to-market with innovative service offerings.

### Syndesis Express

Recognizing the demands of the new communications environment, Syndesis Express is a subscriber-centric fulfillment solution that allows carriers to react quickly to ever-changing market conditions and customer requirements. With Express, new services can be defined and deployed within days, not weeks or months.

Express is a pre-integrated solution bundle that provides complete, off-the-shelf, subscriber-centric fulfillment for IPTV, VoIP (for both Business and Consumer), and other targeted advanced service offerings. From the wholly integrated Syndesis Express architecture, providers can quickly and easily create, roll-out, and deliver advanced services to a broad customer base while achieving new levels of subscriber control and customization. And because Express coordinates both application and connectivity service components from a unified platform, it simplifies and improves the efficiency of next generation service delivery and management while decreasing operations costs.

### Syndesis NetProvision

In the world of converging and ubiquitous communications, effective service fulfillment is all about meeting demand – satisfying increasing order volumes, aggressive delivery schedules, diverse service requirements, and customers' heightened expectations.

Traditional approaches to service fulfillment are not equipped to keep pace with the demands of evolving networks, services, and subscribers. Manual and siloed service provisioning, in particular, is slow, complicated, and error-prone, forming a significant barrier to both revenue growth and customer satisfaction and retention.

Syndesis NetProvision automates the design and activation of complex, application-aware connectivity services, enabling flow-through provisioning of next-gen data and IP offerings across multi-vendor, multi-technology networks.

NetProvision uses the industry's most advanced and most widely deployed discovery engine, enabling the system to perform design and assign based on the network and logical resources as they really exist, not as an off-line database. This significantly reduces fallout rates and decreases the time required to activate a service. NetProvision also features productized Equipment Modules (i.e., device interfaces); native support for the widest range of convergent IP/data technologies; and a modular, extensible, and scalable design – all of which speed up time-to-market for new offerings while reducing project risk and TCO.

## Data Integrity Management

### Syndesis TrueSource

Without consistently accurate network and service information, OSS and BSS implementations are delayed, their overall effectiveness falters, asset tracking becomes a guessing game, and revenue leaks abound.

Syndesis TrueSource combats these problems by providing the high levels of data integrity central to OSS and BSS data reconciliation and essential for network and business operations.

TrueSource is the industry's first Data Integrity Management (DIM) solution for improving the quality of data that drives key service provider processes, resulting in lower costs and higher service profitability. TrueSource employs an operations-wide approach to solving data integrity problems, combining three powerful data integrity functions: multi-layer network and service discovery, data reconciliation, and discrepancy analytics.

Leveraging inherent cross-domain intelligence and extensive off-the-shelf network equipment support, TrueSource discovers devices and logical services in complex multi-layer, multi-vendor, multi-service environments and reconciles this data with OSS/BSS on a continuous, controlled basis. The result is consistent, relevant data throughout service provider operations, enhancing the effectiveness and value of service fulfillment, service assurance, and billing systems.

## Inventory/Resource Management

### Syndesis Adaptive Resource Manager

Syndesis Adaptive Resource Manager (ARM), the industry's only 'live' inventory management solution, offers service providers a low-risk path to operational transformation and highly accurate inventory management. By considering the complete deployment and consumption life cycle of both the network and applications, ARM provides more comprehensive intelligence and control over the service provider enterprise.

Wholly integrated with the Syndesis Subscriber-Centric Fulfillment Suite, ARM is a rapidly deployed resource management system designed specifically to meet the rigorous demands of complex next generation networks, services, and business environments. ARM can speed up new service introduction and delivery, accelerate new equipment deployment and payback, and ease OSS transformations while lowering total cost of ownership for next-gen inventory.

## New Service Creation, Order Management

### Syndesis Controller

An extension of the Syndesis Subscriber-Centric Fulfillment Solution, Syndesis Controller is a pre-integrated, best-in-class Order Management, Service Catalog Management and Technical Workflow solution. Based on industry-leading technology, Controller simplifies the orchestration between Syndesis Fulfillment Solution and other systems, including BSS systems and any manual processes associated with mobile and wireline service turn-up.

Controller leverages pre-built integration and service workflow templates based on the best practices for service delivery. It provides the basis for the automation of the complete order-to-bill cycle and enhances scalability and visibility for the entire fulfillment process, an essential pre-requisite for customer self-service. Controller decomposes orders into constituent parts, enabling end-to-end service delivery process management and operational process improvements.

## Service & Network Migration & Optimization

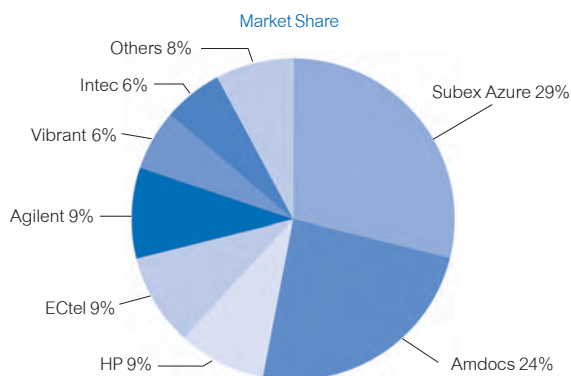
### Syndesis NetOptimizer

Network maintenance is an unavoidable cost of doing business. The world's largest networks continually evolve and change, as service providers add bandwidth, replace defective hardware, perform upgrades, introduce new network infrastructure, optimize existing capacity and change technology providers. As each of these changes affects services offered, carriers must be able to execute large scale changes quickly and accurately while preserving service integrity and customer experience.

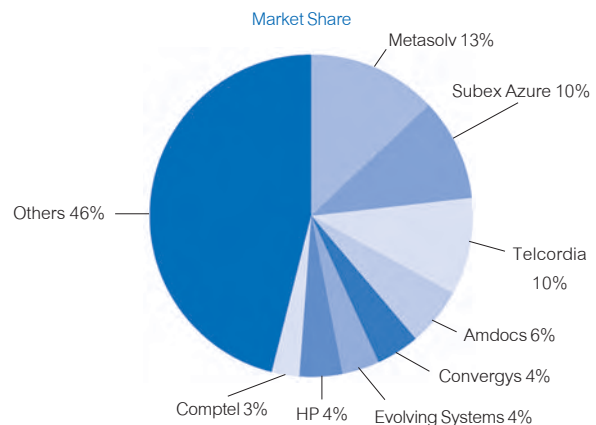
Syndesis NetOptimizer is a high-performance, carrier-class service migration and maintenance software tool that takes the risk, time and effort out of the carriers' toughest grooming operations and service migrations. Based on accurate views of the network, NetOptimizer's automation of large scale reprovisioning activities enables carriers to rapidly, safely and strategically redistribute their services to optimize their existing resources and take advantage of new equipment, technologies, and topologies.

### 3.3 Customer base and market share

The Company today serves over 170 customers spread across 60 countries. Further, our solutions are used by 32 of the world's top 50 telecom groups. This puts us in a strong position viz-a-viz competition and also protects our future growth prospects in the face of increasing consolidation among carriers. Our wide customer base has enabled us to garner the top slot in our traditional business of fraud and revenue assurance. Our market share in this space is given below.



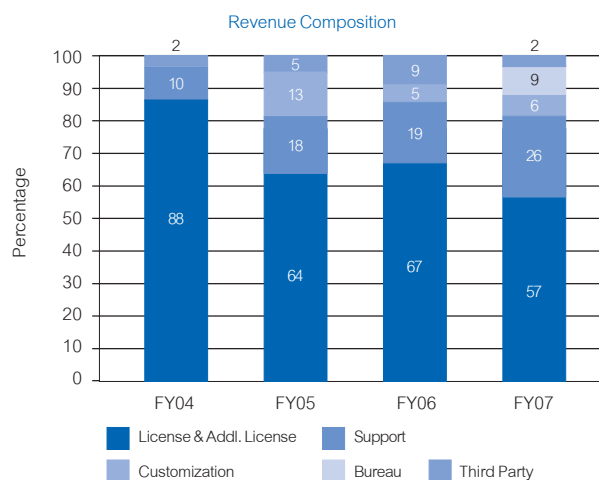
Syndesis, which operates as the Fulfillment & Assurance Solutions Business Unit from April 1, 2007 within Subex Azure, has traditionally been quite strong in the Activation space. We currently enjoy a market share of 10% as shown below.



We will be building on these strong positions and will enhance the market share with time.

### 3.4 Revenue model

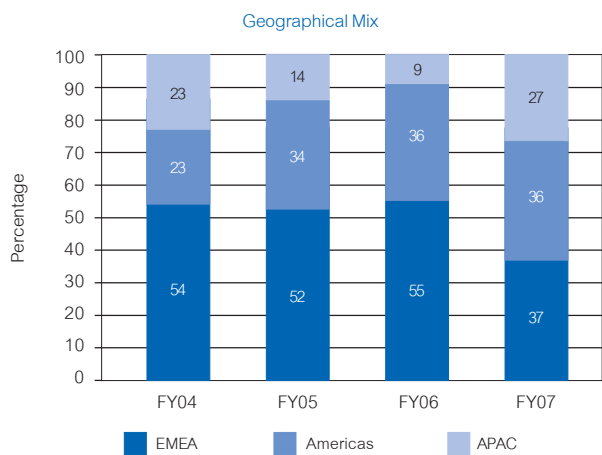
Subex Azure licenses its software solutions on a per subscriber or per transaction basis for every service stream of our customers, resulting in continuous growth in license revenues depending on the growth of the networks where the solutions are installed. Another sustainable revenue stream is the support 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. Finally, we have added a fifth stream called Bureau in the current financial year. Bureau is a new revenue model wherein we provide the solutions as a service (similar to Software as a Service – SaaS) through multi-million, multi-year contracts. The following graph gives the revenue from each of the streams and from Third Party during FY04, FY05, FY06 and FY07.



The steady increase in the relative position of support revenue lends stability to the business and addresses quarterly lumpiness. At the same time, a healthy mix of revenue from license fees establishes the growth potential and indicates that the business is not close to saturation.

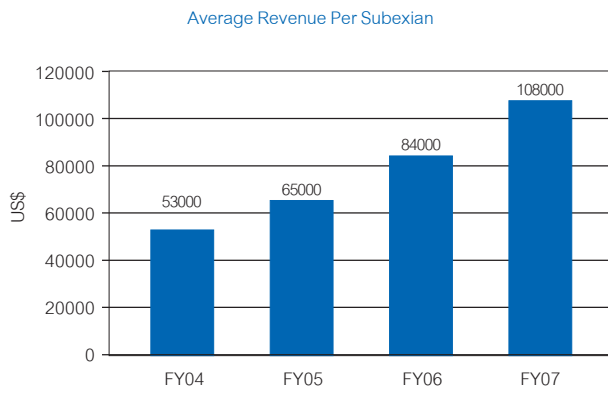
### 3.5 Geographical mix

Given the nature of our products and the challenges faced by communications service providers in both developed and developing countries, we have huge opportunities in all the geographies. This is quite evident from the geographical mix given below.



### 3.6 Average revenue per Subexian

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



### 3.7 Quality

Subex Azure is dedicated to maintain the highest levels of quality standards throughout its operations. We are an ISO 9001:2000 certified Company.

## 4. RISKS AND CONCERNS

Any business has several risks related to that and ours 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 debtor situation, which was quite poor in the past, has improved significantly during FY 2006-07. Days Sales Outstanding (DSO) currently stands at 130 on consolidated basis and 133 on a stand-alone basis and is expected to reduce further over the next few quarters.

### 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 proprietary 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 as on the date of this report, consummated two large transactions, which have turned out to be the largest overseas acquisitions by any Indian IT Company and are also quite big as compared to the past ones in our history. While we have considerable experience in handling acquisitions spread over the past 6 years, the scale of these 2 acquisitions (that of Azure Solutions Limited and Syndesis Limited) increases the risk 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 and Syndesis made single digit profit. While converting these operations into profitable ones, we need to leverage the strengths of the combined entity to ensure growth in the future. Thus, these new acquisitions pose several risks that were not perceived with the acquisitions in the past. While we believe that adequate planning and strategizing have taken place, the full impact of the execution (particularly of Syndesis) will be known only by the end of the financial year 2007 – 08. However, it is worth noting here that we have turned around Azure Solutions over the past 3 quarters and that the strategy to be employed to improve the operations at Syndesis will be similar to the one employed at Azure. Thus, there is sufficient empirical evidence to believe that Syndesis integration will also proceed in a smooth manner and that both the acquisitions will turn out to be great assets for the Company.

#### 4.7 Client concentration

Consequent to the acquisition of Azure Solutions, we now have client concentration at BT Plc (erstwhile British Telecom). While there is no concentration in non-BT revenue, we derived 28% of the revenue from BT during FY07. However, owing to the growth in non-BT revenue (through both organic and inorganic means)

the share of revenue from BT (though there will be growth in absolute terms) is expected to reduce significantly in FY08. Thus, this risk is being adequately mitigated.

#### 4.8 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, 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.

#### 4.9 Statutory obligations

Subex Azure is 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.

#### 4.10 Environmental matter

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

#### 4.11 Foreign exchange

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

#### 4.12 Taxation

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.

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 changes may adversely affect its post tax profits.

#### 4.13 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.

#### 4.14 Contractual obligation

In terms of the contract entered into by Subex Azure (formerly Subex Systems Limited) 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 system 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 revised Clause 49 of the Listing Agreement, the CEO / CFO has 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 of a dedicated team of professionals has been formed to assess 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 March 31	2007		2006	2005	2004	2003	2002
	Consolidated	Standalone	Standalone				
Total income	3,710.92	2361.84	1,841.19	1,172.35	891.94	706.41	592.51
Export sales	3,327.33	2108.94	1,787.39	1,086.40	828.53	676.01	573.79
Operating profit	812.46	447.83	539.44	356.74	246.02	162.19	95.67
Depreciation & Amortization	148.53	113.39	90.79	71.43	42.68	37.98	35.68
Profit before tax	576.61	259.09	422.23	261.10	189.04	101.75	47.92
Profit after tax	675.66	208.14	391.50	253.03	177.50	96.12	41.84
Equity dividend %	35%	35%	25%	30%	20%	10%	10%
Share capital	348.16	348.16	217.58	100.67	73.54	73.44	71.23
Reserves & Surplus	8,059.12	7,614.14	1,597.75	1,132.05	540.94	403.26	458.01
Net worth	8,286.31	7,880.10	1,816.20	1,233.04	799.39	628.85	367.11
Gross fixed assets	821.73	662.67	653.06	555.42	209.61	161.55	163.81
Net Fixed assets	358.55	306.44	391.61	367.83	89.66	77.84	109.53
Total assets	17,787.98	17,088.88	2,159.76	1,745.12	1,085.76	997.68	896.16
<b>Key Indicators</b>							
Earning per share (Year end)	19.41	5.98	17.99	25.13	24.14	13.09	5.87
Cash earning per share (Year end)	12.74	3.03	22.17	32.23	29.94	18.26	10.88
Book value per share	238.00	226.57	83.47	122.48	108.70	85.63	51.54
Debt (including working capital) equity ratio	1.02	1.06	0.01	0.23	0.21	0.32	0.46
Operating profit / sales - %	24%	21%	29%	30%	28%	23%	16%
Net profit margin - %	20%	10%	21%	22%	20%	14%	7%
Return on year end net worth %	8%	3%	22%	21%	22%	15%	11%
Return on year end capital employed %	5%	3%	30%	23%	26%	20%	18%

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 March 31, 1999 in the ratio of 1:1 by capitalizing the General Reserves.
- 12,840 shares of Rs.10/- each to the erstwhile owners of M/s. 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 January 6, 2006 in the ratio of 1:1 by capitalizing the securities premium.
- 1,109,878 Shares of Rs. 10/- each to the GDR holders as on April 7, 2006 at Rs. 400/-.
- 11,728,728 Shares of Rs. 10/- each to the GDR holders as on June 22, 2006 towards consideration of the cost of acquisition of Azure Solutions Ltd at Rs. 532.24

7.1.2 During 2006-07 the Company issued 219,551 (including Bonus shares, wherever options are eligible) shares of Rs. 10/- each to various Employees on exercise of Stock Options granted under the Employee Stock Option Plan (ESOP – II & III).

7.1.3 There are no calls in arrears.

## 7.2 Reserves & Surplus

7.2.1 Capital Reserve of Rs. 13.00 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.
- 1,109,878 equity shares issued at a premium of Rs. 390/- per share to holders of GDR at a price of Rs. 400/-.
- 11,728,728 equity shares issued at a premium of Rs. 522.24 per share to holders of GDR at price of Rs. 532.24/-.
- 219,551 (including Bonus shares, wherever options are eligible) equity shares allotted to the employees under ESOP II & III Scheme as per the provisions of the Scheme at various premiums.

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 by the Honourable High Court of Karnataka under Section 78 and 100 of the Companies Act, 1956.

7.2.4 The Company has transferred Rs. 23.2 million (Previous year Rs. 39.5 million) to General Reserves during the year.

7.2.5 In accordance with the guidelines issued by the Institute of Chartered Accountants of India on Accounting for Deferred Taxes,

deferred tax asset of Rs. 163.26 million on consolidated basis and Rs. 9.00 million on standalone basis have been recorded in the Profit & Loss account. On account of this recognition year end balance of deferred tax asset (net) amounted to Rs. 168.48 million on consolidated basis and Rs. 16.91 million on stand alone basis. The amount of Rs. 168.48 million includes an amount of Rs. 151.90 million on account of unabsorbed losses in Subex Azure (UK) Ltd. This has been recognised with the turning around of the said Company into a profitable operation this year.

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 adjusted and credited to reserves as at March 31, 2007 is Rs. 19.64 million (Previous year Rs.8.88 million).

## 7.3 Secured loans

On consolidated basis, the secured loan of Rs.635.17 million (Previous Year: Rs. 13.70 million) and on stand alone basis, the secured loan of Rs. 583.76 million (Previous Year: Rs. 11.12 million) outstanding in the books as at March 31, 2007 consists of Rs.13.51 million pertaining to motorcars financed by the Company through Hire purchase scheme with the financiers and is secured by hypothecation of the vehicles and Rs. 570.25 million pertaining to the working capital loan from UTI, which is secured by Fixed Deposits & Receivables.

## 7.4 Unsecured loans

The unsecured loan of Rs. 7807.50 million (Previous Year: Rs. Nil) outstanding in the books as at March 31, 2007 pertains to Foreign Currency Convertible Bonds issued during the year for the purpose of funding the acquisition of Syndesis. The bonds carry interest of 2% per annum and are redeemable by March 9, 2012 if not converted into equity shares as per terms of issue. These bonds are listed in the Professional Securities Market of London Stock Exchange.

## 7.5 Fixed assets

7.5.1 Intangible assets acquired by the Company include IPRs and goodwill recorded in the books of accounts as per valuation thereof received from independent valuers. The breakup of these intangibles for each acquisition is furnished below:

*Amount in Rs. million*

	Gross Block	Net Block
1. Mantas		
Intellectual Property Rights	93.25	73.06
Goodwill	7.65	6.00
2. Lightbridge		
Intellectual Property Rights	169.01	84.36
Goodwill	3.23	1.61
3. Alcatel		
Intellectual Property Rights	135.14	67.46
Goodwill	2.89	1.44
TOTAL	411.16	233.94

Amount amortised during the year is Rs. 82.42 million.



7.5.2 During the year, the Company added Rs.185.24 million on consolidated basis and Rs. 37.23 million on stand alone basis, to its gross block. The Company disposed off certain assets no longer required. The Company has assets worth Rs. 34.14 million (previous year: Rs. 27.83 million) on consolidated basis and Rs. 30.04 million (previous year: Rs. 24.20 million) on stand alone basis under hire purchase agreements and None under lease finance (previous year: Nil).

## 7.6 Investments

7.6.1 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.

7.6.2 Based on an independent valuation of Subex Technologies, Inc., there is no impairment in the value of the Investment.

7.6.3 The Company has subscribed to the entire share capital of Subex Technologies Limited, a wholly owned subsidiary Company for a cost of Rs. 10 million.

7.6.4 On June 23, 2006, the Company acquired the entire share holding of Azure Solutions Ltd, UK. The consideration was discharged by issued of 11,728,728 GDRs each representing one equity share of Rs.10/- at a premium of Rs. 522.24 per share and cash of Rs. 214.57 million.

7.6.5 On January 18, 2007, the Company has executed a share purchase agreement with the owners of Syndesis Ltd, Toronto, Canada for the purchase of their entire shareholding in that Company. The total consideration amounting to US\$ 165.66 million has been discharged on March 14, 2007 to the selling shareholders' escrow agents. Pending closure of the transaction, the amount paid is classified as Advance for Acquisition. Post Balance Sheet date, the deal has been closed and all liabilities to the erstwhile owners of Syndesis stand discharged but for escrowed consideration of US\$ 20.562 million. This hold-back is in respect of indemnity claims that may arise in the first year of acquisition. Pending the closure of acquisition of Syndesis by the Company, the costs associated therewith are not provided for in the Accounts, owing to the fact that final claims and invoices are yet to be received. Syndesis Ltd is a Company engaged in Service Assurance and Fulfillment space in the Telecom service industry.

## 7.7 Sundry debtors

7.7.1 During the year, the Company has securitized a portion of its receivables amounting to Rs. 416.66 million with UTI Bank Ltd.

7.7.2 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, and a significant portion of the products business arising from British Telecom, UK.

7.7.3 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.

7.7.4 Sundry debtors as a percentage of total revenue is 36% as against 53% in the previous year.

7.7.5 The age profile on consolidated basis is as given below:

Particulars	Amount in Rs. million			
	2006-2007		2005-2006	
	Value	%	Value	%
Less than 90 days	447.36	36.89	424.17	44.01
90-180 days	308.89	25.47	284.24	29.56
More than 180 days	456.37	37.64	254.15	26.43
Total	1,212.62	100.00	961.56	100.00

The age profile on stand-alone basis is as given below:

Particulars	Amount in Rs. million			
	2006-2007		2005-2006	
	Value	%	Value	%
Less than 90 days	197.15	25.55	421.80	43.93
90-180 days	251.01	32.53	284.24	29.60
More than 180 days	323.57	41.92	254.15	26.47
Total	771.73	100.00	960.19	100.00

7.7.6 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. 150.62 million (previous year Rs. 35.58 million) on consolidated basis and Rs. 150.00 million (previous year Rs. 35.58 million) on stand alone basis.

## 7.8 Cash and bank balances

7.8.1 The bank balances in India include both rupee accounts and foreign currency accounts. The fixed deposit of Rs. 403.75 million is funded out of book debts securitized.

7.8.2 Cash and Bank balances constitute 5.36% of the total assets (previous year: 22.25%) on consolidated basis and 4.9 % of the total assets (previous year: 22.2%) on stand alone basis.

## 7.9 Loans and advances

7.9.1 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.

7.9.2 Dues from companies under the same management

	Amount in Rs. million	
	March 31, 2007	March 31, 2006
Subex Technologies Limited	12.91	11.53
Subex Azure (UK) Ltd	351.86	-
Subex Azure Inc.	249.86	-
Subex Azure (APAC) Pte.Ltd	10.67	-

7.9.3 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 upon payment of Rs. 96.32 million (previous year: Rs. 30.66 million) on consolidated basis and Rs. 32.97 million (previous year: Rs. 8.99 million) on stand alone basis as rental and maintenance deposits.

## 7.10 Current liabilities

7.10.1 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.

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

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

## 7.11 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.

## 7.12 Financial instruments

### 7.12.1 Letters of Credit

The Company has Letters of Credit amounting to Rs. 29.99 million (previous year, Rs. 3.58 million) outstanding as at year-end.

### 7.12.2 Guarantees

The Company has outstanding guarantees for various purposes amounting to Rs. 5.24 million as at March 31, 2007 (previous year : Rs. 10.08 million). These guarantees are in the nature of performance guarantees and bid bonds and are subject to the risk of performance by the Company.

## 7.13 Profit & Loss account

### 7.13.1 Income

The Company derives its income from providing Software Development Services, and licensing of Software Products.

The segment wise break up of income on consolidated basis is given below:

*Amount in Rs. million except percentages*

Particulars	2006-07		2005-06	
	Value	%	Value	%
Software Services	1,121.33	32.89	647.52	35.68
Software Products	2,287.67	67.11	1166.82	64.32
Total	3,409.00	100.00	1,814.34	100.00

The segment wise break up of income on stand-alone basis is given below:

*Amount in Rs. million except percentages*

Particulars	2006-07		2005-06	
	Value	%	Value	%
Software Services	1116.15	52.68	645.32	35.61
Software Products	1002.47	47.32	1166.82	64.39
Total	2118.61	100.00	1812.16	100.00

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

## 7.14 Non operating income

Non operating income consists of income derived by the Company from, 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.

## 7.15 Expenditure

7.15.1 The staff cost increased to Rs. 2077.44 million (previous year: Rs.915.37 million) on consolidated basis and to Rs. 1434.54 million (previous year: Rs. 946.13 million) on stand alone basis on account of integration of Azure Solutions Limited, new recruitment, increments and increase in onsite consultancy services in US.

7.15.2 The Company incurred administration and other expenses at 19.10% of its total Income during the year as compared to 14.32% during the previous year on consolidated basis and 15.61% of its total Income during the year as compared to 12.10 % during the previous year on a stand-alone basis.

## 7.16 Operating profit

During the year, on consolidated basis, the Company earned an operating profit (Profit before interest, depreciation and tax) of Rs. 812.46 million being 21.89% of total income as against Rs. 530.87 million at 28.20% during the previous year. On a stand-alone basis, the Company earned an operating profit (Profit before interest, depreciation and tax) of Rs. 447.83 million being 18.96% of total income as against Rs. 539.44 million at 29.30% during the previous year.

## 7.17 Interest & Bank charges

The Company incurred an expenditure of Rs. 87.31 million (previous year: Rs. 26.81 million) on consolidated basis and Rs. 75.35 million (previous year: Rs. 26.42 million) on stand-alone basis. The interest paid is related to temporary overdraws and securitized receivables. The interest on FCCBs provided alone amounted to Rs.11.56 million

## 7.18 Depreciation & Amortisation

7.18.1 The provision for depreciation for the year increased to Rs. 125.56 million (previous year: Rs. 92.30 million) on consolidated basis and Rs. 113.39 million (previous year: Rs. 90.79 million) on stand alone basis. The increase in provision on consolidated basis is mainly on account of the absorption of entire year's depreciation on intangible assets acquired from Mantas and depreciation on the assets of Azure group.

Miscellaneous expenses amortised for the year increased to Rs. 22.96 million (previous year: Rs. 0.28 million) on consolidated basis. The current year's charge is on account of the absorption of redundancy and severance payments incurred in Subex Azure (UK) Ltd. The total amount incurred during the year is Rs. 46.16 million. The accounting treatment adopted is in accordance with transitional provisions of the Accounting Standard 15 on Employee Benefits, issued by The Institute of Chartered Accountants of India.

7.18.2 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. 82.42 million (previous year Rs. 64.19 million) has been provided towards depreciation of intangible assets in the financial year under review.

### 7.19 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. As per the Income Tax Act, provisions for the current year in the standalone entity has been made based on Minimum Alternative Tax (MAT). Credit has been taken into the Profit & Loss account for the entitlement to carry forward the same and set it off against normal tax liability in future.

### 7.20 Net profit

On consolidated basis, the net profit of the Company amounted to Rs. 675.66 million as against Rs. 378.48 million during the previous year. The Company earned a net profit margin of 20% to total income as against 21% in the previous year.

On stand-alone basis, the net profit of the Company amounted to Rs. 208.14 million as against Rs. 391.50 million during the previous year. The Company earned a net profit margin of 10% to total income as against 22% in the previous year. The net profit margin decreased by 12% due to change in Revenue Recognition policy. The acquisition of Azure Solutions has resulted in the Company having to evolve common policies and practices across all its group companies worldwide. Consequently, some of the accounting policies have been realigned and adopted for all companies and divisions. The revenues from contracts for sale of software licences in standalone entity, which were recognized at different periods, are being recognised, w.e.f April 1, 2006, over the contract period.

### 7.21 Earning per share

Earning per share computed on the basis of number of common stock outstanding as on the balance sheet date was Rs. 21.10 per share (previous year: Rs. 17.62 per share) on consolidated basis and Rs. 6.50 per share (previous year: Rs. 18.23 per share) on stand-alone basis. The diluted Earning per share for the year was Rs. 21.02 per share (previous year: Rs. 17.53 per share) as on consolidated basis and Rs. 6.48 per share (previous year: Rs. 18.13 per share) on stand-alone basis.

### 7.22 Foreign exchange difference

An amount of Rs. 217.26 million has been accounted for as gain during the current year compared to loss of Rs. 0.79 million during the previous year on consolidated basis and an amount of Rs. 207.20 million has been accounted for as gain during the current year compared to loss of Rs. 0.85 million during the previous year on stand-alone basis, on account of foreign exchange differences arising due to timing differences between accrual of income / expense and receipt / payment of the same.

### 7.23 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. 0.58 million (previous year, - Rs. 0.06

million). Cost of software charged off to revenue during the year amounted to Rs. 4.77 million (previous year - Rs. 1.50 million).

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

### 8.1 Subexians

As on March 31, 2007, we had over 688 Subexians on our rolls. They are highly trained and motivated. This is critical to the success of the Company. We focus on attracting and retaining the best talent with us.

Our human resources department is centralized at our 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.

### 8.2 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 prospective Subexians.

### 8.3 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, to provide them cutting-edge skill sets.

### 8.4 Performance management system

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

### 8.5 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.

Financial Review

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Subex Azure Limited (Standalone)

1. We have audited the attached Balance Sheet of Subex Azure Limited, as at March 31, 2007, the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date annexed thereto. These financial statements are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.
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 March 31, 2007 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act 1956.
- (g) 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 and give a true and fair view in conformity with the accounting principles generally accepted in India,
  - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2007; and
  - (ii) in the case of the Profit and Loss Account of the profit for the year ended on that date,
  - (iii) 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

Place: Bangalore  
Date: April 30, 2007

M. No. 84494

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

1. The provisions of clauses i(c), ii, iii (d) to (g), (viii), (x), (xii), (xiii), (xiv), (xv), (xviii), (xix), (xx) 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 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 four parties. At the year end, the outstanding balances of such loans granted aggregated to Rs. 625,303,150 and the maximum amount involved during the year was Rs. 936,114,587.
  - (b) in our opinion, having regard to the explanation that the loans are granted to subsidiaries with an intention of providing financial support, the terms and conditions of the interest free loans are, prima facie, not prejudicial to the interest of the Company.

- (c) in terms of the loans granted, no principal was due during the year ending March 31, 2007.
4. In our opinion and according to the information and explanations given to us, having regard to the explanations that some of the Company's transactions of (a) purchases of goods and services and (b) services rendered, are of a specialised nature for which comparable quotations are not available, 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 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.
5. 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 3 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.

6. The Company has not accepted deposits from the public.
7. In our opinion, the internal audit functions carried out during the year by a firm of Chartered Accountants appointed by the management has 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.
- (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 March 31, 2007, 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	9,353,609	2002-03	CIT (Appeals)
Income Tax Act, 1961	Income tax	29,783,022	2003-04	CIT (Appeals)

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. To the best of our knowledge and belief and according to the information and explanations given to us, in our opinion, term loans availed by the Company were, prima facie, applied by the Company during the year for the purposes for which the loans were obtained, other than temporary deployment pending application.
11. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, funds raised on short term basis have, prima facie, not been used during the year for long term investment.
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: April 30, 2007



## BALANCE SHEET AS AT

Amount in Rs.

	Schedule	March 31, 2007		March 31, 2006	
<b>SOURCES OF FUNDS</b>					
Shareholders' funds					
Share capital	A	348,157,250		217,575,680	
Share application money		-		878,089	
Reserve and surplus	B	<u>7,614,743,935</u>	7,962,901,185	<u>1,597,751,141</u>	1,816,204,910
Loan Funds					
Secured loans	C	583,759,501		11,119,920	
Unsecured loans	D	<u>7,807,500,000</u>	8,391,259,501	-	11,119,920
<b>Total</b>			<u><b>16,354,160,686</b></u>		<u><b>1,827,324,830</b></u>
<b>APPLICATION OF FUNDS</b>					
Fixed assets					
Gross block	E	662,665,154		653,064,906	
Less : Depreciation		<u>360,261,651</u>		<u>265,950,677</u>	
Net block		302,403,503		387,114,229	
Capital work in progress		<u>4,037,627</u>	306,441,130	<u>4,495,298</u>	391,609,527
Investments	F		14,195,582,212		318,017,947
Deferred tax asset (Net)			16,917,000		7,912,000
<b>CURRENT ASSETS, LOANS &amp; ADVANCES</b>					
Sundry debtors	G	771,734,600		960,193,124	
Cash & Bank balances	H	801,158,095		405,677,943	
Loans & Advances	I	772,476,344		76,355,395	
Unbilled revenue		<u>224,571,526</u>		-	
		2,569,940,565		1,442,226,462	
Less: Current Liabilities & Provisions	J	<u>734,720,221</u>		<u>332,441,106</u>	
Net current assets			1,835,220,344		1,109,785,356
<b>Total</b>			<u><b>16,354,160,686</b></u>		<u><b>1,827,324,830</b></u>

Significant Accounting policies &amp; Notes to the accounts P

*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  
Founder Chairman, Managing Director & CEO

Sudha Madhavan  
Chief Financial Officer

Sudeesh Yezhuvath  
Chief Operating Officer

V. Balaji Bhat  
Director

Raj Kumar  
Chief Counsel & Company Secretary

Bangalore  
April 30, 2007

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED

Amount in Rs.

	Schedule	March 31, 2007	March 31, 2006
<b>Income</b>			
Sales & Services		2,118,612,682	1,812,162,302
Other income	K	243,226,341	29,027,758
<b>Total</b>		<b>2,361,839,023</b>	<b>1,841,190,060</b>
<b>EXPENDITURE :</b>			
Direct cost	L	110,863,909	132,850,266
Personnel costs	M	1,434,537,769	946,131,783
Other operating, selling and administrative expenses	N	368,603,829	222,772,709
Financial costs	O	75,345,976	26,419,291
Depreciation	E	113,394,684	90,789,585
<b>Total</b>		<b>2,102,746,167</b>	<b>1,418,963,634</b>
<b>Profit Before Taxation</b>		<b>259,092,856</b>	<b>422,226,426</b>
Provision for taxation			
- Current		66,195,845	32,775,000
- MAT credit carried forward		(11,128,731)	-
- Fringe benefit tax		4,887,171	1,891,637
- Deferred		(9,005,000)	(3,936,191)
<b>Profit After Taxation</b>		<b>208,143,571</b>	<b>391,495,980</b>
Add: Balance brought forward from previous year		756,300,496	448,497,788
<b>Profit Available for Appropriation</b>		<b>964,444,067</b>	<b>839,993,768</b>
<b>APPROPRIATION :</b>			
Transfer to General Reserve		23,200,000	39,500,000
Dividend			
- Equity shares - proposed final dividend 2006-07 @20%		69,631,450	-
- Equity shares - interim dividend 2006-07 @15%		52,113,210	-
- Equity shares - interim dividend 2005-06		-	16,283,564
- Equity shares - final dividend 2004-05		-	547,764
- Equity shares - final dividend 2005-06		12,883,222	134,627,882
Tax on distributed profits		20,949,615	5,604,376
<b>Surplus carried to Balance Sheet</b>		<b>785,666,570</b>	<b>756,300,496</b>
		<b>964,444,067</b>	<b>839,993,768</b>
<b>Earning per Share (Face value of Rs.10 each)</b>			
- Basic		6.50	18.23
- Diluted		6.48	18.13

Significant Accounting policies & Notes to the accounts P

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

V. Srikumar Partner	Subash Menon Founder Chairman, Managing Director & CEO	Sudeesh Yezhuvath Chief Operating Officer	V. Balaji Bhat Director
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Membership No. 84494	Sudha Madhavan Chief Financial Officer	Raj Kumar Chief Counsel & Company Secretary
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Bangalore  
April 30, 2007

## CASH FLOW STATEMENT FOR THE YEAR ENDED

Amount in Rs.

	March 31, 2007	March 31, 2006
<b>Cash flow from operating activities</b>		
Net profit before tax	259,092,856	422,226,426
<b>Adjustments for</b>		
a) Depreciation & Amortization	113,394,684	90,789,585
b) Interest / dividend income	(33,843,931)	(17,485,876)
c) Interest and bank charges	75,345,976	26,419,291
d) Assets written off / loss on sale	3,761,806	1,922,880
e) Profit on sale of assets	(463,514)	(11,976,780)
f) Employee compensation expenses	10,760,906	4,115,709
g) Provision for doubtful debts	150,000,000	35,583,448
h) Unrealised exchange fluctuations	(208,784,608)	3,632,964
i) Direct taxes paid	(39,652,428)	(21,068,323)
<b>Operating profit before working capital changes</b>	<u>329,611,747</u>	<u>534,159,324</u>
<b>Adjustments for</b>		
a) Sundry debtors	12,197,079	(292,387,910)
b) Loans and advances	(884,747,202)	(11,546,176)
c) Inventories	-	62,589
d) Trade and other payables	289,321,484	93,266,223
<b>Cash generated from operations</b>	<u>A (253,616,892)</u>	<u>323,554,050</u>
<b>Cash flow from investing activities</b>		
a) Purchase of fixed assets	(40,389,091)	(110,095,990)
b) Sale / disposal of fixed assets	8,864,512	21,058,612
c) Sale / (purchase) of investments	(7,635,103,606)	(9,499,000)
d) Interest received	33,843,931	16,352,692
<b>Net cash from investing activities</b>	<u>B (7,632,784,254)</u>	<u>(82,183,686)</u>
<b>Cash flow from financing activities</b>		
a) Proceeds from issue of share capital/options	457,173,808	18,753,800
b) Proceeds from/(repayment) of short term borrowings - Net	570,247,932	(59,387,250)
c) Proceeds from long term borrowings	8,049,544,180	3,318,000
d) Repayment of long term borrowings	(4,752,531)	(6,093,275)
e) Dividends & dividend tax paid	(98,720,943)	(43,776,147)
f) Interest and bank charges paid	(75,345,976)	(26,419,292)
g) FCCB & GDR expenses	(616,265,172)	-
<b>Net cash from financing activities</b>	<u>C 8,281,881,298</u>	<u>(113,604,164)</u>
Net increase in Cash or Cash equivalents [A + B + C]	395,480,152	127,766,200
Cash or Cash equivalents at the start of the year	405,677,943	277,911,743
<b>Cash or Cash equivalents at the close of the year</b>	<u>801,158,095</u>	<u>405,677,943</u>

**Note :** Cash & Cash equivalents include balance with scheduled banks on dividend account and GIC deposit account of Rs. 937,379 and fixed deposit Rs. 320,425,029 (previous year Rs. 963,793) which are not available for use by the Company.

Significant Accounting policies & Notes to the accounts - Schedule P

In terms of our report of even date

for Deloitte Haskins & Sells  
Chartered Accountants

V. Srikumar Partner Membership No. 84494  Bangalore April 30, 2007	Subash Menon Founder Chairman, Managing Director & CEO  Sudha Madhavan Chief Financial Officer	Sudeesh Yezhuvath Chief Operating Officer  Raj Kumar Chief Counsel & Company Secretary	V. Balaji Bhat Director
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SCHEDULES TO THE BALANCE SHEET AS AT

Amount in Rs.

	March 31, 2007	March 31, 2006
<b>Schedule - A</b>		
<b>Share capital</b>		
Authorised		
48,040,000 (previous year, 30,140,000) equity shares of Rs. 10 each	480,400,000	301,400,000
200,000 Redeemable Optionally	19,600,000	19,600,000
Convertible Cumulative Preference Shares (ROCCPS) of Rs. 98 each		
<b>Total</b>	<b>500,000,000</b>	<b>321,000,000</b>
Issued, subscribed and paid up		
<b>Equity</b>		
34,815,725 (previous year, 21,757,568) equity shares of Rs.10 each	348,157,250	217,575,680
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;		
e) 11,728,728 shares (GDRs) of Rs. 10 each are allotted in full settlement of cost of acquisition of Azure Solutions (UK) Ltd		
<b>Total</b>	<b>348,157,250</b>	<b>217,575,680</b>
<b>Schedule - B</b>		
<b>Reserves &amp; Surplus</b>		
Capital Reserve	13,006,920	13,006,920
General Reserve - opening balance	163,302,608	123,802,608
Add : Additions during the year	23,200,000	39,500,000
Less : Adjustment in pursuance of transitional provisions of Accounting Standard - 15 (Note II.18 .7 Schedule P)	8,527,028	-
Securities premium account - opening balance	656,262,011	541,983,360
Add : Additions during the year	6,578,458,014	223,066,491
Less: Utilised towards incidental costs of issue of FCCBs & GDRs	616,265,172	108,787,840
Less : Redemption premium on FCCBs (Note II.8 Schedule P)	42,150,000	-
Employee Stock Options outstanding	52,775,309	22,738,130
Less: Deferred employees compensation expenses	33,135,297	13,859,024
Redemption premium on FCCB (Note II.8 Schedule P)	42,150,000	-
Profit & Loss account	785,666,570	756,300,496
<b>Total</b>	<b>7,614,743,935</b>	<b>1,597,751,141</b>
<b>Schedule - C</b>		
<b>Secured loans</b>		
Short term		
Working capital loans from banks (Secured by first charge on fixed deposits and receivable)	570,247,932	-
Other loan from banks (Amount repayable within one year: Rs. 4,335,771, previous year, Rs. 3,761,855)	13,511,569	11,119,920
<b>Total</b>	<b>583,759,501</b>	<b>11,119,920</b>
<b>Scheduled - D</b>		
<b>Unsecured loans</b>		
Foreign Currency Convertible Bonds (Note II.8 Schedule P)	7,807,500,000	-
<b>Total</b>	<b>7,807,500,000</b>	<b>-</b>

## Schedule - E

## Fixed assets

Amount in Rs.

Sl. No.	Particulars	Gross block				Depreciation				Net block	
		As at April 1, 2006	Additions during the year	Deletions during year	As at March 31, 2007	Upto April 1, 2006	For the year	Withdrawn On deletions	Upto March 31, 2007	As at March 31, 2007	As at March 31, 2006
1	Plant & Machinery	815,478	-	524	814,954	725,863	14,754	524	740,093	74,861	89,615
2	Furniture & Fixtures	10,568,011	462,222	3,050,437	7,979,796	7,461,582	1,097,221	2,708,166	5,850,637	2,129,159	3,106,429
3	Computers	195,799,201	27,113,429	16,469,698	206,442,932	147,460,439	23,219,077	11,594,816	159,084,700	47,358,232	48,338,762
4	Office equipments	8,245,736	888,359	2,907,423	6,226,672	4,734,295	1,177,982	2,011,479	3,900,798	2,325,874	3,511,441
5	Vehicles	24,195,586	8,765,654	2,922,467	30,038,773	10,538,125	5,143,388	2,221,408	13,460,105	16,578,668	13,657,461
6	Intellectual Property Rights	399,673,976	-	2,278,867	397,395,109	93,065,249	79,670,071	228,511	172,506,809	224,888,300	306,608,727
7	Goodwill	13,766,918	-	-	13,766,918	1,965,124	2,753,385	-	4,718,509	9,048,409	11,801,794
	Total	653,064,906	37,229,664	27,629,416	662,665,154	265,950,677	113,075,878	18,764,904	360,261,651	302,403,503	387,114,229
	PREVIOUS YEAR	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

(Note : Depreciation as per Profit & Loss account for the current year is higher to the extent of Rs. 318,806 (previous year, 72,369) due to allocable expense from Subex Technologies Ltd.)

SCHEDULES TO THE BALANCE SHEET AS AT

Amount in Rs.

	March 31, 2007	March 31, 2006
<b>Schedule - F</b>		
<b>Investments</b>		
(Long term, trade, unquoted)		
In wholly owned subsidiaries		
Subex Technologies Inc	308,018,007	308,018,007
(incorporated in U.S.A, common stock 3,000 shares, fully paid up, of no par value)		
Subex Technologies Ltd	9,999,940	9,999,940
(incorporated in India, common stock 999,994 shares, fully paid up, at par value of Rs.10 each)		
Subex Azure UK Ltd	6,473,868,240	-
(incorporated in UK, (common stock 5,039,565,245 shares, fully paid up, at par value of £. 0.00001 each)		
Advance for acquisition	7,403,696,025	-
(Note II.7 Schedule P)		
<b>Total</b>	<b>14,195,582,212</b>	<b>318,017,947</b>
<b>Schedule - G</b>		
<b>Sundry debtors</b>		
(Unsecured)		
Outstanding for more than six months		
- Considered good	323,569,496	254,146,370
- Considered doubtful	203,788,312	58,786,098
	527,357,808	312,932,468
Less: Provision for doubtful debts	203,788,312	58,786,098
Others	448,165,104	706,046,754
<b>Total (considered good)</b>	<b>771,734,600</b>	<b>960,193,124</b>
<b>Schedule - H</b>		
<b>Cash &amp; bank balances</b>		
Cash on hand	61,435	342,020
Balance with scheduled banks		
- in Current account in Indian Rupees	8,509,020	9,776,111
- in Deposit account in Indian Rupees	403,750,607	333,665,660
- in Exchange Earner's Foreign Currency account	21,921,738	43,245,394
Balance with non-scheduled banks		
- Deposit with Royal Bank of Canada	937,379	963,793
- in current account with Royal Bank of Canada, Canada (Maximum outstanding during the year Rs. 1,787,598)	917,455	503,094
- in checking account with First Union Bank, New Jersey (Maximum outstanding during the year Rs. 127,318,302)	2,156,371	11,793,295
- in Hellinic Bank - CYP Account, Cyprus (Maximum outstanding during the year Rs. 1,503)	-	1,395
- in Hellinic Bank - USD Account - Cyprus (Maximum outstanding during the year Rs. 790)	-	1,663
- in Bank of China - RMB account - China (Maximum outstanding during the year Rs. 2,359,802)	1,465,235	22,595
- in Bank of China - USD Account - China (Maximum outstanding during the year Rs. 1,862,777)	-	892,680
- in First National Bank of Colorado - USD Account - CO (Maximum outstanding during the year Rs. 11,089,706)	-	1,773,861
- in HSBC Bank - GBP Account - Slough, London (Maximum outstanding during the year Rs. 8,849,063)	-	2,696,382
- Wachovia Bank, USA (Maximum outstanding during the year Rs. 7,820,065,930/- The balance comprises unutilised monies out of the proceeds of issue of FCCBs)	360,362,605	-
- Wachovia Bank, USA (Maximum outstanding during the year Rs. 1,076,250/-)	1,076,250	-
<b>Total</b>	<b>801,158,095</b>	<b>405,677,943</b>



SCHEDULES TO THE BALANCE SHEET AS AT

Amount in Rs.

	March 31, 2007	March 31, 2006
<b>Schedule - I</b>		
<b>Loans &amp; Advances</b>		
(Unsecured, considered good, subject to confirmation)		
Loans and advances recoverable in cash or in kind or for value to be received	47,752,966	21,342,369
Loans to wholly owned subsidiaries	625,303,150	10,042,277
Advance income tax including TDS	53,664,130	17,718,857
Other deposits	45,756,098	27,251,892
<b>Total</b>	<b><u>772,476,344</u></b>	<b><u>76,355,395</u></b>
<b>Schedule - J</b>		
<b>Current Liabilities &amp; Provisions :</b>		
Sundry creditors (other than dues to Small Scale Industrial Undertaking Note II.18.9 Schedule P)	300,145,835	124,128,357
Advance received from customers	88,675,783	64,884,807
Deferred income	3,346,731	-
Duties & Taxes	18,397,515	13,211,952
Subex Technologies Inc. (Net) (Wholly owned subsidiary)	127,535,322	64,277,408
Unclaimed dividends	812,794	300,627
Provisions :		
Taxation	93,606,845	37,359,715
Dividends	69,631,450	22,069,429
Tax on proposed dividends	11,833,865	3,051,499
Employee benefits	17,750,427	-
Warranty	2,983,654	3,157,312
<b>Total</b>	<b><u>734,720,221</u></b>	<b><u>332,441,106</u></b>
<b>Schedule - K</b>		
<b>Other Income</b>		
Interest received (Gross of TDS Rs. 5,417,207, previous year Rs. 3,794,118)	33,843,931	17,485,876
Other income received	2,182,173	1,487,982
Profit on sale of fixed assets (Net)	-	10,053,900
Exchange fluctuation gain (Net)	207,200,237	-
<b>Total</b>	<b><u>243,226,341</u></b>	<b><u>29,027,758</u></b>

SCHEDULES TO THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED

Amount in Rs.

	March 31, 2007	March 31, 2006
<b>Schedule - L</b>		
<b>Direct cost</b>		
a. Purchased systems & solutions	52,187,455	76,932,834
Support expenses	36,409,103	-
(Increase)/ decrease in finished goods		
Opening stock - finished goods	-	62,589
Closing stock - finished goods	-	-
b. Commission on sales	22,267,351	55,854,843
<b>Total</b>	<b>110,863,909</b>	<b>132,850,266</b>
<b>Schedule - M</b>		
<b>Personnel costs</b>		
Salaries, wages & allowances	384,902,756	321,347,918
Contribution to provident fund and other funds	13,751,205	8,163,941
Other staff related costs	35,944,162	20,027,863
Sub contract charges	999,939,646	596,592,061
<b>Total</b>	<b>1,434,537,769</b>	<b>946,131,783</b>
<b>Schedule - N</b>		
<b>Other operating, selling and administrative expenses</b>		
Software purchases	4,767,391	1,496,013
Rent	30,639,977	30,415,017
Power, fuel and water charges	7,048,363	6,207,953
Repairs & Maintenance others	4,792,904	4,213,304
Insurance	3,713,714	2,099,094
Communication costs	14,767,756	20,332,862
Printing & Stationery	2,727,529	1,376,270
Travelling & Conveyance	107,126,588	70,443,729
Directors sitting fees	42,500	27,500
Rates & Taxes including filing fees	1,824,242	962,070
Advertisement & Business promotion	16,786,474	16,120,996
Consultancy charges	9,114,000	20,909,065
Bad debts written off	-	135,104
Warranty expenses	-	2,683,362
Provision for doubtful debts	150,000,000	35,583,448
Loss on sale of Assets & Assets written off (Net)	3,298,292	-
Exchange fluctuation (Net)	-	853,205
Miscellaneous expenses	11,954,099	8,913,717
<b>Total</b>	<b>368,603,829</b>	<b>222,772,709</b>
<b>Schedule - O</b>		
<b>Financial costs</b>		
Interest on FCCBs and other term loans	11,566,667	-
Other interest & bank charges	63,779,309	26,419,291
<b>Total</b>	<b>75,345,976</b>	<b>26,419,291</b>

## Schedule – P

### 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 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. Revenue recognition

Revenue from contracts for software product licenses includes fees for transfer of licenses, installation and commissioning. This revenue is recognized under the percentage completion method based on the extent of work determined to have been completed as compared to the work involved in the overall scope of the contract. In the event of any expected losses on a contract, the entire amount is provided for in the accounting period in which such losses are first anticipated.

Revenue from sale of additional software licenses are recognized on transfer.

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

Sale of hardware under reseller arrangements are recognized on dispatch of goods to customers and are recorded net of discounts, rebates for price adjustment, projections, shortage in transit, taxes and duties.

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

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 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. 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 and Plan-III (ESOP-II and ESOP-III) are accounted in accordance with the guidelines stipulated by SEBI. The difference between the market price of the shares underlying the options granted on the date of grant of option and the option price is expensed as 'Employees Compensation' over the period of vesting.

#### I.7. Employee benefits

The company's contribution to provident fund, a defined contribution scheme, is charged to the profit and loss account on accrual basis.

Liability for gratuity is funded with Life Insurance Corporation of India (LIC). Gratuity expense for the year has been accounted based on actuarial valuation carried out at the end of the financial year. The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligations adjusted for unrecognized past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost plus the present value of available refunds and reduction in future contributions to the scheme.

Liability for encashment of leave, considered to be long term liability, is accounted for on the basis of an actuarial valuation. Provision for outstanding leave credits considered is short term liability is as estimated by the management and accrued for based on last month's salary. Other short term employee benefits like medical, leave travel etc are accrued based on the terms of employment on a time proportion basis.

#### I.8. Research and development

Expenses incurred on research and development is 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.9. 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/ fixed assets as appropriate. 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 / 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 transaction. Revenue and expenses are translated into Indian rupees at yearly average exchange rates prevailing during the year.

#### I.10. Investments

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

#### I.11. 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 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.

Deferred tax assets are recognized and carried forward to the extent that there is a reasonable / virtual certainty, as applicable, that sufficient future taxable income will be available against which such deferred tax assets can be realized.

#### I.12. 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.13. 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.14. 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' issued by Institute of Chartered Accountants of India.

#### Movement in deferred tax asset (Liability)

	<i>Amount in Rs.</i>	
	2006-07	2005-06
Net deferred tax asset at beginning of the year	7,912,000	3,975,809
Add: Tax benefits for current year	9,005,000	3,936,191
<b>Net deferred tax asset at end of the year</b>	<b>16,917,000</b>	<b>7,912,000</b>

b) The net deferred tax asset as at March 31, 2007 comprises the tax impact arising from the timing differences on account of:

	<i>Amount in Rs.</i>	
	As at March 31, 2007	As at March 31, 2006
Depreciation	16,917,000	7,912,000

### II.2. Contingent liabilities

Receivables factored – Rs. 416,664,307 (previous year, Rs. 389,264,166)

Claims against the Company not acknowledged as debt – Rs. 39,136,631\* (previous year, Rs. 9,353,609)

\* These claims relate to income tax demands pertaining to FY 2002-03 & 2003-04. The demands are being contested by the Company.

### II.3. Acquisition of Azure Solutions Ltd, UK

On June 23, 2006, the Company acquired the entire shareholding of Azure Solutions Ltd, UK. The consideration was discharged by issue of 11,728,728 GDRs each representing one equity share of Rs. 10/- at a premium of Rs. 522.24 per share and cash of Rs. 214,570,000.

### II.4. 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. 172,812,213 and Rs. 141,685,665 respectively, including expenses incurred in connection with the said acquisitions. During the year ended March 31, 2006, 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. 60,830,004 has been amortised in the financial year under review (previous year, Rs. 62,502,860).

### II.5. 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 March 1, 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 amortised over 5 years in accordance with the company's assessment of useful life thereof. Accordingly, an amount of Rs. 18,840,067 has been amortised in the financial year under review (Previous year, Rs. 1,696,053).

**II.6.** The Company has made 2 issues of Global Depository receipts (GDRs) in April 2006 and June 2006. The details of these issues are as given below :

<i>Amount in Rs.</i>				
Sl No.	Month of Issue	Equivalent Equity shares	Issue price per GDR (Rs.)	No. of GDRs issued
1	April 2006	1 of Rs. 10 each	400.00	1,109,878
2	June 2006	1 of Rs. 10 each	532.24	11,728,728

In addition, the Company has completed a programme of sponsored GDR offerings, whereby an option has been offered to the existing share holders of the Company to transfer their holdings in favour of Institutional Investors.

All the above GDR's are listed on the Professional Securities Market of the London Stock Exchange.

**II.7.** On January 18, 2007, the Company has executed a share purchase agreement with the owners of Syndesis Limited, Toronto, Canada for the purchase of their entire shareholding in that Company. The total consideration amounting to US\$ 165.66 million has been discharged on March 14, 2007 to the selling shareholders' escrow agents. Pending closure of the transaction, the amount paid is classified as Advance for Acquisition. Post Balance Sheet date, the deal has been closed and all liabilities to the erstwhile owners of Syndesis Limited stand discharged but for escrowed consideration of US\$ 20.562 million. This hold-back is in respect of indemnity claims that may arise in the first year of acquisition.

Pending the closure of deal in the case of acquisition of Syndesis Limited by the Company, the costs associated therewith are not provided for in the accounts, owing to the fact that final claims and invoices are yet to be received.

Syndesis Limited is a Company engaged in service assurance and fulfillment space in the Telecom service industry.

#### **II.8. Foreign Currency Convertible Bonds (FCCB)**

During the year 2006-07, the Company issued Foreign Currency Convertible Bonds (FCCBs) aggregating to US\$ 180 million to Institutional Investors. The bonds carry an initial interest rate of 2% per annum and are redeemable by March 9, 2012, if not converted into equity shares as per terms of issue.

Other terms and conditions governing the bonds are as follows:

- Conversion of the bonds into equity shares at the option of the bond holders at any time after April 18, 2007
- Conversion price – Rs. 656.20 per share
- Exchange rate for purpose of conversion - 1 US\$ = Rs. 44.08
- Interest of 2% per annum payable semi-annually in arrears
- Redemption with yield to maturity guaranteed return of 8% per annum, calculated on semi-annual basis
- The Company can exercise an option to redeem the bonds in whole or in part, on or any time after March 9, 2010, but prior to January 29, 2011, subject to appropriate approvals at a price determined on the terms defined in the offer document.

- Listing on the Professional Securities Market of London Stock Exchange.

The difference between the yield to maturity guaranteed rate of return of 8% and the coupon rate of 2% represents the premium payable on redemption and is charged to Securities Premium over the life of the bonds.

#### **II.9. Bonus issue**

In January 2006, the Company had 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. 29,915,778 (previous year, Rs. 26,580,147)

As of March 31, 2007 future minimum lease payments for non-cancelable operating leases for the next five fiscal years are:

<i>Amount in Rs.</i>		
	March 31, 2007	March 31, 2006
Within 1 year	32,478,686	18,281,307
Due in a period between 1 year and 5 years	55,814,278	44,188,721
Due after 5 years	—	—

#### **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. Since the scheme was formulated prior to the promulgation of SEBI guidelines on ESOP dated June 19, 1999, the Company has discontinued the scheme. The scheme has been closed pursuant to disposal of the shares by the Foundation.

##### **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 & ESOS dated June 19, 1999. As per the scheme, the Compensation 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 480,709 options have been granted to 340 employees as at March 31, 2007. Out of the above 24,634 options have been vested. The difference between the market price of

the share underlying the options granted on the date of grant of option and the exercise price of the option are expensed over the vesting period as per the SEBI guidelines. The net impact of the movement in option grants during the year resulted in a debit of Rs. 2,238,027 (previous year: Debit of Rs. 4,910,159) 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 June 19, 1999. As per the scheme, the Compensation 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 and can be exercised over a maximum period of 3 years from the date of vesting.

As on March 31, 2007, 428,820 options have been granted to 406 employees under this scheme. Out of the above options 2,963 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 resulted in a debit of Rs. 11,981,639 (previous year: Debit of Rs. 497,664) to the Profit & Loss account for the year.

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

#### ESOP – I : Nil

#### ESOP – II :

	As at March 31, 2007	As at March 31, 2006
Options outstanding at the beginning of the year	364,027	336,385
Granted during the year	112,200	144,000
Forfeited/ cancelled	108,393	50,950
Exercised	106,632	65,408
<b>Balance at end of the year</b>	<b>261,202</b>	<b>364,027</b>

#### ESOP – III :

	As at March 31, 2007	As at March 31, 2006
Options outstanding at the beginning of the year	70,380	0
Granted during the year	382,800	70,380
Forfeited/ cancelled	24,360	0
Exercised	6,287	0
<b>Balance at end of the year</b>	<b>422,533</b>	<b>70,380</b>

#### 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	2006-07		2005-06	
	Options (Nos)	Weighted average exercise price per stock options (Rs.)	Options (Nos)	Weighted average exercise price per stock options (Rs.)
Options outstanding at the beginning of the year				
ESOP – II	364,027	284.25	336,385	168.52
ESOP – III	70,380	342.55		
Granted during the year				
ESOP – II	112,200	522.32	144,000	442.80
ESOP – III	382,800	442.38	70,380	342.55
Exercised during the year				
ESOP – II	106,632		65,408	
ESOP – III	6,287			
Cancelled & Lapsed during the year				
ESOP – II	108,393		50,950	
ESOP – III	24,360			
Options outstanding at the end of the year				
ESOP – II	261,202	408.57	364,027	284.25
ESOP – III	422,533	429.37	70,380	342.55
Options exercisable at the end of the year				
ESOP – II	24,634		70,323	
ESOP – III	2,963			

#### 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 is : risk-free interest rate of 6.03%, expected life : 3 years, expected volatility of share : 62.78% and expected dividend yield: 0.37%. 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	March 31, 2007	March 31, 2006
Net profit (as reported)	208,143,571	391,495,980
Add: Stock-based employee compensation (intrinsic value method)	14,219,667	3,516,774
Less: Stock based compensation expenses determined under fair value method for the grants issued after April 1, 2006	22,757,321	11,181,604
Net Profit (proforma)	199,605,917	383,831,150
Basic Earning per share (as reported)	6.50	18.23
Basic Earning per share (proforma)	6.23	17.87
Diluted Earning per share (as reported)	6.48	18.13
Diluted Earning per share (proforma)	6.21	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

Subex Azure (UK) Ltd

Subex Azure, Inc, USA

Subex Azure (Asia Pacific) Pte Ltd

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:

Amount in Rs.

Nature of Transaction	Subsidiary		Companies under same management		Key Management Personnel	
	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06
a) Purchase of services:						
i) STI*	999,939,646	596,592,061	-	-	-	-
ii) STL**	36,687,827	9,967,322	-	-	-	-
iii) Subex Azure (UK) Ltd	28,286,929	-	-	-	-	-
b) Purchase of hardware from Cellcomm Solutions Ltd	-	-	693,243	-	-	-
c) Sale of services:						
i) Subex Azure (UK) Ltd	49,777,248	-	-	-	-	-
ii) Subex Azure, Inc	13,323,908	-	-	-	-	-
iii) Subex Azure (Asia Pacific) Pte Ltd	3,021,228	-	-	-	-	-
d) Salary, Perquisites & Commission	-	-	-	-	24,946,139	23,409,166
e) Amount due as at year end from:						
i) STI*	144,231,174	104,173,846	-	-	-	-
ii) STL**	129,11,455	11,533,049	-	-	-	-
iii) Subex Azure (UK) Ltd	351,862,273	-	-	-	-	-
iv) Subex Azure, Inc	249,856,467	-	-	-	-	-
v) Subex Azure (Asia Pacific) Pte Ltd	10,672,956	-	-	-	-	-
f) Amount due as at year end to:						10,000,000
i) STI*	271,766,496	168,451,255	-	-	-	-
ii) STL**	-	1,490,772	-	-	-	-
iii) Subex Azure (UK) Ltd	-	-	-	-	-	-
iv) Subex Azure, Inc	-	-	-	-	-	-
v) Subex Azure (Asia Pacific) Pte Ltd	-	-	-	-	-	-
vi) Cellcomm Solutions Ltd	-	-	330,496	-	-	-
g) Sharing of expenses related to services business (STL) see Note – 1	5,616,032	4,225,051	-	-	-	-
h) Expenses allocated to:						
i) Subex Azure (UK) Ltd	20,302,150	-	-	-	-	-
ii) Subex Azure, Inc	17,636,896	-	-	-	-	-
iii) Subex Azure (Asia Pacific) Pte Ltd	3,413,161	-	-	-	-	-
i) Commission paid on service business	1,405,562	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 service business of Subex Azure Limited as agreed between both companies. These have been accounted under depreciation, personnel cost and various heads included under Schedule-N

### II.13. Earnings per share:

Amount in Rs.

a) Basic		2006-07	2005-06
Profits after tax attributable to shareholders	A	208,143,571	391,495,980
Weighted average number of shares for basic EPS	B	32,020,111	21,480,220
Weighted average number of shares for diluted EPS	C	32,145,562	21,590,084
<b>Earnings per share – basic</b>	<b>A / B</b>	<b>6.50</b>	<b>18.23</b>
<b>Earnings per share – diluted</b>	<b>A / C</b>	<b>6.48</b>	<b>18.13</b>

Face value of shares : Rs. 10 each

As mentioned in II.9, there was a bonus issue in January 2006. The weighted average number of shares outstanding and consequently the Earning per share has been recomputed for the year ended March 31, 2006 to adjust for the said bonus issue, in accordance with Accounting Standard-20 'Earning per Share' issued by Institute of Chartered Accountants of India.

The difference in the number of share used for calculation of diluted EPS as compared to that used for computing Basic EPS is due to existence of stock options that are granted to employees.

### II.14. a. Managerial remuneration to Managing Director and Whole-time Director:

Amount in Rs.

	Year ended March 31, 2007	Year ended March 31, 2006
Salary	22,719,996	11,694,610
Contribution to Provident Fund	1,704,000	1,402,896
Perquisites	522,143	311,660
Commission (as computed below)	-	10,000,000
<b>Total</b>	<b>24,946,139</b>	<b>23,409,166</b>

### b. Computation of net profit in accordance with Section 349 of the Companies Act, 1956

Amount in Rs.

	2006-07		2005-06	
Profit before tax as per the Profit & Loss Account		259,092,856		422,226,426
Add: Directors' Sitting Fees	42,500		27,500	
Remuneration to Directors (including Commission)	26,946,139	286,081,495	24,609,166	24,636,666
<b>Add/(Less): Surplus/(Loss) on sale of Fixed Assets (Net)</b>		<b>3,298,292</b>		<b>10,053,901</b>
Profits for computation of Directors' Commission		282,783,203		436,809,191
Maximum remuneration of Whole-time Directors under provisions of the Companies Act, 1956 @ 10%		28,278,320		43,680,920
Remuneration (including commission)		24,946,139		23,409,166
Maximum commission to Non- Wholetime Directors under the Companies Act, 1956 @ 1%		2,827,832		4,368,090
Commission paid		2,000,000		1,200,000

### II.15. Auditors remuneration

Amount in Rs.

	Year ended March 31, 2007	Year ended March 31, 2006
Audit fees (including fees for audit of consolidated account & issuance of report on the corporate governance, of service tax)	2,244,800	1,346,880
For tax matters (including service tax)	224,480	55,600
Other services	7,888,654*	-
Reimbursement of expenses	260,247*	3,097
<b>Total</b>	<b>10,618,181</b>	<b>1,405,577</b>

\* Represents fees and out of pocket expenses towards work done in connection with issue of FCCBs and GDRs. These amounts have been debited to the securities premium in the current year.

### II.16. Details of warranty

Amount in Rs.

Year	Opening balance	Additions during the year	Utilisation / reversal during the year	Closing balance
2006-07	3,157,312	2,983,654	(3,157,312)	2,983,654
2005-06	473,950	3,157,312	(473,950)	3,157,312

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. The loans outstanding as on March 31, 2007 is Rs. 343,017,163 (previous year, Rs. Nil)

2. Estimated amount of contracts, remaining to be executed on capital account and not provided for (net of advances paid) Rs. 9,277,855 (previous year, Rs. Nil)

3. Unclaimed dividend of Rs. 812,794 represent dividends not

claimed for the period from 1999-2007. No part thereof has remained unpaid or unclaimed for a period of seven years from the date they become due for payment requiring a transfer to the 'Investor Education and Protection Fund'.

4. The amount of Rs.15,000 has been transferred to 'Investor Education & Protection Fund' being the unclaimed refund money in August 2006.

5. Personnel cost for the year includes expenditure on Research and Development of Rs. 44,871,701 (previous year, Rs. 6,549,332). This is as certified by the management and relied upon by the auditors.

6. The Company has entered into the following derivative instruments for the purposes of hedging the risks associated with foreign exchange exposures as at March 31, 2007:

(a) Forward Exchange Contracts:

Particulars	March 31, 2007			March 31, 2006		
	US\$	Buy/Sell	Amount (INR)	US\$	Buy/Sell	Amount (INR)
Option contracts (to the extent there is an unhedged foreign currency exposure)	800,000	Buy	37,238,000	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:

Receivable towards	March 31, 2007		March 31, 2006	
	Rs.	Foreign currency	Rs.	Foreign currency
Export of Goods & Services	9,972,165	GBP 118,480	8,966,994	GBP 115,980
	47,465,366	Euro 830,250	60,605,178	Euro 1,125,183
	862,864,309	US\$ 19,971,259	847,508,032	US\$ 19,069,765
	1,502,028	CAD 40,551		
Loans to wholly owned subsidiaries	351,862,273	GBP 4,253,265		
	249,856,467	US\$ 5,519,653		
	10,672,955	SGD 374,097		

Amounts payable in foreign currency on account of:

	March 31, 2007		March 31, 2006	
	Rs.	Foreign currency	Rs.	Foreign currency
Import of Goods & Services	137,695,655	US\$ 3,149,436	111,612,663	US\$ 2,474,800
	2,263,268	Euro 39,000	10,619,700	Euro 195,000
Capital imports [including intangibles]	2,160,075	US\$ 49,800	696,329	US\$ 15,550
Foreign Currency Convertible Bonds	7,807,500,000	US\$ 180,000,000		

## b. Derivative instruments

	March 31, 2007				March 31, 2006			
	F C (US\$)	Buy / Sell	Rate	Amount (INR)	FC (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	NIL	NIL	NIL	NIL	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

7. In terms of the transitional provisions of the Accounting Standard 15 (AS) on employee benefits issued by the Institute of Chartered Accountants of India, the net incremental liability towards leave encashment and gratuity amounting to Rs. 8,527,028 has been adjusted against the opening balance of the reserves at April 1, 2006. Consequent to the adoption of the AS, the profits for

the year ending March 31, 2007 are lower by approximately Rs. 9,223,399.

The Company offers the following employee benefit schemes to its employees. The following table sets out the funded status of the defined benefit schemes and the amount recognized in the financial statements as of March 31, 2007.

		Gratuity	Leave
<b>I</b>	<b>Components of employer expense</b>		
1	Current service cost	3,426,895	12,584,657
2	Interest cost	333,852	446,728
3	Expected return on plan assets	98,418	-
4	Curtailement cost/(credit)	-	-
5	Settlement cost/(credit)	-	-
6	Past service cost	-	-
7	Actuarial losses/(Gains)	(72,393)	(62,767)
8	Total expense recognised in the Statement of Profit & Loss Account	3,786,772	12,968,618
<b>II</b>	<b>Actual contribution and benefits payments for year ended March 31 2007</b>		
1	Actual benefit payments	632,474	7,066,915
2	Actual contributions	366,658	7,066,915
<b>III</b>	<b>Net asset/(liability) recognised in balance sheet as at March 31, 2007</b>		
1	Present value of Defined Benefit Obligation (DBO)	7,229,036	11,485,805
2	Fair value of plan assets	1,062,832	-
3	Funded status [Surplus/(Deficit)]	(6,166,204)	(11,485,805)
4	Unrecognised past service costs	-	-
5	Net asset/(liability) recognised in balance sheet	(6,166,204)	(11,485,805)
<b>IV</b>	<b>Change in Defined Benefit Obligations during the year ended March 31, 2007</b>		
1	Present value of DBO at beginning of year	4,173,156	5,584,102
2	Current service cost	3,426,895	12,584,657
3	Interest cost	333,852	446,728
4	Curtailement cost/(credit)	-	-
5	Settlement cost/(credit)	-	-
6	Plan amendments	-	-
7	Acquisitions	-	-
8	Actuarial (gains)/ losses	(72,393)	(62,767)
9	Benefits paid	(632,474)	(7,066,915)
10	Present value of DBO at the end of year	7,229,036	11,485,805
<b>V</b>	<b>Change in fair value of assets during the year ended March 31, 2007</b>		
1	Plan assets at beginning of year	1,230,230	-
2	Acquisition adjustment	-	-
3	Actual return on plan assets (estimated)	98,418	-
4	Actual Company contributions (less risk premium, ST)	366,658	7,066,915
5	Benefits paid	(632,474)	(7,066,915)
6	Plan assets at the end of period	1,062,832	-
<b>VI</b>	<b>Actuarial assumptions</b>		
1	Discount rate	8.00%	8.00%
2	Expected return on plan assets	8.00%	8.00%
3	Salary escalation	5.00%	5.00%
4	Attrition rate	5.00%	5.00%

8. Consequent to the acquisition of Azure group of companies during the year and other planned acquisitions, it has become imperative that common policies and practices are adopted across all group companies worldwide. With the introduction of common group accounting policies, the Company has revised its policy for recognition of revenue from sale of software licences with effect from April 1, 2006. Income from contracts for sale of software licences, which were earlier recognised fully on the transfer of licences, are now recognised under the percentage of completion method over the period of the contract, based on the extent of work completed. In the current year, the information necessary to ascertain the effect of such change in accounting policy on the

financial statements for the period is not available with the Company.

The Company, however, believes that the above change in policy does not impact the results of the year significantly. This is not verifiable by the auditors.

9. Based on the information available with the Company, there are no dues to Small Scale Industries and Micro Small & Medium enterprises as defined in The Micro, Small & Medium Enterprises Development Act, 2006. This information has not been verified upon by the auditors.

10. 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.

		<i>Amount in Rs.</i>	
		Year ended March 31, 2007	Year ended March 31, 2006
<b>CIF value of imports :</b>			
Import of systems and solutions		1,883,954	24,951,522
Capital goods		20,793,484	7,468,007
<b>Expenditure in foreign currency</b>			
Traveling expenses		49,433,888	16,187,638
Interest expenses		-	5,110,082
Consideration for acquired assets		-	108,692,786
Product marketing expense and other expenditure incurred overseas for software development		1,456,331,194	838,504,812
<b>Earnings in foreign exchange</b>			
Income from software development services and products on receipt basis		1,825,734,725	1,378,695,807
<b>Remittance in foreign currency on account of dividend</b>			
Amount remitted during the year in foreign currency on account of dividends for the year	2006-07	464,490	-
	2005-06	-	808,628
	2004-05	-	1,085,890
No. of non-resident shareholders for the year	2006-07	3	-
	2005-06	-	2
	2004-05	-	3
Shares held by non-resident shareholders on which dividend was due for the year	2006-07	311,077	-
	2005-06	-	539,085
	2004-05	-	542,945





Financial Review

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Subex Azure Limited (Consolidated)

1. We have audited the attached Consolidated Balance Sheet of Subex Azure Limited ("the Company") and its subsidiaries (the Company and its subsidiaries constitute "the group") as at March 31, 2007, 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, whose financial statements reflect gross total assets of Rs. 1,535,367,454 as at March 31, 2007, total revenues of Rs. 2,468,982,578 and cash flows of Rs. 101,982,015 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 Azure 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 Azure 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 Azure Limited and its subsidiaries as at March 31, 2007;
  - b) in the case of the Consolidated Profit and Loss Account, of the consolidated results of operations of Subex Azure 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 Azure Limited and its subsidiaries for the year then ended.

For Deloitte Haskins & Sells  
Chartered Accountants

V Srikumar  
Partner

Place : Bangalore  
Date : June 18, 2007

M. No. 84494

**CONSOLIDATED BALANCE SHEET AS AT**
*Amount in Rs.*

	Schedule	March 31, 2007		March 31, 2006	
<b>SOURCES OF FUNDS</b>					
Shareholders' funds					
Share capital	A	348,157,250		217,575,680	
Share application money		-		878,089	
Reserve & Surplus	B	<u>8,059,119,459</u>	8,407,276,709	<u>1,592,684,945</u>	1,811,138,714
Loan funds					
Secured loans	C	635,166,392		13,695,549	
Unsecured loans	D	<u>7,807,500,000</u>	8,442,666,392	-	13,695,549
<b>Total</b>			<u><b>16,849,943,101</b></u>		<u><b>1,824,834,263</b></u>
<b>APPLICATION OF FUNDS</b>					
Fixed assets					
Gross block	E	821,726,754		665,735,874	
Less : Depreciation		<u>467,212,184</u>		<u>272,803,176</u>	
Net block		<u>354,514,570</u>		<u>392,932,698</u>	
Capital work in progress		<u>4,037,627</u>	358,552,197	<u>4,495,298</u>	397,427,996
Investments	F		7,403,696,025		-
Goodwill			7,021,229,033		308,987,980
Deferred tax asset (net)			168,488,974		7,727,514
Current assets, Loans & Advances					
Sundry debtors	G	1,212,618,736		961,559,552	
Cash & Bank balances	H	903,476,921		406,014,754	
Loans & Advances	I	249,854,008		73,718,402	
Unbilled revenue		<u>423,896,364</u>		-	
		<u>2,789,846,029</u>		<u>1,441,292,708</u>	
Less: Current Liabilities & Provisions	J	<u>938,035,704</u>		<u>330,601,935</u>	
Net current assets			1,851,810,325		1,110,690,773
Miscellaneous expenditure (To the extent not written off or adjusted)			46,166,547		-
Termination benefits (Note II.16.7 Schedule P)					
<b>Total</b>			<u><b>16,849,943,101</b></u>		<u><b>1,824,834,263</b></u>

Significant Accounting policies &amp; Notes to the accounts P

*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  
 Founder Chairman, Managing Director & CEO

 Sudha Madhavan  
 Chief Financial Officer

 Sudeesh Yezhuvath  
 Chief Operating Officer

 Raj Kumar  
 Chief Counsel & Company Secretary

 V. Balaji Bhat  
 Director

 Bangalore  
 June 18, 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED

Amount in Rs.

	Schedule	March 31, 2007	March 31, 2006
<b>INCOME</b>			
Sales & Services		3,409,002,598	1,814,342,238
Other income	K	301,915,848	28,908,788
<b>Total</b>		<b>3,710,918,446</b>	<b>1,843,251,026</b>
<b>EXPENDITURE</b>			
Direct cost	L	112,237,461	132,850,266
Personnel costs	M	2,077,443,229	915,371,277
Other operating, selling and administrative expenses	N	708,782,549	263,876,814
Financial costs	O	87,318,294	26,805,705
Miscellaneous expenses amortised		22,964,112	283,079
Depreciation	E	125,563,180	92,301,159
<b>Total</b>		<b>3,134,308,825</b>	<b>1,431,488,300</b>
Profit before taxation		576,609,621	411,762,726
<b>Provision for taxation</b>			
- Current		70,226,003	34,903,702
- MAT credit carried forward		(11,128,731)	-
- Fringe benefit tax		5,107,115	2,124,208
- Deferred		(163,255,141)	(3,751,705)
<b>Profit after taxation</b>		<b>675,660,375</b>	<b>378,486,521</b>
Add: Balance brought forward from previous year		741,138,063	446,344,814
Profit available for appropriation		<b>1,416,798,438</b>	<b>824,831,335</b>
<b>APPROPRIATION</b>			
Transfer to general reserve		23,200,000	39,500,000
<b>Dividend</b>			
- Equity shares - proposed final dividend 2006-07 @ 20%		69,631,450	-
- Equity shares - interim dividend 2006-07 @15%		52,113,210	-
- Equity shares - interim dividend 2005-06		-	16,283,564
- Equity shares - final dividend 2004-05		-	547,764
- Equity shares - final dividend 2004-05		12,883,222	134,627,882
Tax on distributed profits		20,949,615	5,604,376
<b>Surplus carried to balance sheet</b>		<b>1,238,020,941</b>	<b>741,138,063</b>
		<b>1,416,798,438</b>	<b>824,831,335</b>
<b>Earning Per Share (Face value of Rs.10 each)</b>			
- Basic		21.10	17.62
- Diluted		21.02	17.53

Significant Accounting policies & Notes to the accounts P

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 Founder Chairman, Managing Director & CEO	Sudeesh Yezhuvath Chief Operating Officer	V. Balaji Bhat Director
	Sudha Madhavan Chief Financial Officer	Raj Kumar Chief Counsel & Company Secretary	

Bangalore  
June 18, 2007

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED

Amount in Rs.

	March 31, 2007	March 31, 2006
<b>Cash flow from operating activities</b>		
Net profit before tax	576,609,621	411,762,727
Adjustments for :		
a) Depreciation & Amortization	148,527,292	92,584,238
b) Interest / Dividend income	(35,339,870)	(17,485,876)
c) Interest and bank charges	87,318,294	26,805,705
d) Assets written off / Loss on sale	3,761,806	2,041,851
e) Profit on sale of assets	(463,514)	(11,976,780)
f) Employee compensation expenses	10,760,906	4,115,709
g) Provision for doubtful debts	150,629,851	35,583,448
h) Unrealised exchange fluctuations	(208,784,608)	3,632,964
i) Termination benefits paid	(69,130,659)	
j) Direct taxes paid	(42,560,496)	(23,451,823)
<b>Operating profit before working capital changes</b>	<b>621,328,623</b>	<b>523,612,163</b>
Adjustments for :		
a) Sundry debtors	(336,412,199)	(292,300,823)
b) Loans & Advances	(451,754,603)	(6,939,824)
c) Inventories	-	62,589
d) Trade and other payables	(3,608,669)	93,495,061
<b>Cash generated from operations</b>	<b>A (170,446,848)</b>	<b>317,929,166</b>
<b>Cash flow from investing activities</b>		
a) Purchase of fixed assets	(73,393,930)	(116,323,509)
b) Sale / Disposal of fixed assets	10,045,172	21,058,613
c) Sale / (Purchase) of Investments	(261,061,544)	1,000
d) Advance for acquisition	(7,403,696,025)	-
e) Interest received	35,339,870	16,352,692
<b>Net cash from investing activities</b>	<b>B (7,692,766,458)</b>	<b>(78,911,204)</b>
<b>Cash flow from financing activities</b>		
a) Proceeds from issue of Share capital / Options	457,173,808	18,753,800
b) Proceeds from / (repayment) of short term borrowings - Net	618,894,432	(59,387,250)
c) Proceeds from long term borrowings	8,049,728,942	6,247,000
d) Repayment of long term borrowings	(4,752,531)	(6,446,647)
e) Dividends & Dividend tax paid	(98,720,943)	(43,776,148)
f) Interest and bank charges	(87,318,294)	(26,805,705)
g) FCCB & GDR expenses	(616,265,172)	-
<b>Net cash from financing activities</b>	<b>C 8,318,740,242</b>	<b>(111,414,950)</b>
Exchange fluctuation reserve on account of consolidation	(18,075,084)	-
Net increase in Cash or Cash equivalents [A + B + C]	455,526,936	127,603,012
Consolidation adjustments	60,010,315	-
Cash or Cash equivalents at the start of the year	406,014,754	278,411,742
<b>Cash or Cash equivalents at the close of the year</b>	<b>903,476,921</b>	<b>406,014,754</b>

**Note :** Cash & Cash Equivalents include balance with Scheduled Banks on Dividend Account, GIC Deposit Account of Rs. 937,379 and fixed deposit Rs. 320,425,029 (PY : Rs. 963,793) which are not available for use by the Company.

Significant Accounting policies & Notes to the accounts - Schedule P

In terms of our report of even date

for Deloitte Haskins & Sells  
Chartered Accountants

V. Srikumar  
Partner  
Membership No. 84494

Subash Menon  
Founder Chairman, Managing Director & CEO

Sudha Madhavan  
Chief Financial Officer

Sudeesh Yezhuvath  
Chief Operating Officer

Raj Kumar  
Chief Counsel & Company Secretary

V. Balaji Bhat  
Director

Bangalore  
June 18, 2007

SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT

Amount in Rs.

	March 31, 2007	March 31, 2006
<b>Schedule - A</b>		
Share capital :		
Authorised :		
48,040,000 (previous year, 30,140,000) Equity Shares of Rs.10 each	480,400,000	301,400,000
200,000 Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs.98 each	19,600,000	19,600,000
<b>Total</b>	<b>500,000,000</b>	<b>321,000,000</b>
Issued, subscribed and paid up:		
Equity :		
34,815,725 (previous year, 21,757,568) equity shares of Rs.10 each of the above:	348,157,250	217,575,680
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;		
e) 11,728,728 share (GDRs) of Rs.10 each are allotted in full settlement of cost of acquisition of Azure Solutions (UK) Ltd		
<b>Total</b>	<b>348,157,250</b>	<b>217,575,680</b>
<b>Schedule - B</b>		
Reserves & Surplus :		
Capital reserve	13,006,920	13,006,920
General reserve - opening balance	163,302,608	123,802,608
Add: Additions during the year	23,200,000	39,500,000
Less: Adjustment in pursuance of transitional provisions of Accounting Standard - 15 (Note II.18 .7 Schedule P)	8,527,028	-
Securities premium account - opening balance	656,262,011	541,983,360
Add: Additions during the year	6,578,458,014	223,066,491
Less: Utilised towards incidental costs of issue of FCCBs & GDRs	616,265,172	108,787,840
Less: Redemption premium on FCCBs (Note II.8 Schedule P)	42,150,000	-
Employees stock options outstanding	52,775,309	22,738,130
Less: Deferred employees compensation expenses	33,135,297	13,859,024
Redemption premium on FCCB (Note II.8 Schedule P)	42,150,000	-
Exchange reserve on consolidation	(7,978,847)	10,096,237
Profit & loss account	1,238,020,941	741,138,063
<b>Total</b>	<b>8,059,119,459</b>	<b>1,592,684,945</b>
<b>Schedule - C</b>		
Secured Loans :		
Short term		
Working capital loans from banks (Secured by first charge on fixed deposit and receivables)	618,894,432	-
Other loans from banks (secured by Hypothecation of assets financed by these loans) (Amount repayable within one year: Rs. 5,261,159, previous year, Rs. 5,190,507)	16,271,960	13,695,549
<b>Total</b>	<b>635,166,392</b>	<b>13,695,549</b>
<b>Schedule - D</b>		
Unsecured loans :		
Foreign Currency Convertible Bonds (Note II.8 Schedule P)	7,807,500,000	-
<b>Total</b>	<b>7,807,500,000</b>	<b>-</b>

## Schedule - E

## Fixed assets

Amount in Rs.

Sl. Particulars No.	GROSS BLOCK						DEPRECIATION				NET BLOCK	
	As at April 1, 2006	Consolidation adjustment	Additions during the year	Deletions during year	As at March 31, 2007	Upto April 1, 2006	Consolidation adjustment	For the Year	Withdrawn on deletions	Upto March 31, 2007	As at March 31, 2007	As at March 31, 2006
1 Plant & Machinery	815,478	-	-	524	814,954	725,863	-	14,753	525	740,093	74,861	89,615
2 Furniture & Fixtures	10,715,306	10,771,839	2,265,669	3,050,437	20,702,377	7,585,344	4,103,482	2,734,064	2,708,166	11,714,724	8,987,653	3,129,962
3 Computers	204,563,146	84,178,143	40,317,261	16,469,698	312,588,852	153,750,843	63,326,039	31,480,274	11,594,816	236,962,340	75,626,512	50,812,303
4 Office equipments	8,366,943	21,184,094	2,444,657	2,907,423	29,088,271	4,748,081	20,621,500	1,680,917	2,011,479	25,039,019	4,049,252	3,618,862
5 Vehicles	27,834,107	-	10,854,282	4,543,416	34,144,973	10,962,672	-	6,127,609	2,661,697	14,428,584	19,716,389	16,871,435
6 Intellectual Property Rights	399,673,976	-	-	2,278,867	397,395,109	93,065,249	-	79,670,071	228,511	172,506,809	224,888,300	306,608,727
7 Goodwill	13,766,918	-	-	-	13,766,918	1,965,124	-	2,753,385	-	4,718,509	9,048,409	11,801,794
8 Lease hold improvements	-	-	13,225,300	-	13,225,300	-	-	1,102,107	-	1,102,107	12,123,193	-
TOTAL	665,735,874	116,134,076	69,107,169	29,250,365	821,726,754	272,803,176	88,051,021	125,563,180	19,205,194	467,212,185	354,514,569	392,932,698
PREVIOUS YEAR	561,999,271	-	127,700,977	23,964,374	666,735,874	193,342,709	-	92,301,159	12,840,692	272,803,176	392,932,698	368,656,562



SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT

Amount in Rs.

	March 31, 2007	March 31, 2006
<b>Schedule - F</b>		
Investments (Long term, trade)		
Advanced for acquisition (Note II.7 Schedule P)	7,403,696,025	-
<b>Total</b>	<u>7,403,696,025</u>	<u>-</u>
<b>Schedule - G</b>		
Sundry debtors (Unsecured)		
Outstanding for more than six months		
- considered good	456,366,957	254,146,370
- considered doubtful	203,788,312	58,786,098
	<u>660,155,269</u>	<u>312,932,468</u>
Less: Provision for doubtful debts	<u>203,788,312</u>	<u>58,786,098</u>
Others	456,366,957	254,146,370
	756,251,779	707,413,182
<b>Total (considered good)</b>	<u>1,212,618,736</u>	<u>961,559,552</u>
<b>Schedule - H</b>		
Cash & Bank Balances :		
Cash on hand	61,435	342,020
Balance with Scheduled Banks		
- in Current Account in Indian Rupees	110,750,716	10,018,765
- in Deposit Account in Indian Rupees	403,815,607	333,665,660
- in Exchange Earner's Foreign Currency account	21,933,868	43,339,550
Balance with Non Scheduled Banks		
- Deposit with Royal Bank of Canada	937,379	963,793
- in Current Account with Royal Bank of Canada, Canada (Maximum outstanding during the year Rs. 1,787,598/-)	917,455	503,094
- in Checking Account with First Union Bank, New Jersey (Maximum outstanding during the year Rs.127,318,302/-)	2,156,371	11,793,296
- in Hellinic Bank - CYP Account, Cyprus (Maximum outstanding during the year Rs. 1,503/-)	-	1,395
- in Hellinic Bank - USD Account - Cyprus (Maximum outstanding during the year Rs. 790/-)	-	1,663
- in Bank of China - RMB account - China (Maximum outstanding during the year Rs.2,359,802/-)	1,465,235	22,595
- in Bank of China - USD Account - China (Maximum outstanding during the year Rs.1,862,777/-)	-	892,680
- in First National Bank of Colorado - USD Account - CO (Maximum outstanding during the year Rs.11,089,706/-)	-	1,773,861
- in HSBC Bank - GBP Account - Slough, London (Maximum outstanding during the year Rs.8,849,063/-)	-	2,696,382
- Wachovia Bank, USA (Maximum outstanding during the year Rs.7,820,065,930/-) the balance comprises unutilised monies out of the proceeds of issue of FCCBs)	360,362,605	-
- Wachovia Bank, USA (Maximum outstanding during the year Rs.1,076,250/-)	1,076,250	-
<b>Total</b>	<u>903,476,921</u>	<u>406,014,754</u>

SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT

Amount in Rs.

	March 31, 2007	March 31, 2006
<b>Schedule - I</b>		
Loans & Advances (Unsecured, considered good, subject to confirmation)		
Loans and advances recoverable in cash or in kind or for value to be received	85,016,018	24,615,200
Advance income tax including TDS	55,729,889	18,281,313
Other deposits	109,108,101	30,821,889
<b>Total</b>	<b><u>249,854,008</u></b>	<b><u>73,718,402</u></b>
<b>Schedule - J</b>		
Current Liabilities & Provisions		
Sundry creditors:		
Sundry creditors	489,919,581	183,730,622
Advance received from customers	88,675,783	64,884,807
Deferred income	93,920,975	
Duties & Taxes	67,043,906	13,801,308
Unclaimed dividends	<u>812,794</u>	<u>300,627</u>
	740,373,039	262,717,364
Provisions:		
Taxation	94,795,108	38,196,322
Dividends	69,631,450	22,069,429
Tax on proposed dividends	11,833,865	3,051,499
Employee benefits	18,418,588	1,410,009
Warranty	<u>2,983,654</u>	<u>3,157,312</u>
	197,662,665	67,884,571
<b>Total</b>	<b><u>938,035,704</u></b>	<b><u>330,601,935</u></b>

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

Amount in Rs.

	March 31, 2007	March 31, 2006
<b>Schedule - K</b>		
Other income		
Interest received (Gross of TDS Rs. 5,417,207, Previous year, Rs. 3,794,118)	35,339,870	17,485,876
Other income received	31,533,710	1,487,982
Profit on sale of fixed assets (Net)	-	9,934,930
Provisions written back	17,780,065	-
Exchange fluctuation account (Net)	217,262,203	-
<b>Total</b>	<b>301,915,848</b>	<b>28,908,788</b>
<b>Schedule - L</b>		
Direct cost		
a. Purchase of Systems & Solutions	89,965,014	76,932,834
(Increase) / decrease in finished goods		
Opening stock - finished goods	-	62,589
Closing stock - finished goods	-	62,589
b. Commission on sales	22,272,447	55,854,843
<b>Total</b>	<b>112,237,461</b>	<b>132,850,266</b>
<b>Schedule - M</b>		
Personnel costs		
Salaries, Wages & Allowances	1,743,588,098	828,320,502
Contribution to provident fund and other funds	133,362,412	8,826,455
Other staff related costs	61,557,532	23,471,249
Sub contract charges	138,935,187	54,753,071
<b>Total</b>	<b>2,077,443,229</b>	<b>915,371,277</b>

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

Amount in Rs.

	March 31, 2007	March 31, 2006
<b>Schedule - N</b>		
OTHER OPERATING, SELLING AND ADMINISTRATIVE EXPENSES :		
Software purchases	27,604,255	1,837,904
Rent	91,352,573	35,834,182
Power, fuel and water charges	7,745,824	6,672,679
Repairs & Maintenance others	12,754,886	4,815,705
Insurance	17,631,573	13,174,483
Communication costs	46,608,218	22,233,837
Printing & Stationery	8,749,915	1,480,250
Travelling & Conveyance	192,030,046	80,086,232
Directors' sitting fees	42,500	27,500
Rates & Taxes including filing fees	6,680,314	1,014,727
Advertisement & Business promotion	35,329,849	16,356,876
Consultancy charges	62,945,417	28,787,589
Bad debts written off	24,983,956	1,637,075
Warranty expenses	-	2,683,362
Provision for doubtful debts	150,629,851	35,583,448
Loss on sale of Assets & Assets written off (Net)	3,337,815	-
Exchange fluctuation (Net)	-	794,643
Miscellaneous expenses	20,355,557	10,856,321
<b>Total</b>	<b><u>708,782,549</u></b>	<b><u>263,876,814</u></b>
<b>Schedule - O</b>		
Financial costs :		
Interest on FCCBs and other term loans	11,566,667	-
Interest & Bank charges	75,751,627	26,805,705
<b>Total</b>	<b><u>87,318,294</u></b>	<b><u>26,805,705</u></b>

## SCHEDULE – P

### I. SIGNIFICANT ACCOUNTING POLICIES

#### I.1. Basis for preparation of consolidated financial statements

The consolidated financial statements relate to Subex Azure 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 expenses. The intra-group balances and intra-group transactions are eliminated.

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

The following entities are considered in the consolidated financial statements.

Sl. no.	Name of entity	Country of incorporation	% of ownership held at March 31, 2007	% of ownership held at March 31, 2006
1	Subex Technologies, Inc, USA	USA	100	100
2	Subex Technologies Ltd. India	India	100	100
3	Subex Azure (UK) Ltd.	UK	100	Nil
4	Subex Azure Inc. (Wholly owned subsidiary of Subex Azure (UK) Ltd)	USA	100	Nil
5	Subex Azure (APAC) Pte. Ltd, [Wholly owned subsidiary of Subex Azure (UK) Ltd]	Singapore	100	Nil

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.

During the year, the Company acquired Azure Solutions Limited, UK, [Now known as Subex Azure (UK) Ltd] and its subsidiaries. The consolidated financial statements include the balances disclosed in the table relating to the consolidated balances of Subex Azure (UK) Ltd at the Balance Sheet date.

*Amount in Rs. million*

Date of Acquisition	June 23, 2006
Liabilities	
Current liabilities	263.35
Assets	
Fixed assets	46.02
Current assets	879.43
Miscellaneous expenditure	151.91
Revenue	1,387.09
Expenditure	1,050.95
Profit / (loss) before tax	336.14
Deferred tax	(154.40)
Profit / (loss) after tax	490.54

Figures pertaining to subsidiaries were reclassified to bring them in line with company's financial statements.

#### I.4. Revenue recognition

Revenue from contracts for software product licenses includes fees for transfer of licenses, installation and commissioning. This revenue is recognized under the percentage completion method based on the extent of work determined to have been completed as compared to the work involved in the overall scope of the contract. In the event of any expected losses on a contract, the entire amount is provided for in the accounting period in which such losses are first anticipated.

Revenue from sale of additional software licenses are recognized on transfer.

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

Sale of hardware under reseller arrangements are recognized on dispatch of goods to customers and are recorded net of discounts, rebates for price adjustment, projections, shortage in transit, taxes and duties.

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

Maintenance and service income is recognized 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 are 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.

#### 1.7. Employee Stock Option

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

Employee Stock 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 financial year 2005-06, which is on the same lines as ESOP II.

#### 1.8. Employee benefits

The company’s contribution to provident fund, a defined contribution scheme, is charged to the profit and loss account on accrual basis.

Liability for gratuity is funded with Life Insurance Corporation of India (LIC). Gratuity expense for the year has been accounted based on actuarial valuation carried out at the end of the financial year. The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligations adjusted for unrecognized past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost plus the present value of available refunds and reduction in future contributions to the scheme.

Liability for encashment of leave, considered to be long term liability, is accounted for on the basis of an actuarial valuation. Provision for outstanding leave credits considered is short term liability is as estimated by the management and accrued for based on last month’s salary. Other short term employee benefits like medical, leave travel etc are accrued based on the terms of employment on a time proportion basis.

Other companies in the group run defined contribution schemes, the cost of which is fully provided for and charged to expenditure. Accrued leave is accounted for fully and charged to the profit & loss account.

#### 1.9. Research and development

Expenses incurred on research and development is charged to revenue in the same year. Fixed asset purchased for research and development are capitalized and depreciated as per the company’s policy.

#### 1.10. Foreign currency transactions and translation

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

On Consolidation,

- In the case of non-integral operations, assets and liabilities are translated at the exchange rate prevailing on the balance sheet date. Revenue and expenses are translated at yearly average exchange rates prevailing during the year. Exchange differences arising out of these translations are included in ‘Exchange Reserve’ under Reserves & Surplus.
- In the case of integral operations, 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 translations have been charged to the Profit and Loss account.

#### 1.11. Investments

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

#### 1.12. 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 as applicable 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.

#### 1.13. 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.

#### 1.14. 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.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

Provision for income taxes has been made in terms of Accounting Standard 22 'Accounting for Taxes on Income' issued by Institute of Chartered Accountants of India.

Movement in deferred tax asset (Liability)

	Amount in Rs.	
	2006-07	2005-06
Net deferred tax asset at the beginning of the year	7,727,514	3,975,809
Add: Tax benefits for current year	160,761,460	3,751,705
Net deferred tax asset at the end of the year	168,488,974	7,727,514

b) The net deferred tax asset as at March 31, 2007 comprises the tax impact arising from the timing differences on account of:

	Amount in Rs.	
	As at March 31, 2007	As at March 31, 2006
- Depreciation	13,353,449	7,674,401
- Gratuity	-	53,113
- Business loss	155,135,525	-
Net deferred asset	168,488,974	7,727,514

Deferred tax assets recognized on unabsorbed tax losses as above, pertain to the company's subsidiary, Subex Azure (UK) Ltd. The recognition is restricted to the extent that there is virtual certainty of future taxable incomes arising and is supported by the business achieved subsequent to the year end and on the basis of confirmed orders on hand in the subsidiary.

### II.2. Contingent liabilities

Receivables factored – Rs. 416,664,307 (previous year, Rs. 389,264,166)

Claims against the Company not acknowledged as debt – Rs. 39,136,631\* (previous year, Rs. 9,353,609)

\* These claims relate to Indian income tax demands pertaining to FY 2002-03 & 2003-04. The demands are being contested by the Company.

### II.3. Acquisition of Azure Solutions Ltd, UK

On June 23, 2006, the Company acquired the entire shareholding of Azure Solutions Ltd, UK. The consideration was discharged by issue of 11,728,728 GDRs each representing one equity share of Rs. 10/- at a premium of Rs. 522.24 per share and cash of Rs. 214,570,000.

### II.4. Acquisition of tangible and intangible assets – Lightbridge Inc and Alcatel, UK

During 2004-05, the Company had acquired Intellectual Property Rights comprising 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. 172,812,213 and Rs. 141,685,665 respectively, including expenses incurred in connection with the said acquisitions. During the year ended March 31, 2006, 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. 60,830,004 has been amortised in the financial year under review (previous year, Rs. 62,502,860).

### II.5. 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 March 1, 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 amortised over 5 years in accordance with the company's assessment of useful life thereof. Accordingly, an amount of Rs. 18,840,067 has been amortised in the financial year under review (previous year, Rs. 1,696,053).

II.6. The Company has made 2 issues of Global Depository Receipts (GDRs) in April 2006 and June 2006. The details of these issues are as given below :

Sl No.	Month of issue	Equivalent equity shares	Amount in Rs.	
			Issue price per GDR (Rs.)	No. of GDRs issued
1	April 2006	1 of Rs. 10 each	400.00	1,109,878
2	June 2006	1 of Rs. 10 each	532.24	11,728,728

In addition, the Company has completed a programme of sponsored GDR offerings, whereby an option has been offered to the existing share holders of the Company to transfer their holdings in favour of Institutional Investors.

All the above GDRs are listed on the Professional Securities Market of the London Stock Exchange

II.7. On January 18, 2007, the Company has executed a share purchase agreement with the owners of Syndesis Limited, Toronto, Canada for the purchase of their entire shareholding in that Company. The total consideration amounting to US\$ 165.66 million has been discharged on March 14, 2007 to the selling shareholders' escrow agents. Pending closure of the transaction, the amount paid is classified as Advance for Acquisition. Post Balance Sheet date the deal has been closed and all liabilities to the erstwhile owners of Syndesis Limited stand discharged but for escrowed consideration of US\$ 20.562 million. This hold back is in respect of indemnity claims that may arise in the first year of acquisition.



Pending the closure of deal in the case of acquisition of Syndesis Limited by the Company, the costs associated therewith are not provided for in the accounts, owing to the fact that final claims and invoices are yet to be received.

Syndesis Limited is a Company engaged in service assurance and fulfillment space in the Telecom service industry.

#### II.8. Foreign Currency Convertible Bonds (FCCB)

During the year 2006-07, the Company issued Foreign Currency Convertible Bonds (FCCBs) aggregating to US\$ 180 million to Institutional Investors. The bonds carry an initial interest rate of 2% per annum and are redeemable by March 9, 2012, if not converted into equity shares as per terms of issue.

Other terms and conditions governing the bonds are as follows:

- a) Conversion of the bonds into equity shares at the option of the bond holders at any time after April 18, 2007
- b) Conversion price – Rs. 656.20 per share
- c) Exchange rate for purpose of conversion - 1 US\$ = Rs. 44.08
- d) Interest of 2% per annum payable semi-annually in arrears
- e) Redemption with yield to maturity guaranteed return of 8% per annum, calculated on semi-annual basis
- f) The Company can exercise an option to redeem the bonds in whole or in part, on or any time after March 9, 2010, but prior to January 29, 2011, subject to appropriate approvals at a price determined on the terms defined in the offer document
- g) Listing on the Professional Securities Market of London Stock Exchange

The difference between the yield to maturity guaranteed rate of return of 8% and the coupon rate of 2% represents the premium payable on redemption and is charged to Securities Premium over the life of the bonds.

#### II.9. Bonus issue

In January 2006, the Company had 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 are Rs. 90,628,374 (previous year, Rs. 31,615,375)

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

For the year ending	Amount In Rs.	
	March 31, 2007	March 31, 2006
Within one year	104,428,881	23,770,250
Due in a period between one year and five years	140,026,532	54,166,897
Due after five years	-	-

#### II.11. Employee 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 Employee Stock Option Plan. Since the scheme was formulated prior to the promulgation of SEBI guidelines on ESOP dated June 19, 1999, the Company has discontinued the scheme. The scheme has been closed pursuant to disposal of the shares by the Foundation.

##### 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 & ESOS dated June 19, 1999. As per the scheme, the Compensation 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 480,709 option have been granted to 340 employees as at March 31, 2007. Out of the above 24,634 options have been vested. The difference between the market price of the share underlying the options granted on the date of grant of option and the exercise price of the option are expensed over the vesting period as per the SEBI guidelines. The net impact of the movement in option grants during the year resulted in a debit of Rs. 2,238,027 (previous year: Debit of Rs. 4,910,159) to the Profit & Loss account.

##### 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 & ESOS dated June 19, 1999. As per the scheme, the Compensation 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 and can be exercised over a maximum period of 3 years from the date of vesting.

As on March 31, 2007, 428,820 options have been granted to 406 employees under this scheme. Out of the above above 2,963 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 resulted in a debit of Rs. 11,981,639 (previous year: Debit of Rs. 497,664) to the Profit & Loss account.

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

ESOP – I : Nil

ESOP – II :

	As at March 31, 2007	As at March 31, 2006
Options outstanding at the beginning of the year	364,027	336,385
Granted during the year	112,200	144,000
Forfeited/ cancelled	108,393	50,950
Exercised	106,632	65,408
<b>Balance at end of the year</b>	<b>261,202</b>	<b>364,027</b>

ESOP – III

	As at March 31, 2007	As at March 31, 2006
Options outstanding at the beginning of the year	70,380	-
Granted during the year	382,800	70,380
Forfeited/ cancelled	24,360	-
Exercised	6,287	-
<b>Balance at end of the year</b>	<b>422,533</b>	<b>70,380</b>

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	2006-07		2005-06	
	Options (Nos)	Weighted average exercise price per stock options (Rs.)	Options (Nos)	Weighted average exercise price per stock options (Rs.)
Options outstanding at the beginning of the year				
ESOP – II	364,027	284.25	336,385	168.52
ESOP – III	70,380	342.55		
Granted during the year				
ESOP – II	112,200	522.32	144,000	442.80
ESOP – III	382,800	442.38	70,380	342.55
Exercised during the year				
ESOP – II	106,632		65,408	
ESOP – III	6,287			
Cancelled & Lapsed during the year				
ESOP – II	108,393		50,950	
ESOP – III	24,360			
Options outstanding at the end of the year				
ESOP – II	261,202	408.57	364,027	284.25
ESOP – III	422,533	429.37	70,380	342.55
Options exercisable at the end of the year				
ESOP – II	24,634		70,323	
ESOP – III	2,963			

#### 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 is : risk-free interest rate of 6.03%, expected life :3 years, expected volatility of share : 62.78% and expected dividend yield : 0.37%. 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:

Amounts in Rs.

Particulars	March 31, 2007	March 31, 2006
Net profit (as reported)	675,660,375	378,486,522
Add: Stock-based employee compensation (intrinsic value method)	14,219,667	3,516,774
Less: Stock based compensation expenses determined under fair value method for the grants issued after April 1, 2006	22,757,321	11,181,604
Net profit (proforma)	667,122,721	370,821,692
Basic Earning per share (as reported)	21.10	17.62
Basic Earning per share (proforma)	20.83	17.26
Diluted Earning per share (as reported)	21.02	17.53
Diluted Earning per share (proforma)	20.75	17.18

## II.12. 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	
	2006-07	2005-06	2006-07	2005-06
a) Salary, perquisites and commission	-	-	24,946,139	23,409,166
b) Amount due to	-	-	-	10,000,000
c) Purchase of hardware from Cellcomm Solutions Limited	693,243	-	-	-
d) Amount due to Cellcomm Solutions Limited as at year end	330,469	-	-	-

## II.13. Earning per Share

Amount in Rs.

		2006-07	2005-06
Profits after tax attributable to shareholders	A	675,660,375	378,486,522
Weighted average number of shares for basic EPS	B	32,020,111	21,480,220
Weighted average number of shares for diluted EPS	C	32,145,562	21,590,084
<b>Earning per Share – basic</b>	<b>A / B</b>	<b>21.10</b>	<b>17.62</b>
<b>Earning per Share - diluted</b>	<b>A / C</b>	<b>21.02</b>	<b>17.53</b>

Face value of shares : Rs. 10 each

As mentioned in II.9, there was a bonus issue in January 2006. The weighted average number of shares outstanding and consequently the Earning per Share has been recomputed for the year ended March 31, 2006 to adjust for the said bonus issue, in accordance with Accounting Standard-20 'Earning per Share' issued by Institute of Chartered Accountants of India.

The difference in the number of share used for calculation of diluted EPS as compared to that used for computing Basic EPS is due to existence of stock options that are granted to employees.

## II.14. Segmental reporting

The group's operation comprises 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	
	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06
Revenues	2,287,666,256	1,166,818,957	1,121,336,342	647,523,281	3,409,002,598	1,814,342,238
Segment results before interest, depreciation & taxes	453,574,552	497,732,918	123,980,655	21,571,856	577,555,207	519,304,774
Add: Unallocable Income, net of unallocable expense					234,900,000	11,847,897
Interest expense					87,318,294	26,805,705
Depreciation & Amortization					148,527,292	92,584,239
Profit before tax					576,609,621	411,762,726
Provision for taxation:						
Current					70,226,003	34,903,702
MAT carried forward					(11,128,731)	-
Fringe benefit tax					5,107,115	2,124,208
Deferred					(163,255,141)	(3,751,705)
Profit after tax					675,660,375	378,486,522

Particulars of Segment Assets & Liabilities

Amount in Rs.

	Products		Services		Unallocable		Consolidated	
	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06
Segment assets	1,287,908,519	656,180,448	394,773,128	305,379,105	1,456,153,237	858,879,837	3,138,834,884	1,820,439,390
Segment liabilities					843,240,596	292,405,609	843,240,596	292,405,609
Unallocable assets exclude								
Goodwill							7,021,229,033	308,987,980
Investments							7,403,696,025	-
Advance income taxes							55,729,889	18,281,313
Miscellaneous expenditure							-	226,463
Deferred tax asset							168,488,974	7,727,514
Total							14,649,143,921	335,223,270
Unallocable liabilities exclude								
Loans - secured							635,166,392	13,695,549
Loans - unsecured							7,807,500,000	-
Provisions							94,795,108	38,196,323
Total							8,537,461,500	51,891,872

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.

Segment assets based on their location

Amount in Rs.

	2006-07	2005-06
APAC	124,360,690	98,925,812
AMERICAS	734,030,132	456,487,450
EMEA	778,124,278	406,146,290
Total	1,636,515,100	961,559,552

## Information about secondary business segment

Revenue attributable to location of customers is:

Amount in Rs.

	Products		Services		Consolidated	
	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06
APAC	438,373,237	110,335,323	-	-	437,522,649	110,335,323
AMERICAS	591,977,963	415,693,577	1,123,102,425	647,523,281	1,715,930,976	1,063,216,858
EMEA	1,255,548,973	640,790,057	-	-	1,255,548,973	640,790,057
Total	2,285,900,173	1,166,818,957	1,123,102,425	647,523,281	3,409,002,598	1,814,342,238

### II.15. 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.16. Others

1. The Company is availing non-fund based limits and overdrafts against lien on the fixed deposits. The loans outstanding as on March 31, 2007 is Rs. 343,017,163 (previous year, Rs. Nil).

2. Estimated amount of contracts, remaining to be executed on capital account and not provided for (net of advances paid) Rs. 9,277,855 (previous year, Rs. Nil).

3. Unclaimed dividend of Rs. 812,794 represent dividends not claimed for the period from 1999-2007. 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. Consequent to the acquisition of Azure group of companies during the year and other planned acquisitions, it has become imperative that common policies and practices are adopted across all group companies worldwide. With the introduction of common group accounting policies, the Company has revised its policy for recognition of revenue from sale of software licences with effect from April 1, 2006. Income from contracts for sale of software licences, which were earlier recognised fully on the transfer of licences, are now recognised under the percentage

of completion method over the period of the contract, based on the extent of work completed. In the current year, the information necessary to ascertain the effect of such change in accounting policy on the financial statements for the period is not available with the Company.

The Company, however, believes that the above change in policy does not impact the results of the year significantly. This is not verifiable by the auditors.

5. Personnel cost for the year includes expenditure on research and development of Rs. 44,871,701 (previous year, Rs. 6,549,332). This is as certified by the management and relied upon by the auditors.

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

7. In terms of transitional provisions of the Accounting Standard 15 on Employee Benefits issued by The Institute of Chartered Accountants of India,

- The Net incremental liability on account of gratuity and leave encashment amount to Rs. 8,527,028 has been charged to the opening balance of General Reserve.
- Termination benefits incurred in respect of employees in Subex Azure (UK) Limited in the current year amounting to Rs. 69,130,659 has been amortised over a period from the time such costs were incurred till March 31, 2010.

## SHAREHOLDERS' INFORMATION

### REGISTERED OFFICE

The Registered office of the Company is at # 721, 7<sup>th</sup> 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.

### DATE AND VENUE OF THE ANNUAL GENERAL MEETING (AGM)

Date : July 26, 2007  
Venue : Le Meridien, 28, Sankey Road, Bangalore - 560 052  
Time : 4.00 P.M.

### DATES OF BOOK CLOSURE

From Monday, July 23, 2007 to Thursday, July 26, 2007 (both days inclusive)

### BOARD MEETINGS & FINANCIAL CALENDAR

Financial year : April 1 to March 31

Calendar of board meetings to adopt the accounts (tentative and subject to change):

For quarter ending June 30, 2007 – on July 26, 2007  
For quarter ending September 30, 2007 – on October 23, 2007  
For quarter ending December 31, 2007 – on January 22, 2008  
For the year ending March 31, 2008 – on April 22, 2008

### DIVIDEND

An interim dividend of 15% (Re. 1.50 per share) was declared by the Board of Directors at their meeting held on January 29, 2007. A final dividend of 20% (Rs. 2.00 per share) was recommended by the Board of Directors on April 30, 2007 and subject to the approval of the shareholders at the Annual General Meeting will be payable on or after July 26, 2007 but within the statutory time limit of 30 days.

### 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.

### Bank particulars for dividend warrants

With a view to prevent 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.

### 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. 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.

### LISTING ON STOCK EXCHANGES

Shares of the Company have been quoting on National Stock Exchange of India Limited (NSE) since September 5, 2003 ; on Bombay Stock Exchange Limited (BSE) since July 31, 2000 and on The Bangalore Stock Exchange Limited (BgSE) since September 3, 1999. Global Depository Receipts (GDRs) and Foreign Currency Convertible Bonds (FCCBs) of the Company are listed at London Stock Exchange since March 14, 2007.

The Company delisted the GDRs, which were quoted on the Luxembourg Stock Exchange with effect from March 14, 2007.

Listing Fees have been paid to all the above Stock Exchanges for 2007-08.

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 Ltd, Phiroze Jeejeebhoy Towers Dalal Street, Fort, Mumbai 400023	SUBEXAZU
The Bangalore Stock Exchange Limited P. B. No. 27024, No. 51, Stock Exchange Towers 1st Cross, J. C. Road BANGALORE	SUBEXSYS
London Stock Exchange 10 Paternoster Square London EC4M 7LS	SUBX

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

### CUSTODIAL FEE

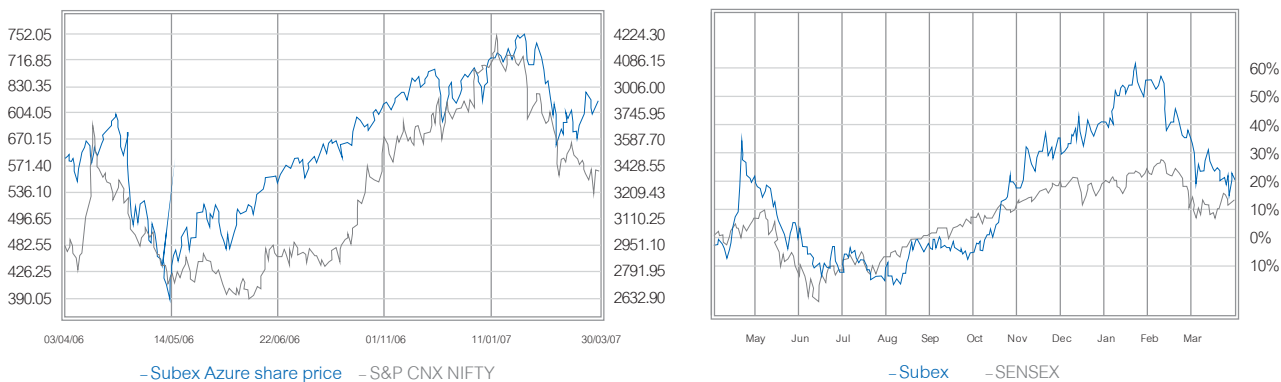
Pursuant to the Securities and Exchange Board of India (SEBI) Circular No. MRD/DoP/Stock Exchange/DEP/CIR-4/2005 dated January 28, 2005 issuer companies are required to pay custodial fees to the depositories with effect from April 1, 2005. Accordingly, the Company has paid custodial fees for the year 2007-08 to NSDL and CDSL on the basis of the number of beneficial accounts maintained by them as on March 31, 2007.

## STOCK MARKET DATA RELATING TO SHARES LISTED IN INDIA

Monthly high and low quotations during each month in last financial year 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 2006-07 are:

Month	NSE			BSE			BgSE		
	High Rs.	Low Rs.	Volume Nos.	High Rs.	Low Rs.	Volume Nos.	High Rs.	Low Rs.	Volume Rs.
Apr '06	649.80	425.00	17,44,698	650.00	425.00	10,49,573	Not traded		
May '06	585.00	396.00	10,01,161	581.80	395.65	4,06,308			
Jun '06	496.60	385.00	11,43,406	490.00	381.00	3,07,434			
Jul '06	474.00	380.00	3,49,050	480.00	380.00	1,28,693			
Aug '06	477.00	384.20	5,45,373	534.00	355.00	4,06,992			
Sep '06	479.90	418.65	8,77,548	549.00	427.00	2,89,285			
Oct '06	582.00	440.20	15,01,337	585.00	440.05	9,16,235			
Nov '06	664.00	551.00	16,02,201	663.00	550.00	12,93,766			
Dec '06	680.00	605.00	7,67,172	699.00	602.00	6,09,414			
Jan '07	790.00	611.00	13,05,962	803.25	648.00	8,61,432			
Feb '07	750.00	606.00	7,66,317	750.00	525.00	4,85,846			
Mar '07	654.00	510.10	8,51,438	671.00	532.00	6,15,087			
	TOTAL		1,24,55,663	TOTAL		73,70,065			

## SUBEX AZURE SHARE PRICE VERSUS NSE S&P CNX NIFTY AND SENSEX



## SHAREHOLDING PATTERN

Distribution of shareholding:

No. of Equity shares held	As on March 31, 2007		As on March 31, 2006	
	No. of shareholders	% of shareholders	No. of shareholders	% of shareholders
1 - 5000	9,735	87.35	7,177	83.51
5001 - 10000	699	6.27	659	7.67
10001 - 20000	303	2.72	331	3.85
20001 - 30000	94	0.84	109	1.27
30001 - 40000	74	0.66	66	0.77
40001 - 50000	36	0.32	35	0.41
50001 - 100000	70	0.63	91	1.06
100001 and above	134	1.20	126	1.46
	11,145	100	8,594	100.00



## Categories of shareholders

Category	As on March 31, 2007			As on March 31, 2006		
	No. of share holders	Voting strength %	No. of shares held	No. of share holders	Voting strength	No. of shares shares held
Public & Others	10,312	18.93	65,91,762	7,903	22.639	49,25,727
Companies	685	3.87	13,46,948	565	14.623	31,81,581
Core Promoters	2	8.73	30,40,960	2	18.572	40,40,960
Mutual Funds	32	14.59	50,79,842	35	24.433	53,15,913
ESOP	77	0.52	1,81,885	65	0.576	1,25,278
FII	37	53.35	1,85,74,328	24	19.157	41,68,109
<b>TOTAL</b>	<b>11,145</b>	<b>100.00</b>	<b>3,48,15,725</b>	<b>8,594</b>	<b>100.00</b>	<b>2,17,57,568</b>

### R&T AGENTS AND SHARE TRANSFER SYSTEM

By a tripartite agreement dated December 5, 2001 in respect of shares held with NSDL and by a tripartite agreement dated November 27, 2001 in respect of shares held with CDSL, Canbank Computers Services Limited, R & T Centre, Naveen Complex, 4<sup>th</sup> 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.

#### 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 1/2/3 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

### SHARES HELD IN PHYSICAL AND DEMATERIALIZED FORM

As on March 31, 2007, 99.80% of the company's shares were held in dematerialized form and the rest in physical form.

### OUTSTANDING GDRs / ADRs / WARRANTS / CONVERTIBLE INSTRUMENTS AND THEIR IMPACT ON EQUITY

As on March 31, 2007 1,33,50,464 GDRs issued by the Company are outstanding. Each GDR represent one equity share of Rs. 10/- each. The Company issued Foreign Currency Convertible Bonds amounting to US\$ 180 Million in March 2007, which are outstanding as on March 31, 2007.

### LEGAL PROCEEDINGS

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

### 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 the R&T Agents. Members holding shares in electronic form are requested to give the nomination request to their respective Depository Participants directly.

## 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
1999-00	March 17, 2000	Interim	35	See note below*
	June 19, 2000	Final	5	Before July 18, 2007
2000-01	July 13, 2001	Final	20	Before August 12, 2008
2001-02	November 15, 2002	Final	10	Before December 14, 2009
2002-03	September 9, 2003	Final	10	Before October 8, 2010
2003-04	August 24, 2004	Final	20	Before September 23, 2011
2004-05	January 27, 2005	Interim	10	Before February 26, 2012
	July 28, 2005	Final	20	Before August 27, 2012
2005-06	October 28, 2005	Interim	15	Before November 27, 2012
2005-06	August 28, 2006	Final	10	Before September 27, 2013
2006-07	January 29, 2007	Interim	15	Before February 28, 2014

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

\* The interim dividend declared in the FY 1999-00 which was unclaimed for 7 years from the date of payment being due, was transferred to the Investor Education and Protection Fund.

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.

## INVESTOR GRIEVANCES

Investor grievances received from April 1, 2006 to March 31, 2007:

Nature of complaints	Received	Cleared
Non-receipt of share certificates/refund orders/call money notice/allotment advice/dividend warrant	8	8
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	-	-
<b>Total</b>	<b>8</b>	<b>8</b>

During the year ended March 31, 2007 the company has attended to all the investors' grievances / correspondence within a period of 10 days from the date of receipt of the same.

## INVESTORS' CORRESPONDENCE

For any queries, please write to:

Raj Kumar  
Chief Counsel & Company Secretary  
Subex Azure Limited,  
No. 372, Koramangala, 3<sup>rd</sup> Block, Sarjapur Road,  
Bangalore – 560 034, India,  
Tel : +91 80 6659 8700  
Email: rajkumar.c@subexazure.com  
investorrelations@subexazure.com

## WEBSITE

Company's website [www.subexazure.com](http://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, financial results, shareholding pattern, distribution of shareholding, dividend etc.

ANNUAL REPORT

2006 ~ 2007



SUBEX AZURE LIMITED, 372, KORAMANGALA III BLOCK, SARJAPUR ROAD, BANGALORE 560 034, INDIA

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