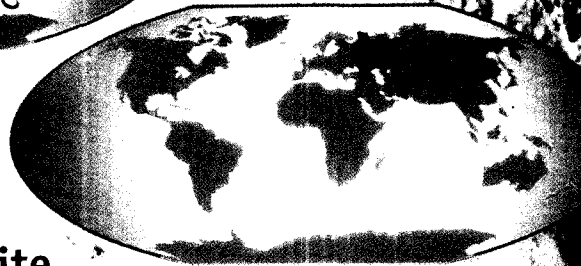


SUBEX

With the global acceptance



RevMax™ Suite...



...India really is going places!



Subex Systems Limited
Annual Report 2002-2003

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

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



CONTENTS

Board of Directors	3
Financial Highlights	4
Chairman's Letter to Shareholders	6
Revenue Maximization - Relevance in Telecom	10
Integrated Revenue Assurance System	14
Financial Statements	19
Directors' Report	20
Report on Corporate Governance	25
Additional Information to Shareholders	29
Auditors' Report	33
Balance Sheet	36
Profit and Loss Account	37
Cash Flow Statement	38
Schedules	40
Balance Sheet Abstract	52
Management Discussion & Analysis	53
Financial Review - Subex Technologies, Inc	59
Consolidated Accounts	63
Shareholders' Information	81

BOARD OF DIRECTORS

Subash Menon *Chairman and Managing Director*

Alex J. Puthenchira *Executive Director*

Sudeesh Yezhuvath *Wholetime Director*

V. Balaji Bhat *Director*

K. Bala Chandran *Director*

Vinod R. Sethi *Director*

S. N. Rajesh *Director*

Company Secretary & Legal Counsel

Raj Kumar. C

Bankers

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

Auditors

M/s. Deloitte Haskins & Sells
Chartered Accountants

Internal Auditors

M/s. P. Chandrasekar
Chartered Accountants

Registrars & Transfer Agents

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

Registered Office

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

BOARD OF DIRECTORS



Subash Menon



Alex J. Puthenchira



Sudeesh Yezhuvath



V. Balaji Bhat



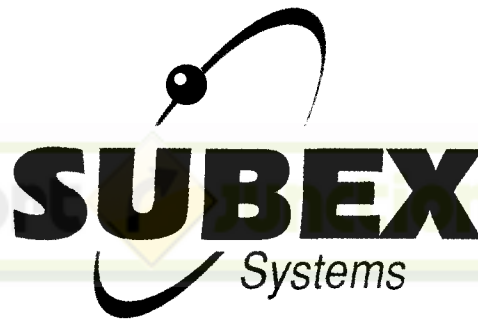
K. Bala Chandran



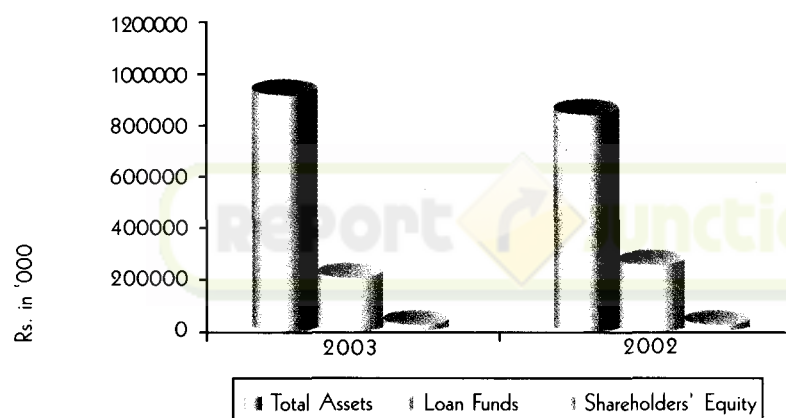
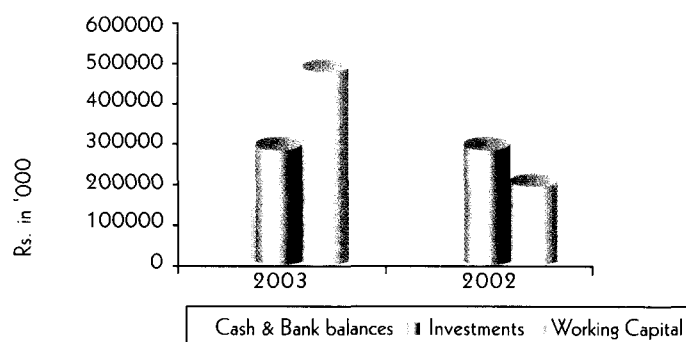
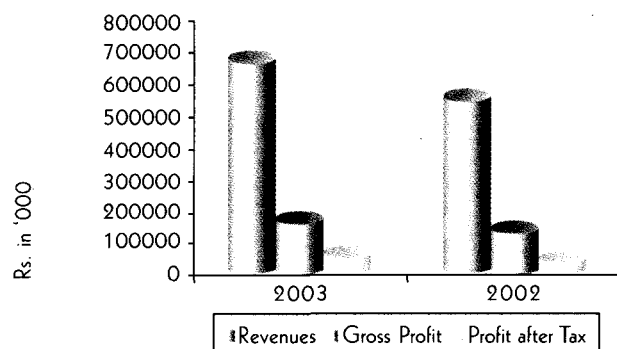
Vinod R. Sethi



S. N. Rajesh



FINANCIAL HIGHLIGHTS



Year ended March 31

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

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



CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholder,

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

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

Making of a Software Products Company

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

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

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



Subash Menon

Chairman & Managing Director

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

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

Software Services - Onsite Consulting

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

Strategic Investment

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

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

Business Outlook

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

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

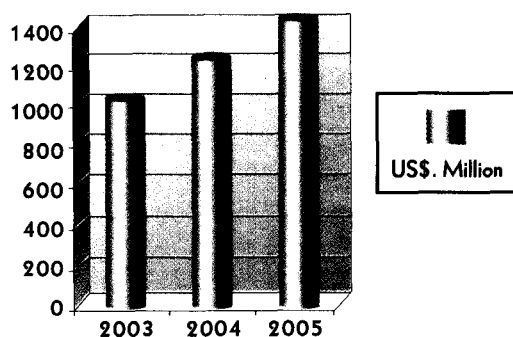


Chart 1:
Global Revenue Assurance Market Size
(Source : TRI)

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

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

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

Subash Menon

To be the leader in our areas of business through

Total Customer Satisfaction,

Commitment to Excellence and

Determination to Succeed.

