

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

Challenging Rules

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

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



In an industry where software spelt services, Subex Azure chose to take the risky product route.

Several more decisions that turned conventional wisdom on its head, paid off.

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

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

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Inventive Spirit

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

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

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

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

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

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

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Subash Menon

Founder Chairman, Managing Director & CEO

Dear Shareholder,

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

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

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

Building a Global Company

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

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

objective to be the global leader in our area of operation, we set ourselves the twin objectives of attaining leadership in fraud management and revenue maximization. Thus began our quest for the chalice.

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

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

While work commenced on implementing the different solutions identified, the company designed a proactive approach to inorganic growth. We short-listed several potential targets, engaged an investment banker and went about implementing the process. In the first phase, the plan was to consummate one or two small acquisitions, thereby achieving leadership in fraud management. This phase was also positioned as the learning phase with regard to acquisitions. Hence the choice of small entities as targets to minimize the risk. The targets identified were met and the final short-list was arrived at over a period of 6 months. Another 6 months were invested in conducting due diligence and concluding the two acquisitions; the fraud management businesses of Alcatel in UK and Lightbridge in US. It is important to comprehend the rationale behind the final decision. Both these businesses were divisions within large companies and essentially were stranded assets without any specific plan for the future. Consequently, they were available at reasonable valuations and could be assimilated into Subex with minimal risk and within a short span of time. Further, the customer bases of these two companies had no overlap among themselves and with that of Subex at the time. This resulted in a wide base of Tier 1 customers



in all the major geographies and could be used as an excellent strategy to enter the developed countries. Upon completion of the acquisitions, the company focused on integrating these businesses with the parent in as seamless a manner as possible to achieve synergies and cost efficiencies, and to leverage the strengths. Towards that end, the company invested heavily in new offices and manpower in the US and UK. The timely investment in these new facilities manned by experienced personnel with significant local knowledge and exposure turned out to be a very wise move resulting in a substantial contraction of the payback period (for the acquisitions) from an expected 3 years to 1.5 years. This successful transition of the acquired businesses into the parent was a morale booster and also enabled Subexians to gain valuable experience in integrating acquisitions on a global scale. We ended up handling over 30 new customers spread across 15 new countries where Subex was not present prior to the acquisitions. The entire integration went through smoothly without negatively impacting the level of customer satisfaction. That marked the end of phase 1 of our long term plan.

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

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

The successful process employed for phase 1 was re-employed for this phase as well. Thus, several targets were identified and contacted. As before, considerable time was invested in the

preliminary work of evaluating these targets and in conducting extensive due diligence of the couple who made it to the final short-list. This extensive process, that lasted about 15 months, resulted in the conclusion of the transaction with Azure Solutions Limited of UK. This company, a 3-year old spin-off from the BT stable, met all the criteria and was the global leader in revenue assurance with a wide customer base.

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

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

The Future

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

Subash Menon

“Your company has always endeavored to create a global organization.”

Operational Highlights

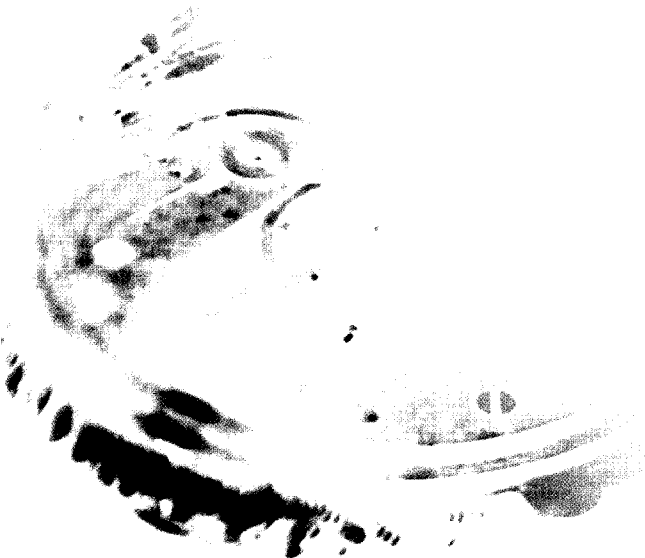
- Acquisition of UK-based Azure Solutions. The new, combined entity, Subex Azure, becomes the world's No. 1 vendor for fraud management and revenue assurance solutions and the 2nd largest vendor for interconnect and inter party billing solutions.
- Acquisition of the telecom business assets of US-based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



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

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Financial Highlights

Year ended 31st March

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

Revenue

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

Basic EPS

UP **31%**FY 06 Rs. 18.23
FY 05 Rs. 13.89

Profit After Tax

UP **54%**FY 06 Rs. 391m
FY 05 Rs. 253m

EBITDA

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

Revenue Share

Products **65%**Services **35%**