

A STRATEGY takes WINGS

ANNUAL REPORT

2006 ~ 2007



SUBEXAZURE
...Powering the ROC

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STRENGTHS in

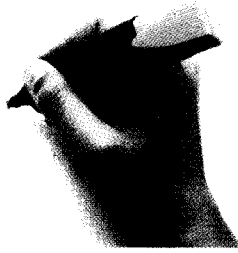
SYNERGY

Like fingers that work magic together, Subex Azure's five elements of strategy complement each other. Forming a robust, imaginative growth strategy, it creates a vision that goes beyond current success. A global leader in OSS solutions, Subex Azure is today an empowering partner to telecom operators and the pioneer of the Revenue Operations Center.



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HIGHLIGHTS OF 2006-07

- Share purchase agreement signed for acquisition of Syndesis Ltd in 2006-07. Acquired the company on April 1, 2007.
- 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 wins from existing customers
- Raised US\$ 180 million through the issue of convertible bonds



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 Rs. million, except key indicators
Total income	3,710.92
Export sales (incl. sales from overseas subsidiaries)	3,327.33
Operating profit	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
Key Indicators	
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	1.02
Operating profit / 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

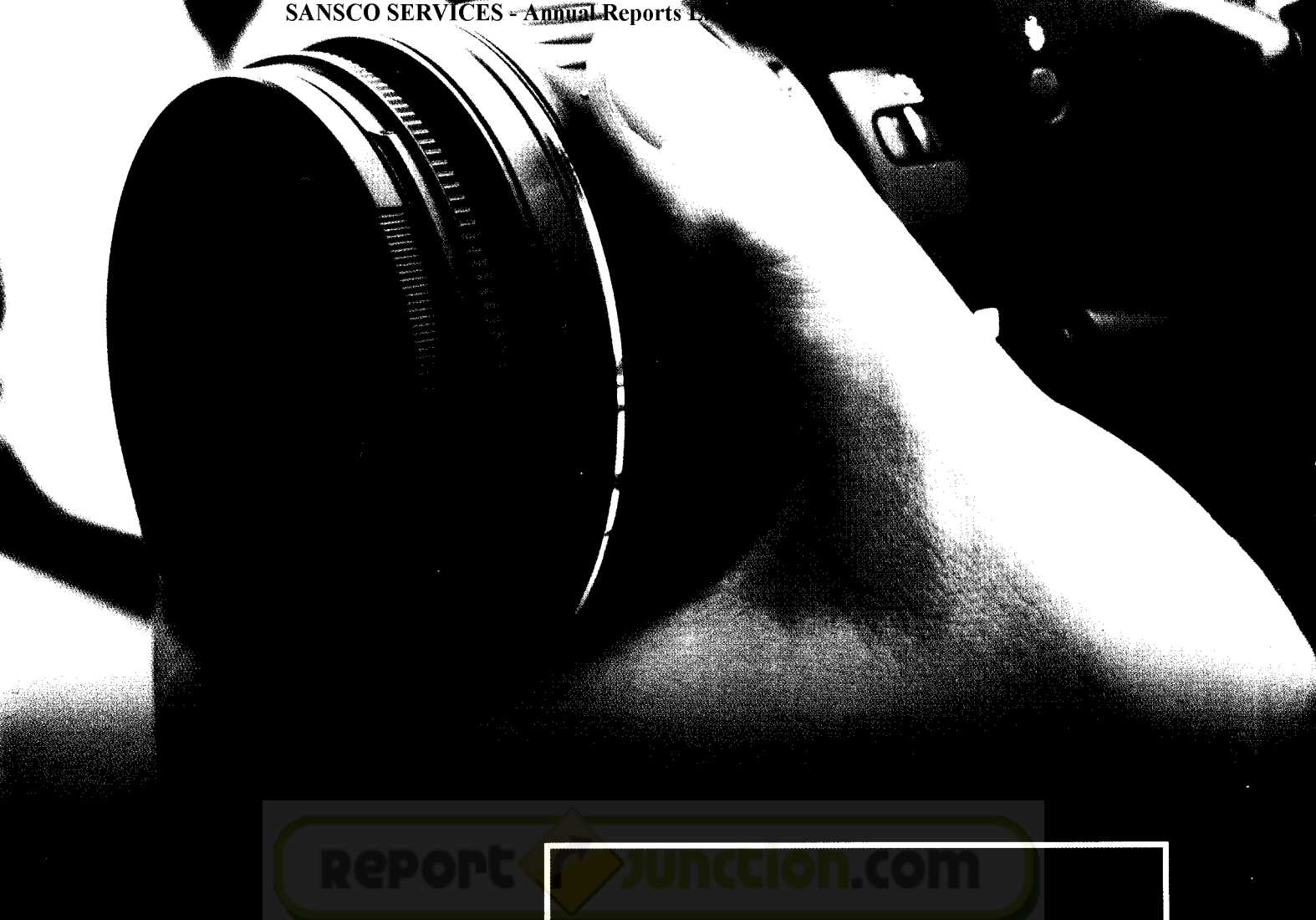
FY06 Rs. 378.49m

EBIDTA

Up 52.96%

FY07 Rs. 812.46m

FY06 Rs. 531.15m



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,

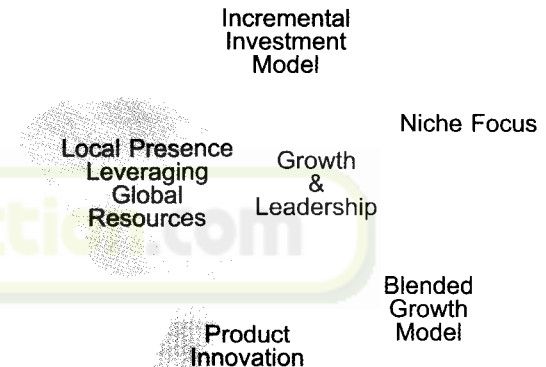
Financial year 2007 has been a very eventful one for your Company. We acquired Azure Solutions Limited, UK on June 22, 2006 and Syndesis Limited, Canada on April 1, 2007. Further, we listed on the London Stock Exchange vide a Sponsored Global Depository Receipt (GDR) and also raised US\$ 180 million 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. 3,710.92 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

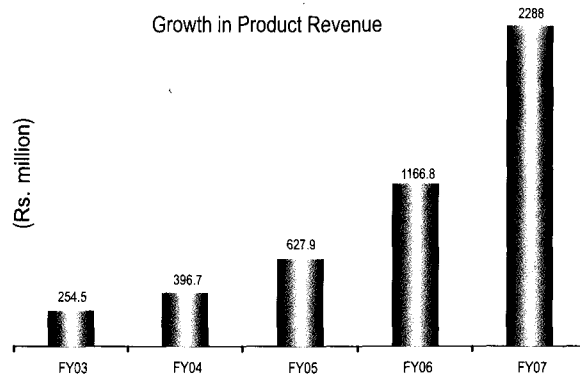
That brings me to the last element of our Five Petal Strategy. Products companies worldwide have used acquisitions as a way to grow. However, statistics tell a different story. Almost 67% of all M&A transactions fail, leading to significant loss to shareholder value and even bankruptcy, in some cases. 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, since 2003, Subex Azure has adopted the

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. We signed the purchase agreement for the acquisition in January 2007 and consummated the deal on April 1, 2007. The performance of this subsidiary will be reflected in your Company's accounts for the ensuing quarters and years. 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.