



While the business has taken several twists and turns, we have stayed focused on modifying a variety of facets of the business resulting in considerable improvement on many fronts.

THE SUBEX PROMISE...

Change is the only constant phenomenon. Your company has stayed true to that adage. Ever since our entry into the world of telecom software a decade ago, we have evolved at a constant pace with regard to technology and revenue model. The result has been an ever expanding set of products and continuing innovation on every front of the business including technology, products and delivery model.

Aristotle once said, “The future is not something true men enter. The future is something they shape with their own hands.” As can be seen from the manner in which your company has evolved over the past ten years, we have been shaping our future meticulously and carefully. While we have indeed faltered on certain occasions, we have demonstrated resilience and have fought our way back. That is the genetic code of this organization which you chose to be investors of.

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FINANCIAL HIGHLIGHTS

Particulars (Consolidated)

Figures in Rs. Million

Except Key Indicators

Total Income	4,925.92
Operating profits (EBITDA) Before Exceptional Items	1,411.17
Depreciation & Amortization	104.50
Profit Before Tax and Exceptional Items	882.46
Profit After Tax and Exceptional Items	787.79
Share Capital	693.10
Reserves & Surplus	1,337.93
Net Worth	2,094.20
Gross Fixed Assets	1,638.65
Net Fixed Assets	130.38
Total Assets	7,552.21

Key Indicators

Earnings Per Share (Rs.)	12.47
Cash Earnings Per Share (Rs.)	7.68
Book Value Per Share (Rs.)	30.22
Debt (Including Working Capital) Equity Ratio	2.61
EBITDA / Sales (%)	29.23
Net Profit Margin (%)	16.32
Return On Year End Net Worth (%)	37.62
Return On Year End Capital Employed (%)	10.43

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SUBASH MENON
 Founder Chairman,
 Managing Director & CEO

DEAR SHAREHOLDER

We need to view business as a continuum. So, it is appropriate to continue from where we left off last year. Last year i.e. in FY10 ended on 31st March, 2010, we had once again become profitable at the Operational Profit After Tax level. We had then said that our objective in FY11 will be to improve our profitability at every level. I am both proud and glad to inform you that we did exactly what we set out to do in FY11. As is our practice, let us take a look at those figures before we delve deeper into the qualitative aspects.

The core of our business i.e. Product business grew 15% in US Dollar terms and about 8% in Indian Rupee terms. More significantly, EBITDA grew from 23.8% in FY10 to 33% in FY11. This resulted in EBITDA for the whole company moving up from 20% to 29%. Above all, Operational Profit After Tax (PAT) which is arrived at by excluding Exceptional Items increased from Rs. 208 Mln to Rs. 838 Mln.

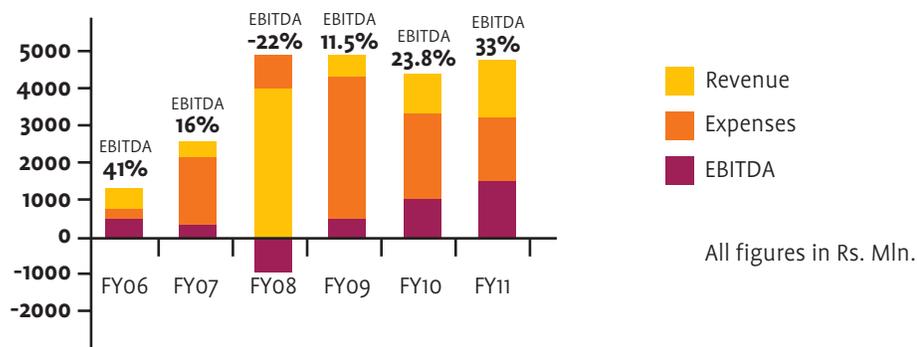
Progression Over the Years

While the business has taken several twists and turns, we have stayed focused on modifying a variety of facets of the business resulting in considerable improvement on many fronts. One critical element has been the contribution from Annuity business. Annuity business, by nature lends stability and predictability to the revenue stream thereby creating an excellent base to build on. This foundation enables the company to explore other opportunities while charting a steady course. In the just concluded financial year, Annuity constituted 42% of the total revenue. This figure was 36% two years ago, in FY09 and is slated to grow to more than 50% in the next 2 to 3 years. Support and Managed Services are the two components of this revenue stream. A natural consequence of this increase in Annuity, which is a highly profitable operation, has been the increase

in EBITDA. This is quite clear from the graph given below.

While revenue remained constant from FY09 to FY11, EBITDA increased from 11.5% to 33%. Apart from Annuity, reduction in cost also has had a salutary impact on EBITDA. Cost of operation has been coming down consistently over the past four years. This has been achieved through a systematic program of replacing high cost resources in overseas locations with lower cost resources in India while ensuring that knowledge is transferred efficiently and quality of service to customers is maintained. Further, the company has been engaged in identifying and culling all unwanted costs through extensive rationalization.

The reduction in revenue from FY09 to FY10 was followed by a smart growth of 15% in US Dollar terms from FY10 to FY11. This also contributed to the increase in EBITDA. Given the growth in order intake that we witnessed in the just concluded financial year, revenue is set to grow faster in the years to come. That should enable us to maintain or slightly improve the EBITDA margin in the products business. Buttressing all these figures is the metamorphosis that the business has undergone in the past couple of years with respect to technology and offering. Let us take a closer look at that.



Technology and Offering – The Evolution

Change is the only constant phenomenon. Your company has stayed true to that adage. Ever since our entry into the world of telecom software a decade ago, we have evolved at a constant pace with regard to technology and revenue model. The result has been an ever expanding set of products and continuing innovation on every front of the business including technology, products and delivery model. What started off as a single product – fraud management – has now morphed into a holistic platform called Revenue Operation Centre, ROC™. ROC covers every part of the revenue chain and presents an end-to-end picture to the users thereby empowering them to improve the efficiency of their operations, resulting in improved revenue and profit. ROC, today, encompasses fraud management, revenue assurance, cost management, credit management, interconnect management, inter-party settlement, route optimization and data integrity management.

This over arching nature of the offering has made it very valuable for telcos who are being buffeted by commoditization of their products and business models. ROC enables them to collect and analyze a vast quantity of data to arrive at conclusions on the health of different parts of their business and network and then to take appropriate actions with the help of an extensive work flow. ROC has thus evolved as a reliable and complete solution without being plagued by the ill effects of poor inter-operability and lack of data integrity. Several telcos across the world – in both developed and developing countries – have opted for ROC resulting in a high level of traction. The fact that ROC is a pioneering offering has improved both the stature of your company and it's prospects.

While selling and implementing ROC, it became obvious that the telecom carriers, despite their deep expertise and wide experience, still lacked the knowledge required to take advantage of a broad platform such as ROC. This was aggravated by the non-availability of skilled personnel within their organizations. That presented a new opportunity for your company and we have been exploiting the same over the past few years. What started off as mere bureau operation has now matured into managed services and full fledged outsourcing. This delivery model is fast emerging as a key differentiator and has also led to a considerable increase in contract size while maintaining a healthy profit margin.

The Future

Aristotle once said, “The future is not something true men enter. The future is something they shape with their own hands.” As can be seen from the manner in which your company has evolved over the past ten years, we have been shaping our future meticulously and carefully. While we have indeed faltered on certain occasions, we have demonstrated resilience and have fought our way back. That is the genetic code of this organization which you chose to be investors of. Abraham Lincoln once remarked, “I will prepare and some day my chance will come”. Your company too has been preparing – be it with respect to products or delivery model or people or markets that we operate in. And we strongly believe that our chance has come.

We have now been presented with an opportunity to change the fortunes of our customers, telecom carriers all over the globe, and thereby add tremendous value to their businesses. We have now been presented with an opportunity to increase our relevance to our customers and craft deep and engaging partnerships with them. And finally, we have once again been presented with an opportunity to add ever lasting value to those who have supported us through thick and thin – our shareholders. While thanking each and every one of you for your unstinting support, I reiterate the commitment of each and every Subexian to make the most of this opportunity, in the interest of every stakeholder of the company.



ANSWERING THE NEEDS of the Telco 2.0 model



SUDEESH YEZHUVATH
Chief Operating Officer
& Wholetime Director

We live in interesting times where we are witnessing the telecommunications industry going through its various phases of existence. From a very young, high growth industry, it is now starting to reflect “middle age” with all the complexities that one can expect with such evolution and at such a rapid pace. Growth through new subscribers is no longer possible in developed markets today with high penetration levels approaching saturation in some countries. One recent survey pointed out that there are five Billion mobile phones today in a world of six Billion people! In the developing markets, there is still growth in subscriber numbers but the intense, hyper-competition that exists in these markets has resulted in ARPU falling to lower and lower levels. As can be expected, the industry has been searching for new business models to meet these challenges and we now are seeing the advent of a new model often referred to as the “Telco 2.0 Model”.

Thus far, the telecom business has been about selling voice, data, content etc. directly to retail users. The telco provided these services, billed the customers directly and collected the moneys. Interestingly, 70% of all executives in telecoms companies think that revenues from this model will decline steadily. In the digital world, there are many business providers – Retailers, Content Providers, Application Developers, Advertisers to name a few – who want to have access to telecom subscribers. Telecom services are a great means for these new providers to deliver or market their products to end users. Telcos have the ability to support these providers reach subscribers by way of identification of the right subscribers, promotions, delivery of the service, billing for the service and collection of amounts due. Telcos have the ability to deliver, bill for and collect against micro transactions using processes that already exist in their business. This represents an opportunity for the telcos to generate revenues from both sides of their business; the network and the

customer billing side. This provides the opportunity to move from a one-sided to a two-sided commercial model.

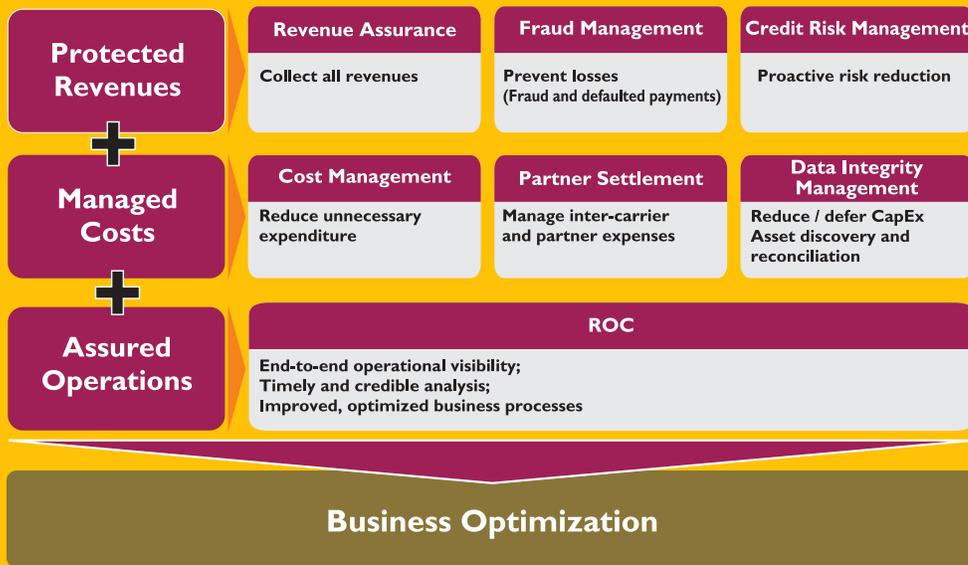
As can be expected, this new business opportunity poses new threats and risks. To grow profitability, telcos are facing significant challenges in trying to grow their revenue and efficiently manage their costs. They cannot afford to have revenue leakages, fraud, billing mistakes, customer churn or process mishaps that lead to revenue loss. This risk is even more accentuated in the 2.0 model because Telcos are reselling goods and services from other vendors and any leakage will mean significant cash loss. Further, the value of such goods and services could also be potentially much higher. All this has resulted in an environment wherein the telcos are on a continual quest to reduce cost and improve efficiencies. This has resulted in a need which outlines three clear objectives – Protect Revenues, Manage Costs and Assure Operations.

Protecting Revenue is about ensuring that there are no leakages in the revenue chain, no defrauding of the telco by rogue “subscribers” and ensuring that there is no loss because of extending credit to risky customers. Managing Costs focuses on reducing unnecessary or excess payments to partners, reducing stranded assets and making best use of existing infrastructure. In the Assuring Operations, telcos are trying to manage

risks better as unmanaged risks result in cost escalation.

It is very evident that the Telco 2.0 model is the future of the telecom world and the risks posed by the new business model are equally clear. As a result, there is increased attention on the three areas mentioned above and Subex’s offerings are squarely focused in this space as shown in the chart below:

The Subex Value Proposition



Telcos need to process huge volumes of data to spot linkages to help them improve efficiencies and this needs to be done in near real time. Subex’s pioneering Revenue Operations Centre (ROC™) allows telcos to achieve this objective. The ROC takes in data from a variety of systems – including the Fraud Management System, Revenue Assurance System, Cost Management System, Data Integrity Management System etc. – and correlates all the data to provide Actionable Intelligence to help telcos make decisions and act quickly. Various analysts have come up with studies that indicate the significance and relevance of Actionable Intelligence in the new world. The ROC is not only a reporting solution but is also a response platform. In short, the ROC addresses the need of agile operations in the Telco 2.0 world.

As discussed above, one critical need is to assure business operations and telcos are moving more

and more to business models that assure the business outcome. This is why one sees an increasing trend of outsourcing operations in IT, in the network and in business systems. Telcos realize that vendors that have a comprehensive solution suite in a particular business space are well positioned to carry out operations in that area and are outsourcing the responsibility for those operations. Subex’s strengths and expertise is in the Business Optimisation space and the company is seeing significant increase in the need for Managed Services with its customers.

In summary, the Telco 2.0 business model represents the evolution of the telecom world to its next phase of growth but has many inherent risks and threats. Subex, with its ROC and Managed Services, is well positioned to help telcos overcome these problems, move to Telco 2.0 and play a significant role in the next phase of the telecommunications market.

MANAGED SERVICES

the time is now!



VINOD KUMAR
Group President

I am sure you have come across a number of press releases last financial year about our Managed Services wins and the increasing importance of this business in our portfolio. Overall the tailwinds that drive this business are in our favour and with the global economy cautiously back on track; I believe the time is just right for Managed Services.

Globally service providers are increasingly realizing that their in-house teams do not utilize their BSS/OSS products fully, thereby resulting in lower than expected returns on investments. They lack the product expertise that is so important to operate these sophisticated products to their maximum potential; the domain expertise that is needed to stay abreast with emerging risks; and the operations expertise that is critical to sustaining benefits from these products on a long term. This is precisely the concern that Subex alleviates through Managed Services.

An extremely popular engagement model in network operations, service providers are now increasingly turning to Managed Services for BSS/OSS operations. But it is not just cost rationalization alone that is driving this trend. Rather, a Managed Service engagement for BSS/OSS serves a larger objective of optimizing the business and improves customer experience, while freeing significant management bandwidth to focus on core priorities.

Most operators have seen the benefits others in the industry have realized through Managed Service engagements in other areas and hence reasonably agree with potential value through a similar engagement in BSS/OSS:

- † A one stop shop (a single contract with a single interface)
- † A stringent service level agreement for performance
- † A clear roadmap for the BSS/OSS software to account for new services and scalability for subscriber growth

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At Subex, we are uniquely positioned to leverage these positive justifiers to add value to service providers while also creating a new revenue stream for our company. So how exactly is this business different from our traditional license business? One, we are responsible for running the service provider's business operations on a day-to-day basis; two, we are accountable for results – the SLAs and KPIs are far more stringent; and three, we also advise the service provider on advancing their BSS/OSS functions up the maturity level. The Managed Services business is also rather different from a delivery model perspective. Figure 1. illustrates this difference:

The benefits of such an engagement to Subex are three-fold. One, we have a longer term visibility over revenues, typical Managed Services engagements range from 3 to 5 years. Secondly, the Managed Services engagement model thrives on trusted partnership between the vendor and the service provider. This deeper engagement helps us to build long lasting relationships, thereby providing incremental cross-sell and up-sell opportunities. Lastly, running the service provider's business operations gives us significant insights into their most pressing challenges that we look to solve by building new features in our product roadmaps.

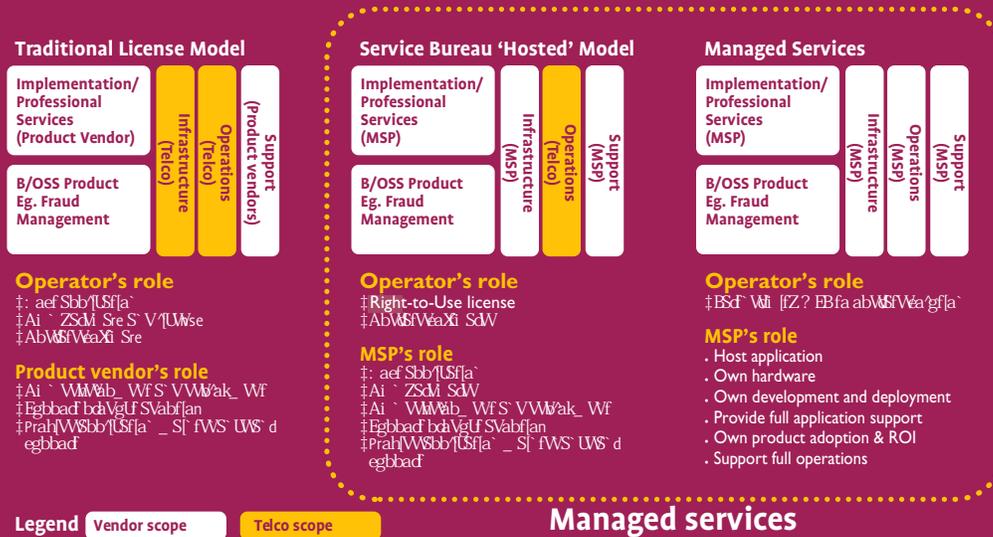


Figure 1: BSS/OSS Engagement Models

You would be pleased to know that our Managed Services experts are already at work at over 30 such programs, processing 20 billion+ CDRs monthly and running applications on over a 100 servers. In fact our Managed Services:

- † Experts help improve BSS/OSS productivity by 15-20%,
- † Our SLA-based accountable operations increase service provider ROI by 20%,
- † Our technology makes BSS/OSS operations more than 15% efficient,
- † We also offer on-site support staff to augment service providers' in-house experts, thereby helping ramp up operations at least 10-15% faster,
- † And most importantly, our Managed Services help free up management bandwidth significantly and thereby improve organizational efficiency by 7-9%.

Almost intuitively, we call these SMART services leveraging proven technology. They complement service providers' existing operations just as much as transform their businesses.

As the Managed Services business grows, we are mindful of the fact that our customers recognize us for our core Revenue Operations Center (ROC™) technology. And we leverage it very well in the Managed Services business as well. It helps us automate processes and provide a future proof solution to our customers' needs. With over 200 customers, and 300+ implementations of the ROC, this huge base of current users provide us significant opportunities to add value through the Managed Services model.

A quick glance at the following illustrations should be enough to convince you of the value this model adds to service providers and hence its sustainability in the Subex business mix:

† A service provider that fell short on in-house skills to utilize its Revenue Assurance solution to its maximum capabilities realized savings of USD 15 million on engaging us through Managed Services. And they recovered their investments within a short span of just 8 months

† Another operator's fraud management team could not keep pace with emerging frauds. Our Managed Services experts took complete accountability for their fraud management operations, leveraging our industry leading technology, and the operator now has clear visibility over fraud management operations, application usage and output and can expect higher ROI

† In yet another case, an operator struggled to track movement of its active network assets which are directly like to revenue. Through a combination of Managed Services and cutting edge technology, this operator not just avoided a substantial capital loss, but also synchronized and automated its process for "as-is" network and FAR for complete network asset lifecycle and movement tracking

† And an operator whose inventory was 60% out of sync with its network uncovered a large number of stranded and unused assets thereby reducing its cost by 40% through effective automation and off-shoring

That's what I call smarter BSS/OSS operations. Managed Services or Commercial-Off-The-Shelf (COTS) solutions in isolation can only optimize service provider business as much. It is an effective use of technology by experienced domain and operations' experts that protect operator revenues, manage their costs, optimize fulfillment, and assure operations – a story that I have seen resonate so well with senior service provider executives worldwide, that it leads me to believe that the time is just right for BSS/OSS Managed Services.

SUCCESSING internationally



PAUL SKILLEN
President - EMEA

The team at Subex has built a truly international business with an Indian heart that thinks globally and acts locally.

Subex has travelled a long way on the momentum of the first steps taken by the founders. If one were to place a pin on a map of the world in each location that we have business, it would be clear that the Subex business spans the globe with few exceptions. This is a remarkable achievement which carries both the rewards and resilience of a truly global business.

The challenges we have overcome along this road have been many, and setting aside the very practical matters of dealing with our customer - their contracts, currency and other complexities such as language, regulation and technical matters, all of which are hurdles in the path of a truly international business, if I were to single out one crucial characteristic that has enabled us to prevail in good times, and bad times, it would be our cultural dexterity. Subex is a business in which we have developed a company structure and culture that has both the durability and diversity to dovetail into the broad range of cultures of our clients and employees.

Two examples of where this approach is paying off are in Spain and Latin America, with our rapidly expanding relationship with Telefónica, and in the Middle East, with the re-enforcing of our business with Saudi Telecom. Both examples demonstrate how, with a world class and compelling business proposition and a local touch, we can add real value to both our clients and to Subex.

Even in the darker moments of this year, with much of Europe locked in the grips of the economic downturn and the matters arising from what has come to be known as the Arabic Spring, our local teams and their knowledge, connection, and experience ensured that the disruption to our business in these regions was minimised, even negated, when many of our competitors took flight.

It seemed appropriate that I was able to welcome our customers to our Customer Conference in Rome last September. "All roads lead to Rome" as they say and our Conference hotel lay on one of the ancient roads. Customers came from many countries and shared their experiences of problems and solutions amongst friends. Some problems such as fraud and the constant drive to deliver new services are international issues and hearing a fresh perspective on an old challenge is always helpful. We are looking forward to meeting everyone again later in the year at the User Conference in Madrid.

Particular mention must be made of the Subex's teams progress in the African and Latin American markets where we have seen significant development of our business, even in challenging conditions.

In no particular order, our business is led, in the respective geographies by teams of British, American, Australian, Irish, Australian, German, Canadian, Greek, Arab, Italian, Spanish, African, and Indian nationals. This diversity, allows us to think globally while acting locally. We are in a strong position to leverage the accelerating properties of a low cost centre of operations with detailed and intimate knowledge of the customers and the geographies within which they operate.