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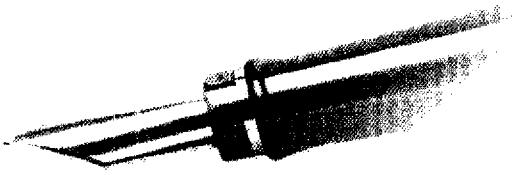

LETTER TO THE SHAREHOLDERS

April 19, 2000

Dear Shareholder,

our company has completed its' first year of operation as a widely held public limited company. I am glad to report that the results achieved are much higher than the projections made during the IPO in July 99. We have recorded a revenue of Rs. 315.86 million and a Profit after Tax of Rs. 50.26 million during the financial year ended 31st March 2000, as compared to Rs. 118.33 million and Rs. 10.25 million for the previous financial year ended 31st March 1999. This amounts to a growth of 168% in revenue and 390% in PAT. The annualised EPS has improved from Rs. 9.63 to Rs. 17.51 over the year, although the equity base increased from Rs. 10.64 million to Rs. 35.63 million, on an annualised basis. The receivables position is on the higher side as most of the sales, particularly in the telecom division, happened in the last month of the quarter.

Major activities during the Year

The main activities during the year were :

- Initial Public Offer
- Acquisition
- Preferential Offer
- Ranger™ – International Launch

Initial Public Offer

Your company went public in July 99 through a public offer of 9,71,000 shares of Rs. 10.00 each at a premium of Rs. 65.00 per share, aggregating Rs. 7,28,25,000.00. We are listed at the Bangalore and Hyderabad Stock Exchanges.

Acquisition

In keeping with its' strategy to grow both organically and through acquisitions, your company successfully completed the acquisition of IVth Generation, Inc., New Jersey, USA in early January 2000. IVth Generation, which operates in the telecom software business segment, will help us to substantially increase our business in our area of focus i.e. telecom software. The major clients of the acquired company include AT&T, Lucent, ITDS etc. The acquisition is already proving to be a success with integration of the operations almost complete. The total cost of acquisition was about Rs. 290.00 million. IVth Generation has since been converted into a wholly owned subsidiary of your company and has been re-named as Subex Technologies, Inc.

Preferential Offer

The funds required for the acquisition, totalling Rs. 248.10 million, have been raised through a preferential offer to mutual funds and bodies corporate. This has been achieved through the issue of 3,30,800 numbers of Rs. 10.00 shares of your company at a premium of Rs.740.00 each. This has resulted in the enhancement of the equity base to Rs. 35.50 million. The preferential offer was made on the 30th of December 1999.

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Ranger™ – International Launch

Ranger™ was launched in the international market at the GSM World Congress 2000 held at Cannes (France) from the 1st to the 3rd of February 2000. This tradeshow is the largest event for the GSM industry worldwide. This was followed by participation in GSM India (Bangalore) and in Arabcom 2000 (Beirut, Lebanon). I am glad to report that the product has been very well received by the potential customers. Discussions have started with various operators, particularly in developing countries. Further, a sales channel comprising representatives and distributors is being set up in the relevant markets.

Business Outlook

The software industry in India recorded a total revenue of US$. 3.9 billion (Rs. 158.9 billion) during the financial year 98 – 99. The software export industry in the country continues to show impressive growth over the years with a CAGR of 60.71% during the past 5 years. It is expected that the software exports from India will be about US$. 6.3 billion in 2000 – 01 and US$. 9.5 billion in 2001 – 02.

Our focus area is telecom software. This market segment is growing at a frenetic pace, the world over. The advent of the Internet and the move towards a global village concept has resulted in extensive use of communication infrastructure. The demand for bandwidth is witnessing an exponential growth. The telecom solutions, which used to be dominated by hardware, are undergoing a change with software eclipsing hardware in the overall solution. This is expected to fuel the market further.

This metamorphosis has brought about a boom in the telecom software services market and this sector is expected to clock the highest CAGR (14.7% from 1997 to 2008 – Mc Kinsey Analysis) within the entire software services segment (average CAGR for the software services segment will be 10.8%). The Software Services Division of your company is squarely positioned to gain from this growth. The Software Products Division of the company operates in the telecom software products market. Globally, this segment is expected to grow at a CAGR of 25.2% from a base of about US$. 25 to 30 billion.

On the technological front, a multitude of new technologies have entered the market. These includes WAP, Blue Tooth, 2.5G, 3G etc. Mobile e-commerce and other mobile applications have embraced these technologies alongwith other traditional applications. In the future, it is expected that the number of mobile phones accessing the Internet will be more that of the personal computers. This is spurring the need for advanced technologies and a variety of "mobile – friendly" applications. Your company is actively addressing these markets through the acquisition of knowledge and expertise in these cutting edge technologies. In short, the outlook for telecom software is bright with demand growing at a phenomenal rate.

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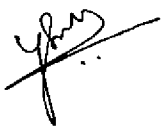
The Future

Your company intends to clock superlative growth in the years to come and the strategy encompasses both organic growth and growth through acquisitions. These strategic acquisitions will be in our area of focus and will add key customers and a wide market reach to us. Geographically, they will be in the United States – the largest market for software in general and for telecom software, in particular.

The software activities of your company are supported by the Software Products Division and the Software Services Division. In relative terms, this business has outstripped the telecom system integration business as evidenced by the financial statements. I am happy to report that this trend is in keeping with the long term plan of your company – which is to migrate the business mix from predominantly telecom system integration related, in the past, to largely software related. Infact, the objective is to enhance the share of software business to about 90% in the next 3 years. This will be achieved in a gradual manner and the current fiscal year has already witnessed this shift.

I take this opportunity to thank all the share holders of this company on behalf of the Board of Directors and on my personal behalf. I also thank all the Subexians for their commitment and perseverance, without whom the company could not have recorded this substantial growth. I assure you that your company will scale greater heights in the years to come and look forward to your continued support and co-operation.



Subash Menon
Managing Director

The forward looking statements in the Letter to the Shareholders should be read in conjunction with the following cautionary statements. Certain expectations and projections regarding future performance of the company referenced in this Annual Report are forward-looking statements. These expectations and projections are based on currently available, competitive, financial and economic data along with the company's operating plans and are subject to certain future events and uncertainties, that could cause actual results to differ materially.

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OUR TECHNOVATORS SPEAK...

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SUBEX–THE TECHNOLOGY FOCUS

The telecommunications world has been witnessing a tremendous growth in last few years. This has provided huge business opportunities for organisations focused in the telecom field.

This article endeavours to keep all the shareholders posted on the developments in the field of telecommunications and the steps taken by Subex to tap this great potential with an objective to stay ahead of this technological revolution.

As you are aware, convergence of different technologies is taking place at a fast pace and subscribers are gravitating towards those service providers who will provide services like fixed & mobile telephony, internet & data communication access, television etc. through a single outlet. They prefer to have only one bill for all the services they subscribe to and a single point of contact for redressals. This has created a need for the operators to provide a variety of services under one roof. The mergers and acquisitions taking place in the industry is a clear pointer in this direction.

One of the most important developments in recent times is the International Mobile Communications 2000 or Third Generation (IMT 2000 or 3G) standards and systems. A few of these systems are expected to get installed by the end of this year and early next year. IMT 2000 is expected to have a subscriber base of over one billion in five years' time.

IMT 2000 is a flexible standard which provides freedom to choose radio access method and core basic networks, to service providers. This will provide very high quality world wide roaming facility on a small hand held terminal. The IMT 2000 will also provide multimedia applications like internet, e-mails, video conferencing, e-commerce applications, data communications etc. at much lower costs.

IMT 2000 will exploit the potential synergy between the digital mobile telecommunications' technologies like Global System for Mobile Communications (GSM), Wideband Code Division Multiple Access (WCDMA), satellite communications and those systems used in Wireless in Local Loop (WLL). Or in other words, the IMT-2000 standard lays out a framework for worldwide wireless access by linking the diverse systems of terrestrial and satellite based networks. It is also worth noting that the present day networks can be upgraded to IMT 2000 as and when required.

Different technologies like GSM, WCDMA etc. are developing more services to meet the IMT 2000 standards which is laid out by International Telecommunications Union (ITU). The developments in GSM are of special interest to Subex as Ranger™ is targeted at this market.

The General Packet Radio Service (GPRS) is a new non-voice value added service that allows information to be sent and received across a mobile telephone network. This supplements today's Circuit Switched Data and Short Message Service (SMS) which are offered by GSM. Services like GPRS are not charged on a per second basis or duration of the call. The charges are based on usage i.e. on the data transmitted and received. This means that the subscribers are always connected to the internet and that they need not dial out every time they want to send or receive messages. The mobile terminal will constantly check for the mails and will download any mail received, to the mobile. This enables the subscribers to be in touch with business even while they are on the move. The speed of access provided by GPRS is 6 to 7 times that of the ordinary modems used today. This is many times faster than the present data speeds available in GSM. GPRS will provide a massive boost to mobile data usage and usefulness.

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Subex is working on the Ranger™ to support GPRS. Presently Ranger™ supports all kinds of voice calls and Short Message Service. The addition of GPRS support will be a shot in arm, as this will render the product more attractive to the user as compared to those fraud management systems, which do not support GPRS.

Another important development is taking place in the field of mobile commerce, commonly referred to as m-commerce. This is the effective delivery of electronic commerce into the subscriber's hands, anywhere and at any time using wireless technology. This development will transform the mobile phone into a mobile wallet. Many major companies world over have begun to establish partnerships with banks, ticket agencies and top consumer brands to take advantage of the retail market through mobile commerce. This will enable users to apply the mobile phones as tools to purchase as the phone will also have a built in credit card. This is made possible with Wireless Application Protocol (WAP).

Wireless Application Protocol will allow customers to easily reply to incoming information on the phone by allowing new menus to access mobile services. This throws open a tremendous opportunity for service providers to offer value-added services. WAP can help generate additional traffic on the network leading to a substantial boost in revenue.

WAP will enable many tasks to be performed remotely, which will result in higher efficiency and profits for many organizations. These include remote point of sale, customer support from remote locations, remote monitoring of utility meter reading like electricity, water etc., corporate e-mail, Local Area Network (LAN) access from mobile, file transfer from PC to mobile and back, browsing, document sharing and collaborative working, transmission and reception of still and moving images, home automation, person to person messaging, voice mail and fax mail notifications on mobile from home or office, mobile commerce, mobile share trading, mobile banking etc.

In the earlier days, the application developers wrote proprietary software applications and had to port that application to different network types and bearers within the same platform. By separating the bearer from the application, WAP facilitates easy migration of applications between networks and bearers. WAP can be considered similar to Java as it simplifies application development. This reduces the cost of wireless application development and therefore encourages entry of software developers like Subex into the mobile industry.

Subex will be focusing on hot technologies like WAP, which will be widely used in the next few years. It is also working on Internet based products to support telecommunications. I am sure you are aware of the existing areas where the company has put in a considerable amount of high quality work and hence would not like to dwell upon those. It is worth mentioning that the company is maintaining the expertise gained in the past and is constantly trying to improve the same while working on new areas.

This evidently means that the company will eventually offer a suite of revenue assurance products, which will be essential for the service providers. This will enable the service providers to enhance their revenue and increase customer satisfaction while recouping the entire investment in a few months.

Our engineers are also working on projects for world leaders in the telecommunication industry, from which we are gaining considerable expertise in cutting edge technologies. This domain and software exposure will be used for expanding business opportunities with these companies.

The combination of excellent software products and services in frontier technologies will ensure a bright future for Subex.

Alex J. Puthenchira
Executive Director

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