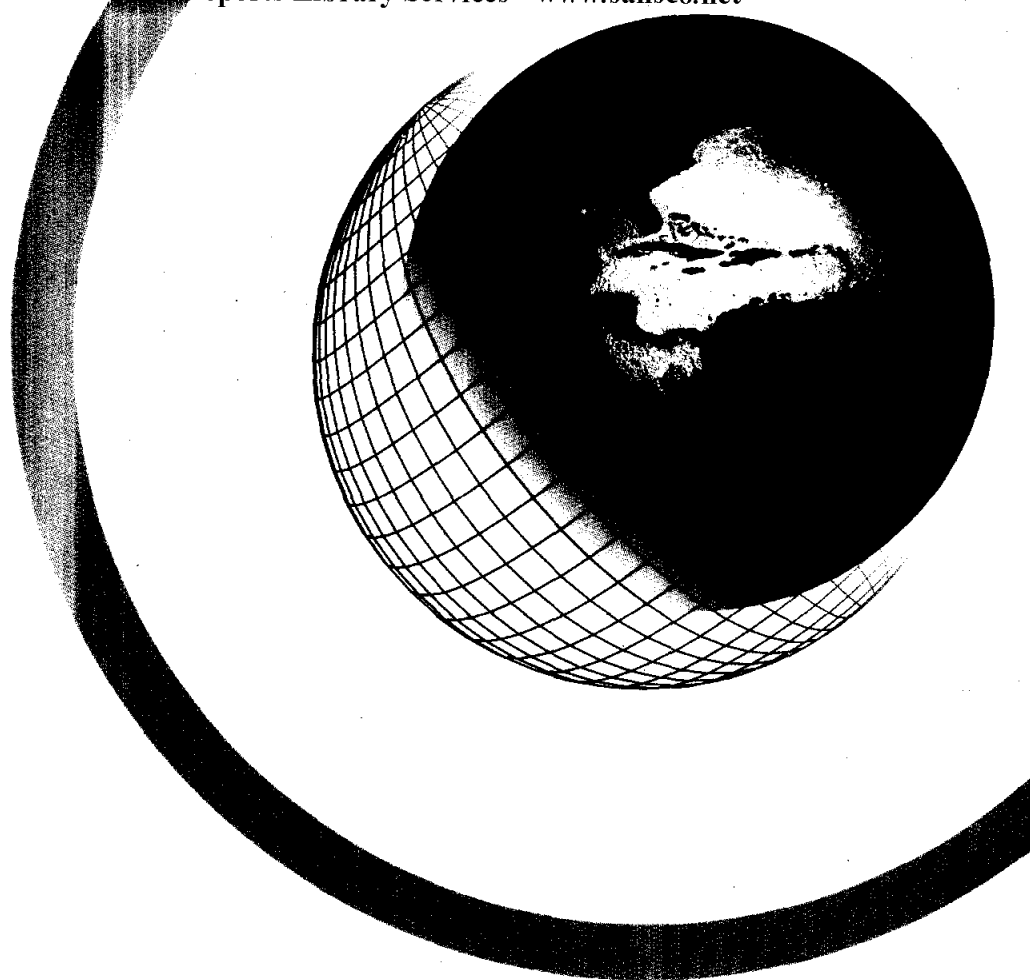


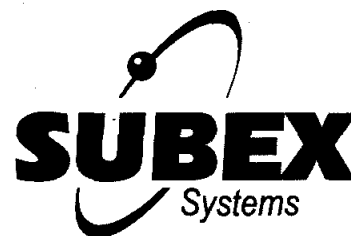
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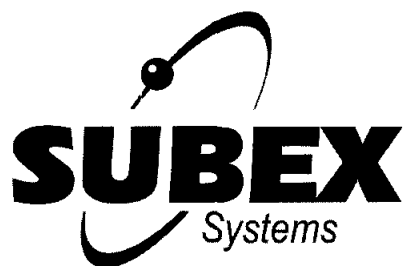


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Technology - Inspired by the Future

2000-2001





Subex - Inspired by Technology



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Board of Directors





Subash Menon
Chairman & Managing Director

May 2, 2001

Dear Shareholder,

We have completed a year which has proved to be tumultuous in more than one respect. Despite the well publicised downturn in the information technology business segment in general and in the telecom space in particular, your company has recorded a growth of 248% in its' software business. On the whole, considering the telecom system integration business as well, the revenue grew by 77% to Rs. 557.88 million. The Profit after Tax (PAT) which stood at Rs. 50.26 million during the previous financial year, has increased to Rs. 102.77 million resulting in a growth of 104%. The EPS has improved from Rs. 14.11 to Rs. 14.42 over the year, although the equity base has doubled owing to the issue of a 1:1 bonus.

Telecom Division

In keeping with the original plan, your company has exited from the telecom systems integration business. This business, which used to be called the Telecom Division within the company, had poor growth potential, uneven business cycles and contributed to huge debtor positions resulting in being a drag in the overall growth of the company. The usefulness of this division, which was to gain telecom domain expertise, had reached an end as the software divisions – Software Products Division and Software Services Division - have now fully gained the requisite expertise. Hence the decision to exit the business.

The Telecom Division personnel have been re-trained and migrated to the software divisions. Most of the warranties and support requirements have been fully addressed and the remaining ones will be closed during FY02. Stock has been brought down to a minimal level and the remaining items will be liquidated shortly. In essence, the division has been closed down successfully without creating any ripples within the organization and in the overall performance of the company.

Sector-wise Performance

The company had three divisions at the commencement of the financial year – namely Software Products Division, Software Services Division and Telecom Division. Owing to the closure of the Telecom Division, its' revenue contracted from Rs. 170.47 million in FY00 to Rs. 66.48 million in this financial year. However, the software divisions grew substantially to make up for the reduction in the business of the Telecom Division.

Software Services Division (SSD): This division, which focuses on the development of both applications and systems software for the telecom business area, grew from Rs. 133.00 million in the previous financial year to Rs. 446.35 million. This represents a growth of 236%. The division gained several customers during the year and also moved into high technology areas of the future like IP, QoS, Usage based Billing etc.

One of the business models, that has been employed to great benefit of the company, is that of an Off-shore Development Centre. In this model, dedicated centres are set up and run on behalf of overseas customers on a time and material basis which results in steady and predictable revenues and also a high rate of utilization. The emphasis is on providing value added development support to our clients by leveraging the telecom domain expertise. Most of the projects that are being handled by SSD are in the core product development areas of our customers. All the customers of SSD are in the US and are independent software vendors, with the exception of AT&T, in the telecom business space.

Software Products Division (SPD): This division is the software products arm of the company. SPD specialises in the 'Revenue Maximisation' space within a carrier's network. Towards this end, it has two products in its' stable – Ranger and eVantage. Ranger, a wireless fraud management system, has been in the international market for about 1 year now and has already proven itself with a few contract wins. It has been adjudged as a technically superior product in the marketplace. The second product eVantage, which is an Electronic Business Support System, was launched about 2 months ago at an international tradeshow. The product e-enables a variety of activities within a carrier's operations with a view to improve customer relationship, enhance revenue and reduce costs.

It is the stated objective of SPD to offer a complete suite of products to your company moving towards another acquisition. The company has been identified and a closure has been expected shortly. This company, called Magardi Inc., is based out of Ottawa and brings two products to further expand our offering. These products are OUTsmart, a wireline fraud management system and Incharge, a telecom billing verification system. With the addition of these two products, we now have a complete solution for wireless and wireline fraud management and also have a wider offering for maximisation of revenues. We expect this acquisition to drive up revenues substantially in FY02 and in coming years. Another area for growth would be the rapid evolution of the products themselves through the addition of advanced features to address challenges like fraud in the IP environment, billing for content etc.

On the revenue front, SPD has clocked a figure of Rs. 38.06 million as against Rs. 6.25 million in the previous financial year. About 83% of this revenue has been earned through overseas contracts, which is proof of the acceptance of the products by the international telcos. Your company is poised to penetrate the global market for these products through direct sales, representatives, systems integrators and vendor partnerships. Several such associations are on the anvil.

Acquisition

Acquisition is a key strategy for the growth of your company. As detailed above, we are in the process of concluding the second acquisition in our history. For acquisitions to be a success, three aspects need to be planned and executed well. These are identification of a company with synergies, finalisation of the deal at a reasonable and attractive cost and finally, proper integration of the acquiree with the acquirer. Given the success that we have experienced with the first one, that of IVth Generation Inc., the management is confident of achieving these objectives in the acquisitions that are contemplated and consummated. The company would gain several Tier 1 telecom carriers as its' customers through the on-going acquisition of Magardi Inc. These customer relationships will then be leveraged to make further in-roads into the service provider market for our products. On the whole, we view this acquisition as a strategic component in our long-term plans for growth and market share.

Business Outlook

The downturn in the US economy has particularly affected the IT industry. This has been further compounded by the woes in the telecom industry the world over, and specially so in the US and Europe. Budgets have been cut across the board and projects have been postponed. This has resulted in a drastic reduction in the size of the market and increased competition. However, your company sees several silver linings among the dark clouds.

The cut in budgets have necessitated a reduction in costs and off-shoring of projects is being resorted to by customers. Another critical aspect is the desire of the customers to out source all the different stages of the software development life cycle (SDLC) including business analysis, preparation of specifications etc. These two factors coupled together create a conducive environment for companies like Subex, who have strong domain expertise with off-shore development infrastructure. This is leading to an increase in the number of customers and stability in billing rates. I am glad to report that our billing rates are among the highest in the industry and do not face any erosion. Another positive aspect in the current scenario is the increased availability of high quality and experienced manpower at reasonable costs.

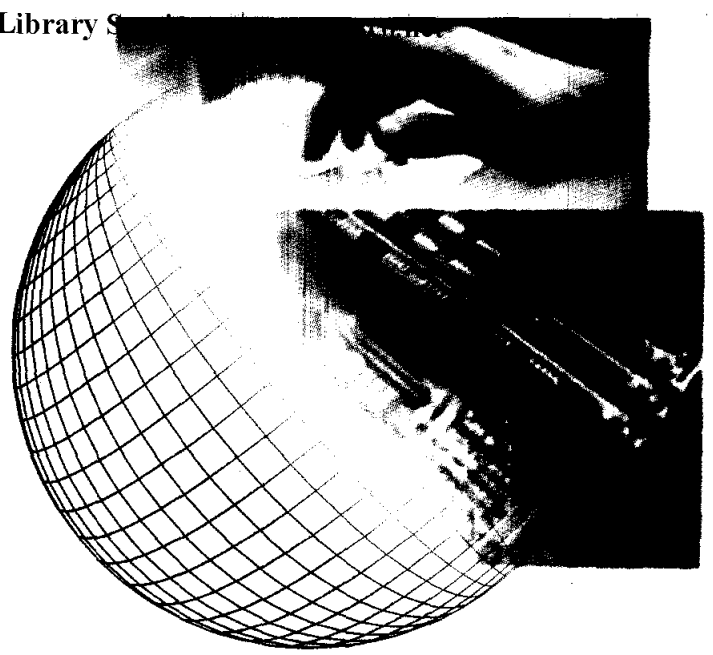
The current situation in the telecom industry is expected to change within the next few months. This upturn will be precipitated by the imminent success of the 3G market with the roll out of the first 3G network slated for September 2001 in Japan. The demand for data services is expected to outstrip that for voice in the coming years and will provide further impetus to the growth in subscriber base, average revenue per user etc. The advent of IP networks will fuel and buttress this growth in demand. This confluence of circumstances and technologies will ultimately pull the market out of the morass that it finds itself in today. Subex is preparing itself to address this expected upswing in the future and to take advantage of the surge in demand. Thus, we are confident of maintaining the rate of growth in the coming years and in enhancing our stature and market share going forward.

People have always been the main strength behind all the achievements of Subex. And so, I herewith record my acknowledgement of the support received from all the Subexians in making FY01 a successful year and thank them wholeheartedly for the same. I also thank all the shareholders of this company on behalf of the Board of Directors and on my personal behalf. All of us at the company are confident of being able to report another stellar year at the end of the next twelve months.



Subash Menon
Chairman and 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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People - Inspired by Subex



The Telecommunications world is recording a slower growth as compared to the earlier projected figures. This has given a golden opportunity for technically strong companies with good business plans. The companies which are not strong technically and which do not have financially viable projects or products will have to either wind up or get acquired.

As you are aware, Subex is working on cutting edge technologies like location based services, Intelligent platforms, Prepaid telecom solutions, Fraud Management Systems, Quality of Service (QoS), Voice over IP, E-commerce, Optical transmission, 3G, Billing, Internet, OSS etc. These technologies are expected to generate huge revenues for the operators and in turn for the software development houses which are capable of delivering high quality products and services.

The experience gained from these areas will help the company to tap the potential from 4G on which companies have already started working. The first 4G network is expected to be implemented in 2006, almost 4 years ahead of the initial target of 2010.

Location based services are about to be implemented commercially very soon, which will enable operators to provide special services, based on the location and usage pattern of a particular subscriber. This means, if a subscriber goes for movies regularly and if he is close to theatres, he will receive a message on his mobile phone reminding him of the movies currently playing in that locality. This will generate huge revenues for the operators as well as for the service providers and retailers. This technology will be used by security agencies and rescue teams to monitor and locate mobile users. The location based services can also monitor the speed of traffic, traffic jams etc. Further, it will be used to divert important mails and such other information to the subscribers.

Intelligent Platforms allow telcos to offer prepaid solutions and other value added services. These prepaid solutions are very popular in different parts of the world. IN platforms also offer features like virtual calling cards, single number calling, virtual transportation of telephones, number portability across various telcos etc. These areas offer very good opportunities for companies like Subex which have good research and development infrastructure and high quality technical teams with substantial domain knowledge.

Subex is also working in the Internet area and has invested substantially in different technologies like Voice over IP and Quality of Service. One can only imagine the potential of Voice over IP networks. When real Voice over IP becomes functional, the world really becomes smaller and smaller because of affordable communication costs between continents. As you are aware, the cost of sending an e-mail is same irrespective of the distance. Similarly when real VoIP networks come into existence the distance barriers will be broken and the cost of a call will remain same irrespective of the location. This will also enable people to use their PCs, telephones and video cameras attached to the local area network and data, voice and video will get merged into one and cost of communication will be considerably lesser than what subscribers pay today. So, to provide good quality of service, it is essential to have a good quality of service mechanism and Subex will be playing a key role in the area of Voice over IP and Quality of Service considering the huge potential.

Internet billing and IPDR processing are other areas where Subex will add considerable value to its' partners. The internet charging might change from charges based on the duration of usage to type of contents. This will be a very challenging task as the amount of data screened for billing will be very high.

Another area to provide high speed internet is a reliable fiber back bone. Subex has traditionally been very strong in the domain of Fiber Optics and Subex will be working with leading companies in Optical transmission. The areas like Wave Division Multiplexing, SONET and SDH will be more and more used to improve the bandwidth and reliability. Wave Division Multiplexing is being used to increase the capacity of the fiber many times by just changing optical line transmission equipment at the fibre terminations. Many companies are investing heavily on increasing the

bandwidth using this technology along with time division multiplexing .

With more companies entering the area with telecom networks and offering additional value added features, the fraud levels are increasing day by day. The operating margins of many companies are badly affected because of the high level of fraud. Subex will cater to the revenue assurance market with products which have now been accepted in the international market.

The Ranger will address frauds in wireless market and is expected to bring excellent returns for the investments made in the last few years. The new product through the acquisition of Magardi Inc., will address wireline fraud. These two products together will make Subex one of the leading players in the international market for addressing telecom frauds in both wireline and wireless. It is worth noting that these products have been designed to address the IP revolution which is slowly happening in the wireline and wireless markets.

A revenue assurance product for billing integrity check is also available through the acquisition of Magardi Inc. This product is expected bring in huge revenues in the coming years. Billing integrity check basically takes the data from Signalling System 7, links and compares it with the output of the billing system. It is estimated that many telcos are losing millions of dollars because of the malfunctioning or incapability of the existing billing systems and a product like this will increase the revenues on the operators manifold.

The E-commerce product eVantage has also been launched. This product is much better in terms of technology and user friendliness and will add much more value to the telcos where they can offer a high quality of service to their subscribers. This will help telcos to retain their customers.

The focus on these technologies will help the company to bag lucrative contracts and differentiate itself from the competitors.

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Alex J. Puthenchira
Executive Director

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