FORM A

Format of covering letter of the annual audit report to be filed with the stock exchanges

1	Name of the Company	Subex Limited
2	Annual standalone financial statements for the year ended	March 31, 2013
3	Type of Audit observation	~~Un-qualified~~ / Matters of Emphasis Paragraphs (a), (b), (c), (d) and (e) included under '**Emphasis of Matter**' paragraph in the Auditor's report, as follows : (a) We draw attention to Note 25 to the financial statements, as more fully explained therein, during the year the Company has in accordance with the Proposal approved by the Hon'ble High Court of Karnataka in prior years, debited amounts aggregating to Rs.1318.48 Lakhs (net) to the Business Restructuring Reserve, instead of recording such expenses for the year ended 31^{st} March, 2013, as required by Accounting Standard 5 'Net Profit or Loss for the Period, Prior Period Items'. **Note 25 : Accounting under the Proposal approved by the Hon'ble High court** a) During the year ending March 31, 2010, the shareholders of the Company approved the Board's proposal (hereinafter referred to as 'the Proposal' for transferring amounts from the Securities Premium and Capital Reserves as on or arising after April 1, 2009) (upto March 31, 2013) to a Business Restructuring Reserve (BRR) to be utilised from April 1, 2009 for certain Permitted Utilisations as mentioned in the Proposal. The Proposal was approved by the Hon'ble High court of Karnataka on May 4, 2010 and was registered with the Registrar of Companies on May 11, 2010, thereby completing all the requirements for the order to be effective. b) <u>Adjustments in the BRR during the previous year ended March 31, 2011</u> In accordance with the Proposal, the Board of Directors of the Company have approved the following for the financial year ended March 31, 2011: • Transfer of ₹ 17,400.00 Lakhs during the year from the balances in Securities Premium Account and Capital Reserve to the BRR, • Utilization of the BRR for permitted utilisations to the extent of ₹ 15,503.70 Lakhs (net). c) <u>Adjustments in the BRR during the previous year ended March 31, 2012</u>

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In accordance with the Proposal, the Board of Directors of the Company have approved the following for financial year ended March 31, 2012:

- Transfer of ₹ 346.69 Lakhs during the year from the balances in Capital Reserve to the BRR,
- Utilization of the BRR for permitted utilisations to the extent of ₹ 2,574.93 Lakhs (net of reversals).

d) Adjustments in the BRR during the current year ended March 31, 2013

In accordance with the Proposal, the Board of Directors of the Company have approved the following for financial year ended March 31, 2013:

- Transfer of ₹ 271.10 Lakhs during the year to Securities Premium.
- Towards FCCB restructuring expenses ₹ 359.58 Lakhs
- Towards reversal of unbilled revenue ₹ 206.00 Lakhs
- Towards provision for Receivables ₹ 752.90 Lakhs

e) Had the Proposal not provided for the above, the effect of accounting under the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956 would have been as under:

Amount in ₹ Lakhs except as otherwise indicated

In the Statement of Profit and loss.	March 31, 2013	March 31, 2012
Revenue would have been lower by:	**206.00**	-
The loss under Exceptional items would have been higher as follows:		
- One time non-recurring expenses including restructuring fees, advisory fees, marketing expenses and reversal of long term retention benefit plan (net)	359.58	2,574.93
- Provision towards trade receivables	752.90	-
Sub-Total	**1,112.48**	**2,574.93**
Profit / (loss) after Tax would have been lower/higher by	**1,318.48**	**2,574.93**
Basic Earnings / (Loss) per share would have been – ₹	**(3.50)**	**(3.37)**
Diluted Earnings / (Loss) per share would have been – ₹	**(3.50)**	**(3.37)**

(b) We draw attention to Note 39.9 (a) to the financial statements regarding treatment of the managerial remuneration paid in excess of the applicable limits under Schedule XIII of the Companies Act, 1956,

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			aggregating to Rs. 123.80 Lakhs. **Note 39.9**: (a) In view of the losses incurred by the Company during the year ended March 31, 2013, the excess of the managerial remuneration paid to the directors over the limits prescribed under Schedule XIII of the Companies Act, 1956 has been treated as monies due from the directors, being held by them in trust for the Company, and is included under 'Short-term loans and advances' amounting to ₹ 123.80 Lakhs.
		(c)	We draw attention to Note 36(d) to the financial statements regarding the service tax demand of Rs. 3607.60 Lakhs on import of certain services against which the Company has filed an appeal with the concerned authority. **Note 36: Contingent Liabilities** (d) The Company has received a demand of service tax of ₹. 3,607.60 lakhs and equivalent amount of penalties under the provisions of the Finance Act, 1994 along with the consequential interest, for the period from April, 2006 to July, 2009 towards service tax payable on import of certain services. The Company has filed an appeal contesting the demand before the Central Excise and Service Tax Appellate Tribunal (CESTAT), Bangalore. The company has also obtained a stay against the said demand on March 27, 2013. In view of the company, the demand is not sustainable. Further, the Company contends that in the event of the demand being upheld by the Appellate Authority, the Company is eligible to avail the service tax as input credit upon payment of the tax, excluding penalty and interest, if any.
		(d)	We draw attention to Note 26(b) to the financial statements, regarding the treatment of amounts due on the restructuring of the foreign currency convertible bonds based on legal advice. **Note 26 : Foreign Currency Convertible Bonds (FCCBs)** (b) Pursuant to the approval of the holders of "US$ 180 Million 2% convertible unsecured bonds",[of which US$ 39 Million was outstanding ("FCCBs I")] and "US$ 98.70 Million 5% convertible unsecured bonds", [of which US$ 54.80 was outstanding ("FCCBs II")], at their respective meetings held on July 5, 2012 and exchange offers received under the exchange offer memorandum dated June 13,

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		2012, holders of US$ 38 Million out of FCCBs I and US$ 53.40 Million out of FCCBs II offered their bonds for exchange and secured bonds with a face value of US$ 127.72 million ("FCCBs III") were issued with maturity date of July 7, 2017. The Company has been legally advised that there is no tax incidence arising from the above restructuring.
		(e) We draw attention to Note 39 (10) regarding the management's assessment that the amounts recoverable from one of its subsidiaries are good and that there is no diminution, other than temporary, in the carrying value of its investment in the said subsidiary and hence no provision has been made at this stage for the reasons stated therein. **Note 39 :** (10) During the year, the Company has rescheduled the terms of repayment of dues from its subsidiary viz. Subex Americas Inc., amounting to ₹ 15,599.00 Lakhs of trade receivables and ₹ 1,706.73 Lakhs of advances. In the opinion of the management, considering the future operational plans and cash flows, the said dues are considered good and recoverable. Further, based on the management's assessment, there is no diminution, other than temporary, in the carrying value of its investment in the said subsidiary of ₹ 12,495.74 Lakhs and accordingly, no provision is required to be made at this stage.
		The Companies (Auditors' Report) Order, 2003, (CARO) – Comment equivalent to Emphasis of Matter In the Annexure to the Auditors Report, included as per the Companies (Auditors' Report) Order, 2003, there is a reference under clause (ix) of the said Order as follows: (a) Other than Stamp duty dues, Provident Fund dues, withholding tax dues and Employees' State Insurance dues where there have been delays in remittances of such dues with the appropriate authority, the Company has generally been regular in depositing undisputed dues, including Investor Education and Protection Fund, Sales Tax, Wealth

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		Tax, Service Tax, Custom Duty, Excise Duty, Cess and other material statutory dues applicable to it with the appropriate authorities during the year. (b) There were no undisputed amounts payable in respect of Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty, Cess and other material statutory dues in arrears as at 31st March, 2013 for a period of more than six months from the date they became payable, except for Withholding tax dues (including interest thereon) of ₹ 73.60 Lakhs pertaining to earlier years and ₹ 3.06 Lakhs of current year. **Management Response :** a) Due to cash flow constraint there was delay in remitting the amount in (a) above but the same has been paid up by March 2013. b) We have at this point not remitted the shortfall in TDS on interest on FCCB amounting to ₹ 76.66 Lakhs due to cash flow constraints. However we endeavor to do the same at the earliest
	Frequency of observation	The matter referred to in paragraph (a) of the 'Emphasis of Matter' Paragraph of the Auditors Report is appearing since the year ended March 31, 2010, being the year in which the creation and utilization of the Business Restructuring Reserve (BRR) was approved by the Hon'ble High Court of Karnataka. The matters referred to in paragraphs (b) to (e) of the 'Emphasis of Matter' Paragraph of the Auditors Report are appearing for the first time. The matters related to delayed remittances of statutory liabilities in the Companies (Auditors' Report) Order, 2003 (CARO) is appearing for the first time.
	To be signed by : CEO / Managing Director and CEO	Surjeet Singh
	Audit Committee Chairman	Anil Singhvi
	CFO (Global Head – Finance, Legal and Company Secretary)	Ganesh K.V.
	Auditor of the Company	Refer to our Audit Report dated May 21, 2013 on the standalone financial statements of the Company For Deloitte Haskins & Sells Chartered Accountants (Reg. No. 008072S) Monisha Parikh, Partner (M. No. : 47840)

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FORM A

Format of covering letter of the annual audit report to be filed with the stock exchanges

1	Name of the Company	Subex Limited
2	Annual consolidated financial statements for the year ended	March 31, 2013
3	Type of Audit observation	~~Un-qualified~~ / Matters of Emphasis Paragraph (a), (b), (c), (d) and (e) included under '**Emphasis of Matter**' paragraph in the Auditor's report, as follows : (a) We draw attention to Note 24 to the consolidated financial statements, as more fully explained therein, during the year the Company has in accordance with the Proposal approved by the Hon'ble High Court of Karnataka in prior years, debited amounts aggregating to Rs.1318.48 Lakhs (net) to the Business Restructuring Reserve, instead of considering the same as expense for the year ended 31st March, 2013, as required by Accounting Standard 5 'Net Profit or Loss for the Period, Prior Period Items'. **Note 24 : Accounting under the Proposal approved by the Hon'ble High court** a) During the year ending March 31, 2010, the shareholders of the Company approved the Board's proposal (hereinafter referred to as 'the Proposal' for transferring amounts from the Securities Premium and Capital Reserves as on or arising after April 1, 2009 (upto March 31, 2013) to a Business Restructuring Reserve (BRR) to be utilised from April 1, 2009 for certain Permitted Utilisations as mentioned in the Proposal. The Proposal was approved by the Hon'ble High court of Karnataka on May 4, 2010 and was registered with the Registrar of Companies on May 11, 2010, thereby completing all the requirements for the order to be effective. b) Adjustments in the BRR during the previous year ended March 31, 2011 In accordance with the Proposal, the Board of Directors of the Company have approved the following for financial year ended March 31, 2011: • Transfer of ₹ 17,400.00 Lakhs during the year from the balances in Securities Premium Account and Capital Reserve to

		the BRR • Utilization of the BRR for permitted utilisations to the extent of ₹ 15,503.70 Lakhs (net) c) Adjustments in the BRR during the previous year ended March 31, 2012 In accordance with the Proposal, the Board of Directors of the Company have approved the following for financial year ended March 31, 2012: • Transfer of ₹ 346.74 Lakhs during the year from the balances in Capital Reserve to the BRR, • Reversals of the provisions to the BRR for an aggregate amount of ₹ 225.07 Lakhs (net of reversals). d) Adjustments in the BRR during the current year ended March 31, 2013 In accordance with the Proposal, the Board of Directors of the Company have approved the following for financial year ended March 31, 2013: • Transfer of ₹ 271.10 Lakhs during the year to Securities Premium. • Utilised for FCCB reconstruction ₹ 359.58 Lakhs • Provision for Unbilled Revenue created ₹ 206.00 Lakhs • Provision for Receivables created ₹ 752.90 Lakhs e) Had the Proposal not provided for the above, the effect of accounting under the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956 would have been as under: *Amount in ₹ Lakhs except as otherwise indicated*

In the Statement of Profit and loss.	March 31, 2013	March 31, 2012
Revenue would have been lower by:	**958.90**	-
The loss under Exceptional items would have been higher as follows:		
One time non-recurring expenses including restructuring fees, advisory fees, marketing expenses and reversal of long term retention benefit plan (net)	359.58	225.07
Sub-Total	**359.58**	**225.07**

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Profit / (loss) after Tax would have been lower/higher by	1,318.48	225.07
Basic Earnings / (Loss) per share would have been – ₹	(5.36)	4.92
Diluted Earnings / (Loss) per share would have been – ₹	(5.36)	4.91

(b) We draw attention to Note 37.8 (a) to the consolidated financial statements regarding treatment of the managerial remuneration paid in excess of the applicable limits under Schedule XIII of the Companies Act, 1956, aggregating to Rs. 123.80 Lakhs.

Note 37.8:
(a) In view of the losses incurred by the Company during the year ended March 31, 2013, the excess of the managerial remuneration paid to the directors over the limits prescribed under Schedule XIII of the Companies Act, 1956 has been treated as monies due from the directors, being held by them in trust for the Company, and is included under 'Short-term loans and advances' amounting to ₹ 123.80 Lakhs.

(c) We draw attention to Note 35(c) to the consolidated financial statements regarding the service tax demand of Rs. 3607.60 Lakhs on import of certain services against which the Company has filed an appeal with the concerned authority.

Note 35: Contingent Liabilities
(c) The Company has received a demand of service tax of ₹. 3,607.60 lakhs and equivalent amount of penalties under the provisions of the Finance Act, 1994 along with the consequential interest, for the period from April, 2006 to July, 2009 towards service tax payable on import of certain services. The Company has filed an appeal contesting the demand before the Central Excise and Service Tax Appellate Tribunal (CESTAT), Bangalore. The company has also obtained a stay against the said demand on March 27, 2013. In view of the company, the demand is not sustainable. Further, the Company contends that in the event of the demand being upheld by the Appellate Authority, the Company is eligible to avail the service tax as input credit upon payment of the tax, excluding penalty and interest, if any.

(d) We draw attention to Note 25(b) to the consolidated financial statements, regarding the treatment of amounts due on the restructuring of the foreign currency

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		convertible bonds based on legal advice. **Note 25 : Foreign Currency Convertible Bonds (FCCBs)** (b) Pursuant to the approval of the holders of "US$ 180 Million 2% convertible unsecured bonds",[of which US$ 39 Million was outstanding ("FCCBs I")] and "US$ 98.70 Million 5% convertible unsecured bonds", [of which US$ 54.80 was outstanding ("FCCBs II")], at their respective meetings held on July 5, 2012 and exchange offers received under the exchange offer memorandum dated June 13, 2012, holders of US$ 38 Million out of FCCBs I and US$ 53.40 Million out of FCCBs II offered their bonds for exchange and secured bonds with a face value of US$ 127.72 million ("FCCBs III") were issued with maturity date of July 7, 2017. The Company has been legally advised that there is no tax incidence arising from the above restructuring.
		(e) We draw attention to Note 38 regarding the management's assessment that the goodwill arising from the consolidation of one of its subsidiaries is not impaired and hence no provision has been made at this stage for the reasons stated therein. **Note 38** : During the year, the Company has assessed the carrying value of goodwill arising from its investment in its subsidiary viz Subex Americas Inc, amounting to ₹ 18,606.00 Lakhs. Based on management's assessment there is no impairment of goodwill taking into account the future operational plans and cash flows as prepared by the management and accordingly no impairment loss is required to be recognized at this stage.
4	Frequency of observation	The matter referred to in paragraph (a) of the '**Emphasis of Matter**' Paragraph of the Auditors Report is appearing since the year ended March 31, 2010, being the year in which the creation and utilization of the Business Restructuring Reserve (BRR) was approved by the Hon'ble High Court of Karnataka.

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		The matters referred to in paragraphs (b) to (e) of the the '**Emphasis of Matter**' Paragraph of the Auditors Report are appearing for the first time.
5	To be signed by: CEO / Managing Director and CEO	Surjeet Singh
	Audit Committee Chairman	Anil Singhvi
	CFO (Global Head – Finance, Legal and Company Secretary)	Ganesh K.V.
	Auditor of the Company	Refer to our Audit Report dated May 21, 2013 on the consolidated financial statements of the Company For Deloitte Haskins & Sells Chartered Accountants (Reg. No. 008072S) Monisha Parikh, Partner (M. No. : 47840)

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