

THE ECONOMICS OF EXPERTISE

Annual Report 2003-2004

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power of precision

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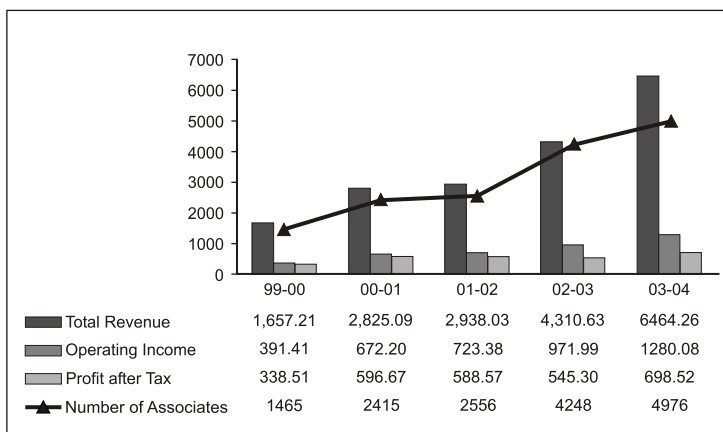
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Financial Facts from India's
5000+ strong
IT Company

FINANCIAL HIGHLIGHTS



POLARIS SOFTWARE GROUP

Financial Highlights

For the Year	99-00	00-01	01-02	02-03	(in Rs. Million) 03-04
Total Revenue	1,657.21	2,825.09	2,938.03	4,310.63	6,464.26
Operating Income	391.41	672.20	723.38	971.99	1,280.08
Profit after Tax	338.51	596.67	588.57	545.30	698.52

At the Year end

Total Fixed Assets	276.88	555.78	876.35	1829.12	2011.30
Shareholder Equity	1356.92	1900.52	2388.90	4334.90	4904.00
Number of Shares					
Outstanding of Rs. 5 each	34.12	34.12	51.19 *	97.35 **	97.70
Earnings Per Share-Basic	9.92	17.49	11.50	7.76	7.17
Dividend %	30%	30%	35%	35%	35%
Number of Associates #	1465	2415	2556	4248	4976

* - Bonus Issue of 1:2

** - Orbitech Solutions and Polaris Software Lab Merger

- Employees at Polaris are called Associates

LETTER TO SHAREHOLDERS

Dear Shareholders,

Writing a letter to you at the end of each year is an opportunity for me to reflect on what has happened during the year that has flown by so quickly. In the few pages available here to me, it is obviously difficult to share, in any detail, what more than 5000 associates have contributed, to build on the dream and vision of Polaris, and encapsulate their expertise into repeatable problem solving for the customer. Therefore, my attempt here is to stitch together the events that happened during our journey that helped build the global corporation.

We started our journey in 1997 based on the fundamental hypothesis that Polaris can add more value to our customers by knowing 'how our customers (banking, financial and insurance institutions) delight their customers by offering the right solutions at the right time using technology as a base or enabling platform'. Obviously, for this, we needed lots of knowledge and expertise and a clear view of our customers' business. We also had to deal with the so called 'risk' of remaining narrowly focused in one vertical market space, while the rest of the industry was seeing the opportunity in general technology services and especially in the red hot market of Y2K. Our belief was that, in a crowded market, the customer would give preference to expertise in business domain over quantity of technology resources.

That Polaris grew at a CAGR of more than 70% since 1997 validates our belief and hypothesis. From 1997 to 2000, Polaris grew to 1,000 professionals from just a 200 people organization and then in the last 4 years, we crossed the 5,000 professionals mark, with presence in all global financial capitals. We were able to service 5 out of the top 10 leaders among the financial and insurance institutions in the world. During this period, we built 6 expertise-based Software Engineering Centers, having sharp focus on retail banking solutions, investment banking solutions, wholesale banking solutions, insurance solutions and enterprise solutions. Four years ago, we began making investments in building Intellectual Property Rights (IPRs), and then, 24 months ago, we acquired the rights from Citigroup for solutions in areas of credit card processing, retail banking, lending and mortgage processing, cash management and a host of corporate banking areas. Taking the IPRs from the leaders, that too built on the latest technology gives us strong global functionality to be offered to the marketplace. The intellectual properties of Polaris have been created and delivered to market by a separate division called Intellect, and we recently launched the entire suite under the brand name of Intellect.

In parallel, we are building competencies & capacities to deliver end-to-end business process outsourcing capabilities in niche spaces through our fully owned subsidiary - Optimus. Thus, we are in the process of building a 'one-stop super mall' for financial industry solutions.

As an organization, we need to build a wholesome framework for growth. On one side, we need to build the foundational framework around four key stakeholders of Polaris, namely our customers, employees (at Polaris, associates), investors and society. During the last 5 years, we worked on all the four blocks and our efforts were recognized along the way. In October 2001, we became the World's First CMMi Level 5 Company, ensuring high quality and predictable delivery for our customers. We were chosen as one of the Best Employers by the BT Hewitt Associates Survey in 2002. Our products and framework got the Banker's Award during 2003. Polaris associates were recognized for their commitment to Ullas Trust with the Mother Teresa Corporate Citizenship award. The Company Secretaries of India has chosen us among the top 25 companies in India for best practices and corporate governance.

I want to touch upon why the phrase 'economics of expertise'.

Economics is defined as the science of production, consumption and distribution of goods and services. With the good brand name developed by the Indian IT industry on the global world map, it becomes imperative to move from the cost arbitrage model to a customer value-creation business model. For this transformation, the organization has to build new paradigms of knowledge management, customer business changes understanding, and finally, ensure that we deliver what we are communicating. Nalanda, the corporate university at Polaris, has built certification programs around expertise. We started this initiative 3 years ago. Now Polaris has more than 75 PMP certified project managers, certified by the Project Management Institute of the US, and 329 Nalanda certified project managers. We have 16 Certified Function Point Specialists, out of only about 500 across the globe. Nalanda is now building programs in areas of Certified Banking domain specialists like Certified Credit Card Specialists, Certified Cash Management Specialists, Certified Core Banking Experts, Certified Lending Experts, and so on. We are building these sets of expertise to cater to the well-distributed business portfolio of Polaris: North America, Europe, and Asia Pacific, and to position Polaris among the expert companies from India.

Our announced strategy of 100-5-7, i.e., 100 relationships, 5 Customer values and 7 operational levers, is now proving itself very well in the marketplace. We will focus, in the next 3 years, on building not more than 100 relationships, which means we will create

more value for existing customers and win a larger share of their business. We all know that the customer looks for cost, quality and reliability as three fundamental values from any vendor, but in today's economics of our customers' business, Time to Market and Flexibility become equally important, and we have designed the organization around these five customer values.

To deliver higher throughput to the same dollar spent – we have organized ourselves around 7 levers which every consultant of Polaris must reflect – reusability, technology best practices, business best practices, software development life cycle (SDLC) best practices, customer market place best practices, tools and finally the energy of the people. The energy of a consultant is a direct extrapolation of his motivation, commitment, creativity and confidence.

At this point in 2004, we have completed a significant part of the foundational work in positioning Polaris on the global map and the market has started responding, as we see in our recent successes. We believe we are on the threshold of the next growth phase, which will be based on building higher growth margins using the principle of Economics of Expertise, in the coming 12 quarters. I am sure the coming quarters will be a time filled with excitement and fun, when we will be marching together as a force to reckon with in the Financial Technology market space.

Looking forward to your unflinching support in the coming years, as you have given during our journey of building the foundation.

With best regards



*Arun Jain
CEO
Chairman & Managing Director*

Chennai, May 19, 2004.

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Preface



The past year has been a remarkable journey of learning and discovery at Polaris. With a tremendous amount of energy being spent on building trust, empowering leadership and integrating the organization, the focus over the last 12 months has been on the creation of a strong foundation on which the new Polaris can be built.

The historic merger successfully implemented, Polaris began to train its efforts on managing its resources efficiently, enhancing productivity and striving to deliver more to its customers and shareholders, thereby creating an organization and a brand that will eventually rule the BFSI space.

Having realized that the OrbiOne suite of products had tremendous potential, teams of technology and domain experts at Polaris have worked over the past 18 months on transforming the OrbiOne framework. The aim was to create a holistic suite that enhanced OrbiOne's features and positioned it for a global market. Thus was born Intellect Suite, designed to usher in a new era of 'boundaryless' banking technology applications.

With the products division poised for substantial growth over the next financial year, the aim will be to sustain and further build on Intellect Suite, thereby creating a product that is more comprehensive and adaptable and which could prove competitive not only in Asia, but also in the European & US markets.

With Intellect Suite as its trump card to position Polaris aggressively in the products space and with continued accelerated growth and profitability in the services business, Polaris aims to develop and leverage a unique combination of a products and services revenue model. This committed and single-minded pursuit of a products-driven strategy and the eventual emergence of services-based product architecture in the marketplace will only go on to strengthen Polaris' presence in the global BFSI industry.

This annual report seeks to document the rationale behind the newfound focus on product development, briefly explain the role that will be played by the enhanced product suite and see how all of this fits into the idea of a stronger, more focused Polaris.

Chapter 1 gives you an insight into the economic impact of expertise, focusing on Polaris' initiatives to empower the global and Indian marketplace with BFSI products.

Chapter 2 defines the trends and role of technology in banking and how Polaris is gearing up to deliver optimum value to customer, through innovative products and packages.

Chapter 3 summarizes the transition phase of the IT industry. It dwells on the strategic role Polaris is poised to play as the technology partner of clients through its unique ENTITY model.

Chapter 4 takes you through an all-important element of Polaris' corporate agenda. People. It traces the innovative, integrated approach Polaris is evolving to enable each associate and drive business performance.

Chapter 5 explores the stellar role of the Polaris Ombudsman in resolving contentious issues in the workplace and instilling confidence in its people.

Chapter 6 shows you the human face of Polaris and its unstinted commitment to the lesser privileged. The chapter unfolds details on the realization of a dream called Ullas.

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Chapter 1

The Economics of Expertise

Focus on BFSI

As is the case with other competitive sectors, technology is transforming the very nature of the financial services industry too. The Internet is dictating new paradigms on how, where and when the world invests. New delivery channels are being introduced and while settlement times are shrinking, customer expectations continue to rise. To gain an edge in today's highly competitive financial services industry, customers have realized that quick and effective service related software solutions make all the difference. The need is for an experienced solution provider to effectively combine speed and efficiency to deliver customised solutions that are a cut above.

Polaris' sharp focus on the BFSI sector has been its differentiator and has helped the organization carve a niche for itself in the global IT solutions marketplace. Since inception, Polaris has been providing solutions for the banking, financial services and insurance (BFSI) industries and has chosen to retain a sharp focus on the BFSI sector through best people, best infrastructure and best processes to support complete offshorability of projects.

Unofficially credited with coining the term 'BFSI', Polaris today boasts of the domain expertise to cater to all segments of banking -- credit cards, retail banking, investment banking (portfolio management, mutual funds and custodial services), wealth management, wholesale banking-- as well as life and non-life insurance.

With the focus so far having been on the overseas market, Polaris is now looking at developing BFSI related products for the Indian market. Given that the Indian banking and financial services industry has specific requirements in terms of costs, the aim is to develop India-specific financial



Polaris Software Lab, India is our primary development partner for the development of our new generation banking product – Global Banking System (GBS), in a multi vendor, multi location environment. NEC was associated with Polaris for close to four years in the development of GBS. We appreciate Polaris for their consistent good effort in developing a world class product...

- Ken Masanori, Project Director, NEC Solutions

technology products. Take credit cards in India, for example – as more and more Indian banks provide credit cards to their customers, with increased emphasis on technology, there exists a huge potential waiting to be exploited.

Products & IPRs

The IT solutions market can be split up into four broad segments - products, product-led solutions, IT services and transaction back-offices. There are a few companies in the products segment, but most operate only in the IT services segment. These companies are now trying to enter the IP (intellectual property/patents) services area, but their presence in the products segment is limited. Polaris has an edge with the induction of OrbiOne products into its portfolio. We have added new dimensions to our BFSI focus by partnering with key technology players and complementary solutions providers. The product suite comprises 57 saleable GeneS (Generalised Systems), developed and used within Citigroup during the last 10 years. Extending this basket of offerings into the operations side, we have established Optimus, which will focus on solutions for banking operations. Polaris is the only company to have IPRs in the products business and that too 57 of them. We see significant leveraging of the 57 IPRs (Intellectual Property Rights) of the OrbiOne product framework, and the IP-led solutions business driving future business revenues. This helps in supplementing revenues from our strong software services business. So, we are set firmly on the path to evolving much faster into an IP solutions and products company, where margins are higher.

But more change is on the anvil. For the last 18 months, dedicated teams of technology and domain experts at Polaris have worked on transforming the OrbiOne framework into a holistic suite, further enhancing its features and positioning it for global customers.

For most banks, the current systems environment is quite complex, with many databases and disconnected data silos. As a response, banks are increasingly moving toward Service Oriented Architecture in the way IT applications are designed and built. The new product suite will be designed and built in a manner closely related to the concept of Service Oriented Architecture. The numerous business processes that underlie the various banking functions are encapsulated through the thoughtfully designed GeneS. Several GeneS come together to form an application for a line of business or part of it. There are currently over fifty GeneS that can be put together in very many combinations to become varied banking functional platforms within the suite.

Premium via Expertise

18 focused years in the financial services industry have given Polaris a clear advantage:

- Over 2000 financial services projects
- A strong team of domain specialists – in fact Polaris has a large number of bankers as its employees
- A stellar client list that includes some of the biggest and the best in the financial services industry

And 57 IPRs in the products business gives to Polaris the domain expertise, as to no one else. This expertise has resulted in Polaris being able to command a premium for its services and solutions in the BFSI sector. After all expertise in this area is not what everyone has. Customers worldwide have recognized that Polaris is not just instrumental in developing superior human resources but also providing incredible value addition in terms of banking software consultation. Due to our domain expertise we are in a position to realize organizations' dreams of quick go-to-market products.

The Economics of Expertise

Expertise has its own economics - not the economics of cost arbitrage, or of utilization rates of people, but the economics of investment in intellectual assets, building brands for the long run, and the creation of intangibles. So what has this prudent combination of well-planned investments and our domain expertise translated into? Recognition as experts and hence repeat projects. Premium rates and hence higher margins – and these returns are not just in the short term. All of this not only translates into healthy bottom lines but also results in good wealth creation for our stakeholders over a long period in the future. In this area of business, expertise is a characteristic that every customer is looking for and Polaris has it in abundance. The economic impact of expertise, therefore, has far-reaching and long lasting consequences.

The author, Ashok Korwar, is Strategic Advisor to Polaris



Chapter 2

Trends in Banking Technology

The banking and financial services industry's focus has a tendency to change in a cyclical manner.

With a limited number of available dimensions through which to increase shareholder value, attention tends to shift periodically between strategies to improve operational efficiency, strengthen customer relationships and provide new and innovative banking products.

Add to that the increasing pressure created by the combined effect of increased competition resulting from de-regulation of markets and determined efforts by the regulators to introduce new regulations to reduce the impact of this competitive environment on individuals, businesses and the stability of the market as a whole - and the result is clear. There is a definite need for prioritization.

In reality very few financial services organizations have the ability or positioning to focus on only one of these dimensions and most seek to optimize the impact of investments in each area over a period of time.

So what role can technology play in assisting financial services institutions with optimizing each of these dimensions of the overall customer value proposition?

Customer relationships


After a sustained effort to improve operational efficiency and reduce costs it would appear that many financial services organizations have once again recognized the importance of superior service as the basis for building long-term and profitable customer relationships, in a world where banking products are increasingly seen as commodities.

Lessons learned from earlier investments in electronic channels and Customer Relationship Management are influencing new customer-focused strategies.



Just as in life, so is the case for companies, that 'there are tides which when taken on high lead to great fortunes'. Polaris finds itself today on the threshold of such a tide called 'Intellect'.

- Jaideep Billa, Senior Vice President



Evidence of this re-discovery of the value of customer relationships can be seen in renewed investment in branch infrastructures in retail banking and the application of CRM and portal technologies to the management of corporate banking relationships.

Some of the investments in CRM have yet to provide the promised payback and it is becoming clear that gradual organizational change supported by technology may be a more effective approach.

The emergence of multi-channel architectures which provide a framework for ensuring more consistent customer interactions and reducing the overheads associated with the duplication of business logic across different distribution channels are starting to show clear results.

As a result Polaris has built up significant expertise in the introduction of multi-channel solutions in combination with industry-leading CRM products.

Product innovation

In a financial services world where most banking products are commodities which by themselves do not provide competitive differentiation, the search for innovative new offerings which attract new customers is a significant element of the strategies of some new market entrants.

In retail banking this has resulted in significant innovation in terms of lending products and the concepts of ‘bundling’ and ‘relationship pricing’.

Unfortunately many existing core and lending systems are simply not capable of being modified quickly enough to bring these new offerings to market quickly in response to such competitive threats.

Similarly in corporate banking a renewed focus on retaining existing corporate customers combined with significant changes in the world’s international payments

Your service to us has been excellent. A real model for how Polaris can maintain mainframe systems.

- Kevin Bonar, Head of Technology, CPB Zurich

infrastructure is fuelling innovative thinking towards sophisticated and increasingly real-time cash management services.

Polaris, through its involvement in such innovative projects, has an evolved set of products which addresses both lending and cash management requirements.

Operational efficiency

Operational efficiency is increasingly seen as the way to gain competitive advantage through superior processes.

However, synergies can be difficult to achieve across an organization and systems environment that has evolved over time into a typical 'stovepipe' or 'silo-based' model.

The situation is further complicated by the need to work more and more with partners who provide some of the new products which are constantly being added to the overall product portfolio offered to customers.

And yet workflow and process flow technologies are becoming available, which when combined with a line of business applications or core systems and systems of partners which have been opened up, can start to achieve much improved Straight Through Processing and much higher rates of management by exception processing.

Precisely such a process flow engine has long been at the heart of the Polaris product strategy, which is focused on the ability to add new capabilities to existing systems.

Do more with less...

Recent years have seen some dramatic changes in the way the cost of information technology is viewed by bankers who now insist on a sound business case for investment. The motto is increasingly 'do more with less' whilst seeking to align the IT function with the overall business objectives.

The IT outsourcing trend which started as a move primarily aimed at reducing costs and then progressed to a recognition of the need for flexible and large-scale development capacity has now started to value the commitment to quality and professionalism which these new long-term relationships have engendered.

Having witnessed the success of packaged universal banking applications in international branch operations and emerging markets in the 70's and 80's followed by the confirmation that the best of breed systems can be relied on for certain peripheral or departmental domestic banking operations in the 90's, the realization has started to set in that core system replacement at the heart of the largest financial services is now a growing necessity.

After all, it is difficult to argue when looking at a business case for technology investment, that building banking systems in-house as opposed to buying proven software components from specialist organizations makes sense for even the world's largest financial services organizations.

Unfortunately, the need for a very close fit to requirements and concerns about the difficulty of tightly integrating monolithic 'best of breed' or 'universal banking' applications within an existing systems landscape, has so far tended to check this growing trend towards buying rather than in-house building of core banking systems.

In fact, Celent, in a report published in 2003 entitled Core Banking Replacement Strategies – The Time Has Come, whilst commenting on the 80s and 90s, remarked...

...we are not aware of any top-100 bank in the world that successfully moved its core banking applications onto a new platform during that period...

This is where the coming together of large scale professional IT services capacity with a new standards-based approach to the integration of software components within an existing architecture is likely to have a significant impact on the industry.

At Polaris we have a deep understanding of this need, derived from our long-term and successful relationships and associated learnings with some of the largest financial services organizations in the world.

Our positioning of the Intellect Suite of retail and corporate banking GeneS within an overall Services Oriented Architecture reflects that understanding.



Koen Vanden Brande, the author of this article, is President, Products Group

The Product Group



Tarachand Dethe
*Product Engineering
Group*



N. Suriya Narayanan
*Architecture & Design
Group*



Prem Tilak Iyer
*Product Rollout
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CASE STUDY

1

The 'Bank of the Year 2003 for Japan'* uses OrbiOne Lending.

Creating the Competitive Edge

The Client

The client, a large Japanese bank, is the 8th largest in Japan by capital size and 10th by asset size as per The Banker magazine. Globally, it is the 75th ranked bank by capital and 135th by asset size.

FinanceAsia ranked the bank as #20 in the Top 200 Asian Banks Survey (published in August 2002), and the Fitch Bank ratings agency declared that this bank's "capital is superior in both quantity and quality to all of the major Japanese banks."

The Business Need

The client was looking for a quick and smart loan system. The capability of the new loan system should have been able meet the growth in business and propel the client to the top slot in the global banking arena.

The client was servicing multiple loan portfolios each containing unique functionalities. These portfolios were running in different legacy systems and the cost of maintenance of such systems was very high.

The challenge was to integrate these different legacy-lending applications running in different pieces into a single comprehensive next-generation lending system.

*[*Chosen by The Banker Magazine, UK]*

The client was looking for an effective lending solution where the turnaround time required for launching new products or servicing a newly acquired portfolio was minimal. They were also looking for a lending product where products could be launched on the fly.

Obtaining of MIS reports for various portfolios from existing disparate systems was quite an arduous task for the bank. The client was looking for a comprehensive lending system, which had the ability to cater to its MIS requirements.

So what makes a leading Japanese bank look to Polaris for their lending requirements?

The Solution

In order to effectively address the challenges faced by the bank, Polaris proposed its flagship OrbiOne Lending Suite to the client. The OrbiOne Lending Suite is a complete solution for automating loan product programs for corporate, retail banks and other financial institutions.

OrbiOne Lending can cater to the entire life cycle of a loan including the loan origination process, processing, maintenance, collection and closure of a loan.

OrbiOne Lending offers unlimited product innovation. Currently around 50 templates with more than 9000 loan product combinations and more than 100,000 specific loan product combinations are available in the system. The system also has the capability of providing easy and scalable product definitions.

The product is built on an open system platform with a scalable architecture and is inherently capable of being integrated with any third party application.

Apart from the above some of the other key features include Maker-Authorizer for all transactions, flexible report generation tool, web enabled system and 24X7 availability for transaction input irrespective of batch runs.

Implementation Approach

The primary objective focused on in this approach was to minimize the time required for conversion from legacy systems coupled with reduction in customization cost for the client. The approach encompassed the following major points:

- Conversion covering Data mapping and ABR.
- Data Recon and parallel run with recon data.
- Identification and recording of gaps post parallel run.
- Presentation of the gaps to the bank management.
- Product customization, testing and base lining.
- Implement customized OrbiOne Lending.
- Sunset the legacy system & make OrbiOne Lending live.

Key Business Benefits

Improved Productivity by integrating back office operations across various portfolios through a single lending suite that covers comprehensive loan life cycle management.

Competitive Edge through ability to launch new products on the fly, thereby empowering the bank to get an edge over its rivals. Great reduction of lead-time required for “Time to Market” new products offered by them.

Parameterized Functionality, automated workflow, flexibility of configuration thereby delivering superior operational efficiency are hallmarks of OrbiOne Lending.

OrbiOne Lending is a truly global system and offers multi currency, multi lingual and multi channel capabilities.

Integration with multiple General Ledgers conforming to different accounting standards is offered by OrbiOne Lending. This is made feasible by providing configurable and event driven accounting along with customizable data feeds.

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Chapter 3

The Growth of IT Services

IT Services

The performance of the Indian software and services industry over the past year has once again demonstrated the immense value that the industry is providing to the global institutions in terms of quality, productivity and reliability. Despite several challenges like reduced global IT spends or the appreciation of the Indian rupee, the Indian software and services industry, with its competitiveness and professional service quality, has been able to sustain its growth momentum and consolidate its relationships with the customers.

According to NASSCOM, “The Indian IT industry is among the top 10 industries in India. The industry is witnessing a transition phase and evolving in terms of delivery models, service offerings, industry composition and market. The year ahead is expected to witness an increase in the number of million dollar customers and mid-to-large sized deals flowing into the country.” Indian IT services registered a growth of 25% during the year!

Polaris finds itself at the forefront of this churn, with our IT services having performed by and large in line with the industry benchmarks. The IT Services group, for long the stable and dependable business of Polaris, has witnessed an appreciable growth in the number of projects executed over the past year. Polaris undertook some key strategic initiatives to enrich and enhance the services business. The aim has been to differentiate the enhanced value proposition and bring the new experience to our customers. For geographies like Europe where language and local contact are some of the key issues, Polaris implemented several regional initiatives. The goal for the IT services group is to innovate and improve continuously and to provide specialized IT services to our customers that are increasingly better, faster and cost effective.

A Look Ahead

- Enrichment of Service Offerings with the integration of tools and improved methodologies



The Polaris business principles of focused expertise, nurturing relationships and innovating to succeed have added value and greatly benefited our clients in the BFSI domain. Leveraging this expertise and singular focus we can now extend value added Business Process Outsourcing (BPO) services and through a partnering approach enable our clients to realize the true benefits of process outsourcing.

- Uma Krishnan, COO, Optimus



After a year of significant wins & strategic partnerships in Western & Central Europe, EuroPolaris is rightly poised to exploit the opportunities imminent with the expansion of European Union.

- Vijay R. Narasimhan, Senior Vice President

- Expansion of IP-led Solutions Portfolio with a commitment to reduce the deployment time dramatically
- Growth of BPO services to create a value proposition to reduce the total cost to company
- Global Delivery Center in China with a view to provide long term ability to provide cost effective solutions as well as continuity of service

Polaris IT Services

The breadth of Polaris' service offerings, ranging from business consulting through IT consulting, business transformation services, to outsourcing services, is unique and compelling to clients looking for a partner.

IT Services business at Polaris is geographically diversified, thus isolating it from any regional/local implications. The services group is the flywheel for Polaris; it represents about 85 percent of total revenues.

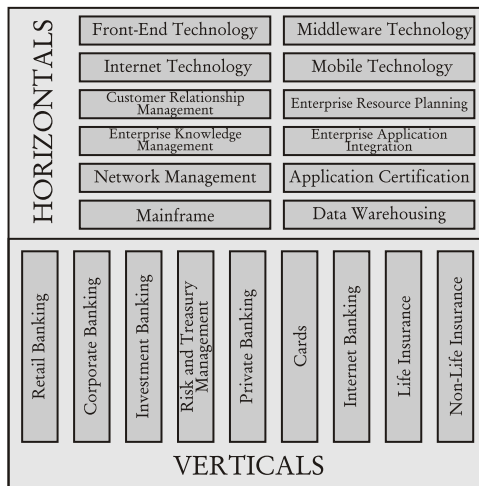
Polaris' service arm has a very strong overall portfolio of services that is only consolidated by a focused IT consulting force. The global presence of the company, its myriad services offerings and the growing recognition of the brand name, all contribute to the impressive growth.

Polaris' services offerings encompass

- Application Development
- Reengineering
- Maintenance
- Solution Integration
- Global Deployment
- Application Certification
- Business Consulting

The Expertise Factor

Polaris has maintained an unwavering focus on BFSI segment since inception and has wide ranging experience in all aspects of IT Services for the BFSI segment. Polaris’ strength is its horizontal (all technologies) broad base and vertical (domain - BFSI) focus. Our focus on the financial domain has helped us in evolving service methodologies to deliver the best of breed technology solutions to meet the ever-changing needs of the financial industry. This, in turn helps our clients stay at the forefront of innovation while achieving their performance goals.



Dedicated ‘Centers of Excellence’ (COE) have been set up to address the design and solution architecting needs of our clients across the globe. Treasury, Mortgage, CRM, Insurance, Application Certification, Securities, Risk Management and Wealth Management are some of the COEs where extensive R&D work is ongoing to ensure that our clients enjoy a technological edge through state-of-the-art services.

I was personally very impressed with the results of the programming done for the Ibbotson Model Cases. While it is true that the users had to change their approach a little, the changes were necessary to respond to the business situations and do not cast any reflection on the result of the work delivered this first go-around. I knew that they could pull something off quickly. They didn't let me down!

- Maryann Moffit - Sr. Systems Analyst, NaviSys Project

Delivery & Quality Processes

Polaris has proven capabilities in successfully managing offshore development centers including outsourcing projects through its unique engagement model - ENTITY (ExteNded Technology facIlITY). The core of ENTITY is a long-term relationship with the client. An 18 year-long relationship with Citigroup is proof of success of this robust outsourcing methodology.

Polaris has till date set up over 20 offshore development centers for various prestigious clients across the globe.

The Offshore Development Centre (ODC) is structured in terms of ease of operation and ownership. It meets the objectives of the Clients in terms of virtual ownership of the ODC, without the attendant problems of management.

ENTITY

ENTITY enables Polaris to be the 'nth floor' of the client and hence the extended development organization. Polaris as the Technology Partner of its clients, facilitates the clients' businesses and enables the clients to focus on their core activities.

The advantages of the ENTITY model are operational efficiency, cost savings, training and strategic advantage.

Polaris deploys several software development methodologies to deliver various services. Polaris is the world's first SEI CMMi Level 5 company. All our development processes are governed by CMMi Level 5 norms. Our quality systems are continuously and successfully audited periodically. This reflects the precision with which each and every layer of complexity in the development process is attended to.

As a result of the stringent quality systems, Polaris has over 99.7% compliance with service level agreements (SLAs) for the critical support services and a track record of over 95% adherence to schedules.

Quality Human Capital and Training Practices

Polaris employs more than 5000 services professionals worldwide. Polaris today is attractive as an employer. It has one of the strongest management training programs in the industry and continues to invest heavily in the education and training of its personnel. The company also continues to enjoy a very strong reputation for the level of investment and training it commits in the areas of sales, marketing, relationship management and project delivery.

The Polaris Edge

Polaris' edge over competition arises from the following benefits that it brings to its customer community:

- Laser Beam focus on Financial Services
- Width and Depth of domain and technology competence
- Time Tested Outsourcing Methodology
- Strong Process and Quality Orientation
- Proven Track record with Fortune 500 clients
- Global Delivery Excellence

*This article is by Govind Singhal,
Executive Director and President, Services Group*



Software Engineering Centers

SEC 1 - Chennai



Gopal Shrikanth



Bharath N.



Naresh Ramamurti



Segar D.

Centers of Excellence: Enterprise Application Integration, Customer Relationship Management, Business Intelligence / Data Warehousing, Lending & Mortgage

SEC 2 - Chennai



Manoj Kumar



A. Rengarajan

Center of Excellence: Retail Banking

SEC 3 - Chennai



Jaideep Billa



M.R. Ravichandran



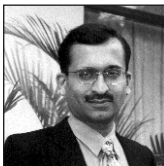
T.M. Natarajan



V. Lalitha

Centers of Excellence: Insurance, Application Certification & Testing, .NET, Retail Payments

SEC 4 - Hyderabad



Kedarnath Udiyavar



Ganapathy B.K.



Sunil Vasant Rao

Centers of Excellence: Treasury, Wealth Managements, Securities

SEC 5 - Mumbai



Aruna Rao



Mahendra Negi



Manoj Saxena



Uppilli Srinivasan



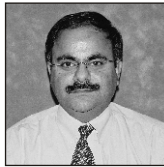
Venkatesh Srinivasan

Centers of Excellence: Services Cash Management & Trade Finance, Information Security, Imaging and Workflow, Risk Management, Internet Banking

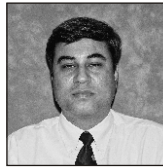
SEC 6 - Delhi



Aruna Kashinath



Hitesh Arora



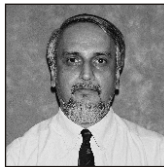
Vikas Misra



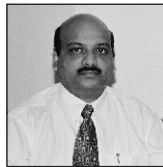
Ashok Gaur



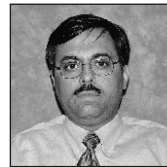
Dipak Bishnoi



Govind Joglekar



Praveen Saxena



Rajiv Arora

Centers of Excellence: Investment Banking, IBM, Enterprise Resource Planning

CASE STUDY

2

*Trade Business management
end-to-end*

Building a Global Trade Finance Framework

The Challenge

The client's overriding goal was to manage its trade (letters of credit and payments) business end-to-end. 'End-to-end' management had two implications in this context. One was the ability to acquire a truly global transactional and informational view of import and export trade operations in a timely manner. The second implication was the ability to expand market share by capturing more of the business at both the import and export ends of the trade business transactions. A consistent product worldwide would be another good reason for multinational corporate customers to choose the client bank for both ends of a trade transaction.

Only around 20% of the bank's export credit business and 35% of its import credit business was 'end-to-end' i.e. with the client bank acting as both issuing and advising bank for the letters of credit. The remainder presented a significant business opportunity.

Operational & Technical Challenges

The bank's ability to capture the increased revenue potential of end-to-end management was hampered by the multiplicity of systems, applications and databases involved in transactions. The bank used three different systems for trade transactions. Import credit operations were further fragmented by local variations in the implementation of the legacy system. End-to-end management required an import / export product that spanned geographical boundaries, while continuing to meet specific regional needs.

There was also a need for timely interaction between front office service providers who interface with customers and those involved in actual processing of a transaction, by placing import / export trade processing close to the customer to

better deal with language and local trade practice differences. On the other hand, adding trade processing at branch locations led to uneven product delivery and staffing.

The Solution

Operational Component

The client visualized regional processing centers (RPCs) that concentrate both on equipment and human expertise to do cost effective processing along with a country-based customer service support network. The highly productive RPCs were to provide economies of scale and a critical mass of skilled trade professionals that could be leveraged to overcome uneven business cycle loads.

As customers expanded their import and export activities worldwide, it was equally important that the bank retain a wide-ranging customer service presence in various geographies. In addition to the obvious local customer service advantage, this presence served as the local market intelligence mechanism.

Technical Component

The client's software solution departed from traditional monolithic and highly hardware coupled (mainframe) architecture. The architecture was based upon the open client-server paradigm in a distributed computing environment. The distributed environment solution enabled the regional processing center units to get linked together with country branch units. The user interface was developed as a thick client deployed at all desktops with the business logic residing in servers split according to business function.

This solution offered to architects and developers alike, the opportunity and challenge to conquer the obstacles of performance with the flexibility and computational overhead of networked and distributed architecture.

Functional Components

The functional capabilities of the system included letters of credit issuing and advising services, bill payments and financing, guarantee issuance, security shell, workflow with remote print and delivery services, and most importantly imaging.

The imaging capability re-engineered the entire trade business process by:

- Enabling migration of trade processing operations into the RPCs with remote customer service oriented branches
- Eliminating the need for filing cabinets and saving on physical storage space
- Providing a central repository of documents as images that facilitated online document access anywhere in the world
- Automated document dispatch
- Easy management of a large volume of documents

A flexible workflow allowed business managers flexibility to allocate and process trade transactions streamlining the workflow. The key aspects of the workflow were:

- Splitting of processing actions into a series of steps with automated movement between steps
- Enabling parallel workflow
- Automated setting priorities at a customer, product or transactional level
- High availability of trade information due to centralized data storage with leveraging on data warehousing to extract various customer and MIS reports.

The client's internet delivery platform was later integrated with the trade processor and warehouse to offer a full-scale trade service at the customer's desk.

The deployment strategy was to first integrate the imaging component with the legacy system in each country rollout. This facilitated the operations to be regionalized in the RPC. Once the countries had regionalized, they were to be migrated to the new trade system along with country specific customization.

Polaris emerges as the strategic partner

The customer initially chose Polaris after a due diligence process to be one of their chief technical partners in the architecture and development of the new application. At that time Polaris assigned seasoned technical managers to work along with the customer in giving shape to their concepts for the next generation application. Involving just a few Polaris engineers initially who helped draw up the functional specifications, Polaris worked on the systems requirements and architecture phase and used its expertise in design and documentation to help the customer's technology

team design the data model. From evolving quality processes to architecting the product, the Polaris team worked with the client at every step. Polaris was able to take complete technology and product evolution responsibilities.

Proven Success leading to establishing an offshore development center

Polaris was successful in instilling faith in the customer regarding its ability to handle offshore development projects, technically and from a management perspective too.

The initial development was done in a unique ‘distributed development’ mode at three different locations worldwide. Based on these initial critical contributions of Polaris, the customer gave out an initial contract to build a 40-member offshore team to develop the back-end application software.

From amongst all the components outsourced to vendors, Polaris was the only one that completed its piece on schedule thereby demonstrating the ability of the team to deliver world-class software.

Well-developed standards and procedures (later certified as SEI-CMMi Level 5) in quality processes helped in the success. The flexibility to augment processes wherever necessary to match the client's quality process needs helped to bring quick acceptance from the client.

Impressed with the increasing delivery predictability of Polaris, the client decided to transition development of all core components to Polaris. The offshore team in Polaris was expanded as a single competency center, reaching a peak strength of 110 engineers. Today Polaris has built more than 700 person years of cumulative experience in this domain.

Where we are today

Today, Polaris is the sole external entity managing the application for the client with activities in all areas including:

- Runtime Support
- Problem management

- Enhancements
- Deployment (system and user acceptance testing, release coordination)
- Application Performance Monitoring and Reporting
- Strategic Planning (budgeting and rollout planning, technology upgrade)

At the time of writing this document, a compact team of only 20 persons provides 24/7 support, with 'follow the sun' capability to more than a 1000 users spread across three RPCs and 59 countries. This team engages in upgrading the application to new releases, system software and middleware while also ensuring a single version of software across all geographies.

The system deals with volumes as high as 40,000 transactions per month and more than 100,000 images per month.

Key Business Benefits

On a conservative estimate, the solution developed by Polaris has saved the client in excess of USD 40 million over a four-year period in IT costs alone, not to mention the operational cost savings and business growth that the technical solution has enabled.

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Chapter 4

HR Today - a movement at Polaris

“Security is mostly a superstition. It does not exist in nature. Avoiding danger is no safer in the long run than outright exposure. Life is either a daring adventure or nothing.”

- Helen Keller

Human Resource Management has moved way up the corporate agenda and dominates a larger share of mind in the IT industry.

We have always known that people matter to any business. Today, the belief is more relevant than ever. With the growing need for ‘good people’ in the global market, recruiting, retaining, training and developing our associates has never been more important ... or more challenging.

We have always known that associates represent a huge investment...an investment we call invaluable people capital; in the form of knowledge, experience, ideas and energy...all vital ingredients to transform business projects into successes.

Organizations have also come to realize that just as businesses have specific needs, individuals too have a unique set of personal preferences and motivating factors.

Balancing and aligning these specific individual requirements with the overall business goals is a huge challenge, but one which can bring high rewards. This is the unique challenge of Human Resource Management.

We at Polaris believe in evolving an integrated and innovative approach to HR management with strong guiding principles. Our mission is to establish a climate that would engage associates meaningfully and drive business performance by:

- Empowering every associate to make decisions that affect personal and professional growth by a clear and concise Goal Setting Process



PSL's dedicated focus to Banking, Financial Services and Insurance creates a 5000+ person collective consciousness in IT services, products and value creation strategies to handle almost any institutional client need.

- Albert Eng, Senior Vice President

- The objective assessment of performance through the Talent Appreciation Program
- Guiding and providing visibility on career development through Hi-pot schemes, GEM awards, Konarks and Excellence awards.

We believe that investing in people increases their inherent value to our organization.

Born out of this belief is the unique concept of Lakshya, where dreams of all associates are aired, visions and missions are collectively shared and the pursuit of these dreams ingrained into an engaging passion.

Polaris is unique in that its associates believe in the mantra, “I am Polaris”.

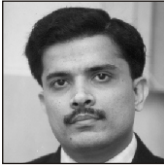
Through continuous learning, creativity, excellence, and respect, we will build leaders and create energies to reach new horizons, ensuring customer delight and social fusion.

It is the mission of Polaris HR to enable the realization of every Polarite’s dreams that propels the programmes of HR. Given the expertise and enthusiasm to make this happen, Polaris is an ongoing movement, a culture and a way of life.



The author, R Shekar heads Corporate Strategy and HR

Global Sales Organization



Ashish Sinha
Polaris America



Vijay R Narasimhan
Polaris Europe



Bikash Mathur
Polaris Asia Pacific



Sanjeev Gulati
Polaris America



Albert Eng
Polaris America



K Srinivasan
Polaris America



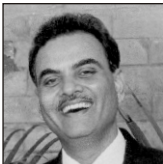
Rahul Petkar
Polaris Canada



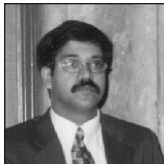
Uwe Damian
Polaris Germany



Kartik Kaushik
Polaris UK



Anil Verma
Polaris Australia



K Subramanian
Polaris Japan



Dattu Kompella
Polaris Singapore



T Natraj
Polaris Saudi Arabia

Chapter 5

The Ombudsman in Polaris

The word 'Ombudsman' is of Swedish origin, from the Old Norse word *umboðsmathr*, from *umboð* (commission) + *mathr* (man). The Merriam-Webster Dictionary defines the term as 'one that investigates reported complaints (as from students or consumers), reports findings, and helps to achieve equitable settlements'. According to some, the term refers to 'a person who has an ear to the people' and still others often refer to it as an 'agent for justice'.

Polaris, an organization on a path of rapid growth, has from the beginning, strongly believed in certain values and has been determined to follow a 'code of ethical behaviour.' Being a highly people-oriented organization and concerned about the welfare and growth of its employees (referred to as 'associates'), Polaris has identified the need to take adequate steps to ensure that the organization does not waver in its path of 'excelsior'.

Having recently undertaken one of the biggest mergers in the Indian IT industry, Polaris finds itself continuously attracting and employing some of the best talent in the software industry. In managing such a large and skilled workforce, the organization frequently faces challenges in both internal & external environments – challenges in the form of strong expectations – that things will be done the right way and that fairness will prevail.

Today's manager in the IT industry faces global competition with a demand for high quality at low cost. Faced with demanding situations on an almost day-to-day-basis, at times these managers behave in a manner that may be construed as discrimination, considered as unfair treatment and even perceived as harassment. Sometimes, cases of discrimination or harassment including sexual harassment may not even be reported and hence, go unnoticed. Consequently associates who experience or witness discrimination are distracted and unable to work effectively. Often, there is a perceived risk in challenging poor behavior or unfair treatment. In the absence of friendly, constructive and confidential communication channels, many choose to remain silent for fear of reprisal or the stigma attached. This often creates a feeling of dissatisfaction and helplessness among such associates. Sometimes, socio-psychological factors, social attitudes, beliefs, preferences & priorities also cause biased apprehensions.

Ideological biases and self-interest often make employees overestimate differences, which again gives rise to a feeling of discrimination. Sometimes when there is a lack of effective communication, people start relying on unspoken assumptions. In all such cases, there arises a need, or rather an inescapable requirement for someone who can be easily approached and can be counted on to listen and offer advice.

The Ombudsman in Polaris is one such person.

The Ombudsman in Polaris is a neutral, informal and confidential source, an alternate channel of communication, which works to help resolve the internal

problems of Polaris and its people. The Ombudsman has a broad mandate to look into problems in a confidential manner and to assist in their informal resolution. The Polaris Ombudsman is a member of The Ombudsman Association, United States and meticulously adheres to the Code of Ethics clearly spelt out by the Association.

The Guiding Principles of the Ombudsman function as per **The Ombudsman Association** are:

- Confidentiality
- Neutrality or Impartiality
- Informal Assistance

Confidentiality: All communications to and with the Ombudsman are considered privileged, and hence not divulged. This confidence may be partially compromised in special cases only after the full consent of the associate has been secured.

The confidentiality of the Ombudsman function is a welcome alternative for surfacing environmental problems that are perceived as being able to pose a risk of reprisal in the normal reporting structures.

Neutrality: The Ombudsman maintains a non-aligned role when hearing out a concern. Maintaining and sustaining an unbiased approach on all cases reported to the Ombudsman for resolution is an absolute must. Making the Ombudsman and his office free from hierarchical profile makes this possible. The Ombudsman reports directly to the CEO.

Informal: Contact, approach and access to the Ombudsman have been made very easy and devoid of any formality. Details of discussions held with associates are not entered into personnel records.

What does the Ombudsman do in Polaris?

Handles workplace related complaints: Hearing concerns, complaints & grievances; conducting investigations when appropriate; helping to identify and evaluate options for resolution; serving as a neutral facilitator, conciliator & mediator in problem solving and conflict resolution.

Serves as Consultant: Conducts workshops on various issues and methodology related to the Ombudsman function to all associates at all locations; works with policy making group, offers recommendations regarding changes in policies & procedures depending upon the trend of complaints and need of organization; assists associates in making them solve their problems.

Easily Accessible: Encourages whistle blowing against unethical behavior, issues of integrity or financial irregularities by providing easy and confidential access with full protection and without risk of reprisal.

Provides information: Provides clarity on policies; making referrals to other references; receives information in the interest of the organization on potential areas of improvement.

Advantages to the Organization

Measuring perceptions from the functions of the Ombudsman Office is a very delicate and difficult task but some of the clear-cut advantages that should accrue and be visible in the organization are:

- Providing an early warning on serious issues not surfacing elsewhere.
- Identifying and forecasting problem areas by trends of complaints and inputs from discussions.
- Identification or need for changing policies.
- Improvement in management practices by identifying managers who default.
- Avoidance of public exposure that could be bad or embarrassing for the organization.
- To provide mechanism for whistle blowing on breaches of ethical behavior or financial irregularities, simultaneously instilling confidence that there shall be no reprisal due to such reporting and ensuring the same.
- Avoidance of litigation and reduction in punitive damages.

Accessibility

The Ombudsman at Polaris makes himself available at all centers as per a pre-published calendar. He visits all centers in India at least once a quarter and the centers abroad, once in six months.

To get in touch with the Ombudsman at Polaris, send an email to ombudsman@polaris.co.in or call 1600 21222 (toll free number).

*G.N. Mathur, the author of this article,
is the Ombudsman in Polaris*



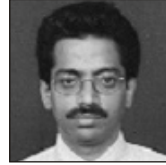
Corporate Support Group



N. Vaidyanathan
Chief Finance Officer



K. Govindarajan
Sr. Vice President



Chandra Mouleswaran
Corporate IT



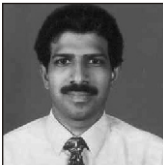
K.R. Chandrasekaran
Corporate Marketing



V. Balakrishnan
Chief Information Officer



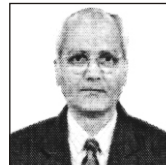
Raghuram Balakrishnan
Vice President



Dr. Anbu Rathinavel
Dean, Nalanda



S.R. Ramaswami
Corporate Audit & Risk



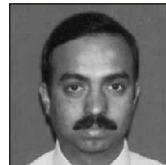
K.N. Ananth
Corporate Quality



Raymond Arogyaswamy
Polaris Asia Pacific



Vinay Garg
Polaris America



Pawan Prasad
Polaris Europe

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Chapter 6

Success Begins
with a Dream

Success, they say, begins with a dream!

It is this 'dream' with 'conviction' that Ullas Trust attempts to nurture in students from economically challenged sections in the corporation and government schools.

Ullas Trust's mission is to reach out to the most vulnerable adolescent group amidst the student population –i.e. students in classes 9 to 12 and play a positive role in instilling the 'Can Do It' spirit in the Ullas students.

Ullas took a giant leap in reaching out to many more educational institutions in 2003-2004. We received over 13000 applications for the Ullas Scholarship last year. Over 9000 students in classes 9 to 12 took the Ullas Scholarship examination and 2000 scholarships were awarded in Tamil Nadu alone.

The Ullas Trust has just two permanent employees. Polaris associates (employees in Polaris are called associates) play a very significant role in taking forward all the Ullas initiatives. Whether it is framing question papers in dual languages, evaluating answer sheets, grading prospective candidates for scholarships or invigilating 17 examination centres, we find overwhelming response from Polaris employees and their spouses, who as 'Friends of Ullas' volunteer to coordinate all the initiatives.

And it doesn't stop with simply providing financial assistance! Ullas volunteers spend quality time over weekends, mentoring the young minds. Workshops on communication, strengthening English language skills, counselling for examinations, orientation in information technology, are conducted diligently every weekend for the benefit of Ullas students. Ullas conducted a painting contest for the scholars, and the paintings were used for Polaris greeting cards.

Ullas students reaffirmed our faith in their potential by securing top results in their board examinations last year. There were two state ranks and nine school toppers from our family of Ullas scholars. They were recognised during the Polaris annual day on July 24, 2003. The bright-eyed Ullas students shared their experiences in working with the Ullas Trust and their achievements humbled all of us. The function concluded with a standing ovation for the Ullas scholars whose sheer spirit came shining through.

The annual workshop of Ullas Trust was conducted on November 17, 2003. Eminent personalities like Mr. C K Ranganathan, Managing Director – Cavinkare and Mr. Pandiarajan, CEO - Ma Foi Consultants graced the occasion and gave inspiring inputs to the Ullas students. Their sessions were highly interactive and both the students and their teachers who had accompanied them participated with gusto.

The EEE Award for The Outstanding School was awarded to P.A.K.Palanisamy Hr. Sec. School & General Cariappa Hr. Sec. School received the Best Principal of the year award.

Ullas gained further momentum with Polaris associates in Mumbai launching Ullas activities in Mumbai. Ullas also reached Polaris Australia - where we have commenced our activities by way of awarding scholarships to Aboriginal students.

Last year, Ullas Trust took up an additional initiative of awarding higher education scholarships. 9 students, who were the recipients of Ullas scholarships earlier, were awarded higher education scholarships to pursue a degree of their choice. Career counselling sessions have also started under the auspices of the Trust.

To give hands-on pre-work experience, two students who had completed their Plus Two exams were taken on board as summer trainees by Associate Business Services-Chennai and were trained on various aspects of payroll accounting.

An interesting development in Ullas is that the senior Ullas scholars have now come forward to work with Ullas Trust in guiding and coaching their juniors.

Plans for this year include:

- Starting more chapters with a stronger volunteer base across the whole of Chennai.
- Expanding Ullas to other locations in the country like Delhi & Hyderabad

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Financial Report

POLARIS SOFTWARE LAB LIMITED

Financial Statements for the year ended 31st March 2004

'Polaris House', 244 Anna Salai, Chennai - 600 006.
INDIA

POLARIS SOFTWARE LAB LTD

Board of Directors



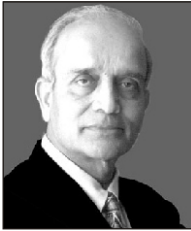
Arun Jain
Chairman & Managing Director



Ram Bhagwat
President & Executive Director



Govind Singhal
Executive Director



R.C. Bhargava
*Former Chairman &
Managing Director of Maruti Udyog Ltd.*



Satya Pal
*Retd. Secretary, Telecom. Commission
Ex-Chairman - MTNL*



Dipak Kumar Rastogi
*Head, Citigroup Venture
Capital International*



Abhay Agarwal
Practicing Chartered Accountant



Ajit Bhushan
*Managing Director,
Citigroup Venture Capital International*



Arvind Kumar
Sr. Lawyer, Supreme Court



Dr. Ashok Jhunjhunwala
*Professor & Head Deptt. of
Electrical Engg., IIT, Madras*



V Balaraman
CEO, Empower Works Ltd.



Venkatchalam Krishnakumar
*Vice President &
Regional Director (Asia Pacific), Citigroup*

POLARIS SOFTWARE LAB LTD

BANKERS

Citibank N.A
Vijaya Bank
HDFC Bank
Fleet Bank, New Jersey
Chase Bank, New Jersey

AUDITORS

M/s. Bharat S. Raut & Co.,
Wescare Towers
No.16, Cenotaph Road
Teynampet
Chennai 600 018

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DIRECTORS' REPORT

POLARIS SOFTWARE LAB LIMITED

Directors' Report

To the Members,

Your Directors have great pleasure in presenting the Eleventh Annual Report together with the Audited Statements of Accounts for the year ended March 31, 2004.

1. Financial Results

a. Stand alone results of Polaris Software Lab Limited

Rs. in lakhs

Year ended March 31	2004	2003
Profit before Depreciation, Finance Charges, provision for diminution in value of investments and Tax	11,304	9,540
<i>Less:</i>		
Finance charges	118	105
Provision for diminution in value of investments	10	640
Depreciation & amortization	3,161	1,839
Profit Before Tax	8,015	6,956
<i>Less:</i> Provision for tax (including deferred tax)	1,245	1,533
Profit After Tax	6,770	5,423
<i>Add:</i> Surplus brought forward	7,791	4,832
Profit available for appropriation	14,561	10,255
Appropriations		
Provision for proposed dividend	1,710	1,704
Tax on Distributed profits	219	218
Transferred to General Reserve	677	542
Balance Transferred to Balance Sheet.	11,955	7,791

b. Consolidated results of Polaris Software Lab Limited and its subsidiaries

Rs. in lakhs

Year ended March 31	2004	2003
Profit before Depreciation, Finance Charges, provision for diminution in value of investments & Tax	12,194	9,777
<i>Less:</i>		
Finance charges	142	122
Provision for diminution in value of investments & Share of loss of Associate Companies	236	691
Depreciation & amortization	3,318	1,894
Profit Before Tax	8,498	7,070
<i>Less:</i> Provision for tax (including deferred tax)	1,513	1,617
Profit After Tax	6,985	5,453
<i>Add:</i> Surplus brought forward	7,426	4,437
Profit available for appropriation	14,411	9,890
Appropriations		
Provision for proposed dividend	1,710	1,704
Tax on Distributed profits	219	218
Transferred to General Reserve	677	542

Balance Transferred to Balance Sheet	11,805	7,426
---	---------------	--------------

2. Results of operations

The consolidated income of Polaris Software Lab Limited from Software development services and products for the year ended March 31, 2004 stood at Rs. 64,643 lakhs, registering a growth of around 51% over the previous year's revenues of Rs. 42,828 lakhs. The consolidated Net Profit for the fiscal year ending March 31, 2004 stood at Rs. 6,985 lakhs, representing a growth of 28% over the previous year's Net Profit of Rs. 5,453 lakhs. The Reserves increased from Rs. 38,482 lakhs in 2002-03 to Rs. 44,156 in 2003-04.

The Company caters to its clients through its worldwide offices and its global business distribution encompasses North America, Europe, Asia Pacific, India and Middle East.

- ❖ In 2003-04, North America contributed 42.98%, Europe contributed 25.22%, Asia Pacific, India & Middle East contributed 31.80%.
- ❖ In 2002-03, North America contributed 39.61%, Europe contributed 15.50%, Asia Pacific, India & Middle East contributed 44.89%.

3. Future outlook

The Year 2003 marked the resurgence of the IT Indian industry, as western economies, its target markets, recovered and renewed spending on IT outsourcing. The coming year is expected to be equally promising for outsourcing to India. Your company has focused on the BFSI space (banking, financial services and insurance) which, according to a NASSCOM study is expected to grow to US\$ 261.70 billion out of a total market size of US\$ 1,010.40 billion in 2008.

Software exports will continue to be a major contributor to the country's export earnings, with industry/experts predicting that they will make up 35% of the country's exports in the coming year.

In the midst of plenty, your company has begun to prepare for the next strategic shift in the IT market. As customers increasingly look for business value rather than merely cost savings, your company has positioned itself as the leading expert in BFSI space, with over 200 banking domain experts, a suite of products backed by intellectual property rights, and a positioning as a solutions-led service provider. The past year has seen an encouraging response from global customers to this value proposition. We intend to continue to invest significant management energies and marketing efforts, to build and consolidate this position. As part of this strategy, your company has brought on board key managers from solutions and services companies, as well as from financial services companies, not only in India but also from Europe and North America. Today, your company has managers from 8 nationalities on its management team.

I believe your company is beginning to make the right moves to build sustainable

competitive advantage in the IT outsourcing space, which will enable it to grow consistently and return stable returns to investors.

4. **Dividend**

Your Directors are pleased to recommend a dividend of 35% (Rs. 1.75 per share, on par value of Rs. 5) for the year ended March 31, 2004, maintaining the dividend declared during the previous year. The dividend, if approved at the forthcoming Annual General Meeting, will be paid out of the profits of the Company for the year to all those equity shareholders whose names appear on the Register of Members of the Company on 19th July 2004 and to those whose names appear as beneficial owners in the records of National Securities Depository Limited and Central Depository Services (India) Limited as on the said date.

5. **Strategic Initiatives**

a. Launch of Intellect Suite

Your Company has launched 'Intellect Suite' a modern enterprise platform for financial services institutions that seeks to break through boundaries that shackle the banker. Intellect Suite ushers in a new era of boundary-less banking, meeting the needs of global retail, wholesale, investment and private banks. It is the new global version of your company's highly successful OrbiOne suite of banking products. The introduction of 'Intellect Suite' in the global Banking & Financial Services market heralds the achievement of a significant milestone in its journey towards being a global financial technology leader. Intellect Court a dedicated centre for its 'Intellect Suite' of products has also been opened which is spread over 111,700 sq. ft of workspace.

b. Partnership with plenum AG, Germany

Your Company has entered into a strategic partnership with a leading German based IT Consulting organization-plenum AG. The partnership would offer high value and risk mitigated Offshore Management Solution portfolio to customer in Germany, Austria and Switzerland. Further, the partnership service offerings range from IT Management Consulting, Offshore Software development and delivery, IT Process Consulting, Technology Management Training and comprehensive Intellect Suite of Banking Products.

6. **Notable accolades received during the year**

- a. Orbi One Direct was recognized for its innovative product delivery through “The Banker Technology Award for Multi-Channel Integration” in June 2003. OrbiOne Direct offers channel delivery solution for banks that helps deliver consistent service at the customer relationship level through multiple channels such as the Internet, IVR, mobile, ATM and call centers.
- b. OrbiOne has been ranked 17th in a report titled “Treasury Management Solutions at European Banks” circulated by Celent, the international management consulting and financial services research firm among banking product vendors.

- c. OrbiOne has also been reviewed favorably in the Giga Research 2004 as a “well kept multichannel secret.”
- d. The Institute of Company Secretaries of India, New Delhi, rated Polaris among the top 25 companies with best practices and procedures on Corporate Governance.
- e. Polaris won the sixth Mother Teresa Corporate Citizen award, 2003. The said award has been instituted by Loyola Institute of Business Administration.

7. Increase in share capital

The Company, during the year has issued/ allotted 46,204,517 shares as detailed hereunder:-

- i. 353,968 number of Equity Shares of Rs. 5/- each pursuant to conversion of employee stock options as detailed in Report on Corporate Governance.
- ii. 45,850,549 number of Equity Shares of Rs. 5/- each allotted on July 12, 2003 to the shareholders of erstwhile OrbiTech Solutions Limited pursuant to the Scheme of Amalgamation accorded by the shareholders and further sanctioned by the Hon'ble High Courts at Chennai & Mumbai.

In view of above, the outstanding issued, subscribed and paid-up equity share capital increased from 51,494,665 shares during the previous year, to 97,699,182 shares as at March 31, 2004.

8. Employee Stock Option Scheme

The prime objective of your company is always to bring about Associate participation in the growth and prospects of the company. In view of this, the Company had two Associate Stock Option Schemes namely ASOP 2000 and ASOP 2001. SEBI vide circular No. SEBI/PMD/MBD/ESOP/2/2003/30/06 dated 30th June, 2003 had revised the existing Guidelines on Employee Stock Option Scheme, therefore it was not possible to issue any further new options under the said option schemes.

The company therefore, decided to introduce a new Associate Stock Option Plan 2003 [ASOP 2003] that would encourage a long term and committed involvement of the Associates in the management and future of the company. The objective of this ASOP 2003 is to encourage ownership of company's equity by its Associates on an ongoing basis. The ASOP 2003 is intended to reward the Associates for their contribution to the successful operation of the Company and to provide an incentive to continue contributing to the success of the Company. It is envisaged that the ASOP 2003 will enable the Company to attract and retain the best available

talent by making them partners in business and its growth. You have passed necessary resolution in Extra-Ordinary General Meeting held on 12.03.2004.

A. The Details of options issued under ASOP 2000 during the year 2003-04		
	Options outstanding as on 01-04-2003	1,190,265
(a)	Options granted	
	- before 30.06.2003	113,000
	- on or after 30.06.2003	Nil
(b)	The pricing formula	at market value
(c)	Options vested	242,200
(d)	Option exercised	85,700
(e)	The total number of shares arising as a result of exercise of options	85,700
(f)	Options lapsed / surrendered	126,310
(g)	Variation of terms of options	Nil
(h)	Money realized by exercise of options in Rs.	6,654,300
(i)	Total number of options in force	1,091,255
(j)	Employee wise details of options granted to:	
	(i) Senior managerial personnel, as per list given hereunder	20,000
	(ii) any other employee who receives a grant in any one year of option amounting to 5% or more of options granted during the year.	Nil
	(iii) identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant	Nil
(k)	Diluted Earnings Per Share (EPS) pursuant to issue of Shares on exercise of option	6.87

List of Options granted under ASOP 2000 to senior managerial personnel during the year 2003-04	
Name(s)	No. of Options
R C Bhargava	10,000

Ashok Jhunjhunwala	10,000
TOTAL	20,000
B. The Details of options issued under ASOP 2001 during the year 2003-04	
Options outstanding as on 01-04-2003	1,438,440
(a) Options granted	
- before 30.06.2003	50,000
- on or after 30.06.2003	Nil
(b) The pricing formula	at market value
(c) Options vested	313,700
(d) Option exercised	268,268
(e) The total number of shares arising as a result of exercise of options	268,268
(f) Options lapsed	183,050
(g) Variation of terms of options	Nil
(h) Money realized by exercise of options in Rs.	15,990,074.50
(i) Total number of options in force	1,037,122
(j) Employee wise details of options granted to	
(i) Senior managerial personnel, as per list given hereunder	50,000
(ii) any other employee who receives a grant in any one year of option amounting to 5% or more of options granted during the year.	Nil
(iii) identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant;	Nil
(k) Diluted Earnings Per Share (EPS) pursuant to issue of Shares on exercise of option	6.87

List of Options granted under ASOP 2001 to senior managerial personnel during the year 2003-04

Name(s)	No. of Options
Satya Pal	10,000
Abhay Agarwal	10,000
Arvind Kumar	10,000
V Balaraman	10,000
M L Garg	10,000
TOTAL	50,000

C. Details of ASOP 2003

A new Associate Stock Option Plan 2003 (ASOP 2003) was introduced during the year. Under the said scheme, maximum number of options that can be granted are 3,895,500 options convertible into equivalent number of shares of Rs.5/- each.

As per ASOP 2003, the vesting period shall be five years from the date of grant and vesting period shall commence on the expiry of one year from the date of grant.

Further the option would be issued at the 'Market Price' of the shares at the date of

grant of options. 'Market Price' of the share on given date shall mean the average of the two weeks high and low price of the share preceding the date of grant of option on the Stock Exchange where the highest trading volume are recorded during the aforesaid period. The Remuneration & Compensation Committee shall formulate and recommend other requirement of grant, vesting, exercise etc. from time to time.

During the year ended March 31, 2004, the Company has not granted any options under ASOP 2003 and hence other disclosure as required under the amended SEBI (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 would not be applicable.

9. Subsidiaries

The following are the wholly owned subsidiaries of the Company along with their country(s) of incorporation:-	
1.	Polaris Software Lab Pte Ltd. Singapore
2.	Polaris Software Lab Ltd. United Kingdom
3.	Polaris Software Lab GmbH Germany
4.	Polaris Software Lab S.A Switzerland
5.	Polaris Software Pty Ltd. Australia
6.	Polaris Software Lab Ireland Ltd. Ireland
7.	Polaris Software Lab Japan KK Japan
8.	Polaris Retail Infotech Ltd India
9.	Optimus Outsourcing Company Ltd India

The overseas subsidiaries in addition to providing service to various international clients have greatly enhanced the capability of the Company in generating more business opportunities in the various international markets.

Polaris Retail Infotech Limited ('PRIL'), Indian subsidiary of the company, has improved its software product "Retail Excel" which now consists of several modules suitable for retail enterprises like Purchase, Inventory, Sales, POS, Finance, Club & Campaign (Promotions) and Analyser (Reports). PRIL has received major orders despite facing stiff competition from the global players.

During the year, additional investments made by the Company in its subsidiaries were Rs.1,522.76 lakhs. The details of investments made are shown in Note No.14 of Significant Accounting Policies & Notes to Accounts to the Balance Sheet.

Further, your Company has been exempted by the Ministry of Finance, Department of Company Affairs (DCA), vide letter No. 47/ 41/ 2004-CL-III dated 12th April 2004 from attaching the Balance Sheet, the Profit and Loss Account, Directors' Report and Auditor's Report of its aforesaid wholly owned subsidiaries to the Annual Report. Accordingly, the Annual Report of your Company does not contain the financial statements of above mentioned subsidiaries, but contains the audited consolidated financial statements of the Company and its subsidiaries.

As advised by DCA, information in aggregate for each subsidiary has been disclosed in one page of the consolidated balance sheet respectively (a) Capital

(b) Reserves (c) Total Assets (d) Total Liabilities (e) Details of investments (except in case of investment subsidiaries) (f) Turnover (g) Profit before taxation (h) Provision for taxation (i) Profit after taxation (j) Proposed dividend.

Further, Annual Accounts of the subsidiary companies and the related detailed information will be made available to the holding and subsidiary company investors seeking such information at any point of time. Annual accounts of the subsidiary companies will also be kept for inspection during business hours at the Company's Head/Regd. Office and that of the subsidiary Company concerned.

10. Infrastructure Facilities

During the year, your company has taken a 7 acre campus space at Hyderabad. This center will expand out capacity in Hyderabad. In Phase I, your company plans to build around 100,000 Sq. Ft. to accommodate over 1,000 software professionals.

Further, your company has also set up a 111,700 sq.ft. Intellect Engineering Centre located in Chennai spread over 8 acres and Center of Excellence (CoE) facility in Mumbai for Financial Risk Management (FRM).

11. Social Responsibility

The *Ullas* Trust is founded and funded by Associates (employees) of Polaris Software Lab, which helps support the education of children from economically needy sections of society. Commendably, the *Ullas* Trust has been conducting events and workshops over the last eight years. The *Ullas* Trust gives away educational scholarships to each child. Every year, the Trust identifies deserving students through a simple yet effective selection process and rewards them with a scholarship that takes care of their annual education expenses.

Other *Ullas* initiatives include...

Ullas Chapters for Young Achievers: These are fora in which the bright young achievers get together and chalk out activities for their own personality development and build a network of fraternity.

Ullas Classes are conducted by mentors for young achievers to hone their skills in computers, communication skills, etc.

Ullas Triple-E Awards to encourage outstanding schools in their quest for academic excellence for the deserving schools.

Ullas associates provide the time, money and effort. Our mentors coordinate the activities of Ullas Chapters.

12. Fixed Deposits

Your Company has not accepted any deposits and, as such, no amount of principal or interest was outstanding on the date of the Balance Sheet.

13. Auditors

M/s Bharat S Raut and Co. who are the Statutory Auditors of the Company retire at

the forthcoming Annual General Meeting and are eligible for re-appointment. The retiring Auditors have furnished a Certificate of their eligibility for re-appointment under Section 224 (1B) of the Companies Act, 1956, and have indicated their willingness to continue.

14. Directors

During the year 2003-04, Mr. Dipak K Rastogi, Mr. Ajit Bhushan, Mr. Venkatachalam Krishnakumar and Mr. Ram Bhagwat have been inducted as Directors of the Company while Mr. G N Mathur, Mr. M L Garg and Mr. Ajay Relan resigned from Board and their resignation has been accepted and approved by the Directors in their meeting held on July 28, 2003. The company expresses sincere appreciation and gratitude to all the outgoing Directors for their valuable assistance and advice tendered by them during the tenure of their association with the Board and the Company.

Mr. R.C. Bhargava, Dr. Ashok Jhunjhunwala, Mr. V. Balaraman and Mr. Abhay Agarwal, Directors, retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

15. Corporate Governance

In line with the recommendations of the Securities and Exchange Board of India (SEBI) on Corporate Governance, three separate Committees for audit, remuneration and protection of Shareholder's Interest were formed in the year 2000 and named as the Audit Committee, the Remuneration Committee and the Shareholders Committee respectively. The Company has taken steps to comply with the provisions of the Corporate Governance Report and the Listing Agreements of the Stock Exchanges.

Further, Board in their meeting held on 22.10.2003 formed Corporate Governance & Risk Review Committee which could specifically look into compliance of various procedures and regulations related to Corporate Governance and review various guidelines, procedure and safeguards, to minimize the incidence of various risk being faced by the company in the dynamic business environment.

A separate report on Corporate Governance and Management Discussions & Analysis are provided as a part of the Annual report.

16. Impending Litigation(s)

Details of impending litigations are given under Note No. 16 of Significant Accounting Policies and Notes to Accounts provided as an annexure to the Balance Sheet and Profit and Loss Account.

17. Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo

The particulars, as prescribed under sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are set out in the annexure included in this report.

18. Particulars of Employees

As required under the provisions of Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of employees are set out in the annexure included in this report. The Department of Company affairs, has vide its letter number GSR 212(E) dated 24.03.2004, amended the Companies (Particulars of Employees) Rules, 1975 to the effect that particulars of employees of Companies engaged in Information Technology sector posted and working outside India not being directors or their relatives drawing more than Rs. 24,00,000/- per financial year or Rs.2,00,000/- per month, as the case may be, need not be included in the statement but such particulars shall be furnished to the Registrar of Companies. Accordingly, the statement included in this report does not contain the particulars of employees who are posted and working outside India. Further on specific request, such particulars shall be made available to shareholders during the course of Annual General Meeting.

19. Director's Responsibility Statement

Pursuant to Section 217(2AA) of the Companies (Amendment) Act, 2000, the Directors confirm that:

- (i) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period;
- (iii) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (iv) the directors had prepared the annual accounts on a "going concern basis";

20. Acknowledgment

Your Directors take this opportunity to thank all investors, clients, vendors, banks, regulatory and government authorities and stock exchanges, for their continued support. Your Directors also wish to place on record their appreciation of the contribution made by Associates at all levels.

Place : Chennai
Date : 19th May 2004

By Order of the Board
For Polaris Software Lab Limited

Sd/-

Arun Jain

Chairman & Managing Director

The particulars as prescribed under sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

1. Details of Conservation of Energy

The operations of your Company do not consume high levels of energy. Adequate measures have been taken to conserve energy by using energy-efficient computers and equipment with the latest technologies. Your company is on the constant look out for newer and efficient energy conservation technologies and introduces them appropriately. As the cost of energy consumed by the Company forms a very small portion of the total costs, the impact of changes in energy cost on total costs is insignificant.

2. Research and Development

Your company is associated with global leaders in Banking, Financial Services & Insurance (BFSI) vertical space, which propels the demand on continuous research and development in all pervasive areas of information technology like Business analysis, Development, Deployment and Upgrades. A lot of effort has been put into development of methodologies, framework and tools to help your Company delivering the best solution to customers.

a. Specific Areas of R & D at Polaris

During the reporting period, your company focused on substantial functionality and architectural enrichments to OrbiOne, its flagship banking product, to make it step ahead of the competition. As a result, it was able to acquire new customers in BFSI space.

Your company also developed a business process document for the key areas of banking, which details the business process flow for the business transactions in a very simple but unique manner. This will help your company in acquiring leadership position in product space as well as open new business opportunities in the area of process consulting. These process documents, form part of newly developed and product implementation methodology which will benefit both your company as

well as its client.

Apart from these areas, your company is also constantly improving delivery capabilities in the area of new technologies and to this effect it has published internally a book on "How to achieve zero defect software".

b. Benefits Derived

Your company was able to attract global players in the BFSI space as customers to its banking product suite. Standardization of implementation methodology has helped to achieve higher degree of improvement in solution implementation which has benefitted both customers as well as your Company.

3. Technology Absorption, Adaptation, and Innovation

The year that just got completed had seen the implementation and practice of some of the state of art technologies and tools. PeopleSoft is implemented to provide a world class integrated financial applications for your company at India and plans are on the anvil to integrate global financial systems. The standalone sales management system is changed to PeopleSoft under the name Jaguar. The implementation of PeopleSoft will be continued for the next year in the areas of CRM and HR. Most significantly, PeopleSoft has been integrated with home grown associates portal "Empower" to provide the necessary and related information to all associates at their desk, any time.

The whole organization was brought under a secured internal voice network using VOIP technology, which has helped us to cut the communication costs significantly. In line with our direction to "consolidate & integrate" the mutually dependent resources, the technology team has launched a new project called COIN (short form of Consolidation & Integration) that consolidates and integrates our storage, backup and DR strategies. We have completed the first phase of COIN in the last year and will complete the remaining phases in this year and become one of the organizations that has put technology into real business use effectively.

Three new offices at Hyderabad, Mumbai and New Jersey were opened during the last year. The communication network was expanded with 8 new circuits and 4 upgrades and will have further 10 new circuits and 10 upgrades added in this year.

Information Security is the prime requirement of the customers from western countries in off-shoring into India. Considering the importance, your Company has launched a program to certify the development centers under BS7799. During the year, Navalur development facility has been certified for BS7799 and the remaining centers will be covered in the coming year.

The year that is ahead of us will be the “technology year” for the simple fact that your company would complete some of the key technology initiatives that were visioned during Lakshya 2001 and started in the last year would be completed in this year. This will undoubtedly improve the efficiency & competitiveness of the whole organization manifold.

4. Foreign Exchange Earnings and Outgo

a. Export Initiatives and Development of New Export Markets

Your Company is registered as a 100% Export Oriented Unit with the Software Technology Park of India and has a network of international offices across the Globe. In North America, Polaris has offices at four locations. In Europe, your Company has set up wholly owned subsidiaries in United Kingdom, Ireland, Germany and Switzerland. In the Asia Pacific region, Polaris has wholly-owned subsidiaries in Singapore, Australia and Japan. Polaris also has long term business partnerships in the Middle East for its client operations

In the year 2003-2004, the revenue derived out of software exports stood at Rs. 51,178.46 lakhs, which is 88.47% of the total revenue from operations generated

by the Company, out of which the North America contributed 55%, Europe contributed 28%, Asia Pacific & Middle East contributed 17% of the total export revenues.		
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b. Foreign Exchange Earned and Used for the Year-ended March 31

Rs. In lakhs

	2004	2003
Foreign exchange earnings	51,178.46	33,548.87
Foreign exchange outgo (including capital goods)	21,926.03	15,082.88

POLARIS SOFTWARE LAB LTD
PARTICULARS OF EMPLOYEES FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED MARCH 31, 2004
Information pursuant to section 217 (2A) of the Companies Act, 1956 and the Companies (Particulars of the Employees) Rules 1975

Sl. No.	Employee Name	Designation	Qualification	Age	Date of Joining	Exp. Yrs.	Gross Remuneration	Designation - Previous Employment
1	Arun Jain	Chairman & Managing Director	B.E.	44	01-June-1996	21	2,717,005	Director - Nucleus Software Workshop Pvt. Ltd.
2	Aruna Kashinath	Senior Vice President	M.Sc.	47	05-Aug-1996	14	3,998,297	Deputy Manager, Straw Products Limited
3	Aruna Rao	Senior Vice President	M.S.(US)	45	01-Nov-2002	22	4,173,677	Senior Consultant, Citicorp Overseas Software Limited
4	Arunkumar Nerur Thiagarajan	Senior Vice President	B.Sc, PGDM	35	01-Nov-2002	13	2,975,055	Vice President - Citi Bank N/A
5	Bikash Mathur *	Senior Vice President	M.S., M.B.A.	37	27-Nov-2003	16	1,065,920	Executive Director - Maverick Systems Limited
6	Govind Singhal	Executive Director	M.Sc.,	43	01-Nov-1996	19	5,478,154	Assistant Vice President - Systems, Bank Of America
7	K.R.Chandrasekaran	Senior Vice President	B.E., M.B.A.,	43	05-Mar-2003	17	3,599,492	Vice President - Marketing, TVS Electronics
8	Kedarnath Udiyavar	Senior Vice President	M.M.S.	45	01-Nov-2002	22	3,079,650	Senior Consultant, Citicorp Overseas Software Limited
9	Mahadevan.V	Senior Vice President	B.Sc., DCA	40	04-June-1996	5	2,645,100	Senior Software Engineer, Aparajitha Technologies Private Ltd.
10	Mahendra S Negi	Senior Vice President	M.Sc.,O.R.,LLB, DBM,CAMB, CPPC	48	01-Nov-2002	25	2,831,688	Senior Consultant, Citicorp Overseas Software Limited
11	Mallik Rachakonda*	Senior Vice President	M.Sc., M.A	51	21-Apr-2003	24	2,707,751	Vice President - Satyam Computers
12	Manoj Saxena	Senior Vice President	B.E., PGDM	40	01-Nov-2002	15	2,501,929	Senior Consultant, Citicorp Overseas Software Limited
13	Mohit Bhatia *	Senior Vice President	M.I.S.	43	01-Nov-2002	21	938,057	Head Human Resource, Citicorp Overseas Software Limited
14	N Suryanarayanan	Senior Vice President	B.Com	40	01-Nov-2002	18	2,468,264	Sales Manager, B.E.A. Systems HK Ltd.
15	N Jayaraman *	Delivery Head - AIG	M.Tech.	50	12-June-2002	26	2,211,111	Head - Projects, Esix Technologies Private Limited.
16	N K Subramaniam *	Senior Vice President	M.Tech	41	01-Nov-2002	13	908,151	Vice President - Citi Bank N/A
17	Prem Tilak Iyer	Senior Vice President	B.Sc., M.B.A	44	01-Nov-2002	13	2,648,506	Vice President - Citi Bank N/A
18	Rajeev K.Arora *	Senior Vice President	B.E.	52	24-July-2000	24	2,426,403	Vice President, Tata Consultancy Services

POLARIS SOFTWARE LAB LTD

PARTICULARS OF EMPLOYEES FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED MARCH 31, 2004
Information pursuant to section 217 (2A) of the Companies Act, 1956 and the Companies (Particulars of the Employees) Rules 1975

Sl. No.	Employee Name	Designation	Qualification	Age	Date of Joining	Exp. Yrs.	Gross Remuneration	Designation - Previous Employment
19	Rajiv Malhotra	Senior Vice President	B.Tech, M.B.A.	42	31-May-1999	15	3,042,218	Asst. Vice President, Bank of America
20	Ram Bhagwat	President & Executive Director	M.Tech	57	01-Nov-2002	36	15,848,887	Vice President - Citi Bank N/A
21	S R Ramaswamy	Senior Vice President	B.E., CFA, B.I.I.S	48	04-Oct-2002	24	2,499,232	President & COO - Indchem Software Technologies Ltd.
22	S Seshadri Nathan *	Senior Vice President	M.Sc	41	01-Nov-2002	18	1,035,350	Senior Consultant, Citicorp Overseas Software Limited
23	Sanjay Sarkar	Senior Vice President	M.Sc	43	01-Nov-2002	20	3,011,078	Vice President - Citi Bank N/A
24	Shekar Rangarajan	Senior Vice President	B.E., M.B.A.,	53	21-Apr-2000	28	2,886,667	Director Quality-Citi Bank N.A (Global Consumer Banking)
25	Tarachand Dethle	Senior Vice President	BE, P.G.D.B.M.	45	01-Nov-2002	22	4,285,021	Vice President - Citi Bank N/A
26	Udaykumar Chagari Reddy*	Senior Vice President	M.C.A.	40	01-Nov-2002	16	1,160,281	Vice President - Citi Bank N/A
27	Uma Ratnam Krishnan *	Head-BPO	M.A., M.B.A.	42	01-Oct-2003	16	2,001,029	Head - Cards Divisions, HDFC Bank
28	Venkat Srinivasan	Vice President	M.B.A.	41	01-Nov-2002	14	2,518,823	Vice President - Citi Bank N/A
29	Venkatesh Iyengar Srinivasan	Senior Vice President	C.A.	43	01-Nov-2002	16	2,788,024	Vice President - Citi Bank N/A
30	Vikas Misra	Senior Vice President	B.Tech.	36	01-July-1996	8	2,437,101	Senior System Analyst, Tata Consultancy Services
31	Vinay Garg	Financial Controller (US - Operations)	MBA, MS, BS	48	26-Feb-1997	22	5,522,400	Finance Controller - Polaris Software Lab., Inc

1) Remuneration includes Salary, Company's contribution to Provident Fund, Super annuation fund and taxable value of perquisites.

2) All appointments are contractual

3) None of the above employees are related to any director of the company, excepting Sl. No. 31 who is related to a director of the company

4) * Employed for part of the year

REPORT ON CORPORATE GOVERNANCE

POLARIS SOFTWARE LAB LIMITED

Report on Corporate Governance

Recommendations

This report on Corporate Governance has been introduced by SEBI for promoting and raising the standards of Corporate Governance among listed companies in India. The recommendations provided for various amendments to the listing agreement by introducing measures for continuous disclosure of material information (both financial and non-financial), manner and frequency of disclosures, responsibilities of independent and outside directors, regulating the use of insider information and control of insider trading.

The recommendations of SEBI aimed at improving the standards of corporate governance are divided into mandatory and non-mandatory recommendations. Some of the recommendations are absolutely essential for the framework of corporate governance, hence mandatory, while others which are considered as desirable are categorized as non-mandatory.

Applicability

The recommendations have been made applicable to all listed companies, their directors, management, employees and professionals associated with such companies, in accordance with the time table proposed.

The ultimate responsibility for putting the recommendations into practice lies directly with the Board of Directors and the Management of the company. The companies have to comply with the requirements of Clause 49 of the Listing Agreement regarding Corporate Governance.

1. Preamble

Polaris perceives Corporate Governance as an endeavor for transparency, and a wholehearted approach towards establishing Professional Management, aimed at continuous enhancement of Shareholders' Value.

2. Board of Directors

❖ Composition of the Board of Directors as on 31st March, 2004

The Managing Director along with the Executive Directors manages the day-to-day affairs of the Company. The Company has an optimum combination of Executive and Non-executive Directors with seventy five percent of the Board of Directors comprising of Non-executive Directors. All pecuniary relationship or transactions of the Non-executive Directors viz-a-viz. the company is disclosed in the Annual Report.

Composition of the Board of Directors

Directors	Number
Executive	Three
Non-Executive	Nine
Total	Twelve

Our Board of Directors met five times during the period under review on the following dates:

1. 30th May, 2003
2. 28th July, 2003
3. 19th September 2003
4. 22nd October, 2003
5. 29th January, 2004

The maximum gap between two meetings was 98 days.

Attendance Record of Directors attending the Board Meetings and Annual General Meeting during the year 2003-2004

Name	Designation	In person	By tele conference	Last AGM attendance
Arun Jain	Chairman & Managing Director	5	Nil	Yes
Abhay Agarwal	Non-Executive Director	5	Nil	Yes
Ajay Relan*	Nominee Director, Citicorp Finance (India) Limited	Nil	Nil	N.A.
Ajit Bhushan#	Non-Executive Director	4	Nil	Yes.
Arvind Kumar	Non-Executive Director	5	Nil	Yes
Ashok	Non-Executive Director	4	Nil	No
Jhunjhunwala				
Dipak Kumar Rastogi#	Non-Executive Director	1	1	No
G N Mathur*	Executive Director	1	Nil	N.A.
Govind Singhal	Executive Director	5	Nil	Yes
M L Garg*	Non-Executive Director	Nil	Nil	N.A.
R C Bhargava	Non-Executive Director	4	Nil	Yes
Ram Bhagwat#	President & Executive Director	4	Nil	Yes
Satya Pal	Non-Executive Director	5	Nil	Yes
V Balaraman	Non-Executive Director	5	Nil	Yes
Venkatachalam	Non-Executive Director	3	Nil	Yes
Krishnakumar#				

Notes: * Resignation approved by Board of Directors on 28th July, 2003
Appointed as Director w.e.f. 28th July 2003

The brief profile of each of the Directors is given below:

Mr. Arun Jain
Chairman & Managing Director

Mr. Arun Jain is a first generation entrepreneur and the promoter of Polaris. He holds a degree in Electrical Engineering from the Delhi College of Engineering. In 1983, he started International Information Systems and undertook various software projects in India. In 1986, he formed Nucleus Software Workshop Pvt. Ltd., where he was actively involved in developing systems for Citibank (India) restructuring the groups export activities. In 1993, he promoted Polaris Software Lab Limited and has been serving as a Director since its inception.

His personal philosophies, his goal orientation “Lakshya”, his efforts to “empower associates” and his concept of “Konark Programme” to reward individual brilliance, all combined to lead the company from strength to strength.

Further, Mr. Arun Jain undertook Corporate Social Responsibility (CSR) initiatives and ensured they were woven within the fabric of the organization. Ullas Trust, a key CSR initiative for Polaris, aims to provide financial assistance and guidance to underprivileged children from economically challenged sections of society.

Mr. Arun was nominated for coveted Ernst & Young Entrepreneur of the Year Award in 1999 and 2001. He is also a member of the National Committee of IT, Confederation of Indian Industry (CII) and a Board Member of the Xavier Institute of Management, Bhubaneswar. Mr. Arun Jain is also ex-Chairman of the Indo-American Chamber of Commerce (Tamil Nadu division) and Tamil Nadu State Council of CII-Southern Region.

Mr. Arun Jain is also a director in Polaris Holdings Pvt. Ltd., Banyan Networks Ltd., Maverick Systems Limited, n-Logue Communications Pvt. Ltd., NMS Works Software Ltd. and Empower Works Limited.

Mr. Arun Jain also holds directorships in Polaris Software Lab Limited, United Kingdom, Polaris Software Lab Pte Ltd., Singapore, Polaris Software Lab Pty Ltd., Australia, Polaris Software Lab Ireland Ltd., Ireland, Polaris Software Lab Japan K.K., Japan, Polaris Retail Infotech Limited, India and Optimus Outsourcing Company Limited, India, all wholly owned subsidiaries of the Company.

Mr. Abhay Agarwal
Practicing Chartered Accountant

Mr. Abhay Agarwal is a practicing Chartered Accountant based at Delhi. He is well experienced in the areas of accounting, finance, management and corporate advisory and his proficiency and competency in the said areas are an asset to the company. Mr. Abhay Agarwal was invited to join the Board of Directors in May, 1995. Mr. Agarwal is a member of Audit Committee and Shareholders Committee of the Company.

Mr. Abhay Agarwal is also a director in Gangotri Laboratories Private Ltd., Sunshine India Pvt. Ltd., Milky Investments & Trading Company, British Health Products (India) Limited, Sahiwal Investment & Trading Company, Upvan Farms and Services Pvt. Ltd., Dabon International Pvt. Ltd., Wetime Investments Private Ltd., Param Investments Private Ltd., Expo Investments Private Ltd., Northern Herbals Private Limited, Intelligent Information Systems Pvt. Ltd and Burman Resorts Pvt. Ltd.

Mr. Ajit Bhushan
Managing Director - Citigroup Venture Capital International

A graduate from Indian Institute of Technology, Delhi in 1985 in Electrical Engineering, with specialization in Computer Science. He joined Citibank India in 1987. Presently, Mr. Ajit Bhushan is a Managing Director in Citigroup Venture Capital International and is responsible for IT & IT enabled services sector investments in Asia Pacific, Latin America and CEEMEA (Central and Eastern Europe, Middle East and Africa). Mr. Ajit Bhushan is a Director in two Indian companies (Daksh Eservices Pvt. Ltd. and ATS Services Pvt. Ltd.), On Bourse Ltd., UK and Citicorp Technology Holdings Inc, USA. Until the merger, Mr. Ajit Bhushan was also a Director in Orbitech Solutions Limited. He is also the Trustee of Orbitech Employees Welfare Trust, India.

Prior to his current assignment, Mr. Ajit Bhushan worked on strategy and business development for the CEEMEA region. This entailed developing a five-year plan for the region, specific responsibility for India and the Middle East countries, and leading the e-Value initiatives. Earlier, Mr. Ajit Bhushan was responsible for developing the Cash Management business for Citibank Poland and worked in Citibank India in the Cash Management business. Mr. Ajit Bhushan joined the Board of Polaris in July 2003. He is also a member of Remuneration & Compensation Committee of Polaris.

Mr. Arvind Kumar
Sr. Lawyer, Supreme Court

Mr. Arvind Kumar, who is an M.A. L.L.B., enrolled as an Advocate on 12th November, 1963 at Kanpur from the U.P. Bar Council at Allahabad and practiced in the High Court of Judicature at Allahabad from 1966 to 1972. Later in the year 1972 he shifted to Supreme Court of India at New Delhi and started practicing there. He is a Senior Lawyer having 40 years of professional standing at Bar, and has gained enough global experience by participating in civil and corporate cases around the world. Presently serving as a Senior Advocate of Supreme Court, he is a reputed corporate legal expert and advises Polaris on issues relating to Corporate Governance and other Legal and Statutory Compliance issues. He was appointed as a Director on the Board of Polaris in May 1995 and chairs the Audit Committee of the Company. Mr. Arvind Kumar is also a Director in Nucsoft Limited, Associated Legal Advisors (P) Limited and Second Innings India (P) Limited.

Dr. Ashok Jhunjhunwala
Head-Department of Electrical Engineering,
Indian Institute of Technology (IIT) Madras, India.

Dr. Ashok Jhunjhunwala, aged 51, is a technical and a research scholar in the field of Engineering and Science. He completed his B.Tech in I.I.T. Kanpur and pursued his M.S., Ph.D from the University of Manie, U.S.A. He is currently the Professor of the Department of Electrical Engineering at the Indian Institute of Technology, Chennai. Professor Jhunjhunwala has over 200 research publications to his credit. Dr. Jhunjhunwala leads the team that developed corDECT, India's indigenous Wireless Local Loop technology that is winning accolades the world over. His research interests span Telecommunications, Computer Networks & Fibre Optics and he is particularly active in developing cost-effective wireless telecommunications solutions. Awarded Dr. Vikram Sarabhai Research Award in 1997, Bhatnagar Award in 1999 and H.K. Firodia award in 2002, Jhunjhunwala's contributions to the fields of Electronics, Informatics, Telematics and Automation have been commendable. Dr. Jhunjhunwala, with his group's mission to enable India to have 200 million telecom and Internet connections, is leading a movement to make India a premier design house for telecom and IT products. Dr. Ashok Jhunjhunwala has also been awarded by the Central Government with Padma Shri for his pioneering work in Science, Engineering and Telecommunications category on the eve of India's 53rd Republic Day. He has been a pioneer in enhancing industry-university interaction in India and is leading an effort to launch Internet Exchange in India. His vision is to provide Internet connection in every village and use it to double the Rural GDP of India.

He was invited to join the Polaris Board in June 2001 as a director and he advises Polaris on various Operational, Strategic and Technical issues. Dr. Jhunjhunwala is a member of Audit Committee, Shareholders Committee and Remuneration & Compensation Committee of the Company.

He is a Director in Bharat Sanchar Nigam Limited, Videsh Sanchar Nigam Limited, Sasken Communications Technologies Ltd., Banyan Networks Ltd., Jataayu Software (P) Ltd., HTL Ltd., Shyam Telecom Limited, Tejas Networks Private Limited, Integrated Soft Tech Solutions Private Limited and Midas Communication Technologies Private Ltd.

He is also a member of Compensation Committee and Audit Committee of Sasken Communications Technologies Limited & Tejas Networks Private Limited. Further Dr. Jhunjhunwala is member of Audit Committee as well as Shareholders Committee of Videsh Sanchar Nigam Limited.

Mr. Dipak K. Rastogi**Head - Citigroup Venture Capital International**

Mr. Dipak K. Rastogi began his career with IBM in Norway and moved to Canada to work with Zurich Insurance Group. In 1982, he graduated from the Richard Ivey School of Business with his Masters in Business Administration. That same year, Mr. Rastogi joined Citibank Canada, and for the next several years Mr. Dipak K Rastogi held various positions including Head of Trading and Investment Banking. In 1991, Mr. Rastogi headed Citibank's Global Derivatives business and was Co-Head of Corporate Finance.

From May 1998 to May 1999, Mr. Rastogi was responsible for building Citigroup's Corporate and Investment Banking activities in Central and Eastern Europe. From May 1999 to January 2001, he was the Group Executive Head of Central & Eastern Europe, Middle East, South Asia and Africa, where Mr. Rastogi was responsible for all aspects of corporate and investment banking activities for these markets. In February 2001, Mr. Rastogi was named as Head of Citigroup Venture Capital International. Mr. Rastogi continues to support the Richard Ivey School of Business, Canada with his membership on the Advisory Board. Also, he is on the Advisory Board of IMD, Switzerland and is a member of the Foundation for CERGE-CI, a Ph.D. program in Prague, Czech Republic. Mr. Rastogi is a Director of Citicorp Technology Holdings Inc., USA.

Mr. Dipak K. Rastogi joined the Board of Polaris in July 2003.

Mr. Govind Singhal**Executive Director**

Govind Singhal is a member of Office of the CEO, and is primarily responsible for operationalizing and executing Lakhsya Plan of the Company. Govind Singhal also has additional responsibility of providing leadership to Business Solutions Group, Corporate Quality and Corporate IT infrastructure for Polaris. He is also CEO of Optimus Outsourcing Company Limited.

With a Master's degree in Physics from Delhi University, he started his career with Nucleus Software in 1985 setting up its Mumbai branch office. In 1991, he joined Bank of America and went on to manage their technology infrastructure and data center operations. He joined Polaris in 1996 and was placed in charge of a separate Strategic Business Unit (SBU5), which under his stewardship became one of the largest SBUs at Polaris both in terms of revenue and manpower. He headed the Strategic Practice Unit on the Banking vertical specializing in Consumer Credit and Insurance and the EG Orion delivery organization which was engaged in delivery of solutions for Banking and Financial Services. He had been responsible for worldwide Business Development in the BFSI (Banking, Financial Services and Insurance) segment.

He was co-opted to the Board of Polaris on 18th October, 2000. He is also a director on the Board of Polaris Software Lab Japan K.K., Japan, Polaris Retail Infotech Limited, India and Optimus Outsourcing Company Limited, India all subsidiaries of the Company. He is also a member of Shareholders Committee of the Company."

Mr. R.C.Bhargava**Former Chairman and Managing Director of Maruti Udyog Ltd.**

A post graduate in Mathematics from Allahabad University, India, Mr. R C Bhargava joined the Indian Administrative Service (I.A.S.), in 1956 and stood 1st in the batch and was allotted to the U.P. cadre. He is also a post graduate in Development Economics from Williams College, Williamstown (Mass), USA.

From 1968 to 73, he was the Agricultural Production Commissioner and Secretary to the Government of the State of Jammu and Kashmir for the Departments of Agriculture, Horticulture, Animal Husbandry, Forests, Co-operation. He was a Special Assistant to the Union Minister of Energy, Government of India from 1973 to 74, and between 1974 to 78, he served as the Joint Secretary to the Government of India, Ministry of Energy and the Cabinet Secretariat. Thereafter he moved to Bharat Heavy Electricals Limited as the Director (Commercial). From 1981 to 97, he was working in Maruti Udyog Limited. Initially on deputation from I.A.S. as Director (Marketing), in 1985 he was appointed as the Managing Director and as a Chairman cum Managing Director in 1990. In 1992, when Suzuki acquired 50% equity in Maruti, he continued as a Managing Director as Suzuki's nominee. While in Maruti, he was on the National Committee of the Confederation of Indian Industry (CII), a member of the Steering Committee of CII as well as Chairman of the Economic Affairs Committee of CII for four years.

Mr. Bhargava is a Director in IL&FS Limited, Grasim Industries Limited, Machino-Basell (India) Limited, RCB Consulting Pvt. Ltd., Lord Krishna Bank Ltd., Roulunds Codan India Ltd. Maruti Udyog Limited and Omax Auto Ltd. Further he chairs the Board Meeting of Omax Auto Limited and Audit Committee of IL & FS Ltd., Machino Basell (India) Ltd. and Roulunds Codan India Ltd.

He is a member of Audit Committee of Grasim Industries Ltd. and Shareholder Grievance Committee of Maruti Udyog Ltd.

Mr. Bhargava was invited to join the Board of Polaris in March, 1999. He chairs the Polaris Board Committee on Remuneration & Compensation Committee and is a member of the Audit Committee. He is also a Director in Optimus Outsourcing Company Limited which is a subsidiary of Polaris and chairs the Compensation Committee of Optimus.

Mr. Ram Bhagwat
President & Executive Director

Mr. Ram Bhagwat aged 57, was the Managing Director of Orbitech Solutions Limited at the time of its merger with Polaris Software Lab Limited in May 2003. Prior to this, he was the Managing Director of COSL (until October 2001) and was the Technology Director for Citibank, India for 16 years. He was also a Non-executive Director on the Board of CITIL (currently i-flex Solutions Limited) from 1992-1999 and on the Board of e-Serve International Ltd. from 1993-2000.

After an M.Tech from IIT-Kanpur, Mr. Bhagwat started his career with IBM (1968-78) and was awarded the IBM Chairman's Award for Professional Excellence, 1974. He also worked for BILT for 8 years before joining Citibank.

Mr. Bhagwat joined the Board of Polaris in July 2003 and has been President & Executive Director since then. He is also a member of the Shareholders Committee of the Company. Further, Mr. Bhagwat is a member of the Office of the CEO and is primarily responsible for operationalising and executing Lakshya plan of the company.

Mr. Satya Pal
Former Secretary (Telecom), Chairman MTNL and a Telecom Expert

A graduate in Electrical Technology and Electrical Communication Engineering from Indian Institute of Science, Bangalore, Mr. Satya Pal joined the Department of Telecommunications in 1955 and became member of Telecom Board in 1986. In 1988 he became Secretary of Department of Telecommunications and Chairman, Telecom Board and Chairman, MTNL. He retired in August 1989. He is a Founder Fellow of The Institute

of Electronics and Telecommunication Engineers. Mr. Satya Pal was invited to join the Board of Polaris in April 1997. He is the Chairman of Shareholders Committee and a member of Remuneration & Compensation Committee of Polaris.

Mr. Satya Pal advises Polaris on Operational and Strategic issues. He is also a Director in Paramount Communications Limited.

Mr. V. Balaraman
CEO - Empower Works Limited

A Chemical Engineer from University of Madras and an MBA from IIM, Ahmedabad, he joined the former Ponds (India) Limited in 1970 as its first Management Trainee in marketing. After various assignments in marketing and sales, product development, quality assurance and purchasing, in 1984 he became the Executive Vice President - Technical & Exports of Ponds. In 1991, he took over as the Managing Director of Ponds. After the merger of Ponds with Hindustan Lever Limited (HLL), Mr. V. Balaraman became HLL's Executive Director - Exports. He was also a Member of the Management Committee of HLL. He had made significant contributions to the integration of Ponds with HLL.

Mr. V. Balaraman is also on the Board of Pond's Exports Limited, Mahindra Industrial Park Ltd. He is also Chairman and Director in Computer Age Management Services Pvt. Limited and a Member of General Committee of Madras Chamber of Commerce and Industry, Chennai, Pond's Supervisory Staff Welfare Trust and Ullas Trust. He was appointed as a Director on the Board of Polaris in July 2002. Mr. Balaraman is also a member of Shareholders Committee of Polaris. He is currently the CEO and member of the Board of Directors of Empower Works Limited.

Mr. Venkatachalam Krishnakumar
Vice President & Regional Director (Asia Pacific) Citigroup

Mr. Venkatachalam Krishnakumar is Vice President and Regional Director of Operations & Technology for Global Corporate & Investment Bank and Global Consumer Bank, Asia Pacific Region. Mr. Venkatachalam Krishnakumar is responsible for Citigroup's processing functions in 14 countries in Asia and the creation of Regional Processing Centers in Cash Management, Trade Services, Securities Custody and FX/Derivatives. His technology responsibilities include Software Applications Development & Maintenance Activities, the Regional Data Center and Citigroup's Network Infrastructure (DTI), for Asia Pacific region. Mr. Krishnakumar began his career with Citibank in 1974. During his tenure with the Bank, he founded and was Chairman/CEO of Citicorp Overseas Software Limited in Bombay, India (1986) and has acted in various capacities in the bank, ranging from Chief Financial Officer for the International Banking & Finance Group (latterly Emerging Markets) to Chief of Staff, to the President of Citicorp/Citibank in New York.

Mr. Venkatachalam Krishnakumar joined the Board of Polaris in July 2003. He is also a Director of E-Serve International Ltd.

3. Audit Committee of the Board

The Company has a qualified and independent Audit Committee, all being Non-executive Director. The Chairman of the Committee is an Independent Director. During the year, Dr. Ashok Jhunjunwala was appointed in place of Mr. M.L. Garg who resigned as a Director from the Board. The Company Secretary acts as the Secretary to the Committee.

Further, the Audit Committee has met 6 times during the year 2003-2004 on 29th May 2003, 8th July 2003, 27th July 2003, 21st October 2003, 24th January 2004 & 28th January 2004.

Members of the Audit Committee and the number of Meetings Attended by each director for the financial year 2003-2004			
Name	Designation	Meetings Attended in person	Meeting attended through Video Conference
Arvind Kumar	Chairman / Non-Executive Director	6	Nil
Abhay Agarwal	Non-Executive Director	6	Nil
Ashok Jhunjhunwala**	Non-Executive Director	Nil	1
M L Garg*	Non-Executive Director	Nil	Nil
R C Bhargava	Non-Executive Director	6	Nil

* Mr. M L Garg has resigned as a member of Board and Committee on 28.7.03.

** Dr. Ashok Jhunjhunwala was appointed as a member of Audit Committee on 22.10.03.

Powers of the Committee:

- ❖ To investigate any activity within its terms of reference.
- ❖ To seek information from any employee including representative of Prime Shareholders (subject to their internal approvals).
- ❖ To obtain outside legal or other professional advice, if necessary.
- ❖ To secure attendance of outsiders with relevant expertise, if it considers necessary.
- ❖ To ensure that the financial statement is correct, sufficient and credible.
- ❖ Recommending the appointment and removal of external auditor.
- ❖ Compliance with accounting standards
- ❖ Compliance with stock exchange and legal requirements concerning financial statements.
- ❖ Reviewing with the management and auditors, the adequacy of internal control systems.
- ❖ Reviewing the adequacy of internal audit function.

Functions of the Committee:

Reviewing with management the annual financial statements before submission to the board, focusing primarily on:

- ❖ Any changes in accounting policies and practices.
- ❖ Major accounting entries based on exercise of judgement by the management.
- ❖ Qualifications in Draft Audit Report.
- ❖ Significant adjustments arising out of audit.
- ❖ The going concern assumption.
- ❖ Compliance with accounting standards.
- ❖ Compliance with stock exchange and legal requirements concerning financial statements
- ❖ Any related party transactions i.e. transactions of the company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of company at large.

Reviewing with the management, external and internal auditors, the adequacy of internal control systems.

Reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.

Discussion with internal auditors, any significant findings and follow up there on.

Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.

Discussion with external auditors before the audit commences, nature and scope of audit as well as have post-audit discussion to ascertain any area of concern.

Reviewing the company's financial and risk management policies.

Investigate the reasons for substantial defaults in the payment to the shareholders (in case of non payment of declared dividends) and creditors.

4. Remuneration & Compensation Committee

Board in their meeting held on 22.10.2003, merged the Remuneration Committee with the Compensation Committee and named the new committee as "Remuneration & Compensation Committee". The Committee met on 22.10.03 and 29.01.04. The Committee consists of following directors:

Members of the Remuneration & Compensation Committee and the number of Meetings attended by each director for the financial year 2003-2004 [i.e. on and after 22.10.2003]		
Name	Designation	Meetings Attended
R C Bhargava	Chairman / Non-Executive Director	2
Ajit Bhushan	Non-Executive Director	2
Ashok Jhunjhunwala	Non-Executive Director	1
Satya Pal	Non-Executive Director	2

The remuneration policy of the Company has been so structured in order to match the market trends of the IT industry. The Board in consultation with the Remuneration & Compensation Committee decides the remuneration policy for Whole-time Directors. The Company has made adequate disclosures to members on the remuneration paid to directors from time to time. Remuneration/Commission payable to Directors is determined by the contributions made by respective Directors for the betterment of the Company.

The Committee in their meeting held on 29.01.04 approved the re-appointment of Mr. Vinay Garg as a Financial Controller for US operations and new Associate Stock Option Plan, 2003.

Remuneration policy

Details of Remuneration/Commission paid/payable to each Director is given here under:-

Gross Remuneration paid/ payable to Directors for the financial year 2003-2004					
Name of the Director	Salary, Perquisites & Allowances	Contribution to PF & other funds	Commission #	Sitting Fees	Stock Options
Arun Jain	2,533,405	183,600	0	0	0
Abhay Agarwal	0	0	300,000	75,000	10,000
Ajay Relan*	0	0	0	0	0
Ajit Bhushan**	0	0	0	0	0
Arvind Kumar	0	0	300,000	65,000	10,000
Ashok Jhunjhunwala	0	0	0	35,000	10,000
Dipak Kumar Rastogi**	0	0	0	0	0
G N Mathur*	564,100	40,000	0	0	0
Govind Singhal	5,038,154	440,000	0	0	0
M L Garg*	0	0	0	0	10,000
R C Bhargava	0	0	300,000	70,000	10,000
Ram Bhagwat**	11,823,851	596,129	0	0	0
Satyapal	0	0	300,000	55,000	10,000
V. Balaraman	0	0	300,000	30,000	10,000
Venkatachalam					
Krishnakumar**	0	0	0	0	0

* Resignation approved by Board of Directors on 28th July, 2003

** Appointed as Director w.e.f. 28th July 2003

Provisionally provided in the Books of Accounts subject to approval of Shareholders

The committee also finalizes among other things, the procedures and modalities for giving effect to the Associate Stock Option Plan which inter alia includes determination of eligibility criteria, maximum number of options/ shares offered to each Associate and the aggregate number of options / shares offered during the period covered under the Scheme, identification of classes of Associate entitled to participate in the scheme, framing of a detailed pricing formula, mode or process of exercise of the option etc.

SEBI has vide circular No. SEBI/PMD/MBD/ESOP/2/2003/30/06 dated 30th June 2003 revised the existing guidelines on Employees Stock Options Scheme (ESOP). Since none of the previous schemes viz ASOP 2000 and ASOP 2001 are as per new SEBI (ESOP & ESPS) Guidelines,1999 it was not possible to issue any further new options under the said option schemes.

In view of this, during the year, the Company introduced a new Associate Stock Option Plan 2003 [ASOP 2003] and obtained the shareholders consent in this regard in the Extra-ordinary General Meeting held on 12th March 2004. The objective of said ASOP 2003 is to encourage ownership of the Company's equity by its Associates on an ongoing basis.

Before coming into force of new SEBI (ESOP & ESPS) Guidelines 1999, the Company, during the year has granted options to the associates as detailed hereunder:-

Sl.No.	Scheme	Date of Grant	Option Price	No. of Associates	No. of Options
1	ASOP 2000	01.04.2003	123.65	145	113,000
2	ASOP 2001	01.04.2003	123.65	5	50,000
	TOTAL			150	163,000

Note: The exercise price is the market price in the National Stock Exchange Ltd., on the date of grant.

Compensation Committee in their Meeting held on 1st April 2003 granted the said Options to the Associates.

Prior to merger of Remuneration Committee with the Compensation Committee, the composition of the individual Committee were as under:

A. Compensation Committee

Name of the Member	Designation	No. of Meeting	
		Held	Attended
Satya Pal	Chairman / Non Executive Director	2	1
Abhay Agarwal	Non Executive Director	2	2
G N Mathur	Executive Director	2	1
R C Bhargava	Non Executive Director	2	2

The Committee met on 01.04.2003 & 27.07.2003

B. Remuneration Committee

Name of the Member	Designation	No. of Meeting	
		Held	Attended
R C Bhargava	Chairman / Non Executive Director	2	2
Abhay Agarwal	Non Executive Director	2	2
Arvind Kumar	Non Executive Director	2	2

The Committee met on 29.05.2003 & 27.07.2003

5. Shareholders Committee of the Board

Board in their meeting held on 22.10.2003 merged the Share Issue & Allotment Committee with the Shareholders Committee and consequently power and functions of the Shareholders Committee were increased accordingly. The Committee met on 22.10.2003 & 29.01.2004. The committee consists of the following Directors:

Members of the Shareholders Committee and the number of Meetings attended by each Director for the financial year 2003-2004 [i.e. on and after 22.10.2003]		
Name	Designation	Meetings Attended
Satya Pal	Chairman / Non Executive Director	2
Abhay Agarwal	Non Executive Director	2
Ashok Jhunjhunwala	Non Executive Director	1
Govind Singhal	Executive Director	2
Ram Bhagwat	Executive Director	2
V. Balaraman	Non Executive Director	1

The Committee specifically looks into redressing of shareholder complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. The purpose of forming this Committee is to uphold the basic rights of the shareholders including right to transfer and registration of shares, obtaining relevant information on the company on timely and regular basis, participating and voting in shareholder meetings, electing members of the board and sharing in the residual profits of the corporation. Further the Committee is empowered to act on behalf of the Board, in the matters connected with allotment of shares, issuing of duplicate share certificates, split and consolidation of shares into marketable lots etc.

Mr. Anubhav Kapoor, Company Secretary is the Compliance Officer

During the year, total 1,874 Requests/ Complaints have been received by the Company as detailed hereunder:

Sl. No.	Nature Of Complaint/ Requests Received From 01.04.2003 To 31.03.2004	Received	Solved	Pending
A.	Requests			
1	Change of Address in the Register of Member	128	128	Nil
2	Change/Correction of Bank Mandate	134	134	Nil
3	General correspondence relating to NSDL/CDSL operations	15	15	Nil
4	Revalidation of dividend warrants	125	125	Nil
5	Revalidation of refund orders	1	1	Nil
6	Issue of duplicate share certificates	9	9	Nil
7	Split of share certificates	186	186	Nil
8	Name corrections in the share certificate	7	7	Nil
9	Request for stop transfer	8	8	Nil
10	Request for consolidation/ sub division/duplicate of shares	1	1	Nil
11	Transfer of shares	115	115	Nil
12	Transmission of shares	Nil	Nil	Nil
13	Transposition of shares	Nil	Nil	Nil
14	Demat / Remat requests	741	741	Nil
15	ECS updation	155	155	Nil
16	Others	155	155	Nil
	Total A	1,780	1,780	Nil

B.	Complaints	Received	Solved	Pending
1	Non receipt of share certificate after transfer/split	22	22	Nil
2	Non receipt of dividend warrants	57	57	Nil
3	Non receipt of Annual Report	13	13	Nil
4	Non-receipt of refund order	2	2	Nil
	Total B	94	94	Nil
	Total (A + B)	1,874	1,874	Nil

The Company, during the year has issued/allotted 46,204,517 shares as detailed hereunder:

- (i) 353,968 number of Equity Shares of Rs.5/- each issued/ allotted pursuant to conversion of Associate Stock Options as detailed hereunder:

Date of Allotment	Scheme	Option Price (Rs.)	No. of Allottees	No. of Shares	Total
9-May-03	ASOP 2000	71.50	46	14,980	43,875
	ASOP 2001	57.00	44	18,195	
	ASOP 2001	71.50	7	10,700	
22-Oct-03	ASOP 2001	57.00	12	3,555	7,955
	ASOP 2000	71.50	7	1,000	
	ASOP 2001	71.50	3	3,400	
26-Dec-03	ASOP 2001	57.00	317	157,735	233,813
	ASOP 2001	57.00	19	8,205	
	ASOP 2001	71.50	17	11,300	
	ASOP 2001	71.50	5	5,493	
	ASOP 2000	71.50	15	2,780	
	ASOP 2000	71.50	161	48,300	
29-Jan-04	ASOP 2001	57.00	103	32,385	68,325
	ASOP 2000	71.50	57	14,340	
	ASOP 2001	71.50	14	17,300	
	ASOP 2000	194.00	7	4,300	
	Total		834	353,968	353,968

- (ii) In addition to above, 45,850,549 number of Equity Shares of Rs. 5/- each allotted on July 12, 2003 to the shareholders of erstwhile OrbiTech Solutions Limited pursuant to the Scheme of Amalgamation accorded by the shareholders and further sanctioned by Hon'ble High Court at Chennai & Mumbai.

In view of above, the outstanding issued, subscribed and paid-up equity share capital increased from 51,494,665 shares during the previous year to 97,699,182 shares as at March 31, 2004.

Prior to merger of Share Issue & Allotment Committee with the Shareholders Committee, the composition of the individual Committee were as under:

A. Shareholders Committee

Name of the Member	Designation	No. of Meeting	
		Held	Attended
Satya Pal	Chairman / Non Executive Director	2	2
Ajay Relan	Non Executive Director	2	Nil
G N Mathur	Executive Director	2	2

The Committee met on 30.05.2003 & 26.07.2003.

B. Share Issue & Allotment Committee

Name of the Member	Designation	No. of Meeting	
		Held	Attended
G N Mathur	Chairman / Executive Director	3	3
Abhay Agarwal	Non Executive Director	3	3
Arvind Kumar	Non Executive Director	3	3
R C Bhargava	Non Executive Director	3	3

The Committee met on 09.05.2003, 30.05.2003 & 12.07.2003

6. Corporate Governance & Risk Review Committee

Board in its meeting held on 22.10.2003 constituted a Corporate Governance and Risk Review Committee. The Committee met on 29.01.2004 and 29.02.2004. No sitting fee is being paid to the members participating in the meeting. The composition of the Committee is given here under:-

Name of the Member	Designation	No. of Meeting	
		Held	Attended
V. Balaraman	Chairman/ Non Executive Director	2	2
Abhay Agarwal	Non Executive Director	2	2
Arvind Kumar	Non Executive Director	2	2
Ram Bhagwat	Executive Director	2	2
Venkatachalam Krishnakumar	Non Executive Director	2	Nil

Functions of the Committee

- ❖ To ensure compliance of various procedures and regulations related to Corporate Governance;
- ❖ To review the various guidelines, procedures and safeguards being taken by the company to minimize the incidence of various risks being faced by the Company in the dynamic business environment; and
- ❖ To do such duties as may be assigned to it by the Board from time to time.

7. Share Transfer Committee

The share transfer committee is empowered to consider and approve the physical transfer, transmission and transposition etc. of shares of Company. During the year Mr. Govind Singhal was appointed in place of Mr. G N Mathur due to his resignation from the Board. The Committee has met 18 times during the year 2003-2004. The committee is now comprised of the following members:

Name of Member	Designation
Govind Singhal	Executive Director
N Vaidyanathan	Chief Finance Officer
Anubhav Kapoor	Company Secretary

8. Particulars of the previous three Annual General Meetings and Extra-ordinary General Meeting

Meeting Date	8th AGM 16th June, 2001 11.30 am	9th AGM 6th September, 2002 11.30 am	10th AGM 19th September, 2003 2.30 pm	EGM 30th December, 2002 2.00 pm.	EGM 30th December, 2002 4.00 pm.	EGM 12th March 2004 3.30 p.m.
Venue	Kamaraj Anangam, Chennai	Music Academy, Chennai	Kamaraj Arangam, Chennai	Kamaraj Arangam, Chennai	Kamaraj Arangam, Chennai	Music Academy, Chennai
S.No.	Resolutions Passed	Type	Resolutions Passed	Type	Resolutions Passed	Type
1	Adoption of Annual Accounts (31/3/01)	O	Adoption of Annual Accounts (31/3/03)	O	Amalgamation of Orbitech Solutions Limited with the Company	S
2	Declaration of Dividend (30%)	O	Declaration of Dividend (35%)	O	Alteration of Capital Clause in the Articles of Association	S
3	Appt. of M/s.Bhanat S. Raut & Co, as Statutory Auditors	O	Appt. of M/s.Bhanat S. Raut & Co, as Statutory Auditors	O	Appointment of Mr. Govind Singhal as a whole-time Director u/s 269 of the Act	S
4	Appt. of Mr.Arvind Kumar as a Director under sec 256	O	Appt. of Mr. Satya Pal as a Director under sec 256	O	Approval of new Associate Stock Option Plan 2003 (ASOP 2003)	S
5	Appt. of Mr. R C Bhangava as a Director under sec 256	O	Appt. of Mr. Arvind Kumar as a Director under sec 256	O	Approval for extension of benefit of ASOP 2003 to employees & Directors of subsidiary/holding companies	S
6	Appt. of Mr.Govind Singhal as a Director under sec 257	O	Appt. of Dr.Ashok Jhunjhunwala as a Director under sec 257	O	Appointment of Mr. Vinay Garg as a Financial Controller (US Operations) under sec. 314	S
7	Issue of ADR/GDR	S	Appointment of Mr. V. Balaram as a Director under sec 257	O		
8	Reappointment of Mr.Arun Jain as a Managing Director for 5 years	O	Reappointment of Mr.G.N.Mathur as a Whole-time Director for 2 years	O		
9	Alteration of Capital Clause in the Memorandum of Association	O	Amendment of Associate Stock Option Plan 2000 & 2001	S		
10	Alteration of Capital Clause in the Articles of Association	S				
11	Capitalisation of free reserves for issue of bonus shares	S				
12	Appointment of Mr. Vinay Garg as a Financial Controller for US operations	S				
13	-	-	Approval of shareholders pursuant to Section 309(4) of the Companies Act.	S		
14	-	-	Adoption of new MOA u/s 31(f) of the Companies Act.	S		
Type - O=Ordinary Resolution S=Special Resolution						
Note: No resolutions were put through postal ballots till the last AGM / Extra-Ordinary General Meeting						

9. Disclosures

Related Party Transactions

Related Party Transactions are defined as transactions of the Company of material nature, with Promoters, Directors or the Management, their subsidiaries or relatives etc. that may have potential conflict with the interest of the Company at large.

Details on materially significant related party transactions are given in the appended financial statement under note 13 of the notes to accounts annexed to the financials.

Statutory Compliance, Penalties & Strictures

Details of non-compliance by the Company, penalties, strictures imposed on the Company by the stock Exchange or SEBI or any other statutory authority, on any matter related to capital markets during the last three years

-None-

10. Means of communication

Quarterly and Half-yearly financial results

Quarterly/Half-yearly financial results of the Company are published in one widely circulated English Newspaper and a Vernacular (Tamil) Newspaper. The results are also promptly forwarded to stock exchanges in which the shares of the Company are listed and simultaneously displayed in EDIFAR and on the Company's Website www.polaris.co.in. The website also displays all official news releases issued by the Company from time to time.

Investor Education

Investors are being provided with timely information on all company related matters including recruitment/appointment and remuneration of Executive Directors, circulars on the advantages of Dematerialization and sub-division of shares were sent to shareholders at the appropriate time.

The company's official Website www.polaris.co.in has in it a separate page for investor relations in which the quarterly, half-yearly and annual results of the Company are displayed. All press releases issued by the Company from time to time are informed to the respective stock exchanges in which the shares of the Company are listed and the same are also hosted in the Company's web site for the knowledge of the investors. A separate column in the website called "Frequently Asked Questions" is given, which answers substantially all the expected queries of investors about the Company, its history, its promoters, the public issue, employees, its Registrars, share transfers, dematerialization, etc.

The Management Discussion & Analysis report (MDA)

The MDA giving an overview of the Industry, Company's business and its Financials etc., is provided separately as a part of this Annual Report.

11. General Shareholder information

Date of incorporation	5 th of January 1993
Registered Office	Polaris House, 244, Anna Salai, Chennai 600 006
Date and time of Annual General Meeting	29th July 2004 at 3.30 p.m.
Venue of Annual General Meeting	Music Academy, Mini Hall Old No.306, New No.168 T.T.K. Road, Chennai - 600 014
Financial Calendar (tentative and subject to change)	
Financial reporting for the first quarter ending June 30, 2004	Between 20 th to 30 th of July 2004
Financial reporting for the second quarter ending September 30, 2004	Between 15 th to 25 th of October 2004
Financial reporting for the third quarter ending December 31, 2004	Between 15 th to 25 th of January 2005
Financial results for the year ending March 31, 2005	Between 20 th to 30 th of April 2005
Annual General Meeting for the year ending March 31, 2005	June / July 2005
Date of Book closure for dividend	From 20.07.2004 to 29.07.2004
Dividend Payment Date	Within 30 days from the date of Annual General Meeting
Listing on Stock Exchanges	Polaris shares are traded in 1. Madras Stock Exchange Ltd. w.e.f. 27 th September 1999 2. The Stock Exchange, Mumbai w.e.f. 29 th September 1999 3. National Stock Exchange w.e.f. 24 th November 1999.
Reuters code	POLS.BO (BSE) POLS.NS (NSE)
Scrip Code (BSE)	532254
Scrip Code(NSE)	POLARIS
ISIN Code	INE763A01023
Bloomberg Code	POL@IN

- ❖ The Company's scrips are traded in “**Group A**” category in the Stock Exchange, Mumbai since 26th March 2001.
- ❖ The Company hereby confirms that the listing fee for the year 2004-05, payable to each of the stock exchanges pursuant to Clause 38 of Listing Agreement in which the Company's shares are listed have been paid.

Registrars and Share Transfer Agents Karvy Computershare Private Limited
Unit: Polaris Software Lab Limited
"Karvy House" 46, Avenue 4,
Street No.1, Banjara Hills,
Hyderabad -500034
Tel: 23312454/ 23320251/ 71
E-mail: mailmanager@karvy.com
www.karvy.com

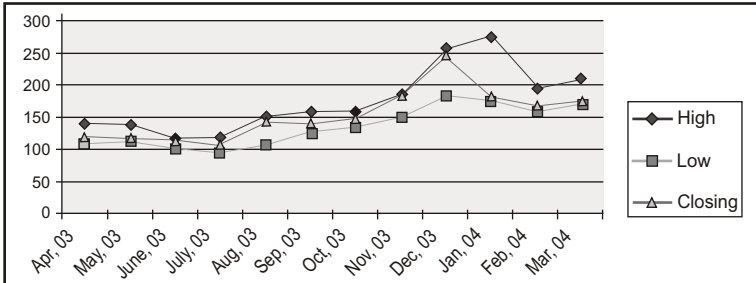
Market Price Data of BSE and NSE: High, Low, Closing prices and number of shares traded during each month in the last financial year

STOCK MARKET DATA FOR THE PERIOD APRIL 2003 TO MARCH 2004 FROM MUMBAI AND NATIONAL STOCK EXCHANGES

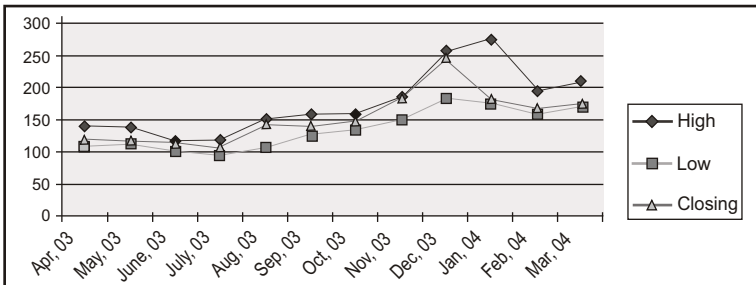
Month	BSE Price High	BSE Price Low	BSE Price Closing	BSE Volume for the month	NSE Price High	NSE Price Low	NSE Price Closing	NSE Volume for the month
Apr 03	139.70	107.80	119.60	27,520,525	139.70	107.70	119.80	65,828,294
May 03	138.25	110.80	116.75	19,092,620	138.40	111.00	117.00	49,739,864
June 03	116.20	99.05	112.90	14,392,856	116.15	99.10	113.05	34,530,478
July 03	119.20	95.00	107.15	13,303,566	119.25	96.60	107.55	33,013,057
Aug 03	151.45	106.60	142.30	16,997,571	151.80	107.00	141.00	46,623,624
Sep 03	159.00	125.30	140.30	20,334,306	155.35	125.20	140.60	56,267,788
Oct 03	157.90	134.10	147.55	15,096,558	157.80	134.20	146.50	40,416,553
Nov 03	184.75	148.50	183.15	28,492,974	184.75	150.00	183.10	69,352,537
Dec 03	257.55	184.25	245.70	36,619,175	257.40	183.00	244.90	87,350,305
Jan 04	276.85	175.00	182.20	33,422,559	278.40	175.05	182.75	74,918,114
Feb 04	195.90	157.10	168.00	27,338,614	196.40	157.00	167.30	64,883,963
Mar 04	210.40	169.40	175.40	34,379,580	210.75	169.55	175.55	82,785,416
TOTAL				286,990,904	TOTAL			705,709,993

Graphical representation of the movement of high, low and closing market prices of the Company's shares quoted in the Mumbai (BSE) and National(NSE) Stock Exchanges from April, 2003 to March, 2004.

Monthly High, Low and Closing Prices of Company's Shares in BSE



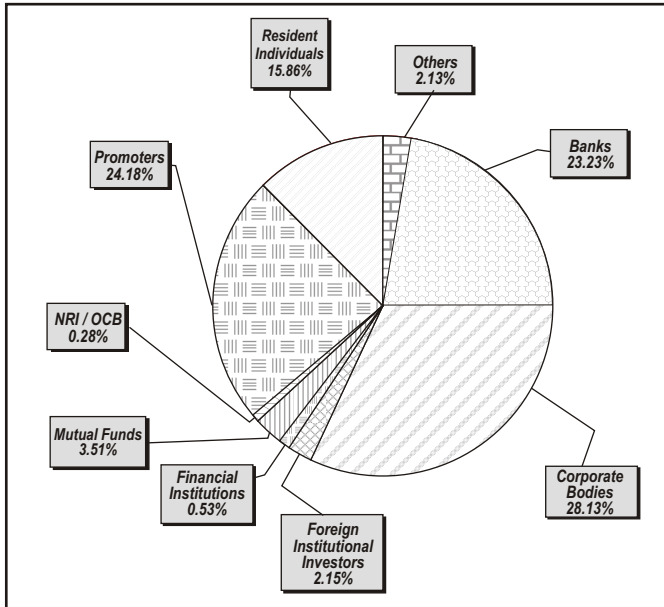
Monthly High, Low and Closing Prices of Company's Shares in NSE



Shareholding Pattern of the Company as on 31st March 2004

Sl. No.	Category	No of Holders	No of Shares	% Holding
1	Banks	9	22,700,595	23.23
2	Corporate Bodies	1,749	27,479,406	28.13
3	Foreign Institutional Investors	11	2,101,535	2.15
4	Indian Financial Institutions	3	513,958	0.53
5	Mutual Funds	23	3,428,919	3.51
6	NRI & OCBs	366	274,602	0.28
7	Promoters	6	23,626,314	24.18
8	Resident Individuals	37,531	15,489,480	15.86
9	Others	11	2,084,373	2.13
	Total	39,709	97,699,182	100

The non-promoter holding in the Company as on 31st March 2004 is 75.82%



DISTRIBUTION SCHEDULE AS ON 31.03.2004								
Sl. No	Category From To	No. of Holders	Cumulative Holders	% of holders	No of Shares	Cumulative Shares	% of Shares	
	Silver	Up to 500	36,171	36,171	91.09	4,586,947	4,586,947	4.69
	Gold	500 - 1000	1,792	37,963	4.51	1,361,720	5,948,667	1.39
	Diamond	1000 - 5000	1,383	39,346	3.48	2,832,044	8,780,711	2.90
	Radium	5000 - 10000	167	39,513	0.42	1,148,725	9,929,436	1.18
	Platinum	10000 +	196	39,709	0.49	87,769,746	97,699,182	89.84
	TOTAL		39,709		100	97,699,182		100
	Physical							
	Silver	Up to 500	2,031	2,031	93.21	344,927	344,927	57.98
	Gold	500 - 1000	53	2,084	2.43	35,400	380,327	5.95
	Diamond	1000 - 5000	86	2,170	3.95	138,643	518,970	23.31
	Radium	5000 - 10000	7	2,177	0.32	41,600	560,570	6.99
	Platinum	10000 +	2	2,179	0.09	34,300	594,870	5.77
	TOTAL		2,179		100.00	594,870		100
	Demat							
	Silver	Up to 500	34,140	34,140	90.97	4,242,020	4,242,020	4.37
	Gold	500 - 1000	1,739	35,879	4.63	1,326,320	5,568,340	1.37
	Diamond	1000 - 5000	1,297	37,176	3.46	2,693,401	8,261,741	2.77
	Radium	5000 - 10000	160	37,336	0.43	1,107,125	9,368,866	1.14

Platinum 10000 + 194 37,530 0.52 87,735,446 97,104,312 90.36

	TOTAL	37,530		100	97,104,312	100
Comparative distribution schedule						
Benpos Dates	Physical Shares	Physical Shares	Demat Shares	Demat Shares	Total Shares	Total Shares
	Nos.	%	Nos	%	Nos.	%
31/03/04	594,870	0.61	97,104,312	99.39	97,699,182	100
31/03/03	707,168	1.37	50,787,497	98.63	51,494,665	100
	Holder	Holder	Holder	Holder	Holder	Holder
	Nos	%	No	%	Nos	%
31/03/04	2,179	5.49	37,530	94.51	39,709	100
31/03/03	2,678	6.37	39,376	93.63	42,054	100

Share Transfer System

The application for transfers, transmission and transposition are received by the Company at its Registered office address at Chennai or at M/s Karvy Computershare Private Limited, Registrar and Transfer Agents, Hyderabad. As the Company's shares are currently traded in dematerialized form, the transfers are processed and approved in the electronic form by NSDL/CDSL through their depository participants. The Registrar & Share Transfer Agents on a regular basis processes the physical transfers and the duly transferred certificates sent to respective transferee on priority basis.

Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity

-Not applicable-

Share Transaction Regulatory System in place for controlling insider trading policy on Insider Trading

A Policy on insider Trading has been implemented and continues to be in force since December 1999. This Policy deals with the rules, regulations and process for transactions in the shares of the Company and shall apply to all transactions and for all associates in whatever capacity they may be, including Directors. This code forms part and parcel of the service conditions of the employees of the Company.

Locations

Polaris Software Lab Ltd. has its worldwide headquarter in Chennai, twelve development centers in India, offices in Chennai, New Delhi, Hyderabad, Mumbai, Riyadh and four more in the US. Polaris Software Lab Ltd also operates wholly owned subsidiaries in Switzerland, Germany, Australia, Singapore, UK, Ireland and Japan.

Address for correspondence

The Company Secretary
POLARIS SOFTWARE LAB LIMITED
Regd. Office : Polaris House
244, Anna Salai, Chennai - 600 006
Phone 044-2852 4154, Fax : 044-2852 3280
E-mail: investor@polaris.co.in

Place : Chennai
Date : 19 May 2004

By Order of the Board,
For Polaris Software Lab Limited

AUDITORS' CERTIFICATE ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE UNDER CLAUSE 49 OF THE LISTING AGREEMENT.

TO THE MEMBERS OF POLARIS SOFTWARE LAB LIMITED

We have examined the compliance of conditions of Corporate Governance by Polaris Software Lab Limited (“the Company”) for the year ended on 31st March 2004, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreements.

We state that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Shareholders/Investors Grievance Committee, except in cases of any legal disputes or constraints.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the Management has conducted the affairs of the company.

*For **Bharat S Raut & Co.**
Chartered Accountants*

Sd/-
Subramanian Suresh
Partner
Membership No.83673

Chennai
19 May 2004

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AUDITORS' REPORT

Financial Statements for the year ended 31st March 2004

AUDITORS' REPORT

To the Members of Polaris Software Lab Limited

1. We have audited the attached Balance Sheet of Polaris Software Lab Limited ("the Company"), as at 31 March 2004, the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956 ('the Act'), we enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments referred to in paragraph 3 above, we report that:
 - (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (ii) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - (iii) The Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (iv) In our opinion, the Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;
 - (v) On the basis of written representations received from the directors, as on 31 March 2004, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act;
 - (vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Act, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - a. in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2004;
 - b. in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
 - c. in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

for **Bharat S Raut & Co**
Chartered Accountants

Subramanian Suresh
Partner
 Membership No: 83673

Chennai
 May 19, 2004

Annexure to the Auditors' Report to the Members of Polaris Software Lab Limited as of and for the year ended 31 March 2004

With reference to the annexure referred to paragraph 3 of the Auditors' report to the members of Polaris Software Lab Limited ("the Company"), we report that:

- 1 a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
b) The Company has a phased programme of physical verification of its fixed assets which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. In accordance with such programme, the Management has physically verified certain fixed assets during the year and no material discrepancies were noticed on such verification.
c) Fixed assets disposed off during the year were not substantial and therefore do not affect the going concern assumption.
- 2 The Company's nature of operations does not require it to hold inventories. Accordingly, clause 4(ii) of the Order is not applicable.
- 3 a) The Company has granted interest free advances repayable on demand to two wholly owned subsidiary companies covered in the register maintained under Section 301 of the Act. The maximum amount involved during the year was Rs.76,068,980 and the year end balance of advances granted to such companies was Rs.3,801,690. The Company has not taken any loans from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
b) According to the information and explanations given to us and in our opinion, the terms and conditions on which advances have been given to the companies listed in the register maintained under Section 301 of the Act are not, prima facie, prejudicial to the interest of the Company.
c) The companies are regular in repaying the principal amounts.
d) According to the information and explanation given to us and in our opinion, reasonable steps have been taken by the Company for recovery of the principal amounts.
- 4 In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for purchase of fixed assets. The activities of the Company do not involve purchase of inventory and the sale of goods. We have not noted any continuing failure to correct major weakness in the internal controls during the course of the audit.
- 5 a) According to the information and explanations given to us, we are of the opinion that the transactions that need to be entered into the register maintained under Section 301 of the Act have been so entered.
b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Act and exceeding the value of rupees five lakhs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
- 6 The Company has not accepted any deposits from the public and consequently, the provisions of Sections 58A and 58AA of the Companies Act, 1956 and the rules framed thereunder are not applicable.
- 7 In our opinion, the Company has an internal audit system, commensurate with its size and the nature of its business.
- 8 The Central Government has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Companies Act, 1956 in respect of services carried out by the Company. Accordingly, Clause 4 (viii) of the Order is not applicable.

Annexure to the Auditors' Report to the Members of Polaris Software Lab Limited as of and for the year ended 31 March 2004

- 9 a) According to the information and explanations given to us, and on the basis of our examination of the books of account, the Company has been regular in depositing with the appropriate authorities undisputed statutory dues including provident fund, employee state insurance, income-tax, sales-tax, customs duty, wealth tax and any other material statutory dues applicable to it.
- b) According to the information and explanations given to us, no undisputed dues payable in respect of income-tax, sales tax, wealth tax, customs duty and cess were outstanding as at 31 March 2004 for a period of more than six months from the date they became payable.
- c) According to the information and explanations given to us, there are no dues in respect of income tax, sales tax, wealth tax, customs duty, excise duty, and cess that have not been deposited with the appropriate authorities on account of any dispute.
- 10 The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the financial year immediately preceding financial year.
- 11 The Company has neither taken any loans from a financial institution and a bank nor issued any debentures. Accordingly, clause 4 (xi) of the Order is not applicable.
- 12 The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly, clause 4 (xii) of the Order is not applicable.
- 13 The Company is not a chit fund, nidhi, mutual benefit fund or a society. Accordingly, clause 4 (xiii) of the Order is not applicable.
- 14 According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, clause 4 (xiv) of the Order is not applicable.
- 15 According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions. Accordingly, clause 4 (xv) of the Order is not applicable.
- 16 The Company has not obtained any term loans. Accordingly, clause 4 (xvi) of the Order is not applicable.
- 17 According to the information and explanations given to us, the Company has not raised any funds on short-term or long-term basis. All assets have been funded by shareholders' funds.
- 18 The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Act. Accordingly, clause 4 (xviii) of the Order is not applicable.
- 19 The Company has not issued any debentures. Accordingly, clause 4 (xix) of the Order is not applicable.
- 20 The Company has not raised any money by public issues during the year. Accordingly, clause 4 (xx) of the Order is not applicable.
- 21 According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

for **Bharat S Raut & Co**
Chartered Accountants

Subramanian Suresh
Partner
Membership No: 83673

Chennai
May 19, 2004

POLARIS SOFTWARE LAB LIMITED**Balance Sheet as at**

	Schedule	31 March 2004 (Rs)	31 March 2003 (Rs)
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	1	488,495,910	257,473,325
Equity Shares to be issued as per the Approved Merger Scheme		-	229,252,745
Reserves and Surplus	2	4,449,074,181	3,897,381,432
		4,937,570,091	4,384,107,502
DEFERRED TAX LIABILITY			
	10	42,429,529	12,867,288
		4,979,999,620	4,396,974,790
APPLICATION OF FUNDS			
FIXED ASSETS			
Cost	3	2,298,932,020	2,089,773,135
Less: Depreciation and amortization		852,398,881	557,008,261
Net Book Value		1,446,533,139	1,532,764,874
Capital Work in Progress		457,717,267	186,705,712
		1,904,250,406	1,719,470,586
INVESTMENTS			
	4	581,748,159	585,076,286
CURRENT ASSETS, LOANS AND ADVANCES			
Cash and Bank balances	5	272,404,553	731,692,455
Sundry Debtors	6	1,529,224,598	1,403,703,732
Loans and Advances	7	1,420,839,851	785,364,140
		3,222,469,002	2,920,760,327
CURRENT LIABILITIES AND PROVISIONS			
Current Liabilities	8	514,075,645	608,080,887
Provisions	9	214,392,302	220,251,522
		728,467,947	828,332,409
NET CURRENT ASSETS			
		2,494,001,055	2,092,427,918
		4,979,999,620	4,396,974,790

Significant accounting policies and notes to accounts 15

The Schedules referred to above and the notes thereon form an integral part of these financial statements.

This is the Balance Sheet referred to in our report of even date.

for **Bharat S Raut & Co.**

Chartered Accountants

Subramanian Suresh
Partner
Membership No.83673

Arun Jain
*Chairman &
Managing Director*

Ram Bhagwat
Executive Director

Govind Singhal
Executive Director

Arvind Kumar
Director

Satya Pal
Director

R C Bhargava
Director

Abhay Agarwal
Director

V Balaraman
Director
Chennai

Ajit Bhushan
Director

N Vaidyanathan
Chief Finance Officer

Anubhav Kapoor
Company Secretary

19 May 2004

POLARIS SOFTWARE LAB LIMITED
Profit and Loss Account for the year ended

	Schedule	31 March 2004 (Rs)	31 March 2003 (Rs)
INCOME			
Software development services and products			
- Overseas		5,117,845,511	3,354,887,380
- Domestic		667,011,957	605,810,950
		5,784,857,468	3,960,698,330
EXPENDITURE			
Software development expenses	12	3,638,404,911	2,400,255,236
Administrative and other expenses	13	962,838,646	624,368,185
		4,601,243,557	3,024,623,421
Operating profit before interest, depreciation and amortization			
Finance charges	14	1,183,613,911	936,074,909
Depreciation and amortization		11,765,162	10,494,298
		316,072,785	183,939,484
		327,837,947	194,433,782
Operating profit after interest, depreciation and amortization			
Other income	11	855,775,964	741,641,127
Provision for diminution in value of investments		(53,231,629)	17,878,811
		1,013,800	63,978,681
		801,530,535	695,541,257
Profit before taxation			
Income taxes - Current tax		95,000,000	143,326,180
- Deferred tax		29,562,241	9,916,234
		676,968,294	542,298,843
Profit after taxation			
Profit brought forward from previous year		779,083,618	483,191,261
		1,456,051,912	1,025,490,104
Amount available for appropriation			
Appropriations			
Proposed Dividend		170,973,569	170,354,125
Tax on Proposed Dividend		21,901,714	21,822,361
Amount transferred to General Reserve		67,700,000	54,230,000
Balance carried to Balance Sheet		1,195,476,629	779,083,618
		1,456,051,912	1,025,490,104
Earnings per share (equity shares par value Rs.5 each)			
Basic		6.94	7.72
Diluted		6.87	7.60
Number of shares used in computing earnings per share			
Basic		97,460,457	70,256,044
Diluted		98,469,303	71,393,208

Significant accounting policies and notes to accounts 15

The Schedules referred to above and the notes thereon form an integral part of these financial statements
This is the Profit & Loss account referred to in our report of even date.

for **Bharat S Raut & Co.**

Chartered Accountants

Subramanian Suresh
Partner
Membership No.83673

Arun Jain
*Chairman &
Managing Director*

Ram Bhagwat
Executive Director

Govind Singhal
Executive Director

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R C Bhargava
Director

Abhay Agarwal
Director

V Balaraman
Director

Ajit Bhushan
Director

N Vaidyanathan
Chief Finance Officer

Anubhav Kapoor
Company Secretary

Chennai

19 May 2004

POLARIS SOFTWARE LAB LIMITED

Statement of cash flows for the years ended

	31 March 2004	31 March 2003
	(Rs)	(Rs)
Cash flows from operating activities		
Profit before taxation	801,530,535	695,541,257
Other income (excluding foreign exchange loss)	(20,096,355)	(56,719,826)
Sale of software for consideration other than cash	-	(30,000,000)
Exchange differences on foreign exchange translation of cash and cash equivalents	1,500,962	(1,934,229)
Depreciation	316,072,785	183,939,484
Employee stock compensation	-	(2,268,935)
(Profit) / Loss on sale of fixed assets	(1,383,539)	3,986,842
Provision for diminution in value of investments	1,013,800	63,978,681
<i>Changes in current assets and Liabilities</i>		
Decrease / (Increase) in sundry debtors	(125,520,866)	269,200,139
Increase in Loans and Advances	(475,829,720)	(231,411,591)
Decrease in Current Liabilities and Provisions	(34,024,110)	(170,025,718)
Net cash flows from operating activities	463,263,492	724,286,104
Cash flows from financing activities		
Proceeds from share capital issued on exercise of stock options	1,769,840	1,535,075
Stamp duty and expenses incurred on merger	(8,274,790)	(16,742,915)
Proceeds from share premium on exercise of stock options	20,874,528	17,173,572
Dividends paid during the year	(169,777,235)	(89,171,305)
Taxes paid, including taxes on dividend	(205,741,045)	(222,352,664)
Net cash flows from financing activities	(361,148,702)	(309,558,237)
Cash flows from investing activities		
Proceeds from sale of fixed assets	31,762,722	12,065,317
Purchase of fixed assets and changes in capital work in progress	(531,231,791)	(461,092,954)
Investment in subsidiaries	(82,275,936)	(33,193,750)
Advances to subsidiaries and associates	(82,760,843)	(14,921,692)
Investment in associate companies	(33,288,010)	(5,700,000)
Net decrease in non-trade investments	117,878,273	35,962,207
Interest and dividend received	20,013,855	56,719,826
Net cash flows from investing activities	(559,901,730)	(410,161,046)
Effect of exchange differences on foreign exchange translation on cash and cash equivalent	(1,500,962)	1,934,229
Total increase / (decrease) in cash and cash equivalents during the year	(459,287,902)	6,501,050
Cash and cash equivalents at the beginning of the year	731,692,455	352,572,594
Add: Cash balance arising on amalgamation	-	372,618,811
Cash and cash equivalents at the end of the year	272,404,553	731,692,455

Previous year's figures have been regrouped to confirm to the current year's presentation.

This is the Cash Flow Statement referred to in our report of even date.

for **Bharat S Raut & Co.**

Chartered Accountants

Subramanian Suresh

Partner

Membership No.83673

Arun Jain

Chairman &

Managing Director

Ram Bhagwat

Executive Director

Govind Singhal

Executive Director

Arvind Kumar

Director

Satya Pal

Director

R C Bhargava

Director

Abhay Agarwal

Director

V Balaraman

Director

Chennai

19 May 2004

Ajit Bhushan

Director

N Vaidyanathan

Chief Finance Officer

Anubhav Kapoor

Company Secretary

POLARIS SOFTWARE LAB LIMITED
Schedules to the Balance Sheet as at

	31 March 2004 (Rs)	31 March 2003 (Rs)
1 SHARE CAPITAL		
Authorised Capital		
120,000,000 equity shares of Rs 5 each. (2003: 120,000,000 equity shares of Rs 5 each)	600,000,000	600,000,000
10,000,000 11 % preference shares of Rs 5 each. (2003: 10,000,000 11% preference shares of Rs 5 each)	50,000,000	50,000,000
	650,000,000	650,000,000
Issued, Subscribed and Paid-up Capital		
97,699,182 Equity shares of Rs.5 each. (2003: 51,494,665 Equity Shares of Rs 5 each)		
fully paid up	488,495,910	257,473,325
(i) Of the above 17,062,550 Equity shares of Rs.5 each (2003:17,062,550 Equity shares of Rs.5 each) were issued as Bonus shares by capitalization of Securities Premium account		
(ii) 45,850,549 Equity shares of Rs.5 each. (2003:Nil) were issued pursuant to a scheme of amalgamation of Orbitech Solutions Limited with the Company		
	488,495,910	257,473,325
2 RESERVES AND SURPLUS		
General Reserve		
As per last Balance Sheet	1,366,054,059	1,119,567,961
<i>Add:</i> a. Reserves taken over on merger	-	278,238,352
b. Transferred from Profit and Loss Account	67,700,000	54,230,000
<i>Less:</i> a. Amalgamation adjustment	-	(14,239,339)
b. Stamp duty and expenses incurred on issue of shares relating to merger	46,725,210*	(71,742,915)
* Represents reversal of excess provision made in the previous year		
	1,480,479,269	1,366,054,059
Securities Premium Account		
As per last Balance Sheet	1,752,243,755	579,768,291
<i>Add:</i> a. Securities premium taken over on merger	-	1,155,301,892
b. Premium received on issue of shares to employees	20,874,528	17,173,572
	-	
	1,773,118,283	1,752,243,755
Employee Stock Options outstanding account		
As per last Balance Sheet	-	7,054,017
<i>Less:</i> Surrenders / resignations	-	(7,054,017)
	-	-
Profit and Loss account balance	1,195,476,629	779,083,618
	4,449,074,181	3,897,381,432

POLARIS SOFTWARE LAB LIMITED
Schedules to the Balance Sheet as at

	31 March 2004 (Rs)	31 March 2003 (Rs)
4 INVESTMENTS (AT COST) LONG TERM INVESTMENT TRADE (UNQUOTED)		
Polaris Software Lab Pte Ltd A wholly owned subsidiary company incorporated in Singapore - 385,000 ordinary shares of Sing \$ 1 each fully paid (2003: 385,000 ordinary shares of Sing \$ 1 each fully paid)	9,459,814	9,459,814
Polaris Software Lab Limited UK A wholly owned subsidiary company incorporated in the UK - 889,000 Ordinary shares of GBP 1 each fully paid (2003: 889,000 ordinary shares of GBP 1 each fully paid)	61,750,095	61,750,095
Polaris Retail Infotech Limited A wholly owned subsidiary company incorporated in India 9,000,000 Equity shares of Rs. 10 each fully paid (2003: 5,000,000 Equity shares of Rs. 10 each fully paid)	89,999,930	49,999,930
Polaris Software Lab GmbH A wholly owned subsidiary company incorporated in Germany Common stock of 600,000 Euros fully paid (2003: Common stock of 600,000 Euros fully paid) (Refer note B 14 (b) of Schedule 15)	26,199,245	26,199,245
Polaris Software Lab SA A wholly owned subsidiary company incorporated in Switzerland 35,000 Ordinary shares of CHF 10 each fully paid (2003: 15,000 Ordinary Shares of CHF 10 each fully paid) (Refer note B 14 (b) of Schedule 15)	11,275,781	4,101,795
Polaris Software Pty Ltd - Australia A wholly owned subsidiary company incorporated in Australia 25,000 Ordinary Shares of A\$ 1 each fully paid (2003: 25,000 Ordinary Shares of A\$ 1 each fully paid)	810,750	810,750
Polaris Software Lab Ireland Ltd A wholly owned subsidiary company incorporated in Ireland 176,186 Ordinary Shares of Euro 1 each fully paid (2003: 76,186 Ordinary Shares of Euro 1 each fully paid) (Refer note B 14 (b) of Schedule 15)	8,896,159	3,294,209
Polaris Software Lab Japan KK A wholly owned subsidiary company incorporated in Japan 400 Ordinary Shares of 50,000 yen each fully paid (2003: 400 Ordinary Shares of 50,000 yen each fully paid)	7,903,560	7,903,560

POLARIS SOFTWARE LAB LIMITED

Schedule to the Balance Sheet as at

	31 March 2004 (Rs)	31 March 2003 (Rs)
INVESTMENTS (AT COST) (contd..)		
Optimus Outsourcing Company Limited A wholly owned subsidiary company incorporated in India 9,999,880 Equity shares of Rs.5 each fully paid (2003: 4,099,880 Equity shares of Rs.5 each fully paid) (Refer note B 14 (b) of Schedule 15)	49,999,400	20,499,400
Software Sidoun GmbH Germany A company incorporated in Germany Common stock of Euros 1,175,990 fully paid (2003: Common stock of Euros 1,175,990 fully paid) Less: Diminution in value of investments	52,760,681 (52,760,681)	52,760,681 (52,760,681)
	-	-
Eternet Inc. A company incorporated in USA 1,250,000 shares of US\$ 0.2 each fully paid (2003 : 1,250,000 shares of US\$ 0.2 each fully paid) Less: Diminution in value of investments	11,625,000 (11,625,000)	11,625,000 (11,218,000)
	-	407,000
NMS Works Software Limited A company incorporated in India 500,000 Equity Shares of Rs.10 each (2003:500,000 Equity shares of Rs.10 each) fully paid 147,228, 12 % Optionally Convertible Cumulative Preference Shares of Rs. 10 each fully paid (2003 : 83,918 - 12 % Optionally Convertible Cumulative Preference Shares of Rs. 10 each fully paid) (Refer note B 14 (d) of Schedule 15)	5,000,000 35,000,000	5,000,000 30,700,000
Empower Works Limited A Company incorporated in India 10,638,080 Equity shares of Rs.5 each fully paid (2003 : 6,000,000 Equity shares of Rs.5 each fully paid) (Refer note B 14 (c) of Schedule 15)	58,988,000	30,000,000
AIG Systems Solutions Private Limited A company incorporated in India 1 Equity Share of Rs.10 each fully paid. (2003: Nil)	10	-
(A)	365,282,744	250,125,798
CURRENT INVESTMENTS TRADE (QUOTED)		
Mutual Funds Templeton Treasury MGMT - Growth Nil units (2003: 36,582 units) Face value: Rs 10 per unit	-	54,988,263
Sundaram Bond Saver 374,491 units (2003: 374,491 units) Face value: Rs 10 per unit	3,891,064	3,891,064

POLARIS SOFTWARE LAB LIMITED
Schedules to the Balance Sheet as at

	31 March 2004 (Rs)	31 March 2003 (Rs)
INVESTMENTS (AT COST) (contd..)		
Birla Cash Plus - Growth Nil units (2003: 3,546,512 units) Face value: Rs 10 per unit	-	57,652,466
Templeton Short Term Income Plan - Monthly Div Plan 29,632 units (2003: Nil Units) Face value: Rs 1000 per unit	30,000,000	-
Zurich India Liquidity Fund - Savings Plan Growth Nil units (2003: 4,734,742 units) Face value: Rs 10 per unit	-	59,150,195
Deutsche Short Maturity Fund - Monthly Div Plan 2,952,320 units (2003: Nil Units) Face value: Rs 10 per unit	30,000,000	-
Prudential ICICI Liquid Plan growth Nil units (2003: 2,870,592 units) Face value: Rs 10 per unit	-	42,588,723
HDFC Liquid Fund - Growth Nil units (2003: 4,820,109 units) Face value: Rs 10 per unit	-	57,830,288
Grindlays Cash Fund Growth Nil units (2003: 2,784,884 units) Face value: Rs 10 per unit	-	31,253,925
Kotak Mahindra Liquid Scheme - Growth Nil units (2003: 2,287,658 units) Face value: Rs 10 per unit	-	27,595,564
GMBD GSSIF- Medium Term Inst Plan 5,046,286 units (2003: Nil Units) Face value: Rs 10 per unit	51,373,808	-
HDFC Cash Management Fund - Savings Plan 4,782,497 units (2003: Nil Units) Face value: Rs 10 per unit	50,838,228	-
Kotak Liquid Institutional Plan 5,084,109 units (2003: Nil Units) Face value: Rs 10 per unit	50,969,115	-
	217,072,215	334,950,488
<i>Less</i> : Provision for diminution in value of investments	(606,800)	-
(B) (Aggregate market value of the quoted investments as at 31 March 2004 : Rs.216,785,258 (2003: Rs 335,837,383)	216,465,415	334,950,488
(A+B)	581,748,159	585,076,286

POLARIS SOFTWARE LAB LIMITED

Schedule to the Balance Sheet as at

	31 March 2004 (Rs)	31 March 2003 (Rs)
5 CASH AND BANK BALANCES		
Cash on hand	605,917	712,351
Balances with scheduled banks		
- in current accounts *	203,814,115	515,854,718
- in deposit accounts	327,500	105,338,935
Balances with non-scheduled banks in current accounts		
- Fleet Bank, New Jersey, USA	34,853,941	109,721,445
- Chase Bank, New Jersey, USA	32,803,080	65,006
	272,404,553	731,692,455
*includes balance in unclaimed dividend account	1,742,733	1,071,131
Maximum balances held in non-scheduled banks		
- Fleet Bank, New Jersey, USA	239,164,099	73,181,743
- Chase Bank, New Jersey, USA	106,483,068	50,325,990
6 SUNDRY DEBTORS		
Debts outstanding for a period exceeding six months		
Unsecured		
- considered good	162,603,564	138,160,228
- considered doubtful	103,975,472	111,431,650
Other debts - unsecured, considered good	1,366,621,034	1,265,543,504
	1,633,200,070	1,515,135,382
<i>Less:</i> Provision for doubtful debts	103,975,472	111,431,650
	1,529,224,598	1,403,703,732
7 LOANS AND ADVANCES		
(Unsecured considered good)		
Advances recoverable in cash or in kind or for value to be received	362,627,283	229,281,431
Advance income tax and tax deducted at source (Net of provision for tax)	76,802,648	-
Loans to employees	53,126,572	93,417,388
Loans to Employees Welfare Trust	109,523,906	125,000,000
Other advances	4,630,521	6,262,942
Interest receivable	82,500	-
Revenues in excess of billings	677,283,372	213,502,579
Rent, maintenance and security deposits	136,763,049	117,899,800
	1,420,839,851	785,364,140
8 CURRENT LIABILITIES		
Sundry creditors		
- for goods	40,298,005	20,237,844
- for expenses	419,450,396	493,619,151
Lease Obligations	42,524,330	76,101,575
Unclaimed dividends	1,649,739	1,072,849
Advances received from customers	840,045	4,920,105
Billings in excess of revenue	9,313,130	12,129,363
	514,075,645	608,080,887
9 PROVISIONS		
Provision for Gratuity	21,517,019	15,958,997
Provision for taxation (net of Advance Income tax and tax deducted at source)	-	12,116,038
Proposed dividend	170,973,569	170,354,125
Provision for tax on proposed dividend	21,901,714	21,822,362
	214,392,302	220,251,522
10 DEFERRED TAX LIABILITY		
Fixed assets	71,703,326	30,240,913
Sundry debtors	(24,663,939)	(15,778,492)
others	(4,609,858)	(1,595,133)
	42,429,529	12,867,288

POLARIS SOFTWARE LAB LIMITED
Schedules to Profit & Loss Account for the year ended

	31 March 2004 (Rs)	31 March 2003 (Rs)
11 OTHER INCOME		
Interest received on deposits with banks and others (Tax deducted at source Rs 773,404; 2003: Rs 507,851)	4,518,009	11,053,714
Profit on sale of investments	2,293,697	35,627,425
Dividends received	12,508,473	6,668,933
Profit on Sale of Assets	1,383,539	-
Miscellaneous income	776,176	3,369,754
Foreign exchange gains / (Loss)	(74,711,523)	(38,841,015)
	(53,231,629)	17,878,811
12 SOFTWARE DEVELOPMENT EXPENSES		
Salaries and bonus including overseas staff expenses and outsourced consultants cost	2,749,683,877	1,665,937,314
Employee stock compensation	-	(2,268,935)
Staff welfare	124,058,233	128,868,595
Contribution to provident and other funds	99,544,339	67,229,986
Gratuity	9,070,535	7,796,494
Foreign tour and travel	496,799,873	392,414,843
Consumables and computer maintenance	13,389,613	20,476,423
Communication expenses	124,806,193	88,094,262
Sponsorship charges	21,052,248	31,706,254
	3,638,404,911	2,400,255,236
13 ADMINISTRATION AND OTHER EXPENSES		
Salaries and bonus including overseas staff expenses	368,821,287	154,329,237
Contribution to provident and other funds	17,132,451	8,300,882
Professional charges	78,556,538	40,549,661
Legal expenses	48,037,361	35,151,011
Travelling and conveyance	70,799,422	45,847,570
Rent	100,895,641	82,308,612
Business promotion	37,820,272	18,907,731
Power and fuel	66,632,898	52,600,853
Printing and stationery	14,712,822	6,806,686
Office maintenance	22,730,384	16,841,676
Provision for doubtful debts	(7,456,178)	57,490,116
Insurance charges	21,594,701	4,265,638
Advertisements	1,758,398	2,230,547
Bad debts written off	23,774,428	14,751,922
Rates and taxes	4,201,206	4,910,732
Auditor's remuneration	3,103,332	1,732,500
Loss on sale of assets	-	3,986,842
Repairs- Building	10,515,296	3,032,438
Repairs-Plant and machinery	27,934,639	10,423,484
Repairs-Others	22,367,837	13,155,926
Directors' sitting fees	330,000	345,000
Donations	2,641,000	2,572,990
Miscellaneous expenses	25,934,911	43,826,131
	962,838,646	624,368,185
14 FINANCE CHARGES		
- Interest paid towards lease obligations	10,349,905	8,782,132
- Bank & other charges	1,415,257	1,712,166
	11,765,162	10,494,298

POLARIS SOFTWARE LAB LIMITED
Schedules to the Balance Sheet and Profit and Loss Account

15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

A. SIGNIFICANT ACCOUNTING POLICIES

1. Basis of preparation of Financial Statements

The financial statements are prepared under the historical cost convention in accordance with Generally Accepted Accounting Principles (GAAP), and materially comply with the mandatory accounting standards issued by the Institute of Chartered Accountants of India (ICAI) and the provisions of the Companies Act, 1956 (the Act).

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period reported. Actual results could differ from these estimates.

2. Revenue recognition

Software development and support services

Revenue from software development and support services comprises income from time-and-material and fixed price contracts. Revenue is recognized in accordance with the terms of the contract with the customer. Revenue with respect to time-and-material contracts is recognized as related services are performed. Revenue from fixed-price contracts is recognized in accordance with the percentage of completion method. Provision for estimated losses on incomplete contract is recorded in the period in which such losses become probable based on the current contract estimates.

Revenue in excess of billings represent earnings on ongoing fixed price and time and material contracts over amounts invoiced to customers.

Billings in excess of revenue represent amounts received in advance in case of ongoing fixed price contracts wherein amounts have been billed in accordance with billing cycle and efforts would be incurred subsequent to period end.

Product licenses and related revenues

Revenues from product licenses and related revenues are recognized as follows:

- ❖ License fees, on delivery and subsequent milestone schedule as per the terms of the contract with the end user
- ❖ Product maintenance revenues, over the period of the maintenance contract
- ❖ Customization and Implementation services are recognized upon percentage of completion method based on proportion of efforts spent to total efforts to complete or on the basis of contractually determined milestones as certified by the customer and, with respect to time and material contracts as the related services are performed. Provision for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become probable based on current contract estimates.

3. Fixed assets and capital work in progress

Fixed assets are stated at cost, after reducing accumulated depreciation until the date of the balance sheet. Direct costs are capitalized until the assets are ready for use and include borrowing costs related to the acquisition or construction of qualifying assets for the period up to the completion of construction or installation of such assets respectively. Capital work-in-progress includes advances paid to acquire fixed assets and the cost of assets not ready for intended use before the balance sheet date.

POLARIS SOFTWARE LAB LIMITED
Schedules to the Balance Sheet and Profit and Loss Account

15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

4. Assets acquired on finance lease

Assets acquired on finance leases are capitalized and a corresponding liability disclosed as lease obligations under “current liabilities”. Such assets are capitalized at fair values or present value of lease payments, whichever is lower. Rentals paid by the Company are apportioned between the finance charge and as a reduction of the outstanding liability. Finance charge reflects a constant periodic rate of interest on the remaining balance of liability for each period.

In respect of assets acquired on finance lease prior to 1 April 2001, the corresponding lease rentals are expensed to the Profit & Loss account.

5. Depreciation

Depreciation on fixed assets is provided pro-rata to the period of use, using the straight-line method based at rate specified in Schedule XIV to the Act or estimated useful lives of assets, whichever is higher. Individual assets costing less than Rs 5,000 are depreciated in full in the period of purchase.

The estimated useful lives applied for depreciation of assets are as follows:

Asset category	Estimated Useful Life (years)
Tangible assets	
Buildings	29
Leasehold improvements	10
Plant and machinery	6-7
Computer equipment and Software	3
Servers and computer accessories	5
Electrical fittings, office equipment and furniture and fixtures	10
Vehicles	6
Intangible assets	
Software Products (indigenously developed)	5
Intellectual property rights	1

In respect of assets acquired on finance lease after 1 April 2001, the leased assets are depreciated over the period of the lease.

6. Research and development expenses for software products Expenditure

Software product development costs are expensed as incurred until technological feasibility is established. Software development costs incurred subsequent to the achievement of technological feasibility are capitalized and amortized over estimated useful life of the products. This capitalization is done only if the Company has the intention and ability to complete the product, the product is likely to generate future economic benefits, adequate resources to complete the product are available to the Company and the Company is able to accurately measure such expense.

Such software development costs comprise expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to development of the product.

POLARIS SOFTWARE LAB LIMITED
Schedules to the Balance Sheet and Profit and Loss Account

15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

Amortization

The amortization of software development costs is allocated on a systematic basis over the best estimate of its useful life after the product is ready for use. The factors considered for identifying the basis include obsolescence, product life cycle and actions of competitors. The products are amortized over period of five years.

The amortization period and the amortization method is reviewed at each period end. If the expected useful life of the product is shorter from previous estimates, the amortization period is changed accordingly.

7. Foreign currency transactions and foreign currency translations

Transactions in foreign currencies are recorded at a rate that approximates the exchange rate prevailing at the date of the transaction. Current assets and liabilities denominated in foreign currency are translated at the rate of exchange as at the balance sheet date.

Revenue items, except depreciation, incurred by overseas branch are translated at the average rate of exchange. Overseas branch assets and liabilities are translated at year end closing rates. Non monetary items are translated at the rates on the date of transaction in the case of the branch.

Fixed assets are translated using the exchange rates at the date of acquisition. Depreciation is translated at the rates used for translation of the values of the assets on which depreciation is computed.

Exchange differences arising out of actual payments / realizations of foreign currency and from the year-end restatement/translation are charged to the Profit and Loss account except in respect of liabilities incurred for acquiring fixed assets, in which case such differences are adjusted to the cost of the fixed assets

8. Investments

Investments are classified as long term investments and current investments. Long term investments are stated at cost and any decline other than temporary, in the value of such investments is charged to the profit and loss account. Current investments are stated at the lower of cost and market value.

9. Retirement benefits

Provident Fund

Employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and the Company make monthly contributions to the Regional Provident Fund equal to a specified percentage of the covered employee's salary. The Company has no further obligations under the plan beyond its monthly contributions.

Gratuity

The Company provides for gratuity in accordance with the Payment of Gratuity Act, 1972, a defined benefit retirement plan (the Plan) covering all employees. The plan, subject to the provisions of the above Act, provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure

POLARIS SOFTWARE LAB LIMITED
Schedules to the Balance Sheet and Profit and Loss Account

15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

of employment.

The Company estimates its liability as of each balance sheet date based on an actuarial valuation. In respect of certain employees taken over on merger, the Company contributes gratuity to a fund maintained by The Life Insurance Corporation of India.

Superannuation

The Company contributes a specified percentage of the eligible employees' basic salary towards superannuation (the plan) to a fund managed by The Life Insurance Corporation of India. A trust has been created and approved by the Income-tax authorities for this purpose. This plan provides for various options for payment of pension at retirement or termination of employment as per trust rules. The Company has no further obligations under the plan beyond its annual contribution.

Leave Encashment

As per the employment policy of the Company, employees are required to avail their annual leave by the end of the respective financial year and leave is not allowed to be encashed.

10. Income taxes and Deferred Tax

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to timing differences that result between the profit offered for income taxes and the profit as per the financial statements. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

Deferred tax assets in respect of losses carried forward and unabsorbed depreciation are recognized only to the extent that there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. Other deferred tax assets are recognized only if there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized and are reassessed for the appropriateness of their respective carrying values at each balance sheet date.

11. Stock based Compensation

In accordance with the Employee Stock Option Scheme and Employee Stock Purchase Scheme Guidelines, 1999 issued by the Securities and Exchange Board of India ("SEBI"), the 'Option Discount' has been amortized on a straight-line basis over the vesting period of the shares to be issued under Stock Option Plans and disclosed as 'employee stock compensation expense' in the Profit and Loss Account.

'Option Discount' means the excess of the market price / fair value of the

POLARIS SOFTWARE LAB LIMITED

Schedules to the Balance Sheet and Profit and Loss Account

15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

underlying shares at the date of grant of the options over the exercise price of the options.

B. NOTES TO ACCOUNTS**1. Earnings in foreign currency**

Particulars	<i>In Rs.</i>	
	Year ended 31 March 2004	Year ended 31 March 2003

Income from software development services and products

5,117,845,511 3,354,887,380

2. Expenditure in foreign currency

Particulars	<i>In Rs.</i>	
	Year ended 31 March 2004	Year ended 31 March 2003

Travel expenses

496,799,873 298,052,646

Professional charges

52,291,326 29,883,599

Other expenditure incurred overseas for software development

1,580,296,227 1,016,739,294

3. CIF Value of Imports

Particulars	<i>In Rs.</i>	
	Year ended 31 March 2004	Year ended 31 March 2003

Capital goods

63,216,174 163,612,689

4. Capital commitments and contingent liabilities

The estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) as at 31 March 2004 is Rs 63,645,117 (2003: Rs.74,442,975)

As at 31 March 2004, the Company has outstanding guarantees and counter guarantees of Rs 27,679,827 (2003: Rs 10,401,266) issued to various banks, in respect of guarantees given by the banks in favor of various government authorities.

Particulars	<i>In Rs.</i>	
	As at 31 March 2004	As at 31 March 2003

Not later than one year

24,343,215 32,391,352

Later than one year and not later than 5 years

26,591,189 66,118,459

50,934,404

98,509,811

Less: Amount representing future interest

(8,410,074) (22,408,236)

Present Value of minimum lease rentals

42,524,330 76,101,575

5. Capitalization of Product Costs

POLARIS SOFTWARE LAB LIMITED
Schedules to the Balance Sheet and Profit and Loss Account

15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

As explained in Note A (6) of Significant Accounting Policies, the Company capitalizes software development costs pertaining to the development of the software product. The costs include directly attributable costs and other costs

allocated on a reasonable basis to the product. The details of the costs considered for capitalization during the year are detailed below:

Particulars	<i>In Rs</i>	
	Year ended 31 March 2004	Year ended 31 March 2003
Salaries and wages	189,420,461	57,961,382
License fees	1,210,088	-
Premises costs	10,133,942	-
Power and fuel	6,982,974	-
Communication	9,417,844	-
Repairs and maintenance	6,371,027	-
Depreciation	23,309,976	-
	246,846,312	57,961,382

6. Quantitative details

The Company is engaged in the development of computer software. The production and sale of such software cannot be expressed in any generic unit. Hence, it is not possible to give the quantitative details of sales and the information as required under paragraphs 3, 4C and 4D of part II of Schedule VI to the Companies Act, 1956.

7. Managerial remuneration

Particulars	<i>In Rs</i>	
	Year ended 31 March 2004	Year ended 31 March 2003
<i>Chairman & Managing Director</i>		
Salary and perquisites	2,533,405	2,606,182
Contribution to provident and other funds	183,600	183,600
<i>Executive Directors & Other Directors</i>		
Salary and perquisites	18,926,105	5,707,399
Contribution to provident and other funds	1,076,129	324,000
Sitting fees	330,000	345,000
Total	23,049,239	9,166,181

The Chairman and Managing Director and Executive Directors are covered under the Company's gratuity policy along with the other employees of the Company. Proportionate amount of gratuity is not included in the disclosure above.

Salaries and Perquisites to Executive Directors and Other Directors include commission of Rs.1,500,000 payable to Non-Executive Directors. The Commission shall be paid upon obtaining the approval by special resolution from the shareholders in the Annual General Meeting.

During the current year, the Company issued 20,000 stock options (2003:80,000

POLARIS SOFTWARE LAB LIMITED
Schedules to the Balance Sheet and Profit and Loss Account

15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

stock options) under the ASOP 2000 plan and 50,000 stock options (2003: nil) under the ASOP 2001 plan to certain Directors. No compensation cost arises as a result of these options, as these were issued at prevailing market prices.

8. Auditors' remuneration

Particulars	In Rs	
	Year ended 31 March 2004	Year ended 31 March 2003
Statutory audit fees	2,200,000	1,600,000
Taxation matters	625,000	-
Other services	180,700	80,000
Out of pocket expenses	97,632	52,500
Total	3,103,332	1,732,500

9. Stock option plans

The Company has three stock option plans that provide for the granting of stock options to employees including directors of the Company (not being promoter directors and not holding more than 10% of the equity shares of the Company). The objectives of these plans include attracting and retaining the best personnel, providing for additional performance incentives and promoting the success of the Company by providing employees the opportunity to acquire equity shares.

The option plans are summarized below.

Associate Stock Option Plan 2000

On 9 March 2000, the Company's shareholders approved in the Extraordinary General Meeting (EGM) an Associated Stock Option Plan ("the 2000 Plan"). The 2000 Plan provides for issuance of 938,400 equity shares of Rs 5 each to the employees including directors. Employee Compensation Committee administers the 2000 Plan. Under the Plan, based on the recommendation of Employee Compensation Committee, the options were granted at a discount not exceeding 25% of the market price of shares on the date of grant. The option vests over a period of five years from the grant date.

Subsequently, the shareholders of the Company approved the following modifications to the 2000 plan :

- ❖ at the EGM held on 7 March 2001, the plan was modified to permit cancellation/accept surrender of options; and

❖ at the Annual General Meeting held on 6 September 2002, the exercise price of the options to be granted will be the market price of the shares on the date of the grant.		
A summary of the status of the 2000 plan at 31 March 2004 is presented below.		
Number of options granted, exercised, cancelled / surrendered and forfeited	Year ended 31 March 2004	Year ended 31 March 2003
Options outstanding at the beginning of the year	1,190,265	525,300
Granted during the year	113,000	877,950

POLARIS SOFTWARE LAB LIMITED
Schedules to the Balance Sheet and Profit and Loss Account

15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

Exercised during the year	(85,700)	(59,765)
Forfeited /Surrendered during the year	(126,310)	(153,220)
Outstanding at the end of the year	1,091,255	1,190,265

Associate Stock Option Plan 2001

The Shareholders of the Company in the Extraordinary General Meeting (EGM) held on the 7 March 2001 approved an Associate Stock Option Plan (the 2001 Plan).

The 2001 Plan provides for issuance of 1,194,000 equity shares of Rs 5 each to the employees including directors at the closing market price of shares on the date of grant. The option vests over a period of five years from the grant date.

A summary of the status of the 2001 plan at 31 March 2004 is presented below.

Number of options granted, exercised, cancelled / surrendered and forfeited	Year ended 31 March 2004	Year ended 31 March 2003
Options outstanding at the beginning of the year	1,438,440	1,709,175
Granted during the year	50,000	211,500
Exercised during the year	(268,268)	(247,250)
Forfeited/surrendered during the year	(183,050)	(234,985)
Outstanding at the end of the year	1,037,122	1,438,440

During the year ended 31 March 2002, the Company announced and allotted bonus shares by capitalizing a part of share premium account in the ratio of 1 equity share for every 2 shares held on the record date. The Associate Stock Option Schemes (ASOP) mentioned above provide power to the compensation committee for suitable adjustments to the quantum and price of ASOPs in case of corporate actions such as stock split, bonus etc. The holders of options granted prior to issuance of bonus shares by the Company are entitled to receive additional options in the ratio of one additional option for every two options held.

At the Ninth Annual General Meeting held on 6 September 2002, a special resolution was passed, effective 7 March 2001, wherein the total number of options to be granted under the 2000 plan and 2001 plan along with options already granted by the Company and outstanding under the schemes shall not at any time exceed 6.25 % (2.75 % under 2000 Plan and 3.5% under the 2001 Plan) of the total shares issued by the Company on the date (s) of grant of such options.

Associate Stock Option Plan 2003

The Shareholders of the Company in the Extraordinary General Meeting (EGM) held on the 12 March 2004 approved an Associate Stock Option Plan (the 2003 Plan). The 2003 Plan provides for issuance of 3,895,500 equity shares of Rs 5 each to the employees including directors at the Market Price of the shares on the date of grant. Market Price under the 2003 Plan scheme is the average of the two weeks high and low price of the share preceding the date of grant of option on the stock exchange, where the highest trading volumes are recorded during the aforesaid period. The option vests over a period of five years from the grant date. No options were granted during the year under this scheme.

10. Segment reporting

POLARIS SOFTWARE LAB LIMITED

Schedules to the Balance Sheet and Profit and Loss Account

15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

The Company's operations predominantly relate to providing IT services to customers operating in various industry segments globally. Accordingly, IT service revenues represented along industry classes comprise the primary basis of segmental information set out in these financial statements. Secondary segmental reporting is based on the geographical location of customers.

10. Segment reporting (Contd.)

The accounting policies consistently used in the preparation of the financial statements are also applied to record revenue and expenditure in individual segments.

Business (primary) segments of the Company are:

- a) Banking and financial services; and
- b) Emerging verticals.

Revenue and direct expenses in relation to segments are categorized based on items that are individually identifiable to that segment, while other costs, wherever allocable, are apportioned to the segments on an appropriate basis. Certain expenses are not specifically allocable to individual segments as the underlying services are used interchangeably. The Company believes that it is not practicable to provide segment disclosures relating to such expenses, and accordingly such expenses are separately disclosed as 'unallocated' and directly charged against total income.

Fixed assets used in the Company's business or liabilities contracted have not been identified to any of the reportable segments, as the fixed assets and services are used interchangeably between segments. The Company believes that it is currently not practicable to provide segment disclosures relating to total assets and liabilities since a meaningful segregation of the available data is onerous.

Customer relationships are driven based on the location of the respective client. The geographical segments comprises:

- a) United States of America;
- b) Europe;
- c) Asia Pacific, and
- d) India and Middle East.

Primary segment information

Particulars	<i>In Rs.</i>	
	Year ended 31 March 2004	Year ended 31 March 2003
<i>Segment revenues</i>		
Banking and financial services	5,018,962,349	3,158,358,798
Emerging verticals	765,895,119	802,339,532
	5,784,857,468	3,960,698,330
<i>Segment profit before Finance charges & Tax</i>		
Banking and financial services	1,398,959,997	1,166,300,641
Emerging verticals	50,564,876	139,224,163
	1,449,524,873	1,305,524,804

POLARIS SOFTWARE LAB LIMITED
Schedules to the Balance Sheet and Profit and Loss Account

15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

<i>Finance charges</i>	(11,765,162)	(9,247,618)
Other unallocable expenditure net of unallocable income	(636,229,176)	(600,735,929)
<i>Profit before taxation</i>	<i>801,530,535</i>	<i>695,541,257</i>

Income tax and Deferred Tax	(124,562,241)	(153,242,414)
<i>Profit after taxation</i>	676,968,294	542,298,843

10. Segment reporting (Contd.)

Secondary segment information

		<i>In Rs.</i>
Region	Year ended 31 March 2004	Year ended 31 March 2003
United States of America	2,835,519,930	1,693,195,764
Europe	1,434,621,757	583,920,252
Asia Pacific	836,897,083	810,665,211
India and Middle East	677,818,698	872,917,103

5,784,857,468 **3,960,698,330**

Revenues by geographic area are based on the geographic location of the customer.

11. Earnings per Share ("EPS")

Reconciliation of basic and diluted shares used in computing EPS:

Particulars	Year ended 31 March 2004	Year ended 31 March 2003
Weighted average number of equity shares outstanding during the year-Basic	97,460,457	70,256,044

Add: Effect of dilutive issue of stock

options to be converted	1,008,846	1,137,164
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Weighted average number of equity shares outstanding during the year-Diluted	98,469,303	71,393,208
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In computing the diluted EPS, only potential equity shares that are dilutive and that either reduce earning per equity share or increase loss per equity share are included.

12. Dividend remitted in foreign currency

Particulars	Year ended 31 March 2004	Year ended 31 March 2003
Number of non-resident shareholders	377	381

POLARIS SOFTWARE LAB LIMITED

Schedules to the Balance Sheet and Profit and Loss Account

15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

Number of shares on which dividend was remitted	3,711,907	3,138,112
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Dividend remittance during the year		
- for the year ended 31 March 2002	-	4,631,260
- for the year ended 31 March 2003	6,495,914	-

13. Related party transactions

Following are the related parties where control exists:

Subsidiaries

Polaris Software Lab Pte Limited, Singapore	Polaris Software Lab Ireland Ltd., Ireland
Polaris Software Lab Limited, UK	Polaris Software Lab, Japan KK

Polaris Software Lab GmbH, Germany	Polaris Retail Infotech Limited, India
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Polaris Software Lab SA, Switzerland	Optimus Outsourcing Company Limited, India
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Polaris Software Pty Ltd., Australia

Associates

Eternet Inc, USA.	Orbitech Employees Welfare Trust
NMS Works Software Limited	Empower Works Limited

Others (enterprises that directly, or indirectly through one or more intermediaries, control the Company and enterprise of which the Company is an associate)

Citibank and its branches	Orbitech Limited
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Polaris Holdings Private Limited

Key management personnel			
Mr. Arun Jain, Chairman & Managing Director	Mr. G N Mathur, Wing CDR, (Retired), Executive Director		
Mr. Govind Singhal, Executive Director	Mr. Ram Bhagwat Executive Director		
			<i>In Rs.</i>
Balances due to / from related parties	Subsidiaries	Associates	Others
Receivables-trade debts	131,010,606 (50,687,441)	- (-)	1,138,857,424 (184,253,532)
Receivables - loans and advances	207,637,221	111,604,457	183,259,401

POLARIS SOFTWARE LAB LIMITED
Schedules to the Balance Sheet and Profit and Loss Account

15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

(127,540,926) (129,983,386) (18,906,613)

Payables	45,232,517	-	-
	(39,756,863)	(-)	(71,766,648)
Investments	266,294,734	98,988,000	-
	(184,018,798)	(66,107,000)	(-)

Figures in brackets denote previous year figures.

13. Related party transactions (Contd.)

Related party transactions	Subsidiaries	Associates	<i>In R.</i>
			Others
Advances given	92,612,039	23,051,194	-
	(36,185,640)	(7,356,404)	(-)
Software development service income	375,729,226	-	3,547,003,412
	(257,576,634)	(-)	(1,660,792,546)
Software development expenses	100,284,069	3,021,913	-
	(109,520,907)	(-)	(-)
Reimbursement of expenses to the Company	65,887,595	-	8,416,986
	(183,878,628)	(-)	(88,577,845)
Reimbursement of expenses by the Company	235,159,952	-	10,258,378
	(116,649,543)	(-)	(103,684,021)
Lease payments	-	-	11,780,028
	(-)	(-)	(6,694,999)
Communication expenses	-	-	-
	(-)	(-)	(17,659,842)

Investments	82,275,936	33,288,000	-
	(33,193,750)	(35,700,000)	(-)
Provision for investments	-	407,000	(-)
	(-)	(11,218,000)	(-)
Figures in brackets denote previous year figures.			
Maximum balance outstanding during the year	Subsidiaries	Associates	<i>In R.</i>
			Others
Receivables trade debts	141,438,241	-	1,399,299,992
	(77,705,066)	(-)	(188,846,467)

POLARIS SOFTWARE LAB LIMITED

Schedules to the Balance Sheet and Profit and Loss Account

15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

Receivables loans and advances	323,312,039	142,098,944	-
	(187,964,942)	(135,683,386)	(-)

Payables	45,666,847	-	-
	(41,592,243)	(-)	(-)

Figures in brackets denote previous year figures.

13. Related party transactions (Contd.)

	<i>In Rs.</i>	
Loans and advances	Subsidiaries	Associates
Optimus Outsourcing Company Limited*	3,801,690 (26,122,163)	(-)
Polaris Retail Infotech Limited*	- (24,755,273)	(-)
Polaris Software Lab Pte Limited, Singapore*	162,171,665 (74,125,650)	- (-)
Polaris Software Lab KK, Japan*	11,997,863 (-)	(-)
Polaris Software Lab Pty, Australia	26,747,261 (-)	- (-)
Polaris Software Lab GmbH	2,918,742 (2,537,842)	- (-)
Empower Works Limited*	-	705,248 (3,608,127)
NMS Works Software Limited*	-	1,375,259 (1,375,259)

Figures in brackets denote previous year figures.

* Companies in which directors are interested

Details of remuneration paid to Directors are given in Note B 7 of Schedule 15.

14. Investments in subsidiaries and Associates

a) The movement during the year comprises of the following:

- ❖ Subscribed additionally for 4,638,080 equity shares of Rs.5 each at a premium of Rs.1.25 Per share amounting to Rs.28,988,000 during the year in Empower Works Limited;
- ❖ Subscribed additionally for 63,310 Optionally Convertible Cumulative Preference shares of Rs. 10 each at a premium of Rs.57.92 per share amounting to Rs 4,300,000 during the year in NMS Works Software Limited;
- ❖ Subscribed additionally for 19,900,000 equity shares of Rs.5 each amounting

POLARIS SOFTWARE LAB LIMITED

Schedules to the Balance Sheet and Profit and Loss Account

15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

to Rs.99,500,000 during the year in Optimus Outsourcing Company Limited of which 14,000,000 equity shares of Rs.5 each is pending allotment. The non-allotment portion amounting to Rs. 70,000,000 is shown under loans and advances;

- ❖ Subscribed additionally for 100,000 equity shares of Euro 1 each amounting to Rs.5,601,950 during the year in Polaris Software Lab Ireland Limited;
- ❖ Subscribed additionally for 20,000 equity shares of CHF 10 each amounting to Rs.7,173,986 during the year in Polaris Software Lab SA;

14. Investments in subsidiaries and Associates (Contd.)

❖ Subscribed additionally for 4,000,000 equity shares of Rs 10 each amounting to Rs.40,000,000 during the year in Polaris Retail Infotech Limited; and

- b) ~~The subsidiaries of the Company were incorporated to provide software development services and to promote Company's software products and work on the business development efforts in the regions where the subsidiaries are located. The details of the accumulated losses as per the audited financial statements of the loss making subsidiaries as at 31 March 2004 are given below:~~

In Rs.

Subsidiary	Accumulated loss as at 31 March 2004
Polaris Software Lab SA	3,319,260
Polaris Software Lab GmbH	23,357,754
Polaris Software Lab Ireland Ltd.	5,588,250
Optimus Outsourcing Company Limited	44,489,499

Accumulated losses of the subsidiaries are on account of initial/start-up stage of operations and subsidiaries are expected to earn profits in the future. Accordingly, management believes that there is no permanent diminution in the value of its investments in the subsidiaries and hence it is stated at cost.

- c) The Company's equity ownership interest in Empower Works Limited is 49% as on 31 March 2004. Empower Works Limited is primarily engaged in the business of providing specific solutions relating to Human Relations suite of software solutions and products. The accumulated losses to the extent of Rs.13.1 Million as per the unaudited financial statements as on 31 March 2004 are on account of initial / start-up stage of operations and the Company is expected to generate profits in the future. Accordingly, management believes that there is no permanent diminution in the value of its investments in Empower Works Limited and hence it is stated at cost.

POLARIS SOFTWARE LAB LIMITED

Schedules to the Balance Sheet and Profit and Loss Account

15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

d) The Company's equity ownership interest in NMS Works Software Limited is 45% as on 31 March 2004. NMS Works Software Limited is primarily engaged in the business of designing network management in Telecommunication and Internet Services. The accumulated losses to the extent of Rs.9.3 Million as per the unaudited financial statements as on 31 March 2004 are on account of initial/start-up stage of operations and the Company is expected to generate profits in the future. Accordingly, management believes that there is no permanent diminution in the value of its investments in NMS Works Software Limited and hence it is stated at cost.

15. The following are the aggregate amounts incurred on certain specific expenses that are required to be disclosed under Schedule VI to the Companies Act, 1956

In Rs.

Particulars	Year ended	Year ended
	31 March 2004	31 March 2003
Salaries and bonus including overseas staff expenses	3,118,505,164	1,820,266,551
Contribution to provident and other funds	116,676,790	75,530,868
Total	3,235,181,954	1,895,797,419

16. Litigation and claims

Data Inc.

Arun Verma and Data Inc. (the plaintiffs) have filed a complaint against the Company in a US Court for damages towards breach of contract and fraud, for non-acquisition of Data Inc. On 27 November 2001, the Court granted the Company motion and dismissed all claims of the plaintiff except their breach of contract claim for liquidated damages under the terms of MOU and limited the extent of claim by the plaintiff to US \$ 100,000. Data Inc. has appealed against the trial court order dated 27 November 2001. During the previous year, the parties had entered into an agreement to dismiss all remaining claims subject to re-asserting all their claims that existed before November 27, 2001 under certain conditions. On 9 September 2003 the court of appeals referred the matter to the appellate mediator for a settlement prior to the court rendering a decision. However the mediation proved to be unsuccessful and the matter was referred back to the court in December 2003. The court of appeals after obtaining supplemental briefing from the parties dismissed the appeal on 20 April 2004 and remanded the matter to the district court. The district court has not yet scheduled any further proceedings in this matter. The Company is vigorously contesting the case and continues to believe that allegations of Data Inc. are without merit and have been proved by various orders of the Court so far.

Arbitration with Bank Artha Graha

POLARIS SOFTWARE LAB LIMITED

Schedules to the Balance Sheet and Profit and Loss Account

15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

Due to a commercial dispute, Bank Artha Graha (BAG) has failed to pay the monies due to the Company under a contract and terminated the contract prematurely in November 2002. This dispute is now under arbitration at Singapore's International Arbitration Centre (SIAC). The Company has since filed the counter claim against BAG. The Company is also relying on the testimony of several reputable experts in the arbitration proceedings. Arbitrator has been appointed and the arbitration is likely to proceed in the later half of the year 2004. Pending the outcome of the case, the management is not able to estimate the financial effect of the contingency. However, the management believes that the claim can be successfully resisted by the company.

16. Litigation and claims (Contd.)**Suit filed by ex-employees**

Two former employees of the Company have instituted a suit in Mumbai for wrongful termination of their services and publication of defamatory material. Since the case is in the preliminary stage, it is not possible for the company to predict the outcome of the case. The Company believes that the allegations are without merit and is vigorously contesting the case. Pending the outcome of the case, the management is not able to estimate the financial effect of the contingency. However, the management believes that the claim can be successfully resisted by the company.

Others

The Company is also involved in other law suits and claims which arise in the ordinary course of business. However, there are no such matters pending that the Company expects to be material in relation to its business.

17. As at 31 March 2004, the Company had no outstanding dues to small-scale industrial (SSI) undertakings (2003: Rs Nil). The list of SSI undertakings was determined by the Company on the basis of information available with the Company and relied upon by the auditors.
18. Pursuant to the "Scheme of Amalgamation" sanctioned by the Honourable High

POLARIS SOFTWARE LAB LIMITED**Balance sheet abstract and Company's General Profile****I. Registration Details**

Registration No	18-24142	State Code	18
Balance Sheet	31.03.2004		

II. Capital Raised during the Year (Amount in thousands)

Public issue	Nil	Rights Issue	Nil
Bonus Issue	Nil	Private Placement	1,769*

III. Position of Mobilization and deployment of funds (Amount in thousands)

Total Liabilities	4,979,999	Total Assets	4,979,999
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Source of funds

Paid up Capital	488,496	Reserves & Surplus	4,449,074
Secured Loans	-	Deferred Tax Liability	42,429

Application of funds

Net fixed assets	1,904,250	Investments	581,748
Net Current Assets	2,494,001	Misc Expenditure	-

IV. Performance of the Company (Amount in thousands)

Total Turnover	5,784,857	Total expenditure	4,983,327
Profit before tax	801,530	Profit after tax	676,968
Earning per share in Rs	6.94	Dividend Rate	35%

V. Generic names of three principal products/services of Company

(as per monetary terms)

Item Code No (ITC Code)	Not Applicable
Product description	Computer Software

* Issue of Shares arising on the excise of options granted to employees under the Company's ASOP schemes

Arun Jain
*Chairman and
Managing Director*

Ram Bhagwat
Executive Director

Govind Singhal
Executive Director

Arvind Kumar
Director

SatyaPal
Director

R C Bhargava
Director

Abhay Agarwal
Director

V Balaraman
Director

Ajit Bhushan
Director

N Vaidyanathan
Chief Finance Officer

Anubhav Kapoor
Company Secretary

Chennai
19 May, 2004

POLARIS SOFTWARE LAB LIMITED

Statement Pursuant to Department of Company Affairs

Exemption Approval U/S 212 of the Companies Act, 1956 Dated 12.04.2004

1. Name of subsidiary Polaris Software Lab GmbH,
Germany
2. Financial year ended March 31,2004
3. Holding Company's interest 100%
4. Shares held by the holding company in theEuro 600,000
Subsidiary's common stock
5. Details pertaining to the subsidiary for the year ended 31st March 2004
are given below

		Euro	Rs. in Lakhs
a)	Capital	600,000	322.38
b)	Reserves	(545,511)	(293.10)
c)	Total Assets	471,137	253.14
d)	Total Liabilities	416,649	223.87
e)	Details of Investment	Nil	Nil
f)	Turnover	2,226,295	1,196.19
g)	Profit Before Taxation	(33,507)	(18.00)
h)	Provision for Taxation	Nil	Nil
i)	Profit After Taxation	(33,507)	(18.00)
j)	Proposed Dividend	Nil	Nil

Note:

The Rupee Equivalent of Euro has been arrived at by converting it at the closing rate of 1 Euro = Rs. 53.73 as on 31st March 2004.

POLARIS SOFTWARE LAB LIMITED**Statement Pursuant to Department of Company Affairs****Exemption Approval U/S 212 of the Companies Act, 1956 | Dated 12.04.2004**

1. Name of subsidiary Optimus Outsourcing Company Limited
2. Financial year ended March 31 2004
3. Holding Company's interest 100%
4. Shares held by the holding company in the Subsidiary's common stock 10,000,000 Equity Shares of Rs.5 each
5. Details pertaining to the subsidiary for the year ended 31st March 2004 are given below

		Rs.in Lakhs
a)	Capital	500.00
b)	Share application money pending allotment	700.00
c)	Reserves	(444.89)
d)	Total Assets	864.68
e)	Total Liabilities	109.58
f)	Details of Investment (HSBC Mutual Fund)	100.34
g)	Turnover	299.67
h)	Profit Before Taxation	(399.33)
i)	Provision for Taxation	Nil
j)	Profit After Taxation	(399.33)
k)	Proposed Dividend	Nil

POLARIS SOFTWARE LAB LIMITED

Statement Pursuant to Department of Company Affairs

Exemption Approval U/S 212 of the Companies Act, 1956 Dated 12.04.2004

1. Name of subsidiary Polaris Software Lab Japan KK,
Japan
2. Financial year ended March 31 2004
3. Holding Company's interest 100%
4. Shares held by the holding company in the Subsidiary's common stock 400 Shares @ JPY 50,000/- each
5. Details pertaining to the subsidiary for the year ended 31st March 2004 are given below

		JPY	Rs.in Lakhs
a)	Capital	20,000,000	83.56
b)	Reserves	4,790,865	20.02
c)	Total Assets	199,078,317	831.75
d)	Total Liabilities	174,287,452	728.17
e)	Details of Investment	Nil	Nil
f)	Turnover	388,324,927	1,622.42
g)	Profit Before Taxation	23,785,182	99.37
h)	Provision for Taxation	6,838,540	28.57
I)	Profit After Taxation	16,946,642	70.80
j)	Proposed Dividend	Nil	Nil

Note:

The Rupee Equivalent of Japanese Yen (JPY) has been arrived at by converting it at the closing rate of 1 JPY = Re. 0.4178 as on 31st March 2004.

MANAGEMENT DISCUSSION & ANALYSIS

Forming part of the Financial Statements for the year ended 31st March 2004

HISTORY AND EVOLUTION OF THE COMPANY

- ❖ Polaris Software Lab Ltd. was incorporated in 1993 as a Private Limited Company in Chennai, and was subsequently converted to a Public Limited Company in June 1996. The Company's Registered Office is at Polaris House, No. 244, Anna Salai, Chennai 600 006 and the telephone number of the office is +91-44-2852-4154.
- ❖ Polaris is among India's leading software solution providers', specializing in providing quality and customized information technology (IT) solutions to several multinational clients in the Banking, Financial Service and Insurance (BFSI) segment.
- ❖ Headquartered in Chennai - India, Polaris operates across the globe, with twelve development centers in India, and offices in Chennai, Mumbai, Bangalore, Hyderabad, London, New Delhi, Dubai and four more in the US. Polaris also operates as wholly owned subsidiaries in Singapore, UK, Germany, Switzerland, Australia, Ireland and Japan.
- ❖ In August 1999, Polaris went in for an Initial Public Offering (IPO). The Company is today listed on the National Stock Exchange (NSE), the Bombay Stock Exchange (BSE), and the Madras Stock Exchange (MSE). Polaris enjoys an “A” group listing on the BSE and is among the stocks that determine the BSE Tech Index movement, a premium rating of technology stocks. The scrip is also part of the Junior Nifty Index.
- ❖ Polaris launched a Business Continuity Center (BCC), Singapore in August 2002, as part of its ongoing global growth strategy to ensure the continuity of services and solutions, across various customer engagements throughout the world. The launch of the BCC enhances Polaris' global prospects, especially in the wake of the heightened need for more stringent and detailed business continuity processes, and simultaneously ensures that the organization is continuously available to customers and other stakeholders.
- ❖ In October 2002, Polaris Software Lab Ltd. announced the inking of the final agreement through which OrbiTech Solutions Limited, a 93.25% technology subsidiary of the Citigroup, was merged with itself to form one of the largest and most comprehensive solution providers in the global BFSI (Banking, Financial Services and Insurance) market.
- ❖ In 2004, Polaris Software launched the “*Intellect Suite*” a modern enterprise platform for financial services institutions. The “*Intellect Suite*” is the new global version of Polaris' highly successful OrbiOne suite of banking products.

INDUSTRY OVERVIEW

Year 2003 marked the turnaround of the Indian IT software and services sector. The industry, after battling the recessive global economic environment, set itself back on its growth path. NASSCOM studies show that during 2003, the software industry recorded revenues of Rs. 58,000 Crore (US\$ 12 billion), of which exports accounted for Rs. 46,100 Crore (US\$ 9.5 billion).

Indian companies beefed up their presence in verticals such as Finance, Insurance, Banking, Telecom and Manufacturing, which accounted for over 45 percent of the IT software and services industry's revenues during 2003. According to this study, BFSI segment contributed USD 68.3 billion out of a total market size of USD 326.8 billion in the year 1997, amounting to 21 per cent contribution. By the year 2008, the BFSI segment

contribution is expected to grow to USD 261.7 billion out of a total market size of USD 1010.4 billion, a 26 per cent contribution. This clearly highlights the importance of the BFSI segment to the global software industry.

According to an *IDC Study*, India is projected to become the country with the second fastest growing IT industries, between now and 2005, second only to China. The domestic market in India is estimated to register a growth of 11% over 2002-03. The BFSI sector accounts for the largest share of 28% of the domestic IT market. Outsourcing will continue to be the “next big thing” and draw global giants to India. According to an Evaluserve - NASSCOM study on the trend, compelling cost and bottom-line benefits will cause more and more US companies to outsource to India. IT spending by the BFSI segment is expected to reach a figure of Rs. 9,800 Crore (USD 2 billion) in 2004-2005, as against to Rs. 7,500 Crore in 2002-2003.

AT Kearney has rated India No. 1 in its Offshore Location Attractiveness Index. This index takes into account the financial structure, business environment, people skills and availability.

Gartner estimates that the global IT services spend will cross \$707 billion by 2007, recording a CAGR of 5.7 percent. The research agency states that the highest growth will be witnessed by APAC at 9.5 percent CAGR from 2003-2007, followed by Eastern Europe, the Middle East, Africa, Japan, Latin America, North America and Western Europe. A Gartner analyst said that the Indian IT services industry will be worth \$13.1 billion by the end of 2004, and is pegged to grow at a CAGR of 29 percent from 2003-2007.

IDC saw major growth at the high end of the European outsourcing market in 2003, with the total value of the 100 largest European outsourcing deals signed in the year increasing by 74% (\$19 billion) to \$44 billion. This increase shows that outsourcing in Europe is booming, and was fuelled by strong growth in investment from end users in the public sector and U.K.

CHALLENGES FACED BY IT INDUSTRY

a) New Outsourcing Destinations

While current trends indicate a greater business share for India in the outsourcing market, other countries are developing their software development capabilities and infrastructure. Gartner positions New Zealand among the “Up and Coming” outsourcing destinations. New Zealand is ranked in line with China, Ireland and Northern Ireland, and ahead of South Africa, Russia and Poland. Consultancy firm A.T.Kearney - in a recent review of offshore location attractiveness - assessed New Zealand as sixth in the world for people skills and availability, and fourth in respect of the business environment. The rise in IT outsourcing to New Zealand is driven by strong government support for the developing technology sector and an educated IT workforce.

With a near-bottomless pool of skilled programmers and designers, China is also gaining popularity as an outsourcing destination. Gartner has claimed that China could overtake India as the world's outsourcing champion by 2007. China boasts an estimated 200,000 professionals in the software exporting industry, with another 50,000 graduates entering the workforce each year all of whom come at significantly lower salaries than their Indian counterparts. Domestic software sales have climbed 30

per cent annually since 1999, and spending on IT has increased by 20 per cent per year in the same period. For companies seeking to outsource, this represents not only a cost-savings opportunity, but also a chance to tap into one of the world's fastest-growing economies.

b) Cut in Operation Costs

According to a Forrester report, the top priority for the IT organizations of European financial services firms is to cut overall operating costs. In 2004, these firms will decrease their IT budgets by 1.3%, while other industries will increase IT spending by 3.4%. IT consulting and systems integration will be one of the areas where finance companies will reduce budgets compared to 2003. Despite the constraints, finance executives will aim to improve the customer's experience by investing in content management software and customer online self-service tools.

In a new report, "*IT Spending Trends in European Banking 2004*", Celent provides detailed information on the types of IT investments being made this year by European banks. This year, the leading European bank in terms of IT spending will be HSBC, with an estimated IT budget of EU 3 billion. Deutsche Bank is second with EU 2.6 billion allocated to IT, a position it shares with UBS, which has allocated the same amount to IT. ABN Amro is fourth, with an estimated EU 2.2 billion budgeted for IT. These four banks are members of the small club of European banks that are expected to spend more than EU 2 billion on IT in 2004. Despite the economic improvement expected for 2004, European banks will invest less in IT this year than in the past 4 years. In fact, the European banking industry will invest 5% less in IT in 2004 than the previous year, spending a total of EU 44,601 million.

c) Backlash Against Outsourcing

Meanwhile, the backlash against outsourcing is likely to gain strength. With job losses becoming a big issue in the West, employment of the local population has become a highly sensitive subject -- taking strong political overtones. Many unions are protesting outsourcing work, too. In Australia, even as experts believe that offshoring results in savings of 15 to 30 per cent in costs to companies, there is a general air of skepticism.

d) Restrictions Imposed on H1 and L1 Visas

In addition, the restrictions imposed by the US government on the H1 and L1 visas have made it even more difficult for Indian firms. The United States government is tightening the norms for issuing H1-B visas meant for professionals traveling to the country. The American government is also reducing the number of visas to be issued to Indians. Such restrictions will have an impact in the revenues of Indian companies as a good portion comes from onsite work.

COMPANY'S BUSINESS AND CORPORATE OVERVIEW

Polaris Software Group revenues for the year ended March 31, 2004 stood at Rs. 646.42 Crore in comparison to Rs. 428.27 Crore in the previous fiscal. Profit after Tax for the same period stood at Rs 72.20 Crore in comparison to the previous fiscal at Rs 68.77 Crore.

Polaris Software Lab Limited revenues for the year ended March 31, 2004 stood at Rs. 578.48 Crore in comparison to Rs. 396.06 Crore in the previous fiscal. Profit after Tax for the same period stood at Rs 67.69 Crore in comparison to the previous fiscal at Rs 54.22 Crore.

- ❖ *Banking, Financial Services and Insurance:* Polaris provides global solutions to BFSI clients based across the globe. The BFSI segment accounted for 86.76% of the Company's revenues for 2003-04 and 79.74% in 2002-03.
- ❖ *Emerging Verticals:* Your Company continues to focus on this revenue stream, which contributed 13.24% in 2003-04, and 20.26% in 2002-03.

a) Corporate Highlights for the Year Ended March 31, 2004

- ❖ Among the clientele of this quarter, Polaris has signed up two **High Street banks from London** and formed annuity relationships with them.
- ❖ Polaris set up an exclusive **Center of Excellence (CoE)** in Mumbai to offer services in the area of **Financial Risk Management (FRM)**. This facility can seat around 300 associates.
- ❖ Polaris Software Lab Ltd. and **plenum AG Corporation**, Germany, have signed a **strategic partnership** to deploy a “Catalyst Model” that offers high-value and risk mitigated IT outsourcing solutions. This strategic partnership, a pioneering approach towards servicing the onshore clients and their offshore solutions, has been developed jointly by plenum AG and Polaris.
- ❖ Polaris has successfully **deployed NEC's Global Banking System (GBS) product at the Yachiyo Bank**, Japan. Polaris had installed around 500 man-years of efforts over the relationship, spanning around 4 years, and generated around 6.5 million Lines of Code, enriching the company's Japanese core banking expertise by as many years. NEC has a committed tank size of eight more such projects where Polaris will play a significant role.
- ❖ Polaris has restructured its board with the inclusion of **Mr. Dipak Rastogi, Vice Chairman at Citigroup Investments, Mr. Ajit Bhushan Managing Director IT & IT Enabled Services Pvt. Equity, Citigroup, Mr. Venky Krishnakumar, Vice-President & Regional Director Operations & Technology, Asia Pacific at Citibank N.A, and Mr. Ram Bhagwat as additional Directors on the Board** of the Company with effect from June 30, 2003. Consequently, the size of the Board has increased to 12 Directors.
- ❖ Polaris has formed **an alliance partnership with PeopleSoft** to provide implementation and related services on PeopleSoft products. This partnership strengthens Polaris' position as an end-to-end Enterprise Solutions provider and would extend a wider set of offerings to its customer base.

b) Senior Management Induction

- ❖ Polaris inducted **Koen Van den Brande as President Products**. Koen has 23 years of extensive experience in the financial services software industry and has a sound base in international, wholesale and retail banking. Koen worked as Retail Banking Strategist, EMEA Financial Services at Microsoft and earlier as Product Director, for MiSys.
- ❖ **Uma Krishnan** was inducted into Optimus Management team as **Chief Operating Officer (COO)**. Uma has 16 years of experience in Credit Cards Business, retail banking assignments, training for Retail Banking and non-resident business of the bank from her previous organizations HDFC and ANZ Grindlays.

c) Accolades in 2003-2004

- I. Orbi One Direct was recognized for its innovative product delivery through The Banker Technology Award for **Multi-Channel Integration** in June 2003. OrbiOne Direct offers channel delivery solution for banks that helps deliver consistent service at the customer relationship level through multiple channels such as the Internet, IVR, mobile, ATM and call centers.
- II. OrbiOne has been ranked **17th in a report titled "Treasury Management Solutions at European Banks"** circulated by **Celent**, the international management consulting and financial services research firm among banking product vendors.
- III. OrbiOne has also been reviewed favorably in the **Giga Research 2004 as a 'well kept multi-channel secret'**.
- IV. The Institute of Company Secretaries of India has rated **Polaris among the Top 25 companies** with best practices and procedures on **Corporate Governance**.
- V. Loyola Institute of Business Administration has conferred the **Mother Teresa Corporate Citizen Award 2003** on Polaris for its dedication in combining business objectives and social values seamlessly within the organizational fabric.

THE STRATEGIC ROADMAP

A. The Services Revolution

A huge wave of change is bearing down the services sector and it is making everyone re-think strategies to revamp their organizations. The real issue is the loss of service competitiveness. We are now riding a tidal wave of change that can be termed as the industrialization of services. Global competition is on the rise, and the foreign firms and new entrants are invading some service markets. Meanwhile, automation is also transforming the services sector. New hardware and software systems that take care of back-room and front-office tasks such as counter operations, security, billing and order taking are allowing firms to dispense with clerical, accounting and other staff positions.

To survive the revolution, service firms must start defending themselves; just as their manufacturing cousins did a generation ago, by putting themselves through competitiveness boot camp. The work ahead will require proactive, far-reaching, often draconian changes, focusing on customer preference, quality and technological interfaces. Specifically, companies will need to rewire their strategies to find new value from existing and familiar sources; de-integrate and radically reassemble their operational processes; and restructure the organization to accommodate new kinds of work and needed skills.

The primary change driver behind the service revolution is technology. This phenomenon is altering interactive, complex business services and administrative work.

B. The Banking Revolution

Technology integration will play a critical role in enabling a highly efficient banking system. Without the capability to locate, aggregate, standardize, analyze and report information from multiple systems, banks will not be able to extend an integrated platform to its customer. Banks, therefore, will not be able to create value and also

derive benefits of initiatives such as CRM or Risk Management. Though the banks were looking for a product to fill in the technology gaps, they really needed a services-based product architecture that would evidently solve their problem in dealing with the ever-changing demands of customers. In other words, in the current context, technology had to be an enabler, not a hindrance to the services sector.

Like other competitive sectors, technology is transforming the very nature of the financial services industry today. The Internet is dictating new paradigms on how, where and when the world invests. New delivery channels are being introduced, and while settlement times are shrinking, customer expectations continue to rise. To gain an edge in today's highly competitive financial services industry, bankers have realized that quick and effective service related software solutions make the difference. The need is, therefore, for an experienced solution provider to effectively combine speed and efficiency to deliver customized solutions that are a cut above the rest.

C. Polaris' BFSI Focus

Unofficially credited with coining the term 'BFSI', Polaris today boasts of domain expertise to cater to all segments of banking -- credit cards, retail banking, investment banking (portfolio management, mutual funds and custodial services), wealth management, wholesale banking -- as well as life and non-life insurance.

Polaris' sharp focus on the BFSI sector has been its differentiator and has helped the organization carve a niche for itself in the global IT solutions marketplace. Since its inception, Polaris has been providing solutions for the banking, financial services and insurance (BFSI) industry and has chosen to retain a sharp focus on the BFSI sector by recruiting the best people, creating the best infrastructure and processes to support offshore projects.

D. Products & IPRs

With the focus so far having been on the overseas market, Polaris is now looking at developing BFSI related products for the Indian market. Given that the Indian banking and financial services industry has specific requirements in terms of costs; the aim is to develop India-specific financial technology products.

At present, there are few companies in the product segment, and many operate only in the IT services segment. Some companies are now trying to enter the IP (Intellectual Property/Patents) services area, but their presence in the products segment is limited. Polaris has an edge over competition, with the OrbiOne suite of products. Your Company has enhanced the value of OrbiOne by adding to the existing parameters, product offering and region-specific functionality.

Today, Polaris is the only company to have IPRs in the product business. Your Company's product suite comprises of 57 saleable GeneS (Generalized Systems), developed and used within Citigroup during the last 10 years. This basket of offerings extends into the operations arena with Optimus, which will focus on solutions for banking operations.

Current banking initiatives are streamlining customer facing processes to develop a unified view of customers. Your Company recognized the need to build expertise, and brought the best talent from two organizations together through the OrbiTech merger. With this merger, the new Polaris is poised to become one of the best IT services and solutions providers in the world of financial services.

E. The Intellect Revolution

The “Intellect Suite” is the new global version of Polaris' highly successful OrbiOne suite of banking products. OrbiOne was the proprietary product of Citigroup's technology subsidiary, OrbiTech Solutions, which merged with Polaris in October 2002. Post the merger, 57 product IPRs were transferred to Polaris. For the last 18 months, dedicated teams of technology and domain experts at your Company have worked on transforming the OrbiOne framework to a holistic suite, further enhancing its features and positioning it for global customers.

The “Intellect Suite” was built with the objective of making global banking boundaryless, and is uniquely positioned to lead the charge in “Made in India” financial sector software products. The “Intellect Suite” meets the needs of global retail, wholesale, investment and private banks. It caters to the front, middle and back office functions of these banks, besides providing business intelligence to manage the various lines of business in a holistic manner. Web-enabled, multi-lingual and multi-currency enabled, this multi-channel platform gives global financial institutions the capability to service markets across diverse geographies and cultures.

The key technology, which is significant to the “Intellect” positioning, and the strategy going forward is the emergence of a new set of standards called web services, which is increasingly seen by the largest banks as the way forward for gradual transformation of their core systems. It is relevant to the “Intellect” strategy, because from the beginning, starting with the design of the IP that was acquired by Citibank, and with the work that has been done since that acquisition, the architecture of this system is being repositioned as based around the concept of GeneS (Generalized Systems).

For most banks, the current systems environment is complex with many databases and disconnected data silos. As a response, banks are increasingly moving toward Services Oriented Architecture in the way IT applications are designed and built. Polaris designed and built the “Intellect Suite” based on the concept of Services Oriented Architecture, using its years of experience while working with global banks on varied requirements. The numerous business processes that underlie the various banking functions are encapsulated through the thoughtfully designed GeneS. Several GeneS come together to form an application for a line of business or part of it. Currently, the 57 GeneS of Polaris can be put together in combinations to create varied banking functional platforms within the Suite.

F. Business Benefits of “Intellect Suite”

Polaris has found some significant business benefits associated with this approach of GeneS, for the industry as a whole. Most of these are to do with reduction of risk through a gradual migration towards new core systems. However, there are some other elements, which are important considerations.

The first is the ability of gradually changing to maintain “best-of-breed” capability, rather than having to compromise across the broad range of functionality. The second important factor is the more gradual spend associated with it, leading to a total lower cost of ownership. With “Intellect Suite”, customers can adopt the “best of breed” solutions as the basis for process optimisation. Forrester calls the “Intellect Suite” a “well-kept secret”.

G. Key Features of the “Intellect Suite” of Products

- ❖ Boundaryless banking solutions for global banks to meet the needs of retail, corporate, investment and private banking environments.
- ❖ Provides value in 4 unique ways: contemporary technology, completely modular, co-existence and parameterized.
- ❖ Relationship integration layer that seamlessly integrates enterprise wide processes, users and data provides real time analysis and insights to the business, while giving a single 'relationship' view to customers.
- ❖ Customer-centric structure offers a single view of customer information, strong business intelligence and decision support capabilities.
- ❖ Provides seamless support for multiple delivery channels and is proven to support high transaction volumes.

H. Premium via Expertise

Eighteen focused years in the financial services industry have given Polaris a clear advantage

- ❖ Your Company has completed over 2000 financial services projects.
- ❖ Polaris has a strong team of domain specialists and over 250 bankers as its employees.
- ❖ Your Company has a stellar client list that includes some of the biggest and the best names in the financial services industry.
- ❖ Customers recognize Polaris worldwide for their superior human resources, and incredible value addition for banking software consultation.
- ❖ Due to Polaris' domain expertise, your Company is in a position to realize any organization's dream of quick “go-to-market” products.

I. The Economics of Expertise

In today's world of business, the role of the enabler is far greater than the utility provider. The enabler brings value in the form of expertise, which in turn can enhance the client's business. Polaris' global strategy is to focus on building greater expertise in the services and products business, in order to enhance the clients' business.

Your Company is aware that building expertise takes time, talent, dedication and significant investments. The gestation period for investments also depends on the areas of specialization. Polaris has opted to make investments for creating an array of superior products and services, so that it can create a niche for itself in the unique BFSI space. According to a study by Gartner, 80% companies are providing utility in the services business, as they are efficiency-based. A mere 3-5% have competitive advantage and can transform businesses. Polaris aims at creating a distinct presence for itself in the intermediate 15-17% category that focuses on enhancing the clients' business with effectiveness, not efficiency alone.

Polaris's objective in the new fiscal is to become the finest player in the global BFSI scenario. Your Company believes that the economics of expertise could eventually have a transforming effect on a client's business, resulting from an expert knowledge base, shorter delivery timeframes, optimum use of talent, higher returns on investment and a customized approach to services and solutions. For Polaris, it would

translate into recognition as experts and hence repeat projects. Polaris will be in a position to demand premium rates and hence, profit by better margins. From a business perspective, your Company will enjoy a healthier bottom line, and create wealth for stakeholders.

J. Polaris' Strategy Forward in the new Era of Boundaryless Banking

Boundaryless banking is far removed from the earlier monolithic structure, where bankers were offering the basic services of a bank, and looking at technology to address different functional areas separately. Polaris conducted a customer research survey, which clearly showed that the largest of banks in the world continue to perceive a move towards a much more complex financial services business from the original, simpler banking business. As a result, these banks are increasingly looking to remove the boundaries to their business. Your Company took the opportunity to define this as part of the “Intellect Suite” proposition, as a move towards boundaryless banking.

Business has been stable and predictable for Polaris during the last year. This year, Polaris intends to accelerate growth and profitability in the services business. Service sales plans have been bolstered and delivery units streamlined. Your Company continues to service large, existing customers. During this period, your Company also bagged a number of marquee clients. Many existing projects have moved offshore and some new offshore projects have also been acquired, in line with the current market trend. Your Company undertook strategic initiatives to make the Services Business, more cutting-edge and different from the rest of the organization, by bringing in new experience to customers, especially in Europe, where language and local contacts are major issues.

The corner stone of effectiveness that Polaris is trying to provide to customers has met with considerable success. Your Company is able to provide solutions to customers around various IP components that the organization has built over the years. The strategy for the Services Business is to look at enhancing the Company's capability to meet the service requirements in a superior fashion. Your Company sees the IP-led business driving future revenues.

In the Products Business, your Company is going to invest to grow the “Intellect Suite” business investments in engineering, product growth, rollout, maintenance, technology upgradation, marketing and sales are earmarked. There is also an aggressive launch plan and roadmap to take the Intellect business forward. Polaris also intends to further strengthen the organizational set-up.

Discussion on Financial Performance:

(Note: The fiscal numbers of FY 02-03 & 03-04 are not directly comparable. Polaris merged with OrbiTech Solutions with financial effect from November 1, 2002)

1. Balance Sheet as on March 31, 2004

a) Equity Shares

- ❖ The allotment representing 45.65% of share capital (45,850,549 equity shares @ Rs.5 each) to shareholders of erstwhile OrbiTech solutions limited were completed in full as part of the scheme of amalgamation duly approved by the High courts of Mumbai and Chennai.
- ❖ As a part of the Associate Stock Option Plan, during the year (2003 - 2004) 353,968 equity shares were allotted to the associates on exercising the Stock Options

b) Reserves and surplus

- ❖ Reserves & Surplus stood at Rs. 444.91 Crores as on March 31, 2004 an increase of Rs. 55.17 Crores compared to last financial year.

c) Fixed assets

- ❖ The company in the current year has made additional investments of Rs. 48.02 Crores on fixed assets.
- ❖ This includes investments towards development of “Intellect” suite of products to the extent of Rs.24.68 Crores.
- ❖ The charge towards depreciation has increased from Rs. 18.39 Crores to Rs. 31.60 Crores.

(The previous year figures are not comparable due to the merged entity status)

d) Investments

During the year the company had made additional investments on the following Subsidiaries and Associate companies

i) Subsidiaries:

- ❖ Optimus Outsourcing Company Limited Rs.9.95 Crores.
- ❖ Polaris Retail InfoTech Limited Rs.4.00 Crores.
- ❖ Polaris Software Lab, Ireland - Rs. 0.56 Crores.
- ❖ Polaris Software Lab S.A., Swiss - Rs. 0.72 Crores.

ii) Associate Companies

- ❖ NMS Works Limited- Rs. 0.43 Crores
- ❖ Empower Works Limited Rs. 2.90 Crores

e) Cash & Bank Balances

- ❖ Cash and Bank balances have decreased to Rs 27.24 Crores in year 2003-2004 from Rs.73.17 Crores in the last year.

f) Sundry Debtors

- ❖ The Sundry Debtors (net of provision) for the current year is at Rs.152.92 Crores as against Rs.140.37 Crores in the previous year.
- ❖ The days of sales outstanding were 89 days at the end of the current year.

g) Loans & Advances

- ❖ Also, the loans to employees have decreased to Rs. 5.31 Crores in the current year from Rs. 9.34 Crores as on last financial year.
- ❖ During the year the total Loans & Advances have increased to Rs.142.08 Crores from Rs.78.53 Crores in the pervious year. The above figures include revenue in excess of billing classified under this head by 67.72 Crores during the year. (Previous year Rs.21.35 Crores.)

2. Profit & Loss Statement for the year ended on March 31,2004

a) Income from Sales & Services

- ❖ The Total Revenue has increased from Rs.396.06 Crores to Rs.578.48 Crores in the current year resulting in a growth of 46.05%.

- ❖ The Export Revenue has increased from Rs.335.48 Crores to Rs.511.78 Crores in the current year resulting in a growth of 52.55%.
- ❖ The Domestic Revenue has increased from Rs.60.58 Crores to Rs.66.70 Crores in the current year resulting in a growth of 10.10%.

b) Other Income

- ❖ Other Income includes foreign exchange loss of Rs.7.47 Crores incurred during the year compared to loss of Rs.3.88 Crores for the previous year.
- ❖ The increase in exchange loss is due to appreciation of rupee against other foreign currencies.
- ❖ The company has taken adequate hedging measures to mitigate the wide foreign exchange fluctuation.

c) Software Development Expenses

(Rs. In Crores)

Particulars	Year Ended March 31, 2004		Year Ended March 31, 2003	
	Amount	%	Amount	%
Salaries and bonus including overseas staff expenses				
And outsourced consultants cost	274.96	47.53%	166.59	42.06%
Employee stock compensation expense	-	-	-0.22	-0.06%
Staff welfare	12.40	2.14%	12.88	3.25%
Contribution to provident fund & other funds	9.95	1.72%	6.72	1.70%
Contribution to Gratuity	0.90	0.16%	0.77	0.19%
Foreign tour and travel	49.67	8.59%	39.24	9.91%
Consumables & computer maintenance	1.33	0.23%	2.04	0.52%
Communication expenses	12.48	2.16%	8.80	2.22%
Sponsorship charges	2.10	0.36%	3.17	0.80%
Total	363.79	62.89%	239.99	60.59%
Income from Sales and Services	578.48	100.0%	396.06	100.0%

The Total Software Development Expenses showed an increase of 2.30% compared to last financial year. This is primarily due to:

- ❖ Increase in salary cost due to revision in remuneration to software developers/incentives and increase in staff strength.
- ❖ Foreign tour & travel expenses have increased mainly due to number of new projects being carried out in other countries.

d) Administrative & Other Expenses

(Rs. In Crores)

Particulars	March 31, 2004		March 31, 2003	
	Amount	%	Amount	%
Salaries and bonus including overseas staff expenses	36.88	6.38%	15.43	3.90%
Contribution to provident and other funds	1.71	0.30%	0.83	0.21%
Professional charges	7.85	1.36%	4.05	1.02%
Legal expenses	4.80	0.83%	3.51	0.89%
Travelling and conveyance	7.08	1.22%	4.58	1.16%
Rent	10.08	1.74%	8.23	2.08%
Business promotion	3.78	0.65%	1.89	0.48%
Power and fuel	6.66	1.15%	5.26	1.33%
Printing and stationery	1.47	0.25%	0.68	0.17%
Office maintenance	2.27	0.39%	1.68	0.42%
Provision for doubtful debts	(0.74)	-0.13%	5.74	1.45%
Insurance charges	2.15	0.37%	0.42	0.11%
Advertisements	0.17	0.03%	0.22	0.06%
Bad debts written off	2.37	0.41%	1.47	0.37%
Rates and taxes	0.42	0.07%	0.49	0.12%
Auditor's remuneration	0.31	0.05%	0.17	0.04%
Loss on sale of assets	-	-	0.39	0.10%
Repairs - Building	1.05	0.18%	0.30	0.08%
Repairs - Plant and machinery	2.79	0.48%	1.04	0.26%
Repairs - Others	2.23	0.39%	1.31	0.33%
Directors' sitting fees	0.03	0.01%	0.03	0.01%
Donations	0.26	0.04%	0.25	0.06%
Miscellaneous expenses	2.59	0.45%	4.38	1.11%
Total	96.21	16.63%	62.35	15.74%
Income from Sales and Services	578.48	100.0%	396.06	100.0%

Total Administration and other expenses have increased by 0.89% compared to last year. This marginal increase is due to:

- ❖ Increase in rent on account of new offices taken on lease at various places.
- ❖ Increase in Business promotion expenses is due to participation in various IT fairs and product promotional expenses
- ❖ Increase in professional expenses is mainly due to product certification fees and other related charges incurred during the year.

e) Finance Charges

- ❖ Finance Charges for the financial year was 1.17 Crores. This represents mainly the associates' related car lease interest payouts.

f) Income Taxes

- ❖ The Income Tax for the year is Rs.9.50 Crores compared to Rs.14.33 Crores in the pervious year. The decrease is attributed to the favourable change in Taxation policies on the export income.

g) Appropriations from Profit

- ❖ The amount available for appropriation of Rs.145.60 Crores (*includes Rs.77.90 Crores brought forward from previous year*) is apportioned as follows:
 - a) Proposed Dividend on equity shares of Rs.17.09 Crores
 - b) Tax on proposed dividend of Rs.2.19 Crores
 - c) Transfer to General Reserve of Rs.6.77 Crores
 - d) The remaining Rs.119.55 Crores is transferred to the Balance Sheet.

The past year has been a “Year of Consolidation” for Polaris. Pre-merger, your Company was primarily a services player. The merger has given Polaris a new entity, and invaluable IPRs. Now your Company is concentrating on creating the required infrastructural facilities for the “Intellect” business before taking it to the global league.

Post the merger with OrbiTech Solutions, Polaris has been transformed into a complete solutions provider, with a dynamic combination of Services, Products and Operations segment. The merger has resulted in operational synergy that has aided your Company in streamlining infrastructure, communications and rationalization of its vendors. Today, Polaris brings a bundle of value additions to the table, along with a world-class product like the “Intellect Suite”. Polaris' global capability is evident from its proven track record and strong quality orientation. The optimum mix of products and services, a talented resource pool, technology expertise, expertise in financial services domain, India Offshore advantage and a demonstrated management vision and execution, makes Polaris an admirable company to work with.

Polaris has a dynamic combination of Products and Services Business. Though the gestation period in products business is longer, it is imperative that your Company offers both, Products and Services as an integrated package to customers. Meanwhile, your Company will leverage the significant benefits of the merger, to transform itself into a global Financial Technology leader.

POLARIS SOFTWARE LAB LIMITED

Consolidated Financial Statement for the year ended 31st March 2004

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Auditor's report to the Board of Directors of Polaris Software Lab Limited on the consolidated financial statements of Polaris Software Lab Limited and its subsidiaries

- 1 We have examined the attached consolidated Balance Sheet of Polaris Software Lab Limited and its subsidiaries as at March 31, 2004, the consolidated Profit and Loss account and the Cash Flow Statement for the year then ended.
- 2 These financial statements are the responsibility of Polaris Software Lab Limited's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in India. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.
- 3 We did not audit the financial statements of subsidiaries, whose financial statements reflect total assets of Rs 596,300,120 as at March 31, 2004 and total revenues of Rs 1,145,583,226 for the year then ended. These financial statements have been audited by other auditors whose reports have been furnished to us by the management, and our opinion, insofar as it relates to the amounts included in respect of the subsidiaries, is based solely on the report of the other auditors.
- 4 We have also not audited the financial statements of associates. The financial statements of NMS Works Software Limited and Empower Works Limited are yet to be audited and therefore unaudited financial statements for the year ended March 31, 2004 have been furnished to us by the management of Polaris Software Lab Limited. The attached consolidated financial statements include share of Rs 22,561,711 in the losses of the aforementioned associates for the year then ended.
- 5 We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, and AS 23, Accounting for Investments in Associates in Consolidated Financial Statements issued by the Institute of Chartered Accountants of India and on the basis of the separate financial statements of Polaris Software Lab Limited, and those of its subsidiaries and associates listed in Note 1 of Schedule 17 to the accounts.
- 6 *Subject to the effect of any adjustments that may arise upon completion of the audit of financial statements of the companies referred to in paragraph 4 above, and on the basis of the information and explanations given to us and on the consideration of the audit reports on individual audited financial statements of Polaris Software Lab Limited and its subsidiaries, we are of the opinion that:*
 - (a) the Consolidated Balance Sheet gives a true and fair view of the consolidated state of affairs of Polaris Software Lab Limited and its subsidiaries as at March 31, 2004;
 - (b) the Consolidated Profit and Loss Account gives a true and fair view of the consolidated results of operations of Polaris Software Lab Limited and its subsidiaries for the year then ended; and
 - (c) the Consolidated Cash Flow Statement gives a true and fair view of the consolidated cash flows of Polaris Software Lab Limited and its subsidiaries for the year then ended.

for **Bharat S Raut & Co.**
Chartered Accountants

Subramanian Suresh
Partner

Chennai
May 19, 2004
Membership No: 83673

Polaris Software Lab Limited and Subsidiaries
Consolidated Balance Sheet as at

	Schedule	31 March 2004 (Rs)	31 March 2003 (Rs)
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	1	488,495,910	257,473,325
Equity Shares to be issued as per the Approved Merger Scheme		-	229,252,745
Reserves and Surplus	2	4,415,575,966	3,848,175,811
		4,904,071,876	4,334,901,881
LOAN FUNDS			
Secured Loans	3	23,102,365	26,366,710
Deferred Tax Liability	11	42,663,614	12,867,288
		4,969,837,855	4,374,135,879
APPLICATION OF FUNDS			
FIXED ASSETS			
Cost	4	2,432,252,093	2,184,323,100
Less: Depreciation and amortization		878,781,161	567,693,918
Net Book Value		1,553,470,932	1,616,629,182
Capital Work in Progress		457,828,102	212,491,292
		2,011,299,034	1,829,120,474
INVESTMENTS			
	5	297,391,391	396,554,364
CURRENT ASSETS, LOANS AND ADVANCES			
Cash and Bank balances	6	577,570,162	837,087,943
Sundry Debtors	7	1,709,963,647	1,484,450,135
Loans and Advances	8	1,147,068,427	686,581,638
		3,434,602,236	3,008,119,716
CURRENT LIABILITIES AND PROVISIONS			
Current Liabilities	9	575,032,281	655,637,734
Provisions	10	214,907,898	229,400,152
		789,940,179	885,037,886
NET CURRENT ASSETS			
		2,644,662,057	2,123,081,830
MISCELLANEOUS EXPENDITURE			
(to the extent not written off or adjusted)	12	16,485,373	25,379,211
		4,969,837,855	4,374,135,879

Significant accounting policies and notes to accounts 17

The Schedules referred to above and the notes thereon form an integral part of these financial statements.

This is the Balance Sheet referred to in our report of even date.

for **Bharat S Raut & Co.**
Chartered Accountants

Subramanian Suresh
Partner
Membership No.83673

Arun Jain
Chairman &
Managing Director

Ram Bhagwat
Executive Director

Govind Singhal
Executive Director

Arvind Kumar
Director

Satya Pal
Director

R.C. Bhargava
Director

Abhay Agarwal
Director

V Balaraman
Director

Ajit Bhushan
Director

N Vaidyanathan
Chief Finance Officer

Anubhav Kapoor
Company Secretary

Chennai
19 May 2004

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**Consolidated Profit and Loss Account for the Year ended**

	Schedule	31 March 2004 (Rs)	31 March 2003 (Rs)
INCOME			
Software development services and products			
- Overseas		5,755,617,088	3,670,820,388
- Domestic		678,454,583	608,850,845
Income from Business Process Outsourcing			
- Overseas		29,621,302	3,080,509
- Domestic		566,320	-
		6,464,259,293	4,282,751,742
EXPENDITURE			
Software development expenses	14	4,084,475,929	2,596,774,426
Administrative and other expenses	15	1,099,700,337	736,145,281
		5,184,176,266	3,332,919,707
Operating profit before interest, depreciation and amortisation		1,280,083,027	949,832,035
Finance charges	16	14,153,811	12,189,915
Depreciation and Amortisation		331,769,407	189,388,684
		345,923,218	201,578,599
Operating profit after interest, depreciation and amortisation		934,159,809	748,253,436
Other income	13	(60,739,922)	27,872,983
Provision for diminution in value of investments		1,013,800	63,978,681
Share of Loss of Associate Companies		22,561,711	5,145,014
Profit before taxation		849,844,376	707,002,724
Income taxes - Current tax		121,528,130	151,771,712
- Deferred tax		29,796,326	9,916,234
Profit after taxation		698,519,920	545,314,778
Profit brought forward from previous year		742,598,418	443,690,127
Amount available for appropriation		1,441,118,338	989,004,905
Appropriations			
Proposed Dividend		170,973,569	170,354,125
Tax on Proposed Dividend		21,901,714	21,822,362
Amount transferred to General Reserve		67,700,000	54,230,000
Balance carried to Balance Sheet		1,180,543,055	742,598,418
		1,441,118,338	989,004,905
Earnings per share (equity shares par value Rs.5 each)			
Basic		7.17	7.76
Diluted		7.09	7.64
Number of shares used in computing earnings per share			
Basic		97,460,457	70,256,044
Diluted		98,469,303	71,393,208

Significant accounting policies and notes to accounts 17

The Schedules referred to above and the notes thereon form an integral part of these financial statements

This is the Profit & Loss account referred to in our report of even date.

for **Bharat S Raut & Co.**

Chartered Accountants

Subramanian Suresh

Partner

Membership No.83673

Arun JainChairman &
Managing Director**Ram Bhagwat**

Executive Director

Govind Singhal

Executive Director

Arvind Kumar

Director

Satya Pal

Director

R C Bhargava

Director

Abhay Agarwal

Director

V Balaraman

Director

Ajit Bhushan

Director

N Vaidyanathan

Chief Finance Officer

Anubhav Kapoor

Company Secretary

Chennai

19 May 2004

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**Statement of cash flows for the years ended**

	31 March 2004	31 March 2003
	(Rs)	(Rs)
Cash flows from operating activities		
Profit before taxation	849,844,376	707,002,724
Other income (excluding foreign exchange gains)	(31,424,203)	(66,694,099)
Sale of software for consideration other than cash	-	(30,000,000)
Exchange differences on foreign exchange translation of cash and cash equivalents	644,837	2,601,495
Exchange differences on foreign exchange translation - subsidiaries	(5,844,220)	-
Depreciation	331,769,407	189,388,684
Employee stock compensation	-	(2,268,935)
(Profit) /Loss on sale of fixed assets	(1,383,539)	3,997,259
Provision for diminution in value of investments	1,013,800	63,978,681
Share of loss on associate companies	22,561,711	5,145,014
Preliminary expenses written off	165,716	48,445
Miscellaneous expenditure written off	8,728,122	5,238,229
Increase in development expenditure	-	(19,675,461)
<i>Changes in current assets and liabilities</i>		
Decrease / (Increase) in sundry debtors	(225,513,512)	219,388,042
Decrease/(Increase) in loans and advances	(418,729,677)	(134,435,038)
Decrease in current liabilities and provisions	(20,446,940)	(143,122,489)
Net cash flows from operating activities	511,385,878	800,592,551
Cash flows from financing activities		
Proceeds from share capital issued on exercise of stock options	1,769,840	1,535,075
Stamp duty and expenses incurred on merger	(8,274,790)	(16,742,915)
Proceeds from share premium on exercise of stock options	20,874,528	17,173,572
Dividends paid during the year	(169,777,235)	(89,171,305)
Taxes paid, including taxes on dividend	(208,854,437)	(222,948,084)
Net cash flows from financing activities	(364,262,094)	(310,153,657)
Cash flows from investing activities		
Proceeds from sale of fixed assets	31,762,723	12,127,832
Purchase of fixed assets and changes in capital work in progress	(544,327,151)	(570,145,881)
Increase/ (Decrease) in secured loans	(3,264,345)	26,366,710
Investment in associates	(32,256,353)	(6,731,657)
Advances / payables to associates	2,902,879	(1,561,788)
Net decrease in non-trade investments	107,843,816	35,962,207
Interest and dividend received	31,341,703	66,694,099
Net cash flows from investing activities	(405,996,728)	(437,288,478)
Effect of exchange differences on foreign exchange translation of cash and cash equivalents	(644,837)	(2,601,495)
Total increase / (decrease) in cash and cash equivalents during the year	(259,517,781)	50,548,921
Cash and cash equivalents at the beginning of the year	837,087,943	413,920,211
Add: Cash balance arising on amalgamation	-	372,618,811
Cash and cash equivalents at the end of the year	577,570,162	837,087,943

Previous year's figures have been regrouped to confirm to current year's presentation.

This is the Cash Flow Statement referred to in our report of even date.

for **Bharat S Raut & Co.**

Chartered Accountants

Subramanian Suresh

Partner

Membership No.83673

Arun Jain

Chairman &

Managing Director

Ram Bhagwat

Executive Director

Govind Singhal

Executive Director

Arvind Kumar

Director

Satya Pal

Director

R.C. Bhargava

Director

Abhay Agarwal

Director

V Balaraman

Director

Ajit Bhushan

Director

N Vaidyanathan

Chief Finance Officer

Anubhav Kapoor

Company Secretary

Chennai

19 May 2004

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES

Schedules to the Consolidated Balance Sheet as at

	31 March 2004 (Rs)	31 March 2003 (Rs)
1 SHARE CAPITAL		
Authorised Capital		
120,000,000 equity shares of Rs 5 each. (2003: 120,000,000 equity shares of Rs 5 each)	600,000,000	600,000,000
10,000,000 11 % preference shares of Rs 5 each. (2003: 10,000,000 11% preference shares of Rs 5 each)	50,000,000	50,000,000
	650,000,000	650,000,000
Issued, Subscribed and Paid-up Capital		
97,699,182 Equity shares of Rs.5 each. (2003: 51,494,665 Equity Shares of Rs 5 each) fully paid up. Of the above	488,495,910	257,473,325
(i) 17,062,550 Equity shares of Rs.5 each. (2003:17,062,550 Equity shares of Rs.5 each) were issued as Bonus shares by capitalisation of Securities Premium account		
(ii) 45,850,549 Equity shares of Rs.5 each. (2003: Nil) were issued pursuant to a scheme of amalgamation of Orbitech Solutions Limited with the Company		
	488,495,910	257,473,325
2 RESERVES AND SURPLUS		
General Reserve		
As per last Balance Sheet	1,353,333,638	1,107,237,307
<i>Add:</i>		
a. Reserves taken over on merger	-	278,238,352
b. Transferred from Profit and Loss Account	67,700,000	54,230,000
<i>Less:</i>		
a. Amalgamation adjustment	-	(14,239,339)
b. Stamp duty and expenses incurred on issue of shares relating to merger	46,725,210*	(71,742,915)
c. Share of previous year loss of Associate Company Investment	-	(389,767)
d. Foreign exchange translation loss	(5,844,220)	-
* Represents reversal of excess provision in the previous year		
	1,461,914,628	1,353,333,638
Securities Premium Account		
As per last Balance Sheet	1,752,243,755	579,768,291
<i>Add:</i>		
a. Securities premium taken over on merger	-	1,155,301,892
b. Premium received on issue of shares to employees	20,874,528	17,173,572
	1,773,118,283	1,752,243,755
Employee Stock Options outstanding account		
As per last Balance Sheet	-	7,054,017
Less: Surrenders / resignations	-	(7,054,017)
	-	-
Profit and Loss account balance	1,180,543,055	742,598,418
	4,415,575,966	3,848,175,811
3 SECURED LOANS		
Loan from United Overseas Bank Ltd, Singapore (Secured against building purchased by the Singapore Subsidiary)	23,102,365	26,366,710
	23,102,365	26,366,710

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES
Schedules to the Consolidated Balance Sheet as at
4 FIXED ASSETS

(Rs)

Sl No	Assets	Cost				Depreciation and Amortisation				Net Book value	
		1 April 2003	Additions	Deletions	31 Mar 2004	1 April 2003	For the year	on deletions	31 Mar 2004	31 Mar 2004	31 March 2003
A. TANGIBLE ASSETS											
	Land (Refer Note 1)	93,119,741	10,068,102	-	103,187,843	-	-	-	-	103,187,843	93,119,741
	Buildings (Refer Note 2)	504,665,856	35,925,512	-	540,591,368	24,256,659	18,224,342	-	42,481,001	498,110,367	480,409,197
	Plant and machinery	75,930,414	12,226,389	1,601,895	86,554,908	14,918,984	12,534,340	566,259	26,887,065	59,667,843	61,011,430
	Computer equipment and accessories	849,541,741	153,173,586	6,914,187	995,801,140	344,026,440	207,956,077	4,975,458	547,007,059	448,794,081	505,515,301
	Electrical fittings	118,497,779	12,501,490	10,477,273	120,521,996	23,927,578	19,252,130	2,783,066	40,396,642	80,125,354	94,570,201
	Office equipment	137,175,912	17,927,594	55,980	155,047,526	28,633,834	15,404,716	13,991	44,024,559	111,022,967	108,542,078
	Furniture and fixtures	163,492,669	54,843,944	5,710,941	212,625,672	39,737,705	25,414,169	1,620,140	63,531,734	149,093,938	123,754,964
	Vehicles (Refer note 3)	101,476,027	2,323,724	26,301,072	77,498,679	28,627,468	19,654,693	10,723,250	37,558,911	39,939,768	72,848,559
		2,043,900,139	298,990,341	51,061,348	2,291,829,132	504,128,668	318,440,467	20,682,164	801,886,971	1,489,942,161	1,539,771,471
B. INTANGIBLE ASSETS											
	Software Products	80,432,636	-	-	80,432,636	3,574,925	13,328,940	-	16,903,865	63,528,771	76,857,711
	Intellectual property rights	59,990,325	-	-	59,990,325	59,990,325	-	-	59,990,325	-	-
		2,184,323,100	298,990,341	51,061,348	2,432,252,093	567,693,918	331,769,407	20,682,164	878,781,161	1,553,470,932	1,616,629,182
	Previous year (Refer Note 4)	715,999,658	493,999,036	25,675,594	2,184,323,100	212,532,128	364,712,293	9,550,503	567,693,918	1,616,629,182	-

Note 1 : Land includes 7.07 acres amounting to Rs. 10,068,102 (2003: Rs nil) acquired from Andhra Pradesh Industrial Infrastructure Corporation and pending registration in favour of the company, subject to fulfillment of certain conditions under the Andhra Pradesh Information Technology Incentives Policy.

Note 2 : Building includes leasehold improvements amounting to Rs 55,321,660 (2003: Rs 38,688,902)

Note 3 : Vehicles include assets acquired under finance leases amounting to Rs 71,996,170 (2003: Rs 95,800,347)

Note 4 : Additions during the year ended 31st March 2003 includes fixed assets having gross book value of Rs. 757,901,505 and depreciation of Rs. 175,323,609 acquired under the scheme of merger with Orbitech Solution Limited.

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES

Schedules to the Consolidated Balance Sheet as at

	31 March 2004 (Rs)	31 March 2003 (Rs)
5 INVESTMENTS (AT COST)		
LONG TERM INVESTMENT TRADE (UNQUOTED)		
Software Sidoun GmbH Germany A company incorporated in Germany Common stock of Euros 1,175,990 fully paid (2003: Common stock of Euros 1,175,990)	52,760,681	52,760,681
<i>Less:</i> Diminution in value of investments	(52,760,681)	(52,760,681)
Eternet Inc. A company incorporated in USA 1,250,000 shares of US\$ 0.2 each fully paid (2003 : 1,250,000 shares of US\$ 0.2 each)	11,625,000	11,625,000
<i>Less:</i> Diminution in value of investments	(11,625,000)	(11,218,000)
	-	-
	-	407,000
Softsourcing SA - Switzerland (2003 : 33 Shares of 1,000 CHF each fully paid up)	-	1,031,657
NMS Works Software Limited A company incorporated in India 500,000 - Equity Shares of Rs.10 each (2003:500,000 Equity shares of Rs.10 each) fully paid 147,228 , 12% Optionally Convertible Cumulative Preference shares of Rs. 10 each fully paid (2003 : 83,918 12% Optionally Convertible Cumulative Preference shares of Rs. 10 each.)	5,000,000	5,000,000
<i>Less:</i> Share of Loss of Associate Company (Refer Note 2B 6 (c) in Schedule 17)	(5,537,848)	(2,612,788)
	34,462,152	33,087,212
Empower Works Limited A Company incorporated in India 10,638,080 Equity shares of Rs.5 each fully paid (2003 : 6,000,000 Equity shares of Rs.5 each fully paid)	58,988,000	30,000,000
<i>Less:</i> Share of Loss of Associate Company (Refer Note 2B 6(b) in Schedule 17)	(22,558,644)	(2,921,993)
	36,429,356	27,078,007
AIG Systems Solutions Private Limited A company incorporated in India 1 Equity Share of Rs.10 each. (2003: Nil)	10	-
(A)	70,891,518	61,603,876

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES
Schedules to the Consolidated Balance Sheet as at

	31 March 2004 (Rs)	31 March 2003 (Rs)
5 INVESTMENTS (continued)		
CURRENT INVESTMENTS TRADE (QUOTED)		
Mutual Funds		
Templeton Treasury MGMT - Growth Nil units (2003: 36,582 units) Face value: Rs 1000 per unit	-	54,988,263
HSBC Mutual Fund 985,006 units (2003: Nil) Face value: Rs.10 Per unit	10,034,457	-
Sundaram Bond Saver 374,491 units (2003: 374,491 units) Face value: Rs 10 per unit	3,891,064	3,891,064
Birla Cash Plus - Growth Nil units (2003: 3,546,512 units) Face value: Rs 1000 per unit	-	57,652,466
Templeton Short Term Income Plan - Monthly Div Plan 29,632 units (2003: Nil Units) Face value: Rs 1000 per unit	30,000,000	-
Zurich India Liquidity Fund - Savings Plan Growth Nil units (2003: 4,734,742 units) Face value: Rs 10 per unit	-	59,150,195
Deutsche Short Maturity Fund - Monthly Div Plan 2,952,320 units (2003: Nil Units) Face value: Rs 10 per unit	30,000,000	-
Prudential ICICI Liquid Plan growth Nil units (2003: 2,870,592 units) Face value: Rs 10 per unit	-	42,588,723
HDFC Liquid Fund - Growth Nil units (2003: 4,820,109 units) Face Value: Rs.10 per unit	-	57,830,288
Grindlays Cash Fund Growth Nil units (2003: 2,784,884 units) Face value: Rs 10 per unit	-	31,253,925
Kotak Mahindra Liquid Scheme - Growth Nil units (2003: 2,287,658 units) Face value: Rs 10 per unit	-	27,595,564
GMBD GSSIF- Medium Term Plan 5,046,286 units (2003: Nil Units) Face value: Rs 10 per unit	51,373,808	-
HDFC Cash Management Fund - Savings Plan 4,782,497 units (2003: Nil Units) Face value: Rs 10 per unit	50,838,228	-
Kotak Liquid Institutional Plan 5,084,109 units (2003: Nil Units) Face value: Rs 10 per unit	50,969,116	-
<i>Less</i> : Provision for diminution in value of investments	227,106,672	334,950,488
(B)	(606,800)	-
	226,499,873	334,950,488
(Aggregate market value of the above investments as at 31 March 2004:Rs.226,820,799 (2003: Rs 335,837,383))		
(A + B)	297,391,391	396,554,364

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES

Schedules to the Consolidated Balance Sheet as at

	31 March 2004 (Rs)	31 March 2003 (Rs)
6 CASH AND BANK BALANCES		
Cash on hand	1,205,081	905,396
Balances with scheduled banks		
- in current accounts *	215,580,274	517,330,447
- in deposit accounts	327,500	105,868,935
Balances with non-scheduled banks in current accounts		
- Fleet Bank, New Jersey, USA	34,853,941	109,721,445
- Barclays Bank, UK	34,140,375	29,690,032
- Indian Bank - Singapore	44,855	-
- Citi Bank, Singapore	164,403,454	57,939,445
- ANZ Bank, Australia	25,533,724	2,355,409
- Dresdner Bank, Germany	10,168,850	900,661
- Ulster Bank, Ireland	6,369,352	341,023
- UBS Bank, Switzerland	6,540,230	3,301,796
- Bank of Tokyo Mitsubishi, Japan	45,599,446	8,668,348
- Chase Bank, New Jersey, USA	32,803,080	65,006
	577,570,162	837,087,943
*includes balance in unclaimed dividend account	1,742,733	1,071,131
7 SUNDRY DEBTORS		
Debts outstanding for a period exceeding six months.		
Unsecured		
- considered good	157,522,088	138,503,041
- considered doubtful	109,056,948	119,867,285
Other debts - unsecured, considered good	1,552,441,559	1,345,947,094
	1,819,020,595	1,604,317,420
Less: Provision for doubtful debts	109,056,948	119,867,285
	1,709,963,647	1,484,450,135
8 LOANS AND ADVANCES (Unsecured considered good)		
Advances recoverable in cash or in kind or for value to be received	174,988,088	118,771,062
Advance income tax and tax deducted at source (Net of provision for tax)	44,577,491	-
Loans to employees	55,152,022	93,611,880
Loans to Employees Welfare Trust	109,523,906	125,000,000
Other advances	6,231,080	9,053,709
Interest receivable	82,500	-
Revenues in excess of billings	604,561,808	213,502,579
Rent, maintenance and security deposits	151,951,532	126,642,408
	1,147,068,427	686,581,638

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES
Schedules to the Consolidated Balance Sheet as at

	31 March 2004 (Rs)	31 March 2003 (Rs)
9 CURRENT LIABILITIES		
Sundry creditors		
- for goods	53,979,048	55,038,846
- for expenses	465,757,487	505,608,605
Lease Obligations	42,524,330	76,101,575
Unclaimed dividends	1,649,739	1,072,849
Advances received from customers	1,808,547	5,686,496
Billings in excess of revenue	9,313,130	12,129,363
	575,032,281	655,637,734
10 PROVISIONS		
Provision for Gratuity	22,032,615	16,297,212
Provision for taxation (net of Advance income tax and tax deducted at source)	-	20,926,453
Proposed dividend	170,973,569	170,354,125
Provision for tax on proposed dividend	21,901,714	21,822,362
	214,907,898	229,400,152
11 DEFERRED TAX LIABILITY		
Fixed assets	71,937,411	30,240,913
Sundry debtors	(24,663,939)	(15,778,492)
Others	(4,609,858)	(1,595,133)
	42,663,614	12,867,288
12 MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)		
Preliminary expenses	666,787	75,568
<i>Add:</i> Additions during the year	-	639,664
<i>Less:</i> Written off during the year	165,716	48,445
Balance Carried	501,071	666,787
Pre-Operative Expenditure	18,718,534	19,035,797
<i>Less:</i> Written off during the year	3,807,156	317,263
Balance Carried	14,911,378	18,718,534
Deferred revenue expenses - Opening balance	5,993,890	10,914,856
<i>Less:</i> Amortised in the current year	4,920,966	4,920,966
Balance Carried	1,072,924	5,993,890
	16,485,373	25,379,211

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES

Schedules to the Consolidated Profit and Loss Account for the year ended

	31 March 2004 (Rs)	31 March 2003 (Rs)
13 OTHER INCOME		
Interest received on deposits with banks and others	5,321,578	10,438,072
Profit on sale of investments	2,293,697	37,232,133
Dividends	12,508,473	6,683,902
Profit on Sale of Assets	1,383,539	-
Miscellaneous income	11,300,455	12,339,992
Foreign exchange gains / (Loss)	(93,547,664)	(38,821,116)
	(60,739,922)	27,872,983
14 SOFTWARE DEVELOPMENT EXPENSES		
Salaries and bonus including overseas staff expenses and outsourced consultants cost	3,072,218,190	1,776,265,899
Employee stock compensation	-	(2,268,935)
Staff welfare	130,291,102	138,958,368
Contribution to provident and other funds	101,950,983	68,313,584
Contribution to Gratuity	9,247,916	7,824,907
Foreign tour and travel	556,371,198	420,738,287
Consumables and computer maintenance	14,137,231	16,771,519
Communication expenses	153,910,999	100,007,761
Sponsorship charges	46,348,310	70,163,036
	4,084,475,929	2,596,774,426
15 ADMINISTRATION AND OTHER EXPENSES		
Salaries and bonus including overseas staff expenses	411,459,546	212,556,742
Contribution to provident and other funds	17,604,124	8,300,882
Professional charges	94,281,559	47,579,458
Legal expenses	48,818,901	35,437,929
Travelling and conveyance	73,892,213	53,221,633
Rent	141,449,931	102,051,007
Business promotion	39,971,411	18,057,342
Power and fuel	70,568,181	55,716,959
Printing and stationery	15,524,614	7,153,285
Office maintenance	25,392,316	19,426,124
Provision for doubtful debts	(10,810,337)	61,924,487
Insurance charges	24,712,338	5,533,123
Advertisements	1,827,789	2,255,563
Bad debts written off	28,430,857	14,751,922
Rates and taxes	4,698,631	6,088,560
Auditor's remuneration	3,103,332	1,732,500
Loss on sale of assets	-	3,997,259
Repairs- Building	10,515,296	3,032,438
Repairs-Plant and machinery	27,934,639	10,466,019
Repairs-Others	26,473,314	13,716,798
Directors' sitting fees	330,000	345,000
Donations	2,641,000	2,586,705
Pre-operative and deferred revenue expenses written off	8,728,122	5,238,229
Preliminary expenses written off	165,716	48,445
Miscellaneous expenses	31,986,844	44,926,872
	1,099,700,337	736,145,281
16 FINANCE CHARGES		
Interest paid towards lease obligations	11,504,582	8,782,132
Bank and other charges	2,649,229	3,407,783
	14,153,811	12,189,915

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

17. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS**Group Overview****1. Description of the Group**

Polaris Software Lab Limited (“Polaris” or “the Company”) is the flagship company of the Group and is listed on the principal stock exchanges of India.

Polaris and its subsidiaries (collectively “the Polaris Group”) are primarily engaged in the business of delivering customized software solutions and products in the domain of contemporary services which include banking and financial services. The list of subsidiaries with percentage holding is given below.

Subsidiaries	Country of incorporation	Proportion of ownership interest (%)
Polaris Software Lab Ltd	United Kingdom	100%
Polaris Software Pty Limited	Australia	100%
Polaris Software Lab SA	Switzerland	100%
Polaris Software Lab GmbH	Germany	100%
Polaris Software Lab Pte Limited	Singapore	100%
Polaris Software Lab Japan KK	Japan	100%
Polaris Software Lab Ireland Limited	Ireland	100%
Polaris Retail Infotech Limited	India	100%
Optimus Outsourcing Company Limited*	India	100%

* Engaged in the Business Processing Outsourcing business

The list of associates with percentage holding is given below.

Associates	Country of incorporation	Proportion of ownership interest (%)
Eternet Inc	USA	25%
NMS Works Software Limited	India	45%
Empower Works Limited	India	49%

2A. SIGNIFICANT ACCOUNTING POLICIES**1. Basis of preparation**

The consolidated financial statements of the Polaris Group are prepared under the historical cost convention in accordance with Generally Accepted Accounting Principles (GAAP), and materially comply with the mandatory Accounting Standards (“AS”) issued by the Institute of Chartered Accountants of India (ICAI) and the provisions of the Companies Act, 1956 (the Act).

The consolidated financial statements include the financial statements of Polaris Software Lab Limited and all its subsidiaries, which are more than 50%, owned or controlled. The financial statements are prepared in accordance with the principles and procedures for the preparation and presentation of consolidated financial statements as laid down under AS 21 prescribed by the ICAI. AS 23 - Accounting for Investments in Associates in Consolidated Financial Statements issued by the ICAI, effective 1 April 2002 has been adopted in the preparation of these financial statements. All material inter-company transactions and accounts are eliminated on consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period reported. Actual results could differ from these estimates.

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES
Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

17. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

2. Revenue recognition

Software Development and support Services

Revenue from software development and support services comprises income from time-and-material and fixed price contracts. Revenue is recognized in accordance with the terms of the contract with the customer. Revenue with respect to time-and-material contracts is recognized as related services are performed. Revenue from fixed-price contracts is recognized in accordance with the percentage of completion method. Provision for estimated losses on incomplete contract is recorded in the period in which such losses become probable based on the current contract estimates.

Revenue in excess of billings represent earnings on ongoing fixed price and time & material contracts over amounts invoiced to customers.

Billings in excess of revenue represent amounts received in advance in case of ongoing fixed price contracts wherein amounts have been billed in accordance with the billing cycle and efforts would be incurred subsequent to period end.

Product licenses and related revenues

Revenues from product license and related revenues are recognized as follows:

- ❖ License fees, on delivery and subsequent milestone schedule as per the terms of the contract with the end user
- ❖ Product maintenance revenues, over the period of the maintenance contract
- ❖ Customization and Implementation services are recognized upon percentage of completion method based on proportion of efforts spent to total efforts to complete or on the basis of contractually determined milestones as certified by the customer and, with respect to time and material contracts as the related services are performed. Provision for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become probable based on current contract estimates

Business Process Outsourcing

Revenue is recognized in accordance with the terms of the contract with the customer. Revenue is recognized as related services are performed.

3. Fixed assets and capital work in progress

Fixed assets are stated at cost, after reducing accumulated depreciation until the date of the balance sheet. Direct costs are capitalized until the assets are ready for use and include the borrowing costs related to the acquisition or construction of qualifying assets for the period up to the completion of construction or installation of such assets respectively and pre-operative expenses incurred during the construction period. Capital work-in-progress includes advances paid to acquire fixed assets and the cost of assets not ready for intended use before the balance sheet date.

4. Assets acquired on finance lease

Assets acquired on finance leases are capitalized and a corresponding liability disclosed as lease obligations under "Current Liabilities". Such assets are capitalized at fair values or present value of lease payments, whichever is lower. Rentals paid by the Company are apportioned between the finance charge and as a reduction of the outstanding liability. Finance charge reflects a constant periodic rate of interest on the remaining balance of liability for each period.

In respect of assets acquired on finance lease prior to 1 April 2001, the corresponding lease rentals are expensed to the Profit & Loss account.

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

17. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**5. Depreciation**

Depreciation on fixed assets is provided pro-rata to the period of use, using the straight-line method based at rates specified in Schedule XIV to the Act or on estimated useful lives of assets, whichever is higher as estimated by the Company. Individual assets costing less than Rs 5,000 are depreciated in full in the period of purchase.

The estimated useful lives applied for depreciation of assets are as follows:

Asset category	Estimated Useful Life (years)
Tangible Assets	
Buildings	29
Leasehold Improvements	10
Plant and machinery	6-7
Computer equipment and Software	3
Servers and Computer accessories	5
Furniture and fixtures, office equipment and electrical fittings	10
Vehicles	6
Intangible Assets	
Software Products (indigenously developed)	5
Intellectual property rights	1

In respect of assets acquired on finance lease after 1 April 2001, the leased assets are depreciated over the period of the lease.

6. Research and development expenses for software products**Expenditure**

Software product development costs are expensed as incurred until technological feasibility is established. Software development costs incurred subsequent to the achievement of technological feasibility are capitalized and amortized over estimated useful life of the products. This capitalization is done only if the Company has the intention and ability to complete the product, the product is likely to generate future economic benefits, adequate resources to complete the product are available to the Company and the Company is able to accurately measure such expense.

Such software development costs comprise expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to development of the product.

Amortization

The amortization of software development costs is allocated on a systematic basis over the best estimate of its useful life after the product is ready for use. The factors considered for identifying the basis include obsolescence, product life cycle and actions of competitors. The products are amortized over period of five years.

The amortization period and the amortization method is reviewed at each period end. If the expected useful life of the product is shorter from previous estimates, the amortization period is changed accordingly.

7. Preliminary expenses

Preliminary expenses represents pre-incorporation expenses incurred by the group towards formation of one of the subsidiary companies. These expenses have been amortized over a period of five years.

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

17. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

8. Preoperative expenses

Preoperative expenses represent expenses incurred by one of the subsidiary companies upto the date of commencement of commercial operations. These expenses are being amortized over a period of five years.

9. Foreign currency transactions and foreign currency translations

Transactions in foreign currencies are recorded at a rate that approximates the exchange rate prevailing at the date of the transaction. Current assets and liabilities denominated in foreign currency are translated at the rate of exchange as at the balance sheet date.

Revenue items, except depreciation, incurred by overseas branch are translated at the average rate of exchange. Overseas branch assets and liabilities are translated at year end closing rates. Non monetary items are translated at the rates on the date of transaction in the case of branch.

Exchange differences arising out of actual payments / realizations of foreign currency and from the year-end restatement/translation are charged to the Profit and Loss account except in respect of liabilities incurred for acquiring fixed assets, in which case such differences are adjusted to the cost of the fixed assets.

Fixed assets are translated using the exchange rates at the date of acquisition. Depreciation is translated at the rates used for translation of the values of the assets on which depreciation is computed.

The financial statements of the foreign subsidiaries are translated into Indian Rupees as follows:

Revenue items, except depreciation are translated at respective monthly average rates. Depreciation is translated at the rates used for the translation of the values of the assets on which depreciation is calculated

Monetary items are translated using the closing rate

Non-monetary items, other than fixed assets, are translated using the exchange rate at the date of the transaction

Fixed assets are translated using the exchange rate at the date of their acquisition. Where there has been an increase or decrease in the liability of the Group, as expressed in Indian Rupees by applying the closing rate, for making payments towards the whole or a part of the cost of a fixed asset or for repayment of the whole or part of the monies borrowed, in foreign currency specifically for the purpose of acquiring a fixed asset, the amount by which the liability is so increased or reduced during the year, is added to or reduced from, the cost of the fixed asset concerned

The net exchange difference resulting from the translation of items in the financial statements of foreign subsidiaries is recognized under general reserve for the year except to the extent adjusted in the carrying amount of respective fixed assets as stated above

Contingent Liabilities are translated at the closing rate.

10. Investments

Investments are classified as long term investments and current investments. Long term investments are stated at cost and any decline, other than temporary, in the value of such investments is charged to the profit and loss account. Current investments are stated at the lower of cost and market value.

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

17. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**11. Retirement benefits****The Company***Provident fund*

Employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and the Company make monthly contributions to the Regional Provident Fund equal to a specified percentage of the covered employee's salary. The Company has no further obligations under the plan beyond its monthly contributions.

Gratuity

The Company provides for gratuity in accordance with the Payment of Gratuity Act, 1972, a defined benefit retirement plan (the Plan) covering all employees. The plan, subject to the provisions of the above Act, provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment.

The Company estimates its liability as of each balance sheet date based on an actuarial valuation. In respect of certain employees taken over on merger, the Company contributes gratuity to a fund maintained by The Life Insurance Corporation of India.

Superannuation

The Company contributes specified percentage of the eligible employees' basic salary towards superannuation (the plan) to a fund managed by Life Insurance Corporation of India. A trust has been created and approved by the Income-tax authorities for this purpose. This plan provides for various options for payment of pension at retirement or termination of employment as per trust rules. The Company has no further obligations under the plan beyond its annual contribution.

Leave encashment

As per the employment policy of the Company, employees are required to avail their annual leave by the end of the respective financial year and leave is not allowed to be encashed.

Subsidiaries

Retirement benefits are provided to employees of subsidiaries in accordance with the local laws and regulations prevailing in the country in which the subsidiary is located.

12. Income taxes and Deferred Tax

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Group. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to timing differences that result between the profit offered for income taxes and the profit as per the financial statements. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

Deferred tax assets in respect of losses carried forward and unabsorbed depreciation are recognized only to the extent that there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. Other deferred tax assets are recognized only if there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized and are reassessed for the appropriateness of their respective carrying values at each balance sheet date.

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

17. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**12. Income taxes and Deferred Tax (Contd.)**

The break up of the major components of deferred tax assets and liabilities as at the balance sheet date have been arrived at after setting off deferred tax assets and liabilities where the group has a legally enforceable right to set-off assets against liabilities, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws

13. Stock based compensation

In accordance with the Employee Stock Option Scheme and Employee Stock Purchase Scheme Guidelines, 1999 issued by the Securities and Exchange Board of India ("SEBI"), the 'Option Discount' has been amortized on a straight-line basis over the vesting period of the shares to be issued under Stock Option Plans and disclosed as 'employee stock compensation expense' in the Profit and Loss Account.

'Option Discount' means the excess of the market price / fair value of the underlying shares at the date of grant of the options over the exercise price of the options.

2B. NOTES TO ACCOUNTS:**1. Capital commitments and contingent liabilities**

The estimated amount of contracts remaining to be executed on capital account, and not provided for (net of advances) as at March 31, 2004 is Rs 63,645,117 (2003 : Rs.74,742,975).

As at 31 March 2004, the Group has outstanding guarantees and counter guarantees of Rs.28,209,827 (2003: Rs.10,401,266) issued to various banks, in respect of the guarantees given by the banks in favor of various government authorities.

The Future obligation for vehicles taken on lease is given below.

In Rs

Particulars	As at 31.03.2004	As at 31.03.2003
Not later than one year	24,343,215	32,391,352
Later than one year and not later than 5 years	26,591,189	66,118,459
	50,934,404	98,509,811
<i>Less:</i> Amount representing future interest	(8,410,074)	(22,408,236)
Present Value of minimum lease rentals	42,524,330	76,101,575

2. Stock Option Plan

The Company has three stock option plans that provide for the granting of stock options to employees including directors of the Company (not being promoter directors and not holding more than 10% of the equity shares of the Company). The objectives of these plans include attracting and retaining the best personnel, providing for additional performance incentives and promoting the success of the Company by providing employees the opportunity to acquire equity shares.

The option plans are summarized below:

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

17. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**2. Stock Option Plan (Contd...)****Associate Stock Option Plan 2000**

On 9 March 2000, the Company's shareholders approved in the Extraordinary General Meeting (EGM) an Associated Stock Option Plan ("the 2000 Plan"). The 2000 Plan provides for issuance of 938,400 equity shares of Rs 5 each to the employees including directors. Employee Compensation Committee administers the 2000 Plan. Under the Plan, based on the recommendation of Employee Compensation Committee, the options were granted at a discount not exceeding 25% of the market price of shares on the date of grant. The option vests over a period of five years from the grant date.

Subsequently, the shareholders of the Company approved the following modifications to the 2000 plan:

- ❖ at the EGM held on 7 March 2001, the plan was modified to permit cancellation/ accept surrender of options; and
- ❖ at the Annual General Meeting held on 6 September 2002, the exercise price of the options to be granted will be the market price of the shares on the date of the grant.

A summary of the status of the 2000 plan at 31 March 2004 is presented below.

Number of options granted, exercised, cancelled / surrendered and forfeited	Year ended 31 March 2004	Year ended 31 March 2003
Options outstanding at the beginning of the year	1,190,265	525,300
Granted during the year	113,000	877,950
Exercised during the year	(85,700)	(59,765)
Forfeited /Surrendered during the year	(126,310)	(153,220)
Outstanding at the end of the year	1,091,255	1,190,265

Associate Stock Option Plan 2001

The Shareholders of the Company in the Extraordinary General Meeting (EGM) held on the 7 March 2001 approved an Associate Stock Option Plan (the 2001 Plan). The 2001 Plan provides for issuance of 1,194,000 equity shares of Rs 5 each to the employees including directors at the closing market price of shares on the date of grant. The option vests over a period of five years from the grant date.

A summary of the status of the 2001 plan at 31 March 2004 is presented below.

Number of options granted, exercised, cancelled / surrendered and forfeited	Year ended 31 March 2004	Year ended 31 March 2003
Options outstanding at the beginning of the year	1,438,440	1,709,175
Granted during the year	50,000	211,500
Exercised during the year	(268,268)	(247,250)
Forfeited/surrendered during the year	(183,050)	(234,985)
Outstanding at the end of the year	1,037,122	1,438,440

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES
Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

17. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

2. Stock Option Plan (Contd...)

During the year ended 31 March 2002, the Company announced and allotted bonus shares by capitalizing a part of share premium account in the ratio of 1 equity share for every 2 shares held on the record date. The Associate Stock Option Plan (ASOP) schemes mentioned above provide power to the compensation committee for suitable adjustments to the quantum and price of ASOPs in case of corporate actions such as stock split, bonus etc. The holders of options granted prior to issuance of bonus shares by the Company are entitled to receive additional options in the ratio of one additional option for every two options held

At the Ninth Annual General Meeting held on 6 September 2002, a special resolution was passed, effective 7 March 2001, wherein the total number of options to be granted under the 2000 plan and the 2001 plan along with options already granted by the Company and outstanding under the schemes shall not at any time exceed 6.25 % (2.75 % under the 2000 plan and 3.5% under the 2001 plan) of the total shares issued by the Company on the date (s) of grant of such options.

Associate Stock Option Plan 2003

The Shareholders of the Company in the Extraordinary General Meeting (EGM) held on the 12 March 2004 approved an Associate Stock Option Plan (the 2003 Plan). The 2003 Plan provides for issuance of 3,895,500 equity shares of Rs 5 each to the employees including directors at the Market Price of the shares on the date of grant. Market Price under the 2003 plan scheme is the average of the two weeks high and low price of the share preceding the date of grant of option on the stock exchange where the highest trading volumes are recorded during the aforesaid period. The option vests over a period of five years from the grant date. No options were granted during the year under this scheme.

3. Segment Reporting

The Group's operations predominantly relate to providing IT services, delivered to customers operating in various industry segments globally. Accordingly, IT service revenues represented along industry classes comprise the primary basis of segmental information set out in these financial statements. Secondary segmental reporting is performed on the basis of the geographical location of customers.

The accounting policies consistently used in the preparation of the financial statements are also applied to record revenue and expenditure in individual segments.

Business (primary) segments of the Group are:

- a) Banking and financial services; and
- b) Emerging verticals.

Revenue and direct expenses in relation to segments are categorized based on items that are individually identifiable to that segment, while other costs, wherever allocable, is apportioned to the segments on an appropriate basis. Certain expenses are not specifically allocable to individual segments as the underlying services are used interchangeably. The Group believes that it is not practicable to provide segment disclosures relating to such expenses, and accordingly such expenses are separately disclosed as 'unallocated' and directly charged against total income.

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

17. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**2. Stock Option Plan (Contd...)**

Fixed assets used in the Group's business or liabilities contracted have not been identified to any of the reportable segments, as the fixed assets and services are used interchangeably between segments. The Group believes that it is currently not practicable to provide segment disclosures relating to total assets and liabilities since a meaningful segregation of the available data is onerous.

Customer relationships are driven based on the location of the respective client. The geographical segments comprises:

- a) United States of America;
- b) Europe;
- c) Asia Pacific;
- d) India and the Middle East.

Primary segment information*In Rs*

Particulars	Year ended 31 March 2004	Year ended 31 March 2003
<i>Segment revenues</i>		
Banking and financial services	5,451,866,275	3,288,650,698
Emerging verticals	1,012,393,018	994,101,044
	6,464,259,293	4,282,751,742
<i>Segment profit before Finance charges & Tax</i>		
Banking and financial services	1,652,219,672	1,190,232,944
Emerging verticals	68,965,241	127,751,743
	1,721,184,913	1,317,984,687
Finance charges	(14,153,811)	(12,189,915)
Other unallocable expenditure net of unallocable income	(857,186,726)	(598,792,048)
<i>Profit before taxation</i>	849,844,376	707,002,724
Income Tax and Deferred Tax	(151,324,456)	(161,687,946)
<i>Profit after taxation</i>	698,519,920	545,314,778

Secondary segment information*In Rs*

Region	Year ended 31 March 2004	Year ended 31 March 2003
United States of America	2,865,141,232	1,696,276,273
Europe	1,572,631,503	663,750,992
Asia Pacific	1,332,336,332	1,046,666,405
India and Middle East	694,150,226	876,058,072
	6,464,259,293	4,282,751,742

Revenues by geographic area are based on the geographic location of the customer.

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES
Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

17. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

4. Earnings per Share (“EPS”)

Reconciliation of basic and diluted shares used in computing EPS:

Particulars	Year ended 31 March 2004	Year ended 31 March 2003
Weighted average number of equity shares outstanding during the year - Basic	97,460,457	70,256,044
<i>Add:</i> Effect of dilutive issue of stock options to be converted	1,008,846	1,137,164
Weighted average number of equity shares outstanding during the year - Diluted	98,469,303	71,393,208

In computing the diluted EPS, only potential equity shares that are dilutive and that either reduce earning per equity share or increase loss per equity share are included.

5. Related party transactions

Following are the related parties with whom transactions have taken place during the year:

Associates	
Eternet Inc.	Orbitech Employees Welfare Trust
NMS Works Software Limited	Empower Works Limited
Others (enterprises that directly, or indirectly through one or more intermediaries, control the Group and enterprise of which the Group is an associate)	
Citibank and its branches	Orbitech Limited
Polaris Holdings Private Limited	
Key management personnel	
Mr. Arun Jain, Chairman & Managing Director Mr. Govind Singhal, Executive Director	Mr. G N Mathur, Wing CDR, (Retired), Executive Director Mr. Ram Bhagwat, Executive Director

In Rr.

Balances due to / from related parties	Associates	Others
Receivables trade debts	-	1,275,577,384
	(-)	(213,311,908)
Receivables loans and advances	111,604,457	252,183,909
	(129,983,386)	(18,906,613)
Current liabilities	-	-
	(-)	(71,766,648)
Investments	98,988,000	(-)
	(67,138,657)	(-)

Figures in brackets denote previous year figures.

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

17. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**5. Related party transactions (Contd.)**

Related party transactions	<i>In Rs</i>	
	Associates	Others
Advances given	23,051,194	-
	(7,356,404)	-
Software development services	-	3,913,017,038
	(-)	(1,749,975,606)
Reimbursement of expenses to the Group	-	8,416,986
	(-)	(88,577,845)
Reimbursement of expenses by the Group	-	10,258,378
	(-)	(103,684,021)
Lease payments	-	11,780,028
	(-)	(6,694,999)
Communication expenses	-	-
	(-)	(17,659,842)
Investments	33,288,010	-
	(36,731,657)	(-)
Provision for investments	407,000	-
	(11,218,000)	(-)

Figures in brackets denote previous year figures.

Remuneration paid to key management personnel amounts to Rs.21,219,239

(2003: Rs.7,471,181)

Loans and advances	<i>In Rs</i>	
	Associates	
Empower Works Limited*	705,248	
	(3,608,127)	
NMS Works Software Limited*	1,375,259	
	(1,375,259)	

Figures in brackets denote previous year figures.

* Companies in which directors are interested

❖ Remuneration paid to key management personnel amounts to Rs.21,219,239 (2003: Rs.7,471,181)

❖ In the current year, the group issued 20,000 stock options (2003 : 80,000 stock options) under the ASOP 2000 plan and 50,000 stock options (2003 : Nil) under the ASOP 2001 plan to certain directors. No compensation cost arises as a result of these options, as these were issued at prevailing market prices.

6. Investments in Associates

a) The movement during the year comprises of the following:

❖ Subscribed additionally for 4,638,080 equity shares of Rs.5 each at a premium of Rs.1.25 Per share amounting to Rs.28,988,000 during the year in Empower Works Limited; and

❖ Subscribed additionally for 63,310 Optionally convertible cumulative preference shares of Rs. 10 each at a premium of Rs.57.92 per share amounting to Rs 4,300,000 during the year in NMS Works Software Limited.

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES
Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

17. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

6. Investments in Associates (Contd.)

- b) The Company's equity ownership interest in Empower Woks Limited is 49% as on 31 March 2004. Empower Works Limited is primarily engaged in the business of providing specific solutions relating to Human Relations suite of software solutions and products. The accumulated losses to the extent of Rs.13.1 Million as per the unaudited financial statements as on 31 March 2004 are on account of initial / start-upstage of operations and the Company is expected to generate profits in the near future. Accordingly, management believes that there is no permanent diminution in the value of its investment in Empower Works Limited and hence it is stated at cost.
- c) The Company's equity ownership interest in NMS Works Software Limited is 45% as on 31 March 2004. NMS Works Software Limited is primarily engaged in the business of designing network management in Telecommunication and Internet Services. The accumulated losses to the extent of Rs.9.3 Million as per the unaudited financial statements as on 31 March 2004 are on account of initial / start-up stage of operations and the Company is expected to generate profits in the future. Accordingly, management believes that there is no permanent diminution in the value of its investment in NMS Works Software Limited and hence it is stated at cost.

7. Litigation and claims

Data Inc.

Arun Verma and Data Inc. (the plaintiffs) have filed a complaint against the Company in a US Court for damages towards breach of contract and fraud, for non-acquisition of Data Inc. On 27 November 2001, the Court granted the Company motion and dismissed all claims of the plaintiff except their breach of contract claim for liquidated damages under the terms of MOU and limited the extent of claim by the plaintiff to US \$100,000. Data Inc has appealed against the trial court order dated 27 November 2001. During the previous year, the parties had entered into an agreement to dismiss all remaining claims subject to re-asserting all their claims that existed before 27 November 2001 under certain conditions. On 9 September 2003 the Court of Appeals referred the matter to the appellate mediator for a settlement prior to the court rendering a decision. However the mediation proved to be unsuccessful and the matter was referred back to the Court in December 2003. The court of appeals after obtaining supplemental briefing from the parties, dismissed the Appeal on 20 April 2004 and remanded the matter to the District Court. The District Court has not yet scheduled any further proceedings in this matter. The Company is vigorously contesting the case and continues to believe that the allegations of Data Inc. are without merit and have been proved by orders of the Court so far.

Arbitration with Bank Artha Graha

Due to a commercial dispute, Bank Artha Graha (BAG) has failed to pay the monies due to the Company under a contract and terminated the contract prematurely in November 2002. This dispute is now under arbitration at Singapore's International Arbitration Centre (SIAC). The Company has since filed the counter claim against BAG. The Company is also relying on the testimony of several reputable experts in the arbitration proceedings. Arbitrator has been appointed and the arbitration is likely to proceed in the later half of the year 2004.

POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

17. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**7. Litigation and claims (Contd.)**

Pending the outcome of the case, the management is not able to estimate the financial effect of the contingency. However, the management believes that the claim can be successfully resisted by the company.

Suit filed by ex-employees

Two former employees of the Company have instituted a suit in Mumbai for wrongful termination of their services and publication of defamatory material. Since the case is in the preliminary stage, it is not possible for the company to predict the outcome of the case. The Company believes that the allegations are without merit and is vigorously contesting the case. Pending the outcome of the case, the management is not able to estimate the financial effect of the contingency. However, the management believes that the claim can be successfully resisted by the company.

Others

The Company is also involved in other law suits and claims which arise in the ordinary course of business. However, there are no such matters pending that the Company expects to be material in relation to its business.

8. Pursuant to the "Scheme of Amalgamation" sanctioned by The Honourable High Court of Chennai by order dated 26 February 2003 and The Honourable High Court of Mumbai by order dated 21 April 2003, OrbiTech Solutions Limited (Amalgamating Company) was amalgamated with the Company with effect from 1 November 2002. The amalgamation has been accounted for under the "Pooling of Interests method" as prescribed by Accounting Standard, AS 14, Accounting for Amalgamation issued by ICAI. The figures for the year ended 31 March 2003 are inclusive of the five months figures relating to the amalgamating Company and thus are not comparable with those of the current year.
9. Previous year figures have been regrouped / reclassified, wherever necessary, to conform to the current period presentation.

FREQUENTLY ASKED QUESTIONS

General :**Where and in which year was Polaris Software Lab Ltd. incorporated?**

Polaris Software Lab Ltd. was incorporated in Chennai on the 5th of January 1993.

Who is the promoter of Polaris Software?

The promoter of Polaris Software is Mr. Arun Jain.

Where does Polaris have its headquarters?

Polaris has its headquarters at 'Polaris House', 244, Anna Salai, Chennai-600 006, Tamilnadu, India.

What is the current issued and paid-up-capital of the Polaris?

The paid-up-capital of Polaris is Rs.48.85 Crores, comprising 97,699,182 equity shares of Rs.5/- each. (as of 31st Mar 2004).

Where are Polaris Development Centers present in India? In how many countries is Polaris present?

The Company's headquarters and corporate offices are located at Chennai, India. Polaris currently operates from twelve offshore development centers located in India, seven global subsidiaries in Singapore, Germany, Switzerland, Australia, Ireland, UK and Japan. Polaris also operates as branch offices at Chicago, New Jersey, Fremont, Mumbai, Hyderabad, Bangalore, Delhi & Riyadh.

Who are on the Polaris Board?

Polaris Software Lab's Board of Directors comprises senior and experienced professionals from diverse backgrounds. The Board has Mr. Arun Jain as the Chairman & Managing Director and CEO. He is supported by Mr. Ram Bhagwat as President & Executive Director and Mr. Govind Singhal as Executive Director. Mr. R C Bhargava, former Chairman and Managing Director, Maruti Udyog; Mr. Satya Pal, former Chairman, MTNL and a Telecom expert; Mr. Dipak Kumar Rastogi, Head of Citigroup Venture Capital International; Mr. Abhay Agarwal, Practicing Chartered Accountant; Mr. Ajit Bhushan, Managing Director of Citigroup Venture Capital International; Mr. V Balaraman, Ex-Director of HLL Exports Ltd; Mr. Arvind Kumar, Supreme Court advocate; Dr. Ashok Jhunjunwala, Professor & Head of the Department of Electrical Engineering at the Indian Institute of Technology, Chennai and Mr. Venkatachalam Krishnakumar, Vice President and Regional Director (Asia Pacific) of Citigroup are the other distinguished members of the Board who bring the right amount of expertise in the Company's relevant business areas.

What is the Vision Statement of Polaris?

The Vision of Polaris is "To build future leaders through continuous learning, creativity, excellence and mutual respect and reaching new horizons with our creative energies ensuring customer delight and social fusion".

What is the mission of Polaris?

Polaris' mission is "To be a reliable and responsive Techno-Business solutions provider in the areas of Banking, Financial Services, Insurance, and Retail; will provide cost-effective and timely solutions, meeting customers expectations through continuous process improvement and win-win relationships".

What is the history of Polaris?

- ❖ 1993 - Incorporation
- ❖ 1994 - End to End Retail Banking solution developed for Citibank India
- ❖ 1995 - Quality process Aligned to SEI-CMM Level 3
- ❖ 1997 - First Overseas Development Center commissioned for Citibank, LA
- ❖ 1997 - Citicorp Finance takes 18% venture capital stake at a valuation of Rs.50 Crores
- ❖ 1997 - Wholly owned subsidiary established in Singapore
- ❖ 1997 - Wholly owned subsidiary established in US
- ❖ 1998 - ISO 9001 Certification by KPMG
- ❖ 1998 - UK subsidiary established
- ❖ 1998 - Quality process aligned to SEI CMM Level 4
- ❖ 1998 - Polaris Retail Infotech formed in Chennai
- ❖ 1998 - Polaris accredited with ISO 9001 certification
- ❖ 1999 - IPO and listing in major Indian bourses
- ❖ 2000 - 'Foundation', a state-of-the-art development center spread over 1,30,000 sq. ft. established
- ❖ 2000 - Subsidiaries in Germany, Switzerland and Australia
- ❖ 2001 - Polaris scrip moved to Group 'A' by The Stock Exchange, Mumbai
- ❖ 2001 - Subsidiaries in Japan, Ireland and Switzerland
- ❖ 2001 - Became the first Company in the world to be assessed and certified CMMi Level 5 (Capability Maturity Model Integrated) by the globally renowned quality rating body, The Software Engineering Institute (October 2001)
- ❖ 2001 - Commences operations in Japan
- ❖ 2002 - Optimus subsidiary launched to address the BPO market
- ❖ 2002 - Polaris scrip inducted into the Junior Nifty Index

- ❖ 2002 - Established a Business Continuity Center at Singapore
- ❖ 2002 - Merger of OrbiTech Solutions Ltd. with Polaris Software
- ❖ 2003 - 'Polaris Towers', a state-of-the-art development center in New Delhi spread over 90,000 sq. ft. established
- ❖ 2004 - Polaris has set up an exclusive 300 associate Centre of Excellence (CoE) facility in Mumbai for Financial Risk Management (FRM)
- ❖ 2004 - Polaris launched “Intellect Suite”, a product offering boundaryless banking solutions for the global banking and financial services market
- ❖ 2004 - Polaris has set up Intellect Engineering Center, measuring 1,11,700 sq. ft. spread over 8 acres, located in Chennai

What are the Awards / Recognition received by Polaris?

- ❖ Gold Award in the Print Category for Annual Report Advertising Club of Madras
- ❖ Mother Teresa Corporate Citizen Award of the Year 2003
- ❖ Rated among top 25 companies with best practices and procedures by the Institute of Company Secretaries of India
- ❖ Polaris ranked No. 16 in DQ Top 20
- ❖ Orbi One Direct Wins The Banker Technology Award 2003 for Multi-Channel Integration
- ❖ Polaris ranked No. 82 in Economic Times(ET 500) ratings list in 2003
- ❖ Bronze Award for the Corporate Website in 2003
- ❖ Polaris ranked No. 96 in Business India - Super 100 companies in 2002
- ❖ Polaris ranked No. 47 in BT-500 in 2002
- ❖ Forbes ranks Polaris among “Forbes 200 Best Under a Billion” in the world in 2002
- ❖ Managerial Excellence Award in 2002
- ❖ Gold Award for the Best Annual Report 2001
- ❖ Bronze Award in the Best Brochure category in 2002
- ❖ Among Business Today's Largest IT Wealth Creators in India in 2002
- ❖ Named among Business Today's “Tomorrow's Organizations” in 2002
- ❖ World's First Company to be certified CMMi Level 5 Company by Software Engineering Institute US in 2001
- ❖ CAT 2000 Award for Corporate Identity

- ❖ Best Employee-Employer Relation Award by Indian Express and Rotary Club
- ❖ Ranked among Dataquest 'Sizzlers' in 1997

What are the types of quality certifications received by Polaris?

- 1) Polaris is the world's first company to be appraised at CMMi Level 5 (Capability Maturity Model Integrated).
- 2) Polaris has been certified as ISO 9001:2000 by KPMG Quality Registrar.
- 3) Polaris has been recommended for BS-7799 certification by STQC, Delhi.

What is the employee strength of Polaris Software Lab?

As on March 31, 2004, Polaris had 4,976 Associates on a full-time basis.

The Academic Profile of our Associates is as follows:

Academic Profile of our Associates

Qualifications	
Diploma / PG Diploma / Graduation	64.08%
Btech / BE / Msc / MCA	18.88%
MBA	4.33%
Mtech	5.54%
PhD	0.14%
Others	7.03%
Total	100.00%

In which stock exchanges are Polaris shares listed and traded?

Polaris shares are traded at

- ❖ MSE: Madras Stock Exchange w.e.f. 27th September 1999
- ❖ BSE: The Stock Exchange, Mumbai w.e.f. 29th September 1999
- ❖ NSE: National Stock Exchange w.e.f. 24th November 1999

What is the fiscal year of Polaris?

The fiscal year period of Polaris is between April 1st and March 31st

Does Polaris issue Quarterly Reports and Balance Sheets?

Provisional financial reports of Polaris are published on a Quarterly basis for the quarters ending on 30th June, 30th September, 31st December and 31st March respectively.

When did Polaris have its Initial Public Offer (IPO)?

Polaris' IPO was between 4th August 1999 and 10th August 1999. The public issue was at Rs. 210 (Rs. 200 Premium and face value Rs. 10).

What was the initial listing price?

The initial listing price of Polaris equity shares in

- ❖ BSE opening price Rs.588 and closing price of Rs.723 (Rs.10/- share)
- ❖ NSE opening price Rs.796 and closing price of Rs.797 (Rs.10/- share)

Has there been any subsequent issue of shares made by Polaris?

- ❖ **Face Value Split:** Shares having a face value of Rs 10/- were split into two shares of Rs 5/- each. The Company's shares were sub divided from Rs.10 to Rs.5 with effect from 24th May 2000. In view of the split, the number of shares increased from 17,062,550 to 34,125,100
- ❖ **Bonus:** The Company issued bonus shares in August 2001 in the ratio of 1:2, and further to the issue of bonus shares the share capital of the Company increased from Rs.17.06 Crore to Rs.25.59 Crore divided into 51,187,650 shares of Rs.5/- each
- ❖ **Merger:** The merger of OrbiTech Solutions with Polaris Software has led to enhancing the capital of the merged entity to Rs. 48.69 Crore divided into 97,389,089 shares of Rs. 5 each

What has been Polaris' employee strength vis-à-vis the revenue growth?

Year	No. of Employees	Revenue Growth
1998-99	915	Rs. 823.98 Mn.
1999-00	1465	Rs. 1,657.21 Mn.
2000-01	2415	Rs. 2,825.09 Mn.
2001-02	2556	Rs. 2,938.03 Mn.
2002-03	4248	Rs. 4,310.63 Mn.
2003-04	4976	Rs. 6,464.25 Mn.

What has been the dividend history of Polaris?

Polaris has a consistent dividend payment track record for the last seven years.

	2003 - 04	2002 - 03	2001 - 02	2000 - 01	1999 - 00
Dividend %	35	35	35	30	30

Merger Related

What is the effective date of merger of OrbiTech Solutions with Polaris Software?

Merger of OrbiTech Solutions with Polaris Software is effective from 1st November, 2002

What the merged entity be called?

The merged entity will be an independent company, which will continue to be called as Polaris Software Lab Ltd. Arun Jain, Chairman & Managing Director and CEO of Polaris Software Lab Limited, will continue to be the Chairman & Managing Director and CEO of the merged entity.

What is the swap ratio for merger?

Polaris Shareholders will hold 52.75%, while OrbiTech Shareholders will hold 47.25% in the merged entity. 42.65 new shares of Rs.5/- each of Polaris will be exchanged for every 100 shares of Rs.2/- each of OrbiTech. Post merger Polaris shareholders will be holding 51.53 million shares and OrbiTech shareholders will be holding 45.85 million shares in the merged entity.

What is the percentage of voting rights of Polaris promoters and Citigroup?

Mr. Arun Jain, employees and friends will have 38.50% voting rights in the merged entity, and Citigroup through Orbitech Limited will hold 47.25%. However under the merger agreement they will have the right to exercise voting rights only to the extent of 29.99% in the merged entity.

Electronic Clearing Services related

Is the Company extending Electronic Clearing Service (ECS) facility to shareholders for payment of dividend?

Yes, the Company is extending ECS facility to all its shareholders.

What are the benefits of ECS?

The dividend amount will be directly credited to the bank account of the respective shareholder. ECS also provides adequate protection against fraudulent interception and encashment of dividend warrants apart from eliminating loss/damage of dividend warrants in transit, and the correspondence with the Company on revalidation/issuance of duplicate dividend warrants.

This facility is available for the remittance of dividend amount upto Rs.5 lakhs, and is subject to the Reserve Bank of India Guidelines.

How can a shareholder avail the ECS facility?

Shareholders holding shares in physical form have to submit an ECS Mandate Form to M/s. Karvy Computershare Private Limited, Hyderabad. Those who are holding shares in electronic form should forward the ECS Mandate Form to the Depository Participant with whom they maintain an electronic account. ECS Mandate Form is being sent to the shareholders along with the Notice convening the AGM.

Transfer of shares, dematerialization related

What is a Depository?

A depository is an organization where the securities of a shareholder are held in the electronic form at the request of the shareholder, through the medium of a depository participant.

What is de-materialization?

Dematerialization is a process by which an investor can deposit (i.e. demat) shares of any company listed on NSDL and CDSL, which are registered in the name of the investor and convert the physical certificates into electronic form.

What are the benefits of dematerialization to shareholders?

The benefits of dematerialization to shareholders are as below:-

- (a) There is no longer any risk of misplaced / lost / defaced / damaged certificates, making/ receiving bad deliveries from the market, filling up of transfer forms, affixing share transfer stamps, dispatching certificates for registering transfers, etc.
- (b) Speedy transfer of shares
- (c) There will be a faster disbursement of corporate benefits like Rights, Bonus etc.
- (d) No market lot for securities on NSDL/CDSL, as the market lot is 1 share. So, there is no problem of odd lot shares as faced by most investors.
- (e) Facility for freezing / locking of your accounts so that the DP will not be able to carry out any transactions in the absence of the investor's authorization.
- (f) A Depository Participant also provides facilities to pledge / hypothecate dematerialized securities held by the investor.
- (g) No stamp duty on transfer of securities, the investor may incur expenditure towards service charges of the Depository Participant.

Is Polaris shares a Compulsory demat security?

Yes, this facility has been there for the shares of Polaris, right from the date of listing. However, w.e.f. May 8,2000, SEBI has by a circular notified that the Company's shares are to be traded compulsorily in the dematerialized form. Hence, it is advisable for the investors to dematerialize their shareholding in Polaris for ease in trading. More than 99% of Equity Shares are in demat form.

Who is the electronic connectivity provider for Polaris?

M/s Karvy Computershare Private Limited, 46, Avenue -4, Street No.1, Banjara Hills, Hyderabad 500 034, who is also a Depository Participant having connectivity with NSDL and CDSL, is the electronic connectivity provider for Polaris. M/s Karvy Computershare Private Limited is also the Registrars and Share Transfer Agents of your Company.

Is a transfer deed required for dematerializing certificates?

No. The certificates have to be accompanied by a demat request form (DRF), which can be obtained from the DP and there is no need for a transfer deed.

Do dematerialized shares have distinctive/ certificate numbers?

No. Dematerialized shares do not have any distinctive or certificate numbers. These shares are fungible - which means that 100 shares of a security are the same as any other 100 shares of that security.

Contact information related

Whom to contact for Shareholder and Investor queries?

The general shareholder complaints may be forwarded to:

- ❖ Company Secretary
Polaris Software Lab Ltd.
'Polaris House', 244, Anna Salai,
Chennai 600 006, India
Phone : 91 -44-28524154
Fax : 91-44-28523280
E-mail : investor@polaris.co.in

Institutional investor queries may be forwarded to:

- ❖ The Investor Relations Department
Polaris Software Lab Ltd.
'Polaris House', 244, Anna Salai,
Chennai 600 006, India
Phone : 91-44-28524154
Fax : 91-44-28523280
E-mail : investor@polaris.co.in

Ticker Information:

The scrip codes of Polaris are as under:

BSE	: 532254
NSE	: POLARIS
Reuters code	: POLS.BO (BSE) POLS.NS (NSE)
Bloomberg Code	: POL@IN
ISIN	: INE763A01023

Registrar & Share Transfer Agent's Address:

Polaris' Registrar and Share Transfer Agent is Karvy Computershare Private Limited. All queries pertaining to share transfers, change of address, non-receipt/ revalidation of dividend warrants, issue of duplicate share certificate, dematerialization/ re-materialization of shares etc. can be addressed to :

- ❖ Karvy Computershare Private Limited
Unit: Polaris Software Lab Limited
"Karvy House" 46, Avenue 4,
Street No.1, Banjara Hills,
Hyderabad - 500034
Tel : 23312454/ 23320251/ 71
E-mail : mailmanager@karvy.com
Website : www.karvy.com

Company's Registered Office Address

- ❖ Polaris Software Lab Ltd.
'Polaris House' 244, Anna Salai
Chennai 600 006, India
Phone : 91-44-2852 4154
Fax : 91-44-2852 3280
E-mail : investor@polaris.co.in