

# Live Your Dream

A n n u a l R e p o r t 2 0 0 5 - 2 0 0 6

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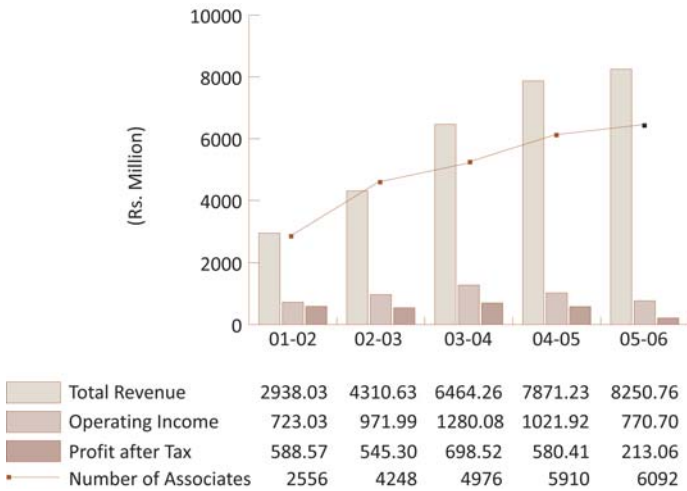
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# Financial Highlights



## Polaris Software Group

### Financial Highlights

For the Year	01-02	02-03	03-04	04-05	05-06
	(Rs Million)				
Total Revenue	2938.03	4310.63	6464.26	7871.23	8250.76
Operating Income	723.03	971.99	1280.08	1021.92	770.70
Profit after Tax	588.57	545.30	698.52	580.41	213.06

### At the Year end

Total Fixed Assets	876.35	1829.12	2011.30	2162.64	2376.25
Shareholder Equity	2388.90	4334.90	4904.00	5311.00	5409.00
Number of Shares					
Outstanding of Rs. 5 each	51.19*	97.35**	97.70	98.01	98.23
Earnings Per Share - Basic	11.50	7.76	7.17	5.93	2.17
Dividend (%)	35%	35%	35%	35%	25%
Number of Associates ***	2556	4248	4976	5910	6092

\* - Bonus Issue of 1 : 2

\*\* - Orbitech Solutions and Polaris Software Lab Merger

\*\*\* - Employees at Polaris are called Associates

# Letter to Shareholders



**Q1: Hello, Arun. Let me start with a question on our strategy. Where are we on our overall strategic plan?**

Extensive research by Mckinsey, Gartner, Forrester etc have validated that the maximum IT spend for global banks in the next 5+ years will be on **Progressive Modernisation**. In the last 6-8 quarters, we embarked on the leadership program of preparing Polaris to leverage these opportunities.

There were two key challenges that we faced:

1. Such BIG opportunities are available only with the CIOs of Top 100 Banks (who spend over 60% of Global IT budgets). Therefore it was imperative to build a relationship of 'TRUST' with the top 100 banks and to get the golden opportunity of executing the critical FIRST ASSIGNMENT. *In this context, I would like to touch upon the entry into a shopping mall. As with most of the super-malls, entry can be through the main door, or even from the basement parking lot. Once you get into the mall, then the same market place is open to all! We chose the 'parking lot entry' into global banks through our Expertise-based Solutions!*
2. We needed to take the big decision of investing significantly. A large amount of the profits generated by our services business needed to be 'invested' in order to position Polaris as a niche player in the Financial Technology Space. *Since this also involved migration of our business model, it was like repairing the engine of an aircraft in flight. Preparing our sales & account management teams & back office delivery teams for the new business model meant that we were in 'maintenance' mode and not in 'acceleration' mode.*

**Q2 : What is Polaris' new business model & in the new model, what would be the growth engines for Polaris?**

By migration of our business model, I was referring to our movement from a pure Cost-Arbitrage based services business model to Asset-based services business model.

Polaris has three distinct growth engines.

1. **Intellect-Led Services Business**, that has gained momentum through wins in UK, Middle East & new markets such as Latin America, Australia & the Nordic region
2. **Domain-Led Services Business**, validated by our relationships with the Wall Street banks
3. **Regular Application Maintenance Services (AMS) Business.**

Growth Engine 3 is the regular Cost-Arbitrage based business model and we have rightly gauged that, for a mid-sized company, such service margins will always be under pressure.

Engine 1 is a naturally high-margin business, based on specific intellectual assets (GeneS, or Generalised Services) enabling Polaris to accelerate building and delivering solutions to the customer. Here we are competing with a few local players with 'local' pricing but we have the advantage of IP as well as the India cost advantage.

Engine 2 is built on deep understanding of the domain, that is, what is critical to business in the areas of Consumer, Corporate & Investment Banking.

Engine 1 & 2 are **Asset-Based Services Model**, where our domain expertise and Intellectual property are fully leveraged. Currently, about 10% of our revenues can be categorised into Growth Engine 1 & 10% into Growth Engine 2. In the next 3 years, Engine 1 & Engine 2 business will expand significantly.

**Q3: How does the Investor know that the 'transformation strategy' is working?**

We grappled with 'how to measure success during transformation', after we put together the architectural pieces of our transformational strategy. We monitor some of the leading indicators that reflect the 'health' of the transformation:

1. 'Acceptance of value proposition', envisaged at the market place  
We started marketing our new Services Oriented Architecture (SOA) led Banking Solution for Progressive Modernisation from the third quarter of fiscal '04-05. Over the last 18 months, this concept has been accepted by more than 16 banks out of top 100 global banks.
2. 'Can the company deliver', against the promised strategy?  
The very first delivery of our solution be it in Shinsei Bank in Japan, Lloyds Bank in UK, or in a leading bank in Australia was the most critical piece in the transformational agenda. This is the 'Make or Break' stage.
3. 'Is our expertise being validated', through repeat-sales?  
The team at Polaris was very enthused by the market interest on our solutions. For instance, our Intellect Cash & liquidity solution was selected by 4 High Street Banks in the UK within the year. All these wins were against very well established global product companies. Intellect Wealth Management solution has been selected by a leading bank in Singapore and a leading Private Sector bank in India in the same quarter, Intellect Lending solution has been selected by Shinsei Bank, a German leasing giant and two leading banks in Australia. After such validations, we now have a large and expanding sales funnel.
4. Recognition in the market place / Positioning  
Polaris was rated as the winner in the category 'Specialty Application Development Leaders' in Jan 2006, by Global Services, an international integrated media brand, owned by CMP - Cyber Media LLC.

**Q4: Fair enough. But continued investments directly lead to profitability issues...**

In this regard, I would like to draw an analogy with the investments that we all do with our cash. We can invest into investment products offered by the banks; we can invest into capital markets or invest in real estate, etc.

We believed that investing in Intellectual Property has the highest returns and that is what we have done. Therefore we have been able to create and deliver Point Solutions in Cash & Liquidity, Wealth Management, Consumer Finance etc to High Street & Wall Street banks.

However, for a pointed answer to your question, from this year, we will begin to fully leverage the investment into our Product suite as well our BPO subsidiary, Optimus. Optimus has grown by over 300% in the last year. I believe that all these will lead to profitable growth for Polaris in the coming year.

**Q5: So, where do we go from here?**

Industry Analysts have forecast that in the next 5 years, a significant chunk of the IT spend by Global Banks will be around modernisation of IT infrastructure. The growing needs of modernisation are already being felt by large banks that have pioneered technology automation in the 70's & 80's.

Polaris is well positioned to serve these global banks using Progressive Modernisation, which is a non-disruptive 'Platform Refresh' for Multi-National Banks. We also have a phenomenal value proposition for our customers by implementing SECURE & AGILE solutions with distinct IP advantage.

Polaris has penetrated 4 out of 7 High Street Banks in UK, 6 out of top 10 Wall Street Banks, 4 out of 7 large banks in Australia, 3 out of 4 top Private Sector Banks in India and 15 out of the Top 50 Banks in the world.

The annual IT budgets for our current customer base is over \$ 32 billion. Our singular focus for the year will be to expand and grow our customer relationships. We now have a business model that is sustainable for 7-10 years and we are passionate about executing this model with conviction.

**Q6: We heard that there have been changes in the Leadership Team to drive the new business model...**

The Leadership needs to be completely **Aligned**, in order to produce committed results. Polaris is on a transformational journey for the second time in its history. We made the significant decision of choosing a 'hybrid' model involving scale as well as expertise.

We were looking for a Chief Operating Officer and Arup Gupta, an industry veteran, moved from TCS to Polaris. Arvind Mishra moved from IBM Global Services to Polaris, to head Talent & Change.

During the Build & Expand phase, the key challenges are to prepare our teams to 'Ask the right questions' and 'Co-create solutions with the customer'. With the Indian market being nascent (I mean, in the early stages of growth),

we are making sensible investments to build our talent in order to meet the 'mature' demands of global banks.

After defining the spectrum of offerings, we spent significant energy in training and growing the sales force in order to meet the demands of a discerning customer base. Our sales and account management team has grown by 50% in the last year. We have also completed the Digitisation initiative and put in robust internal ERP & decision-support systems.

**Q7: And finally, what is your message to the Shareholders?**

I greatly value the opportunity to reach out to all the shareholders. This year has been a complete validation of our strategy in the market place and our conviction & patience have begun to yield results.

The proof of a company value is the 'pedigree' of its' customers. Going by this, having strong relationships with 15 out of the Top 50 Banks is a remarkable achievement and a reflection of your faith in Polaris. The highlight of the year was winning the prestigious CMP-CyberMedia Award for being the leader amongst Specialty Application Services Provider.

It has not been an easy task to have a 30,000 feet view as well as a feet-on-the-ground view - delivering on the transformational agenda as well as the immediate quarterly agenda expected by the market.

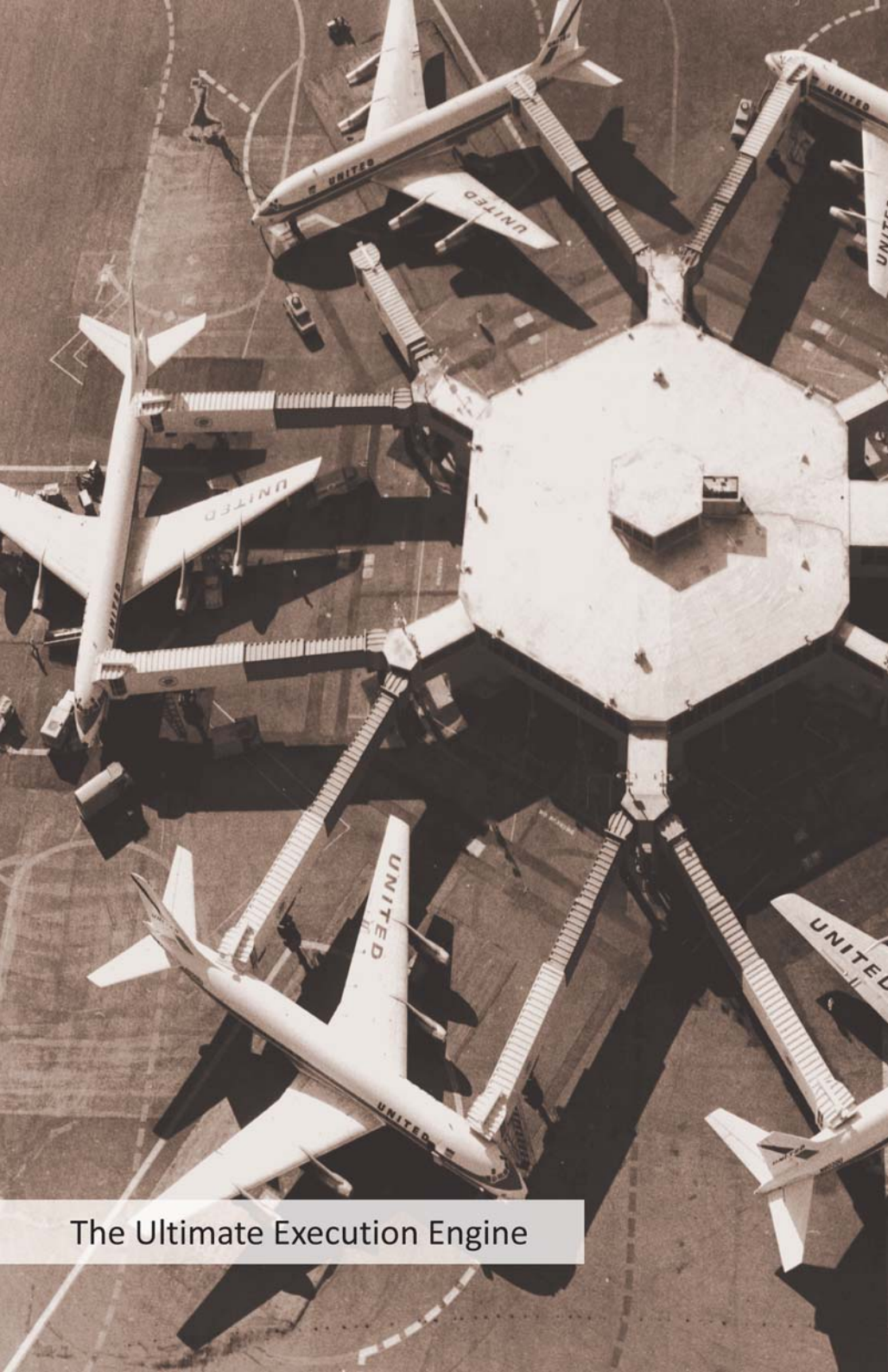
This involves making the turns at the right speed akin to car racing. There will be pit stops. It is very reassuring to have supportive shareholders, while we gather our energies for the next lap.

Warm regards,



**Arun Jain**

(Arun Jain, Chairman & CEO, Polaris Software was interviewed by Priya Badshah, Manager - Corporate Communications, Polaris)



The Ultimate Execution Engine

# The Ultimate Execution Engine



Arup Gupta

Everyone admires GE for different things – for its strategic vision, for its enduring qualities from the days of Edison to the current day, for its strategic planning models, and so on. From all my interactions with GE, I have come to admire it for its ability to execute whatever strategy it chooses. My dream is to build an execution engine at Polaris that can rival GE's. A big dream? Certainly. But possible? Certainly.

## What have we done about it this past year?

Execution (or Extreme Execution as we call it, at Polaris) calls for mastery of a few levers:

1. **Extreme focus** – We decided early in the year what businesses, what competencies, what technologies, and even what markets, we will go after, and more importantly, what we will not go after, this year.
2. **Reliable data** – We began building a reliable & integrated repository of data on project deliveries, people competencies, sales management and the financial MIS, through digitisation. These decision-support systems form a solid foundation for our growth journey. Our 4-in-1 Business MIS system links operations from 'Campaign to Cash'.
3. **Communication & coordination** – The delivery of software systems from an offshore base are necessarily a fairly complex model, requiring tremendous collaboration between front-end and back-end, between delivery management and account management, between geographies and solution centres (our Business Solution Centres). We instituted the process of weekly coordination calls anchored by whom we call the 'Extreme Execution Team' (EET) that cuts across organisational and functional lines, where issues are identified and resolution mechanism put in place. 'Broken Windows' are also escalated during this call for immediate 'fixing'. Similarly new opportunities in the customer horizon are brought to the notice of the EET for planning & closures. The collaboration between the Business Solution Centres helps to give a 'Corporate View' to the customer. Enablement teams have been specifically set up to facilitate and coordinate hand-shake points in sales, delivery and corporate functions.
4. **Measurement & tracking** - We have instituted the Balanced Score Card as our performance driving tool. Not only does each leader in the system know his/her Balanced Score Card, but they also know each

other's, so they can understand, and relate to, the pressures and concerns of each other. We have designed review mechanism for the operational agenda, sales agenda, corporate agenda and the strategic agenda.

- 5. Programme management** - Key programmes have been prioritised in the system to improve profitability. Specific programmes aimed at reducing overhead costs, improving utilisation rates and reducing idle time between engagements have been put in place and tracked at the very highest level in the company.

We have observed that the execution of transformational agenda also requires substantial amount of 'inward focus' to prepare the sales and delivery teams and the corporate teams for the next level of growth.

A leading consultant was brought in to help us fine-tune our strategic agenda and validate our strategy in global markets. Certain 'Lead Indicators' are being monitored to ensure that the strategy is gaining acceptance in the market place, by way of repeat sales.

With the wins, comes the critical task of getting the first engagement right. This is where the rubber meets the road! For delivering the first project to the customer, we choose the Project Manager from an elite community in Polaris called Konarks. (Roughly 10% of the population in Polaris is identified as Konarks symbolising energy and excellence, serving as role models & leaders in the company). These Konark projects are being reviewed by the CEO & COO regularly.

Our singular focus in the Banking & Financial Services vertical has endowed us with a rich repertoire of domain expertise. Our Project Directors & Solution Architects understand very well what is **critical to business**. This is the 'defining element' in understanding the customer requirements, capturing the customer expectations in toto, thereby ensuring that the project is delivered on cost, on time & as per specifications. In addition to this, micro-level planning and our Quality Management System (QMS) are facilitating many perfect zero-defect deliveries. Today, we are in a position to offer 'Performance Guarantees' to the customer! With this kind of focus on 'Extreme Execution', we hope to achieve breakthrough improvements in operating performance. 'Getting it Right' first time and every time is not only the Mantra but also the 'deliverable' from the Project teams.

Regular Customer Satisfaction surveys run by the Corporate Quality Team monitors the 'health' of our deliveries and the satisfaction & loyalty of the customer organisation. This year, we had many instances of the customer coming from different parts of the world to India to reward the zero-defect delivery teams with citation, cash awards, etc.

The 'Innovation' mindset in Polaris has created enviable and unmatched Assets in the form of Intellectual Property, Intellect Product suite and offerings such as Progressive Modernisation. Now, the focus of the Leadership team is in getting the 'execution' right for each of the 40 A, AA and AAA relationships that we have currently.



Secure, Yet Agile

# Secure, Yet Agile

*Not everything is good merely because it is Old. Nor is something despicable merely because it is New. The wise discriminate and choose the right mix, the confused let their minds to be led by what others think.*

*Kalidasa's Malavikagnimitra (Act I, First Century BC)*

The future has already arrived. Gazing into a crystal ball made of multi-focal progressive lens, Gartner's recent report 'Predicts 2006: Banking Services will need greater agility and efficiency' talks of trends in the BFSI technology space. The more one studies these predictions, the more one is struck by the rapid rate at which Service Oriented Architecture (SOA) is becoming an all-pervasive reality in the banking industry.

With products becoming fungible commodities and processes becoming standardised across business lines, the more agile banks are betting on an aggressive transition to a service-based architecture to become more differentiated and competitive. The compelling need for regulatory compliance is an added reason for banks to seek more agility, though the smarter bankers are using project opportunities around compliance to make their business models more robust. It is ironic that some early birds are being asked to run an extra lap. In fact, it looks like early adopters of AML technology face regulatory pressure to upgrade/adopt new systems in 2006.

We are already seeing clear signs among our customers and prospects worldwide. From the demand for a Combined Statement service and a Customer / Account Origination service Down Under to Smart Build solutions required for FAS 91 compliance in the US, new opportunities are confronting us every day with the message that banks are taking to the SOA route to extend the usefulness of their existing systems whilst modernising them selectively to stay competitive and in compliance. The one thing that still eludes prediction is just how granular a service should be. Another trend that is becoming apparent in our interactions is that even the smaller banks are leapfrogging to SOA in order to reduce system complexity and increase operational efficiency.

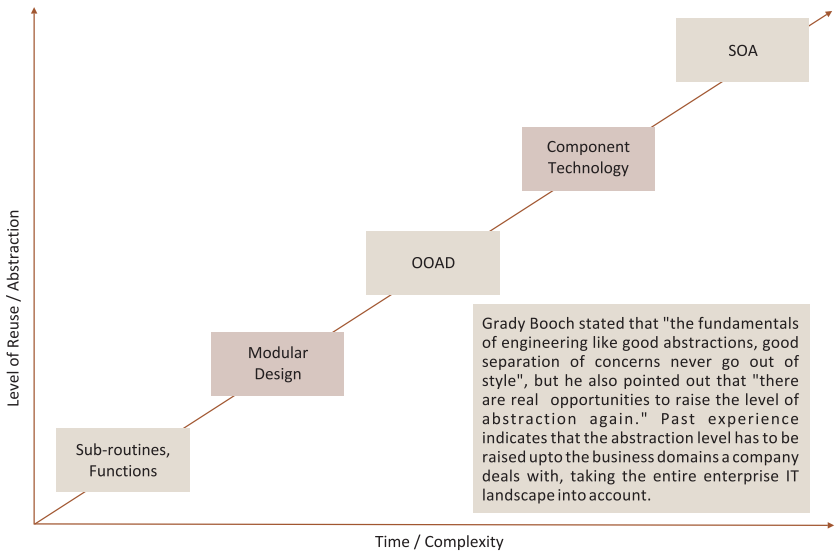
While the predictions talk about how banks are increasingly becoming agile in order to survive in the marketplace, there are equally staggering implications for the IT vendors too. From breaking up their intellectual property into a library of components to offering use-based pricing options, IT vendors have to change their business models fundamentally in order to move lockstep with the banking community.

*Banks that are moving toward service-oriented architectures for core processing systems will be positioning themselves for future speed and agility. SOA's 'code once, use many times' mode is becoming a key requirement for the future.*

*Gartner*

Service Oriented Architecture (SOA) provides flexible and robust IT infrastructure that meets the needs of business in an increasingly dynamic corporate environment. Essentially, service orientation provides business users with understandable, high-level business services they can call upon and incorporate into business processes as needed.

### Evolution of Service Oriented Architecture



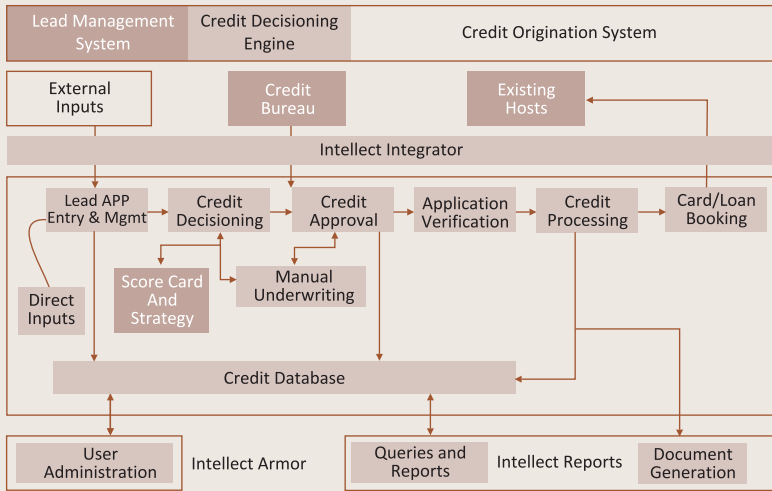
Gartner defines SOA as an application topology in which the business logic of the application is organised in modules (services) with clear identity, purpose and programmatic-access interfaces. Services behave as 'black boxes.' Their internal designs are independent of the nature and purpose of the requester. In SOA, data and business logic are encapsulated in modular business components with documented interfaces. This clarifies design and facilitates incremental development and future extensions. An SOA application can also be integrated with heterogeneous, external purchased applications more easily than a monolithic, non-SOA application. SOA is becoming particularly attractive for banks because of a challenging economic climate and the resulting constraints on IT spending.

**Business Transformation through a SmartBuild solution**

SmartBuild is a proposition to adopt a Service Oriented Architecture (SOA) approach to enhance existing systems by means of a combination of product and services.

Our customer is one of the largest property related service providers offering title search, property appraisal, automated valuation, flood certification, closing and settlement services. We designed and deployed an integrated solution, leveraging business components from the Intellect Suite™ using our SmartBuild approach that is essentially based on Service Oriented Architecture (SOA) principles.

**Origination - Business Process Flow**



The benefits to the client were many including, the capacity to handle 5x volumes and an immediate productivity gain of over 25% through process automation. The re-engineered solution equipped the client to establish better control on its vendors' performance and improve its own customer service. Orders could now be initiated and completed without manual intervention.

*“[The future state application] has successfully set sail thanks to all of you! The moment of truth arrived Monday the 15th morning when thousands of orders were put through successfully. It was the smoothest cutover we have ever experienced. Our heartfelt thanks to Polaris for their unparalleled dedication and commitment, great technical competence, tireless efforts, and lightning responsiveness to make this investment a great success! I have not seen a more committed and more responsive vendor partner than Polaris”*

*Vice President -Franchise Development & Strategic Projects*

## Service Oriented Architecture through Progressive Modernisation

“Unfortunately, the one-time, ‘big bang’, and tightly defined way in which existing systems have been implemented, as well as their massive bodies of difficult-to-modify code, mean that enterprise applications integrate only by limiting the freedom of executives. Introducing a new product or service, adding a new channel partner, or targeting a new customer segment - any of these can present unforeseen costs, complexities and delays...the expense and difficulty can be so great that some companies abandon new business initiatives rather than attempt one more change to their enterprise applications” McKinsey Quarterly, October 2004.

When asked if they view IT as an enabler or inhibitor of organisational change, 65 percent of bankers said it was both (compared with 39 percent and 40 percent from insurers and brokers, respectively, who mostly see technology as an enabler). We need not seek far for the reason. Banks around the world have made massive investments, over many years, into technologies that have become obsolete and do not allow banks to launch new services and products without wrenching changes to the technology infrastructure.

Nor can the banks do away with ‘these existing systems’ and replace them completely with more ‘modern’ technology. For one thing, what is the guarantee that the ‘new’ technology will not become ‘obsolete’ tomorrow? And, in any case, the existing systems work perfectly well, for what they were intended to do -namely ‘run the bank’ as is. True, it takes armies of programmers and engineers to maintain them, but the job is getting done and the bank’s work is proceeding apace. It is by now a truism and a cliché that banking is changing rapidly. Banks today want to offer a myriad of products and services to their customers, which

### Replacement of an existing system with Intellect Treasury.

The client, a Tier 1 European Bank (the single largest treasury in the world), wanted to replace the existing front office trading application that was functionally very rich and supported by us. Following an involved selection process, the bank decided to take an approach of Smart Build using Polaris Intellect Treasury components. The main reason was that the bank wanted a 100% requirement compliant product rather than partially fitting off-the-shelf-product.

The biggest challenge was the replacement of existing front office application that has served for over two decades with an application that provides better features and processes, scalable solution to handle over 70 traders with 8000 trades/day, performance, a high availability solution covering all points of failure and a functionality encompassing integrated asset classes with Straight Through Processing (STP), ability to be used as Group Treasury System, where risks from branch treasuries positions (across the countries) can be consolidated and interface with numerous existing General Ledger (GL) systems.

Backed by the Bank’s Trading and Technology team, Polaris team of domain and technical consultants succeeded in doing the 1st Implementation in 8 months on date with an additional 2500 Function points and a user sign-off during UAT & Parallel within 4 weeks. The defect Ratio was 0.002 defects/FP in UAT. As on May 2006 the system is running in over 10 countries.

*“We were replacing a system that has served the business very well over the past 20+ years. We have a live deliverable merely 8 months after this project was initiated. This is thanks to the passion shown by the team, and to the Smart Build approach that the Intellect team uses.”*

*Head of Technology, European Risk Treasury*

they earlier did not, sometimes because they were not allowed to offer them to customers. Not only are the walls between banking, insurance, wealth management, advisory services, mortgage companies, mutual funds, and so on, coming down, but the customer needs themselves are changing.

Banks are perfectly well aware of what they need to do to serve their customers, increase their market share and so on. While the existing systems may be good enough, albeit at a significant cost, to 'run the bank', they are

"Banks want to be able to add products as needed, customised to their client bases. Banks will look for modular or component-designed applications that quickly integrate with others. In addition to increasing corporate clients' satisfaction, the availability of advanced functionalities reduces interactions between banks and their corporate clients, thereby lowers banks' operating costs." Celent

**Built-in integrator module enabling seamless integration with customer's back-end core processors**

One of the Top 4 leading UK-based financial services group, needed a sophisticated liquidity solution to meet their requirements as well as retain and grow their existing client base.

Polaris came up with the Intellect Liquidity solution with a built-in integrator module enabling seamless integration with customer's back-end core processors. Tightly coupled internet front-end providing required channel functionalities to manage client instructions, flexibility in managing cash through manipulation of corporate customers balances as per their needs and instructions, enabled the client to take advantage of factors such as differential interest rates and reduced the idle time of funds through control of various interrelated accounts. The benefits of the system to the client were myriad, including higher revenues, increased productivity, greater customer satisfaction and quicker time to market.

no longer good enough to 'change the bank'. Is there a way out? There is an approach that, we believe, holds the potential to provide such a way out. We call it 'Progressive Modernisation'. Progressive Modernisation is a non-disruptive technology approach for the modern bank.

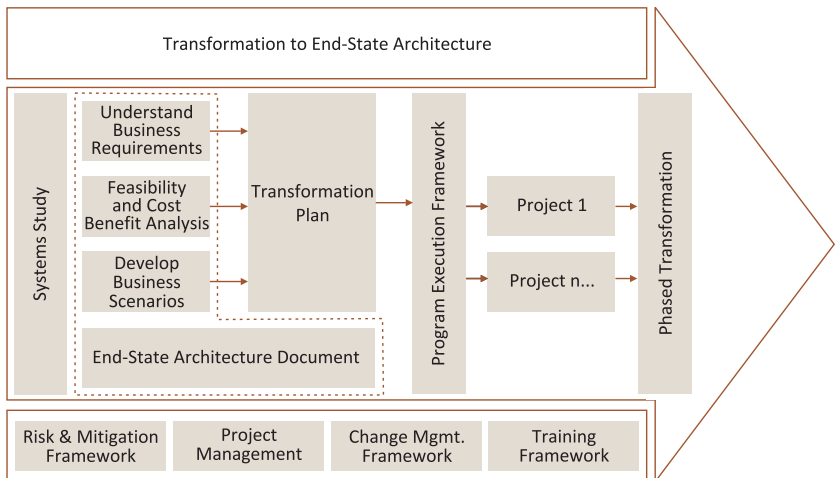
Progressive Modernisation harnesses technologies that conform to the true spirit of Service Oriented Architecture, to modernise the bank's technology platform over time. While this approach may be equally valid for other industries, we believe banking is the industry most in need of this approach.

Any technology we use must meet some very stringent, and seemingly contradictory criteria:

- It must be SOA compatible
- Speed of customisation is critical. Banks need to launch new products and services quickly, and every day's delay can mean loss of potential market share. Customisation is the key in the first place because every bank needs to be unique, to offer products that best harness its differentiated business processes
- The front-end customer experience is absolutely critical. The technology must be able to make a wide variety of customers, sophisticated and novices, equally comfortable - for a banking channel to be useful, it must first be used!

- Scalability is also important the bank should not have to change the technology platform when it runs out of capacity, which it will, soon, if the product it is launching succeeds in the marketplace
- Easy integration across disparate systems. The new products and services must work hand-in-hand with existing products and services. After all, the bank's goodwill with the existing customer community needs to be maintained.

### The Polaris Progressive Modernisation Approach



Polaris brings to bear, both technology and domain expertise to an engagement. The Smart-Build approach using Intellect helps minimise the time required to develop a capability. 'Speed to market' is the aim using the knowledge reuse of 750+ domain experts involved in developing BFSI solutions over the last 19 years. The laser beam focus on various sub-verticals within the BFSI domain through internal alignment. ensures an in-depth understanding of Industry practices, an awareness of Industry trends & an appreciation of Industry specific nuances in Consumer Banking, Corporate Banking, Wealth Management, Brokerage & Securities and Insurance. Strong subject matter expertise in International Trade Finance, Cash Management, Stock plan services, Risk Management, Retail Banking, Wealth Management are leveraged off during the formation of various point and customised solutions.

*“Carefully designed and consistently enforced governance procedures founded on effective metadata management will be critical to the successful implementation of composite applications using SOA.”*

*Gartner*

**Multi branch approach -non-disruptive and self-funding approach to Technology Modernisation.**

Our client required a multi branch, mainframe based critical system for Order Enrichment, Order routing, GL Posting, Performance Evaluation, Statement & Advices Generation, Messaging, etc.

Expectations were on a quick take-over (within 3 months) from the previous vendor, without disturbing the ongoing support and enhancements, there was lack of documentation due to the out-dated nature of the system. Reduction of resources, mandate to offshore after certain period and subsequent need for additional procedures to establish off-shore support were the other mandates by the customer.

**Private Banking Solution**

Progressive Modernisation Concept			
Steps	Transition	Optimise	Re-engineer
Approach	Transition of support of existing system from external vendor	Documentation and stabilisation of system	Re-engineer to: <ul style="list-style-type: none"> <li>• 3rd party products</li> <li>• Intellect GeneS</li> <li>• Bespoke solution</li> </ul>
Progressive Modernisation - Applied to Multi Branch			
Approach	<ul style="list-style-type: none"> <li>• Process defined for take-on</li> <li>• Reverse Presentations</li> <li>• Preparation of Documentation</li> <li>• Secondary support to start with</li> <li>• Primary support after take-on</li> </ul>	<ul style="list-style-type: none"> <li>• Full fledged production support</li> <li>• Regulatory and other changes</li> <li>• Transfer lead resources offshore</li> <li>• Offshore set-up</li> <li>• Onsite/Offshore process</li> </ul>	<ul style="list-style-type: none"> <li>• Migration to Systematics Data Conversion, Migration Encode / Decode Messaging System Integration Testing</li> <li>• Regulatory and other changes</li> <li>• Transfer lead resources offshore</li> <li>• Offshore set-up</li> <li>• Onsite/Offshore process</li> </ul>
Benefits	<ul style="list-style-type: none"> <li>• Take-on in record 3 months</li> <li>• Technical documentation in place</li> <li>• Cost saves (Onsite headcount from 18 to 11) by 40%</li> </ul>	<ul style="list-style-type: none"> <li>• Stabilisation of system</li> <li>• Saves from offshore advantage (Onsite reduced to 6)</li> <li>• Overall cost saves 70%</li> <li>• Regulatory and other solutions implemented</li> </ul>	<ul style="list-style-type: none"> <li>• Significant reduction in O&amp;T costs</li> <li>• Standardised platform</li> <li>• Cross border interaction model</li> <li>• Systems and controls for regulatory requirements</li> </ul>

### Fixed Income Derivatives Front Office Suite

This solution provides Deal Capture, Deal Pricing, Risk Analysis, Market Data Server. Online deal capture and pricing for various derivative products. The complete Derivatives business of the bank is dependent on this application and the system handles more than 50,000 active interest rate swaps, options and other exotic derivatives per month. The instruments supported are Swaps - Accrual, cross-currency, mirrored, delta, exotic Swap options - American, barrier, rolling, contingent, European FRAs Caps / floors – Contingent premium, cumulative, flexible FX related instruments.

Polaris has worked on many enhancements which have resulted in manifold benefits to the client which include technology initiatives like developing a migration platform for affecting the migration to Solaris 8 from Solaris 6 , addressing security lapses. Business benefits like faster turnaround time for addressing user requests, improved user interface, adding new products

This application has become the preferred technology platform for addressing OTC interest rate derivatives in the bank's global scheme of things.

In summary, the financial sector competes and maintains profitability by consistently streamlining to reduce costs, modernising with agility, while preserving industry expertise and the need to avoid unnecessary risks. It makes business sense for an industry that recognises the importance of exploiting competitive advantage through technology to consider an approach that allows them to identify, upgrade and re-use existing assets, while also taking advantage of new technologies. A move to Service Oriented Architecture and Web services offers banks the option to do this.

*“The real value of SOA -in terms of fully leveraging reusable components, faster time-to-market and lower costs -has yet to be fully realised. The next stage is about connecting the bank’s internal systems to the customers’ to seamlessly integrate with their workflow.”*

*Danny Peltz, EVP, Wholesale Internet & Treasury Solutions, Wells Fargo*



Igniting The Best

# Igniting the Best



Arvind Mishra

‘Live your dream’ is not just an inspired vision statement for Polaris but a way of life. At Polaris there is an enormous focus on intellect and inspiration as we try to get in the best talent from the industry and retain them in an extremely hot and volatile market. Things which stand out in our culture, are our commitment to our clients, our focus on expertise and content and the passion for our people who shape our vision into reality.

To add the best talent, we hire from the best of the existing engineering colleges across India to meet our requirements of 500-1000 new engineering associates every year. Our method of selection is rigorous and exhaustive, involving a written test and a series of interviews to ascertain the candidates’ caliber and cultural fit into our organisation. Besides this, we encourage a healthy mix of lateral hires around the year. We would be hiring over 1000 - 2000 experienced personnel over the year. We have launched the domain and technology recruiting programs targeted on future leaders (FUELO6) and are also planning a specialised recruiting campaign for experienced candidates with specialised skills like derivatives, risk management, treasury etc.

To ensure that the business needs are met with a constant stream of individuals equipped to handle the business requirements, Nalanda - our one-of-its-kind Corporate University, champions more than 80 technology training courses, with a mandatory 10 person days of training for every associate per year. Most new associates undergo an intensive 4 weeks Boot Camp prior to being deployed on projects.

Best Talent for Best Engagement, is our commitment to our customers. High performing Project Managers are given weeklong training on Leadership and Customer Engagement skills through a program called the ‘Commando Training Program’. This program focuses on critical topics such as Leading Purposefully, Getting into the Customer Shoes, and Planning for and Delivering better business results.

Associates at junior management level are put through the ‘Finishing School’ – to equip them with skills to handle customer engagement and provide value addition to customers during their assignments at customer site. This unique program starts by assessing the associates’ existing proficiency in both technical and behavioural competencies. On the basis of the identified areas of improvement, they are made to go through a five-day program to enhance the skills in these areas. Regular follow-up and post-program assessment helps in determining the improvement in the competency level.

Our compensation philosophy is to pay at par with the market, to compensate our top 15-30% performers in the top quartile of the market and to do an

objective and rigorous analysis of our low performers. We followed this philosophy in disbursing our annual performance driven bonus and will pursue it in the annual pay revisions in July 2006.

Our employee satisfaction levels following a survey conducted at the end of March 2006 is 64%. We are deploying specific measures and related improvement steps through all Project Directors, as they are the anchor points for all employee related interactions and decisions. At a corporate and business unit levels these measurements are supported by a series of initiatives focused on induction and on boarding, training and leadership development, rewards and performance management schemes.

Our focus theme was to create an 'Inspired Workplace'. As a part of this initiative, Large Scale Intervention Program was used to bring associates across various roles and teams together to reflect on the current reality and steps to be taken to reach the organisational 'Lakshya'. Through several interactive exercises, associates were made to come up with issues that were categorised under 'Glad', 'Sad' and 'Mad'. These issues were then consolidated and deliberated by the Business Leadership Team on further course of action. At the end of the initiative, the team had come up with the following 8 brand values that we are deploying through our internal and external communications:

1. Respect (value, growth, reward)
2. Caring
3. Expertise
4. Igniting the best
5. Rewarding high performance
6. Industry leadership
7. Diverse global opportunities
8. Fun and family environment

We are in the process of strengthening our performance management system to make it more consistent and transparent and link rewards to performance. We have developed Balanced Score Cards for the Senior Management that enables us to link their respective targets with the business targets, committed to the Board. These measures will be cascaded upto the Project Managers as a next step. Thereafter this team will be provided a quarterly feedback on performance based on the assumption that 'what we measure is what we get'. The annual performance driven payouts and the increments for these executives in the next financial year will also be linked to these score cards on a quarter on quarter basis.

The Ullas Trust was started in 1997 to integrate Polaris associates with a larger community. The Ullas Trust has reached out to over 15,000 school children in Chennai, Mumbai and Delhi. The charter for the Ullas Trust was to encourage a 'Can Do It' spirit in students from corporation and government schools studying in classes 9<sup>th</sup> through 12<sup>th</sup>. In this critical adolescent stage, Ullas students get the opportunity to be mentored by Polaris associates. Going beyond financial scholarships, the Polaris associates also conduct workshops, language and communication coaching, computer classes, etc and actively engage and encourage the Ullas students to work towards fulfilling their aspirations.

At Polaris, we encourage our associates to 'Live your dream...Make a difference.'

# The Business Leadership Team

## Director & Head - Polaris Australia & New Zealand

Anil Verma, an alumnus of IIT Delhi, with a professional experience of over 25 years in the industry, has established and nurtured several key relationships for strengthening the Polaris brand in Australia. In addition to being a member of the Australian Computer Society, Anil has been the founder President of NASSCOM Australia for four years and has contributed significantly in promoting collaboration between India and Australia in the field of ICT.



Anil Verma



Arun Jain

## Chairman & CEO

Arun founded the company in 1993 and has been guiding the growth journey of Polaris, since then. To enable the transformation of Polaris to a “Solutions” company, he has donned the mantle of Chief Architect, in addition to being the CEO. Arun started the Ullas Trust in 1997 to integrate Polaris families with a larger community. The Ullas Trust has reached out to over 15000 school children in Chennai, Mumbai & Delhi. Arun has served as the Chairman for the Tamil Nadu State Council of CII – Southern Region, the Indo-American Chamber of Commerce, (Tamil Nadu division) and on the board of Xavier’s Institute of Management.

## Managing Partner, Head – Marketing & Strategic Partnerships CEO, Polaris Retail Infotech Limited

Aruna Kashinath has been with Polaris since its inception. She was responsible for setting up the Software Engineering Center at Delhi in 1994 and was one of the key contributors in setting up the subsidiary & operations at UK, Ireland and Switzerland. She is the architect of the ERP business at Polaris as well as some of the strategic banking relationships for Polaris. Aruna’s present portfolio of responsibilities includes marketing, strategic alliances & partnerships. She is also the CEO of Polaris Retail Infotech Limited, India’s leading retail software product company.



Aruna Kashinath



Aruna Rao

## Executive Vice President & Head – Corporate Banking Solutions

Aruna Rao heads the Mumbai center of Polaris. She joined Citicorp Overseas Software Limited (COSL) and has grown with the organisation since then. With a 20-year career in Corporate Banking Technology, Aruna has been instrumental in harnessing the power of emerging technologies of distributed processing, imaging and internet in developing specialised Corporate Banking products and services for leading multi national banks. She has been responsible for transferring the local success of these systems and scaling it globally, managing global rollouts and supporting systems and products across 50 countries.

# The Business Leadership

## President & Chief Operating Officer

Arup Gupta, an alumnus of the Indian Institute of Science (IISc) and a long standing member of the Institute of Electronics and Electrical Engineers (IEEE), is responsible for leading the global operations, delivery and sales functions at Polaris. With a rich experience of over 25 years at TCS, in his last executive role as President – North America, he had successfully led a fivefold growth in a five-year time span.



## Executive Vice President & Global Head - Talent and Change

Arvind Mishra is responsible for HR, talent management and organisational change initiatives at Polaris. Prior to joining Polaris, he was the Vice President, Human Resources, Applications Management Group, IBM Global Services, India. Arvind has led the Human Capital consulting practices for Andersen and Ernst & Young in India, as a Partner, for over a decade. With over 17 years of experience, having worked closely with global and Indian clients, Arvind has extensive experience in strategic talent development and building a performance driven culture.

## Strategic Advisor to CEO

Dr. Ashok Korwar is an Electrical Engineer from IIT Mumbai and a Doctorate in Management from the University of California, LA. Prior to joining Polaris, his earlier assignments were with Electronic Data Systems Corporation (EDS) in the US & later with IIM Ahmedabad as Professor of Management. His Book 'Creating Markets Across the Globe' won the Escorts-DMA first prize as best management book of the year, 1998.



## Senior Vice President & Chief Information Officer

Balakrishnan, an M Tech from IIT Kanpur (1972), is responsible for Business Processes integration and transformation in Polaris using industry standard solutions like the Peoplesoft ERP suite. Earlier as the Head of Knowledge Management in Polaris - USA, he was instrumental in developing the 'OSA' architecture to significantly enhance speed of implementing role based information access from Peoplesoft systems. Balakrishnan has managed large projects in several industries such as the first Distributed Digital Control System in India (Kudremukh), first large VSAT project (National Stock Exchange/ Comnet), message switch for the Army (ECIL) etc, prior to joining Polaris in 1997.

# The Business Leadership Team

## Executive Vice President & Head - Polaris Europe

Bikash Mathur heads the EMEA (Europe, Middle East and Africa) region. Prior to this role, he headed Polaris' business in the APAC region where he successfully established the Polaris brand. Bikash holds a Masters degree in Business Management from The Wharton School. Before joining Polaris, Bikash was the Founder and Managing Partner of Maveric Systems, an independent third-party software testing company. He has also served as the Operations Director at Whirlpool.



**Bikash Mathur**



**Jaideep Billa**

## Chief Technology Officer

He holds a PGP diploma from IIM-Calcutta and has over 18 years of experience in the financial technology business. He has been the anchor for the Product leadership council & has also held leadership roles in Polaris as Head of Strategic Business Units and as a Client Partner. Prior to joining Polaris, Jaideep worked at AT&T and helped set-up offshore development centers for AT&T.

## Executive Vice President & Head - Polaris Americas

Kartik Kaushik, based in New Jersey, heads the Polaris business in Americas. He is responsible for the entire region covering Canada, US and Latin America. Prior to this role, Kartik headed the Polaris business in Western Europe. Kartik comes with extensive experience in Marketing, having worked with the leading Indian corporates like Unilever (India) and Asian Paints. The career spanning over 13 years has been focused on business strategy, brand building and understanding & influencing consumer behavior.



**Kartik Kaushik**



**Kedarnath  
Udiyavar**

## Executive Vice President & Head – Investment Banking Solutions

Kedar joined Citicorp Overseas Software Limited (COSL) in 1985 and has grown with the organisation since then. Kedar heads "The Capital", Polaris' Hyderabad Center, which specialises in technologies for Capital Markets, Treasury and Wealth Management. He has rich experience in delivering global solutions across banking verticals such as, private banking, credit cards, corporate banking, cash management and capital markets. Presently, Kedar also serves as the President of HYSEA – an industry association representing IT and ITES exporters in the state of Andhra Pradesh, India.

# The Business Leadership

## The Business Leadership Team



**Manoj Kumar**

### **Senior Vice President & Head – Consumer Finance Solutions**

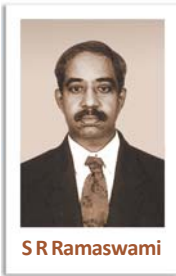
Manoj is a veteran in Polaris and has been instrumental in setting up the delivery teams & nurturing key relationships with leading banks in Japan & Europe since 1995. He heads the Business Solution Center that provides specialty solutions in the consumer finance vertical with SoA compliant products. He also champions the delivery of progressive modernisation services to banks in Japan & Europe.

### **Senior Vice President & Head – Polaris Canada**

Rahul has over 18 years of experience with global financial giants like Citibank, Merill Lynch and TD Waterhouse, in a variety of business roles globally. Prior to joining Polaris, Rahul was with a process outsourcing company, MsourcE, where he was responsible for Business Development and Relationship Management.



**Rahul Petkar**



**S R Ramaswami**

### **Executive Vice President & Head – Insurance Solutions & Application Certification**

An alumnus of Indian Institute of Science (IISc) and a Chartered Financial Analyst, Ramaswami has built successful enterprises as well as nurtured innovation through flagship horizontal practices such as Polaris Application Certification Enterprise, .NET Center of Excellence, Content Management, etc. The diversity of his experience from government to corporate projects has enabled him to contribute significantly to the SEI CMM forum in developing risk as a process component. In his previous stints, Ramaswami was the CEO of Realsoft, the software arm of Reliance Industries and President & COO of Indchem software, a Sanmar conglomerate.

### **Senior Vice President & Head – Retail Banking Solutions**

With 25 years experience in IT industry, Ravi has been the Head for large & critical solution delivery teams that serve Fortune 500 financial institutions. In his long stint in Polaris, Ravi anchored mission critical global rollouts of retail banking solutions. He was a core member of the team that established Polaris Operations at USA between 1996 and 1999. He is also on the advisory board of Polaris' Corporate University, Nalanda.



**M R Ravichandran**

# The Business Leadership Team



**R Shekar**

## **Executive Vice President & Head - Corporate Quality & Business Excellence**

Shekar's passion is to drive quality & excellence in a way that our commitment to excellence & customer delight is practiced at every single touch point – right from the first customer contact to post-delivery. An IIM – Bangalore alumnus, he has been championing the cause for business excellence for three decades in several sectors of industries such as manufacturing, services, education and information technology over the past 31 years. Shekar has served GE Capital as their Country Quality Leader, Citibank as their Director - Customer Satisfaction & Quality and was indoctrinated into quality at Modi Xerox, where he was the Country Manager.

## **Executive Vice President & Chief Financial Officer**

With over 24 years of rich experience in the field of Finance & Business Management, Srikanth heads the Finance, Treasury, Accounting, Investor Relations, Legal, Compliance, Corporate Governance & Secretarial functions for Polaris & its subsidiaries in India and worldwide and is a key member of the Business Leadership Team. Prior to joining Polaris, Srikanth was with Wipro BPO Solutions, as the Associate Chief Operating Officer. Srikanth's financial skills were honed during his long innings with Future Software (where he was Group Chief Financial Officer) & before that, in the Manufacturing sector. Srikanth is a Fellow Member in the Institute of Chartered Accountants and in the Institute of Cost and Works Accountants of India.



**R Srikanth**



**Uma Krishnan**

## **Executive Director and Chief Executive Officer, OPTIMUS**

Uma Krishnan, an MBA from IIM - Bangalore, heads Optimus, a wholly owned subsidiary of Polaris Software. Under her leadership, the Business Process Outsourcing Company focuses solely on servicing clients in the Banking, Financial Services and Insurance domain. Uma has over 16 years of work experience across the Retail Financial Services and has worked with banks like ANZ Grindlays and HDFC in leadership positions.

## **Senior Vice President & Head - Enterprise Solutions**

Vikas presently heads the Enterprise Solution Center at Gurgaon and is responsible for managing and nurturing strategic relationships with several large customers of Polaris in the Investment Banking and Enterprise Solutions space. He has been actively involved in setting up the relationships with organisations in UK and Switzerland. He also got the opportunity to play a pivotal role in team responsible for establishing subsidiaries of Polaris in UK, Switzerland and Ireland.



**Vikas Misra**



Extreme Execution

# Defining Moments with 'Excellence' with



R Shekar

How does one respond to, 'Daddy how was your day?' posed innocuously by an eight-year-old when you return home at the end of a long and gruelling day? If the response evokes a chuckle brimming with admiration or leaves her more inspired, you feel reassured that all the hours away from the dear ones have, after all, been worth its while. What you experienced just now is a defining moment with excellence!

In retrospect, we experienced several such defining moments that punctuated our routines during 2005, a sampling of which is recounted below:

- During the person-to-person calls that Arun has with Polaris customers, (to get to know first hand about their experiences with Polaris), moments of excellence unfold as they wax eloquent about
  - the 'speed to market' of the 'Intellect Money Market team'
  - flawless handling of \$3 billion worth of transactions handled every day by the off-shore team of CitiDirect
  - seamless integration of disparate banking platforms across different banks acquired by Shinsei, Japan into one
  - joint study undertaken with customers to define the anticipated changes in system requirements arising out of regulatory changes in the European Central Banking system, yet to be introduced, by the Agency and Trust Information System (ATIS) team
- Customer expos, event management, back office systems implementation or even in house magazine publication have all begun to punctuate our daily lives with moments of excellence
- 4-in-1 Business MIS System is another milestone towards Internal digitisation and automation initiative. We have integrated Human Resource, Project Planning, and Financial Systems to Customer Satisfaction. Integration of these systems was the dream coming true for all Project Directors using share point portal

### Top 10 for Lakshya 2006

1. Shoot for 100% Data Integrity
2. Make all Projects 100% iPlan compliant
3. Warp-weft SQA reporting structure
4. Paired Project Director and SQA alignment to each project
5. Institutionalise metrics (11 measures)
6. Promote peer reviews
7. Customer Satisfaction dip sticks
8. Risk : Early Warning Alert System
9. Manage by Fact
10. Upgrade QMS as the body of knowledge

The seeds of excellence may have been sown much earlier but, for one team, it began to manifest itself and become noticeable more poignantly with the advent of Portfolio Management.

In the early hours of January 5<sup>th</sup> 2005, the 20 strong members of the Quality Network met for the first time to define a roadmap to realising their Lakshya 2006 theme. Towards the end of the three days of deliberations, they identified a cluster of 10 programs that had to be addressed almost concurrently (see box titled 'Top 10 for Lakshya 2006') for the committed progress to be made.

Meeting once every quarter thereafter, the team translated the ten programmes into reality with a disciplined regimen (see box titled 'Discipline: A diet for Excellence') that helped the team to improvise their original plans and make progress in an interdependent fashion as to address all dependencies. To differentiate from the sequential one project at a time style of management, the term 'portfolio management' was coined.

One insight that the Team discovered was that excellence was synonymous with discipline; and discipline was the alter ego of habit. Unless we made our habit a virtue, we realised we could never achieve excellence. These defining moments of excellence helped to fuse the habits into a work culture that responded to a cause and instilled a great team spirit.

When you return home tonight and your eight year old poses the question 'Daddy How was your day?' you know only too well as to where you had been and what it is that you did.

And that is all it takes to live your dream!

#### **Discipline: The Diet for Excellence**

- Daily
  - Monitor health indices for Quality
  - Achieve mastery in CMMI PA (Process Area)
  - Review daily flashes
- Weekly
  - Two hour communication stock-take
  - Top Ten program review
- Monthly
  - Upload QMS (Quality Management System)
  - Institutionalise new practices
  - Automate ORM (Review pack) Deck
- Quarterly
  - Publish Quality trend results
  - Clinique internal practices and execution disciplines as a Quality Network
- Half yearly
  - Take stock of Talent Inventory
  - Performance review
  - Goal redefinition/realignment
- Annual
  - Review organisation structure
  - Manpower rotation
  - Team selection for the next year



Corporate Governance

# Corporate Governance



Prabal Basu Roy

*“Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society”*

*(Sir Adrian Cadbury in ‘Global Corporate Governance Forum’, World Bank, 2000)*

The international interest to regulate and legislate ethical corporate behaviour brings in new concepts to the corporate world. Being a global phenomena, the jury is out on which school of thought will attain dominance, but I believe that eventually the world will at last see a convergence in at least one area of human endeavour. Concepts of openness, transparency, commitment, consistency and trust are the cornerstones of any effective governance system and these traits, rooted in spiritualism across all faiths, is well placed to play this unification role on an international basis.

Corporate Governance is not just about legislation and regulation, but about doing what is right for the shareholder. It is broader than executive management and the audit committee and extends throughout the organisation, including elements of Internal Controls, Ethics, Various Risk Functions, Policies and Procedures, Internal Audit and External Audit. It requires transparency of disclosure, effective communication, and proper measurement and accountability as essential elements for good governance. It is also as much about customer satisfaction, employee retention, profitability, and utilisation of resources. In short, it is about the quest to strike the right balance amongst all the stakeholders in corporate enterprise.

## **Global Trends in Corporate Governance**

In today’s global economy, the importance of good corporate citizenship has grown in the face of mounting business risks and operating challenges. The concept of Corporate Governance has evolved over the years in response to dramatic corporate collapses and forces contributing to short-term corporate crisis. The response has encompassed several initiatives including, new institutions to oversee the auditing and accounting profession, laws to strengthen internal controls, laws requiring further transparency in corporate disclosures and laws pertaining to ethics and codes of conduct.

The crisis of confidence in the U.S. financial reporting system, which escalated into a major economic and political issue in 2002 after the collapse of Enron and WorldCom, has also heightened the attention paid to, and importance of, corporate governance issues. These events have sparked demand for reforms to restore confidence in the financial reporting system, including changes to corporate governance that go beyond legal compliance. To restore investor trust and confidence, the US Congress quickly and resoundingly passed the Sarbanes-Oxley Act of 2002 (SOX). The Act introduced new requirements for public companies, corporate officers, audit committees, boards of directors, accounting firms and others. The Securities and Exchange Commission (SEC) rules require disclosure of whether codes have been adopted and define their objectives. In addition, the NYSE, NASDAQ, and AMEX have submitted new listing requirements to the SEC that also contain corporate governance reforms.

### **Corporate Governance Trends in India**

In India, the SEBI, as the custodian of investor interests, constituted the committee on Corporate Governance under the Chairmanship of N R Narayana Murthy to review existing best practices. The Committee drew upon the recommendations of the Kumarmangalam Birla Committee and the Naresh Chandra Committee to recommend further improvements in the existing system of corporate governance applicable to Indian companies. In October 2004, SEBI amended Clause 49 of the listing agreement in alignment with the recommendations of the Narayana Murthy Committee. These changes primarily strengthened the requirements in the following areas:

- Board composition and procedure
- Audit committee responsibilities
- Subsidiary companies
- Risk management
- CEO/CFO certification of financials and internal controls
- Legal compliance
- Other disclosures

The Indian Industry had initially been slow to react to the recommendations of the Clause 49, attributable to a variety of reasons, besides, confusion on the meaning of the term internal controls; basis and information for the CEO/CFO sign-off; shortage of independent directors; and confusion on the requirements for compliance with laws and regulations and risk management. However, the efforts gained momentum after the passing of the deadline of January 1 2006. The front runners have been SOX compliant companies or those listed in European exchanges which are already compliant with most of these requirements. The leaders - larger Indian companies and groups that have seen the regulation as a blessing in disguise - have grasped this opportunity to take stock on state of controls and risks in various group companies and prepare for the next phase of globalisation.

### Corporate Governance practices at Polaris

As part of the company's commitments to follow global practices, efforts were initiated to implement a risk management framework as early as July 2004, well before the revised Clause 49 requirements were circulated. We commenced the documentation and evaluation of internal controls in business processes impacting financial reporting, in September 2005 to enable an objective framework for the mandatory CEO/CFO certification process. The coverage of this exercise has extended to over ninety five percent of the consolidated revenues and costs arising out of India and various geographies. Wherever necessary, remedial measures have been identified and are under implementation. Recognising the importance of technology in speed of response to issues, we have invested in technology tools to implement and monitor the Risk Management and Internal Control self assessment framework. In terms of Board composition, procedure, audit committee, etc., the company had established frameworks much before the present legislation and these have been institutionalised over time. The Board creates an environment for challenge, question the company's performance benchmarks and bring to the table knowledge of best practices from other industries. The effectiveness of the Board is driven by the combination of the 'multiplicity of experience' of the directors and the extent to which the management is prepared to be challenged. We consciously inculcate this self imposed dual focus in our Board meetings in an attempt to make them highly interactive and productive as a governance practice.

The integrity of a robust financial reporting system forms the core of a well-governed company. Investors, regulators, management and all other external stakeholders use this to derive confidence that the reported financials reflect accurately the performance of the company. Integral to this process is the faith, which is placed in the quality of accounting standards and the application of these standards on a consistent and fair basis. These factors determine squarely the ability of investors to qualitatively distinguish between companies and the risk premium attributed to the stock. In a borderless capital market, investible capital is probably the most global commodity and only the most efficient and transparent usage determines its end destination. I am happy to state that our company is well on its way to achieving this.

Our view at Polaris continues to be governed by recognising international developments but applying the learnings of this emerging paradigm in the context of Indian business. We see investments in corporate governance in an integrated framework encompassing risk, compliance and strengthening board expertise. These initiatives, we believe, will provide a distinct source of competitive advantage as we grow into a larger, respected organisation. Specifically, I believe, the benefits would arise across a wide spectrum such as enhanced reputation, improved financial performance, increased

operating effectiveness, higher employee morale and productivity, improved customer loyalty, quality and positive relations with society and the markets. It will also allow us to use our insights into business risk and constantly evaluate activities that help us make money and those that drag profitability.

It is exciting to be part of the process of evolution of major reforms and we, in Polaris, have a lot to look forward to as new governance norms and legislation take shape in this country. We will continue our efforts to shape policy making in this area, as we believe that companies which use this opportunity, provided by global legislative intervention, to go beyond compliance and internalise good governance, as part of its corporate ethic would eventually emerge as the leaders in transforming the corporate environment in India.

## POLARIS SOFTWARE LAB LTD Board of Directors



**Arun Jain**  
Chairman & Managing Director



**Abhay Agarwal**  
Practising Chartered Accountant



**Ajit Bhushan**  
Managing Director - Citigroup  
Venture Capital International



**Anil Khanna**  
Managing Director - Citigroup  
Venture Capital International



**Arvind Kumar**  
Sr. Lawyer - Supreme Court



**Dr. Ashok Jhunjhunwala**  
Professor-Dept. of Electrical  
Engineering, IIT Chennai.



**Nanoo G Pamnani**  
Director-Strategic Technology,  
Operations & Special Projects,  
Citibank N.A.



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



**Raju Venkatraman**  
President & COO of  
ICICI One Source Limited



**Satya Pal**  
Former Secretary (Telecom),  
Chairman MTNL and a telecom

**POLARIS SOFTWARE LAB LIMITED**

Financial Statements for the year ended 31<sup>st</sup> March 2006

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

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# POLARIS SOFTWARE LAB LTD

## BANKERS

Citibank N.A  
ICICI Bank Ltd  
HDFC Bank Ltd  
Bank of America, NA, New Jersey  
JP Morgan Chase Bank, New Jersey

## AUDITORS

M/s. BSR & 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 Thirteenth Annual Report together with the Audited Statements of Accounts for the year ended March 31, 2006.

#### 1. Financial Results

##### a. Stand alone results of Polaris Software Lab Limited

*Rs. in lakhs*

Year ended March 31	2006	2005
Profit (including other income) before Depreciation, Finance Charges, provision for diminution in value of investments and Tax	6,955	9,893
Less: Finance charges	55	82
Provision for diminution in value of investments	217	-
Depreciation & amortisation	4,644	3,840
<b>Profit Before Tax</b>	<b>2,039</b>	<b>5,971</b>
Less: Provision for tax (including Deferred tax & Fringe Benefit tax)	710	628
<b>Profit After Tax</b>	<b>1,329</b>	<b>5,343</b>
Add: Surplus brought forward	14,802	11,955
<b>Profit available for appropriation</b>	<b>16,131</b>	<b>17,298</b>
<b>Appropriations</b>		
Provision for proposed dividend	1,228	1,715
Tax on Distributed profits	172	245
Transferred to General Reserve	133	535
<b>Balance Transferred to Balance Sheet</b>	<b>14,598</b>	<b>14,803</b>

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

*Rs. in lakhs*

Year ended March 31	2006	2005
Profit (including other income) before Depreciation, Finance Charges, provision for diminution in value of investments & Tax	8,540	11,550
Less: Finance charges	79	113
Provision for diminution in value of investments & Share of loss of Associate Companies	70	487
Depreciation & amortisation	4,945	4,070
<b>Profit Before Tax</b>	<b>3,446</b>	<b>6,880</b>
Less : Provision for tax (including Deferred tax & Fringe Benefit tax)	1,315	1,076
<b>Profit After Tax</b>	<b>2,131</b>	<b>5,804</b>
Add : Surplus brought forward	1,5114	11,805
<b>Profit available for appropriation</b>	<b>17,245</b>	<b>17,609</b>
<b>Appropriations</b>		
Provision for proposed dividend	1,228	1,715
Tax on Distributed profits	172	245
Transferred to General Reserve	133	535
<b>Balance Transferred to Balance Sheet</b>	<b>15,712</b>	<b>15,114</b>

## **2. Results of operations**

The consolidated income of Polaris Software Lab Limited from Software development services and products for the year ended March 31, 2006 stood at Rs. 82,508 lakhs. The consolidated Net Profit for the fiscal year ended March 31, 2006 stood at Rs.2,131 lakhs. The Reserves increased from Rs. 48,209 lakhs in 2004-2005 to Rs. 49,179 lakhs in 2005-2006.

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 2005-06, North America contributed 39.73%, Europe contributed 27.89%, Asia Pacific, India & Middle East contributed 32.38%.

Your Directors want to spend some time on addressing the legitimate concerns you may have on the muted revenue growth this year. As we have mentioned in our previous year's report, we have taken bold steps towards transforming the company, its business model and carve out a niche for Polaris to differentiate its offerings from other players in the market.

This journey commenced with the Orbitech merger in 2003 where, as part of this acquisition, we acquired a contemporary suite of banking products. In the course of these years, we focused on three primary objectives: integration of the two companies, growth of the services business and significant investments to upgrade the various segments of the product suite to a SOA compliant for banking operations in the different regions of the world. The investments needed were larger than expected but we are happy to report that this year has seen the successful adoption of specific segments of our product suite in all three major regions that we operate in: USA, Europe and Japan. This large investment has also provided us with the domain and technological edge to provide client focused, asset based solution services for our chosen niche of Tier I and Tier II global banks. To position this solution capability in the marketplace, we needed to change our selling methodology and reorient the sales force. This was achieved by fresh hiring of the relevant skills, involvement of solution specialists in the front end and increasing the sales capacity across all geographies. This is a significant step in the transformation process requiring major investments in resources and management time. The early results of this investment is encouraging and our new client acquisition over the last two quarters has shown considerable velocity in terms of numbers and quality of engagements with Tier I and Tier II global banks. This will help us achieve our stated objective of reducing the Citibank concentration in our business profile whilst providing a large avenue for future growth. A detailed strategic and global review with a leading management consultancy firm confirmed that our above transformation strategy has the potential to significantly differentiate Polaris from the more generic IT services companies in the industry.

As mentioned in the above paragraph, this dual transformation on the technology and sales front required considerable investment on all fronts and consequently our account management focus was an unintended casualty in the earlier part of the year. This affected our mining capability in the existing accounts. Secondly, the sales cycle time was also extended because of the lack of solution selling

skills in the early part of the year as we were moving up the value chain whilst simultaneously enhancing our sales presence. These two factors led to a below average revenue growth. However, as discussed above, we are very encouraged at the fresh order intake, the sales velocity and the ability to attract large global banks in the last couple of quarters reflecting our success in moving from a generic service provider to a trusted advisor status within this elite community.

This journey is not yet over. We will continue our focus this year to build significant alliances, which will help us penetrate further in the global Tier I and Tier II banking space. We have signed up some major alliances in the last few months and we will continue to do so with large regional players this year. Similarly, as we focus more on the asset based solution services space as our arrowhead strategy to penetrate the market, we will actively look at evaluating niche acquisitions to fill gaps in our high-end solution offerings. This will enable us to acquire skills and a loyal customer base in sophisticated markets.

### **3. Future outlook**

Over the past couple of years, the industry has matured, with sophisticated customers seeking a service provider who provides a degree of exclusivity, with highly expertise-driven solutions, rather than merely cost and quality, which would increasingly be taken for granted. The next phase of maturity, we expect, will be the premium on asset-based service providers, where intellectual assets embody expertise in a given domain or function. We expect Polaris to be well positioned to serve these increasingly discriminating customers, with our intellectual asset-strategy. Expertise comes from focus on a given industry (BFSI), working hard to understand the details of the industry, and intellectual assets from investments in building products and components that embody world-class banking processes. This is the investment Polaris has made over the past 3 years, which enable us to provide the right solutions for the customer. We already have evidence that this approach is resonating with customers - this year, we began engagements with nearly 20 leading customers, who see the value in our offering, and recognize the strides we have made in moving to a different mode of providing solutions to their business problems. Polaris' business model is a hybrid of both products and pure services, as we strive to provide exactly the right mix that customers want.

### **4. Dividend**

Your Directors are pleased to recommend a dividend of 25% (Rs. 1.25 per share, on par value of Rs.5) for the year ended March 31, 2006. The dividend, if approved at the forthcoming Annual General Meeting, will be paid out of the profits of the Company to all those equity shareholders whose names appear on the Register of Members of the Company on 8<sup>th</sup> August 2006 and to those whose names appear as beneficial owners in the records of the National Securities Depository Limited and Central Depository Services (India) Limited as on the said date.

## 5. Strategic Initiatives during the Year

This year we have focused on three major initiatives

- I. Strengthening and Realigning front-end capabilities in line with our integrated services business model
- II. Market penetration strategy for intellect platforms
- III. Focus on Extreme Execution

During the year, we have packaged six financial technology platforms to be taken to market in the coming years using Intellect GeneS

- a. Intellect Credit Card platform
- b. Intellect Consumer Finance platform
- c. Intellect Universal Banking platform
- d. Intellect Cash Management platform
- e. Intellect Wealth Management platform
- f. Intellect Customer Relationship platform

We have successfully signed up more than one customer to supply the above-mentioned platforms. A few of the platform implementations are as described below:

### **a. Canara Bank goes live on Polaris Intellect Cards Platform**

During the year, Canara Bank has completed a rollout of countrywide automation solutions to significantly scale up their card operations implementing your Company's 'Intellect Cards' product for managing card issuance and acquiring, fraud management, authorization, loyalty management, debit card management and collections. Intellect Cards was implemented on a SunFire/ Sun Unix platform from Sun Microsystems. Intellect Cards, part of your Company's Intellect Suite of product, is a flexible and comprehensive build-as-you-grow system that provides a relationship level view of customers and merchants, making it possible to serve customers better and reduce operational cost.

### **b. Intellect Treasury chosen by the world's largest Risk Treasury Group**

Your Company's Intellect Treasury solution is chosen by one of the world's leading financial services company for its Risk Treasury business in multi-location in Europe. Your company's solution offering is built around the Intellect Suite and the SmartBuild approach. The SmartBuild approach enabled the customization of the base components to fully meet the customer's requirement. This multi-country Intellect Treasury deal is a major milestone in the life cycle of the Company's product strategy, which proves that the SmartBuild strategy around the Intellect Suite is clearly providing a very promising proposition to Tier I players, globally.

### **c. Intellect Consumer Finance for a leading German Leasing Company**

The customer is the largest manufacturer-independent leasing company in Germany and Netherlands. Intellect suite of products has been successfully implemented to cater to Dealer financing and Project financing lines of business in both these countries. The solution is based on the Intellect Consumer Finance platform. It

interfaces with internal systems, central bank's clearing system, ERP - Financials (SAP) and also with third party software required for legal requirements and Basel II compliance. This is a high capacity platform and handles the financial asset portfolio of the client worth € 7 billion.

**d. Cash Management Solution for Lloyds TSB**

During the year, your company signed Lloyds TSB, one of the most prestigious banks in UK. Lloyds TSB Bank has selected Intellect Suite as the banking solution for part of its International Cash Management offering. The initial project revolves around the requirements for Sweeping (Cash Concentration) where the bank plans to roll out an automated solution to replace current processes. Intellect Suite was chosen for its modular architecture and the unique ability to enable inter-operability across the bank's current systems and the new systems that the bank is adding.

**e. Intellect Universal Banking for two leading Banks in Asia**

A leading bank in the Gulf region was looking at replacing its retail banking system and Polaris has been asked to implement its Intellect Platform. The Universal banking platform interfaces with all existing external channels. The entire project involves upgrading the infrastructure and architecture of the existing systems and also involves process of migrating the information from the existing systems into the new application. The roll out is a large-scale, in terms of the amount of development and the magnitude of end-to-end work involved.

Another leading bank in Thailand, which services the Muslim population in accordance with the Islamic Principle, has selected Intellect Platform as the banking platform to cater to its operations. It required a Universal Banking platform that supports the bank's Islamic portfolio. Intellect Platform was successfully rolled out to cater to all of banks retail banking operations and the branches. The Intellect Platform was chosen for its standard architecture and the unique ability to handle the bank's current requirements. This roll out has helped the bank to reduce its operational cost and increase its efficiency in serving its customers.

**f. Intellect Wealth Management for two leading banks in Asia**

Your company is in the process of implementing Wealth Management Platform for two large banks in Asia.

One of the largest banks in Singapore with a sizeable Private Banking (PB) business is automating its wealth management offering to provide enhanced customer service and better operational efficiency. Polaris is implementing Intellect Wealth Management Platform. The platform has facility to handle special products such as Option linked Notes, Option linked Deposits, Structured Notes, Accumulators, Derivatives – Call and Put options, Futures and Forwards apart from Forex rates, Bonds etc. This is a large-scale implementation involving migration from various source systems, as the current private banking operations are running out of disparate systems. It also involves integration of Intellect Wealth Management Platform with 18 external systems. Unifying a single application to deliver the solution catering to the functions of varied business

models has been the biggest achievement in this project.

Another leading bank in Asia has chosen Intellect Wealth Management System for its global Private Banking business. The bank wanted a solution to upgrade its existing system, substantially automate its operations and seamlessly integrate with its existing core banking systems. The bank will acquire the capability to offer mutual funds, hedge funds, bonds and structured products on fully funded or leveraged basis in the international market to its global client base. Single view of the portfolio for a relationship with strict visibility rules and portfolio analytics are some of the differentiating features of the product. The application will enable the bank to comply with stringent regulations in the private banking space in multiple countries.

Based on Service Oriented Architecture and powered by the SmartBuild approach, Intellect Wealth Management promises to add business value in a cost effective manner within a remarkably short time-to-market.

## 6. Increase in share capital

The Company allotted 219,725 number of Equity Shares of Rs. 5/- each pursuant to exercise of employee stock options during the year as detailed hereunder:-

Date of Allotment	Scheme	Option Price	No. of Allottees	No. of Shares	Total
<b>26-Apr-05</b>	ASOP 2000	71.50	12	1,750	<b>11,105</b>
	ASOP 2000	126.70	1	260	
	ASOP 2001	57.00	20	7,095	
	ASOP 2001	71.50	2	2,000	
<b>21-Jul-05</b>	ASOP 2000	71.50	6	460	<b>10,860</b>
	ASOP 2001	57.00	12	3,885	
	ASOP 2001	71.50	3	4,200	
	ASOP 2001	126.70	1	215	
	ASOP 2001	123.65	1	2,000	
	ASOP 2003	137.40	1	100	
<b>20-Oct-05</b>	ASOP 2000	71.50	8	1,630	<b>109,925</b>
	ASOP 2000	126.70	9	9,620	
	ASOP 2000	123.65	1	2,000	
	ASOP 2001	57.00	155	91,065	
	ASOP 2001	71.50	1	1,500	
	ASOP 2001	126.70	4	1,510	
	ASOP 2001	123.65	1	2,000	
	ASOP 2003	137.40	1	200	
	ASOP 2003	152.95	1	400	
<b>30-Jan-06</b>	ASOP 2000	71.50	107	37,680	<b>87,835</b>
	ASOP 2000	126.70	2	2,200	
	ASOP 2001	57.00	77	27,105	
	ASOP 2001	71.50	20	18,400	
	ASOP 2001	126.70	3	2,450	
<b>TOTAL</b>			<b>449</b>	<b>219,725</b>	<b>219,725</b>

In view of the above, the outstanding issued, subscribed and paid-up equity share capital increased from 98,010,272 shares of Rs.5/- each as on 31<sup>st</sup> March 2005 to 98,229,997 shares of Rs.5/- each as on 31<sup>st</sup> March 2006. All the above shares are currently listed and traded on stock exchanges.

## 7. Employee Stock Option Scheme

The Company has as at March 31, 2006, four (4) stock options schemes. During the year, your company has granted options to the eligible Associates only under Associate Stock Option Plan 2003 as per SEBI Guidelines on (ESOP & ESPS). The Company has not granted any options under ASOP 2000, ASOP 2001 & ASOP 2004 during the year 2005-06.

### (I) Details of options under ASOP 2000 during the year 2005-06

	Options outstanding as on 01-04-2005	748,510
(a)	Options granted	Nil
(b)	The pricing formula	N.A.
(c)	Options vested	182,945
(d)	Options exercised	55,670
(e)	The total number of shares arising as a result of exercise of options	55,670
(f)	Options lapsed / surrendered	246,335
(g)	Variation of the terms of options	Nil
(h)	Money realized by exercise of options in Rs.	4,737,169
(i)	Total number of options in force	446,505
(j)	Employee wise details of options granted to:	
	(i) Senior managerial personnel	Nil
	(ii) any other employee who receives a grant in any one year of option amounting to 5% or more of option 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	1.35

### (II) Details of options under ASOP 2001 during the year 2005-06

	Options outstanding as on 01-04-2005	607,890
(a)	Options granted	Nil
(b)	The pricing formula	N.A.
(c)	Options vested	228,375
(d)	Options exercised	163,175
(e)	The total number of shares arising as a result of exercise of options	163,175
(f)	Options lapsed/ surrendered	146,460
(g)	Variation of the terms of options	Nil
(h)	Money realized by exercise of options in Rs.	1,0250,962.50
(i)	Total number of options in force	298,255
(j)	Employee wise details of options granted to:	

	(i) Senior managerial personnel;	Nil
	(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	1.35

**Note:** Since the Company has not granted any Options under ASOP 2000 and ASOP 2001, disclosure as required under sub-clause (l), (m) and (n) of Clause 12.1 of SEBI (ESOP & ESPS) Guidelines, 1999 are not applicable.

**(III) Details of options issued under ASOP 2003 during the year 2005-06**

	Options outstanding as on 01-04-2005	2,178,950
(a)	Options granted	266,000
(b)	The pricing formula	At market price
(c)	Options vested	394,390
(d)	Options exercised	700
(e)	The total number of shares arising as a result of exercise of options	700
(f)	Options lapsed/ surrendered	589,400
(g)	Variation of terms of options	Nil
(h)	Money realized by exercise of options in Rs.	102,400
(i)	Total number of options in force	1,854,850
(j)	Employee wise details of options granted to:	
	(i) Senior managerial personnel [Mr. Arup Gupta]	160,000
	(ii) any other employee who receives a grant in any one year of option amounting to 5% or more of option 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 & 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	1.35
(l)	Employee compensation cost based on:	
	(1) Intrinsic value of the stock option (Rs.)	0
	(2) Fair value of the stock option (Rs.)	10,853,060.62
	(3) Difference between (1) and (2) (Rs.)	10,853,060.62
	Impact of said Difference on	
	- Profit (Rs.)	(10,853,060.62)
	- EPS	(0.1104)
(m)	Options whose exercise price either equals or exceeds or is less than the market price of the stock on the grant date:-	
	- Weighted average exercise prices of options (Rs.)	120.05
	- Weighted average fair values of options (Rs.)	40.80
(n)	A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted-average information:-	Refer the Note below

i) Risk free interest rate (ZCYC)						
	1	2	3	4	5	
27 <sup>th</sup> April 2005	7.006	7.13	7.24	7.34	7.42	
21 <sup>st</sup> July 2005	7.04	7.16	7.26	7.36	7.43	
20 <sup>th</sup> October 2005	7.07	7.19	7.29	7.38	7.45	
ii) Expected life						
	1	2	3	4	5	
27 <sup>th</sup> April 2005	3.075	4.075	5.075	6.075	7.075	
21 <sup>st</sup> July 2005	3.308	4.308	5.308	6.308	7.308	
20 <sup>th</sup> October 2005	3.556	4.556	5.556	6.556	7.556	
iii) expected volatility						28.80%
iv) expected dividends						1.5%
v) the price of the underlying share in the market at the time of Valuation (31 <sup>st</sup> March 2006)						117.10

### Methodology of Valuing Polaris Software Lab Ltd. ASOP grants

1. Expected risk free rate of return has been taken from the Zero Coupon Yield Curve (ZCYC) rates as on 31<sup>st</sup> March 2006 from the National Stock Exchange of India Limited ([www.nseindia.com](http://www.nseindia.com)).
2. Time to expiry of any ASOP is usually lesser than the total expiry duration i.e., 3 years.
3. The historical volatility disclosed by NSE has been applied to value the ASOP scheme grant. The Daily volatility for Polaris Stock in NSE Market is 2.134236, hence the annualized volatility is 33.87995. This has been subject to an adjustment of 15% since the options are not traded in the market.
4. Dividend declared by Polaris Software Lab Ltd for the financial year 2005-06 was 25%. Though the dividend payout is insignificant in proportion to the strike price, the dividend yield has been assumed to be 1.5% for accuracy.
5. The Binomial Model is constructed using 5 tree structures as previously followed in the financial year 2004-05.
6. The Previous report had assumed the employee attrition rate of 15.5%. The option valuation is not affected by the attrition rate. However, this has an impact on EPS. This has not been considered in this report as it may have an insignificant effect on EPS (Rs.0.0001) due to the comparatively small quantum of ASOP granted in this financial year. Additional adjustment could be made based on historical attrition rate of employees who have been granted options.

### Assumptions made for Options Pricing:

Option pricing using Binomial has been carried out to determine the ASOP 2003 Scheme grants. The pricing models require the following assumptions:-

1. Expected risk free rate of return
2. Time to expiry
3. Expected volatility of the underlying security
4. Expected dividend yield of the underlying security

The company has appointed M/s Karvy Investor Services Limited as its Merchant Banker for the implementation of Associate Stock Option Plan 2003 as per SEBI (ESOP & ESPS) Guidelines, 1999. The methodology adopted and the figures disclosed under clauses (l), (m) & (n) of the above table are as per the valuation of fair value received from the Merchant Banker. The Company is not responsible for the losses, if any, suffered in the event of any transaction entered into based on the aforesaid valuations. The valuation is affected by the assumption made by the valuer and any changes to these assumption will affect the outcome of the valuation.

#### **(IV) Approval of ASOP 2004**

Shareholders at their meeting held on 22<sup>nd</sup> July 2005 have approved Associate Stock Option Plan 2004 (ASOP 2004). However, during the year under review, the Company has not granted Stock Options under ASOP 2004.

#### **8. Buy-back of shares**

Vide Public Announcement dated May 19, 2005 the Company has announced commencement of buy-back offer with effect from 1<sup>st</sup> June 2005. Subsequently the Board of Directors at its meeting held on October 21, 2005 has recorded the closure of Buy-back offer from the end of working hours of November 9, 2005. During the buy-back period, the Company did not Buy-back any Shares under the Buy-back offer. As a result, there was no change in the equity capital structure and shareholding pattern before and after the buy-back offer, consequent to buy-back offer.

#### **9. Subsidiaries**

The following are the wholly owned subsidiaries of the Company alongwith their country(ies) of incorporation:-

Polaris Software Lab Pte Ltd.	Singapore
Polaris Software Lab Ltd.	United Kingdom
Polaris Software Lab GmbH	Germany
Polaris Software Lab S.A	Switzerland
Polaris Software Pty Ltd.	Australia
Polaris Software Lab Ireland Ltd.	Ireland
Polaris Software Lab Japan KK	Japan
Polaris Software Lab Canada Inc.	Canada
Polaris Retail Infotech Ltd	India
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 various international markets. The Board of Directors of your Company has reviewed the affairs of the subsidiary Companies.

Your Company has been exempted by the Ministry of Company Affairs ('MCA') vide its letter No. 47/156/2006-CL-III dated 24<sup>th</sup> May 2006 from attaching the Balance Sheet, Profit & Loss Account, Directors' Report and the Auditor's

Report of its wholly owned subsidiaries to the Annual Report. Accordingly, the Annual Report of your Company does not contain the financial statements of its subsidiaries, but contains the consolidated audited financial statement of the Company and its subsidiaries. Further as directed by MCA, information in aggregate such as (a) Capital (b) Reserves (c) Total Assets (d) Total Liabilities (e) Details of Investment (except in case of investment in subsidiaries) (f) Turnover (g) Profit before taxation (h) Provision for taxation (i) Profit after Taxation, and (j) Proposed Dividend for each subsidiaries has been disclosed in one page abstract forming part of the consolidated balance sheet.

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. Notable accolades received during the year**

- a. In the NASSCOM Top 20 Exporters List, Polaris ranked 9<sup>th</sup> in 2004-05.
- b. The Institute of Company Secretaries of India, New Delhi rated Polaris among the top 25 companies with best practices and procedures on Corporate Governance, for the 3<sup>rd</sup> consecutive year.
- c. Polaris has been awarded the Leader in the category of "Speciality Application Development" among the Top 100 Global Companies from Cyber Media Publications for the year 2006.

#### **11. Social Responsibility**

The Ullas Trust was founded in 1997 with a single-minded purpose of integrating Polaris Associates with the larger community. The charter for the trust includes:

- ◆ Encouraging a 'Can Do It' spirit among the young, economically challenged students, who have the aptitude but lack the means.
- ◆ Recognising academic excellence in students from Corporation and Government schools and enabling them to realize their dreams.

Ullas Trust has been organizing 'You Can Do It' workshops for the last eight years to expose young minds to achievers from the real world. Like every year, this year too, the Workshop culminated with the Trust giving away educational scholarships to each child, identified as a deserving student through a simple yet effective selection. The Trust also provides an opportunity to students to 'touch and feel' the corporate environment and be mentored by successful software professionals. In addition to the scholarships, the Trust has taken initiatives in the past such as its tie up with Sankhya's Math Lab to dispel the 'Fear of Math' amongst students, by giving them a tool that teaches Math with fun and animation. The Trust with the help of ICICI Bank opened bank account for the Ullas achievers and offered ATM cards to each of them. Last year, the Trust offered library membership from The District Library Authority, Chennai, to all the Ullas Young Achievers. As an ongoing activity, Polaris employees act as mentors to Ullas achievers offering career counseling and coaching classes related to personality development, English communication and Basic & Advanced Computer training. Ullas Trust in the last 8 years has reached 15000 students across Chennai, Mumbai & Delhi.

## **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. BSR & Co., Chartered Accountants, Chennai, the retiring Auditors vide notice dated 19<sup>th</sup> June 2006 have expressed their unwillingness to be re-appointed as the Auditors of the Company at the forthcoming Annual General Meeting. Further the Company has received a notice proposing the name of M/s. S. R. Batliboi & Associates, Chartered Accountants, Chennai as Statutory Auditors of the Company in the place of M/s. BSR & Co. The Board places on record its appreciation for the services rendered by M/s. BSR & Co., as the Auditors of the Company. The Board recommends the appointment of M/s. S. R. Batliboi & Associates, Chennai as Statutory Auditors of the Company.

## **14. Directors**

During the year 2005-06, Mr. Raju Venkatraman has been inducted as Additional Director of the Company while Mr. Govind Singhal, Mr. V Balaraman and Mr. Anil Sachdev resigned from the Board of the Company. The company expresses its sincere appreciation and gratitude to all the outgoing Directors for their valuable assistance and advice rendered by them during the tenure of their association with the Board and the company.

Mr. Satya Pal, Mr. Abhay Agarwal and Mr. Ashok Jhunjhunwala, Directors, retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

## **15. Corporate Governance**

Your company perceives Corporate Governance as an endeavor for transparency, and a wholehearted approach towards establishing Professional Management, aimed at continuous enhancement of Shareholders' value. The Company has been complying with the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement. Further, the Board of Directors constituted a Committee known as Corporate Governance Committee, which recommends the best practices in the Corporate Governance.

Separate reports on Corporate Governance along with Auditors' Certificate on compliance with of the Corporate Governance norms as stipulated in Clause 49 of the Listing Agreement and Management Discussions & Analysis are provided elsewhere in this Annual Report.

## **16. Impending Litigation(s)**

Details of impending litigations are shown in Note No. (B) 18 under Significant Accounting Policies and Notes to Accounts provided as an annexure to the Balance Sheet and Profit & Loss Account.

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

The particulars, as prescribed under clause (e) of sub-section (1) 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 to this report.

## 18. Particulars of Employees

As required under the provisions of Section 217 (2A) of the Companies Act, 1956 read with the 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 GSR. 212(E) dated 24.03.2004, amended the Companies (Particulars of employees) Rules, 1975 to the effect that the particulars of employees of the companies engaged in Information Technology Sector posted and working outside India not being Directors or their relatives, drawing more than rupees twenty four lakhs per financial year or rupees two lakh 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 annexed to this report does not contain the particulars of employees who are posted and working outside India not being Directors or their relatives. However, on specific request, such particulars shall be made available to any shareholder during the course of the Annual General Meeting.

## 19. Directors' 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 the Associates at all levels.

Place: Chennai,  
Date: June 26, 2006

By Order of the Board  
For Polaris Software Lab Limited

Arun Jain  
Chairman & Managing Director

## **POLARIS SOFTWARE LAB LIMITED**

### **Annexure to Directors' Report**

**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 your Company forms a very small portion of its total costs, the impact of changes in energy cost on total costs is insignificant.

#### **2. Research & 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 the customers.

##### **a. Specific areas of R&D at the Polaris**

There is growing evidence from leading market analysts such as Forrester and Gartner, of two converging trends in our target market of the leading banks in key geographies.

On the one hand the pressure to provide customers with a more consistent brand experience, to bring innovative products to market more quickly, to improve operational efficiency through continued process optimization and to implement comprehensive regulatory compliance programs, is driving leading banks towards existing core system replacement.

On the other hand a growing recognition of Service Oriented Architectures (SOA) as a viable approach to gradual and non-disruptive replacement of existing systems is leading these banks and insurance companies towards putting in place programmes to deliver short term business benefits through highly focused SOA initiatives.

Polaris is well-placed, as a result of strategic initiatives which have been executed in recent years, starting with the Initial and ongoing investments in the Intellect suite of banking products and culminating in the rollout of our Smart Build SOA strategy across our retail and corporate banking, wealth management and treasury and capital market practices, to benefit from the convergence of these trends. This fiscal year we have invested close to 3,700 man months towards enriching Intellect Suite capabilities.

A detailed strategic and global review with McKinsey, confirmed that our strategy to transform our application development and maintenance (ADM) business

lines from a cost-arbitrage based resource augmentation model to a solution based value proposition through the use of a hybrid model of services combined with Intellectual Property (IP) has the potential to significantly differentiate Polaris from the more generic IT services companies in the industry.

The emergence of this 'hybrid' model that is central to this strategy, was confirmed in a significant presentation at this year's NASSCOM in Mumbai, where Professor Michael A. Cusumano from the MIT Sloan School of Management presented empirical evidence of the emergence of this hybrid model for some of the leading software product companies, worldwide.

#### **b. Benefits derived**

Having established this strategy as central to Polaris' efforts to differentiate, grow and improve margins, we are now making decisive progress with its implementation.

Experience to date has shown that we are able to enter into new relationships based on 'point solutions', which can be delivered quickly and cost-effectively using our SmartBuild SOA methodology. Once these relationships have been established we are in a position to propose a more comprehensive multi-year 'modernisation' programme, which we refer to as 'Progressive Modernisation'. Alongside this we can build out our other services, based on the clear delivery of quality and business value in the early stages of the relationship. For example our 'application certification' practice PACE, has been shown to be a natural complementary offering to Progressive Modernisation. Based on this strategy we have spent the last year building out our product capabilities.

We now have strong references for our Consumer Finance platform in markets as diverse as Japan, Germany and the Americas as well as India and the Middle East. Equally our initial success with Cards in the local market in India has resulted in opening up of new markets for consumer finance in Latin America.

We are also continuing to build out our Wealth Management proposition in the Asia Pacific region.

We have achieved a position of leadership with our Cash and Liquidity management offerings with leading banks in the UK market, providing an important stepping stone towards both the US and continental Europe markets.

A high-profile successful Money Market front-office legacy replacement project, won in direct competition with one of the world's leading treasury and capital markets product companies, has provided further evidence of the validity of our Smart Build 'hybrid' product and services strategy.

We are also starting to get good visibility for our existing modernisation offering in Australia, a key 'early adopter' market for SOA.

As we gain momentum in these diverse markets and with a variety of different products the balance between initial investment and product enhancement based on partial or full customer funding, is gradually reducing the product investment burden.

Overall, the future prospects for the Intellect suite of products as well as the Smart Build value proposition and Progressive Modernisation offering look good, based on progress made to date.

### **3. Technology Absorption, Adaptation, and Innovation**

Your company focused more on leveraging the new technologies that were adapted in the previous year to reap the maximum benefits in the last year. The Project COIN (Consolidation and Integration of Storage, backup and disaster recovery) started yielding results - on the qualitative front, it improved the availability and recoverability of data and on the quantitative side, it helped us to reduce cost of online and off line storage media.

On the consolidation front, we not only consolidated servers, but also Data Centres. We consolidated the three data Centres into one in Chennai and thereby improved the information security and utilisation of resources of your organisation. We commissioned a Global Data center called Polaris Overseas Data Centre, at New Jersey with the state of the art infrastructure, facilities and security for hosting geography specific applications and gateways. This Data Centre connects all overseas offices into corporate network and thus enable one to feel 'at home' wherever they are in the globe.

The HR, Financial and projects information systems are well integrated to provide a true online corporate information portal. This portal enables the line managers and business heads to access the right information at the right time and empowers them to take informed decisions. In addition, your organisation also launched a 'software vending machine' that enables the users to help themselves with the right tools in quicker time and thereby increased their productivity.

We completed BS7799 certification for all locations within India and also SAS70 certification for one of our clients. We plan to complete SAS70 and BS15000 certifications for all the locations in the coming year.

The Hyderabad development center became live in this year with the state of the art infrastructure and a big Data Center. This data center is a modular one that allows creation of multiple exclusive data centers within it to cater to the needs of your clients.

### **4. Foreign Exchange Earnings and Outgo**

#### **a. Export Initiatives and Development of New Export Markets**

Your Company is registered as an Export Oriented Unit with the Software Technology Park of India and has a network of international offices across the Globe. In North America, your Company has offices at four locations and a subsidiary in Canada. In Europe, your Company has set up wholly owned subsidiaries in United Kingdom, Ireland, Germany and Switzerland. In the Asia Pacific region, your Company 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 2005-06, the revenue derived out of software exports stood at Rs. 60,304 lakhs, which is 88.17% of the total revenue from operations generated

by the Company, out of which the North America contributed 54.33%, Europe contributed 30.44%, Asia Pacific & Middle East contributed 15.23% of the total export revenues.

**b.Foreign Exchange Earned and Used for the year ended March 31**

**Rs. in lakhs**

	<b>2006</b>	<b>2005</b>
Foreign exchange earnings	60,303.62	58,182.71
Foreign exchange outgo (including capital goods)	30,287.96	28,799.93

**Place: Chennai,**

**Date: June 26, 2006**

**By Order of the Board  
For Polaris Software Lab Limited**

**Arun Jain  
Chairman & Managing Director**

**POLARIS SOFTWARE LAB LIMITED**  
**PARTICULARS OF EMPLOYEES FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED MARCH 31, 2006**  
**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 (Rs.)	Designation - Previous Employment
1	Anoop Kulgod	Senior Vice President	MMS	42	1-Nov-2002	21	2,524,074	Consultant, Citicorp Overseas Software Ltd,
2	Arun Jain	CEO & Managing Director	B.E.	46	24-Jul-1993	23	2,476,229	Director, Nucleus Software Workshop Pvt.Ltd.,
3	Aruna Kashinath	Managing Partner	M.Sc.	49	5-Aug-1996	28	4,828,924	Deputy Manager, Straw Products Limited
4	Aruna Rao	Executive Vice President & Chief Operating Officer	M.S.(US)	47	1-Nov-2002	24	5,146,432	Senior Consultant, Citicorp Overseas Software Ltd,
5	Arup Gupta*	Executive Vice President	ME	52	1-Oct-2005	27	3,635,685	President, Tata Consultancy services, North America
6	Arvind Mishra*	Operating Officer	PGD in Personnel Management	41	11-Jan-2006	18	1,331,395	Vice President - Human Resources IBM Global Services
7	Brinda Narayan*	Vice President	M.Sc.,CAIIB,GISA,	49	1-Nov-2002	23	900,264	Senior Manager-Indian Bank
8	C.S.Uppilli Srinivasan	Senior Vice President	B.E(HONS)	35	1-Nov-2002	14	2,423,474	Project Director-Citicorp Overseas Software Ltd
9	Gopal Shrikant*	Senior Vice President	B.Com.	43	16-Apr-2004	21	3,022,430	Vertical IT Head, Cognizant Technology Solutions India Pvt.Ltd,
10	Govind Singhal*	Executive Director	M.Sc.	45	1-Nov-1996	21	6,928,712	Assistant Vice President-Systems, Bank of America
11	Jagannath S Kodari	Senior Vice President	B.Tech	37	1-Nov-2002	16	2,640,249	Software Engineer - PCS
12	Jaideep Billa	Senior Vice President	B.Tech.,MBA	41	6-Aug-2003	20	3,147,297	Vice President - Sutherland Technologies
13	Jasmohan Singh Mamak*	Senior Vice President	C.A, MBA	43	1-Nov-2002	17	1,978,048	Regional Head -SAAARC, Africa, Japan E., Europe & Middle East - Cash Tech Solutions
14	Kedarnath Udiyavar	Executive Vice President	M M S (Univ of Mumbai)	47	1-Nov-2002	24	4,128,629	Senior Consultant, Citicorp Overseas Software Ltd,
15	Koen Vandenberghe	President	B.Sc. (Computer Science)	44	6-May-2004	24	9,135,048	Director-Product Strategy-Misys Wholesale Banking Systems, Wimbleton
16	Manoj Kumar Kambath	Senior Vice President	B.Com.,M.C.A.	42	5-Apr-1995	16	3,740,844	EDP Manager-CHAMAK Holdings Ltd.,

**POLARIS SOFTWARE LAB LIMITED**  
**PARTICULARS OF EMPLOYEES FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED MARCH 31, 2006**  
**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 (Rs.)	Designation - Previous Employment
17	Manoj Saxena	Senior Vice President	PGDBM	41	1-Nov-2002	17	2,983,715	Customer Support Engineer - HCL
18	Namit Vinod Paravali*	Assistant Vice President	MBA	38	1-Nov-2002	12	1,360,130	Assistant Vice President - Citibank-NA
19	Natarajan T.M.	Senior Vice President	MBA	47	23-Jul-1997	24	2,704,641	Group Manager, Maxworth Information Technologies
20	Prabal Basu Roy	Group CFO & Executive Vice President	B.Sc.(Hons) MBA, ACA	45	1-Nov-2004	21	5,341,112	Director-Strategic Alliances & Business Operations, Lucent Technologies Limited
21	Rajaram M	Principal Consultant	MBA, ACH	38	9-Dec-2002	17	2,549,245	Marketing Manager, Allianz Insurance Pvt. Ltd
22	Ravichandran M.R.	Senior Vice President	M.Sc	46	21-Apr-1994	25	2,945,142	Regional/Divisional Manager - NIIT Ltd
23	S R Ramaswamy	Senior Vice President	BE.,CFA.,DIISc-Ind. Mgt., Dip.in Law	50	4-Oct-2002	26	2,977,648	President & COO, Indchem Software Technologies Ltd.,
24	Sanjay Sarkar*	Senior Vice President	M.Sc	45	1-Nov-2002	22	1,421,058	Vice President, Citibank N A
25	Segar D	Senior Vice President	BCom., PGDCA, BCA	41	5-Jan-1993	20	2,482,296	Assistant Systems Manager, Pragathi Computers Ltd
26	Shekar Rangarajan	Executive Vice President	BE., MBA	55	21-Apr-2000	32	4,101,673	Director-Quality, Citibank NA- Global Consumer Banking.
27	Sudha Kunkalkenkar	Senior Vice President	M.Sc.,	43	1-Oct-2004	20	2,596,869	General Manager-ICI Infotech Ltd
28	Uma Ratnam Krishnan	Chief Operating Officer	M.A., MBA	44	1-Oct-2003	18	3,783,747	Head-Cards Division, HDFC Bank Ltd
29	Venkat Srinivasan*	Vice President	MBA	43	1-Nov-2002	15	2,052,489	Vice President, Citibank NA
30	Venkatesh Iyengar Srinivasan	Senior Vice President	CA	44	1-Nov-2002	21	3,279,973	Vice President, Citibank NA
31	Vikas Misra	Senior Vice President	B.Tech.,	38	8-Apr-1996	16	2,842,156	Senior Systems Analyst-Tata Consultancy Services
32	Vinay Garg**	Senior Vice President	MBA, MS, BS	50	26-Feb-1997	24	6,563,061	Financial 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) \* Employed for part of the year

4) \*\*None of the above employees are related to any Director of the Company, excepting Sl.No. 32, who is related to a Director of the company

**REPORT ON CORPORATE GOVERNANCE**

## POLARIS SOFTWARE LAB LIMITED

### Report on Corporate Governance

#### 1. Company's Philosophy

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 31<sup>st</sup> March, 2006

The Managing Director manages the day-to-day affairs of the Company. The Company has an optimum combination of executive and non-executive directors with Ninety percent of the board of directors comprising of non-executive directors. All pecuniary relationship or transactions of the non-executive directors vis-a-vis. the company is disclosed in the Annual Report.

##### Composition of the Board of Directors

Directors	No. of Directors	Percentage of total no. of Directors
Executive	1	10
Non-Executive	9	90
Total	10	100

Our Board of Directors met four times during the year under review on the following dates:

1. 27<sup>th</sup> April 2005
2. 22<sup>nd</sup> July, 2005
3. 21<sup>st</sup> October 2005
4. 30<sup>th</sup> January, 2006

The maximum gap between two meetings was 100 days.

##### Attendance record of Directors attending the Board Meetings and Annual General Meeting during the year 2005-06

Name	Designation	No. of Board Meeting		Last AGM attendance
		Held@	Attended	
Arun Jain	Chairman & Managing Director	4	4	Yes
Abhay Agarwal	Non-Executive Director	4	4	Yes
Ajit Bhushan	Non-Executive Director	4	2	No
Anil Khanna <sup>#</sup>	Non-Executive Director	4	1	No
Anil Sachdev <sup>#&amp;</sup>	Non-Executive Director	3	2	Yes
Arvind Kumar	Non-Executive Director	4	4	Yes
Ashok Jhunjhunwala	Non-Executive Director	4	4	No
Govind Singhal <sup>§</sup>	Executive Director	2	2	Yes
Nanoo G. Pamnani	Non-Executive Director	4	1	No
R C Bhargava	Non-Executive Director	4	4	Yes
Raju Venkatraman*	Non-Executive Director	1	1	N.A.
Satya Pal	Non-Executive Director	4	4	Yes
V Balaraman <sup>&amp;</sup>	Non-Executive Director	3	3	Yes

Notes:

- # Appointed Additional Director on 27.04.2005
- & Resigned as Director w.e.f. 30.12.2005
- \$ Resigned as Director w.e.f. 01.10.2005
- \* Appointed Additional Director on 30.12.2005
- @ Held during the period of Directorship
- N.A. – Not Applicable

Detailed attendance of each director during the year 2005-06 is given hereunder:-

Sl.	Name of the Members	Date of Board Meeting - Attended [Y/N]			
		27.04.05	22.07.05	21.10.05	30.01.06
1	Arun Jain – Chairman & Managing Director	Y	Y	Y	Y
2	Abhay Agarwal	Y	Y	Y	Y
3	Ajit Bhushan	Y	N	N	Y
4	Anil Khanna	Y	N	N	N
5	Anil Sachdev	Y	Y	No	N.A.
6	Arvind Kumar	Y	Y	Y	Y
7	Ashok Jhunjhunwala	Y	Y	Y	Y
8	Govind Singhal	Y	Y	N.A.	N.A.
9	Nanoo G Pamnani	Y	N	N	N
10	R C Bhargava	Y	Y	Y	Y
11	Raju Venkatraman	N.A.	N.A.	N.A.	Yes
12	Satya Pal	Y	Y	Y	Y
13	V Balaraman	Y	Y	Y	N.A.

**Note:** Mr. Dipak Kumar Rastogi resigned on 27.04.2005

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

**Mr. Arun Jain**

**Chairman & Managing Director & CEO**

Arun Jain, Chairman, Managing Director and CEO of Polaris Software Lab Ltd is the first generation entrepreneur and promoter of the Company. He holds a degree in Electrical Engineering from the Delhi College of Engineering. Polaris with over 6000 talented professionals is a leading provider of expert solutions to the Banking, Financial Services & Insurance industry.

A strong believer in the power of the organizational subconsciousness and ‘common destiny’, Arun is the architect behind ‘Lakshya’ the annual ‘visioning’ and goal setting exercise of Polaris. He also founded the Ullas Trust to integrate Polaris employees with a larger community and to encourage the “Can Do It” spirit in the economically challenged students. The Trust has reached over 15,000 students in Tamil Nadu, Mumbai & Delhi.

Arun, nominated for the coveted Ernst & Young Entrepreneur of the Year Award in 1999, has served as the Chairman for the Tamil Nadu State Council of CII – Southern Region, the Indo-American Chamber of Commerce, (Tamil Nadu Division) and on the Board of Xavier's Institute of Management.

Mr. Arun Jain is also a Director in Polaris Holdings Private Limited, Maverick Systems Limited, Adrenalin eSystems Limited, 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. Arun Jain is a Member of the Compensation and Audit Committees of Adrenalin eSystems Ltd. Further he is Trustee of Konark Trust, ChandrPrabhu TTD Charities Trust, Polestar Foundation Trust, ADK Jain Memorial Trust and Ullas Trust. As on 31<sup>st</sup> March 2006, Mr. Arun Jain was holding 3,062,416 equity shares of the Company.

**Mr. Abhay Agarwal**  
**Practising Chartered Accountant**

Mr. Abhay Agarwal is a practising 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 assets to the company.

Mr. Abhay Agarwal was invited to join the Board of Directors in May, 1995. He is a member of the Audit Committee, Shareholders' Committee and Corporate Governance Committee of the Company. He is also a Director in Sunshine India Pvt. Ltd., Milky Investment & Trading Company, British Health Products (India) Limited, Sahiwal Investment & trading Company, Upvan Farms and Services Pvt. Ltd., Dabon International Pvt. Ltd., Welttime Investments Private Ltd., Param Investments Private Ltd., Expo Investments Private Ltd., Northern Herbals Private Limited, Intelligent Information Systems Pvt. Ltd., Burman Resorts Pvt. Ltd. and Newage Capital Services Pvt. Ltd. He is a relative of Mr. Arun Jain, Chairman & Managing Director of the Company. As on 31<sup>st</sup> March 2006, Mr. Abhay Agarwal holds 18,722 equity shares of the Company.

**Mr. Ajit Bhushan**  
**Managing Director – Citigroup Venture Capital International**

A Graduate from the 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).

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 Director of Citicorp Technology Holding Inc and a Member of Remuneration & Compensation Committee of Polaris. As on 31<sup>st</sup> March 2006, Mr. Ajit Bhushan does not hold any shares of the Company.

**Mr. Anil Khanna**

**Managing Director - Citigroup Venture Capital International**

Mr. Anil Khanna recently joined Citigroup Venture Capital International and is responsible for cross-border investment opportunities and business services. Prior to this role, Mr. Khanna held a variety of business management roles at Citigroup and Marsh and McLennan Company. Most recently, Mr. Khanna managed Marsh and McLennan's US consumer business. At Citigroup from 1986-2000, Mr. Khanna held the positions of President and Chief Executive Officer of Travellers Personal Lines, Head of Corporate Planning, Head of Global Derivative Origination and Structuring and Head of Corporate Banking and Trading at Citibank Canada.

Mr. Khanna began his career at McKinsey and Co. and has an MBA from the Ivey School at the University of Western Ontario. Mr. Khanna joined the Board of Polaris on 27<sup>th</sup> April 2005. As on March 31, 2006, Mr. Khanna does not hold any shares of the Company.

**Mr. Arvind Kumar**

**Sr. Lawyer - Supreme Court**

Mr. Arvind Kumar, who is an M.A. L.L.B., enrolled as an Advocate on 12<sup>th</sup> November 1963 at Kanpur from the U.P. Bar Council at Allahabad and practised in the High Court of Judicature at Allahabad from 1966 to 1972. Later in the year 1972 he shifted to the Supreme Court of India in New Delhi and started practicing there. He is a Senior Lawyer having 42 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 the 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. He is also a member of the Corporate Governance 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. As on 31<sup>st</sup> March 2006, Mr. Arvind Kumar holds 53,412 equity shares of the Company.

**Dr. Ashok Jhunjhunwala**

**Professor - Department of Electrical Engineering, Indian Institute of Technology (IIT) Madras, India.**

Dr. Ashok Jhunjhunwala 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.

Dr. Jhunjhunwala has over 200 research publications to his credit. He 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 and 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 in the field of Electronics, Informatics, Telematics and Automation have been commendable. He has also been awarded by the Central Government with Padma Shri for his pioneering work in the field of Science, Engineering and Telecommunications, on 53<sup>rd</sup> Republic Day.

He was invited to join 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 the Audit Committee, Shareholders' Committee and Remuneration & Compensation Committee of the Company.

He is a Director in Sasken Communications Technologies Ltd., Jataayu Software (P) Ltd., HTL Ltd., Shyam Telecom Limited, Tejas Networks Private Limited, Integrated Soft Tech Solutions Private Limited, Midas Communication Technologies Private Ltd., Vishal Bharath Comnet, State Bank of India and National Research Development Corporation Ltd.. He is also a Member of the Governing Council of National Internet Exchange of India Ltd. He is also Member of the Compensation Committee and Audit Committee of Sasken Communications Technologies Limited and Tejas Networks Private Limited. Further Dr. Jhunjhunwala is Member of the Audit Committee of Midas Communication Technologies Private Limited. As on 31<sup>st</sup> March 2006, Dr. Jhunjhunwala holds 6,500 equity shares of the Company.

**Mr. Nanoo G. Pamnani**

**Director – Strategic Technology, Operations and Special Projects, Citibank, N.A., Asia Pacific Consumer Group.**

Mr. Pamnani began his career with Citibank in India as a Management Trainee in 1967. Between 1967 and 1981, he handled various assignments in Operations (including Senior Country Operations Officer for India/Sri Lanka), Country Credit, Country Financial Control, and Corporate Banking assignments in Calcutta and Madras (Regional Manager-South India).

In 1982, he took over as Chief Executive Officer heading Citibank's operations and businesses in India, Sri Lanka, Nepal and Bangladesh. At the end of 1985,

Mr. Pamnani was assigned overseas as Chief Executive Officer covering Citibank, N.A.'s businesses in the Philippines. In 1989, he was promoted to Division Head, based in Singapore, covering Citibank's Private Banking businesses in Singapore, Hong Kong, Taiwan, Indonesia, Thailand and Australia, and for non-presence locations in all other countries across Asia-Pacific. In 1995, when Citicorp restructured its Corporate Banking businesses globally into those covering OECD countries and those covering all Emerging Markets (Asia, Latin America, Central Eastern Europe and Middle East), he was appointed as Head of Operations and Technology for its businesses in over 70 countries, based in London. He established a technology roadmap for Citibank's Corporate Banking businesses in Emerging Markets, ensuring upgradation of its Operations processes, controls and standards in all these countries across the globe.

Mr. Pamnani returned to India in 1997 to take on responsibilities with Citicorp in India, and was appointed as Chairman of Citicorp Finance (India) Ltd. In December 1998, he took over as the Global Consumer Bank Head, and, in August 1999, he was designated the Chief Executive Officer, Citibank, N.A., India. Effective August 2001, Mr. Pamnani was given the additional responsibility as Regional Head for Corporate and Investment Bank for India, Sri Lanka, Bangladesh and Nepal.

In October 2002, Mr. Pamnani retired from his executive responsibilities and was appointed Chairman, Citibank, N.A., INDIA on a non-executive capacity. He relinquished this position on December 31, 2004. On August 13, 2004, Mr. Pamnani was appointed to the role of Director, Strategic Technology, Operations and Special Projects for Asia Pacific Consumer Business.

Mr. Pamnani holds a B.Sc. degree in Economics from London School of Economics. He was invited to join the Polaris Board in October 2004 and he is a member of the Corporate Governance Committee of the Company. He also holds Directorships in E-serve International Ltd., Bajaj Auto Ltd., Crescent Services Pte Ltd and Citibank Savings Inc. As on 31<sup>st</sup> March 2006, Mr. Pamnani does not hold any shares of the Company.

**Mr. R.C. Bhargava**

**Former Chairman and Managing Director of Maruti Udyog Ltd.**

A postgraduate 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 postgraduate 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, and Co-operation. He was a Special Assistant to the Union Minister of Energy, Government of India from 1973 to 74, and between 1974 & 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 1997, he was working in Maruti Udyog Limited. Initially on deputation from the 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 was invited to join the Board of Polaris in March, 1999. He chairs the Remuneration & Compensation Committee and is a member of the Audit Committee of Polaris.

Mr. Bhargava is also Director in IL&FS Limited, Grasim Industries Limited, RCB Consulting Pvt. Ltd., Lord Krishna Bank Ltd., Roulands Codan India Ltd., Maruti Udyog Limited, Omax Auto Ltd., Thomson Press Limited, Dabur India Limited, Ultra Tech Cement Company Limited, Global Education Management Systems Private Limited, Optimus Outsourcing Company Ltd., Maruti Suzuki Automobiles India Limited and Taj Asia Ltd. Further he chairs the Audit Committees of ILFS Limited, Maruti Suzuki Automobiles India Limited, Thomson Press Ltd. and Ultra Tech Cement Company Limited. He is a member of the Audit Committee of Grasim Industries Ltd., Dabur India Ltd. & Optimus Outsourcing Company Ltd., and also a member of the Shareholder Grievance Committees of Maruti Udyog Ltd. and Ultra Tech Cement Company Limited. He is also the Chairman of the Remuneration Committee of Optimus Outsourcing Co. Ltd. As on 31<sup>st</sup> March 2006, Mr. R C Bhargava holds 10,400 equity shares of the Company.

**Mr. Raju Venkatraman**  
**President & COO of ICICI OneSource Limited.**

Mr. Raju Venkatraman is the President and Chief Operating Officer of ICICI OneSource Limited. Mr. Raju's career in technology outsourcing began with EDS. In EDS, Mr. Raju spearheaded the applications outsourcing business (now called BPO) in a variety of verticals including Healthcare, Manufacturing and Federal Government. Mr. Raju left a successful career at EDS in 1991 and became a pioneer in outsourcing by launching Vetri Systems, an off-shore outsourcing company. Scaling his original company to nearly 4,000 employees/contractors, he sold it to Lason, incorporated in 1998. He served as the President, Data Management Services at Lason and was responsible for more than 7,500 employees and US\$ 85 million in revenue. In early 2002, he resigned from Lason and launched Sherpa.

Mr. Raju was named Indian Entrepreneur of the Year in 2000, and is a recognized as an expert and speaker in the field of business process outsourcing. He is a chemical engineering graduate from IIT, Chennai and holds an executive MBA from IIM, Ahmedabad. Mr. Raju joined the Board of Polaris on 30<sup>th</sup> December 2005 and is a Member of the Shareholders' Committee of the Company also. He is also a Director in Rev IT Systems Pvt. Ltd., Vetri Info Data Pvt. Ltd., Vetri

Info Data LLC and Sherpa Business Solutions Inc. As on 31<sup>st</sup> March 2006, Mr. Raju does not hold any shares 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 the Telecom Board in 1986. In 1988, he became Secretary, Department of Telecommunications, 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 the Shareholders Committee, Corporate Governance Committee and is a Member of the Remuneration & Compensation Committee of Polaris. Mr. Satya Pal advises Polaris on operational and strategic issues. He is also a Director of Paramount Communications Limited and a Member of its Audit Committee and the Chairman of its Remuneration Committee. As on 31<sup>st</sup> March 2006, Mr. Satya Pal holds 27,300 equity shares of the Company.

### 3. Audit Committee

The Company has a qualified and independent Audit Committee with all members being non-executive Directors. The Chairman of the Committee is an Independent Director. The Company Secretary acts as the Secretary to the Committee.

The Audit Committee had met 5 times during the year 2005-06 on 26<sup>th</sup> April 2005, 21<sup>st</sup> July 2005, 20<sup>th</sup> October 2005, 21<sup>st</sup> December 2005 and 30<sup>th</sup> January 2006.

**Members of the Audit Committee and the number of Meetings attended by each Director during the financial year 2005-06**

Name	Designation	No. of Meetings	
		Held	Attended
Arvind Kumar	Chairman / Non-Executive Director	5	5
Abhay Agarwal	Non-Executive Director	5	5
Ashok Jhunjunwala	Non-Executive Director	5	5
R C Bhargava	Non-Executive Director	5	5

### Powers of the Committee

- ◆ To investigate any activity within its terms of reference.
- ◆ To secure attendance of and seek information from any employee including representatives of the 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.
- ◆ Compliance with accounting standards.

### **Role/ Functions of the Committee**

- ◆ Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
- ◆ Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditors and the fixation of audit fees.
- ◆ Approval of payment to statutory auditors for any other services rendered.
- ◆ Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:
  - a. Matters required to be included in the Directors' Responsibility Statement and the Board's Report in terms of clause (2AA) of section 217 of the Companies Act, 1956.
  - b. Changes, if any, in accounting policies and practices and reasons for the same.
  - c. Major accounting entries involving estimates based on the exercise of judgment by the management.
  - d. Significant adjustments made in the financial statements arising out of audit findings.
  - e. Compliance with listing and other legal requirements relating to financial statements.
  - f. Disclosure of any related party transactions.
  - g. Qualifications in the draft audit report.
- ◆ Reviewing with the management, the quarterly financial statements before submission to the Board for approval.
- ◆ Reviewing with the management, the performance of statutory and internal auditors and the adequacy of internal control systems.
- ◆ Reviewing the adequacy of internal audit function, if any, 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 thereon.
- ◆ 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 statutory auditors before the commencement of audit, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
- ◆ To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors.
- ◆ To review the functioning of the Whistle Blower mechanism, in case the same is existing.

- ◆ Carrying out any other functions as may be referred to by the Board or the Chairman of the Board from time to time.

**Review of information**

- a. Management discussion and analysis of financial condition and results of operations;
- b. Statement of significant related party transactions, as defined by the Committee, submitted by the management;
- c. Management letters/letters of internal control weaknesses issued by the statutory auditors;
- d. Internal audit reports relating to internal control weaknesses; and
- e. The appointment, removal and the terms of remuneration of the Chief Internal Auditor.

**4. Remuneration & Compensation Committee**

The Remuneration & Compensation Committee consisting of only Non-executive Directors, evaluates and finalise among other things, compensation and benefits of the Executive Directors and the procedures and modalities for giving effect to the Employee Stock Option Scheme which inter-alia includes determination of eligibility criteria, maximum number of options/ shares offered to each employee and the aggregate number of options / shares offered during the period covered under the Scheme, identification of classes of employees entitled to participate in the scheme, framing a detailed pricing formula, mode or process of exercise of the option etc.

**Members of the Remuneration & Compensation Committee and the number of Meetings attended by each Director during the financial year 2005-06**

Name	Designation	No. of Meetings	
		Held	Attended
R C Bhargava	Chairman / Non-Executive Director	4	4
Ajit Bhushan	Non-Executive Director	4	3
Ashok Jhunjhunwala	Non-Executive Director	4	4
Satya Pal	Non-Executive Director	4	4

The Committee had met on 27<sup>th</sup> April 2005, 21<sup>st</sup> July 2005, 20<sup>th</sup> October 2005 and 30<sup>th</sup> January 2006 during the year.

**Remuneration policy**

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 the Whole-time Directors. The Company has made adequate disclosures to the members on the remuneration paid to the Directors from time to time.

Remuneration/ Commission payable to the Directors is determined by the contributions made by the respective Directors for the growth of the Company.

**Gross Remuneration paid to the Directors for the financial year 2005-06**

Name of the Director	Salary Perquisites & Allowances	Contribution to PF & other funds	Commission <sup>®</sup>	Sitting Fees	Stock Options
Arun Jain	22,92,629	1,83,600	0	0	0
Abhay Agarwal	0	0	286,765	65,000	0
Ajit Bhushan	0	0	0	0	0
Anil Khanna	0	0	0	0	0
Anil Sachdev	0	0	58,823	10,000	0
Arvind Kumar	0	0	257,353	45,000	0
Ashok Jhunjhunwala	0	0	286,765	85,000	0
Govind Singhal	43,58,114	2,64,000	0	0	0
Nanoo G Pamnani	0	0	0	0	0
R C Bhargava	0	0	257,353	65,000	0
Raju Venkatraman	0	0	36,765	10,000	0
Satya Pal	0	0	183,823	60,000	0
V Balaraman	0	0	132,353	30,000	0

<sup>®</sup> Paid based on the attendance of Directors in the Board and Committee Meetings.

**Stock Options**

During the year 2005-06, the Options were granted only under ASOP 2003 as per the definition of Market Price as detailed hereunder:-

Sl.	Date of Grant	Option price Rs	No. of Associates	No. of Options
1	27.04.2005	116.10	14	36,000
2	21.07.2005	134.00	18	36,500
3	20.10.2005	118.15	17	193,500
		<b>Total</b>	<b>49</b>	<b>266,000</b>

The Shareholders at their last Annual General Meeting held on 22<sup>nd</sup> July 2005 have approved new Associate Stock Option Plan [ASOP 2004]. However, the Company has not granted any Stock Options under ASOP 2004 during the year 2005-06.

**5. Shareholders' Committee of the Board**

The Shareholders Committee focuses on the shareholders' grievances and strengthening of investor relation. The Committee specifically look into the redressal of shareholders' complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. The purpose of constituting this Committee is to uphold the basic rights of the shareholders including right to transfer and registration of shares, obtaining relevant information about the company

on a timely and regular basis, participating and voting in the shareholders' meetings, electing members of the Board and sharing in the residual profits of the company. Further the Committee is empowered to act on behalf of the Board, in the matters connected with the allotment of shares, issuance of duplicate share certificates, split and consolidation of shares into marketable lots etc.

Presently, the Committee consists of the following Non-executive Directors:-

1. Mr. Satya Pal
2. Mr. Abhay Agarwal
3. Mr. Ashok Jhunjhunwala
4. Mr. Raju Venkatraman

**Number of Meetings attended by each Director during the financial year 2005-06**

Name	Designation	No. of Meetings	
		Held@	Attended
Satya Pal	Chairman / Non-Executive Director	4	4
Abhay Agarwal	Non-Executive Director	4	4
Ashok Jhunjhunwala	Non-Executive Director	4	4
Govind Singhal§	Executive Director	2	2
Raju Venkatraman	Non-Executive Director	1	1
V Balaraman&	Non-Executive Director	3	3

@ Held during the period of the Directorship in the Company

§ Resigned as Director w.e.f. 01.10.2005

& Resigned as Director w.e.f. 30.12.2005

The Committee had met on 26<sup>th</sup> April 2005, 21<sup>st</sup> July 2005, 20<sup>th</sup> October 2005 and 30<sup>th</sup> January 2006 during the year. Mr. M P Suresh Kumar, Company Secretary is the Compliance Officer.

**During the year total 1,877 Requests/ Complaints had been received/ resolved by the Company as detailed hereunder:-**

STATUS OF REQUESTS/ COMPLAINTS DURING THE YEAR 01/04/2005 TO 31/03/2006			
Sl.	Subject	Received	Replied/ Resolved
<b>A. REQUESTS</b>			
1	CHANGE/CORRECTION OF ADDRESS	86	86
2	RECEIPT OF DIVIDEND WARRANTS/ REFUND ORDER FOR REVALIDATION	99	99
3	CHANGE/CORRECTION OF MANDATE ON DW	38	38
4	REQUEST FOR ISSUE OF DUPLICATE WARRANT	2	2
5	RECEIPT OF IB FOR ISSUE OF DUPLICATE DW	81	81
6	DELETION OF JOINT NAME DUE TO DEATH	6	6
7	QUERY REGARDING PAYMENT OF WARRANT	8	8

8	RECEIPT OF DD(S) AGAINST DW FROM COMPANY/BANK	120	120
9	LETTER OF INTIMATION OF BANK MANDATE	73	73
10	REQUEST FOR ECS FACILITY	265	265
11	MISC. LETTERS FROM CLIENTS	9	9
12	POSTAL RETURN DOCUMENTS (REMINDER LETTERS FORWARDED)	381	381
13	LETTER REGARDING INVESTOR SERVICE	34	34
14	LOSS OF SECURITIES AND REQUEST FOR ISSUE OF DUPLICATE	13	13
15	RECEIPT OF IB AND AFFIDAVIT FOR ISSUE OF DUPLICATE SECURITIES	10	10
16	REQUEST FOR CONSOLIDATION/SPLIT OF SECURITIES	80	80
17	OPTION OF SHARES IN PHYSICAL / ELECTRONIC FORM	7	7
18	CORRESPONDENCES/QUERIES RELATING TO NSDL OPERATIONS	14	14
19	REQUEST FOR TRANSFERS/ DEMATS/REMAT	413	413
20	OTHERS	29	29
	<b>TOTAL (A)</b>	1768	1768
	<b>B. COMPLAINTS</b>		
1	NON-RECEIPT OF ANNUAL REPORT	8	8
2	NON-RECEIPT OF DIVIDEND WARRANTS	81	81
3	NON-RECEIPT OF SECURITIES	14	14
4	CORRECTION OF NAME ON SECURITIES	6	6
	<b>TOTAL(B)</b>	<b>109</b>	<b>109</b>
	<b>TOTAL (A) + (B)</b>	<b>1877</b>	<b>1877</b>

No. of complaints not resolved to the satisfaction of shareholders: Nil

No. of pending complaints: Nil

During the year, the Company allotted 219,725 Equity Shares of Rs. 5/- each to the Associates, pursuant to the exercise of employee stock options, the details of which are provided in the Directors' Report.

In view of above, the outstanding issued, subscribed and paid-up equity share capital increased from Rs.490,051,360 comprising of 98,010,272 equity shares of Rs.5/- each as on March 31, 2005 to Rs. 491,149,985 comprising of 98,229,997 equity shares of Rs.5/- each as on March 31, 2006. All the newly allotted shares are currently listed and traded on the stock exchanges, where the company's shares are listed and traded.

### Corporate Governance Committee

The functions of the Corporate Governance Committee are to identify and recommend the best Corporate Governance practices to the Board and perform such duties as may be assigned to it by the Board from time to time. During the

year, the Committee met 4 times. No sitting fee is paid to the members participating in the meeting.

**Members of the Corporate Governance Committee and the number of Meetings attended by each Director during the financial year 2005-06**

Name	Designation	No. of Meetings	
		Held@	Attended
V Balaraman*	Chairman / Non-Executive Director	3	3
Abhay Agarwal	Non-Executive Director	4	4
Arvind Kumar	Non-Executive Director	4	4
Nanoo G Pamnani	Non-Executive Director	4	1
Satya Pal*	Chairman/ Non-Executive Director	1	1

@ Held during the period of Directorship in the Company

\* Due to resignation of Mr. V Balaraman, Mr. Satya Pal has been appointed Chairman of the Corporate Governance Committee.

During the year, the Committee had met on 26<sup>th</sup> April 2005, 21<sup>st</sup> July 2005, 20<sup>th</sup> October 2005 and 30<sup>th</sup> January 2006.

**Share Transfer Committee**

The Share Transfer Committee is empowered to consider and approve the physical transfer, transmission and transposition etc. of the shares of the Company. The Committee has met 15 times during the year 2005-06. The Committee is now comprised of the following members:

Name of the Member	Designation
Arun Jain	Chairman & Managing Director
Prabal Basu Roy	Group Chief Financial Officer
M P Suresh Kumar	Company Secretary

6. General Meetings of the Company						
Meeting Date Time Venue	11 <sup>th</sup> AGM 29 <sup>th</sup> July, 2004 3.30 PM. Music Academy, Chennai	12 <sup>th</sup> AGM 29 <sup>th</sup> July, 2005 3.30 PM. Music Academy, Chennai	EGM 30 <sup>th</sup> December, 2002 2:00 PM. Kamaraj Anangam, Chennai	EGM 31 <sup>st</sup> December, 2002 4:00 PM. Kamaraj Anangam, Chennai	EGM 12 <sup>th</sup> March 2004 3.30 PM. Music Academy, Chennai	
Sl. No.	Resolutions Passed	Resolutions Passed	Resolutions Passed	Resolutions Passed	Resolutions Passed	
	Type	Type	Type	Type	Type	
1	Adoption of Annual Accounts (31/3/03)	O	Adoption of Annual Accounts (31/3/04)	O	Amalgamation of Ombireth Solutions Ltd with the Company	O
2	Declaration of Dividend (35%)	O	Declaration of Dividend (35%)	O	Alteration of Capital Clause in the Memorandum of Association	S
3	Appt. of M/s. Bharat S. Raut & Co, as Statutory Auditors	O	Re-appt. of M/s. Bharat S. Raut & Co, as Statutory Auditors	O	Alteration of Capital Clause in the Memorandum of Association	O
4	Appt. of Mr. Surya Pal as a director under sec 256	O	Appt. of Mr. Arvind Kumar as a director under sec 256	O	Alteration of Capital Clause in the Articles of Association	S
5	Appt. of Mr. Arvind Kumar as a director under sec 256	O	Appt. of Dr. Ashok Jhunjhunwala as a director under sec 256	O	Appointment of Mr. Govind Singhal as a Director, relative to (US Operations) under Sec. 314	S
6	Appt. of Mr. Govind Singhal as a director under sec 256	O	Appt. of Mr. R.C. Bhargava as a director under sec 256	O	Appointment of Mr. Vinay Gang, relative to (US Operations) under Sec. 314	S
7	Appointment of Mr. Dipak Kumar Rasogi as a director under sec 257	O	Appointment of Mr. V. Balaraman as a director under sec 256	O	Appointment of Mr. Govind Singhal as a Whole-time Director u/s 269 of the Act	O
8	Appointment of Mr. Ajit Bhushan as a director under sec 257	O	Approval of shareholders pursuant to Section 309(4)(b) of the Companies Act, 1956 for payment of Commission to the Non Whole-time Directors	S	Director under sec 257	O
9	Appointment of Mr. Vekatachalam Reddy as a director under sec 257	O	Appointment of Mr. Anil Khatama as a director under sec 257	O	Director under sec 257	O
10	Appointment of Mr. Ram Bhagwat as a director under sec 257	O	Re-appointment of Mr. Govind Singhal as "Executive Director" for 2 years	S	Director under sec 257	S
11	Appointment of Mr. Ram Bhagwat as "President & Executive Director" for 2 years	O	Amendment in definition of Market Price in ASOP 2003	S	Director under sec 257	S
12	Re-appointment of Mr. Govind Singhal as "Executive Director" for 2 years	O	Approval of new Associate Stock Option Plan 2004 (ASOP 2004)	S	Director under sec 257	S
13	Approval of shareholders pursuant to Section 3(0)(4) of the Companies Act, 1956	S	Approval for extension of benefit of ASOP 2004 to employees & Directors of subsidiaries/holding Company	S	Director under sec 257	S
14	Adoption of new Articles of Association under Section 31(1) of the Companies Act, 1956	S	Alteration of the Articles of Association	S	Director under sec 257	S

Type - O=Ordinary Resolution, S=Special Resolution

Note: No resolutions were put through by means of postal ballots till the last AGM/ at the Extra-Ordinary General Meetings

## 7. 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 shown in Note No.(B)15 under Significant Policies and Notes to accounts to the Balance Sheet and Profit & Loss Account.

### **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:-

Securities and Exchange Board of India vide their Settlement by consent Order letter no. CFD/DCR/RC/TO/23040/04 dated November 16, 2004 had proposed a penalty of Rs. 125,000/- for alleged violation of filing of returns under Regulations 6 & 8 of SEBI (Substantial Acquisition of Shares & Takeover) Regulations, 1997. The Company vide its letter dated 13<sup>th</sup> December 2004, had replied clarifying its position in the matter. The Company had not received any further communication from SEBI in this matter.

### **Compliance with mandatory requirements and adoption of non-mandatory requirements of Clause 49 of the Listing Agreement**

Clause 49 of the Listing Agreement mandates to obtain a certificate either from the auditors or practising company secretaries regarding compliance of the conditions of corporate governance as stipulated in the Clause and annex the certificate with the Directors' Report, which is sent annually to all shareholders. The Company has complied with the mandatory requirements of the Clause 49 of the Listing Agreement including CEO/CFO certification. As required under Clause 49, a certificate signed by CEO & CFO of the Company has been placed before the Board of Directors and the same has been provided elsewhere in this Report. Further, as per the requirements of Clause 49, a certificate obtained from the Auditors certifying the compliance with the conditions of Corporate Governance under the said clause has also been provided elsewhere in this report.

Clause 49 also requires disclosures of adoption by the Company of non-mandatory requirements specified in the said clause, the implementation of which is discretionary on the part of Company. Accordingly, the adoption of non-mandatory requirements is given below:-

#### **a. Remuneration & Compensation Committee**

The Company has constituted a Remuneration & Compensation Committee consisting of only Non-executive Directors. A detailed note on the Remuneration & Compensation Committee is provided elsewhere in this report.

**b. Whistle Blower Policy**

The Company has established a mechanism for employees to report concerns about unethical behaviors, actual or suspected fraud, violation of code of conduct of the Company etc. The mechanism also provides for adequate safeguards against victimization of employees who avail of the mechanism and also provides for direct access by the Whistle Blower to the Audit Committee. We affirm that during the financial year 2005-06, no employee has been denied access to the Audit Committee.

**Risk Management framework**

The Board of Directors' on 21<sup>st</sup> January 2005 adopted the risk management framework. The framework provides an integrated approach for managing the risks in various aspects of the business. A write-up on the above is provided in the Management Discussions & Analysis Report.

**8. Means of communication**

**Quarterly and Half-yearly financial results**

Quarterly and Half-yearly financial results of the Company are published in one widely circulated English Newspaper (Business Standard) and a Vernacular (Tamil) Newspaper (Makkal Kural). 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](http://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 etc.

The company's official website [www.polaris.co.in](http://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 concerned 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 (MD&A)**

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

## 9. General Shareholder information

Date of incorporation	5 <sup>th</sup> of January 1993
Registered Office	Polaris House, 244, Anna Salai, Chennai - 600 006
Date and time of Annual General Meeting	18 <sup>th</sup> August 2006 at 2.30 P.M.
Venue of Annual General Meeting	Music Academy, Mini Hall, Old No. 306, New No. 168, T.T.K. Road, Chennai -600 014
<b>Financial Year Calendar (tentative and subject to change)(1.4.2006 to 31.3.2007)</b>	
Financial reporting for the first quarter ending June 30, 2006	Between 15 <sup>th</sup> and 31 <sup>st</sup> July 2006
Financial reporting for the second quarter ending September 30, 2006	Between 15 <sup>th</sup> and 31 <sup>st</sup> October 2006
Financial reporting for the third quarter ending December 31, 2006	Between 15 <sup>th</sup> and 31 <sup>st</sup> January 2007
Financial results for the year ending March 31, 2007	Between 15 <sup>th</sup> and 30 <sup>th</sup> of April 2007
Annual General Meeting for the year ending March 31, 2007	July / August 2007
Date of Book closure for dividend	From 9.8.06 to 18.8.06 (Both days inclusive)
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 <sup>th</sup> September 1999. 2. The Stock Exchange, Mumbai w.e.f. 29 <sup>th</sup> September 1999. 3. National Stock Exchange w.e.f. 24 <sup>th</sup> 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 26<sup>th</sup> March 2001.
- The Company hereby confirms that the listing fee for the year 2006-07, 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.

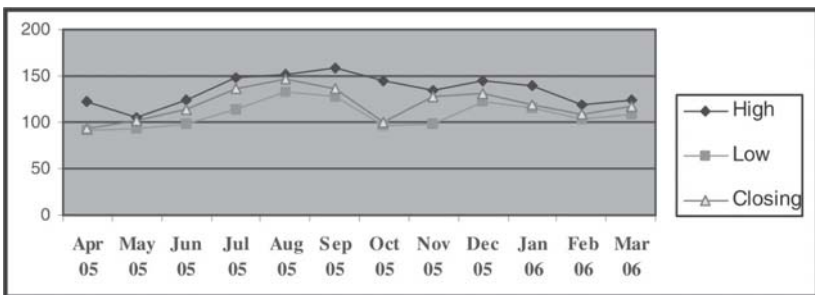
Registrars and Share Transfer Agent      Karvy Computershare Private Limited  
Unit: Polaris Software Lab Limited  
"Karvy House" 46, Avenue 4,  
Street No.1, Banjara Hills,  
Hyderabad -500034  
Tel: 040 - 23420815-0820  
Fax: 040 - 23420814  
E-mail: [mailmanager@karvy.com](mailto:mailmanager@karvy.com)  
Website: [www.karvy.com](http://www.karvy.com)

**Market Price Data of The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India (NSE): High, Low, Closing prices and number of shares traded during each month in the last financial year viz. April 2005 to March 2006.**

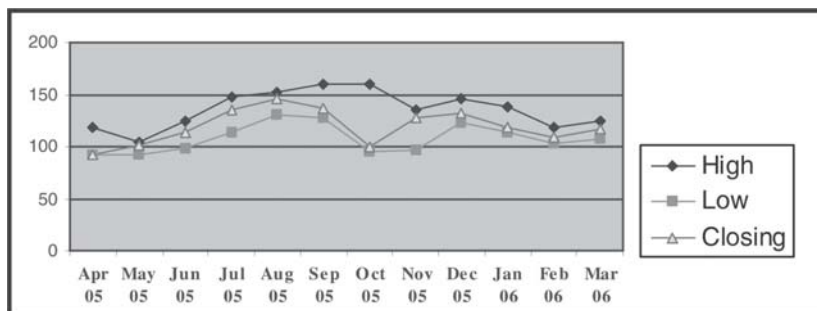
Month	BSE Price High	BSE Price Low	BSE Price Closing	BSE Volume for the month	NSE Price High	NSE Price Low	NSE Price Closing	NSE Volume for the month
Apr 05	120.20	92.00	92.80	4,578,485	119.20	92.25	92.85	18,134,572
May 05	105.00	93.10	101.40	2,777,763	104.70	92.55	101.70	10,866,210
June 05	124.15	99.00	114.40	5,776,435	124.50	99.00	114.25	25,089,960
July 05	147.50	114.00	135.40	9,768,173	147.50	113.70	134.75	36,065,122
Aug 05	151.90	132.55	146.05	8,824,719	152.90	130.50	146.35	30,918,248
Sept 05	158.00	127.25	136.75	7,506,165	160.00	127.40	136.60	27,246,317
Oct 05	145.60	96.00	99.55	5,279,517	160.00	95.55	99.70	18,593,572
Nov 05	134.90	97.75	127.90	7,603,088	134.95	97.50	127.85	29,635,269
Dec 05	145.45	123.00	131.75	6,875,562	145.45	123.00	131.80	26,002,587
Jan 06	139.00	116.20	118.55	3,385,679	138.95	114.00	118.60	12,878,751
Feb 06	119.00	103.55	109.20	30,744,224	119.00	103.30	109.25	11,375,156
Mar 06	123.80	108.00	117.20	4,716,037	125.00	107.50	117.10	14,194,187
			<b>TOTAL</b>	<b>97,835,847</b>		<b>TOTAL</b>		<b>260,999,951</b>

Graphical representation of the movement of closing market prices of the Company's shares quoted in the Mumbai (BSE) and National Stock Exchange (NSE) from April, 2005 to March, 2006

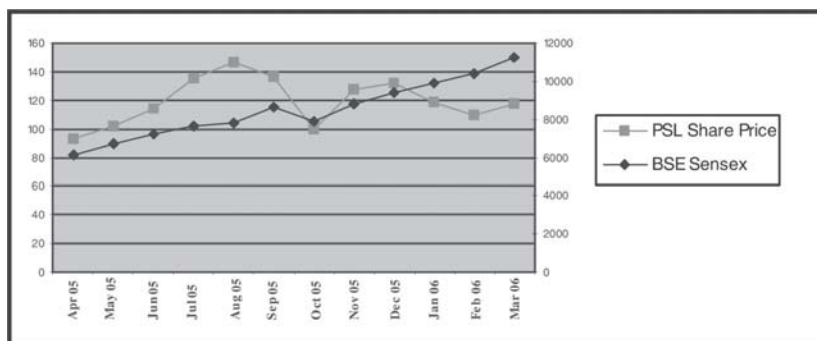
**Monthly High, Low and Closing Prices of Company's Shares in BSE**



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



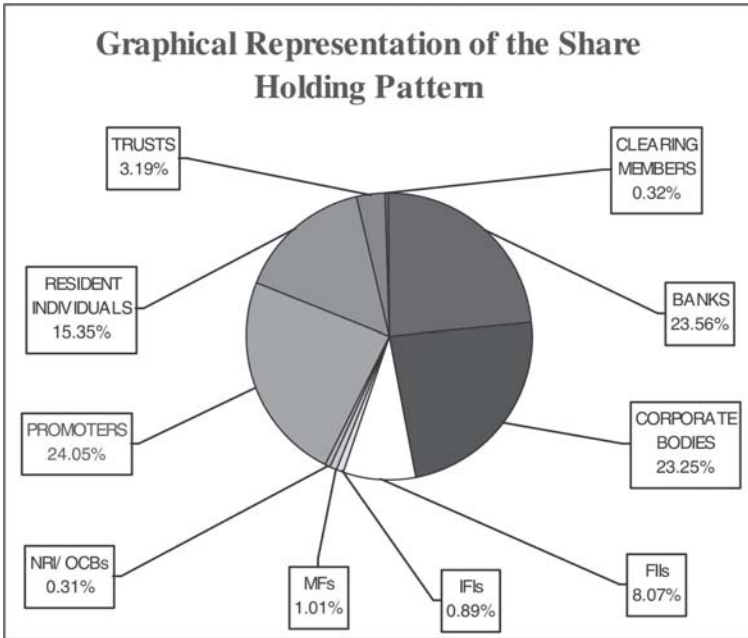
Polaris Share Price on BSE Vs. BSE Sensex



Shareholding Pattern of the Company as on 31<sup>st</sup> March 2006

Sl. No.	Category	No. of Holders	No. of Shares	% Holdings
1	BANKS	14	23,138,665	23.56
2	CORPORATE BODIES	1,395	22,841,634	23.25
3	FOREIGN INSTITUTIONAL INVESTORS	20	7,928,025	8.07
4	INDIAN FINANCIAL INSTITUTIONS	2	876,558	0.89
5	MUTUAL FUNDS	7	989,110	1.01
6	NRIs & OCBs	449	304,327	0.31
7	PROMOTERS	6	23,626,314	24.05
8	RESIDENT INDIVIDUALS	46,474	15,079,569	15.35
9	TRUSTS	13	3,136,540	3.19
10	CLEARING MEMBERS	230	309,255	0.32
	<b>TOTAL</b>	<b>48,610</b>	<b>98,229,997</b>	<b>100</b>

The non-promoter holding in the Company as on 31<sup>st</sup> March 2006 is 75.95%



List of persons holding more than 1% of Shares as on 31.03.2006

Sl. No.	Name	No. of Shares	% of Share Capital
1	Citibank A/C Orbitech Limited	22,576,015	22.98
2	Orbitech Limited	20,179,606	20.54
3	Polaris Holdings Private Limited	18,555,938	18.89
4	Arun Jain	3,062,416	3.12
5	Yogesh Andlay	2,019,901	2.06
6	ABN Amro Bank N.V. London Branch	1,979,480	2.02
7	Orbitech Employees Welfare Trust	1,896,749	1.93
8	Societe Generale	1,416,800	1.44
9	Konark Trust	983,663	1.00

**DISTRIBUTION SCHEDULE OF SHAREHOLDING AS ON 31.03.2006**

	Category From To	No. of Holders	Cumulative Holders	% of Holders	No. of Shares	Cumulative Shares	% of Shares
<b>Total</b>	Up to 10	2,773	2,773	5.70	18,126	18,126	0.02
	11 – 25	4,022	6,795	8.27	86,409	104,535	0.09
	26 – 50	8,656	15,451	17.81	403,807	508,342	0.41
	51 – 100	11,923	27,374	24.53	1,130,868	1,639,210	1.15
	101 – 500	17,098	44,472	35.17	4,091,774	5,730,984	4.17
	500 – 1000	2,177	46,649	4.48	1,688,867	7,419,851	1.72
	1000 - 5000	1,604	48,253	3.30	3,334,787	10,754,638	3.39
	5000 - 10000	184	48,437	0.38	1,258,223	12,012,861	1.28
	10000 +	173	48,610	0.36	86,217,136	98,229,997	87.77
	<b>TOTAL</b>	<b>48,610</b>		<b>100</b>	<b>98,229,997</b>		<b>100</b>
<b>PHYSICAL</b>							
	Up to 10	13	13	0.78	25	25	0.01
	11 - 25	5	18	0.30	99	124	0.02
	26 - 50	97	115	5.81	4,830	4,954	1.08
	51 - 100	220	335	13.17	21,860	26,814	4.88
	101 - 500	1,217	1,552	72.87	226,574	253,388	50.57
	500 - 1000	41	1,593	2.46	27,500	280,888	6.14
	1000 - 5000	72	1,665	4.31	120,250	401,138	26.84
	5000 - 10000	4	1,669	0.24	24,600	425,738	5.49
	10000 +	1	1,670	0.06	22,300	448,038	4.98
	<b>TOTAL</b>	<b>1,670</b>		<b>100</b>	<b>448,038</b>		<b>100</b>
<b>DEMAT</b>							
	Up to 10	2,760	2,760	5.88	18,101	18,101	0.02
	11 - 25	4,017	6,777	8.56	86,310	104,411	0.09
	26 - 50	8,559	15,336	18.23	398,977	503,388	0.41
	51 - 100	11,703	27,039	24.93	1,109,008	1,612,396	1.13
	101 - 500	15,881	42,920	33.83	3,865,200	5,477,596	3.95
	500 - 1000	2,136	45,056	4.55	1,661,367	7,138,963	1.70
	1000 - 5000	1,532	46,588	3.26	3,214,537	10,353,500	3.29
	5000 - 10000	180	46,768	0.38	1,233,623	11,587,123	1.26
	10000 +	172	46,940	0.37	86,194,836	97,781,959	88.15
	<b>TOTAL</b>	<b>46,940</b>		<b>100</b>	<b>97,781,959</b>		<b>100</b>

**Comparative distribution schedule**

Benpos Dates	Physical Shares Nos	Physical Shares %	Demat Shares Nos	Demat Shares %	Total Shares Nos	Total Shares %
31/3/2006	448,038	0.46	97,781,959	99.54	98,229,997	100.00
31/3/2005	504,750	0.51	97,505,522	99.49	98,010,272	100.00
	Holdings Nos	Holdings %	Holdings Nos	Holdings %	Holdings Nos	Holdings %
31/3/2006	1,670	3.44	46,940	96.56	48,610	100.00
31/3/2005	1,896	3.98	45,737	96.02	47,633	100.00

• **Share Transfer System**

The application for transfers, transmission and transposition are received by the Company at its Registered office in Chennai or at M/s Karvy Computershare Private Limited, Registrars and Share Transfer Agents, Hyderabad. As the Company's shares are currently traded in dematerialized form, the transfers are processed and

proved in the electronic form by NSDL/CDSL through their depository participants. The Registrar & Share Transfer Agent 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, ten engineering centers in India, offices in Chennai, Gurgaon, Hyderabad, Mumbai, Manama (Bahrain), Riyadh (KSA), Dubai, Vincennes (France) and four in the USA. Polaris Software Lab also operates as wholly owned subsidiaries in Switzerland, Germany, Australia, Singapore, UK, Ireland, Japan and Canada. Polaris has also two Indian subsidiary companies namely Optimus Outsourcing Company Limited and Polaris Retail Infotech Limited.

- **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](mailto:investor@polaris.co.in)

**Place: Chennai,  
Date: June 26, 2006**

**By Order of the Board  
For Polaris Software Lab Limited**

**Arun Jain  
Chairman & Managing Director**

## **CEO & CFO CERTIFICATION UNDER CLAUSE 49(V) OF THE LISTING AGREEMENT**

We, Arun Jain, Chairman & Managing Director and Prabal Basu Roy, Group Chief Financial Officer of Polaris Software Lab Ltd., (“company”) hereby certify that:-

- (a) We have reviewed financial statements and the cash flow statement of the company for the financial year ended 31st March 2006 and that to the best of our knowledge and belief:
  - (i) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  - (ii) These statements together present a true and fair view of the company’s affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- (b) There are, to the best of our knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or violative of the company’s code of conduct.
- (c) We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.
- (d) We have indicated to the auditors and the audit committee
  - (i) Significant changes in internal control over financial reporting during the year;
  - (ii) Significant changes in accounting policies during the year and the same have been disclosed in the notes to the financial statements; and
  - (iii) Instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company’s internal control system over financial reporting.

**Place: Chennai,**

**Date: April 21, 2006**

**Arun Jain**  
**Chairman & Managing Director**

**Prabal Basu Roy**  
**Executive Vice President &**  
**Group Chief Financial Officer**

**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 31 March 2006, 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 the 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 Agreement.

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 BSR & Co.  
Chartered Accountants*

Subramanian Suresh  
Membership No. 83673  
*Partner*

Chennai  
27 April 2006

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To,

The Members of Polaris Software Lab Limited

Sub: Declaration by the CEO under Clause 49 (I)(D)(ii) of the Listing Agreement

I, Arun Jain, Chairman & Managing Director of Polaris Software Lab Limited, to the best of my knowledge and belief, declare that all the members of the Board of Directors and Senior Management Personnel have affirmed compliance with the code of conduct of the Company for the year ended 31<sup>st</sup> March 2006.

Place: Chennai  
Date: 09.05.2006

Arun Jain  
Chairman & Managing Director

## **AUDITORS' REPORT**

Financial statement for the year ended 31 March 2006

## AUDITORS' REPORT

### 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 2006, 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 Without qualifying our opinion, we draw attention to note B 16 (c) of schedule 15 to the financial statements regarding management's assessment of the carrying value of its investments as at March 31, 2006 in Adrenalin eSystems Limited.
- 4 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.
- 5 Further to our comments referred to in paragraph 4 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 2006, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March 2006 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 2006;
    - 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 **BSR & Co.**

Chartered Accountants

**Subramanian Suresh**

Partner

Membership No: 83673

Chennai

27 April 2006

**Annexure to the Auditors' Report  
(Referred to in our report of even date)**

With reference to the annexure referred to paragraph 4 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 regular programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner over a period of three years. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. 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 is a service company, primarily rendering information technology services. Accordingly it does not hold any physical inventories. Thus paragraph 4(ii) of the Order is not applicable.
- 3 (a) The Company has granted a loan to company covered in the register maintained under Section 301 of the Companies Act, 1956. The maximum amount outstanding during the year and the year end balance of the loan was Rs 1,478.74 lakhs.
- (b) In our opinion, the rate of interest and other terms and conditions on which the loan has been granted to the company listed in the register maintained under section 301 of the Companies Act, 1956 are not, prima facie, prejudicial to the interest of the company.
- (c) The repayments of the principal amount in respect of the above loan are not due during the current year. However the interest payments have been made regularly.
- (d) There is no overdue amount of more than Rupees one lakh in respect of the loan granted to the company listed in the register maintained under section 301.
- (e) The Company has not taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- 4 In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of fixed assets and sale of services. The activities of the Company do not involve purchase of inventory and the sale of goods. We have not observed any major weakness in the internal control system during the course of the audit.
- 5 (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that section.
- (b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred to in (a) above and exceeding the value of Rs 5 lakh with any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- 6 The Company has not accepted any deposits from the public.
- 7 In our opinion, the Company has an internal audit system, commensurate with the size and nature of its business.
- 8 The Central Government has not prescribed the maintenance of cost records under section 209(1) (d) of the Companies Act, 1956 for any of the services rendered by the Company.
- 9 (a) According to the information and explanations given to us and on the basis of our examination of the records of the company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Service tax, Customs duty and other material statutory dues have been regularly deposited during the year by the Company with the appropriate authorities. As explained to us, the Company did not have any dues on account of Investor Education and

Protection Fund, Excise duty and Cess.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs duty, and other material statutory dues were in arrears as at March 31, 2006 for a period of more than six months from the date they became payable.

- (b) According to the information and explanations given to us, the following dues of Income-tax have not been deposited by the Company on account of disputes.

Name of the Statute	Nature of the Dues	Amount (Rs.in lacs)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Income Tax	698.59	Financial year -2000-2001 (Assessment year -2001-2002)	Income Tax Appellate Tribunal
		782.95	Financial year -2001-2002 (Assessment year -2002-2003)	Income Tax Appellate Tribunal
		516.47	Financial year -2002-2003 (Assessment year -2003-2004)	See Note below

Note: The Company is in the process of filing appeals with Commissioner of Income Tax (Appeals) against the order of the assessing officer.

- (c) According to the information and explanations given to us, there are no dues of Sales tax, Wealth tax, Service tax, and Customs duty which 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 immediately preceding financial year.
  - 11 The Company did not have any outstanding dues to any financial institution, banks or debenture holders during the year.
  - 12 The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
  - 13 In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society.
  - 14 According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
  - 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.
  - 16 The Company did not have any term loans outstanding during the year.
  - 17 The Company has not raised any funds on short term basis.
  - 18 The Company has not made any preferential allotment of shares to companies/firms/ parties covered in the register maintained under Section 301 of the Companies Act, 1956.
  - 19 The Company did not have any outstanding debentures during the year.
  - 20 The Company has not raised any money by public issues.
  - 21 According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

for **BSR & Co.**

Chartered Accountants

**Subramanian Suresh**

Partner

Membership No: 83673

Chennai

27 April 2006

Polaris Software Lab Limited

**Polaris Software Lab Limited**  
Balance Sheet as at*(Rs in Lacs)*

	Schedule	31 March 2006	31 March 2005
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Share Capital	1	4,911.50	4,900.51
Reserves and Surplus	2	48,214.95	48,055.08
		<b>53,126.45</b>	<b>52,935.59</b>
<b>DEFERRED TAX LIABILITY</b>	10	-	41.15
		<b>53,126.45</b>	<b>52,976.74</b>
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>			
Cost	3	36,485.55	31,116.46
Less: Depreciation and amortisation		16,695.33	12,408.81
Net Book Value		19,790.22	18,707.65
Capital work in progress		2,216.99	1,837.23
		<b>22,007.21</b>	<b>20,544.88</b>
<b>INVESTMENTS</b>	4	7,904.05	11,069.07
<b>DEFERRED TAX ASSET</b>	10	265.10	-
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Cash and Bank balances	5	5,759.61	3,912.02
Sundry Debtors	6	13,604.20	13,188.10
Loans and Advances	7	14,086.17	13,599.58
		<b>33,449.98</b>	<b>30,699.70</b>
<b>CURRENT LIABILITIES AND PROVISIONS</b>			
Current Liabilities	8	8,682.07	7,021.40
Provisions	9	1,817.82	2,315.51
		10,499.89	9,336.91
<b>NET CURRENT ASSETS</b>		<b>22,950.09</b>	<b>21,362.79</b>
		<b>53,126.45</b>	<b>52,976.74</b>

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 BSR & Co.*

Chartered Accountants

**Subramanian Suresh**  
*Partner***Arun Jain**  
*Chairman & Managing Director***Arvind Kumar**  
*Director*Membership No 83673  
**Chennai**  
**27 April 2006****Prabal Basu Roy**  
*Group CFO & Executive Vice President***M.P.Suresh Kumar**  
*Company Secretary*

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

(Rs in Lacs)

Schedule 31 March 2006 31 March 2005

**INCOME**

Software development services and products			
- Overseas		60,303.62	58,182.71
- Domestic		8,090.45	8,713.87
		<b>68,394.07</b>	<b>66,896.58</b>

**EXPENDITURE**

Software development expenses	12	47,879.57	42,227.98
Selling, Administrative and other General expenses	13	14,160.11	16,380.51
		<b>62,039.68</b>	<b>58,608.49</b>

**Operating profit before interest, depreciation and amortisation**

Finance charges	14	54.92	81.53
Depreciation and amortisation	3	4,643.99	3,840.27
		<b>4,698.91</b>	<b>3,921.80</b>

**Operating profit after interest, depreciation and amortisation**

Other income, net	11	1,655.48	4,366.29
Provision for diminution in value of investments		600.63	1,605.17
		(216.65)	(0.25)
<b>Profit before taxation</b>		<b>2,039.46</b>	<b>5,971.21</b>

## Income taxes

-Current tax (Refer Note B (18) (V) b of Schedule 15)		646.25	1,011.50
-Deferred tax		(306.25)	(383.14)
-Fringe Benefit Tax		369.91	-
<b>Profit after taxation</b>		<b>1,329.55</b>	<b>5,342.85</b>

Profit brought forward from previous year		14,802.31	11,954.77
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**Amount available for appropriation**

<b>Appropriations</b>		<b>16,131.86</b>	<b>17,297.62</b>
Proposed Dividend		1,227.88	1,715.18
Tax on Proposed Dividend		172.21	240.55
Additional Tax paid on Dividend		-	4.58
Amount transferred to General Reserve		132.96	535.00
Balance carried to Balance Sheet		14,598.81	14,802.31
		<b>16,131.86</b>	<b>17,297.62</b>

**Earnings per share**

(equity shares par value Rs 5 each)

Basic	1.36	5.46
Diluted	1.35	5.43

**Number of shares used in computing earnings per share**

Basic	98,091,912	97,833,640
Diluted	98,288,878	98,346,484

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 &amp; Loss account referred to in our report of even date.

for **BSR & Co.**

Chartered Accountants

**Subramanian Suresh**  
Partner**Arun Jain**  
Chairman & Managing Director**Arvind Kumar**  
Director

Membership No 83673

**Chennai**  
27 April 2006**Prabal Basu Roy**  
Group CFO & Executive Vice President**M.P.Suresh Kumar**  
Company Secretary

**POLARIS SOFTWARE LAB LIMITED***(Rs in Lacs)***Statement of cash flow for the year ended**

	31 March 2006	31 March 2005
<b>Cash flows from operating activities</b>		
Profit before taxation	2,039.46	5,971.21
Interest and dividend income considered separately	(212.53)	(277.42)
Exchange differences on foreign exchange translation of cash and cash equivalents	18.48	(108.40)
Depreciation	4,643.99	3,840.27
Provision for doubtful debts	440.00	897.62
(Profit)/ Loss on sale of Investments	(3.26)	8.62
(Profit)/ Loss on sale of fixed assets	(5.08)	(6.76)
Provision for diminution in value of investments.	216.65	0.25
Taxes paid	(1,556.70)	(960.59)
<i>Changes in current assets and liabilities</i>		
Decrease / (Increase) in sundry debtors	(856.10)	1,206.53
Decrease/ (Increase) in loans and advances	1,168.75	(250.15)
Increase/ (Decrease) in current liabilities and provisions	996.62	1,986.37
<b>Net cash flows from operating activities (A)</b>	<b>6,890.28</b>	<b>12,307.55</b>
<b>Cash flows from financing activities</b>		
Proceeds from share capital issued on exercise of stock options	10.99	15.55
Proceeds from share premium on exercise of stock options	140.02	217.30
Dividends paid during the year	(1,950.29)	(1,930.02)
<b>Net cash flows from financing activities (B)</b>	<b>(1,799.28)</b>	<b>(1,697.17)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of fixed assets	121.39	96.00
Purchase of fixed assets and changes in capital work in progress	(6,222.63)	(5,431.89)
Investment in subsidiaries	-	(1,309.38)
Advances to subsidiaries and associates (net)	(398.23)	843.62
Investment in associate companies	(675.50)	(470.70)
Net decrease in non-trade investments	3,627.12	(3,480.37)
Interest and dividend received	212.53	277.41
<b>Net cash flows from investing activities (C)</b>	<b>(3,335.32)</b>	<b>(9,475.31)</b>
<b>Exchange differences on foreign exchange translation adjustments (D)</b>	<b>91.91</b>	<b>52.90</b>
Total increase / (decrease) in cash and equivalents during the year (A+B+C+D)	<b>1,847.59</b>	<b>1,187.97</b>
Cash and cash equivalents at the beginning of the year	3,912.02	2,724.05
<b>Cash and equivalents at the end of the year</b>	<b>5,759.61</b>	<b>3,912.02</b>

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

*for BSR & Co.*

Chartered Accountants

**Subramanian Suresh**  
*Partner*

**Arun Jain**  
*Chairman & Managing Director*

**Arvind Kumar**  
*Director*

Membership No 83673  
**Chennai**  
**27 April 2006**

**Prabal Basu Roy**  
*Group CFO & Executive Vice President*

**M.P.Suresh Kumar**  
*Company Secretary*

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the balance sheet as at

*(Rs in Lacs)***31 March 2006**      **31 March 2005****1 SHARE CAPITAL****Authorised**

120,000,000 equity shares of Rs 5 each.	6,000.00	6,000.00
(March 31,2005: 120,000,000 equity shares of Rs 5 each)		
10,000,000 11 % preference shares of Rs 5 each.	500.00	500.00
(March 31,2005:10,000,000 11% preference shares of Rs 5 each)		

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<b>6,500.00</b>	<b>6,500.00</b>
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**Issued, Subscribed and Paid-up Capital**

98,229,997 Equity shares of Rs.5 each		
(March 31,2005 : 98,010,272		
Equity shares of Rs.5 each )	4,911.50	4,900.51

Of the above :

i ) 17,062,550 equity Shares of Rs 5 each  
(March 31, 2005 : 17,062,550 equity shares of Rs 5 each )  
were issued as Bonus shares by capitalisation of securities premium account during the year 2001-02

ii ) 45,850,549 equity shares of Rs 5 each  
(March 31, 2005 : 45,850,549 equity shares of Rs 5 each)  
were issued pursuant to a scheme of amalgamation of Orbitech Solutions Limited with the Company during the year 2002-03

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<b>4,911.50</b>	<b>4,900.51</b>
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**2 RESERVES AND SURPLUS**

General Reserve - As per last balance sheet	15,339.79	14,804.79
Add : Transferred from Profit and Loss Account	132.96	535.00

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<b>15,472.75</b>	<b>15,339.79</b>
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Foreign currency translation reserve

- As per last balance sheet	(55.50)	-
Add : Adjustment for the year	110.39	(55.50)

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54.89	(55.50)
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Securities Premium Account - As per last balance sheet	17,948.48	17,731.18
Add: Premium received on issue of shares under ASOP plans	140.02	217.30

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<b>18,088.50</b>	<b>17,948.48</b>
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Profit and Loss Account balance	14,598.81	14,802.31
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<b>48,214.95</b>	<b>48,035.08</b>
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**POLARIS SOFTWARE LAB LIMITED**  
Schedules to the Balance Sheet as at 31 March 2006

(Rs in lacs)

Assets	Cost			Depreciation and Amortisation			Net Book value	
	1 April 2005	Additions/ Adjustments	Deletions	31 March 2006	For the year	Deletions	31 March 2006	31 March 2005
<b>A TANGIBLE ASSETS</b>								
1 Land (Refer Note 1)	1,096.15	207.03	-	1,303.18	1.60	-	1,301.58	1,096.15
2 Buildings (Refer Note 2)	5,428.75	1,952.39	-	7,381.14	223.68	-	6,536.49	4,807.78
3 Plant and machinery (including computer equipment, software and accessories)	12,773.99	2,826.78	18.61	15,582.16	2,848,48#	8.55	4,797.55	4,829.31
4 Electrical fittings	1,301.11	108.99	1,081.16	1,301.94	161.91#	83.69	712.40	789.79
5 Furniture, Fittings and Office equipment	3,902.21	610.41	38.72	4,473.90	315.76 #	4.55	2,723.84	2,463.36
6 Vehicles (Refer Note 3)	776.08	137.27	308.29	605.06	155.88	260.68	203.39	269.61
<b>SUB-TOTAL (A)</b>	<b>25,278.29</b>	<b>5,842.87</b>	<b>473.78</b>	<b>30,647.38</b>	<b>3,707.31</b>	<b>357.47</b>	<b>14,372.13</b>	<b>14,256.00</b>
<b>B. INTANGIBLE ASSETS</b>								
1 Software Products	5,238.27	-	-	5,238.27	936.68	-	3,514.97	4,451.65
2 Intellectual property rights	599.90	-	-	599.90	-	-	599.90	-
<b>SUB-TOTAL (B)</b>	<b>5,838.17</b>	<b>-</b>	<b>-</b>	<b>5,838.17</b>	<b>936.68</b>	<b>-</b>	<b>2,323.20</b>	<b>4,451.65</b>
<b>TOTAL (A+B)</b>	<b>31,116.46</b>	<b>5,842.87</b>	<b>473.78</b>	<b>36,485.55</b>	<b>4,643.99</b>	<b>357.47</b>	<b>16,695.33</b>	<b>18,707.65</b>
Previous year	22,989.32	8,342.73	215.59	31,116.46	3,840.27 *	126.32	12,408.81	18,707.65

Note 1: Land includes leasehold land. Gross Block Rs 207.03; Net Block Rs 205.43 (March 31 2005; Gross Block Rs Nil; Net Block Rs Nil)

Note 2: Building includes leasehold improvements amounting to Rs 553.22 (March 31 2005; Rs 553.22)

Note 3: Vehicles include assets acquired under finance leases: Gross Block Rs 491.38; Net Block Rs 147.74 (March 31 2005; Gross Block 661.25; Net Block Rs 193.89)

# After intra group adjustments

\* Net off Rs 170.87 being depreciation on asset used for development of software products that were capitalised.

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet as at

*(Rs in Lacs)*

31 March 2006 31 March 2005

**4 INVESTMENTS****LONG TERM INVESTMENT (AT COST)****TRADE (UNQUOTED)****A)In Subsidiary Companies**

<b>Polaris Software Lab Pte Ltd</b>	94.60	94.60
A wholly owned subsidiary company incorporated in Singapore 385,000 ordinary shares of Sing \$ 1 each fully paid up (March 31, 2005: 385,000 ordinary shares of Sing \$1 each fully paid up)		
<b>Polaris Software Lab Limited</b>	617.50	617.50
A wholly owned subsidiary company incorporated in UK 889,000 equity shares of GBP 1 each fully paid up (March 31, 2005: 889,000 ordinary shares of GBP 1 each fully paid up)		
<b>Polaris Retail Infotech Limited</b>	900.00	900.00
A wholly owned subsidiary company incorporated in India 9,000,000 equity shares of Rs 10 each fully paid up (March 31, 2005: 9,000,000 equity shares of Rs 10 each fully paid up) (Refer Note B 16 (b) of Schedule 15)		
<b>Polaris Software Lab GmbH</b>	261.99	261.99
A wholly owned subsidiary company incorporated in Germany Common stock of 600,000 Euros fully paid up (March 31, 2005: Common stock of 600,000 Euros fully paid up)		
<b>Polaris Software Lab SA</b>	112.76	112.76
A wholly owned subsidiary company incorporated in Switzerland 35,000 equity shares of CHF 10 each fully paid up (March 31, 2005: 35,000 equity shares of CHF 10 each fully paid up)		
<b>Polaris Software Pty Ltd</b>	8.11	8.11
A wholly owned subsidiary company incorporated in Australia 25,000 ordinary shares of A\$ 1 each fully paid up (March 31, 2005: 25,000 ordinary shares of A\$ 1 each fully paid up)		
<b>Polaris Software Lab Ireland Ltd</b>	88.96	88.96
A wholly owned subsidiary company incorporated in Ireland 176,186 ordinary shares of Euro 1 each fully paid up (March 31, 2005: 176,186 ordinary shares of Euro 1 each fully paid up)		
<b>Polaris Software Lab Japan KK</b>	79.04	79.04
A wholly owned subsidiary company incorporated in Japan 400 ordinary shares of 50,000 Yen each fully paid up (March 31, 2005: 400 ordinary shares of 50,000 yen each fully paid up)		
<b>Optimus Outsourcing Company Limited</b>	1,699.99	1,699.99
A wholly owned subsidiary company incorporated in India 85,000,000 equity shares of Rs 2 each fully paid up (March 31, 2005: 85,000,000 equity shares of Rs 2 each fully paid up) (Refer Note B 16 (b) of Schedule 15)		

**POLARIS SOFTWARE LAB LIMITED****Schedules to the Balance Sheet as at***(Rs in lacs)***Polaris Software Lab Canada Inc**

31 March 2006 109.38

31 March 2005 109.38

A wholly owned subsidiary company incorporated in Canada  
296,350 ordinary shares of Canada \$ 1 each fully paid up  
(March 31,2005: 296,350 ordinary shares of Canada \$ 1 each fully paid up)  
(Refer Note B 16 (b) of Schedule 15)

**(A)**

3,972.33

3,972.33

**B) In Others****Software Sidoun GmbH Germany**

527.61

527.61

A company incorporated in Germany  
Common stock of Euros 1,175,990  
(March 31,2005: Common stock of Euros 1,175,990 ) fully paid up  
Less: Diminution in value of investments

(527.61)

(527.61)

**Eternet Inc.**

A company incorporated in USA  
1,250,000 shares of US\$ 0.2 each  
(March 31,2005 : 1,250,000 shares of US\$ 0.2 each) fully paid up  
Less: Diminution in value of investments

116.25

116.25

(116.25)

(116.25)

**NMS Works Software Private Limited**

300.00

300.00

A company incorporated in India  
500,000 equity shares of Rs.10 each  
(March 31,2005: 500,000 Equity shares  
of Rs.10 each) fully paid up

Less: Provision for diminution in value of investments  
(Refer Note B 16 (d) of Schedule 15)

(222.98)

-

77.02

300.00

224,524 12 % Optionally Convertible Cumulative Preference  
shares of Rs 10 each fully paid up  
(March 31,2005 : 147,228, 12 % Optionally  
Convertible Cumulative Preference  
shares of Rs 10 each fully paid up)

152.50

100.00

**Adrenalin eSystems Limited****(Formerly Empower Works Limited)**

733.88

733.88

A Company incorporated in India  
12,078,080 equity shares of Rs 5 each fully paid up  
(March31,2005 :12,078,080 equity shares of Rs.5 each) each fully paid up  
12,460,000 7% preference shares of Rs 5 each fully paid up  
(March 31, 2005 : Nil Shares)  
(Refer Note B 16 (c) of Schedule 15)

623.00

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**AIG Systems Solutions Private Limited**

326.70

326.70

A company incorporated in India  
462,100 Equity Share of Rs 10 each fully paid up  
(March 31,2005 : 462,100 Equity Share of Rs 10 each fully paid up)

1,913.10

1,460.58

**(B)**  
**I - (A)+(B)**

5,885.43

5,432.91

(*Rs in lacs*)  
31 March 2006 31 March 2005

**INVESTMENTS (continued)**

CURRENT INVESTMENTS NON TRADE (QUOTED)-

Lower of costs and market value

**Mutual Funds**

Birla Bond Plus Institutional Plan - Div Payout Nil units (March 31,2005: 5,399,564 units) Face value: Rs 10 per unit	-	810.55
Birla Bond Plus Fund Long Term- Nil units (March31,2005 : 2,408,593 units) Face value: Rs 10 per unit		
Birla Sunlife Cash Manager - IP - Daily dividend 3,013,250 units (March 31, 2005 - Nil units) Face value: Rs 10 per unit	301.39	-
ICICI Prudential Floating Rate Nil units (March 31,2005: 5,068,119 units) Face value: Rs 10 per unit	-	759.94
ICICI Prudential Long Term Floating Rate -Nil units (March 31,2005: 2,519,953 units) Face value: Rs 10 per unit		
Templeton Short Term Income Plan-Monthly Dividend Plan Nil units (March 31,2005: 29,362 units) Face value: Rs 1,000 per unit	-	804.79
Templeton Long term Income Plan-Quarterly Dividend Plan Nil units (March 31,2005 : 4,877,562 Units ) Face value: Rs 10 per unit		
Deutsche Short Maturity Fund - Monthly Dividend Plan Nil units (March 31,2005 : 2,952,320 units ) Face value: Rs 10 per unit	-	753.85
Deutsche weekly dividend- Nil units (March 31,2005: 4,426,158 units) Face value: Rs 10 per unit		
Duette Insta Cash Plus 5,013,048 units (March 31,2005: Nil units) Face value: Rs 10 per unit	502.28	-
GCDB Grindlays Cash Fund Floating rate fund - Nil units (March 31, 2005 : 1,003,835 units) Face value: Rs 10 per unit	-	763.87
Long Term - Nil units (March 31,2005 : 2,504,711 units ) Face value: Rs 10 per unit		

**POLARIS SOFTWARE LAB LIMITED****Schedules to the Balance Sheet as at**

	<i>(Rs in lacs)</i>	
	<b>31 March 2006</b>	<b>31 March 2005</b>
HSBC - Cash Fund Institutional Daily Dividend	-	763.41
Nil units (March 31,2005 : 3,931,171 units )		
Face value: Rs 10 per unit		
HSBC- Floating Rate - Long Term Plan		
Nil units (March 31, 2005 : 3,520,852 units )		
Face value: Rs 10 per unit		
HDFC Cash Management Fund - Savings Plan	-	456.08
Nil units (March 31,2005: Nil units)		
Face value: Rs 10 per unit		
HDFC Floating Income Fund Short Term Plan		
148,148 units ( March 31,2005 : 4,547,007 units )	14.95	-
Face value: Rs 10 per unit		
Kotak Liquid Institutional Plan	-	529.99
Nil units (March 31,2005: 5,286,615 units)		
Face value: Rs 10 per unit		
Kotak FBP Series XV - Dividend	1,200.00	-
12,000,000 units ( March 31,2005 - Nil Units )		
Face value: Rs 10 per unit		
	<hr/>	<hr/>
	2,018.62	5,642.48
Less : Provision for diminution in value of investments	-	(6.32)
<b>II</b>	<hr/>	<hr/>
	<b>2,018.62</b>	<b>5,636.16</b>
<b>I + II</b>	<hr/>	<hr/>
	<b>7,904.05</b>	<b>11,069.07</b>
	<hr/> <hr/>	<hr/> <hr/>

(Aggregate market value of the quoted investments

31 Mar 2006 : Rs.2,019.50 (March 31, 2005: Rs 5,636.16))

**POLARIS SOFTWARE LAB LIMITED**  
Schedules to the balance sheet as at

(Rs in Lacs)

	31 March 2006	31 March 2005
<b>5 CASH AND BANK BALANCES</b>		
Cash on hand	5.01	5.65
Balances with scheduled banks		
- in current accounts *	4,713.30	3,308.83
- in deposit accounts	3.58	3.08
Balances with non-scheduled banks in current accounts		
- Fleet Bank, New Jersey	561.75	41.04
- Chase Bank, New Jersey	40.73	242.73
Balances with non-scheduled banks in deposit accounts		
- Fleet Bank, New Jersey	435.24	310.69
	<b>5,759.61</b>	<b>3,912.02</b>
*includes balance in unclaimed dividend account	25.60	19.81
<b>Maximum balances held in non-scheduled banks</b>		
- Fleet Bank, New Jersey	1,224.10	709.76
- Chase Bank, New Jersey	810.17	1,088.81
<b>6 SUNDRY DEBTORS</b>		
Unsecured		
Debts outstanding for a period exceeding six months		
- considered good	1,412.92	1,251.87
- considered doubtful	2,351.20	1,937.37
Other debts		
- considered good	12,191.28	11,936.23
- considered doubtful	26.17	-
	15,981.57	15,125.47
<b>Less: Provision for doubtful debts</b>	<b>2,377.37</b>	<b>1,937.37</b>
	<b>13,604.20</b>	<b>13,188.10</b>
<b>7 LOANS AND ADVANCES</b>		
(Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received (Refer Note B 15 of Schedule 15 for advances to subsidiaries )	3,170.78	2,388.00
Advance income tax (Net of provision for tax )	1,139.10	634.12
Loans to employees	283.79	347.05
Loans to Employees Welfare Trust	766.14	926.65
Forward cover receivable	325.73	377.60
Other Advances	46.62	121.99
Interest/dividend receivable	-	0.97
Revenues in excess of billings	6,892.15	7,373.65
Rent, maintenance and security deposits	1,461.86	1,429.55
	<b>14,086.17</b>	<b>13,599.58</b>
<b>8 CURRENT LIABILITIES</b>		
Sundry creditors	8,138.54	6,507.04
Lease obligations	149.20	244.68
Unclaimed dividends	25.25	19.81
Advances received from customers	4.46	2.80
Billings in excess of revenues	364.62	247.07
	<b>8,682.07</b>	<b>7,021.40</b>
<b>9 PROVISIONS</b>		
Gratuity	417.73	324.22
Provision for taxation (net of advance income tax)	-	35.56
Proposed dividend	1,227.88	1,715.18
Provision for tax on proposed dividend	172.21	240.55
	<b>1,817.82</b>	<b>2,315.51</b>
<b>10 DEFERRED TAX (ASSET) / LIABILITY</b>		
Fixed assets	585.16	693.27
Sundry debtors	(800.22)	(652.12)
Others	(50.04)	-
	<b>(265.10)</b>	<b>41.15</b>

**POLARIS SOFTWARE LAB LIMITED****Schedules to the Profit and Loss Account for the year ended***(Rs in Lacs)***31 March 2006 31 March 2005****11 OTHER INCOME**

Interest received on deposits with banks and others *	113.97	153.43
Profit on sale of investments, net	3.26	(8.62)
Dividends received	98.56	123.99
Profit on Sale of Assets net	5.08	6.76
Miscellaneous income (Refer Note B 19 of Schedule 15)	92.27	770.42
Foreign exchange fluctuation	287.49	559.19
	<b>600.63</b>	<b>1,605.17</b>

\* Tax deducted at source

5.22 9.56

**12 SOFTWARE DEVELOPMENT EXPENSES**

Salaries and bonus including overseas staff expenses and outsourced consultants cost	39,060.78	34,139.82
Staff welfare	1,977.17	1,493.26
Contribution to provident and other funds	945.89	1,043.96
Travel Project	4,352.56	4,131.85
Consumables and computer maintenance	67.80	90.95
Communication expenses	1,388.01	1,209.23
Licence & Royalty	87.36	118.91
	<b>47,879.57</b>	<b>42,227.98</b>

**13 SELLING, ADMINISTRATION AND OTHER GENERAL EXPENSES**

Salaries and bonus including overseas staff expenses	6,445.89	7,539.79
Contribution to provident and other funds	384.53	241.43
Professional and Legal charges	957.98	1,433.13
Local travelling and conveyance	502.13	613.60
Rent	1,403.55	1,295.08
Business promotion	353.15	515.78
Power and fuel	1,007.38	995.61
Printing and stationery	157.06	152.37
Office maintenance	273.62	232.19
Provision for doubtful debts	440.00	897.62
Insurance	491.39	450.20
Advertisements	77.74	183.50
Bad debts written off	34.00	91.75
Rates and taxes	56.24	31.77
Repairs - Building	67.12	57.89
Repairs - Plant and machinery	462.10	215.13
Repairs - Others	642.39	727.60
Directors' sitting fees	3.70	3.10
Donations	13.99	24.38
Miscellaneous expenses (Refer Note B 18 (iii) of Schedule 15)	386.15	678.59
	<b>14,160.11</b>	<b>16,380.51</b>

**14 FINANCE CHARGES**

Interest paid towards lease obligations	39.88	47.79
Bank Charges and others	15.04	33.74
	<b>54.92</b>	<b>81.53</b>

**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 on the accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) in India, 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). Accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use. Management evaluates all recently issued or revised accounting standards on an ongoing basis.

**2. Use of estimates**

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.

Management periodically assesses using external and internal sources whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the asset and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset's net sales price or present value as determined above. Contingencies are recorded when it is probable that a liability will be incurred, and the amount can be reasonably estimated. Actual results could differ from those estimates.

**3. 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 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 and time and material contracts wherein amounts have been billed in accordance with the billing cycle and efforts would be incurred subsequent to the period end.

## **POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

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

#### **Product licenses and related revenues**

Revenues from product licenses and related services comprise income under multiple element arrangements as follows:

- ◆ License fees and fees for customization/implementation services are recognized under percentage of completion method. Provision for estimated losses, if any, on incomplete contracts are recorded in the period in which such losses become probable based on current contract estimates.
- ◆ Product maintenance revenues are recognized over the period of the maintenance contract.

#### **Other Income**

Interest is recognized using the time-proportion method.

Dividend income is recognized when the company's right to receive dividend is established.

#### **4. 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 installation or construction of such assets respectively. Capital work in progress includes advances paid to acquire fixed assets and cost of assets not ready for intended use before the balance sheet date.

#### **5. 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 and Loss account.

#### **6. Depreciation**

Depreciation on fixed assets is provided using the straight-line method based on rates specified in Schedule XIV to the Act or on estimated useful lives of assets, whichever is higher. Individual assets costing less than Rs 5,000/- are depreciated at the rate of 100 %.

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

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

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

Asset category	Estimated Useful Life (years)
<b>Tangible assets</b>	
Buildings	29
Leasehold improvements	10 or over the lease period if lower than the estimated useful life
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
<b>Intangible assets</b>	
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 or the estimated useful life of the asset, whichever is lower.

Leasehold land is amortized over the period of lease.

**7. 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 capitalised and amortised over estimated useful life of the products. This capitalisation 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 the 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 a period of five years.

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

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

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

**8. Foreign currency transactions and translations**

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

Exchange differences arising on foreign currency transactions are recognised in the profit and loss account except in respect of liabilities incurred for acquiring fixed assets from a country outside India, in which case such differences are adjusted to the cost of the fixed assets.

The financial statements of a non-integral foreign operation are translated into Indian Rupees as follows:

- (a) Income and expense items are translated at the average exchange rate for the period.
- (b) Assets and liabilities, both monetary and non-monetary, are translated at the closing rate.
- (c) All resulting exchange differences are accumulated in foreign currency translation reserve, which is reflected under reserves and surplus.

**9. Forward contracts in foreign currencies**

The Company uses foreign exchange forward contracts to hedge its exposure to movements in foreign currency rates. The use of these foreign exchange forward contracts reduces the risk or cost to the Company and the Company does not use the foreign exchange forward contracts for trading or speculation purposes. The premium or discount on all such contracts arising at the inception of each contract is amortised as income or expense over the life of the contract. Any profit or loss arising on the cancellation or renewal of forward contracts is recognized as income or as expense for the period.

In relation to the forward contracts entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date, the exchange difference is calculated as the difference between the foreign currency amount of the contract translated at the exchange rate at the reporting date, or the settlement date where the transaction is settled during the reporting period, and the corresponding foreign currency amount translated at the later of the date of inception of the forward exchange contract and the last reporting date. Such exchange differences are recognised in the profit and loss account in the reporting period in which the exchange rates change.

**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**

Schedules to the Balance Sheet and Profit and Loss Account

**15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****11. Retirement and other employee 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 of employment.

The Company estimates its liability as at 31 March and 30 September of each year based on an actuarial valuation.

*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 the 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.

**12. Income and Deferred Taxes**

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company. The current tax provision and advance income tax as at balance sheet date have been arrived at after setting off advance tax and current tax provision where the Company has 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.

Consequent to the introduction of Fringe Benefit Tax (FBT) effective 1 April 2005, in accordance with the guidance note issued by the ICAI, the Company has made provision for FBT under income taxes.

Deferred tax assets and liabilities are recognised for the future tax consequences

## **POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

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

attributable to timing differences between the taxable income and accounting income. 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 recognised in the period that includes the enactment date.

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

### **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 amortised 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.

### **14. Earnings per share**

The basic earnings per share is computed by dividing the net profit attributable to equity shareholders for the period by the weighted average number of equity shares outstanding during the period. The number of shares used in computing diluted earnings per share comprises the weighted average shares considered for deriving basic earnings per share and also the weighted average number of equity shares which would have been issued on the conversion of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as at the beginning of the period, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e.) the average market value of the outstanding shares. In computing dilutive earnings per share, only potential equity shares that are dilutive and that either reduce earnings per share or increase loss per share are included.

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

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

- All amounts in the financial statements are presented in **Rupees Lacs**, except for per share data and as otherwise stated.
- Earnings in foreign currency**

Particulars	Year ended 31 March 2006	Year ended 31 March 2005
Income from software development services and products	60,303.62	58,182.71

- Expenditure in foreign currency**

Particulars	Year ended 31 March 2006	Year ended 31 March 2005
Travel expenses	2,609.18	3,347.94
Professional charges	66.32	306.28
Other expenditure incurred overseas for software development	27,156.13	23,180.98
Others	-	462.00

- CIF Value of Imports**

Particulars	Year ended 31 March 2006	Year ended 31 March 2005
Capital goods	456.33	1,502.73

- Capital and other commitments**

The estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) as at 31 March 2006 is Rs 1,163.87 (31 March 2005: Rs 1,891.66).

As at 31 March 2006, the Company has outstanding guarantees and counter guarantees of Rs 289.93 (31 March 2005: Rs 249.57) issued to various banks, in respect of guarantees given by the banks in favour of various government authorities.

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

Particulars	As at 31 March 2006	As at 31 March 2005
Not later than one year	83.55	191.06
Later than one year and not later than 5 years	81.42 164.97	86.94 278.00
Less: Amount representing future interest	(15.77)	(33.32)
<b>Present Value of minimum lease rentals</b>	<b>149.20</b>	<b>244.68</b>

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

**15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****6. Capitalisation of Product Costs**

As explained in Schedule 15, Note A (7) of Significant Accounting Policies, the Company has capitalised software development costs in December 2004 after establishing the commercial acceptability of the Intellect suite of products.

The details of the costs considered for capitalisation during the year are detailed below.

<b>Particulars</b>	<b>Year ended 31 March 2006</b>	<b>Year ended 31 March 2005</b>
Salaries and wages	-	1,155.43
Premises costs	-	66.92
Power and fuel	-	53.79
Communication	-	72.89
Repairs and maintenance	-	55.93
Depreciation	-	170.87
	-	<b>1,575.83</b>

**7. 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.

**8. Managerial remuneration**

<b>Particulars</b>	<b>Year ended 31 March 2006</b>	<b>Year ended 31 March 2005</b>
<b><u>Chairman and Managing Director</u></b>		
Salary and perquisites	22.93	24.51
Contribution to provident and other funds	1.84	1.84
<b><u>Executive and Other Directors</u></b>		
Salaries and perquisites	58.58	244.86
Contribution to provident and other funds	2.64	15.87
Sitting fees	3.70	3.10
<b>Total</b>	<b>89.69</b>	<b>290.18</b>

Salaries and perquisites to Executive Directors and Other Directors include commission of Rs 15 (March 31, 2005: Rs 18) payable to Non-Executive Directors. This Commission is being paid as per the special resolution passed by the shareholders of the Company at the Annual General Meeting held on 29 July 2004.

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. However

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

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

actual payments, if any, made on their resignation / retirement is considered.

For the previous year, the Company has made a provision towards consideration in connection with retirement from office of a Director amounting to Rs 50.

No stock options have been allotted to any directors during the current year.

**9. Auditors' remuneration**

Particulars	Year ended 31 March 2006	Year ended 31 March 2005
Statutory audit fees (excluding service tax)	34.00	22.00
Taxation matters	-	1.65
Out of pocket expenses	1.71	0.96
<b>Total</b>	<b>35.71</b>	<b>24.61</b>

**10. Stock option plans**

The Company has four 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 Associate 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 Remuneration and Compensation Committee administers the 2000 Plan. Under the Plan, based on the recommendation of Employee Remuneration and 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 2006 is presented below.

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

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

<b>Number of options granted, exercised, cancelled / surrendered and forfeited</b>	<b>Year ended 31 March 2006</b>	<b>Year ended 31 March 2005</b>
Options outstanding at the beginning of the year	748,510	1,091,255
Granted during the year	-	-
Exercised during the year	(55,600)	(97,200)
Forfeited /Surrendered during the year	(246,335)	(245,545)
Other adjustments	2,010	-
<b>Outstanding at the end of the year</b>	<b>448,585</b>	<b>748,510</b>

**Associate Stock Option Plan 2001**

The Shareholders of the Company in the Extraordinary General Meeting (EGM) held on 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 2006 is presented below.

<b>Number of options granted, exercised, cancelled / surrendered and forfeited</b>	<b>Year ended 31 March 2006</b>	<b>Year ended 31 March 2005</b>
Options outstanding at the beginning of the year	607,890	1,037,122
Granted during the year	-	-
Exercised during the year	(163,425)	(224,995)
Forfeited/surrendered during the year	(146,280)	(204,237)
Other adjustments	9,095	-
<b>Outstanding at the end of the year</b>	<b>307,280</b>	<b>607,890</b>

During the year ended 31 March 2002, the Company announced and allotted bonus shares by capitalising a part of securities 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.

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

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

No fresh options can be granted under ASOP 2000 and ASOP 2001.

**Associate Stock Option Plan 2003**

The Shareholders of the Company in the 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. The market price under the 2003 Plan scheme prior to the revised SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999 (amended upto July 22, 2004), was 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. Consequent to the revised SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999, (amended upto July 22, 2004), the market price under the 2003 Plan scheme is the latest available closing price prior to the date of the meeting of the Board of Directors in which options are granted/shares are issued, on the stock exchange on which the shares of the Company are listed and, where there is highest trading volume on the said date. The option vests over a period of five years from the grant date.

A summary of the status of the 2003 plan at 31 March 2006 is presented below.

<b>Number of options granted, exercised, cancelled / surrendered and forfeited</b>	<b>Year ended 31 March 2006</b>	<b>Year ended 31 March 2005</b>
Options outstanding at the beginning of the year	2,178,950	-
Granted during the year	266,000	2,569,250
Exercised during the year	(700)	-
Forfeited/surrendered during the year	(589,400)	(390,300)
<b>Outstanding at the end of the year</b>	<b>1,854,850</b>	<b>2,178,950</b>

**Associate Stock Option Plan 2004**

The Shareholders of the Company in the AGM held on the 22 July 2005 approved an Associate Stock Option Plan (the 2004 plan). The 2004 plan provides for issuance of 1,084,745 equity shares of Rs 5 each to the employees including Directors at the market price of the shares on the date of grant. The market price under the 2004 plan is the latest available closing price prior to the date of the meeting of the Board of Directors in which options are granted/shares are issued, on the stock exchange on which the shares of the Company are listed and, where there is highest trading volume on the said date. The option vests over a period of five years from the grant date.

No options have been granted as at 31 March 2006.

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

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

**11. Buy Back option:**

The Buy back offer that was made pursuant to the public announcement dated 19 May 2005 was closed on 9 November 2005. During the buy back period, the company did not buy back any shares under the scheme.

**12. Segment reporting**

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.

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 categorised 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 comprise:

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

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

**15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****Primary segment information**

Particulars	Year ended 31 March 2006	Year ended 31 March 2005
<b><u>Segment revenues</u></b>		
Banking and financial services	61,453.53	59,840.71
Emerging verticals	6,940.54	7,055.87
	68,394.07	66,896.58
<b><u>Segment Profit before Finance charges and Tax</u></b>		
Banking and financial services	16,541.82	17,355.73
Emerging verticals	716.82	828.49
	17,258.64	18,184.22
Finance charges	(54.92)	(81.53)
Other unallocable expenditure net of unallocable income	(15,164.26)	(12,131.48)
Profit before taxation	2,039.46	5,971.21
Income taxes including deferred tax and fringe benefit tax	(709.91)	(628.36)
<b><i>Profit after taxation</i></b>	<b>1,329.55</b>	<b>5,342.85</b>

**Secondary segment information**

Region	Year ended 31 March 2006	Year ended 31 March 2005
<b><u>Segment revenues</u></b>		
United States of America	32,764.18	33,822.45
Europe	18,358.35	11,186.52
Asia Pacific	5,546.14	10,513.55
India and Middle East	11,725.40	11,374.06
<b>TOTAL</b>	<b>68,394.07</b>	<b>66,896.58</b>

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

**13. Earnings per Share (“EPS”)**

Reconciliation of basic and diluted shares used in computing EPS:

Particulars	Year ended 31 March 2006	Year ended 31 March 2005
Weighted average number of equity shares outstanding during the year - Basic	98,091,912	97,833,640
Add: Effect of dilutive issue of stock options to be converted	196,966	512,844
Weighted average number of equity shares <b>Outstanding during the year - Diluted</b>	<b>98,288,878</b>	<b>98,346,484</b>

In computing the diluted EPS, only potential equity shares that are dilutive and that either reduces earning per equity share or increase loss per equity share are included.

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

**15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****14. Dividend remitted in foreign currency**

<b>Particulars</b>	<b>Year ended 31 March 2006</b>	<b>Year ended 31 March 2005</b>
Number of non-resident shareholders	470	436
Number of shares on which dividend was remitted	4,849,568	6,198,793
Dividend remittance during the year for the year ended 31 March 2004	-	93.26
for the year ended 31 March 2005	84.87	-

**15. Related party transactions**

Following are the related parties where control exists:

<p><b><u>Subsidiaries</u></b>  Polaris Software Lab Pte Limited, Singapore ('PSL Singapore')  Polaris Software Lab Inc, Canada  Polaris Software Lab Limited, UK ('PSL UK')  Polaris Software Lab GmbH, Germany ('PSL Germany')  Polaris Software Lab SA, Switzerland</p>	Polaris Software Pty Ltd, Australia ('PSL Australia') Polaris Software Lab Ireland Ltd, Ireland Polaris Software Lab Japan KK ('PSL Japan') Polaris Retail Infotech Limited, India Optimus Outsourcing Company Limited, India ('Optimus')
<p><b><u>Associates</u></b>  Eternet Inc  NMS Works Software Private Limited (NMS)  AIG Systems and Solutions Private Limited (AIGSS)</p>	Orbitech Employees Welfare Trust Adrenalin eSystems Limited (formerly Empower Works Limited) (Adrenalin eSystems)
<p><b><u>Others</u></b>  (a) (enterprises that directly, or indirectly through one or more intermediaries, control the Company and enterprise of which the Company is an associate)</p>	
Citi Bank and its branches Polaris Holdings Private Limited	Orbitech Limited
<p>(b) (enterprises that have a member of Key Management in common with that of the Company) Ullas Trust</p>	
<p><b><u>Key management personnel</u></b>  Mr. Arun Jain, Chairman and Managing Director</p>	Mr. Govind Singhal, Executive Director (Up to 30 September 2005)



**15 Related party transactions (Continued)**  
**Figures in brackets denote previous year figures**

PARTICULARS	SUBSIDIARIES					ASSOCIATES					OTHERS
	PSL Optimus* Australia	PSL Germany	PSL Japan* Singapore*	PSL UK	Others	Aircalin e-Systems*	NMS *	AI GSS	Orbitech trust	Others	
Reimbursement of expenses to the Company	238.19 (29.93)	-	85.55 (6.85)	268.87 (300.70)	470.94 (154.41)	-	231.23 (21.93)	-	3.72 (92.61)	-	75.07 (26.64)
Reimbursement of expenses by the Company	53.15 (257.02)	-	109.01 (250.43)	209.81 (233.86)	2,143.79 (1,957.75)	-	53.46 (53.46)	-	-	-	107.12 (115.28)
Lease Payments	-	-	-	-	-	-	-	-	-	-	117.80 (117.80)
Investments	-	-	-	-	-	-	109.38 (109.38)	-	52.50 (326.70)	-	-
Advance towards share capital (net of allotments)	-	-	-	-	-	-	-	-	(150.00)	-	-
# Represents loan granted during the year	-	-	-	-	-	-	-	-	(35.00)	-	-
Donations	-	-	-	-	-	-	-	-	-	-	6.66 (19.43)
Provision for investments	-	-	-	-	-	-	-	-	216.65	-	-
<b>Maximum balance outstanding during the year</b>	7.86 (27.49)	305.56 (301.02)	421.51 (433.69)	657.35 (785.83)	737.61 (698.61)	3,659.28 (1,495.85)	45.00 (47.01)	-	520.79 (68.98)	-	14,364.15 (9,441.94)
Receivables - trade debts including unbilled revenues (net of provisions where applicable)	1,583.19 (66.50)	6.94	-	88.61 (13.67)	1,505.13 (1,346.32)	12.51 (93.93)	221.13 (2.98)	-	-	926.65 (1,095.24)	-
Payables	-	25.85 (5.97)	107.96 (45.90)	38.98 (138.99)	-	-	20.09 (12.62)	-	-	-	-

Details of remuneration and other amounts paid/payable to directors are given in note B(8) of schedule 15  
Amount received under pre-merger contingencies are given in note B(19) of schedule 15.

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

**15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****16. Investments in subsidiaries and associates**

- a) The movement during the year comprises of the following:
- ◆ Subscribed for 12,460,000 7% Preference shares of Rs 5 each per share amounting to Rs 623.00 during the year in Adrenalin eSystems Limited (formerly Empower Works Limited);
  - ◆ Subscribed additionally for 77,296 12% optionally convertible cumulative preference shares of Rs 10 each at a premium of Rs 57.92 per share amounting to Rs 52.50 during the year in NMS Works Software Private Limited.
- b) The subsidiaries of the Company were incorporated to provide software development services, business processing outsourcing 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 2006 are given below:

<b>Subsidiary</b>	<b>Accumulated Loss as at 31 March 2006</b>
Polaris Software Lab Canada Inc	148.70
Optimus Outsourcing Company Limited	1,708.74
Polaris Retail Infotech Limited	545.30

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 Adrenalin eSystems Limited (formerly Empower Works Limited) is 46.42 % as on 31 March 2006. Adrenalin eSystems Limited ("ASL") is primarily engaged in the business of providing specific solutions relating to Human Relations suite of software solutions and products and has been incurring losses. The Company believes that the accumulated losses to the extent of Rs 2,187.43 as per the unaudited financial statements of ASL as on 31 March 2006 are on account of initial / start-up stage of operations. The full version of the ASL's main product "Adrenalin" was launched in January 2006 and ASL's evaluation of the product's market acceptability is positive. The Company believes that , in pursuing business models based on mass adoption of similar technologies on global scale, the start up costs on brand building, product development costs and franchise acquisitions are significant and the international experience also suggests that the product companies have longer gestation period. Further, the promoters of ASL are committed to provide continued support to its operations and ASL is expected to generate profits in the future. Accordingly, there is no permanent diminution in the value of its investments in ASL 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 Private Limited ("NMS") is 44.96% as on 31 March 2006. NMS is primarily engaged in the business of designing network management in Telecommunication and Internet Services. NMS has been incurring losses since its inception and based on the unaudited financials statements as at 31 March 2006, NMS had accumulated losses aggregating to Rs 490.88. Accordingly the Company has determined and recorded a provision of Rs 222.98 for other than temporary diminution in the value of its investment in NMS based on its share in the equity holding.
17. 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.

Particulars	Year ended 31 March 2006	Year ended 31 March 2005
Salaries and bonus including overseas staff expenses	45,506.67	41,679.61
Contribution to provident and other funds	1,330.42	1,285.39
<b>Total</b>	<b>46,837.09</b>	<b>42,965.00</b>

**18. Litigation, claims and contingencies****(i) 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 earlier year, the parties 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 appointed a mediator and then conducted a Settlement conference to resolve the matter amicably, which also proved unsuccessful.

The Company subsequently filed a motion to dismiss the remaining claims asserted by Arun Verma and Data Inc (Plaintiffs) on 6 October 2005 in the District court of New Jersey. The District Court granted the company's motion by way of a final judgment dismissing any and all claims remaining

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

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

in the lawsuit. However Data Inc on 12 December 2005 has filed an appeal against the final judgment in the court of appeals. 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.

**(ii) 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 Company can successfully resist the claim.

**(iii) Bank of Artha Graha**

During the previous year, the Company entered into a settlement with Bank of Artha Graha (BAG) and agreed to make full restitution to BAG of sum of 1,000,000 USD (Rs 462) received under the licence agreement. The said amount was paid to BAG and the charge to the profit and loss account has been included under Miscellaneous expenses (Refer Schedule 13).

**(iv) Others**

The Company is also involved in other lawsuits, 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.

**(v) Income Tax Matters**

	<b>31 March 2006</b>	<b>31 March 2005</b>
Income tax in dispute	790.04	1,803.45

- a) Income tax appeals with Commissioner of Income tax (Appeals) for the assessment years 2001-02 and 2002-03 have been partly allowed in favour of the Company. However, both the income tax department and company have gone on appeal against these orders before Income Tax Appellate Tribunal

The Company during the year, received an order from the income tax department on completion of assessment for the assessment year 2003-04 on similar grounds like in earlier years. The Company is in the process of filing appeal and stay petition against this order also.

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

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

b) Current taxes include an amount of Rs 110.29 relating to earlier years paid arising on account of assessment made by the overseas tax authorities.

19. Miscellaneous income of previous year includes Rs 750 received from Orbitech Limited, the erstwhile shareholder of Orbitech Solutions Limited (which has been amalgamated with Polaris Software Lab Limited on 1 November 2002) towards the pre merger contingencies and / or any merger related matters.

20. As at 31 March 2006, the Company had no outstanding dues to small-scale industrial (SSI) undertakings (31 March 2005: Rs Nil). The list of SSI undertakings was determined by the Company on the basis of information available with the Company.

21. Previous year figures have been regrouped/reclassified, wherever necessary, to conform to current year's presentation.

**POLARIS SOFTWARE LAB LIMITED****Balance Sheet Abstract And Company's General Profile**

<b>I. Registration Details</b>		<b>(In Rs. Thousands)</b>	
Registration No	18-24142	State Code	18
Balance Sheet	31.03.2006		
<b>II. Capital Raised during the Year</b>			
Public issue	Nil	Rights Issue	Nil
Bonus Issue	Nil	Private Placement	Nil
Preferential offer of shares under ASOP scheme	1099		
<b>III. Position of Mobilisation and deployment of funds</b>			
Total Liabilities	5,312,645	Total Assets	5,312,645
<b>Source of funds</b>			
Paid up Capital	491,150	Reserves & Surplus	4821,495
Secured Loans	-	Deferred Tax Liability	-
<b>Application of funds</b>			
Net fixed assets	2,200,721	Investments	790,405
Net Current Assets	2,295,009	Deferred Tax Assets	26,510
<b>IV. Performance of the Company</b>			
Total Turnover	6,839,407	Total expenditure(net)	6,695,523
Other Income	60,063		
Profit before tax	203,946	Profit after tax	132,955
Earning per share in Rs	1.36	Dividend Rate	25%
<b>V. Generic names of three principal products/services of Company (as per monetary terms)</b>			
Item Code No (ITC Code)	Not Applicable		
Product description	Computer Software		
<b>Arun Jain</b> Chairman & Managing Director		<b>Arvind Kumar</b> Director	
<b>Prabal Basu Roy</b> Group CFO & Executive Vice President		<b>M.P.Suresh Kumar</b> Company Secretary	
Chennai 27 Apr 2006			















**POLARIS SOFTWARE LAB LIMITED****STATEMENT PURSUANT TO MINISTRY OF COMPANY AFFAIRS  
EXEMPTION APPROVAL U/S 212 OF THE COMPANIES ACT, 1956**

- |  |                                       |
|--|---------------------------------------|
| 1. Name of subsidiary  | Optimus Outsourcing Company Limited   |
| 2. Financial year ended  | March 31 2006                         |
| 3. Holding Company's interest  | 100%                                  |
| 4. Shares held by the holding company in the Subsidiary's common stock                                 | 85,000,000 Equity Shares of Rs.2 each |
| 5. Details pertaining to the subsidiary for the year ended 31 <sup>st</sup> March 2006 are given below |                                       |

		<b>Rs. In Lacs</b>
a)	Capital	1,700.00
b)	Reserves	(1,708.74)
c)	Total Assets	225.00
d)	Total Liabilities	233.74
e)	Details of Investment	Nil
f)	Turnover	1,229.36
g)	Profit Before Taxation	(580.84)
h)	Provision for Taxation	4.251
I)	Profit After Taxation	(585.09)
j)	Proposed Dividend	Nil

**POLARIS SOFTWARE LAB LIMITED**

**STATEMENT PURSUANT TO MINISTRY OF COMPANY AFFAIRS  
EXEMPTION APPROVAL U/S 212 OF THE COMPANIES ACT, 1956**

1. Name of subsidiary Polaris Software Lab Japan KK, Japan
2. Financial year ended March 31 2006
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 31<sup>st</sup> March 2006 are given below

		<b>JPY</b>	<b>Rs. In Lacs</b>
a)	Capital	20,000,000	76.00
b)	Reserves	48,491,710	184.27
c)	Total Assets	208,657,478	792.90
d)	Total Liabilities	140,165,768	532.63
e)	Details of Investment	Nil	Nil
f)	Turnover	540,906,108	2,055.44
g)	Profit Before Taxation	59,555,081	226.31
h)	Provision for Taxation	40,767,850	154.92
I)	Profit After Taxation	18,787,231	71.39
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 = Rs. 0.38 as on 31<sup>st</sup> March 2006.



**MANAGEMENT DISCUSSION & ANALYSIS**

Forming part of the Financial Statements for the year ended 31 March 2006

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## History

- ◆ Polaris is among India's leading software solution providers', specializing in providing Products and customized information technology (IT) solutions to several multinational clients in the Banking, Financial Services and Insurance (BFSI) segment. Polaris grew at CAGR of 62% from 1997 to 2002
- ◆ 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.
- ◆ 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.
- ◆ 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 May 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.
- ◆ 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 has wholly owned subsidiaries in India, Singapore, UK, Germany, Switzerland, Australia, Ireland, Canada and Japan.
- ◆ OPTIMUS, the wholly owned Business Process Outsourcing subsidiary of Polaris, launched "OPTIMUM" a pioneering, comprehensive Business Infrastructure Solution, to support the credit card market. This is a first in the Indian market.
- ◆ In the third quarter of the financial year ended 31 March 2005, Polaris started its operations through a wholly owned subsidiary in Canada with the opening of an office in Ottawa, Ontario.

## 2. Operations

### 2.1 Market Overview

Polaris is a software services company focusing on the Banking, Financial services and Insurance vertical. Research analysts predict the region-wise IT spend in the financial services industry to be as provided in the following table.

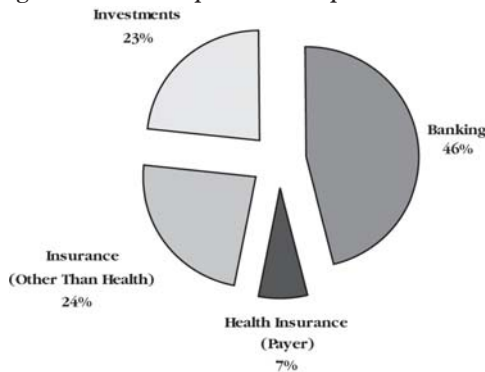
**Table 1: IT investments by BFSI**

Region	2004	2005	2006	2007	2008	2009	Growth CAGR
Asia/Pacific	36,332	39,190	41,801	44,228	46,788	49,039	6.2%
Eastern Europe	13,270	14,620	15,813	16,871	17,995	18,938	7.4%
Japan	37,147	37,667	38,583	40,009	40,736	41,489	2.2%
Latin America	21,269	23,763	26,314	29,156	32,590	36,254	11.3%
Middle East and Africa	12,016	13,390	14,826	16,386	17,973	19,452	10.1%
North America	191,728	197,155	203,900	211,435	220,216	228,350	3.6%
Western Europe	120,244	125,427	127,678	129,955	132,242	134,267	2.2%
Total	432,005	451,213	468,915	488,040	508,540	527,789	4.1%

*Source: Gartner (August 2005) Figures in Million USD*

The five-year growth rate for financial services IT spending is 4.1 percent rising from \$432 billion in 2004 to \$528 billion in 2009. As per Gartner, in 2009 also the sub-sector wise breakup of IT spend is expected to remain as it was in 2004. Further we expect consolidation of the Banking and Investments markets, which would have a bearing on our segment-wise strategies. In fact, the UK market already has a single financial sector regulator indicating inter-sectoral consolidation

**Figure 1: Segment-wise IT Spend Breakup 2004**



*Source: Gartner (August 2005) Figures in Million USD*

Polaris operations are grouped under three geographies –

- ◆ The Americas,
- ◆ Europe, Middle East and Africa (EMEA) and
- ◆ Asia Pacific (APAC).

We have mapped these findings further into geographies and products/solutions to develop strategies in respective geographies. Some region-wise trends may also be observed.

**Table 2: Region-wise Market Trends**

Trends	Vendor Capabilities
<p><b>US and Canada</b> Top Tier Banks and financial services companies trying to consolidate vendors</p>	<ul style="list-style-type: none"> <li>◆ Size and Scale of vendor operations</li> <li>◆ Financial Stability of vendors</li> <li>◆ Senior management confidence in partners as decisions are strategic and high value in nature</li> <li>◆ Domain and Solution capabilities of vendors</li> <li>◆ Vendor ability to comply with regulatory and other requirements</li> </ul>
<p>Regional and Tier 2 Banks and Financial Services institutions in US and Canada beginning to consider outsourcing. These banks consider outsourcing as a strategic initiative to enable better time to market, import of best practices and cost arbitrage</p>	<ul style="list-style-type: none"> <li>◆ Experience and track record of vendors</li> <li>◆ Flexibility to scale up and down</li> <li>◆ Domain, technology and solution expertise of the vendors</li> </ul>
<p><b>Latin America</b> Banking and financial services are in a growth phase hence require the IT services to enable them expand operations into new markets and new products</p>	<ul style="list-style-type: none"> <li>◆ Ability to provide best of breed solutions that are modular</li> <li>◆ Ability to provide integrated solutions, services and business processing</li> <li>◆ Quick roll out ability</li> </ul>
<p><b>Europe, Middle East and Africa (EMEA)</b> Top tier Banks and Financial Services institutions in the UK, Germany and the Nordic regions are looking to outsource at least a part of the IT services to vendors outside of Europe. The more experienced outsourcing players, especially in the UK are looking to increase the offshore leverage option and setting up of dedicated offshore development centers. Banks expanding throughout EU. Organic and inorganic growth has increased a demand for IT consolidation services and moving towards an SOA</p>	<ul style="list-style-type: none"> <li>◆ Ability of Vendors to address cultural and language issues</li> <li>◆ Financial Stability of vendors.</li> <li>◆ Domain and Solution capabilities of vendors</li> <li>◆ Vendor ability to comply with regulatory and other requirements</li> </ul>
<p>The cost pressure on maintaining profitability has resulted in an increased awareness of the need to bring down IT services costs. This has aided the trend of looking at outsourcing as a way of bringing additional value from IT services.</p>	
<p><b>Asia and Pacific Region</b> Growing acceptance to change their existing systems in mature markets like Australia, New Zealand and Japan. Consolidation of vendors. Move towards SOA architecture and enabling quick product rolls out capabilities. Growing acceptance of India as a base for outsourcing in Australia, New Zealand and Japan in particular <i>Source: Internal Research</i></p>	<ul style="list-style-type: none"> <li>◆ Ability of Vendors to address cultural and language issues</li> <li>◆ Quick rollout capability and regional customization ability.</li> <li>◆ Domain and Solution capabilities of vendors</li> <li>◆ Vendor ability to comply with regulatory and other requirements</li> </ul>

## **2.2. Company wide initiatives**

Polaris has consistently made significant investments in the last three years in developing the IP assets, re-branding and launching the Intellect Product Suite. The investments made in developing the product have been funded entirely by the services business. The IP based solution suite has now reached market readiness and has been successfully implemented in all the key markets.

### **Structural Changes**

In line with the recommendations of a leading strategic consulting firm engaged for validating our strategy, this year our focus shifted to further specialization of Banking Solutions. The new structure envisages 6 Business Solution Centers (BSCs) organized around the business sub-verticals of the BFSI sector-

1. Retail Banking and Credit Cards
2. Consumer Finance and Mortgages
3. Insurance
4. Capital Market and Wealth
5. Corporate Banking and Cash
6. Enterprise Solutions and Mainframe

Each BSC combines the solution, services and technology practices into one integrated centre that can deliver IP led solutions and services to global financial organizations. This is in keeping with the company's overall vision of being a player in the "BFSI Solutions Landscape" which would help it to marry its IP led solutions strategy with its proven excellence and capabilities in the field of Software Services using the "Smart Build" and "Progressive Modernisation" methodologies as opposed to having separate Services and Products divisions. This alignment ensures a more focused approach towards building capabilities and solutions around specific BFSI domain by leveraging the domain expertise already present in the Solution Centers.

The Business Solution Centres have been tightly integrated with the Global Sales Organizations with dedicated pre-sale units in each of the BSCs that also have a presence in the geographies to provide solution based selling capability. In terms of delivery and relationship management, a dedicated team consisting of an Account Director from the Geo Sales and an Engagement Director from the BSC is assigned to each account. In the case of Large Accounts, a Client Partner from the Sales Organization and a Global Delivery Head to coordinate delivery across the world also complements the structure.

With the integration of product teams with the Solution Centers, the company is expected to improve its overall utilization as all the investment resources will be deployed into billable engagements.

The integration of the units has also led to a rationalization of the common services overheads. The various Corporate Functions namely Human Resources, Corporate Administration have been restructured to reduce redundancies. The rationalization exercise has been done in a phased manner and the full effect of the resultant cost savings will be leveraged in the ensuing financial year.

Based on our understanding of the market and in line with the recommendations by a leading management consultancy firm, the sales organization was restructured

to ensure an optimum sales force strength and coverage of the market. The emphasis has been to bring Polaris experts closer to the customers. Delivery, technology and solutions experts have been brought into the team to strengthen the pre-sale support, marketing and consulting functions. The regional offices have been strengthened with dedicated Business Development Executives (BDE). To fully leverage the assets of the company, the Geography sales team have been increased.

While the company has been able to make a high value impact in the key market segments, there were significant challenges that constrained the revenue growth. The vendor consolidation efforts by large customers impacted the revenue potential from services business. The relatively smaller size of the company when compared to large volume services players translated as greater pressure on our pricing. To counter this Polaris has adopted strategy of positioning as a niche player that can provide integrated value added services through the combination of IP based services and solutions.

In a highly crowded and competitive marketplace, positioning Polaris as a niche specialist provider has been a significant challenge that calls for strategic selling and mapping customer organizations at the highest levels. This has been addressed by putting together dedicated teams of BDEs and Account Managers for each of the identified accounts. This focused approach has yielded results in terms of the success achieved in terms of the penetration in the last two quarters. The ongoing challenge is to quickly scale up and mine these penetrated accounts through high quality delivery and enabling returns higher than mere cost arbitrage savings for the customers.

### **Other Initiatives**

Polaris has also identified and concluded partnerships with key technology companies such as Microsoft (Dot Net based solutions for insurance), Interwoven (for portals), CGI (OPUS enterprise suite for Insurance) and Webify (for SOA).

In terms of offerings, the company has identified key arrowheads such as Testing, CRM, Progressive Modernisation, platform migrations and Smart Build (IP solutions based SOA approach). These have been highly successful in terms of securing customers.

Entry into the insurance sector has also been facilitated by initially offering Portal Technology, Cash Management and Treasury solutions and the IP solutions in the area are also leveraged to provide arrowheads in the area of investment management in insurance companies. Focused marketing campaigns that will target insurance organizations with specific offerings that will include Testing services, ADMS and IP assets based solutions such as Workflow & Imaging, Cash Management and Treasury and technology solutions such as Portal technologies, Re-platforming of existing systems to SOA based architecture are being planned and executed.

Polaris expects the insurance business to gain sufficient momentum, and has invested in building a competent team of domain and technology professionals to provide pre-sale and solution building support in each of the geographies.

## **2.3 America**

The overall theme for the year was one of consolidation and expansion of our presence in the America. This we expect to continue into the next year.

### **Banking and financial Services**

#### **Polaris performance and outlook**

Polaris has been able to achieve significant progress on its key objectives of increasing its footprint in the target market segment of Banks.

In terms of market presence, the company was able to penetrate new markets in Canada and Latin America through the IP based solutions (Intellect) route. The market potential in these regions, especially Latin America, is significant and Polaris has been able to win these potentially high value deals against international competition.

The outlook for the FY 2006-07 looks promising in the Americas geography. The company expects to consolidate on the recent customer wins with a combination of services and IP solutions that would enable customers to quickly gain results. A tight integration between the Solution Centers and Account Management through a structural process is in place to ensure high quality delivery.

In terms of offerings, the company has identified key arrowheads such as Testing, CRM, Progressive Modernisation, platform migrations and Smart Build (IP solutions based SOA approach). These have been highly successful in terms of securing customers. The ADMS services and Intellect based Solutions are expected to bring in the annuity based revenues. This approach will enable the company to be perceived by the customers as value adding specialist partner for the long term.

For the next financial year, a major part of the revenue is expected from these newly acquired accounts. This will ensure that the overall strategy of customer base de-risking will be achieved with a realistic and healthy growth to the top line.

### **Insurance**

Various research analysts predict Insurance companies in the US and Canada to increase their spending on IT services and solutions at a rate of about 6% CAGR between now and 2009. Tier 1 Insurance companies, especially in the Life and annuity space are looking to consolidate and embark on modernisation programs with a view to adopt SOA based architecture. The growing cost pressures and increased market competition has resulted in more investments being made in IT to streamline operations, support multiple channels and enable quick launch of new products. These have emerged as the main opportunity areas.

Regional insurers are also beginning to adopt outsourcing as a strategic initiative to lower costs as well as to modernize their existing IT infrastructure. The demand for IT services and solutions has registered significant growth.

Capacity and access to resources, i.e. who can handle large and complex existing applications with a good understanding of the unique needs of the industry are the primary pre-requisites expected from vendors.

#### **Polaris Performance & Outlook**

CRM, Dotnet, Portal development and testing services are the key focus for Insurance sector. Europe & Middle East and Africa

## 2.4. Europe & Middle East and Africa

### Overview and Outlook

The overall theme for the year was one of expansion of our presence in the key markets of Europe and Middle East, securing a network of alliance partners and positioning of the Smart Build strategy. The European market witnessed a wider acceptance of outsourcing as a strategy and India based service providers. While there were significant variation in the demand for IT services through outsourcing across European countries, there were also key trends that were found common to the BFSI vertical across Europe. Some of the key trends observed were:

### Banking & Financial Services

Banks and Financial Services organizations in the key markets of UK, Germany, Nordic and Benelux regions have increased their spending on IT services and solutions. Banks and Financial Services organizations have shown a trend of going for a more solution-oriented approach towards modernizing their platforms to cater to growing demand for faster time to market. Key demands for solutions have been in the areas of Wealth Management, Corporate Banking (Cash Management) and Capital Markets.

From a services point of view, the UK market has been more aggressive than other regions in Europe for outsourcing ADMS type of work. Many large financial organizations have issued RFPs for solutions and services and the deals are getting to be multi-year deals with again a preference of working with selected list of vendors.

The differentiated offering of Smart Build has enabled positioning Polaris as a specialist player in the market. Significant challenges remain in terms of showcasing reference sites in Europe, catering to regional requirements and building an effective delivery and relationship management methodology to cater to the needs of the European sensitivities.

In the Middle East, demand has picked up with regional banks going for implementation of next generation solutions to meet the demands of the market. Key opportunity areas include Branch Automation and Renewal, Internet Banking and Core and Lending Platforms.

### Polaris performance and outlook

Polaris has been able to achieve significant progress on its key objectives of increasing its footprint in the target market segment of Banks and Financial Services organizations.

In terms of market presence, the company was able to penetrate and acquire marquee names in the industry as customers. Polaris has been able to win these deals against international competition, largely based on the IP assets based Smart Build proposition.

While the company has been able to leverage its success in the area of Cash Management with leading organizations, the solution has now been accepted by increasing number of international organizations. The initial impact is now translating as global rollouts across various countries by these large Banks and Financial institutions. A significant challenge in continental Europe is to address the cultural differences across countries. Polaris has entered into partnerships

with leading IT and business consulting organizations in key markets of Germany (plenum), France (Sopra), Denmark & Nordic region (Ementor). Polaris has also tied up with niche technology providers like Algorithmics and Calypso.

In the Middle East, the sales force in Bahrain and Riyadh have been increased and strengthened. This has resulted in gaining more customers in the region. The region will help increase our licence sales in coming years.

For the next financial year, the region is likely to maintain its aggressive growth rate and increase its market presence in all the key markets of the region.

### **Polaris Performance & Outlook**

Insurance industry specific testing services have been successfully used in making inroads in this vertical. The experience gained in servicing leading insurance majors in the last two years has provided the company with the relevant credibility and the testing services based offering has proved to be an effective arrowhead. Polaris is also leveraging its expertise in Dot Net, CRM and Portal technologies to provide solutions.

With these initiatives, the outlook for the next financial year for this vertical is very positive.

## **2.5. Asia Pacific**

### **Overview and Outlook**

In APAC, increasing the reach in the geography, securing a network of alliance partners, positioning of the Smart Build strategy and Progressive Modernisation services remained the key priorities for the year. Australia, New Zealand and Japan, all key markets in the region witnessed a wider acceptance of outsourcing as a strategy and India based service providers. The needs and drivers for this region are varied as the maturity of the markets is varied as well. Some of the common key trends observed were:

### **Banking & Financial Services**

Analyst reports indicate Banks and Financial Services organizations in the key markets of Australia, New Zealand, Japan, Taiwan, Singapore, Hong Kong and India increasing their spending on IT services and solutions. Banks and Financial Services organizations have shown a trend of going for a more solution-oriented approach towards modernizing their platforms to cater to growing demand for faster time to market in the developing markets. Significant demands for solutions have been in the areas of Consumer Finance, Wealth Management, Corporate Banking (Cash Management) and Capital Markets.

The Australian market has witnessed all the major financial institutions launching initiatives in modernizing their existing systems. Most of them have adopted SOA as part of these initiatives. In the Japanese market, the key emerging opportunity areas are in Mortgages, Lending and Credit Cards

The differentiated offering of Smart Build and Progressive Modernisation services has enabled positioning Polaris as a specialist player in the market. Significant challenges remain in terms of increasing awareness of Polaris in the key markets of Japan and Australia. Language and cultural barriers in relation to Japan also poses a challenge in realizing the potential in the Japanese Market.

In India, demand has picked up with several private sector banks going for implementation of next generation solutions to meet the demands of the market. Key opportunity areas include Intellect Cards, Credit origination, Custody solution, Wealth management solutions and customer relationship enhancement.

### **Polaris performance and outlook**

Polaris has been able to achieve significant progress on its key objectives of increasing its footprint in the target market segment of Tier 1 Banks and Financial Services organizations in Australia. In terms of market presence, the company was able to penetrate 3 of the top 5 Australian banks.

In Japan, the company has largely focused on the existing customers and in the latter half of the year, identified an alliance partner and is looking to form a partnership with this leading service provider. The focus has been to promote the Progressive Modernisation services in this market. With the successful implementation of Intellect at Shin Sei Bank and strong relationship with Toshiba and NEC, Japan market looks attractive.

The company has made an entry in other key markets such as Taiwan, Hong Kong and Thailand. Consumer Finance, Wealth management, Payment system found early warming and are the key drivers in this market. The licence revenue will be key driver from this market.

The emphasis has been to bring Polaris experts closer to the customers. The regional presence in APAC has been enhanced in Japan, Hong Kong, Australia and Singapore.

For the next financial year, the region is likely to maintain growth and increase its market presence in all the key markets of the region.

### **Major Client Wins & Funnel**

In FY2005-06, the company was able to achieve its primary target of penetrating the top financial institutions in every important market that it operates.

The average lead-time for conversion has been reduced by over 25%. The lead-time for conversion in FY 05-06 was 6 months as compared to 8 months in FY 04-05.

In order to create a more predictable funnel and address the issue of conversion, the company has engaged Revenue Storm, a leading US based Consulting firm; to provide high-end sales and relationship training to all its senior sales force members. The Revenue Storm Methodology for Revenue Acceleration and Demand Creation has proven been very effective.

Corporate Marketing has also introduced a dedicated Inside Sales team that operates from India to provide lead generation support to geography-based teams. This initiative has yielded results in terms of improving the number of qualified leads. In addition, the team undertakes periodic campaigns based on specific offerings and technologies in each market segment.

Polaris has brought about several changes at various levels in the organization to improve its operational capability and efficiency. The sales teams have increased substantially.

## **2.6. Large Account Management**

The company has restructured the global Large Account Management to be better aligned to service the top customers across the world. The company aims to engage each of the large banks and gradually convert them to large Polaris accounts. The accounts regarded as global accounts include the Citigroup, JP Morgan Chase, GE and Bear Stearns. It is expected that other key relationships with global organizations will also come under this structure once the relationship size attains a critical mass.

Given the importance of these key relationships, a dedicated top management executive has been put in charge of Global Account Management for the top accounts of the company.

A management structure that provides for an integrated relationship and global delivery management is now in place for all the designated Global Accounts. Each of the global accounts also has an Executive Sponsor from the top management of the company.

Each major business entity in a global account serviced in these accounts has a dedicated Account Director and Engagement Director combination to manage the relationship and global delivery to these entities.

The arrangement has been effective in raising the profile of Polaris amongst the key decision makers in these organizations and building higher-level relationships. Some examples of key client wins subsequent to the deployment of the account management framework are:

- ◆ 15 out of the Top 50 Banks in the World!
- ◆ 4 out of 7 High Street Banks in UK,
- ◆ 6 out of top 10 Wall Street Banks,
- ◆ 4 out of 7 large banks in Australia,
- ◆ 3 out of 4 top Private Sector Banks in India & globally,

Polaris has been successfully entering and building relationships with customers where there are larger service players involved.

## **2.7. Top Management Changes**

As part of the overall vision to bring in “Extreme Execution” and better manage the operations, the company has brought in seasoned and proven professionals in the top management.

### **Arup Gupta**

Arup Gupta has a rich experience of over 25 years at TCS, where in his last executive role as President – North America, he had successfully achieved a fivefold growth in a five-year time span.

Prior to being the President of North America at TCS, Arup nurtured one of the largest development centers for TCS in Mumbai at SEEPZ with more than 1,000 consultants working on more than 150 projects for clients

Under his leadership, the TCS - SEEPZ delivery center achieved Level 4 of the Software Engineering Institute’s Capability Maturity Model (SEI-CMM) - one of the single-largest software development centers to be assessed at this level. Arup has been involved with every single milestone in TCS’s journey so far.

An alumnus of the Indian Institute of Science (IISc) and a long standing member of the Institute of Electronics and Electrical Engineers (IEEE), Arup in his capacity as the President & COO of Polaris Software Lab Ltd is responsible for leading the Global Operations, Delivery and Sales functions of the company.

All BSCs and the Geography Sales organizations report into the COO. The COO office is responsible for Delivery, Resource and Sales enablement across the organization.

### **Arvind Mishra**

Arvind Mishra is the Executive Vice President & Global Head - Talent and Change. He is responsible for Human Resources and Organizational Change initiatives. Prior to joining Polaris, he was the Vice President, Human Resources, Applications Management Group, IBM Global Services. He was also the Partner and Head for the Human Capital practice at Andersen and at Ernst & Young, India, before moving to IBM Global Services. With over 17 years of experience, Arvind has extensive experience in talent acquisition & development, having worked closely with global and Indian clients. At Polaris his focus is on building a robust talent pipeline, engaging and retaining talent and building an alignment within the team and its reward systems to the organizations goals.

Arvind earned his MBA from XLRI Jamshedpur in 1988 . For over a decade, he has led. He has implemented changes in the People Strategy & Human Resources domain at IBM, Microsoft, Verifone (now HP), Standard Chartered, Barclays, ING, Telco, Mahindra, Srirams, Govt of AP, World Bank and Dubai Port Trust as a part of his consulting engagements. The Rajiv Gandhi Foundation named him the Young Manager for India in 2000.

The management structure and personnel changes have been done with a view to align the organization completely behind the vision and strategy of being a Solutions Provider of Choice to leading global financial institutions.

### **3.Strategy**

A detailed strategic and global review with a leading management consultancy firm confirmed that our strategy to transform our application development and maintenance (ADM) business lines from a cost-arbitrage based resource augmentation model to a solution based value proposition through the use of a hybrid model of services combined with Intellectual Property (IP) has the potential to significantly differentiate Polaris from the more generic IT services companies in the industry (confirmed by Prof. Michael Cusumano of MIT, at this year's NASSCOM summit in Mumbai).

Experience to date has shown that we are able to enter into new relationships based on 'point solutions', which can be delivered quickly and cost-effectively using our Smart Build SOA methodology. The 'point solutions' has reduced the cycle time to launch new products and services as bring down the cost per transaction for the bank. Once these relationships have been established we are in a position to propose a more comprehensive multi-year 'modernisation' programme, which we refer to as 'Progressive Modernisation'. Alongside this we can build out our other services, based on the clear delivery of quality and business value in the early stages of the relationship. For example our 'application

certification' practice PACE has been shown to be a natural complementary offering to Progressive Modernisation in improving the cycle.

Polaris' chose a specific niche with the overarching positioning as the "Provider of 'Progressive Modernisation Services' to the world's leading banks and financial institutions". The company is in the business of providing cutting-edge solutions aimed at optimizing technologies for global financial institutions. With a commitment towards innovation in technologies that have been pushing the edge-of-the-envelope for over two decades, the last financial year saw Polaris entering about 20 new relationships, each having the potential of becoming an AAA account.

The next level of articulation of this strategy on positioning would deliver:

- ◆ Proven point solutions dovetailing innovative processes and technology that have been delivered cost effectively and provided significant business benefits in terms of risk mitigation, total cost of ownership and time-to-market.
- ◆ Calibrated modernisation of existing platforms in a non-disruptive manner by way of deployment of 'next-generation' ("Smart Build") solutions that are Service Oriented Architecture (SoA) compliant and backward compatible.
- ◆ Application management services to maintain, reengineer, aggregate and upgrade portfolios of custom applications cost-effectively, by leveraging Polaris' continuously replenished warehouse of intellectual property.

In pursuing this overall strategy, Polaris has built three distinct growth engines –

1. **Intellect-Led Service Business**, that has been witnessed thru wins in UK, Middle East & new markets such as Latin America, Australia & the Nordic region
2. **Domain-Led Service Business**, validated by our entry into 6 out of the top 10 Global Investment Banks
3. Regular **Application Maintenance Services (AMS) Business**.

The next few years from 2006-08 will see some of the leading financial institutions gearing up for a wave of technology transformation. These banks had pioneered Technology Automation in the 70's and 80's. Industry Analysts have forecast that in the next 5 years, a significant chunk of the IT spends by Global Banks will be around modernisation of IT infrastructure. Polaris has signed up key alliances with Global System Integrators to offer business transformation solutions to such banks. With these partnerships, Polaris Investments in the last 3 years will be leveraged to cater to the emerging market for Platform migration/modernisation.

Polaris has been relentless in its pursuit of customer valued innovation that will perhaps set a new benchmark in some of the areas, defining how 'banks-of-the-future' will transact.

#### 4. **Intellect Suite – Platform for boundary less Banking**

There is growing evidence from leading market analysts such as Forrester and Gartner, of two converging trends in our target market of the leading banks in key geographies.

On the one hand the pressure to provide customers with a more consistent brand experience, to bring innovative products to market more quickly, to improve operational efficiency through continued process optimization and to implement comprehensive regulatory compliance programs, is driving leading banks towards existing core system replacement.

On the other hand a growing recognition of Service Oriented Architectures (SOA) as a viable approach to gradual and non-disruptive replacement of existing systems is leading these banks and insurance companies towards putting in place programmes to deliver short term business benefits through highly focused SOA initiatives.

Polaris is well-placed, as a result of strategic initiatives which have been executed in recent years, starting with the initial and ongoing investments in the Intellect suite of banking products and culminating in the rollout of our Smart Build SOA strategy across our retail and corporate banking, consumer finance, credit card, customer relationship management, wealth management and treasury and capital market practices, to benefit from the convergence of these trends. Based on the strategy of SOA and Progressive Modernisation described in the previous section we have spent the last year building out our product capabilities.

When the merger was completed two years back, we had the option of going to smaller banks in the Tier 3 & Tier 4 category with a ready-made product. But our strategy has always been to focus on leading banks that are trying to offer innovative products and solutions to their customers rather than target the large mass of banks that are merely trying to replicate what other banks have done. Therefore, we invested more into the product in order to build a next-generation product that will fulfill the demands of leaders, whether in size or in innovation. The merger enables Polaris to execute its 100-5-7 strategy in earnest. The 100-5-7 strategy calls for us to focus on building a small (but not too small) number of relationships (that is, of the order of 100), delivering 5 customer values: cost, quality, reliability, flexibility and time to market, using 7 levers (technology knowledge, domain knowledge, customer environment knowledge, process knowledge, tools, reusable components, and the energy and passion of people). The merger enables Polaris to bring to bear the components of the Intellect product suite (formerly called the Orbi suite), to build highly customized solutions (providing flexibility) thus enabling the customer to launch his products in his marketplace faster (the time to market dimension). With the merger, and in the years since then, Polaris has consciously invested in building the reusable components and developing the domain knowledge of its people, thus greatly strengthening the 7 levers of the 10-5-7 strategy.

We have seen tremendous validation of this strategy in the last 4 quarters, as our investments into the products helped us enter global banks in USA, Canada, United Kingdom, Germany, Australia, Japan, Singapore, UAE, Taiwan and Latin America.

We now have strong references for our Lending suite – covering the full spectrum of origination, loan processing and collections - in markets as diverse as Japan, Germany and the US as well as India and the Middle East.

Equally our initial success with Cards in the local market in India has resulted in opening up of new markets for consumer finance in Latin America.

We are also continuing to build out our Wealth Management proposition in the Asia Pacific region.

We have achieved a position of leadership with our Cash and Liquidity management offerings with leading banks in the UK market, providing an important stepping stone towards both the US and continental Europe markets.

A high-profile successful Money Market front-office legacy replacement project, won in direct competition with one of the world's leading treasury and capital markets product companies, has provided further evidence of the validity of our Smart Build 'hybrid' product and services strategy.

We are also starting to get good visibility for our progressive modernisation offering in Australia, a key 'early adopter' market for SOA.

As we gain momentum in these diverse markets and with a variety of different products the balance between initial investment and product enhancement based on partial or full customer funding, is gradually reducing the product investment burden.

Overall, the future prospects for the Intellect suite of products as well as the Smart Build value proposition and Progressive Modernisation offering look good, based on progress made to date.

Our product investments should be getting fully leveraged this year through our license-based deals thereby likely to improve our profitability considerably.

## **5. Human Resource Development**

The focus on the Talent and Change function over the last year and for the year going forward would be on the following aspects pertaining to the people part of the business:

1. Fulfillment
2. Retention
3. Profitability
4. Performance Management
5. Employee Satisfaction / Associate Delight
6. Building a stronger people brand for Polaris

In order to ensure that the Talent and Change function is aligned to these priorities on a day to day basis both at corporate as well as in the Geo / Business Units, these measures have been cascaded to entire Talent and Change team and going forward to reward system within the team will be aligned to the achievement in specific matrix linked to these priorities.

In the market today, there is a shortage of good talent at all levels. It is critical to maintain a good pipeline of talent for our business. We focus on project manager / senior consultant to form the core of the initial team. We have identified high performing Konarks as the core team for staffing on new assignments. These seasoned project manager / team leaders have been trained on client handling, project management, team work and account mining skills. Apart from this, we maintain a very healthy talent pipeline through recruiting domain consultants and experienced technical professionals from industry and recruitment of engineers

through the graduate recruitment. These candidates are molded through an in-depth induction and orientation program, and specific domain, technology and assignment related inputs that they may need to perform and progress in their role.

Over the last year, we have focused as an organization on the key priorities of our business and cascaded these priorities through a Balanced Score Card based performance management system that is deployed top down starting with COO and going down to all senior management associates at the stage. For the project managers / team leader, there is a direct correlation of the performance target with their project based assignments. In order to ensure that these accountabilities are linked to the reward system almost 10%-30% of the associate compensation is linked to their performance (10% at Executive level / 30% at the EVP level).

Apart from a robust fulfillment pipeline and strong performance management system, we also need to focus on a dynamic engagement / retention strategy for employee to ensure that they are clear about their responsibilities connected to the above priorities and energized to give in the best. We have initiated an employee satisfaction survey, which attempts to cover all employees in the organization, and are conducting a pro-active exit interview to identify key reasons why associates want to leave the organization. Both the employee engagement findings and exit interview findings are deployed Project Director wise to ensure that problem areas are identified and resolution take place at the field level. In order to support employee engagement, the organization has initiated a series of interactive interventions namely Town Hall Meetings, Hear Me Out sessions, Web based interaction

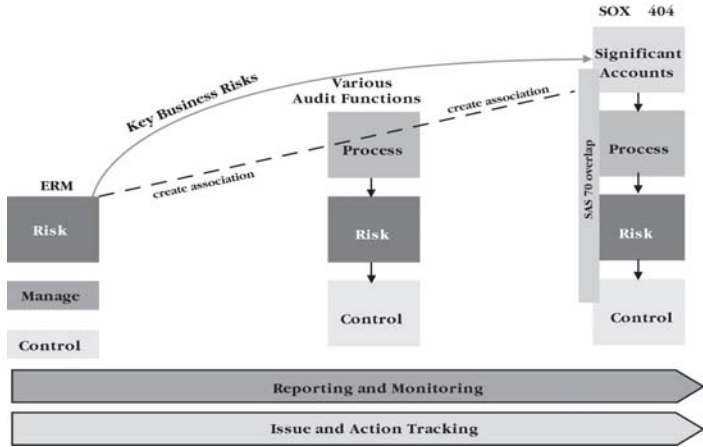
Our training initiative through Nalanda focuses on domain training, project management / team leader training and technical training linked to the business.

We had 8.5 days of training for the associates last year and plan to have 10 day training this year per associate. An organizations performance and its culture can only be as good as its leadership over a period of time. We also plan to do a 360-degree assessment for the entire leadership team in a simple user-friendly format and provide a quarterly input and coaching to the leadership team on these findings.

## 6. Risks

The Polaris Board in May 2005 discussed and adopted the Risk Manual and the proposed Risk framework presented before it with an assurance that the Risk mitigation steps would be embedded and will form part of all the key process followed in the company. Pursuant to this Polaris Software lab undertook a major exercise relating to identifying and mitigating risks at micro and macro levels.

Risks are classified into Macro or micro based on the scope of the impact on the organization and classified as corporate and non-corporate based on the level at which it needs to be identified and mitigated. This year based on the findings of a consultancy engagement with a noted Consultancy Company an organization structure to identify, report and mitigate the risks were put in place.



All risks would be handled based on the level best placed to mitigate the risk. External consultants were engaged to identify risks associated to each of the significant accounts. The perceived risks on each of the significant accounts on account of deficiencies in every process associated with those accounts were documented. The process owners were identified for each of the process and they were required to design a remediation plan to control perceived risks, which would eventually remove all the identified control deficiencies.

The detailed exercise of mapping all the financial reporting processes covered 90-95% of the significant accounts. Additionally the process of moving internal audit from a transaction based to a risk based one has also been initiated.

### 6.1. Risk Governance

The governance of risk in the organization is entrusted to a board appointed risk committee. The risk committee consists of the CEO, Group CFO and Head Quality & Project Risk as its members. This committee has been authorized to

**Figure 2: Risk To Organization Alignment**



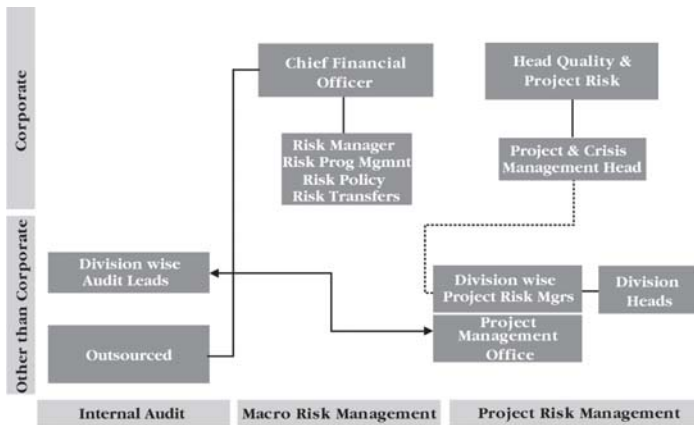
- ◆ Review and suggest changes to the risk manual as may be necessary from time to time,
- ◆ Adopt such processes and procedures to enable compliance and mitigate risk
- ◆ Further delegate such powers and authorize persons to implement the same as may be necessary.

This committee, to put in place the corporate risk management framework, aligned all critical risk management functions as illustrated.

An organizational structure aligned to risks illustrated in the adjacent figure was developed. Along with the change in structure major policies and procedures were also reviewed and implemented to help management at all the levels to be attuned to the risk management framework of the company.

The risks were broadly classified into macro financial and operational. All the macro financial risks were aligned under the Group Chief financial Officer while the Operational risks were aligned under the Head quality and project risks both of who are members of the board appointed risk committee. The risk organization is given below

**Figure 3: Risk Organization**



**6.2. Risk Identification Assessment Monitoring and control**

The members of the Polaris board authorized risk committee, developed policies and procedures to identify, monitor, escalate and control major corporate risks. Greater awareness of risks and their implications were communicated throughout the organization by training programs and review meetings. Polaris organization has developed a common color-coding methodology of “Red, Amber and Green” with corresponding context specific threshold limits. Various departmental and inter departmental meetings mandated at regular intervals at appropriate levels help in identifying assessing, monitoring and control of all identified risks.

### **Risk Manager**

The risk manager at the corporate level along with the internal auditors identify through audit any process deviations in existing policies and procedures or any new control deficiencies through periodic testing and evaluation of the existing processes.

The risk manager is also responsible for

- ◆ Conducting periodic surveys on the processes control deficiencies and corresponding remediation plans.
- ◆ Identification and maintenance of adequate risk coverage for major macro risks and also maintenance of the insurance dashboards for senior management review.

### **6.3. Risk Management Report**

This report details the risk factors and the steps taken by us to manage the same through the processes described above.

#### **Market Risks**

##### **Price Risks**

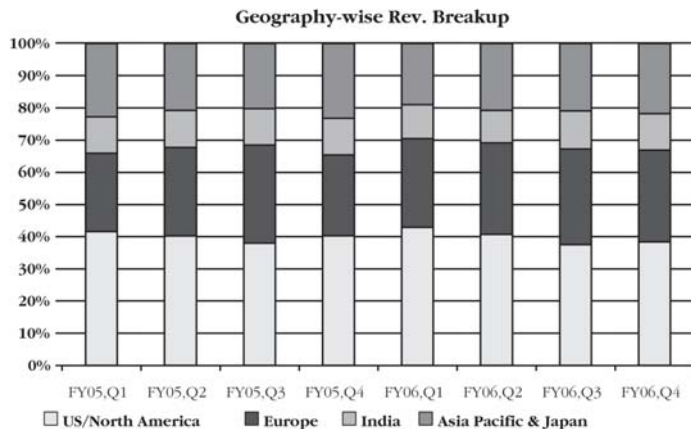
More and more global companies in banking and financial services market are opening their own local outfits in India resulting in internal outsourcing on the one side and larger number of such providers of technology services operating out of India on the other would constantly maintain pressure on prices. Global weakening of prices of technology outsourcing services would be one of the major market related risks. With this trend continuing Polaris management has chosen an IPR led solutions offering to the market. This strategy would reduce resource and effort requirements for similar solution offerings in the market from plain vanilla resource suppliers.

##### **Market Concentration Risk**

###### ◆ **Geographic Concentration**

Concentration of revenue from any country exposes us to the risks specific to its economic condition, global trade policies, local laws, political environment, and its diplomatic relationship with India etc. Each market has distinct characteristics pertaining to Costs of penetration, country risk maturity of the market for the products on offer, growth potential, price/profitability, therefore rigid limits on geographical concentration are not imposed. However it is monitored at the corporate level to balance any substantial skew in revenues. The following figure illustrates that the geographic revenue breakup has by and large remained stable throughout the last 8 quarters. The trend demonstrates that we have the most balanced portfolio across geographies.

**Figure 4: Trend in Geographic Revenue Breakup**



**Industry Concentration Risk**

As per most analyst research reports financial services and manufacturing (including discrete and process) rank first and second in IT services market size in the United States and worldwide. Industry analysts predict that although financial services demonstrate only moderate growth in industrialized economies, strong growth in most smaller-regions tends to place the financial industry ahead of average IT spending growth. Therefore we consciously have pursued a path of focusing on this sector as illustrated in the following table providing the trend in our industry-wise revenue breakup.

**Table 3: Industry-wise Revenue Breakup**

	Q1 '05	Q2 '05	Q3 '05	Q4 '05	Q1 '06	Q2 '06	Q3 '06	Q4 '06
BFSI	85.50%	85.60%	89.00%	90.00%	89.00%	88.00%	88.00%	88.00%
Emerging Verticals	14.40%	14.40%	11.00%	10.00%	11.00%	12.00%	12.00%	12.00%

**Technology Obsolescence risk**

Polaris provides global and contemporary financial solutions by partnering with other industry leading technology partners like Dot Net with Microsoft, BEA, and Oracle Corporation. It continuously invests in new technologies and new products based on new technologies to maintain currency.

These investments are charged to the P&L account as per the present policy but in case technological feasibility is established for the product so developed are used in future. Software development costs incurred subsequent to the achievement of technological feasibility are capitalized and amortized over estimated useful life of the products.

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 amortization period and the amortization method are reviewed at each period end. If the expected useful life of the product is shorter from previous estimates, the amortization period is changed accordingly. At present in Polaris the products are amortized over a period of five years

### **Security and Business Continuity**

Polaris has implemented a system for the management of information security in line with the standard BS 7799-2:1999. Accordingly, information security controls are implemented based on best practices and clients requirements. All offices located at Chennai, Mumbai, Hyderabad, Gurgaon and New Jersey have been assessed for information security compliance and are certified as BS 7799 compliant.

Polaris has well-defined corporate guidelines for Business Continuity Plan. We have established a management system in order to ensure the continuation and rapid recovery from failure or unexpected interruptions, if any, to business critical processes and operations including IT processes and systems.

Business continuity planning due to the round the clock availability requirements of the business are accorded very high priority. We have a Business Continuity committee consisting of members from the senior business management team, which is well supported by all infrastructure groups. Business continuity plans are in place for identified critical projects and tested periodically to meet any disaster and continue operations at an alternate office in the same city or at another city or another country outside India to an alternate facility based on severity of disruption.

### **Inflation of Cost structure**

A major cost in the IT services industry is the wage cost, which has the highest degree of inflationary certainty. Over the years the basic wage structure is expected to increase in response to the rising talent demand and macroeconomic trends. To de-risk, we have worked with governments, educational institutions and charitable organizations to increase the talent pool, provide extensive training to quickly enable employee skills and competencies. We also continue to put in place cost optimization programs in the organization and also embed cost management in the organization's culture.

### **Political Environment**

We operate in 15 countries around the world and political developments in any of these countries would have an impact on our performance to a greater or lesser extent. We feel that operation in multiple development centers in different countries is in itself a de-risking strategy for delivery related risks borne out of political risks.

Reducing our revenue exposure to countries with greater perceived politico-economic risk helps in mitigating market related risks arising out of a country's political climate.

### **Immigration Regulation**

Majority of our employees are Indian nationals. The ability of IT professionals to work in other countries depends on the ability to obtain necessary visas and work

permits. Immigration laws in different countries are subject to legislative change, as well as to variations in standards of application and enforcement due to political forces and economic conditions. It is difficult to predict the political and economic events that could affect immigration laws. To limit the risks posed due to visa related regulations of any single country, we focus on diversifying our operations in countries across the world. The other way to mitigate such risks is by partnering with local companies in project implementations.

### **Financial Reporting Risks**

The clause 49 of the listing agreement, which includes the CEO/ CFO certification, has served to herald a new era in corporate governance enforcement in the country. Under this sub-clause the CEO and the CFO shall certify that –

- ◆ They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief
- ◆ These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
- ◆ These statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- ◆ There are, to the best of their knowledge and belief, no transactions entered into by the company during the year that are fraudulent, illegal or violative of the company's code of conduct.
- ◆ They accept responsibility for establishing and maintaining internal controls for financial reporting and they have evaluated the effectiveness of the internal control systems of the company and they have disclosed to the auditors and the audit committee, deficiencies in the design or operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.
- ◆ They have indicated to the auditors and the audit committee
- ◆ Significant changes in internal control over financial reporting during the year;
- ◆ Significant changes in accounting policies during the year and the same have been disclosed in the notes to the financial statements; and
- ◆ Instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting.

Recognizing the concerns of the act to address, we sought early adoption of several of the act's requirements, well before the prescribed mandatory applicability dates in fiscal 2006. We formed a risk group within the business leadership team reporting to the audit committee. We also engaged external consultants and adopted a detailed project work plan to assess the adequacy of the internal controls over financial reporting, remediate any control deficiencies that may be identified and validate through testing that our controls are functioning as documented. During this fiscal we have completed the above project so as to enable in the CEO/CFO certification.

We prepare financial statements in conformity with Indian GAAP. This requires estimates and assumptions that affect the reported amounts of assets and liabilities,

disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the financial reporting period. These estimates and assumptions are made based on judgments about carrying values of assets and liabilities. Such judgments carry inherent reporting risks.

### **Exchange rate Risks**

Our functional currency (Capital and operating expenses) is the Indian Rupee although a major portion of our revenues is transacted in US Dollars. Exchange rate fluctuation introduces substantial amount of risks on our profits. Our positions in the forex markets are therefore entirely to protect our profitability. The company uses forward contracts to hedge its foreign exchange receivables. The level of the hedge is based on the market volatility. The company does not use the foreign exchange forward contracts for trading or speculation purposes.

### **Contractual compliance risk**

Litigations regarding adherence to deliverables and service level agreements, intellectual property rights, patents and copyrights are a challenge in the knowledge- dominated software industry. In addition there are other general corporate legal risks. The management has charted out a review and documentation process for contracts. This was further improved the contract clearance process to include multidimensional contract vetting process. The contract management team includes the legal, commercial and risk teams apart from external consultants.

Operational teams have been trained on compliance- related issues so that they ensure adherence to all contractual commitments.

### **Compliance with local laws**

We operate out of multiple countries across the world and must adhere to local laws, including employment laws as applicable to each of these countries. The geography heads are responsible for the operation and compliance to local laws of each of these locations/countries and to provide a monthly compliance certificate to compliance officer. This compliance officer, who also is the Head Legal and Company Secretary of Polaris, is responsible for the monitoring of any deviations in compliance and for reporting deviations to the board.

### **Intellectual property management**

Polaris prides itself as a niche player in the BFSI segment due to the knowledge it has developed in this segment. This knowledge is embedded in its products, components, procedures etc. Protection of its Intellectual Property Rights, it understands, is of utmost importance for its very existence. Therefore to guard against unauthorized usage of proprietary information, infringement upon or misappropriation of our products it relies on a combination of patent, copyright, trademark, design laws, trade secrets, confidentiality procedures and contractual provisions.

## **7. Group Companies**

### **7.1. Optimus Outsourcing Company Ltd.**

Optimus Outsourcing Company Limited, incorporated in September 2002, to spearhead the BPO initiative of the Group, has been able to establish its presence in the ITES segment, by its focused approach and offering end-to-end solutions in the BFSI segment. During the year the subsidiary recorded revenue of Rs. 12.20 Cr. with a growth of 300% over the previous year and a net loss of

Rs 5.85 Cr., which is lower than the previous year. During the year, Polaris invested an additional amount of Rs. 14.79 Cr.

The year 2005-06 started with Optimus signing on the first customer within 3 months of launching “Optimum”– complete card solutions. The first banking client is one of the largest credit card issuer in the Indian market, giving the mandate to provide collections services for credit cards. Starting from collections services, Optimus has expanded into providing services in several other areas for the Bank. This includes CRM services like Cross Sell, Up-sell, Retention and Usage Programmes for over 15 Retail Banking products spread across 240 locations in India supported through 6 languages.

The financial services segment that Optimus plans to focus upon worldwide is a huge market that offers the company ample scope for growth. For e.g. Tower group predicts that the global market potential of BPO in financial services to be worth over 80 billion euros in the next 5 years. With Optimus strengthening its sales presence in UK and the US, International business traction will definitely be accelerated in the new financial year. Payments and collections, Techport, CRM Operations, Mortgage Origination Processes Loans servicing will be some of the areas that Optimus will focus on in the US& UK markets.

Optimus’ key strengths are –

- ◆ A focused BFSI player
- ◆ Combination of proven technology and Process Expertise
- ◆ Domain knowledge
- ◆ Flawless and rapid execution for India and global markets.

With a robust foundation, Optimus capabilities in the financial services outsourcing space is now being recognized and we have been successful in getting our second major client - a major MNC Bank and a large player in the domestic Retail segment.

Optimus now has the challenge of developing a global footprint for its service portfolio.

The Optimus focus on providing integrated technology and a process service to specified verticals is a move that is finding favor with the analyst and client community alike.

The financial services segment that Optimus plans to focus upon worldwide is a huge market that offers the company ample scope for growth. For eg. Tower group predicts that the global market potential of BPO in financial services to be worth over 80 billion euros in the next 5 years.

As more and more financial institutions become open to outsourcing vertical processes, Optimus with its distinct service portfolio that offers the combined advantage of robust technology products and process expertise will definitely garner favor among discerning financial institutions.

The fact that clients value the domain knowledge brought to the table by Optimus, is well demonstrated by the process consulting assignments that the division has undertaken for clients across the globe.

Arun Jain, G N Mathur, T R Sridharan, Uma Krishnan, Prabal Basu Roy and R C Bhargava constitute the Board of Directors’ of the subsidiary as at 31st March 2006.

## **7.2.Polaris Retail Infotech Limited (PRIL)**

Polaris Retail Infotech Limited, incorporated in Nov 1998, to focus on the fast growing retail segment. PRIL is positioned as a reliable and financially strong company offering end-to-end software solution for retailers. Customer list includes well-known retailers in different sub-vertical, from Supermarket to Apparel/Footwear chain, from Home Furnishings to Furniture, and from Agri-Retail to Saree retail chain. During the year the subsidiary recorded revenues of Rs 3.40 Cr. and a net loss of Rs 1.08 Cr.

PRIL has, during the FY 2005-06, developed pre-configured, scaled down solutions to address the small retailer market for which we have coined the term “R2” market. Sales to R2 market are to be handled by Channels/Distributors. SAP recognized PRIL as a leader in India in retail software space, and has signed A1 VAR Partnership for selling and supporting SAP IS Retail solution in India. Microsoft has shown interest in “Retail Excel” solution and PRIL is invited in participating and showcasing the solution in various marketing events organized by Microsoft in major metros and mini metro in India.

During the year, PRIL was successful in -

- (1) Acquiring new corporate customers,
- (2) Replacing existing software used by retail customers with “Retail Excel”, and
- (3) Partnership with SAP for SAP IS Retail license sale and implementation.

Arun Jain, S R Ramaswami, Ashok Korwar , Aruna Kashinath and Mukesh Mathur constitute the Board of Directors’ of the subsidiary as at 31st March 2006.

## **7.3.Adrenalin eSystems Limited**

Adrenalin eSystems Limited was incorporated in May 2002 and is a Polaris associate company. Adrenalin’s is in the IT software business marketing Human Capital Management System (HCMS). Adrenalin HCMS provides end-to-end solutions in the HR life cycle of an employee, i.e. from “Recruitment / on-boarding” of an employee to “Exit” of an employee from the organization. In pursuit of this, Adrenalin has made investments in the last 4 years into the following:

1. Building Adrenalin Brand and making it synonymous with HRMS / HCMS
2. Building configurable product with inputs from market / customers
3. Building a product, which is simple to use so as to be available on everyone’s desktop
4. Developing the market and the eco system across India and UK, to begin with.

Adrenalin has been growing strong in the year 2005-06. Sales have grown by 50% over last year to Rs 4.10 Cr. Over the years, Adrenalin has signed up 125+ clients, across most industry verticals in India. The customer list includes leading industry names viz. HLL, Hero Honda, Samtel, Royal Sun Alliance, Dr.Reddy Labs, HDFC, Elililly, Kuoni Travels, AC Nielson, JM Morgan Stanley etc. During the coming year, the company is focused on adding re-sellers to its network. This network will enable the company to extend its market reach and usher into next growth phase

Adrenalin’s next growth phase would stem from innovative business models. As a precursor to this, starting this quarter Adrenalin offers, free HRIS software consisting of Personnel Information System and Employee Self Service Module

(ESS) under the tag of Adrenalin Smart. The power of this model is to extend the product reach in the market and cut down on the associated selling costs and decision-making time.

Most organizations would tend to use these modules for reasons of:

1. It provides a solution for the organizational pain area - Proper record of employee information.
2. Improves employee productivity and HR service levels thru ESS
3. Lastly since it is offered free, organizations particularly in the SME segment would be willing to try and adopt

Balaraman V , Arun Jain and Ashok Korwar constitute the Board of Directors' of Adrenalin eSystems Limited as at 31st March 2006.

#### **7.4.NMS works Pvt Limited**

NMS works software private limited was incorporated in May 2001 and is a Polaris associate company. The objective of the company is to provide NMS/OSS solutions to telecom operators in India. The company has developed “CygNet” which is a Network Management System (NMS) Software Product and is aimed towards improving efficiencies in Networks – Telecom, Corporate, or the next generation Convergent Networks.

The fiscal year 2005-2006 has been a year of transition for NMS Works. The year saw defining CygNet and the modules that manage each of the data and telecom networks as standard products and releases. A new product called CygNet Mediation server has been developed and deployed that facilitates easy and speedy integration of EMSs and network elements into CygNet.

Sunil K Kolangaru, S R Ramaswami, Sharad Naru, Timothy Gonsalves and Prof Mani Subramanian constitute the Board of Directors' of NMS Works Software Private Limited as at 31st March 2006.

#### **7.5.AIG Systems Solutions (AIGSS)**

AIG systems solutions private limited was incorporated in September 2002 and is a Polaris associate company. The company provides IT services in the insurance segment and a leading software support services provider to AIG.

During the year , AIGSS was successful in –

- ◆ Expanding the client base within AIG by providing services to more divisions like Life
- ◆ Being the only offshore vendor servicing all the major divisions of AIG and has achieved the highest offshore ratio among all AIG vendors

During 2005, AIGSS has organized itself as SBU's by the lines of business of its customers, namely –

- ◆ P&C
- ◆ Life and Retirement Services
- ◆ Financial Services
- ◆ Technology

This structure has enabled AIGSS to build domain knowledge within the organization and to ensure that the same is effectively preserved, reused, built-upon, and cross-fertilized across AIG companies

Mark Popolano , Warren Luedecker , Sunil Mehta , James Klinck , Gina Okum , Prasad Kolisetty , Prabal Basuroy constitute the Board of Directors' of AIG systems solutions private limited as at 31st March 2006.

#### **7.6. Overseas Subsidiaries**

##### **Polaris Software Lab Pte Ltd., Singapore**

Polaris Software Lab Pte Ltd, incorporated in Feb 1997 in Singapore to tap the huge potential of Singapore and other ASEAN markets. The present share capital is SGD 385,000. During the year, the subsidiary recorded a turnover of Rs.74.52 Cr. with a net profit of Rs.7.26 Cr.

Arun Jain, Ram Bhagwat, G N Mathur & Raymond Arogyaswamy constitute the Board of Directors of the subsidiary as at 31 March 2006.

##### **Polaris Software Lab Ltd UK**

This subsidiary got incorporated in June 1998 with its headquarters in London to address the UK Market. Current paid up share capital is GBP 889,000. The performance of the subsidiary has shown quantum jump, since its incorporation and the client list includes various high street banks. During the year the subsidiary recorded revenue of Rs.90.62 Cr. with net profit of Rs.3.09 Cr.

Arun Jain, G N Mathur, Aruna Kashinath, Kartik Kaushik and Koen Van De Brande constitute the Board of the Subsidiary as at 31 March 2006.

##### **Polaris Software Lab Japan K.K**

The subsidiary was incorporated in September 2001 with an initial share capital of JPY 10 million. The present share capital is JPY 20 million. During the year the subsidiary recorded revenue of Rs.20.89 Cr. with net profit of Rs.0.73 Cr.

Arun Jain, Govind Singhal & Bikash Mathur constitute the Board of Directors' as at 31 March 2006.

##### **Polaris Software Pty Ltd., Australia**

The subsidiary was incorporated in Nov 2000 with share capital of AUD 25,000. During the year the revenue recorded by the subsidiary was Rs.9.84 Cr. with net profit of Rs.0.66 Cr.

Arun Jain and Anil Verma constitute the Board of Directors as at 31 March 2006.

##### **Polaris Software Lab Ltd Ireland**

The subsidiary was incorporated in Feb 2001 and the present share capital is EUR 176,186. During the year the revenue of the subsidiary was Rs.2.53 Cr. with net profit of Rs. 0.45 Cr.

Arun Jain & G N Mathur constitute the Board of Directors as at 31 March 2006.

##### **Polaris Software Lab S.A, Switzerland**

The subsidiary was incorporated in Aug 2000 and the present share capital is CHF 350,000. During the year the revenue of the subsidiary was Rs.8.00 Cr. with net profit of Rs. 1.43 Cr.

Karl Dobler represents the Board as at 31 March 2006.

##### **Polaris Software Lab GmBH, Germany**

The subsidiary was incorporated in June 2000 and the present share capital is

EUR 600,000. During the year the revenue of the subsidiary was Rs.17.70 Cr. with net profit of Rs.0.55 Cr.

Bikash Mathur, Uwe Damian represents the Board as at 31 March 2006.

#### **Polaris Software Lab Canada Inc.**

Polaris Software Lab Canada Inc. Incorporated in June 2004 commenced its operations in 2005, with an investment of CAD 296,350 to provide near-shore support to the vast US Market. The operations of the Subsidiary continues to be in Investment phase

During the year the revenue of the subsidiary was Rs. 0.67 Cr and the operations resulted in a loss of Rs. 0.87 Cr for the year.

Rahul Petkar represents the Board as at 31 March 2006.

### **8. Forex & Hedging**

The company uses foreign exchange forward contracts to hedge its exposure depending on the market volatility and other conditions to cover against the risk. The use of these foreign exchange forward contracts reduces the risk or cost to the company and the company does not use the foreign exchange forward contracts for trading or speculation purposes. The gain on foreign exchange for the year was Rs. 4.96 Crores as against a gain of Rs. 2.47 Crores during the previous year 2004-05. The gain on foreign exchange during the year has been mainly due to better and effective Forex Management during a period of extreme volatility. The risk policy of the company provides the guidelines on hedging –

- ◆ The quantum of hedging is ascertained taking into account the market perception and risks
- ◆ The hedging details are reviewed by GCFO and reported to the Audit Committee
- ◆ Accounting Standard 11 is followed for treasury accounting

Foreign exchange hedging status as of 31<sup>st</sup> March 2005 and 31<sup>st</sup> March 2006 are provided in the following table:

**Table 4: Hedge Position**

<b>Particulars</b>	<b>31.3.2006</b>	<b>31.3.2005</b>
Amount of Foreign exchange hedged (US \$)	44,500,000	54,009,485
Profit/(Loss)for the year – Rs Crores	4.96	2.47

### **9. Financial Overview**

The financial statements are prepared under the historical cost convention, on accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) in India, 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 financial numbers represents the consolidated Polaris operations.

## **9.1. Balance Sheet as on 31<sup>st</sup> March 2006**

### **Sources of Funds**

As at 31 March 2006, the authorized share capital of the company was Rs.65.00 Cr. Comprising of –

- ◆ Equity shares of Rs 60.00 Cr. (120,000,000 equity shares of Rs 5 each)
- ◆ 11% Preference shares of Rs 5.00 Cr. (10,000,000 shares of Rs 5 each)

As at 31 March 2006 the total issued, subscribed & paid-up capital was Rs.49.11 Cr. (98,229,997 equity shares each of Rs 5). During the year, 219725 equity shares (Rs 0.11 Cr.) were allotted to 449 associates under various Associate Stock Option Plans.

### **Reserves and surplus**

Reserves & Surplus stood at Rs 491.78 Cr. as at 31 March 2006, an increase of Rs 9.69 Cr. compared to Rs 482.09 Cr. as on 31 March 2005

Transfer to the General Reserve from Profit & Loss Account for the year was Rs 1.32 Cr.

Premium received on shares issued to employees during the year was Rs 1.40 Cr. Foreign Currency Translation Reserve stands at Rs 0.91 Cr.

### **Application of Funds**

#### **Fixed assets**

Capital expenditure incurred during the year was Rs 71.98 Cr. Consequent to establishment of the commercial viability of the Intellect suite of Products starting from Dec 2004, the Company has not capitalized any further software development costs during the current year.

The charge towards depreciation & amortization increased from Rs 40.70 Cr. to Rs 49.45 Cr. due to increase in capital expenditure and amortization.

#### **Investments**

Investments of the Company comprise long term trade investments in associates and subsidiaries and non-trade, current investments.

a) During the year the company made additional investments in the following Associate companies-

- ◆ Subscribed for 12,460,000 7% Preference shares of Rs 5 each per share amounting to Rs 6.23 Crores during the year in Adrenalin eSystems limited. (Formerly Empower Works Limited)
- ◆ Subscribed additionally for 77,296 12% optionally convertible preference shares of Rs 10 each at a premium of Rs 57.92 per share amounting to Rs 0.53 Crores during the year in NMS Works Software Private Limited.

b) The Company's equity ownership interest in Adrenalin eSystems Limited (formerly Empower Works Limited) is 46.42 % as on 31 March 2006. Adrenalin eSystems Limited ("ASL") is primarily engaged in the business of providing specific solutions relating to Human Relations suite of software solutions and products and has been incurring losses. The Company believes that the accumulated losses to the extent of Rs 21.87 Crores as per the unaudited financial statements of ASL as on 31 March 2006 are on account of initial / start-up stage

of operations. The full version of the ASL's main product "Adrenalin" was launched in January 2006 and ASL's evaluation of the product's market acceptability is positive. The Company believes that, in pursuing business models based on mass adoption of similar technologies on global scale, the start up costs on brand building, product development costs and franchise acquisitions are significant and the international experience also suggests that the product companies have longer gestation period. Further, the promoters of ASL are committed to provide continued support to its operations and ASL is expected to generate profits in the future. Accordingly, there is no permanent diminution in the value of its investments in ASL and hence, it is stated at cost.

c) The Company's equity ownership interest in NMS Works Software Private Limited ("NMS") is 44.96% as on 31 March 2006. NMS is primarily engaged in the business of designing network management in Telecommunication and Internet Services. NMS has been incurring losses since its inception and based on the unaudited financials statements as at 31 March 2006, NMS had accumulated losses aggregating to Rs 4.90 Crores. Accordingly the Company has determined and recorded a provision of Rs 2.23 Crores for other than temporary diminution in the value of its equity investment in NMS based on its share in the equity holding.

#### **Cash & Cash Equivalents**

Cash and bank balances as at 31 March 2006 have increased to Rs 101.51 Cr. from Rs 80.89 Cr. as at 31 March 2005. Details of Cash & Bank balances are given below

**Table 5: Cash and Cash Equivalent**

<b>Particulars</b>	<b>Rs in Crores</b>
Cash In Hand	0.05
Cash in Current Account	33.64
Foreign Currency Account	55.81
In Bank Deposits	12.01
Total	101.51
Investments in Mutual Funds	20.18
<b>Grand Total</b>	<b>121.69</b>

Note - Average pre-tax yield on investments in mutual funds for the year was 6.23%.

The company's treasury policy calls for investing surpluses with highly rated companies, banks and financial institutions for short term maturities and with liquid mutual funds with a limit on investments in individual entities.

#### **Loans & Advances**

Loans and advances have increased to Rs.146.67 Cr. as at 31 March 2006 from Rs 143.17 Cr. in the previous year. Loans and advances balances include revenue in excess of billing of Rs.89.63 Cr. as at 31 March 2006 (Previous year: Rs.86.27 Cr.)

Loans to employees have decreased to Rs 2.85 Cr. as at 31 March 2006 from Rs 3.64 Cr. as at 31 March 2005.

### Deferred tax assets/liability

The company recorded deferred tax asset (net) aggregating Rs 2.64 Cr. as of 31 March 2006 (Liability of Rs 0.44 Cr. as at 31 March 2005). Deferred tax assets/liabilities represent timing differences in the financial and tax books arising out of depreciation on assets, investment provisions and provision for sundry debtors.

- ◆ Deferred tax liability towards fixed assets was Rs 5.86 Cr. as on 31 March 2006 as compared to Rs 6.96 Cr. as on 31 March 2005 – a reduction of Rs 1.10 Cr.
- ◆ Deferred tax assets towards sundry debtors were Rs 8.00 Cr. as on 31 March 2006 as compared to Rs 6.52 Cr. as on 31 March 2005 – an increase of Rs 1.48 Cr.

### Current Liabilities

Total current liabilities have increased by Rs 5.45 Cr., primarily on account of increase in sundry creditors by Rs 4.13 Cr. The following table gives details of current liabilities as at 31 March 2006.

**Table 6: Current Liabilities**

*In Rs. crores*

Particulars	31 <sup>st</sup> March 2006	31 <sup>st</sup> March 2005
Sundry creditors	85.96	81.83
Lease Obligations	1.49	2.45
Unclaimed dividends	0.25	0.20
Advances received from customers	0.18	0.35
Billings in excess of revenue	4.86	2.47
Total	92.75	87.30

### Provisions

Total provisions has decreased by Rs 3.30 Cr. compared to the previous year as detailed below:

**Table 7: Provisions**

*In Rs. crores*

Particulars	31 <sup>st</sup> March 2006	31 <sup>st</sup> March 2005
Provision for Gratuity	4.26	3.29
Provision for taxation (Net of Advance Income tax)	6.66	5.38
Proposed dividend	12.28	17.15
Provision for tax on proposed dividend	1.72	2.41
Total	24.92	28.23

### Liquidity and Capital

#### Funding

The company continues to maintain its trend of utilizing Internally Generated funds to meet the operational growth, normal capex requirements, Investments in Product portfolio and the funding needs of its Group Companies. Based on the present cash reserves and future operating income, the Company does not foresee any need for funding from any external agencies or institutions.

### Free Cash Flow

FCFF is an important measure to stockholders. This is the cash that is left over after the payment of all cash expenses and operating investment required by the Company.

*In Rs. crores*

Particulars	2005-06	2004-05
Cash from operating activities	78.35	122.34
Less: Capital expenditure	71.97	56.73
<b>Free Cash Flow</b>	6.38	65.61

Despite the reduction in Free Cash Flow, the Company continued to embark on the Capital expenditure programs to adequately equip itself to meet the future enhanced business needs and growth opportunities

### Accounts receivable

Sundry debtors (excluding unbilled debtors) net of provision as at 31<sup>st</sup> March 2006 are Rs 138.14 Cr. as against Rs 144.40 Cr. in the previous year. These balances are considered good and realizable. The company assesses the need for provisioning for doubtful debts based on collectibility, risk perception, and other general economic factors on every balance sheet date and necessary provisions, if required are made.

The days of sales outstanding were 61 days at the end of the current year, excluding unbilled debtors, down from 72 days in the previous year.

**Table 8: Days of Sales Outstanding**

	2005-06	2004-05
DSO	61	72

A dedicated team focuses on the receivables and consistent improvement is being shown to bring in more control and reduce the Days of Sales Outstanding (DSO).

### Buyback

With a view to increase shareholder value through enhancement of Earnings per share and return on capital, the company had embarked a programmed of share buy back. The Board of directors in April 2005 had approved buyback at a price not exceeding Rs 115 per share and upto 9.25% of the paid up capital and free reserves of the company as on March 31, 2005. The buy back period was effective from June 1, 2005. However as the Share prices were above the buyback price during majority of the buy back period, the company in the current year did not carry out buy back of shares and the open offer closed on November 9, 2005.

### Dividends

The company has a track record of delivering dividends to the shareholders in a consistent way. The table below shows the trend on dividend payouts.

**Table 9: Dividend Payout**

	2005-06	2004-05	2003-04	2002-03	2001-02
Dividend %	25	35	35	35	35
Dividend Payout%	58	30	24	31	15

## 9.2. Off Balance sheet adjustments and contractual obligations.

The estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) as at 31st March 2006 is Rs 12.64 crores (2005: Rs 18.91 crores)

As at 31st March 2006, the company has outstanding guarantees and counter guarantees of Rs 2.95 crores (2005: Rs 2.50 crores) issued to various banks, in respect of guarantees given by banks in favour of various government authorities. The company to certain category of the associates provides vehicles on lease.

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

Rs crores

Particulars	As at 31 <sup>st</sup> march 2006	As at 31 <sup>st</sup> march 2005
Not later than one year (A)	0.84	1.91
Later than one year and not later than 5 years (B)	0.81	0.87
Less: Amount representing future interest (C)	0.16	0.33
Present value of minimum lease rentals (A+B – C)	1.49	2.45

## 9.3. Profit & Loss Statement for the year ended 31<sup>st</sup> March 2006

During the year under operations, the Net Profit after Tax declined to 21.31 Crores. Compared to 58.03 crores, primarily due to the following factors: -

- ◆ Revenue stands at Rs 825 Crore as against Rs 787 Crore in the previous year
- ◆ Increase in Salary Costs - Impact of Salary Revision in line with IT industry
- ◆ Increase in Depreciation and Amortization due to charging off Software Development costs consequent to commercial launch of Intellect Suite of Products. Earlier, these development expenses were capitalized
- ◆ Increase in Taxes due to introduction of Fringe Benefit Tax
- ◆ Drop in Other Income

In summary, Revenue for the year reflected a growth of only 4.82%, as against an increase of 9.83% in cost compared to the previous year. The Company has initiated various measures as mentioned below which should get translated into enhanced Revenues in the coming years –

- ◆ Revalidated its strategy by a leading management consultancy firm
- ◆ Initiated value enhancement solutions offering through the use of hybrid model of services combined with Intellectual property, which will ensure significant differentiation of Polaris from the more generic IT services company in the industry
- ◆ Repositioned its offering in the market
- ◆ Retrained the sales force in the new method of Selling

Due to the above, the revenue growth has not been linear to the IT industry growth. The above measures are expected to create enough bandwidth for expansion leading to business transformation. The lead indicators are highly encouraging in terms of entry into Tier I and Tier II banks across geographies. Whilst the cost structure grew in line with the Industry, the revenue growth was

lower than anticipated impacting the profitability. During the year, the company has optimized and rationalized the cost structure and is geared up for revenue growth in the immediate future.

Please refer to the Director's Report for more details.

#### **Income from software development services and products**

Total revenue has increased to Rs. 813.27 Cr. in the current year from Rs.784.20 Cr. in the previous year, resulting in a growth of 3.71%. Export revenue has increased to Rs. 729.56 Cr. in the current year from Rs.695.43 Cr. in the previous year, resulting in a growth of 4.91%. Domestic revenue has decreased to Rs. 83.72 Cr. in the current year from Rs.88.78 Cr. in the previous year, resulting in a de-growth of 5.70%.

#### **Income from Business Process Outsourcing**

The income from Business Process Outsourcing is from the 100% owned subsidiary (Optimus). The total revenue has increased to Rs. 11.8 Cr. in the current year from Rs.2.91 Cr. in the previous year, resulting in a growth of 405%.

#### **Other income**

Other income includes foreign exchange gain of Rs.4.95 Cr. earned during the year compared to Rs.2.47 Cr. for the previous year. Foreign Exchange gains were despite extreme volatility in Rupee – Dollar movements.

As of 31st March 2006, the forex-hedged position was \$44.50 million at an average rate of Rs 45.69.

### **9.4. Cost Management**

The company has robust policy and process covering all areas of Costs. The automated systems and work flows support the cost review and approval process. The company has embarked on a productivity efficiency project to improve the utilization as well as the grade mix.

The primary cost drivers of the company are People related costs (Compensation & Benefits), Sales & Marketing Costs and Corporate Overheads. The company has introduced a business plan linked Expense Control mechanism.

#### **Software Development Expenses**

Software development expenses increased to Rs 562 Crores from Rs 504 Crores in the previous year. The increase is primarily due to salary revision, increase in onsite mix and also due to charging off of Software Development costs pertaining the development of Software Product consequent to establishment of the commercial acceptability of the Intellect suite of Products. Till Dec 2004, such software Development costs on Software Products have been capitalized.

**Table 10: Software Development Expenses**

Rs. In Cr

Particulars	Year ended 31st March 2006	% Of Revenue	Year ended 31st March 2005	% Of Revenue
Salaries and bonus including overseas staff expenses and outsourced consultants cost	462.94	56.11	409.71	52.05
Staff welfare	21.13	2.56	16.06	2.04
Contribution to provident and other funds	10.41	1.26	10.72	1.36
Travel Project	48.21	5.84	50.23	6.38
Consumables and computer maintenance	0.70	0.09	0.93	0.12
Communication expenses	17.81	2.16	15.51	1.97
License & Royalty	0.87	0.11	1.19	0.15
Total	562.07	68.12	504.35	64.07
<b>Total Revenue</b>	<b>825.07</b>	<b>100.00</b>	<b>787.12</b>	<b>100.00</b>

**Selling, General and Administration**

Overall SGA expenses had a marginal increase from Rs 180.58 Crores in the previous year to Rs 185.93 Crores . Selling expense primarily consist of Salaries, Travel, Advertising, and promotion. General Administrative Expense primarily consists of Salaries and related costs for administrative, executive, finance and Human Resource function. The increase in staff cost is mainly due to Headcount increase in geographies to cater to account management. However SGA expenses as a % of revenue decreased by 0.41% compared to the previous year.

**Table 11: Selling, Administration & other General Expenses**

Rs. In Cr

Particulars	Year ended 31st March 2006	% Of Revenue	Year ended 31st March 2005	% Of Revenue
Salaries and bonus including overseas staff expenses	86.82	10.52	80.30	10.20
Contribution to provident and other funds	3.85	0.47	2.41	0.31
Professional & Legal charges	13.28	1.61	16.43	2.09
Local traveling and conveyance	8.82	1.07	6.99	0.89
Rent	20.55	2.49	19.04	2.42
Business promotion	4.25	0.51	5.15	0.65
Power and fuel	10.89	1.32	10.35	1.32
Printing and stationery	1.75	0.21	1.60	0.20
Office maintenance	3.18	0.39	2.62	0.33

Provision for doubtful debts	7.79	0.94	9.24	1.17
Insurance charges	5.57	0.67	4.76	0.60
Advertisements	0.89	0.11	1.95	0.25
Bad debts written off	0.34	0.04	0.92	0.12
Rates and taxes	0.91	0.11	0.41	0.05
Repairs - Building	0.70	0.08	0.62	0.08
Repairs - Plant and machinery	4.65	0.56	2.16	0.27
Repairs - Others	6.79	0.82	7.66	0.97
Directors' sitting fees	0.04	0.00	0.03	0.00
Donations	0.15	0.02	0.25	0.03
Pre-operative and deferred revenue expenses written off	0.38	0.05	0.49	0.06
Miscellaneous expenses*	4.33	0.53	7.20	0.91
Total	185.93	22.53	180.58	22.94
<b>Total Revenue</b>	<b>825.07</b>	<b>100.00</b>	<b>787.12</b>	<b>100.00</b>

\* Includes Loss on sale of assets & Preliminary expenses write off.

Total costs have increased by 9.83% in the current year over the previous year.

### Multi Dimensional Cost Analysis

The table below represents the individual cost as a % to total cost.

**Table 12: Cost Matrix**

Particulars	% Of total cost	
	2005-06	2004-05
Staff Related Cost	73.3%	71.4%
Travel	7.1%	7.9%
Communication	2.2%	2.1%
Professional/Legal	1.7%	2.3%
Rent	2.6%	2.6%
Power & Fuel	1.4%	1.4%
Repairs & Maintenance	1.5%	1.4%
Depreciation	6.2%	5.6%
Finance Charges	0.1%	0.2%
Other Expenses	3.9%	5.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

### Depreciation & Amortization

Depreciation on fixed assets is provided pro-rata to the period of use, using the straight line method based on rates specified in Schedule XIV to the companies Act on estimated useful life of the assets, whichever is higher. The estimated

useful life considered for depreciation of fixed assets are as follows.

**Table 13: Asset Category wise Depreciation Rates & Estimated Useful Life**

Asset Category	Estimated useful life (years)	Rate of depreciation
Buildings	29	3.33%
Leasehold improvements	10	10%
Plant & Machinery	6-7	15%
Computer equipment and software	3	33.33%
Servers and computer accessories	5	20%
Electrical fittings, office equipments and furniture and fixtures.	10	10%
Vehicles	6	16.67%

Depreciation & amortization was Rs.49.45Cr. as compared to Rs 40.70 Cr. in FY 04-05 i.e. an increase of Rs. 8.75 Cr. The increase is due to change in the product capitalization policy from 1st January 2005 and increased depreciation on net capital additions of Rs.63.18 Cr. during 05-06.

Polaris has always believed in developing its own intellectual property (IP) and over the years has invested significant amount of resources in this development. All costs incurred towards development of these products were being capitalized from the technical viability stage till the product reached commercial viability. Since these products have gained acceptability with our customers, with effect from 1<sup>st</sup> Jan 2005, the capitalization of the expenses was discontinued. On the basis of an estimated useful life (calculated on the basis of Product Life Cycle, Technology obsolescence and competitor response) of the product of 5 yrs the capitalized expenses on products is being amortized over 60 months.

**Table 14: Product Amortization (of Capitalized SD&A expenses)**

Particulars	Amount inRs crores
Opening Balance as on 1.4.05	46.34
Amortization during the year	9.89
Closing Balance as on 31.3.06	36.45

### Income Taxes

Income tax for the year is Rs. 13.15 Crores comprises the following: -

- ◆ Income tax on Operations 12.46 Crores
- ◆ Deferred Tax Asset/Liability (3.06) Crores
- ◆ Fringe Benefit Tax: 3.75 Crores

## 10. Capital Markets

The following table provides the monthly trading volumes and the stock price movements

**Table 15: Trading Volume**

Month	Monthly High	Monthly Low	Monthly Average Rate	Monthly Trading Qty	Monthly Trading Volume in Rs. Million
April'05	119.20	92.25	108.01	18,134,572	1,959
May'05	104.70	92.55	97.36	10,866,210	1,058
June'05	124.50	99.00	115.06	25,089,960	2,887
July'05	147.50	113.70	134.13	36,065,122	4,838
Aug'05	152.90	130.50	143.52	30,918,248	4,437
Sep'05	160.00	127.40	147.55	27,246,317	4,020
Oct'05	160.00	95.55	119.27	18,593,572	2,218
Nov'05	134.95	97.50	120.66	29,635,269	3,576
Dec'05	145.45	123.00	135.71	26,002,587	3,529
Jan'06	138.95	114.00	131.69	12,878,751	1,696
Feb'06	119.00	103.30	111.35	11,375,156	1,267
March'06	125.00	107.50	116.57	14,194,187	1,655

*Source: National Stock Exchange*

**Table 16: Earnings Per Share**

	2005-06	2004-05	2003-04	2002-03	2001-02
EPS – Basic	2.17	5.93	7.17	7.76	11.50
No of Shares- in Lacs	982.3	980.1	977.0	702.56	511.87

## 11. Recognition/Awards

### 11.1. CMP-CyberMedia LLC award

Global Services ([www.globalservicesmedia.com](http://www.globalservicesmedia.com)), an international integrated media brand, owned by CMP-CyberMedia LLC recently released its exclusive annual listing of the Top 100 companies, including shortlists of leaders in ten service-delivery areas spanning BPO, ITO and customer care. Polaris emerged as a winner in the category of “Specialty Application Development” for its ability to cater to all aspects of the banking and financial services’ community with the value-add of extremely modular solutions based on Service Oriented Architecture (SOA).

**POLARIS SOFTWARE LAB LIMITED**

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Consolidated Financial Statement for the year ended 31 March 2006

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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 audited the attached consolidated Balance Sheet of Polaris Software Lab Limited and its subsidiaries as at March 31, 2006, the consolidated Profit and Loss account and the consolidated Cash Flow Statement for the year then ended. 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.
- 2 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 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 statement presentation. 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 5,804.82 lakhs as at March 31, 2006 and total revenues of Rs 24,043.38 lakhs 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, AIG Systems Solutions Private Limited and Adrenalin eSystems Limited (formerly known as Empower Works Limited) are yet to be audited and therefore un-audited financial statements for the year ended March 31, 2006 have been furnished to us by the management of Polaris Software Lab Limited. The attached consolidated financial statements include share of Rs 76.93 lakhs in the losses (Net) 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, 2006;
  - (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 **BSR & Co.**  
Chartered Accountants

**Subramanian Suresh**  
Partner  
Membership No: 83673  
Chennai  
April 27 2006

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES***(Rs in lacs)*

<b>Consolidated Balance Sheet as at</b>	Schedule	31 March 2006	31 March 2005
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Share Capital	1	4,911.50	4,900.51
Reserves and Surplus	2	49,178.52	48,209.49
		<u>54,090.02</u>	<u>53,110.00</u>
<b>LOAN FUNDS</b>			
Secured Loans	3	187.72	209.79
		<u>187.72</u>	<u>209.79</u>
<b>DEFERRED TAX LIABILITY</b>			
	11	-	43.54
		<u>54,277.74</u>	<u>53,363.33</u>
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>			
Cost	4	39,009.10	32,691.32
Less: Depreciation and amortisation		17,489.32	12,902.15
Net Book Value		<u>21,519.78</u>	<u>19,789.17</u>
Capital work in progress		2,242.78	1,837.22
		<u>23,762.56</u>	<u>21,626.39</u>
<b>INVESTMENTS</b>			
	5	3,309.61	6,328.59
<b>DEFERRED TAX ASSET</b>			
	11	263.83	-
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Cash and Bank balances	6	10,151.48	8,089.07
Sundry Debtors	7	13,814.43	14,439.93
Loans and Advances	8	14,667.46	14,317.84
		<u>38,633.37</u>	<u>36,846.84</u>
<b>CURRENT LIABILITIES AND PROVISIONS</b>			
Current Liabilities	9	9,275.12	8,730.49
Provisions	10	2,491.93	2,822.77
		<u>11,767.05</u>	<u>11,553.26</u>
<b>NET CURRENT ASSETS</b>			
		<u>26,866.32</u>	<u>25,293.58</u>
<b>MISCELLANEOUS EXPENDITURE</b>			
(to the extent not written off or adjusted)	12	75.42	114.77
		<u>54,277.74</u>	<u>53,363.33</u>

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 **BSR & Co.**

Chartered Accountants

**Subramanian Suresh**  
Partner

**Arun Jain**  
Chairman & Managing Director

**Arvind Kumar**  
Director

Membership No 83673  
Chennai  
27 April 2006

**Prabal Basu Roy**  
Group CFO & Executive Vice President

**M.P.Suresh Kumar**  
Company Secretary

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

**Consolidated Profit and Loss Account for the Year ended**

(Rs in lacs)

	Schedule	31 March 2006	31 March 2005
<b>INCOME</b>			
Software development services and products			
- Overseas		72,956.04	69,542.91
- Domestic		8,371.51	8,877.62
Income from Business Process Outsourcing (BPO)			
- Overseas		532.93	190.51
- Domestic		647.14	101.29
		<b>82,507.62</b>	<b>78,712.33</b>
<b>EXPENDITURE</b>			
Software development and BPO expenses	14	56,207.71	50,435.00
Selling, Administrative and other General expenses	15	18,592.70	18,058.17
		<b>74,800.41</b>	<b>68,493.17</b>
<b>Operating profit before interest, depreciation and amortisation</b>		7707.21	10,219.16
Finance charges	16	79.18	112.67
Depreciation and Amortisation		4,944.66	4,069.97
		<b>5,023.84</b>	<b>4,182.64</b>
<b>Operating profit after interest, depreciation and amortisation</b>		2,683.37	6,036.52
Other income, net	13	832.69	1,330.82
Less : Provision for (diminution)/reversal in value of investments		6.31	(0.25)
Less : Share of (Loss)/ Profit of Associate Companies		(76.93)	(487.19)
<b>Profit before taxation</b>		<b>3,445.44</b>	<b>6,879.90</b>
Income taxes - Current tax (Refer B (9) (V) b of Schedule 17)		1,245.91	1,458.98
- Deferred tax		(306.25)	(383.14)
- Fringe Benefit Tax		375.13	-
<b>Profit after taxation</b>		<b>2,130.65</b>	<b>5,804.06</b>
Profit brought forward from previous year		15,114.18	11,805.43
<b>Amount available for appropriation</b>		<b>17,244.83</b>	<b>17,609.49</b>
<b>Appropriations</b>			
Proposed Dividend		1,227.88	1,715.18
Tax on Proposed Dividend		172.21	240.55
Additional Tax paid on Dividend		-	4.58
Amount transferred to General Reserve		132.96	535.00
Balance carried to Balance Sheet		15,711.78	15,114.18
		<b>17,244.83</b>	<b>17,609.49</b>
<b>Earnings per share</b>			
(equity shares par value Rs 5 each)			
Basic		2.17	5.93
Diluted		2.17	5.90
<b>Number of shares used in computing earnings per share</b>			
Basic		98,091,912	97,833,640
Diluted		98,288,878	98,346,484

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 **BSR & Co.**

Chartered Accountants

**Subramanian Suresh**  
Partner

**Arun Jain**  
Chairman & Managing Director

**Arvind Kumar**  
Director

Membership No 83673  
**Chennai**  
**27 April 2006**

**Prabal Basu Roy**  
Group CFO & Executive Vice President

**M.P.Suresh Kumar**  
Company Secretary

## POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES

## Statement of cash flows for the Year ended

Particulars	<i>(Rs in lacs)</i>	
	31 Mar 2006	31 March 2005
<b>Cash flows from operating activities</b>		
Profit before taxation	3,445.44	6,879.90
Interest and dividend income considered separately	(207.95)	(309.89)
Exchange differences on foreign exchange translation of cash and cash equivalents	(2.32)	(78.98)
Depreciation	4,944.66	4,069.97
Provision for doubtful debts	779.34	923.94
(Profit) / Loss on sale of fixed assets	(4.82)	(6.16)
(Profit) / Loss on sale of Investments	(3.26)	8.62
Provision for diminution in value of investments	(6.31)	0.25
Share of loss on associate companies	76.93	487.19
Preliminary expenses written off	1.67	0.89
Pre-operative and deferred revenue expenses written off	37.68	49.19
Taxes paid (net)	(2,030.54)	(1,235.96)
<i>Changes in current assets and liabilities</i>		
Decrease / (Increase) in sundry debtors	(153.84)	1,735.77
Decrease/ (Increase) in loans and advances	322.79	(3,375.90)
Increase/(Decrease) in current liabilities and provisions	635.88	3,085.73
<b>Net cash flows from operating activities (A)</b>	<b>7,835.35</b>	<b>12,234.56</b>
<b>Cash flows from financing activities</b>		
Proceeds from share capital issued on exercise of stock options	10.99	15.55
Proceeds from share premium on exercise of stock options	140.02	217.30
Repayment of secured loans	(22.07)	(21.24)
Dividends paid during the year	(1,950.29)	(1,930.02)
<b>Net cash flows from financing activities (B)</b>	<b>(1,821.35)</b>	<b>(1,718.41)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of fixed assets	121.39	96.55
Purchase of fixed assets and changes in capital work in progress	(7,197.40)	(5,673.77)
Investment in associate companies	(675.50)	(470.70)
Advances to subsidiaries and associates (net)	(135.92)	843.62
Net decrease/ (increase) in non-trade investments	3,627.12	(3,380.02)
Interest and dividend received	207.95	309.89
<b>Net cash flows from investing activities (C)</b>	<b>(4,052.36)</b>	<b>(8,274.43)</b>
<b>Exchange differences on foreign exchange translation adjustments (D)</b>	<b>100.77</b>	<b>71.65</b>
Total increase / (decrease) in cash and equivalents during the year (A+B+C+D)	<b>2,062.41</b>	<b>2,313.37</b>
Cash and cash equivalents at the beginning of the year	8,089.07	5,775.70
<b>Cash and cash equivalents at the end of the year</b>	<b>10,151.48</b>	<b>8,089.07</b>

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

for **BSR & Co.**

Chartered Accountants

**Subramanian Suresh**  
Partner

**Arun Jain**  
Chairman & Managing Director

**Arvind Kumar**  
Director

Membership No 83673  
Chennai  
27 April 2006

**Prabal Basu Roy**  
Group CFO & Executive Vice President

**M.P.Suresh Kumar**  
Company Secretary

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

**Schedules to the Consolidated Balance Sheet as at**

*(Rs in lacs)*

**31 March 2006    31 March 2005**

**1. SHARE CAPITAL**

**Authorised Capital**

120,000,000 equity shares of Rs 5 each.	6,000.00	6,000.00
(2005: 120,000,000 equity shares of Rs 5 each)		
10,000,000 11 % preference shares of Rs 5 each.	500.00	500.00
(2005: 10,000,000 11% preference shares of Rs 5 each)		
	<b>6,500.00</b>	<b>6,500.00</b>

**Issued, Subscribed and Paid-up Capital**

98,229,997 Equity shares of Rs.5 each	4,911.50	4,900.51
---------------------------------------	----------	----------

(2005 : 98,010,272 Equity shares of Rs.5 each )

Of the above :

i) 17,062,550 equity Shares of Rs 5 each  
(March 31, 2005 : 17,062,550  
equity shares of Rs 5 each ) were issued as Bonus  
shares by capitalisation of securities premium  
account during the year 2001-02

ii) 45,850,549 equity shares of Rs 5 each  
(March 31, 2005 : 45,850,549 equity shares of Rs 5 each)  
were issued pursuant to a scheme of amalgamation of  
Orbitech Solutions Limited with the Company during  
the year 2002-03

	<b>4,911.50</b>	<b>4,900.51</b>
--	-----------------	-----------------

**2. RESERVES AND SURPLUS**

<b>General Reserve</b> - As per last balance sheet	15,154.15	14,619.15
Add : Transferred from Profit and Loss Account	132.96	535.00
	<b>15,287.11</b>	<b>15,154.15</b>

Foreign currency translation reserve

-As per last balance sheet	(7.32)	-
Add : Adjustment for the year	98.45	(7.32)
	<b>91.13</b>	<b>(7.32)</b>

**Securities Premium Account**

- As per last balance sheet	17,948.48	17,731.18
Add: Premium received on issue of shares under ASOP plans	140.02	217.30
	<b>18,088.50</b>	<b>17,948.48</b>

**Profit and Loss account balance**

	<b>15,711.78</b>	<b>15,114.18</b>
	<b>49,178.52</b>	<b>48,209.49</b>

**3. SECURED LOANS**

Loan from United Overseas Bank Ltd, Singapore (Secured by the legal mortgage of the properties of Polaris Software Lab Pte Ltd, Singapore )	187.72	209.79
	<b>187.72</b>	<b>209.79</b>

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**  
Schedules to the Consolidated Balance Sheet as at 31 March 2006

(Rs in lacs)

**4 FIXED ASSETS**

Assets	Cost		Depreciation and Amortisation			Net Book value	
	1 April 2005	Additions/ Adjustments	Deletions	1 April 2005	For the year	31 March 2006	31 March 2005
<b>A TANGIBLE ASSETS</b>							
1 Land (Refer Note 1)	1,096.15	207.03	-	-	1.60	1,301.58	1,096.15
2 Buildings (Refer Note 2)	5,839.12	1,961.17	-	647.76	237.45	6,915.08	5,191.36
3 Plant and machinery (including computer equipment, software and accessories)	13,412.51	3,716.17	18.61	8,259.35	3,324.73#	5,534.55	5,153.16
4 Electrical fittings	1,305.84	1,089.99	108.16	513.35	157.35#	719.66	792.49
5 Furniture, Fittings and Office equipment	4,153.13	661.21	39.00	1,500.36	78.74#	3,200.81	2,652.77
6 Vehicles (Refer Note 3)	776.09	137.27	308.29	506.45	155.84	203.46	209.64
<b>SUB-TOTAL(A)</b>	<b>26,582.84</b>	<b>6,791.84</b>	<b>474.06</b>	<b>11,427.27</b>	<b>3,955.71</b>	<b>17,875.14</b>	<b>15,155.87</b>
<b>B INTANGIBLE ASSETS</b>							
1 Software Products	5,508.58	-	-	874.98	988.95	3,644.64	4,633.60
2 Intellectual property rights	599.90	-	-	599.90	-	-	-
<b>SUB-TOTAL(B)</b>	<b>6,108.48</b>	<b>-</b>	<b>-</b>	<b>1,474.88</b>	<b>988.95</b>	<b>3,644.64</b>	<b>4,633.60</b>
<b>TOTAL(A+B)</b>	<b>32,691.32</b>	<b>6,791.84</b>	<b>474.06</b>	<b>12,902.15</b>	<b>4,944.66</b>	<b>21,519.78</b>	<b>19,789.17</b>
Previous year	24,322.52	8,585.63	216.83	8,787.81	4,069.97*	19,789.17	

Note 1: Land includes leasehold land. Gross Block Rs: 207.03; Net Block Rs: 205.43 (March 31, 2005: Gross Block Rs Nil; Net Block Rs Nil)

Note 2: Building includes leasehold improvements amounting to Rs 553.22 (March 31 2005: Rs 553.22)

Note 3: Vehicles include assets acquired under finance leases. Gross Block Rs 491.38; Net block Rs 147.74 (March 31 2005: Gross Block 661.25; Net Block Rs 193.89)

# After intra group adjustments

\* Net off Rs 170.87 being depreciation on asset used for development of software products that were capitalised.

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

**Schedules to the Consolidated Balance Sheet as at**

(Rs in lacs)

**31 March 2006      31 March 2005**

**5 INVESTMENTS**

**LONG TERM INVESTMENT (AT COST)**

**Software Sidoun GmbH Germany**

527.61      527.61

A company incorporated in Germany

Common stock of Euros 1,175,990

(March 31,2005: Common stock of Euros 1,175,990)

fully paid up

Less: Diminution in value of investments

(527.61)      (527.61)

-      -

**Eternet Inc.**

A company incorporated in USA

116.25      116.25

1,250,000 shares of US\$ 0.2 each

(March 31,2005 : 1,250,000 shares of US\$ 0.2 each) fully paid up

Less: Diminution in value of investments

(116.25)      (116.25)

-      -

**NMS Works Software Private Limited**

300.00      300.00

A company incorporated in India

500,000 Equity Shares of Rs.10 each (March 31,

2005:500,000 Equity Shares of Rs.10 each) fully paid up

Less: Share of Loss of Associate Company

(222.98)      (101.58)

77.02      198.42

224,524 12% Optionally Convertible Cumulative Preference

Shares of Rs. 10 each fully paid

152.50      100.00

(March 31,2005 : 147,228, 12 % Optionally

Convertible Cumulative Preference

shares of Rs 10 each fully paid up)

229.52      298.42

**Adrenalin eSystems Limited**

**( Formerly Empower Works Limited )**

733.88      733.88

A Company incorporated in India

12,078,080 Equity shares of Rs.5 each

(March 31,2005 : 12,078,080 Equity shares

of Rs.5 each ) fully paid up

Less: Share of Loss of Associate Company

(733.88)      (684.01)

-      49.87

12,460,000 7% Pref erence Shares of Rs 5 each fully paid

( March 31,2005 - Nil Shares )

623.00      -

(Refer Note B 8 (a) & (b) of Schedule 17)

623.00      49.87

**AIG Systems Solutions Private Limited**

326.70      326.70

A company incorporated in India

462,100 Equity Share of Rs.10 each

(2005 : 462,100 Equity Share of Rs.10 each) fully paid up

Add : Share of Profit of Associate Company

111.77      17.44

438.47      344.14

**( A )**

**1,290.99      692.43**

(Rs in lacs)

31 March 2006 31 March 2005

**5 INVESTMENTS (continued)****CURRENT INVESTMENTS NON TRADE**

(QUOTED)- Lower of costs and market value

**Mutual Funds**

Birla Bond Plus Institutional Plan - Div Payout Nil units (March 31,2005: 5,399,564 units) Face value: Rs 10 per unit	-	810.55
Birla Bond Plus Fund Long Term - Nil units (March 31,2005 : 2,408,593 units) Face value: Rs 10 per unit		
Birla Sunlife Cash Manager - IP - Daily dividend 3,013,250 units (March 31, 2005 - Nil units) Face value: Rs 10 per unit	301.39	-
ICICI Prudential Floating Rate Nil units (March 31,2005: 5,068,119 units) Face value: Rs 10 per unit	-	759.94
ICICI Prudential Long Term Floating Rate -Nil units (March 31,2005: 2,519,953 units) Face value: Rs 10 per unit		
Templeton Short Term Income Plan - Monthly Dividend Plan Nil units (March 31,2005: 29,362 units)	-	804.79
Templeton Long term Income Plan - Quarterly Dividend Plan Nil units (March 31,2005 : 4,877,562 Units ) Face value: Rs 10 per unit		
Deutche Short Maturity Fund - Monthly Dividend Plan Nil units (March 31,2005 : 2,952,320 units ) Face value: Rs 10 per unit	-	753.85
Deutche weekly dividend - Nil units (March 31,2005: 4,426,158 units ) Face value: Rs 10 per unit		
Deutche Insta Cash Plus 5,013,048 units (March 31,2005: Nil units) Face value: Rs 10 per unit	502.28	
GCDB Grindlays Cash Fund Floating rate fund - Nil units (March 31, 2005 : 1,003,835 units ) Face value: Rs 10 per unit	-	763.87
Long Term - Nil units (March 31,2005 : 2,504,711 units ) Face value: Rs 10 per unit		
HSBC - Cash Fund Institutional Daily Dividend Nil units (March 31,2005 : 3,931,171 units ) Face value: Rs 10 per unit	-	763.41
HSBC- Floating Rate - Long Term Plan Nil units (March 31, 2005 : 3,520,852 units ) Face value: Rs 10 per unit		

	<i>(Rs in lacs)</i>	
	<b>31 March 2006</b>	<b>31 March 2005</b>
HDFC Cash Management Fund - Savings Plan		456.08
Nil units (March 31,2005: Nil units)		
Face value: Rs 10 per unit		
HDFC Floating Income Fund Short Term Plan		
148,148 units ( March 31,2005 : 4,547,007 units )		
Face value: Rs 10 per unit	14.95	
Kotak Liquid Institutional Plan		529.99
Nil units (March 31,2005: 5,286,615 units)		
Face value: Rs 10 per unit		
Kotak FBP Series XV - Dividend		
12,000,000 units ( March 31,2005 - Nil Units )	1,200.00	
Face value: Rs 10 per unit		
	<hr/>	<hr/>
	2,018.62	5,642.48
Less :Provision for diminution in value of investments	-	(6.32)
<b>( B )</b>	<hr/>	<hr/>
	<b>2,018.62</b>	<b>5,636.16</b>
<b>(A + B )</b>	<hr/>	<hr/>
	<b>3,309.61</b>	<b>6,328.59</b>
	<hr/> <hr/>	<hr/> <hr/>

(Aggregate market value of the above investments as at  
31 Mar 2006 :Rs.2,019.50 ( March 31,2005: Rs 5,636.16)

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

Schedules to the Consolidated Balance Sheet as at

*(Rs in lacs)*

31 March 2006 31 March 2005

**6 CASH AND BANK BALANCES**

Cash on hand	5.36	8.77
Balances with scheduled banks		
- in current accounts	5,461.00	3,621.39
- in deposit accounts	1,200.69	945.31
Balances with non-scheduled banks in current accounts		
- Fleet Bank, New Jersey, USA	561.75	41.04
- Barclays Bank, UK	617.86	1,011.35
- Indian Bank, Singapore	0.47	0.45
- Citi Bank, Singapore	499.12	871.12
- ANZ Bank, Australia	382.97	366.58
- Dresdner Bank, Germany	355.77	338.26
- Ulster Bank, Ireland	204.47	69.61
- Bank of Tokyo Mitsubishi, Japan	91.54	261.77
- Citi Bank, Japan	294.51	-
- Chase Bank, New Jersey, USA	40.73	242.73
Balances with non-scheduled banks in deposit accounts		
- Fleet Bank, New Jersey, USA	435.24	310.69
	<b>10,151.48</b>	<b>8,089.07</b>

**7 SUNDRY DEBTORS**

Unsecured

Debts outstanding for a period exceeding six months.

- considered good	1,519.36	1,518.36
considered doubtful	2,716.75	2,014.51
Other debts -		
- considered good	12,295.07	12,921.57
- considered doubtful	72.83	
	16,604.01	16,454.44
Less: Provision for doubtful debts	2,789.58	2,014.51
	<b>13,814.43</b>	<b>14,439.93</b>

**8 LOANS AND ADVANCES**

(Unsecured considered good)

Advances recoverable in cash or in kind or for value to be received

Advance income tax (net of provision for tax)	1,179.70	642.09
Loans to employees	285.08	363.90
Loans to Employees Welfare Trust	766.14	926.65
Forward cover receivable	325.73	377.60
Other advances	83.95	163.04
Interest receivable	-	0.97
Revenues in excess of billings	8,963.07	8,627.33
Rent, maintenance and security deposits	1,676.29	1,582.00
	<b>14,667.46</b>	<b>14,317.84</b>

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

Schedules to the Consolidated Balance Sheet as at

(Rs in lacs)

	31 March 2006	31 March 2005
<b>9 CURRENT LIABILITIES</b>		
Sundry creditors	8,595.80	8,183.37
Lease Obligations	149.20	244.68
Unclaimed dividends	25.25	19.81
Advances received from customers	18.28	35.56
Billings in excess of revenue	486.59	247.07
	<b>9,275.12</b>	<b>8,730.49</b>
<b>10 PROVISIONS</b>		
Gratuity	425.88	329.19
Provision for taxation (net of Advance Income tax)	665.96	537.85
Proposed dividend	1,227.88	1,715.18
Provision for tax on proposed dividend	172.21	240.55
	<b>2,491.93</b>	<b>2,822.77</b>
<b>11 DEFERRED TAX (ASSET) / LIABILITY</b>		
Fixed assets	586.43	695.66
Sundry debtors	(800.22)	(652.12)
Others	(50.04)	-
	<b>(263.83)</b>	<b>43.54</b>
<b>12 MISCELLANEOUS EXPENDITURE</b> (to the extent not written off or adjusted)		
<b>Preliminary expenses</b>	4.12	5.01
Less: Written off during the year	1.67	0.89
<b>Balance Carried</b>	2.45	4.12
<b>Pre-Operative Expenditure</b>	110.65	149.11
Less: Written off during the year	37.68	38.46
<b>Balance Carried</b>	72.97	110.65
<b>Deferred revenue expenses</b>	-	10.73
Less: Written off during the year	-	10.73
<b>Balance Carried</b>	-	-
	<b>75.42</b>	<b>114.77</b>

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES****Schedules to the Consolidated Profit and Loss Account for the period ended***(Rs in lacs)***31 March 2006 31 March 2005****13 OTHER INCOME**

Interest received on deposits with banks and others	109.39	185.36
Profit on sale of investments, net	3.26	(8.62)
Dividends	98.56	124.53
Profit on sale of assets, net	4.82	6.16
Miscellaneous income (Refer B 10 of Schedule 17)	120.71	776.74
Foreign exchange fluctuation	495.95	246.65
	<b>832.69</b>	<b>1,330.82</b>

**14 SOFTWARE DEVELOPMENT AND BPO EXPENSES**

Salaries and bonus including overseas staff expenses and outsourced consultants cost	46,294.11	40,971.22
Staff welfare	2,113.08	1,605.70
Contribution to provident and other funds	1,040.80	1,072.43
Travel Project	4,821.45	5,023.45
Consumables and computer maintenance	70.29	92.54
Communication expenses	1,780.62	1,550.75
Licence & Royalty	87.36	118.91
	<b>56,207.71</b>	<b>50,435.00</b>

**15 SELLING, ADMINISTRATION AND OTHER GENERAL EXPENSES**

Salaries and bonus including overseas staff expenses	8,682.32	8,029.62
Contribution to provident and other funds	384.53	241.43
Professional and Legal charges	1,327.62	1,643.08
Local travelling and conveyance	881.98	699.30
Rent	2,055.45	1,903.51
Business promotion	424.81	514.56
Power and fuel	1,088.96	1,035.31
Printing and stationery	175.25	160.48
Office maintenance	318.19	261.80
Provision for doubtful debts	779.34	923.94
Insurance charges	556.65	476.09
Advertisements	88.80	194.58
Bad debts written off	34.00	91.94
Rates and taxes	90.70	41.47
Repairs - Building	70.07	61.89
Repairs - Plant and machinery	465.40	215.66
Repairs - Others	679.12	766.48
Directors' sitting fees	3.70	3.35
Donations	15.13	24.52
Pre-operative and deferred revenue expenses written off	37.68	49.19
Preliminary expenses written off	1.67	0.89
Miscellaneous expenses (Refer B (9) (iii) of Schedule 17)	431.33	719.08
	<b>18,592.70</b>	<b>18,058.17</b>

**16 FINANCE CHARGES**

Interest paid towards lease obligations	48.22	62.57
Bank and other charges	30.96	50.10
	<b>79.18</b>	<b>112.67</b>

**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****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.

<b>Subsidiaries</b>	<b>Country of incorporation</b>	<b>Proportion of ownership interest</b>
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 Software Lab Canada Inc	Canada	100%
Polaris Retail Infotech Limited	India	100%
Optimus Outsourcing Company Limited*	India	100%

\* Engaged in the Business Process Outsourcing business

The list of associates with percentage holding is given below.

<b>Associates</b>	<b>Country of incorporation</b>	<b>Proportion of ownership interest (%)</b>
Eternet Inc	USA	25.00%
NMS Works Software Limited	India	44.96%
Adrenalin eSystems Limited (formerly known as Empower Works Limited)	India	46.42%
AIG Systems and Solutions Private Limited	India	20.00%

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

The consolidated financial statements of the Polaris Group are prepared under the historical cost convention on the accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) in India, 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). Accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use. Management evaluates all recently issued or revised accounting standards on an ongoing basis.

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- Consolidated Financial Statements prescribed by the ICAI. In respect of investments made in Associate Companies, the principles prescribed under AS 23- Accounting for Investments in Associates in Consolidated Financial Statements issued by the ICAI, has been adopted in the preparation of these financial statements. All material inter-Company transactions and accounts are eliminated on consolidation.

**2. Use of estimates**

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.

Management periodically assesses using external and internal sources whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the asset and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset’s net sales price or present value as determined above. Contingencies are recorded when it is probable that a liability will be incurred, and the amount can be reasonably estimated. Actual results could differ from those estimates.

**3. 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 with respect to time-

**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.)**

and-material contracts is recognized as related services are performed. Revenue from fixed-price contracts is recognised 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 and time and material contracts wherein amounts have been billed in accordance with the billing cycle and efforts would be incurred subsequent to the period end.

**Product licenses and related revenues**

Revenues from product licenses and related services comprise income under multiple element arrangements recognized as follows:

- ◆ License fees and fees for customization/implementation services are recognized under percentage of completion method. Provision for estimated losses, if any, on incomplete contracts are recorded in the period in which such losses become probable based on current contract estimates.
- ◆ Product maintenance revenues are recognized over the period of the maintenance contract.

**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.

**Other Income**

Interest is recognized using the time-proportion method.

Dividend income is recognized when the company's right to receive dividend is established.

**4. 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.

**5. 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

**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.)**

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 and loss account.

**6. Depreciation**

Depreciation on fixed assets is provided using the straight-line method based on rates specified in Schedule XIV to the Act or on estimated useful lives of assets, whichever is higher. Individual assets costing less than Rs 5,000/- are depreciated at the rate of 100 %.

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

<b>Asset category</b>	<b>Estimated Useful Life (years)</b>
<b><u>Tangible assets</u></b>	
Buildings	29-55
Leasehold Improvements	10 or over the lease period if lower than the estimated useful life
Plant and machinery	6-7
Computer equipment and Software	3-10
Servers and computer accessories	5-10
Furniture and fixtures, office equipment and electrical fittings	5-10
Vehicles	6
<b><u>Intangible Assets</u></b>	
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 or the estimated useful life of the asset, whichever is lower.

Leasehold land is amortized over the period of lease.

**7. 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 capitalised and amortised over estimated useful life of the products. This capitalisation 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 AND SUBSIDIARIES**

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

**17 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 a period of five/ten 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.

**8. Foreign currency transactions and translations**

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

Exchange differences arising on foreign currency transactions are recognised in the profit and loss account except in respect of liabilities incurred for acquiring fixed assets from a country outside India, in which case such differences are adjusted to the cost of the fixed assets.

The financial statements of a non-integral foreign operation are translated into Indian Rupees as follows:

- (a) Income and expense items are translated at the average exchange rate for the period.
- (b) Assets and liabilities, both monetary and non-monetary, are translated at the closing rate.
- (c) All resulting exchange differences are accumulated in foreign currency translation reserve, which is reflected under reserves and surplus.

**9. Forward contracts in foreign currencies**

The Company uses foreign exchange forward contracts to hedge its exposure to movements in foreign currency rates. The use of these foreign exchange forward contracts reduces the risk or cost to the Company and the Company does not use the foreign exchange forward contracts for trading or speculation purposes. The premium or discount on all such contracts arising at the inception of each contract is amortised as income or expense over the life of the contract. Any profit or loss arising on the cancellation or renewal of forward contracts is recognized as income or as expense for the period.

In relation to the forward contracts entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date, the exchange difference is calculated as the difference between the foreign currency amount of the contract translated at the exchange rate at the reporting date, or the settlement date where the transaction is settled during the reporting period, and the corresponding foreign currency amount translated at the latter of the date of inception of the forward exchange contract and the last reporting date. Such

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

exchange differences are recognised in the profit and loss account in the reporting period in which the exchange rates change.

**10. Preliminary expenses**

Preliminary expenses represent pre-incorporation expenses incurred by the group towards formation of one of the subsidiary companies. These expenses are amortised over a period of five years.

**11. Preoperative expenses**

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

**12. 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.

**13. 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 of employment.

The Company estimates its liability as at 31 March and 30 September of each year based on an actuarial valuation.

***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 the trust rules. The Company has no further obligations under the Plan beyond its annual contribution.

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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.

**14. Income taxes and Deferred Tax**

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Group. The current tax provision and advance income tax as at balance sheet date have been arrived at after setting off advance tax and current tax provision where the Group has 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.

Consequent to the introduction of Fringe Benefit Tax (FBT) effective 1 April 2005, in accordance with the guidance note issued by the ICAI, the Company and its Indian subsidiaries have made provision for FBT under income taxes.

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to timing differences between the taxable income and accounting income. 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 recognised in the period that includes the enactment date.

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

The breakup 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, where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**15. 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 amortised on a straight-line

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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.

**16. Earnings per share**

The basic earnings per share is computed by dividing the net profit attributable to equity shareholders for the period by the weighted average number of equity shares outstanding during the period. The number of shares used in computing diluted earnings per share comprises the weighted average shares considered for deriving basic earnings per share and also the weighted average number of equity shares which would have been issued on the conversion of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as at the beginning of the period, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e.) the average market value of the outstanding shares. In computing dilutive earnings per share, only potential equity shares that are dilutive and that either reduce earnings per share or increase loss per share are included.

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

1. All amounts in the financial statements are presented in **Rupees Lacs**, except for per share data and as otherwise stated.
2. **Capital and other commitments**

The estimated amount of contracts remaining to be executed on capital account, and not provided for (net of advances) as at 31 March 2006 is Rs 1,264.12 (31 March 2005: Rs 1,891.66).

As at 31 March 2006, the Group has outstanding guarantees and counter guarantees of Rs.295.23 (31 March 2005: Rs 249.57) 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.

Particulars	As at	As at
	31 March 2006	31 March 2005
Not later than one year	83.55	191.06
Later than one year and not later than 5 years	81.42	86.94
	164.97	278.00
Less: Amount representing future interest	(15.77)	(33.32)
Present Value of minimum lease rentals	<b>149.20</b>	<b>244.68</b>

3. **Capitalisation of Product Costs**

As explained in Schedule 17, Note A (7) of Significant Accounting Policies, the Company has capitalised software development costs in December 2004 after establishing the commercial acceptability of the Intellect suite of products.

The details of the costs considered for capitalisation during the year are detailed below.

Particulars	Year ended	Year ended
	31 March 2006	31 March 2005
Salaries and wages	-	1,155.43
Premises costs	-	66.92
Power and fuel	-	53.79
Communication	-	72.89
Repairs and maintenance	-	55.93
Depreciation	-	170.87
<b>Total</b>	<b>-</b>	<b>1,575.83</b>

4. **Stock Option Plan**

The Company has four 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.

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

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 Remuneration and Compensation Committee administers the 2000 Plan. Under the Plan, based on the recommendation of Employee Remuneration and 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 2006 is presented below.

<b>Number of options granted, exercised, cancelled / surrendered and forfeited</b>	<b>Year ended 31 March 2006</b>	<b>Year ended 31 March 2005</b>
Options outstanding at the beginning of the year	748,510	1,091,255
Granted during the year	-	-
Exercised during the year	(55,600)	(97,200)
Forfeited /Surrendered during the year	(246,335)	(245,545)
Other adjustments	2,010	-
<b>Outstanding at the end of the year</b>	<b>448,585</b>	<b>748,510</b>

**Associate Stock Option Plan 2001**

The Shareholders of the Company in the Extraordinary General Meeting (EGM) held on 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 2006 is presented below.

<b>Number of options granted, exercised, cancelled / surrendered and forfeited</b>	<b>Year ended 31 March 2006</b>	<b>Year ended 31 March 2005</b>
Options outstanding at the beginning of the year	607,890	1,037,122
Granted during the year	-	-
Exercised during the year	(163,425)	(224,995)
Forfeited/surrendered during the year	(146,280)	(204,237)
Other adjustments	9,095	-
<b>Outstanding at the end of the year</b>	<b>307,280</b>	<b>607,890</b>

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During the year ended 31 March 2002, the Company announced and allotted bonus shares by capitalising a part of securities 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.

No fresh options can be granted under ASOP 2000 and ASOP 2001.

**Associate Stock Option Plan 2003**

The Shareholders of the Company in the 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. The market price under the 2003 Plan scheme prior to the revised SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999 (amended upto July 22, 2004), was 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. Consequent to the revised SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999, (amended upto July 22, 2004), the market price under the 2003 Plan scheme is the latest available closing price prior to the date of the meeting of the Board of Directors in which options are granted/shares are issued, on the stock exchange on which the shares of the Company are listed and, where there is highest trading volume on the said date. The option vests over a period of five years from the grant date.

A summary of the status of the 2003 plan at 31 March 2006 is presented below.

<b>Number of options granted, exercised, cancelled / surrendered and forfeited</b>	<b>Year ended 31 March 2006</b>	<b>Year ended 31 March 2005</b>
Options outstanding at the beginning of the year	2,178,950	-
Granted during the year	266,000	2,569,250
Exercised during the year	(700)	-
Forfeited/surrendered during the year	(589,400)	(390,300)
<b>Outstanding at the end of the year</b>	<b>1,854,850</b>	<b>2,178,950</b>

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**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****Associate Stock Option Plan 2004**

The Shareholders of the Company in the AGM held on the 22 July 2005 approved an Associate Stock Option Plan (the 2004 plan). The 2004 plan provides for issuance of 1,084,745 equity shares of Rs 5 each to the employees including Directors at the market price of the shares on the date of grant. The market price under the 2004 plan is the latest available closing price prior to the date of the meeting of the Board of Directors in which options are granted/shares are issued, on the stock exchange on which the shares of the Company are listed and, where there is highest trading volume on the said date. The option vests over a period of five years from the grant date.

No options have been granted as at 31 March 2006.

**5. 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.

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 Middle East.

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**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****Primary segment information**

<b>Particulars</b>	<b>Year ended 31 March 2006</b>	<b>Year ended 31 March 2005</b>
<b><u>Segment revenues</u></b>		
Banking and financial services	72,952.00	68,459.17
Emerging verticals	9,555.62	10,253.16
	82,507.62	78,712.33
<b><u>Segment profit before Finance charges and Tax</u></b>		
Banking and financial services	21,065.65	21,169.35
Emerging verticals	1,143.76	1,510.04
	22,209.41	22,679.39
Finance charges	(79.18)	(112.67)
Other unallocable expenditure net of unallocable income	(18,684.79)	(15,686.82)
<b><u>Profit before taxation</u></b>	3,445.44	6,879.90
Income taxes including deferred tax and fringe benefit tax	(1,314.79)	(1,075.84)
<b><u>Profit after taxation</u></b>	<b>2,130.65</b>	<b>5,804.06</b>

**Secondary segment information**

<b>Region</b>	<b>Year ended 31 March 2006</b>	<b>Year ended 31 March 2005</b>
<b><u>Segment revenues</u></b>		
United States of America	32,787.34	33,822.45
Europe	23,007.29	16,799.91
Asia Pacific	13,916.21	16,450.88
India and Middle East	12,796.78	11,639.09
	<b>82,507.62</b>	<b>78,712.33</b>

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

**6. Earnings per Share ("EPS")**

Reconciliation of basic and diluted shares used in computing EPS:

<b>Particulars</b>	<b>Year ended 31 March 2006</b>	<b>Year ended 31 March 2005</b>
Weighted average number of equity shares outstanding during the year – Basic	98,091,912	97,833,640
Add: Effect of dilutive issue of stock options to be converted	196,966	512,844
Weighted average number of equity shares outstanding during the year – Diluted	<b>98,288,878</b>	<b>98,346,484</b>

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.

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**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****7. Related party transactions**

Following are the related parties with whom transactions have taken place during the year:

<b>Associates</b>	
Eternet Inc. NMS Works Software Limited ('NMS') AIG Systems and Solutions Private Limited ('AIGSS')	Orbitech Employees Welfare Trust Adrenalin eSystems Limited (formerly known as Empower Works Limited) ('Adrenalin eSystems')
<b>Others (a)</b> (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 Polaris Holdings Private Limited	Orbitech Limited
(b) (enterprises that have a member of Key Management in common with that of the Group)Ullas Trust	
<b>Key management personnel</b> Mr. Arun Jain, Chairman and Managing Director	Mr. Govind Singhal, Executive Director (Up to 30 September 2005)

PARTICULARS	ASSOCIATES					OTHERS
	Adrenalin eSystems	NMS	AIGSS	Orbitech trust	Others	
<b>Balances due to / from related parties</b>						
Receivables - trade debts including unbilled revenues (net of provisions where applicable)	- (-)	- (-)	290.90 (189.05)	- (-)	- (-)	14,541.24 (9,946.37)
Receivables - loans and advances	107.72 (19.46)	- (-)	- (-)	766.14 (926.65)	- (-)	- (-)
Advance towards share capital	- (150.00)	- (35.00)	- (-)	- (-)	- (-)	- (-)
Payables	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)
Investments (net of provisions where applicable)	1,356.88 (733.88)	452.50 (400.00)	326.70 (326.70)	- (-)	- (-)	- (-)
<b>Related party transactions</b>						
Advances given/ (received)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)
Payments received against loan	- (-)	- (-)	- (-)	160.51 (168.59)	- (-)	- (-)

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**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****7. Related party transactions (Contd.)**

PARTICULARS	ASSOCIATES					OTHERS
	Adrenalin eSystems	NMS	AIGSS	Orbitech trust	Others	
Software development service income	- (-)	- (-)	1,391.62 (421.74)	- (-)	- (-)	47,937.71 (41,641.31)
Software development expenses	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)
Reimbursement of expenses to the Company	88.26 (9.46)	- (-)	3.72 (92.61)	- (-)	- (-)	75.07 (26.64)
Reimbursement of expenses by the Company	- (-)	- (-)	- (-)	- (-)	- (-)	107.12 (115.28)
Lease Payments	- (-)	- (-)	- (-)	- (-)	- (-)	117.80 (117.80)
Investments	623.00 (144.00)	52.50 (-)	- (326.70)	- (-)	- (-)	- (-)
Advance towards share capital (net of allotments)	- (150.00)	- (35.00)	- (-)	- (-)	- (-)	- (-)
<b>Related party transactions contd.</b>						
Donations	- (-)	- (-)	- (-)	- (-)	- (-)	6.66 (19.43)
Provision for investments	- (-)	216.65 (-)	- (-)	- (-)	- (-)	- (-)
<b>Maximum balance outstanding during the year</b>						
Receivables - trade debts including unbilled revenues (net of provisions where applicable)	- (-)	- (-)	520.79 (68.98)	- (-)	- (-)	13,813.02 (9,441.94)
Receivables - loans and advances	107.71 (19.46)	- (-)	- (-)	926.65 (1,095.24)	- (-)	- (-)
Payables	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)

Details of remuneration and other amounts paid/payable to directors is Rs 89.69 (31 March 2005: Rs 290.18)

The Group has made a provision towards consideration in connection with retirement from office of a director amounting to Rs 50 during the previous year. No options have been allotted to any of the directors during the current year (31 March 2005- Nil)

Amount received under pre-merger contingencies are given in note B(10) of schedule 17.

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**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****8. Investments in Associates**

- a) The movement during the year comprises of the following:
- ◆ Subscribed for 12,460,000 7% Preference shares of Rs 5 each per share amounting to Rs 623.00 during the year in Adrenalin eSystems Limited (formerly Empower Works Limited);
  - ◆ Subscribed additionally for 77,296 12% optionally convertible cumulative preference shares of Rs 10 each at a premium of Rs 57.92 per share amounting to Rs 52.50 during the year in NMS Works Software Private Limited.
- b) The Company's equity ownership interest in Adrenalin eSystems Limited (formerly Empower Works Limited) is 46.42 % as on 31 March 2006. Adrenalin eSystems Limited ("ASL") is primarily engaged in the business of providing specific solutions relating to Human Relations suite of software solutions and products and has been incurring losses. The Company believes that the accumulated losses to the extent of Rs. 2,187.43 as per the unaudited financial statements of ASL as on 31 March 2006 are on account of initial / start-up stage of operations. The full version of the ASL's main product "Adrenalin" was launched in January 2006 and ASL's evaluation of the product's market acceptability is positive. The Company believes that, in pursuing business models based on mass adoption of similar technology on global scale, the start up costs on brand building, product development costs and franchise acquisitions are significant and the international experience also suggests that the product companies have longer gestation period. Further, the promoters of ASL are committed to provide continued support to its operations and ASL is expected to generate profits in the future. Accordingly, there is no permanent diminution in the value of its investments in ASL and the share of loss is also restricted to the extent of equity.

**9. Litigation, claims and contingencies****(i) 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 earlier year, the parties 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

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

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 appointed a mediator and then conducted a Settlement conference to resolve the matter amicably, which also proved unsuccessful.

The Company subsequently filed a motion to dismiss the remaining claims asserted by Arun Verma and Data Inc (Plaintiff) on 6 October 2005 in the District court of New Jersey. The District Court granted the company's motion by way of a final judgment dismissing any and all claims remaining in the lawsuit. However Data Inc on 12 December 2005 has filed an appeal against the final judgment in the court of appeals. 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.

**(ii) 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 Company can successfully resist the claim.

**(iii) Bank of Artha Graha**

During the previous year, the Company entered into a settlement with Bank of Artha Graha (BAG) and agreed to make full restitution to BAG of sum of 1,000,000 USD (Rs 462) received under the licence agreement. The said amount was paid to BAG and the charge to the profit and loss account has been included under Miscellaneous expenses (Refer Schedule 15).

**(iv) Others**

The Company is also involved in other lawsuits, 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.

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**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****(v) Income Tax Matters**

	31 March 2006	31 March 2005
Income tax in dispute	790.04	1,803.45

- a) Income tax appeals with Commissioner of Income tax (Appeals) for the assessment years 2001-02 and 2002-03 have been partly allowed in favour of the Company. However, both the income tax department and the Company have gone on appeal against these orders before Income Tax Appellate Tribunal

The Company, during the year, received an order from the income tax department on completion of assessment for the assessment year 2003-04 on similar grounds like in earlier years. The Company is in the process of filing appeal and stay petition against this order also.

- b) Current taxes include an amount of Rs 139.26 relating to earlier years paid arising on account of assessment made by the overseas tax authorities.

10. Miscellaneous income of previous year includes Rs 750 received from Orbitech Limited, the erstwhile shareholder of Orbitech Solutions Limited (which has been amalgamated with Polaris Software Lab Limited on 1 November 2002) towards the pre merger contingencies and/or any merger related matters.

11. Previous year figures have been regrouped/reclassified, wherever necessary, to conform to current year's presentation.

**FREQUENTLY ASKED QUESTIONS**

General

**Where and in which year was Polaris Software Lab Ltd incorporated?**

In Chennai, on 5<sup>th</sup> January 1993.

**Who is the promoter of Polaris Software?**

Arun Jain.

**Where does Polaris have its headquarters?**

Polaris House, 244, Anna Salai, Chennai 600006, Tamil Nadu, India.

**What is the paid-up-capital of Polaris?**

The paid-up capital of Polaris is Rs 49.11 Crores comprising 98,229,997 equity shares of Rs 5 each (as on 31<sup>st</sup> March 2006).

**Where are Polaris offices and development centers located?**

- ◆ Headquarters, Registered and Corporate Office in Chennai, India
- ◆ 10 engineering centers in India
- ◆ Subsidiaries in Singapore, Germany, Switzerland, Australia, Ireland, UK, Japan, Canada and two in India
- ◆ Branch offices in Chicago, New Jersey, and Fremont in the USA
- ◆ Branch offices in Mumbai, Hyderabad, Bangalore and Gurgaon in India
- ◆ Branch offices in Dubai, Bahrain, and Riyadh in the Middle East, and
- ◆ Office in Hong Kong and Vincennes (France).

**Who are on the Polaris Board of Directors?**

The Board of Directors comprises senior and experienced professionals from diverse backgrounds:

- ◆ Arun Jain, Chairman & Managing Director and CEO
- ◆ Abhay Agarwal, Practising Chartered Accountant
- ◆ Ajit Bhushan, Managing Director, Citigroup Venture Capital International
- ◆ Anil Khanna, Managing Director, Citigroup Venture Capital International
- ◆ Arvind Kumar, Senior Lawyer, Supreme Court
- ◆ Ashok Jhunjunwala, Professor - Department of Electrical Engineering, Indian Institute of Technology, Chennai
- ◆ Nanoo G Pamnani, Director-Strategic Technology, Operations & Special Projects, Citi Bank N.A., Asia-Pacific Consumer Group
- ◆ R.C.Bhargava, Former Chairman & Managing Director, Maruti Udyog Ltd.
- ◆ Raju Venkatraman, President & COO, ICICI OneSource
- ◆ Satya Pal, Former Secretary (Telecom), Chairman MTNL, and Telecom Expert

**What is the Vision statement of Polaris?**

“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?**

“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 for Citibank India
- ◆ 1995 - Quality process aligned to SEI-CMM Level 3
- ◆ 1997 - First overseas development center for Citibank, NA
- ◆ 1997 - Citicorp Finance takes 18% venture capital stake at a valuation of Rs 50 Crores
- ◆ 1997 - Wholly owned subsidiary in Singapore
- ◆ 1997 - Wholly owned subsidiary in the USA
- ◆ 1998 - ISO 9001 Certification by KPMG
- ◆ 1998 - UK subsidiary
- ◆ 1998 - Quality process aligned to SEI CMMI Level 4
- ◆ 1998 - Polaris Retail Infotech formed in Chennai
- ◆ 1998 - ISO 9001 certification
- ◆ 1999 - IPO and listing on major Indian stock exchanges
- ◆ 2000 - 'Foundation', a state-of-the-art 130,000 sq ft development center in Chennai
- ◆ 2000 - Subsidiaries in Germany, Switzerland and Australia
- ◆ 2001 - Subsidiaries in Japan and Ireland
- ◆ 2001 - First company in the world to be assessed and certified CMMi Level 5 (Capability Maturity Model Integrated) by the Software Engineering Institute
- ◆ 2001 - Commenced operations in Japan
- ◆ 2002 - Optimus BPO subsidiary launched
- ◆ 2002 - Business continuity center in Singapore
- ◆ 2002 - Merger of OrbiTech Solutions Ltd with Polaris Software
- ◆ 2003 - 'Polaris Towers', a 90,000 sq ft development center in Gurgaon.
- ◆ 2004 - Exclusive 300 associate Center of Excellence facility in Mumbai for Financial Risk Management (FRM)
- ◆ 2004 - Launched Polaris Intellect Suite of products for banking solutions
- ◆ 2004 - Set up 111,700 sq ft Intellect Engineering Center spread over eight acres in Chennai
- ◆ 2005 - Launch of Diploma Program in Financial Technology with IFMR
- ◆ 2005 - Incorporation of Subsidiary in Canada
- ◆ 2006 - Polaris Software enters Belfast

**What are the significant awards / recognition received by Polaris?**

- ◆ February 2006, Polaris has been awarded the Leader in the category of "Speciality Application Development" among the Top 100 global companies from Cyber Media Publications for the year 2006.
- ◆ January 2006, The Institute of Company Secretaries of India, New Delhi rated Polaris among the top 25 companies with best practices and procedures on Corporate Governance in ICSI CG Award 2005 for the 3<sup>rd</sup> consecutive year.
- ◆ June 2005, Polaris ranked 9<sup>th</sup> in NASSCOM Top 20 Exporters List for 2004-05.

- ◆ December 2004, Polaris rated among the top 25 companies with best practices and procedures on corporate governance by the Institute of Company Secretaries of India, New Delhi for the 2<sup>nd</sup> consecutive year.
- ◆ July 2004, Polaris ranked 9 in NASSCOM Top 20 exporters list for 2003-04
- ◆ July 2004, Polaris ranked 12 in DQ Top 20
- ◆ March 2004, Gold Award in the print category for Annual Report – Advertising Club of Madras.
- ◆ January 2004, Mother Teresa Corporate Citizen of the Year 2003.
- ◆ December 2003, Rated among Top 25 by Institute of Company Secretaries of India, New Delhi.
- ◆ June 2003, Polaris Software product wins The Banker Technology Award 2003
- ◆ October 2002, Forbes ranks Polaris among Top 200 best small companies in the world
- ◆ April 2001, Fastest Growing Company by Business World
- ◆ December 2000, Forbes ranked Polaris among world's best small companies
- ◆ October 2000, Polaris ranked among 'Fab Five' companies in India by Intelligent Investor

#### **What are the quality certifications received by Polaris?**

- ◆ Polaris is the world's first company to be appraised at CMMi Level 5 (Capability Maturity Model Integrated).
- ◆ Polaris has been certified as ISO 9001:2000 by KPQR.
- ◆ Polaris has been certified as BS-7799 Part 2 : 2002 compliant by STQC, New Delhi.

#### **What is the employee strength and profile?**

As on 31<sup>st</sup> March 2006, Polaris had 6,044 associates (Polaris employees are called associates). The academic profile of our associates is as follows:

#### **Academic profile of our associates**

<b>Qualifications</b>	<b>Associates (%)</b>
Diploma/ Graduate	<b>16</b>
B.Tech / BE / M.Sc / MCA	<b>63</b>
MBA/ PG Diploma	<b>12</b>
M.Tech.	<b>2</b>
Ph.D.	<b>1</b>
CA	<b>1</b>
Other Masters	<b>5</b>
<b>Total</b>	<b>100</b>

## Financial

### In which stock exchanges are Polaris shares are listed and traded?

#### *Polaris shares are traded on:*

- ◆ MSE: Madras Stock Exchange w.e.f. 27 September 1999.
- ◆ BSE: The Stock Exchange Mumbai w.e.f. 29 September 1999.
- ◆ NSE: National Stock Exchange w.e.f. 24 November 1999.

### What is the fiscal year of Polaris?

The fiscal year period of Polaris is between 1 April and 31 March.

### Does Polaris issue quarterly financial reports and balance sheets?

Quarterly financial reports of Polaris are published for the quarters ending 30 June, 30 September, 31 December and 31 March.

### When did Polaris have its initial public offer (IPO)?

The Polaris IPO was between 4 August 1999 and 10 August 1999. The public issue was at Rs 210 (Rs 200 premium and face value of Rs 10)

### What was the initial listing price?

The initial listing price of Polaris equity shares was:

- ◆ BSE opening Rs 588 and closing price of Rs 723 (Rs10 share)
- ◆ NSE opening Rs 796 and closing price of Rs 797 (Rs10 share)

### Has Polaris made any subsequent issue of shares?

- ◆ **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 subdivided from Rs10 to Rs5 with effect from 24 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 Rs17.06 crores to Rs25.59 crores 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 crores divided into 97,389,089 shares of Rs 5 each

### What has been Polaris' employee (associate) strength vis-à-vis the revenue growth?

Year	Associates	Revenue (Rs. Crores)
1998-99	915	82.39
1999-00	1,465	165.72
2000-01	2,415	282.50
2001-02	2,556	293.80
2002-03	4,248	431.06
2003-04	4,976	646.42
2004-05	5,910	787.12
2005-06	6,044	825.08

### What has been the Dividend history of Polaris?

Polaris has a consistent dividend payment track record:

	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00
Dividend(%)	25	35	35	35	35	30	30

**Whether your Company is attaching the Balance Sheet, the Profit & Loss Account, Directors' Report and Auditor's Report of its subsidiary companies to this Annual Report?**

No. Your Company has been exempted by the Ministry of Company Affairs (MCA) vide its letter No. 47/156/2006-CL-III dated 24<sup>th</sup> May 2006 from attaching the Balance Sheet, Profit & Loss Account, Directors' Report and the Auditor's Report of its wholly owned subsidiaries to the Annual Report. Accordingly, the Annual Report of your Company does not contain the financial statements of its subsidiaries, but contains the consolidated audited financial statement of the Company and its subsidiaries. Further as directed by MCA, information in aggregate such as (a) Capital (b) Reserves (c) Total Assets (d) Total Liabilities (e) Details of Investment (except in case of investment in subsidiaries) (f) Turnover (g) Profit before taxation (h) Provision for taxation (i) Profit after Taxation, and (j) Proposed Dividend for each subsidiary has been disclosed in one page abstract forming part of the consolidated balance sheet.

**Merger related**

**What is the effective date of merger of OrbiTech Solutions with Polaris Software?**

1<sup>st</sup> November 2002.

**What is the merged entity called?**

The merged entity continues to be called Polaris Software Lab Ltd. Arun Jain continues to be the Chairman & Managing Director and CEO of the merged entity.

**What is the swap ratio of merger?**

Polaris shareholders hold 52.75%, while OrbiTech shareholders hold 47.25% in the merged entity. 42.65 new shares of Rs 5 each of Polaris were exchanged for every 100 shares of Rs 2 each of OrbiTech. Post merger Polaris shareholders hold 51.53 million shares and OrbiTech shareholders hold 45.85 million shares in the merged entity.

**What is the percentage of voting rights of Polaris promoters and Citigroup?**

Arun Jain, employees and friends have 38.50% voting rights in the merged entity and Citigroup, through Orbitech Limited, holds 47.25%. However, under the merger agreement, Citigroup has 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.

**How can a shareholder avail the ECS facility?**

Shareholders holding shares in physical form have to submit a ECS Mandate Form to Karvy Computershare Private Limited, Hyderabad. Those who are holding shares in electronic form should forward the ECS Mandate Form to their Depository Participants 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**

### **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:

- ◆ 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.
- ◆ Speedy transfer of shares
- ◆ Faster disbursement of corporate benefits like Rights, Bonus etc.
- ◆ No market lot for securities on NSDL/CDSL, as the market lot is one share. So, there is no problem of odd lot shares as faced by most investors.
- ◆ 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.
- ◆ A Depository Participant also provides facilities to pledge / hypothecate dematerialized securities held by the investor.
- ◆ No stamp duty on transfer of securities, the investor may incur expenditure towards service charges of the Depository Participant, if any.

### **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 from 8 May 2000, SEBI by a circular has 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 99.50% of equity shares of the Company are in demat form.

### **Who is the electronic connectivity provider for Polaris?**

Karvy Computershare Private Limited, "Karvy House" 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. 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. This means that 100 shares of a security are the same as any other 100 shares of that security.

## Contact information

### Whom to contact for shareholder and investor queries?

*General shareholder complaints may be forwarded to:*

- ◆ Company Secretary  
Polaris Software Lab Ltd.  
'Polaris House' 244, Anna Salai  
Chennai 600 006, India  
Tel: +91-44-2852 4154  
Fax: +91-44-2852 3280  
Email: investor@polaris.co.in

*Institutional investor queries may be forwarded to:*

- ◆ Investor Relations Department  
Polaris Software Lab Ltd  
'Foundation'  
34, IT Highway, Navalur, Chennai 603 103, India.  
Tel: +91-44-2743 5001  
Fax: +91-44-2743 5115/66  
Email: investor@polaris.co.in

### Ticker Information:

*The scrip codes of Polaris are:*

BSE	: 532254
NSE	: POLARIS
Reuters	: POLS.BO (BSE), : POLS.NS (NSE)
Bloomberg	: 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/ rematerialization of shares etc. can be addressed to either of the two offices below:

- ◆ Karvy Computershare Private Limited  
Unit: Polaris Software Lab Limited  
"Karvy House" 46, Avenue 4,  
Street No.1, Banjara Hills,  
Hyderabad 500 034, India  
Tel: (040) 2342 0815 - 0820  
Fax: (040) 2342 0814  
Email: mailmanager@karvy.com  
Web: [www.karvy.com](http://www.karvy.com)

### Company's Registered Office

- ◆ Polaris Software Lab Ltd.  
Polaris House  
244, Anna Salai, Chennai 600 006, India  
Tel: +91-44-2852 4154  
Fax: +91-44-2852 3280  
Email: investor@polaris.co.in