

POLARIS SOFTWARE LAB LIMITED

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CHAIRMAN'S ADDRESS AT THE SEVENTEENTH ANNUAL GENERAL MEETING OF THE COMPANY



Dear Shareholders,

On behalf of Polaris, I extend a very warm welcome to all of you. It gives me a great pleasure to be present here once again amongst you to update you on the progress made by your Company in the last year.

When we entered the financial year 2009-10, the Global Financial markets were hit by the world's biggest financial crisis in recent times. The phrase may be clichéd but every crisis has an opportunity hidden within it and available to those who are ready to seize it. Your company could effectively convert this crisis into opportunity and this is reflected in its results.

For the year ended March 2010, your company achieved annual revenue of Rs 1354 crore and operating profit (EBITDA) of Rs 222 crore. Net earnings grew 17% to Rs. 153 crore from Rs 131 crore last year. During the year, your company maintained its balanced distribution of revenues from various geographies i.e. America's business contributing 43%, Europe contributing 27% and Asia Pacific & Japan contributing 30%.

In view of your Company's increased profitability the Board of Directors has approved a total dividend of 70% of the equity share capital.

At this juncture it is important to reflect upon the state of industry and our strengths so that we can understand whether the results that we delivered this year are built on solid foundations.

Emergence of the Financial Technology Space

The marketplace for IT in the financial service segment has been marked by 2 evolutionary waves. In the first wave, the market moved from a Technology marketplace to a Solutions marketplace. In the second wave that is currently in the early stages, the market is moving from a Solutions space to a financial technology infrastructure space.

The Financial technology marketplace today is a marketplace for

- (1) Technology
- (2) Solutions
- (3) Infrastructure

Let me explain the emergence of this unique marketplace.

From an IT services provider perspective, the financial service market can be segmented into 3 markets:

- (1) The Large global banks with a predominant presence in the developed world
- (2) The Emerging banks with a predominant presence in emerging and developing countries
- (3) The Small banks with a predominant presence in developing and underdeveloped countries.

Historically each of these markets had sought a different value from the IT providers.

- (1) The Large global banks sought “efficiency” as a value from the IT providers to drive down their costs
- (2) The Emerging banks sought “innovation” as a value from the IT providers so that they could compete with the Large banks
- (3) The Small banks sought “utility” as a value from the IT providers so that they could provide at least the basic services in a cost effective manner.

There has been a slow and relentless blurring of these lines over a period of time marked by two significant inflection points

The first significant inflection point has been the movement of large banks from building software systems in-house, to buying products as they sought to revamp their software systems in response to threats posed by emerging banks.

The second inflection is in its beginning stages where in the emerging banks in response to the increasing competitiveness are demanding that the IT services providers offer turn key infrastructure solutions.

The Emergence of the Financial Technology leader

The vendors who will win in this market place will be those who have

- (1) The ability to manage end-to-end solutions
- (2) The ability to build end-to-end solutions
- (3) The ability to provision end-to-end solutions

The ability to manage is what creates the Application-maintenance business for IT companies

The ability to build solutions maps to the Product capability of IT companies

The ability to provision maps to the Hosting capability of IT companies.

Your company has succeeded today in the marketplace because it transitioned from being a pure services company to a company that could provide both services and products.

Your company has succeeded today because it build the second engine of growth even as the first engine of growth was being subjected to the margin compressive competitive forces.

Your company is safeguarding the future growth by deploying its 3rd engine of growth – the hosting services. Your Company is already actively working on cloud computing solutions for rural and cooperative sector banks. Our deal with Andhra Pradesh State Cooperative Bank Limited to implement Core Banking Solution in its 22 District Central Cooperative Banks across the state is the first step in this direction.

Reflection on the current year’s performance: The Product growth engine

During the year, over 54 financial institutions chosen and trusted your company to simplify their business problems and applying Intellect GUB Technology to make their business much more efficient leading to higher business effectiveness. This has got reflected in Intellect revenues growing over 23% from the last quarter besides helping your company strengthen relationships. The deepening of the relationship and goodwill in turn led to growth in Service business as well.

Remaining focused on doing what we know best, i.e., unlocking efficiencies in customers’ financial supply chain, and resolving their business pain points helped us to reach the critical 200 implementations of Intellect across 20 countries. Some of these implementations were in non-English speaking countries, where we flawlessly adapted our systems in the local language.

Our 2 acquisitions Laser Soft and Indigo TX in the last 12 months have been effectively assimilated into direct operations of the company adding to our wide portfolio of products. Not only have these companies brought in significant intellectual property, but they have reinforced the status of your company as a dominant financial technology player by making your company the largest FT product company in the region today.

Reflection on the current year's performance: The Services growth engine

This product growth was ably supported by our services business. Our strategy has been built around focusing on large strategic accounts. The intellectual property and credibility that we gained through our products acted as a catalyst for growing this segment. Your company not only successfully defended but actually acquired accounts amidst the industry trend of consolidation of vendors. This manifested in the revenues from the Top 10 account that moved from 53% level to 55% level.

We expanded our accounts in Financial Services Outsourcing with projects viz. application, development and maintenance (ADM) in the US market, data-warehouse projects in APAC and testing services in Europe. We also engaged with top banks on value driven strategy for application modernization.

Your company's services have been built on a strong foundation of frameworks. This year we moved beyond the traditional software development processes to a framework that encompasses the whole organization – The Polaris 3.0 PRISM business execution model. Under this model we built frameworks for supporting engagement management and Program management framework. The business value of these frameworks is that your company is now able to undertake complex large scale outsourcing and product deployments. This has been reflected in the increasing ticket size of our deals.

Your Company has also brought its account management activities under the ambit of a new framework. The business value of that framework has already started reflecting in terms of a more predictable business flows.

Accelerated Implementation Methodology helped Polaris deliver Core banking transformation projects much before agreed time schedules. During the year, Polaris delivered 26% projects ahead of schedule. Your company got a Customer Satisfaction rating of more than 4.1 on a scale of 5 and Business Performance index of more than 4.1 on a scale of 5.

Reflection on the current year's performance: Our Insurance growth engine

While banking has been the foundation on which your company has been built, over the years we have built deep expertise in the area of Insurance. That business has its own product and services business that is now delivering robust revenue streams. This business is the second domain engine of growth for your company.

Intellect Insurance, designed using 'technology as components', has been accepted by more than 15 customers across Australia, India, Hong Kong, United Kingdom and the United States. Customer primary chose Intellect Insurance to renovate their business processes. It gives me great pleasure to inform you that your Company won two awards at the Acord Loma Insurance forum event held in the US earlier this year.

Investments for growth

We will continue to invest in our 3 engines of growth – viz., Services, Products and Cloud Computing (Hosting).

The Service engine: New India Centre

Part of our expansion drive will see Polaris opening up a new office in Bengaluru which will serve as the back office development centre to support growing business opportunities from those areas. This expansion arises from the need to increase the "catchment areas" to service ever increasing demand.

The Cloud computing engine: Inclusive Banking offering

We started our journey by servicing a tier 1 global bank, and that association gave us the experience and confidence to work with all the top banks in the world. Now, in order to give back to the country, we have taken that global expertise and married it with our products so we can use these high-end, yet cost effective solutions to build efficiency for banks who cannot afford dedicated infrastructure. As I mentioned earlier too, your Company is actively working on cloud computing solutions for rural and cooperative sector banks. Our deal with Andhra Pradesh State Cooperative Bank Limited to implement Core Banking Solution in its 22 District Central Cooperative Banks across the state is the first step in this direction.

Inorganic growth

We will continue to make acquisitions to complement our portfolio of services and products. With cash reserves of Rs 500 crore, we have headroom for additional growth through acquisitions, which will be used for improved customer offerings.

Our pride - Our contribution to our society

Now I'd like to take a few minutes to talk about a programme that's close to the heart of every Polarite.

To work with society by actually inspiring young minds is something every associate gets the opportunity to do at the Ullas Trust – a social trust managed by associates of the company. Founded with the purpose of inspiring teenagers from government schools, the Trust provided scholarships and mentoring to 3,500 students across 4 states this year.

Closer home, around 100 physically challenged associates at Polaris are contributing very highly to our customer needs under the SAMPADA initiative, run in our own offices. This initiative was recognized by NDTV and given a Business Leadership Award under the 'Inclusion & Diversity' category.

Our Gratitude – Our Customers

Appreciation, accolades and constant reinforcement from our customers, analysts and the media have fuelled us to better ourselves each and every day.

I would like to take this opportunity to thank each and every one of our customers who reposed their trust in us. I would like to extend a personal commitment to them we will continue to strive to exceed their expectations.

Our Strength – Our People

It would not have been possible for me to stand here and share the progress of your company without the support of 9000 Polarites who have been the backbone of the 'tall' mission we undertook. I take this opportunity to place on record the contribution of the Management Team, and all our Associates who work in the many global offices, and acknowledge their unstinting support.

I express my sincere gratitude to all the Members of the Board who share the dias with me today for their support and belief in your company.

I thank the shareholders, regulators and the Government and also to all those who stood by us in our 3.0 journey. I look forward to your continued support as we take your Company to the next level of growth.

As I reach the end, I am reminded of a powerful message that I once came across:
"The height of your accomplishments will equal the depth of your convictions"

We started our 3.0 journey with the same depth of conviction to achieve global financial technology leadership.

Our leadership bubbles up from our deep abiding purpose i.e. **"By nurturing sharp, deep understanding of the cycle of money in the lives of individuals, communities, banks and financial institutions, we simplify and make Technology work for business with a personal touch."**