

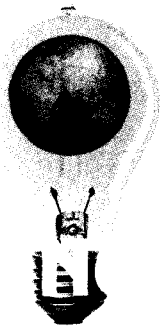
NUCLEUS
SOFTWARE



ANNUAL REPORT
2004



LEADING GLOBAL BANKS RUN ON NUCLEUS
...surely a milestone to be proud of



Vision

As a committed team we shall strive for...

...being a trustworthy, customer oriented organization

...an open and warm environment where everyone is respected, listened to, encouraged to excel.

...actively creating and exploring opportunity for the growth of our customers and our organization

Report



junction.com



Mission

Nucleus wants to be a dependable world-class organization.

We shall foster the spirit of entrepreneurship within the organization through individual development. Our endeavor is to provide our national and international customers with competitive Information Technology solutions. We shall achieve this Quality Service by comprehending their need through close interaction and by creating a global network.



NUCLEUS SOFTWARE EXPORTS LTD.

BOARD OF DIRECTORS

Lt. Gen T P Singh (Retd.)	Chairman
Vishnu R Dusad	Managing Director
Suresh Joshi	Director
Arun Shekhar Aran	Director
Sanjiv Sarin	Director
Prithvi Haldea	Director

Report  Junction.com

BANKERS

Citibank
HDFC Bank

COMPANY SECRETARY

Poonam Bhasin

AUDITORS

Bharat S Raut & Co.
Chartered Accountants



NUCLEUS SOFTWARE EXPORTS LTD.

CONTENTS

	<i>Page</i>
★ Year at a Glance	3
★ Letter to the Shareholders	5
★ Directors' Report	7
★ Annexure to Directors' Report	16
Financial Statements of Nucleus Software Exports Ltd.	
★ Management's Discussion and Analysis of Financial Condition and Results of Operations	23
★ Auditors' Report	39
★ Balance Sheet	42
★ Profit & Loss Account	43
★ Statement of Cash Flow	44
★ Schedules	46
★ Balance Sheet Abstract	70
★ Statements under Section 212	71
Consolidated Financial Statements	
★ Management's Discussion and Analysis of Financial Condition and Results of Consolidated Operations of Nucleus Software Exports Ltd. and its Subsidiary Companies	77
★ Consolidated Financial Statements	92
★ Financial Statements of Subsidiaries	121
★ Report on Corporate Governance	127
★ Additional Information to Shareholders	144
★ Frequently Asked Questions	154
★ Segment Information	159
★ A Historical Perspective and Ratio Analysis	161


NUCLEUS SOFTWARE EXPORTS LTD.
Year at a Glance

Rs. in lacs, except per equity share data

For the year ended	CONSOLIDATED PERFORMANCE	
	March 31, 2004	March 31, 2003
For the Year		
Revenue from Operations	8,009.07	8,882.79
Operating Profits (PBIDT)	1,524.91	1,601.57
Profit after Tax (PAT)	972.59	841.01
PBIDT as a % of Revenue from Operations	19.04%	18.03%
PAT as a % of Revenue from Operations	12.14%	9.47%
EPS	12.23	10.63
Dividend Per Share	2.50	2.00
Dividend Pay Out	200.79	158.22
At the end of the Year		
Total Assets	6,787.68	5,991.05
Net Fixed Assets	1,823.28	1,393.36
Current Assets	2,798.12	3,463.55
Cash & Cash Equivalents	889.29	641.37
Working Capital	1,480.87	2,429.12
Total Debts	—	3.89
Net Worth	6,786.18	5,968.59
Share Capital	803.29	791.27
Reserves & Surplus	5,982.89	5,182.20
Market Capitalisation	6,168.12	5,185.76
No. of Shareholders	6,459	4,521
No. of Shares (Face Value of Rs.10.00)	8,031,406	7,911,150

Notes:

- 1) Market Capitalisation is calculated by considering the closing market price of the scrip at the close of the Year.
- 2) While calculating the figures of group, the intergroup transactions have been ignored.



NUCLEUS SOFTWARE EXPORTS LTD.

Year at a Glance

All figures in USD'000, except per equity share data

For the year ended	CONSOLIDATED PERFORMANCE	
	March 31, 2004	March 31, 2003
For the Year		
Revenue from Operations	18,327	18,823
Operating Profits (PBIDT)	3,489	3,394
Profit after Tax (PAT)	2,226	1,782
PBIDT as a % of Revenue from Operations	19.04%	18.03%
PAT as a % of Revenue from Operations	12.14%	9.47%
EPS	0.28	0.23
Dividend Per Share	0.06	0.04
Dividend Pay Out	459	335
At the end of the Year		
Total Assets	15,532	12,695
Net Fixed Assets	4,172	2,952
Current Assets	6,403	7,340
Cash & Cash Equivalents	2,035	1,359
Working Capital	3,389	5,148
Total Debts	—	8
Net Worth	15,529	12,648
Share Capital	1,838	1,677
Reserves & Surplus	13,691	10,982
Market Capitalisation	14,115	10,989

Notes:

- 1) Market Capitalisation is calculated by considering the closing market price of the scrip at the close of the Year.
- 2) While calculating the figures of group, the intergroup transactions have been ignored.

Note : Above USD figures have been calculated at 1 US \$ = Rs.43.70 and 1 US \$ = Rs.47.19 for the year ended March 31, 2004 and March 31, 2003 respectively.



NUCLEUS SOFTWARE EXPORTS LTD.

Letter to the Shareholders

Dear Shareholder,

I am delighted to communicate and share the results of financial year 2004 with you.

Consolidated revenue from operations for FY 2004 was Rs.80.09 crore against Rs. 88.83 crore for FY 2003, a decline of 9.8%. Though the revenue for the year has fallen, due to delays in finalisation of several product orders, the Company has achieved higher profitability in comparison to the previous year, both at operational level and at the net profit level, with a greater focus on cost efficiency and cost rationalization.

Product related revenues at 33% of total revenue (32% in the previous year) continued to contribute significantly to the revenue mix and we remain committed to invest in development of world class products.

The total operating expenses were significantly lower at Rs.64.84 crore for FY 2004 against Rs.72.81 crore for FY 2003, representing a reduction of 10.9%. This substantial reduction in expenses translated to a 15.6% increase in Profit after Tax (PAT) at Rs.9.73 crore against Rs.8.41 crore for the previous year.

Earnings per share increased to Rs.12.23 for FY 2004 against Rs.10.63 for FY 2003.

With several product orders achieving closure in the last quarter of FY 2004, we are confident of the outlook for the current financial year. The Board of Directors has recommended an increase in dividend to 25 % and issue of Bonus Shares to the shareholders in the ratio of 1:1. These recommendations are subject to the approval of the members in the Annual General Meeting. These measures place a large responsibility on us to increase earnings and maintain shareholder value and we are confident of meeting your expectations in this regard.

The Company continues to focus on increasing operating cash flows. We are pleased to announce that the cash flow from operating activities has increased to Rs.23.42 crore against Rs.12.25 crore in the previous year. The DSR has fallen from 95 days to 60 days. Cash and bank balances and current investments have hit a new high of Rs.43.41 crore as at March 31, 2004 against Rs.27.78 crore as at March 31, 2003. High level of liquidity provides cushion against uncertainty in international markets and equip the Company to scale up at short notice.

World class product development demands world class facilities. Construction of our new Software Development Centre and corporate office at NOIDA is in full swing and the first phase of the facility which will house 700 Nucleites shall be commissioned in the second quarter of this year. The capital expenditure is financed comfortably from internal accruals and a major milestone will be achieved by your Company with the commissioning of this new 5 acre campus.

It gives me immense pleasure to inform you that our fully owned subsidiary Nucleus Software Solutions Pte. Ltd. in Singapore has been assessed at SW-CMM Level 5 based on the Capability Maturity Model (CMM) developed by Carnegie Mellon University's Software Engineering Institute in March 2004. The parent, Nucleus Software Exports Ltd, was certified SEI CMM Level 5 in financial year 2003. This reflects the Company's commitment to quality and is another milestone in achieving our mission of a world-class organization providing quality products and services to our customers.

Your Company has launched a major Six Sigma initiative across the organization with ambitious goals of implementing a series of projects covering all aspects of organizational processes. We firmly believe that

**NUCLEUS SOFTWARE EXPORTS LTD.**

business success is to be achieved through structured methodology and processes and the Six Sigma approach shall both empower our team and deliver tangible results to our bottom-line.

We are honoured at Nucleus being recognized for the second consecutive year as one of the fastest growing companies in "Top 250 Deloitte Touche Tohmatsu Asia Pacific Technology Fast 500-2004" program.

During the year, your Company has strengthened its presence in South East Asia, Japan, USA and Europe and has won its first product order from the USA. Significantly, 8 new clients have been added increasing our total client base to 79.

Our journey in development of software products for the BFSI market continues and we shall shortly launch three new products, namely, BankOnet (Internet Banking Solution), Fraud Management System (FMS) and Customer Acquisition System (CAS) across all markets.

Global alliances with multinational players and partnerships with system integrators in specific markets are our preferred strategy for entering new markets and we have signed several agreements during the past year which has increased our footprint across the globe.

Your Company has displayed exemplary commitment and adherence to a high standard of corporate ethics and transparent disclosure policies. The Company has undertaken deliberate measures to institutionalize such practices across the organization and meet our own internal standards of excellence. Our Management firmly believes in nurturing good and healthy relations with all the stakeholders and excellent level of corporate governance will guide us in achieving the same.

Your Company continues to make substantial investments in people, intellectual property and infrastructure. We are consistent in our endeavor to build a strong and a value-oriented organization and we thank you all for your continued support and faith.

Sincerely,

Vishnu R. Dusad
Managing Director

Date : April 24, 2004



NUCLEUS SOFTWARE EXPORTS LTD.

Directors' Report

To the Members,

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

1. FINANCIAL RESULTS - Nucleus Software Exports Ltd.

(Rs Lacs)

Year ended March 31,	2004	2003
Revenue from Operations	5,406.45	6,072.17
Software Development Expenses	3,004.22	3,498.17
Gross Profit	2,402.23	2,574.00
Selling and Marketing Expenses	442.48	483.39
General and Administration Expenses	455.12	680.01
Operating Profit (PBIDTA)	1,504.63	1,410.60
Interest	0.14	17.16
Depreciation	268.52	316.29
Withholding Tax charged off	328.41	277.40
Operating Profit after Interest, Depreciation and Withholding Taxes	907.56	799.75
Other Income	157.02	73.16
Prior Period Adjustments		
— Withholding Tax	—	(148.98)
— Other Prior Period Adjustments	—	38.91
Profit before Tax	1,064.58	762.84
Provision for Tax		
— Current	(44.35)	108.22
— Deferred	14.65	(80.91)
Profit after Tax	1,034.88	735.53
Final Dividend	200.78	158.22
Tax on Dividend	25.73	20.27
Transferred to General Reserve	500.00	1,000.00
Profit retained in Profit and Loss Account	1,001.24	692.87


NUCLEUS SOFTWARE EXPORTS LTD.
FINANCIAL RESULTS - Consolidated

(Rs. Lacs)

Year Ended	March 31, 2004	March 31, 2003
Revenue from Operations	8,009.06	8,882.79
Software Development Expenses	5,088.41	5,683.52
Gross Profit	2,920.65	3,199.27
Selling and Marketing Expenses	782.08	803.44
General and Administration Expenses	613.66	794.27
Operating Profit (PBIDTA)	1,524.91	1,601.56
Interest	0.14	17.16
Depreciation	324.26	369.90
Withholding Tax charged off	328.42	277.40
Operating Profit after Interest, Depreciation and Withholding Taxes	872.09	937.10
Other Income	144.31	76.95
Prior Period Adjustments		
— Withholding Tax	0.00	(148.98)
— Other Prior Period Adjustments	0.00	38.91
Profit before Tax	1016.40	903.98
Provision for Tax		
— Current	(54.30)	151.41
— Deferred	10.49	(88.43)
Profit After Tax	972.59	841.00

2. RESULTS OF OPERATIONS
a) Nucleus Software Exports Ltd.

Your Company's revenue from operations was Rs.5,406.46 lacs in 2003-04, compared to Rs.6,072.17 lacs in 2002-03, representing a decline of 10.96%. The revenue for the year fell due to delays in finalisation of several product orders. On the other hand, due to a substantial focus on cost reduction, the total operational expenses for the year at Rs. 3901.82 lacs were significantly lower than Rs. 4661.57 lacs in the previous year.

The Profit after Tax for the year 2003-04 increased to Rs.1034.88 lacs from Rs.735.53 lacs in 2002-03, registering a growth of 41%.

b) Consolidated Operations

Your Company's revenue from operations, on a consolidated basis, was Rs.8009.07 lacs in 2003-04 against Rs.8882.79 lacs in 2002-03, a decline of 9.85%. Total Operational expenses for the year at Rs. 6484.16 lacs were 11% lower than Rs.7281.22 lacs in the previous year. The Profit after Tax for the year 2003-04 increased to Rs 972.59 lacs against Rs.841.00 lacs in 2002-03, registering a growth of 16%.