

With You Until Success And Beyond



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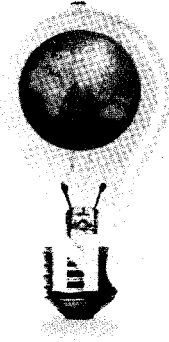
ANNUAL REPORT 2005



**NUCLEUS
SOFTWARE**

www.nucleussoftware.com

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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



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 |

BANKERS

Citibank
HDFC Bank

COMPANY SECRETARY

Poonam Bhasin

AUDITORS

BSR & Co.
(formerly Bharat S Raut & Co.)
Chartered Accountants



NUCLEUS SOFTWARE EXPORTS LTD.

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NUCLEUS SOFTWARE EXPORTS LTD.

Year at a Glance

Rs. in lacs, except per equity share data

| For the year ended March 31 | CONSOLIDATED PERFORMANCE | |
|---|--------------------------|-----------|
| | 2005 | 2004 |
| For the Year | | |
| Revenue from Operations | 10,314.09 | 8,009.07 |
| Operating Profits (PBIDT) | 2,706.83 | 1,524.91 |
| Profit after Tax (PAT) | 2,074.97 | 972.59 |
| PBIDT as a % of Revenue from Operations | 26.24% | 19.04% |
| PAT as a % of Revenue from Operations | 20.12% | 12.14% |
| Earnings Per Share (EPS) | 12.90 | 6.12* |
| Dividend Per Share | 2.50 | 2.50 |
| Dividend Payout | 402.27 | 200.79 |
| At the end of the Year | | |
| Total Assets | 8,427.85 | 6,787.68 |
| Net Fixed Assets | 2,838.76 | 1,823.28 |
| Investments | 4,871.18 | 3,451.54 |
| Current Assets | 5,227.44 | 2,798.12 |
| Cash & Cash Equivalents | 2,664.61 | 889.29 |
| Working Capital | 700.83 | 1,480.87 |
| Net Worth | 8,424.60 | 6,786.18 |
| Share Capital | 1,609.23 | 803.29 |
| Reserves & Surplus | 6,815.37 | 5,982.89 |
| Market Capitalisation | 28,754.28 | 6,168.12 |
| No. of Shareholders | 7,553 | 6,459 |
| No. of Shares (Face Value Rs.10/- each) | 16,090,812 | 8,031,406 |

* Adjusted for the issue of Bonus Shares in ratio 1:1 in August 2004.

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 March 31 | CONSOLIDATED PERFORMANCE | |
|---|--------------------------|--------|
| | 2005 | 2004 |
| For the Year | | |
| Revenue from Operations | 23,554 | 18,327 |
| Operating Profits (PBITD) | 6,181 | 3,489 |
| Profit after Tax (PAT) | 4,738 | 2,226 |
| PBITD as a % of Revenue from Operations | 26.24% | 19.04% |
| PAT as a % of Revenue from Operations | 20.12% | 12.14% |
| Earnings Per Share (EPS) | 0.29 | 0.14* |
| Dividend Per Share | 0.06 | 0.06 |
| Dividend Pay Out | 919 | 459 |
| At the end of the Year | | |
| Total Assets | 19,246 | 15,532 |
| Net Fixed Assets | 6,483 | 4,172 |
| Investments | 11,124 | 7,898 |
| Current Assets | 11,938 | 6,403 |
| Cash & Cash Equivalents | 6,085 | 2,035 |
| Working Capital | 1,600 | 3,389 |
| Net Worth | 19,239 | 15,529 |
| Share Capital | 3,675 | 1,838 |
| Reserves & Surplus | 15,564 | 13,691 |
| Market Capitalisation | 65,664 | 14,115 |

* Adjusted for the issue of Bonus Shares in ratio 1:1 in August 2004.

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.
- 3) Above figures have been calculated at 1 US \$ = Rs.43.79 and 1 US \$ = Rs.43.70 for the year ended March 31, 2005 and March 31, 2004 respectively.

**NUCLEUS SOFTWARE EXPORTS LTD.**

Letter to the Shareholders

Dear Shareholder,

It gives me immense pleasure and satisfaction to communicate that financial year 2004-05 has been a landmark year for your Company. Your Company has achieved significant milestones in this year and we are now poised to achieve all the goals, which were set out by us almost ten years ago at the time of the IPO.

We have achieved a turnover in excess of Rs.100 crores (Rs. 1 billion) for the first time and operating margins and profitability are also at new levels.

We have formally moved operations to our new state-of-the-art development center and corporate office in NOIDA. This facility, spread over 5 acres of land, with current capacity of 700+ seats and scalability upto 2000 seats within the same campus, was inaugurated by Mr. Masamoto Yashiro, Chairman, President and CEO of Shinsei Bank, Japan on November 8, 2004. This has been a momentous event and the efficiency and economics of a single self-contained facility have already started yielding results. The capital expenditure on the construction was totally financed by internal accruals.

Our flagship product FinnOne™ found global acceptance and we won a major contract with one of the largest finance Companies in the world for a rollout of our lending and collections products in 41 countries across Europe, Latin America and Asia Pacific. The proposed rollout will immensely enhance our understanding of processes and product functionality requirements across the globe. This contract has established Nucleus' credentials and expertise as a proven player in the banking and financial domain.

Consolidated revenue from operations for the year 2004-05 was Rs.103.14 crore against Rs.80.09 crore in the previous year, representing an increase of 28.78%. Significantly, the compounded average growth rate in revenue from operations over the last five years has been 30.56%.

Total operating expenses for the year 2004-05 were Rs.76.07 crore against Rs.64.84 crore in the previous year, representing an increase of 17.32%. Operating margin improved to Rs.27.07 crore, 26.24% of revenue as against Rs.15.25 crore, 19.04% of revenue in the previous year.

Consolidated net profit for the year 2004-05 was Rs.20.75 crore against Rs.9.73 crore in the previous year, an increase of 113.26%. Earnings per share were at Rs.12.90 for the year against Rs.6.12 (adjusted for the 1:1 bonus issue of shares allotted in August 2004) for the previous year, an increase of 110.78%.

The Board of Directors has recommended dividend of 25%, which is double the payout in the previous year as it is payable on capital expanded by issue of Bonus Shares in the ratio 1:1. This recommendation is subject to the approval of the members in the Annual General Meeting.

Your Company continues to focus on enhancing the level of operating cash flows. Our cash flow from operating activities has increased to Rs.45.75 crore against Rs.23.42 crore in the previous year. Cash and bank balances and current investments have scaled to Rs.61.67 crore as on March 31, 2005 against Rs.43.41 crore as on March 31, 2004. The Company follows a policy of maintaining high level of liquidity as it lends stability in the backdrop of uncertainty and unpredictability. There are challenges in earning a safe return on these surpluses and we are conscious of our responsibility towards you. While short-term returns seem to be low, the flexibility and scalability given by these surpluses cannot be overstated. If we decide to scale operations to 2000 people on the NOIDA campus, we could do it within a year by adding 200,000 sq ft to existing facilities without any borrowing and without restricting our technology spend.



NUCLEUS SOFTWARE EXPORTS LTD.

We continue to create tremendous value for our customers and added 18 new clients taking the total client base to 97. Our customers are characterized by the way they use technology to transform information processing to achieve strategic business objectives. As long as we create business benefits for our customers, they will stay with us and we are conscious of this paradigm.

We continue to invest substantially in ensuring consistent high quality and process compliance. The Parent Company and fully owned subsidiary Nucleus Software Solutions Pte. Ltd have been certified SW-CMM level 5 based on Capability Maturity Model (CMM) developed by Carnegie Mellon University's Software Engineering Institute. CMM certification is a step in the journey to deliver defect free products and we have initiated a major exercise this year to capture the Voice of Customer through a six sigma project. Customer feedback to the exercise has been very positive and we are institutionalizing the process to constantly improve the quality of our engagement with the customer.

During the year your Company incorporated a fully owned subsidiary Virstra I-Technology Services Limited in Pune, India to provide business process management and allied services and to develop software and provide allied services. A step down subsidiary Virstra I-Technology (Singapore) Pte. Ltd was also incorporated in Singapore.

We continue to remain focused in the Banking and Financial space with our Product portfolio creating a differentiator and competitive advantage. During the year, your Company launched two new products-BankOnet for Internet banking for the retail and corporate customer application, and Customer Acquisition System (CAS) for Loans / Mortgages and cards.

We are pleased to report below recognition of the Company's achievements:

- Nucleus; flagship product FinnOne has been ranked India's No.3 selling universal banking solution by International Banking System U.K. Globally we stand No.10 in the same report.
- Nucleus has been recognized for the third consecutive year as one of the fastest growing companies in "Top 500 Deloitte Touché Tohmatsu Asia Pacific Technology Fast 500-2005" program.

Maintaining and improving Corporate Governance standards is our constant endeavour and this includes providing periodic and detailed information to all our shareholders. The Securities and Exchange Board of India has notified new guidelines and Clause 49 of the Listing Agreement with the stock exchanges has been modified in line with international standards of governance. Though the current deadline for compliance is December 31, 2005, we are happy to report that we have already taken steps to meet the requirements. Requirements relating to Independent Directors have been met by us for the last several years, we shall update you on Quarterly basis for all the steps taken by us and look forward to your continued support.

With the growing complexities of business and growth in the Company's operations, the challenges lie in developing and implementing systems which manage customer relationships, human capital, and compliance and control issues apart from identifying and creating marketing and sales opportunities. Customer services require constant improvement and International Accounting and other global compliance standards have to be met. We are in the process of implementing new systems, which will be scalable and shall enhance customer satisfaction both internally and externally.

We take this opportunity to thank you all for your continued support in our mission to become an organization, which sets global standards of excellence.

Sincerely,

Vishnu R. Dusat
Managing Director

Date: April 26, 2005



NUCLEUS SOFTWARE EXPORTS LTD.

Directors' Report

To the Members,

Your Directors have great pleasure in presenting the Sixteenth Annual Report, together with the Audited Statement of Accounts, for the year ended March 31, 2005.

1. FINANCIAL RESULTS - Nucleus Software Exports Ltd.

(Rs Lacs)

| Year Ended March 31 | 2005 | 2004 |
|---|----------|----------|
| Revenue from Operations | 6,703.23 | 5,406.13 |
| Software Development Expenses | 3,505.55 | 3,004.22 |
| Gross Profit | 3,197.68 | 2,401.91 |
| Selling and Marketing Expenses | 505.01 | 442.48 |
| General and Administration Expenses | 658.31 | 455.13 |
| Operating Profit (PBIDTA) | 2,034.36 | 1,504.30 |
| Interest | — | 0.14 |
| Depreciation | 304.85 | 268.51 |
| Withholding Tax Charged off | 374.30 | 328.42 |
| Operating Profit after Interest, Depreciation and Withholding Taxes | 1,355.21 | 907.23 |
| Other Income | 310.15 | 157.35 |
| Profit Before Tax | 1,665.36 | 1,064.58 |
| Provision for Tax | | |
| — Current | 65.18 | 44.35 |
| — Deferred | 17.34 | (14.65) |
| Profit After Tax | 1,582.84 | 1,034.88 |
| Dividend | 402.27 | 200.78 |
| Tax on Dividend | 56.42 | 25.73 |
| Transferred to General Reserve | 1,000.00 | 500.00 |
| Profit retained in Profit and Loss Account | 1,125.40 | 1,001.24 |



NUCLEUS SOFTWARE EXPORTS LTD.

FINANCIAL RESULTS - Consolidated

(Rs. Lacs)

| Year Ended March 31 | 2005 | 2004 |
|---|-----------|----------|
| Revenue from Operations | 10,314.09 | 8,009.06 |
| Software Development Expenses | 5,971.31 | 5,088.41 |
| Gross Profit | 4,342.78 | 2,920.65 |
| Selling and Marketing Expenses | 822.40 | 782.08 |
| General and Administration Expenses | 813.54 | 613.66 |
| Operating Profit (PBIDTA) | 2,706.84 | 1,524.91 |
| Interest | — | 0.14 |
| Depreciation | 354.08 | 324.26 |
| Withholding Tax Charged off | 392.20 | 328.42 |
| Operating Profit After Interest, Depreciation and Withholding Taxes | 1,960.56 | 872.09 |
| Other Income | 259.40 | 144.31 |
| Profit Before Tax | 2,219.96 | 1,016.40 |
| Provision for Tax | | |
| — Current | 130.13 | 54.30 |
| — Deferred | 14.86 | (10.49) |
| Profit After Tax | 2,074.97 | 972.59 |

2. RESULTS OF OPERATIONS

a) Nucleus Software Exports Ltd.

Your Company recorded revenue from operations of Rs.6,703.24 lacs in the year compared to Rs.5,406.13 lacs in the previous year, representing an increase of 24%. The total operating expenses for the year were Rs.4,668.87 lacs against Rs.3,901.83 lacs in the previous year, an increase of 20%. The operating profit (PBIDTA) increased to Rs.2,034.36 lacs, representing 30% of the revenue, from Rs.1,504.30 lacs, which was 28% of the revenue in the previous year. In absolute terms, the operating profit grew by 35% over the previous year.

With increase in both revenue and margins, the profit after tax for the year increased to Rs.1582.84 lacs from Rs.1,034.88 lacs in the previous year, registering a growth of 53%.

b) Consolidated Operations

Your Company's revenue from operations, on a consolidated basis, was Rs.10,314.09 lacs for the year against Rs.8,009.07 lacs in the previous year, registering an increase of 29%. The total operational expenses for the year at Rs.7,607.26 lacs were 17% higher than Rs.6,484.16 lacs in the previous year. The operating profit (PBIDTA) increased to Rs.2,706.83 lacs representing 26% of revenue, from Rs.1524.91 lacs, which was 19% of the revenue in the previous year. In absolute terms, the operating profit grew by 77% over the previous year.