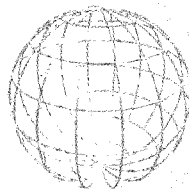
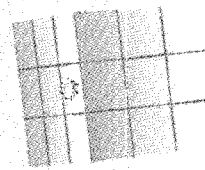


ANNUAL REPORT 2007-08

one thought ahead



technology...



possibilities...

Report  Junction.com



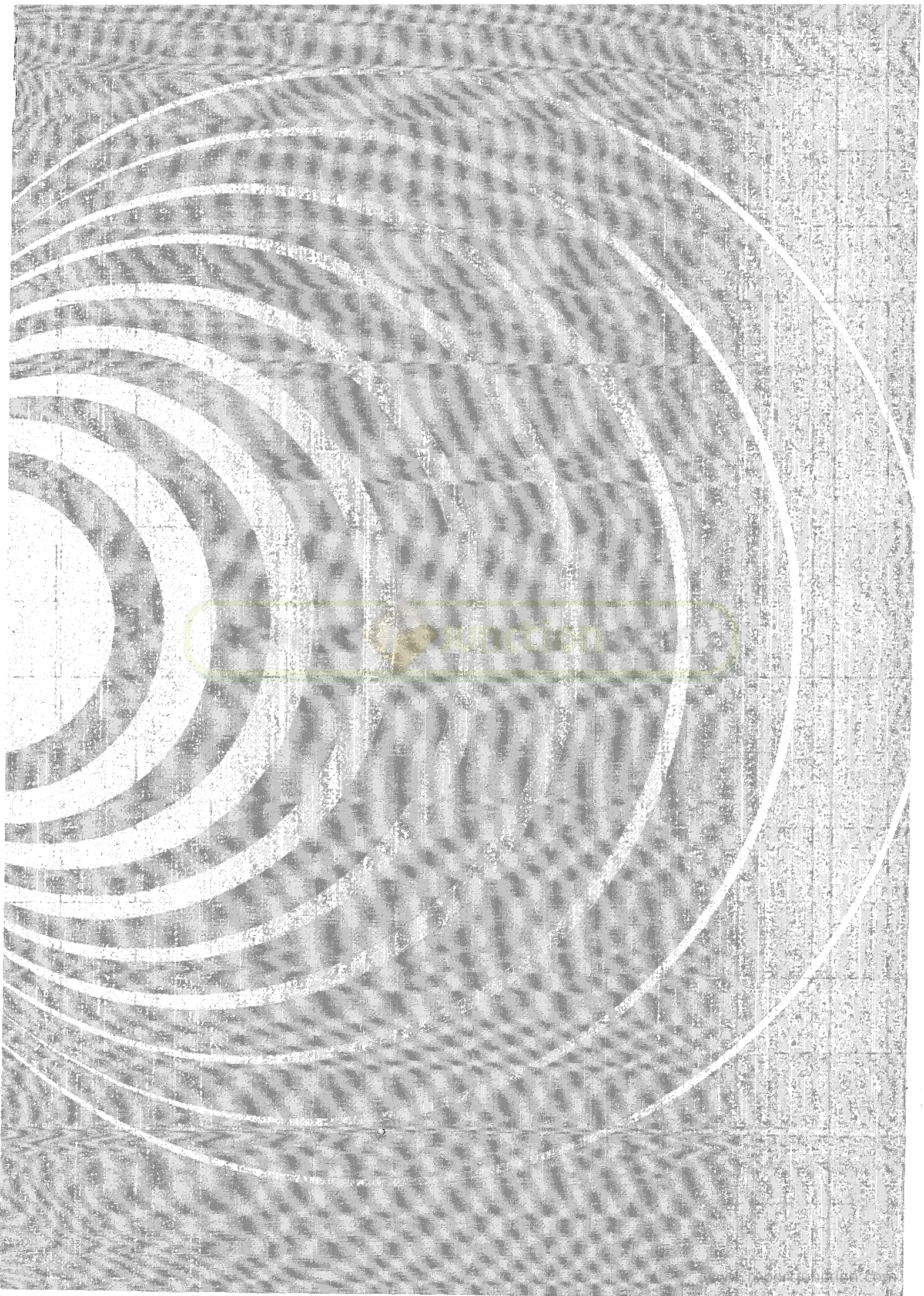
solutions...



innovations...



**NUCLEUS
SOFTWARE**



One thought ahead...

*No force on earth
is more powerful
than a thought
that turns conventional wisdom
on its head
and opens floodgates to new opportunities ...*

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THE POWER OF 'ALWAYS-ON' INNOVATION

"We appreciate and honour the hard-work and support of all Nucleites, guidance of our Board Members and well-wishers, support of our customers, business associates and shareholders, for making this journey of Nucleus Software a very exciting and thrilling one."

Vishnu R. Dusad, CEO & Managing Director



Dear Shareholder,

With immense pleasure and sense of deep satisfaction, I share with you the performance of your Company for the financial year 2007-08.

Consolidated revenue for the year 2007-08 at Rs.288.72 crore recorded an increase of 30.53% over revenue of Rs.221.19 crore in the previous year. Total operating expense for the year was Rs.215.31 crore against Rs.157.91 crore in the previous year, representing an increase of 36.34%. Consequently the operating profit for the year was Rs.73.41 crore, 25.43% of revenue, against Rs.63.28 crore, 28.61% of revenue in the previous year. Cost of delivery has gone up from 56.56% to 60.45%, primarily due to increased manpower in Product Development.

Consolidated net profit for the year was Rs.61.74 crore, against Rs.55.15 crore in the previous year, representing an increase of 11.95%. EPS for the year was Rs.19.08 against Rs.17.09 (on post Bonus capital) for the previous year. The Board of Directors have recommended a final dividend of 30%, Rs.3.00 per share, which is subject to approval of the shareholders in the ensuing Annual General Meeting.

Our focus during FY 08 was on gearing up for the future by investing in Products, Marketing, Infrastructure and Systems & Processes. As a part of our expansion strategy, we have signed an MOU with a leading developer for 17.41 acres of land in a notified SEZ in Jaipur, Rajasthan for setting up our new software development center. Easy accessibility from Delhi, abundance of specific talent related to the Industry, well developed infrastructure and excellent support from the Government, are a few reasons for

choosing Jaipur as our next destination. A wholly owned subsidiary, Nucleus Software Limited, has been incorporated in India, in April 2008 to implement this SEZ project.

Revenues from the product business consisting of license, customization, implementation and annual technical support recorded an all time high of 68.37% of total revenue. Almost the entire growth in top line was from the Product Business and we expect it to continue the same way.

Operating cash flow for the year after working capital changes is Rs.24.40 crore against Rs.38.73 crore in the previous year. Receivables have increased from Rs.55.26 crore to Rs.67.81 crore. Other Current Assets have also increased from Rs.18.16 crore to Rs.33.17 crore. The Company continues to enjoy a high level of liquidity. 'Cash and Bank balances' and 'Current Investments' were at Rs.94.13 crore as on March 31, 2008 against Rs.81.90 crore as on March 31, 2007. We reiterate our policy of investing conservatively in Liquid Plans and Fixed Maturity plans of Mutual funds.

I take immense pride in sharing with you that your Company has been listed among the "Best 200 under a billion companies in Asia" by Forbes Asia magazine. Our product, FinnOne™ was ranked amongst the top two best selling retail lending software globally by IBS publishing of UK. These recognitions have strengthened our vision of setting new standards and reaching new horizons.

The strengthening of the Indian currency against the US\$ has signaled a new paradigm, possibly the end of a comfortable exchange rate regime. With 90% of our revenue from overseas, there is a definite exchange

effect on reported volumes. While we do not wish to attribute profitability fluctuations to exchange variations, it is definitely necessary to see volume growth, which looks at comparable throughput. There are short-term adverse effects on revenue and profitability, but the welcome part is the integration with global markets and the need for constant evolution of the Software Products business model. As a policy, we take positions in foreign currency markets to hedge our receivables through a mixture of "Forward Contracts" and "Options", from time to time. We have proactively hedged our currency risk by increasing the coverage while avoiding any high-risk instruments.

We won 24 new product orders for 64 product modules of FinnOne™, our retail loan Suite and Cash@Will™, the cash management product. Last year has been exciting and fulfilling in terms of our endeavor to make our customers realize early return on investments. 70 product modules went live in the year, with FinnOne™ suite contributing 62 and Cash@Will™ contributing 8. The implementations were done across 27 customers globally, and strengthening our footprint in the Middle East by 7 and in the Indian subcontinent by 11. The Cash@Will™ suite is picking up steam with the second country of a global rollout and the largest deployment going live in the year.

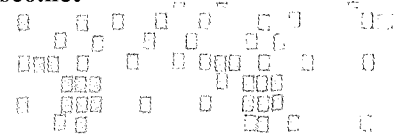
The ACOM project, our largest single product order is progressing well. It is now in a full-fledged build mode and we look forward to the year-end delivery. The BeNeLux site implementation for GMAC also went live this year.

As committed in my letter last year, we have ramped up our sales force this year by doubling it. In some countries, we have hired local people to tap the local markets. We have also made substantial investments in sales and marketing in the growing markets of Middle East and Africa; opened our sales prospecting activities in CIS and Eastern Europe, and are now working very hard in Latin America and Mainland Europe, foreseeing a very strong demand for retail banking products. Last year was encouraging in terms of number of RFPs or request for proposals and we received 125 of them. During the year, the Company participated in many events, one of them in the CIS region, another in Boston, at SIBOS which is the Premier World Banking Conference. The responses gathered in these events have fuelled our growth strategy.

As a result of our Product Development initiatives, FinnOne™ suite today covers multiple business areas like auto loans, mortgages, personal loans and SME loans, while Cash@Will™ applications provide end-to-end support in the areas of collections, payments and liquidity management for corporate customers of the financial institutions.

To maintain our competitive edge in the market place, we are following a double benefit approach of technology upgradation and enriching our products to cater to the growing needs of financial institutions.

A new release of all our key modules of FinnOne™, Customer Acquisition System, Loan Management System, and Collections is being scheduled. This new release will enrich our products in the areas of captive auto financing, dealer financing, insurance management, sales lead management, business partner



incentive, and payment management. In addition, to meet the growing needs of Islamic banking, FinnOne™ product is being further enhanced and customized to meet the specific business requirements of Islamic banking customers, mainly located in the Middle East.

Our strategy for the future growth includes, to continue focus on banking products, introduce new features, move to new technology, open new markets, achieve even higher level of customer satisfaction and tap opportunities in developed countries arising from the current turmoil in consumer finance and also through replacement of legacy systems.

To meet our strategic goals, we are continuing to recruit aggressively, creating additional infrastructure for future requirements. Besides leasing of land in SEZ, where the development centre will become operational in FY 2010, our new Marketing and support centre is ready for operations at Dubai. We have also opened a branch of our Singapore subsidiary in Korea. This year also saw the commencement of operations of our new marketing and support centre in Mumbai, from new premises.

We have added 404 associates in FY 2008, taking our total strength to 1,936 in March 2008 against 1,532 in March 2007. We have taken several initiatives in the year to strengthen our HR function, which include institutionalizing instructional-based skill development training for our employees, tie-up with a renowned Management Institute for imparting MBA programs for our employees and Annual Incentive Plan for all our employees. They have delivered immense results in terms of meeting objectives and while attrition is still a major concern, it is already on a downward trend in the industry and we expect to

address it suitably.

With a strong value-driven culture, your Company has always laid stress on the importance of Corporate Governance and adopted best practices in Corporate Governance. For the second consecutive year, the Company has been selected amongst the **top 25 companies adopting "Good Corporate Governance Practices"** by the Institute of Company Secretaries of India. This stands as a testimony to our commitment for pursuing good Corporate Governance. NASSCOM, the premier organisation that represents and sets the tone for public policy for the Indian software industry, ranked your Company amongst the **top 15 'most exciting emerging IT/BPO companies to work for'**.

The Company was also adjudged as one of the **fastest growing companies in Asia Pacific under Deloitte Technology Fast 500 - 2007**. We were also conferred with **Oracle Partner of the Year Award** in Fusion Middleware category at an APAC level and also awarded for being the **Fastest Growing ISV in 2007 by Oracle Corporation**.

These accolades have instilled more faith in our values and have motivated us to work with more enthusiasm and commitment to reach the highest standards. We appreciate and honour the hard-work and support of all Nucleites, guidance of our Board Members and well-wishers, support of our customers, business associates and shareholders, for making this journey of Nucleus Software a very exciting and thrilling one.

Vishnu R Dusat
CEO & Managing Director

Date: April 27, 2008



TOMORROW IS IN SIGHT



In the information age, the gap between organisations isn't measured in time or distance. It is measured in ideas.

Since inception, Nucleus has been a frontrunner of change in its chosen mission of creating cutting-edge software products for the banking and financial services sector. A wellspring of innovation, propelled by the power of thinking, Nucleus has always stayed one thought ahead of competition.

With the flagship product Finnone™ continuing its run as an international frontrunner, your company has path-breaking new products in the pipeline. Products that are sharp focused on niche growth segments.

The wealth of specialized expertise amassed over 2 decades enables your company to steadily rise up the value chain and to incrementally strengthen its business model.

