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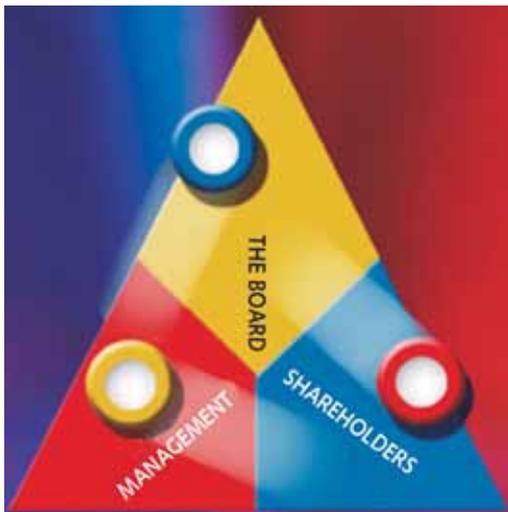
## REPORT ON CORPORATE GOVERNANCE

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The fundamental objective of 'Good Corporate Governance' is to ensure commitment of the organization in managing the Company in a transparent manner for maximizing long-term value of the Company, not only for its shareholders, but also its customers, competitors, employees and all other partners.

Corporate Governance is the set of processes, customs, policies, laws, and institutions affecting the way a Corporation (or Company) is directed, administered or controlled. The stakeholders include the Board of Directors, Management, shareholders/members, employees, customers, creditors (e.g., banks, bond holders), suppliers, regulators, and the community at large.



Corporate Governance weaknesses in remuneration, risk management, board practices and the exercise of shareholder rights played an important role in the development of the financial crisis. In the aftermath of the financial and economic crisis there have been calls for greater use of regulation over what are considered to be self-regulating "codes and standards". Amid the financial carnage of the recent recession, many countries are considering financial reforms. IT industry lobby Nasscom recently announced a new set of guidelines on Corporate Governance, which would be ideal for both listed and non-listed companies. These guidelines contain recommendations, which are a collection of best practices and are structured across the stakeholder ecosystem, covering the Board of directors, customers, competitors, employees and partners. Detailed guidelines have been incorporated for whistleblower policy and the Ombudsperson concept. The document stresses on more disclosure of the Board and its Committees' activities. It provides guidelines on the responsibilities of various parties to detect fraud and talks at length on the nomination and commitment of independent directors.

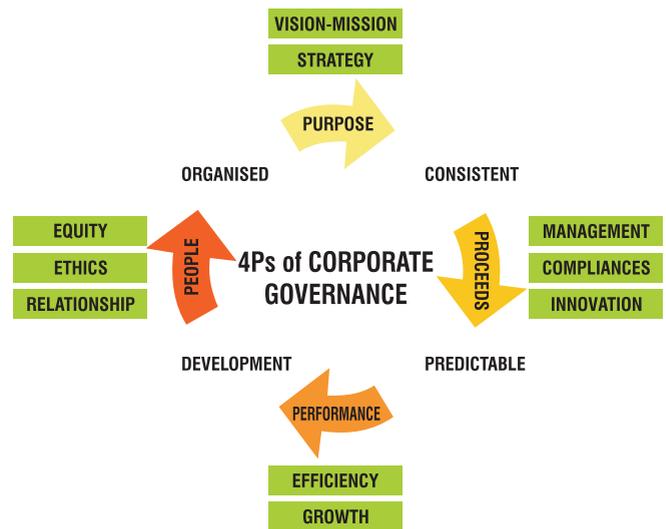
The Ministry of Corporate Affairs (MCA) also released in December 2009, the voluntary guidelines on Corporate Governance, drawn from best practices. Although voluntary in nature, listed companies are expected to be proactive in compliance and provide reasons of non-compliance of any section, if any.

**Company's Philosophy on Corporate Governance**

Nucleus has always been a strong proponent of good Corporate Governance and constantly strives to reflect the same in all our processes which in turn translate into increased confidence towards the Company from both existing and potential customers.

In order to improve the competency in meeting the challenges, specially in this age of integration of markets world wide, the Company has set out certain principles as a measure of good and effective Corporate Governance.

**Corporate Governance Framework**



Nucleus has identified three major Corporate Governance tenets for practicing in the Company:-

- 1) Continuous commitment of the management to principles of integrity and transparency in business operations
- 2) Accountability
- 3) Safeguarding the interests of the stakeholders in the organization

The essential principles of Corporate Governance at Nucleus include:

- Fairness to all stakeholders
- Transparency
- Unrestricted communication and feedback
- Sharing knowledge, success stories and experience

We at Nucleus believe that good and effective Corporate Governance is more of an organization culture than applicable rules. It is true that the law alone cannot bring changes and transformation. Voluntary compliance both in form and in substance plays an important role in developing a system of good Corporate Governance. Regulations are only one part of the answer to improved governance.

The Board and the Company Management strive hard to best serve the interests of the stakeholders including shareholders, customers, Government and society at large.

# Report on Corporate Governance

## A. Board of Directors

### 1. Composition of the Board of Directors as on March 31, 2010

The Board of the Company consists of five members with eighty- percent of the Board comprising of Non-Executive Directors. Non-Executive Directors with their diverse knowledge, experience and expertise provide valuable contribution in the deliberations and decisions of the Board.

Name of Director	Position	Age in years
Mr. Janki Ballabh	Chairman, Independent Non-Executive Director	67
Mr. Vishnu R Dusad	Managing Director, Promoter Executive Director	53
Mr. Arun Shekhar Aran	Independent Non-Executive Director	51
Mr. Prithvi Haldea	Independent Non-Executive Director	59
Mr. Sanjiv Sarin	Independent Non-Executive Director	51

Although, the level of knowledge, integrity and independence necessary to carry out the functions of a Director are difficult to summarize, the essential characteristics of the members of the Board include the attributes of asking hard questions, working well with others, having industry awareness, providing valuable inputs, availability when needed, being alert and inquisitive, making long range planning contribution among others.

By self evaluation of performance, the Board can recognize its achievements and reach consensus on areas needing empowerment. Discussing the results of a self-assessment at a retreat can assist in developing a long-range plan.

For selection of Independent Directors, definition of Independence as per Clause 49 is just a starting point for Nucleus. For Nucleus, the quality of the Independent Directors is a far greater criterion. Some of the qualities we look at are:

- Well Educated
- Reputation of Character and Integrity
- Specialist /Experts in functional areas
- General Management exposure and experience
- Industry Awareness
- Global Awareness
- Entrepreneurial Experience

#### DIRECTORS' PROFILE

##### Mr. Janki Ballabh - Chairman

Mr. Janki Ballabh, an eminent banker and former Chairman of the State Bank of India and State Bank Group, has vast experience and expertise in finance, banking and corporate management. He is presently Chairman of UTI Trustee Company of UTI Mutual Fund, and is Director on the boards

of Tata AIG Life Insurance Co. Ltd., Small Industries Development Bank of India (SIDBI), Tata Capital Ltd. and a member of the Asia Pacific Advisory Committee of Barclays Bank plc London. In addition to his general corporate experience, his vast and rich experience, consistent with Nucleus strategy provides operational excellence to the Company and a capability to drive innovation.

##### Mr. Vishnu R. Dusad - Managing Director

Mr. Vishnu R. Dusad is one of the founders of Nucleus Software Exports Ltd. and has served as a Director since the inception of the Company. Mr. Dusad completed his Bachelors Degree in Technology from the Indian Institute of Technology (IIT), Delhi and has been associated with the development of the software industry in India since 1983 as an entrepreneur. He was appointed Managing Director of the Company in January 1997. Mr. Dusad is also occupying the position of CEO of the Company. He has enriched Nucleus with his technology background and 24 years of valuable professional experience in the exciting space of Information Technology Solutions for the BFSI sector. He has a deep commitment to making a difference in the lives of fellow Nucleites, and through Nucleus, to the world around. His success in concluding business deals for implementing Nucleus Products globally owes much to a deep sensitivity to cross-cultural nuances. His experience encompasses areas of software development, creation of strategic alliances, business development, and strategic planning.

Mr. Dusad attributes the success of Nucleus to teamwork, entrepreneurial skills and the ability to leverage opportunities in the marketplace.

##### Mr. Arun Shekhar Aran - Director

Mr. Arun Shekhar Aran is a successful first generation entrepreneur with 27 years of experience in IT industry. Having completed B. Tech from IIT, Delhi and MBA from IIM, Ahmedabad, he started his career with Asian Paints in 1982.

In 1989, he joined Nucleus Software Group as a partner where he played a key role in leading the team in the development of the first ever credit card system in India for Citibank. Mr. Arun Shekhar Aran joined the Board of Directors of the Company in March 1996.

In 1994, Mr. Shekhar promoted the Mumbai based software Company, Nucsoft Ltd., and is presently its CEO.

##### Mr. Prithvi Haldea - Director

Mr. Prithvi Haldea did his MBA from Birla Institute of Technology & Science, Pilani in 1971. Over the next 18 years, he worked at senior positions in the corporate sector in the areas of exports, consulting and advertising. During the late 70s and early 80s, he was also associated with the information industry and, among various activities, worked as a consultant with The World Bank and the U.S Department of Commerce. In 1989, Mr. Haldea set up PRIME Database. PRIME is the country's first and still the only database on the primary capital market. It has a large subscriber base, and is widely reported by the media.

Mr. Haldea is presently the Central Government Nominee on the Governing Council of The Institute of Chartered



Accountants of India, a member of Board of Governors of Indian Institute of Corporate Affairs and member of the Investment Board of Postal Life Insurance. He is also a member of several committees, including SEBI Committee on Disclosures & Accounting Standards, Listing Advisory Committee of NSE, Listing and Delisting Committees of BSE, and Delisting Committee of DSE. He is also on the Board of Directors of UTI Asset Management Co. Ltd.

Mr. Haldea is also the Co-Chairman of the ASSOCHAM's Capital Market Committee and ASSOCHAM's National Investment and Investor Education Committee, and a member of CII's National Committee on Capital Markets, CII's National Task Force on Financial Markets PHDCCI Capital Markets Committee and NASSCOM's Corporate Governance & Ethics Committee.

In the past, Mr. Haldea has served as a board member of the Central Listing Authority, Trustee of the Pension Fund Regulatory & Development Authority, Central Government Nominee on the Governing Council of The Institute of Company Secretaries of India, Finance Minister's High Level Expert Committee on Corporate Bonds and Securitisation, Secondary Market Advisory Committee of SEBI, Primary Advisory Committee of SEBI, BSE Index Committee and SEBI's Committee for Review of MAPIN. He is a visiting faculty at several institutions, and has presented scores of papers at various conferences in India and abroad.

As an investor protection activist, Mr. Haldea regularly raises issues with regulators and in the media. In pursuit of this objective, he has also launched four unique websites: [www.watchoutinvestors.com](http://www.watchoutinvestors.com), aggregating information on economic defaulters which now lists over 1,00,000 cases, [www.primedirectors.com](http://www.primedirectors.com), a databank of professionals for listed companies to select independent directors, now hosting profiles of over 19,000 professionals, [www.directorsdatabase.com](http://www.directorsdatabase.com), covering detailed profiles of directors of companies listed at BSE and [www.iepf.gov.in](http://www.iepf.gov.in), an investor education initiative. He has also recently launched [www.msmememtor.in](http://www.msmememtor.in), a national skills registry of professionals for the benefit of MSMEs.

Mr. Prithvi Haldea joined the Board of Directors of Nucleus Software Exports Ltd. in June 2001 and of Nucleus Software Ltd. in April 2008.

#### **Mr. Sanjiv Sarin - Director**

Mr. Sanjiv Sarin is a postgraduate from IIT Delhi and has a PGDBM from XLRI Jamshedpur. He has 28 years of corporate experience and has held senior positions (including CEO) in Indian and multinational companies in India and overseas. He is currently working as a Consultant based in New Delhi.

He has played leadership roles in establishing new businesses and new markets. His various interventions have contributed significantly to the growth and success of organisations. He has extensive advisory experience on issues of strategy, driving performance improvement, change management, organisation building and human capital development. He also plays the role of a friend, advisor and mentor to start-ups.

#### **Disclosure in terms of Clause 49 (IV)(G)(ia) of the Listing Agreement**

There are no inter-se relationships between the Board members.

## **2. Responsibilities of the Chairman and the Managing Director**

The Non-Executive Chairman along with other Directors complement the Board's overall strength with their knowledge of best practices outside the Company. They act as candid counselors to guide the Company in benchmarking standards and level of ambition.

The Managing Director takes care of the executive functions of the Company and is responsible for day-to-day operations. He takes care of the corporate strategy and the future growth plans of the Company. The senior management team, responsible for achieving the annual targets of revenue, profitability, customer satisfaction, quality, productivity, employee retention and other critical areas, provide assistance to the Board.

The Managing Director is accountable to the Board for implementing the strategic plan for the Company in the most cost effective and time efficient manner. He is responsible for both the day-to-day running of the Company and developing business plans for the long term future of the organization.

With a view to institutionalize all corporate affairs and set up systems and procedures for advance planning for matters requiring discussion/decision by the Board, the Company has defined guidelines for the meetings of the Board. These guidelines seek to systemize the decision making process at the meetings of the Board in an informed and efficient manner.

## **3. Membership Term**

In accordance with the requirements of The Companies Act 1956, at least two-third of Directors shall be subject to retirement by rotation. One third of these retiring Directors shall retire every year and the Company may reappoint them with the approval of the shareholders. The Managing Director is appointed by the shareholders for a maximum period of 5 years at one time and is eligible for re-appointment upon the completion of the term.

Mr. Vishnu R Dusad, Managing Director of the Company was re-appointed as Managing Director w.e.f January 1, 2007 for a period of 5 years. His present term expires on December 31, 2011.

## **4. Compensation of the Board of Directors**

Compensation of the Managing Director has been approved by the shareholders. Non-Executive Directors are being paid an amount not exceeding one percent of the net profits of the Company, in terms of section 309 (4) of the Companies Act, 1956, as approved by the shareholders at the Annual General Meeting held on July 8, 2009.

Directors other than the Promoter Director are eligible to receive options under the various ESOP schemes launched by the Company from time to time. ESOP compensation expense also forms a part of their compensation and the total remuneration is subject to the ceiling above.

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5. The following table gives details of compensation paid /payable to the Directors for the period April 2009 to March 2010.

(Amount in Rs.)

Name of Director	Position	Fixed Salary	Commission	ESOP Compensation Expense	Sitting Fees	Total Compensation
Mr. Janki Ballabh	Chairman, Independent Non-Executive Director	–	9,45,753	–	3,00,000	12,45,753
Mr. Vishnu R Dusad	Managing Director, Promoter	69,11,000	1,29,49,000	–	–	1,98,60,000
Mr. Arun Shekhar Aran	Independent Non-Executive Director	–	9,45,753	–	3,80,000	13,25,753
Mr. Prithvi Haldea	Independent Non-Executive Director	–	9,45,753	–	5,60,000	15,05,753
Mr. Suresh Joshi*	Independent Non-Executive Director	–	2,16,987	–	80,000	2,96,987
Mr. Sanjiv Sarin	Independent Non-Executive Director	–	9,45,754	–	7,40,000	16,85,754
<b>Total</b>		<b>69,11,000</b>	<b>1,69,49,000</b>	<b>Nil</b>	<b>20,60,000</b>	<b>2,59,20,000</b>

\*Ceased to be a Director of the Company w.e.f. 8th July 2009, i.e., the date Annual General Meeting. He vacated his office as he did not offer himself for re-appointment due to advancing age.

6. Detail of Equity Shares and Stock Options held by Non-Executive Directors as on March 31, 2010

The Non-Executive Directors hold no options as on March 31, 2010.

7. Memberships of other Boards

The number of other Directorships and Chairmanship/ Memberships of Committees held by each of the Director as on March 31, 2010:

Name of Director	Position	Relationship with other Directors	Directorships Held of other Companies	Committee Membership*	Chairperson in Committees*
Mr. Janki Ballabh	Chairman, Independent Non-Executive Director	None	4	2	1
Mr. Vishnu R Dusad	Managing Director, Promoter	None	9	2	–
Mr. Arun Shekhar Aran	Independent Non-Executive Director	None	1	1	1
Mr. Prithvi Haldea	Independent Non-Executive Director	None	6	3	–
Mr. Sanjiv Sarin	Independent Non-Executive Director	None	3	3	–

\*In accordance with Clause 49 of the Listing Agreement, Membership/Chairmanship of only the Audit Committee and Shareholders/ Investors' Grievance Committee of all Public Limited Companies including Nucleus Software Exports Ltd., is considered.

### B. Board Meetings

Board meetings allow exploring the areas of improvement and identifying the dynamics that contribute to any problems or weaknesses pertaining to meeting the goals of the organization. Strategies to address the problems or weaknesses include arranging Board retreats or workshops on a specific topic, organizing study sessions, and reading in areas where knowledge is needed.

We follow the Secretarial Standard 1 (SS1) issued by the Institute of Company Secretaries of India (ICSI) on meetings of the Board of Directors.

#### 1. Scheduling and selection of agenda items for Board of Directors meetings.

- A minimum of four Board Meetings are held in each year. These are scheduled in advance for the entire year and



are held after the end of each financial quarter. This schedule of the Board Meetings is published in the Annual Report. Additional Board Meetings are convened by giving appropriate notice. For any business exigencies or urgency of matters, resolutions are passed by circulation.

- Committees of the Board meet whenever required, for transacting business.
- The meetings of the Board of Directors are usually held at the Company's corporate office at A 39, Sector 62, NOIDA 201307.
- The Company Secretary drafts the agenda for each meeting, in consultation with the members of the Board of Directors and the senior management of the Company. Every Board member is requested to suggest modifications /changes in the agenda items.

**2. Recording Minutes of proceedings at Board Meeting**

The Company Secretary records the minutes of the proceedings of each Board meeting. Draft minutes are circulated to all the members of the Board for their comments within 48 hours of the meeting. The finalized minutes of proceedings of a meeting are entered in the Minutes Book within 30 days from the conclusion of that meeting.

**3. Compliance**

The Company Secretary while preparing the Agenda, Notes on agenda, Minutes etc. is responsible for and is required to ensure adherence to all the applicable laws regulations including the Companies Act, 1956 read with the Rules issued there under, Listing agreement and to the extent feasible, the Secretarial Standards recommended by the Institute of Company Secretaries of India, New Delhi.

**4. Number of Board Meetings held and attendance during the year 2009-10.**

Eleven Board Meetings were held during the year 2009-10, as against the minimum requirement of four meetings. The dates on which the meetings were held are; April 26, 2009, May 10, 2009, June 17, 2009, July 8, 2009, July 26, 2009, October 11, 2009, October 25, 2009, December 19, 2009, January 1, 2010, January 17, 2010 and March 8, 2010. The Board has met at least once in every three months and the maximum time gap between any two meetings has not been more than four months.

Name of Director	Board Meetings		Attended last AGM
	Held	Attended	
Mr. Janki Ballabh	11	11	Yes
Mr. Vishnu R Dusad	11	11	Yes
Mr. Arun Shekhar Aran	11	11	Yes
Mr. Prithvi Haldea	11	11	Yes
Mr. Suresh Joshi*	3	3	N.A.
Mr. Sanjiv Sarin	11	11	Yes

*\*\*Ceased to be a Director of the Company w.e.f. 8th July 2009, i.e., the date Annual General Meeting. He vacated his office as he did not offer himself for re-appointment due to advancing age.*

**5. Availability of Information to the Board of Directors**

There is a process of providing complete information to the Board Members with the agenda for the meeting. During meetings, senior management is invited to present the plans and achievements of their respective areas of responsibility. The Board is also given presentations covering major business segments and operations of the Company.

The information placed before the Board includes:

- Annual operating plans and budgets and any updates.
- Capital budgets and any updates.
- Quarterly results of the Company and its operating divisions or business segments.
- Minutes of meetings of Audit Committee and other Committees of the Board.
- The information on recruitment and remuneration of senior officers just below the Board level
- Materially important show cause, demand, prosecution notices and penalty notices, if any.
- Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems, if any.
- Any materially relevant default in financial obligations to and by the Company or substantial non-payment for goods sold by the Company.
- Any issue that involves possible public or product liability claims of substantial nature, including any judgment or order which, may have passed strictures on the conduct of the Company or taken on adverse view regarding another enterprise that can have negative implications on the Company.
- Transactions that involve substantial payment towards goodwill, brand equity or intellectual property
- Any significant development in human resources/ industrial relations front. Sale of material nature, of investments and assets, which are not in the normal course of business.
- Quarterly details of foreign exchange exposure and the steps taken by the management to limit the risks of adverse exchange rate movement, if material.
- Non-compliance of any regulatory, statutory or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer etc.
- Quarterly details of investments by the Company in liquid mutual funds and bank deposits and returns thereon.
- Quarterly update on HR related activities.
- Quarterly update on wholly owned Subsidiaries performance.

## Report on Corporate Governance

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- Quarterly update on important projects of the Company
- Report on order book position.
- Report on legal notices if any , received during the quarter.
- Report on compliances under "Code of Insider Trading" of the Company.

### 6. All follow up items are recorded separately and action taken is reported in future meetings.

An "Action Taken Report" is placed at all subsequent meetings for all action points raised in the meetings.

The above processes have helped the Board to achieve:

- Better understanding of what it means to be an effective Board
- Clarification of what the members expect from each other and themselves
- Improved communication among members and between the Board and the Managing Director
- Identification of problems, potential issues, and areas to improve
- Opportunity to discuss and solve problems that may hurt Board performance.
- Identification of strategies to enhance Board performance
- Renewed dedication to the Board
- Board goals and objectives for the next year.

Strengths are celebrated and areas of improvement are explored to identify the dynamics that contribute to problems or weaknesses. Strategies to address the issues may include Board retreats or workshops on a specific topic, study sessions and reading in areas where knowledge is needed, and clarification of Board expectations.

### C. Audit Committee

A key element in the Corporate Governance process of any organization is its Audit Committee. The Audit Committee regularly reviews processes and procedures to ensure the effectiveness of internal control systems and to maintain the accuracy and adequacy of reporting the financial results.

The Audit Committee at Nucleus was formed in August 2001, in compliance with Section 292 A of the Companies Act, 1956 and the Listing Agreement with the Stock Exchanges, with qualified members of the Board of Directors of the Company. The Company Secretary acts as the secretary to the committee. The Audit Committee plays a key role in assisting the Board to fulfill its Corporate Governance and oversight responsibilities in relation to a Company's financial reporting, internal control systems, risk management systems and the internal and external audit functions. One of the core principles of an effective Audit Committee is that committee members are independent of the Company.

The Audit Committee has met ten times during the year 2009-10.

The Audit Committee has adopted the following charter for its efficient functioning:

#### CHARTER OF AUDIT COMMITTEE

##### 1. Scope of Work

1. Review and recommend to the Directors the Independent Auditors to be selected to audit financial statements of the Company.
2. Provide an open avenue of communication between the Independent Auditors, Internal Auditors and the Board of Directors.
3. Review and update the Committee's charter annually.
4. To meet at least four times per year or more frequently as circumstances require.
5. Review with the Independent Auditors, the Company's Internal Auditor and Financial Personnel:
  - a) The adequacy and effectiveness of the accounting and financial controls of the Company.
  - b) Related findings and recommendations of the Independent Auditor and Internal Auditor together with management 's responses.
6. Consider and review with the management, Internal Auditor and Independent Auditor :
  - a) Significant findings during the year, including the status of previous audit recommendations.
  - b) Any difficulties encountered in the course of audit work including any restrictions on the scope of activities or access to required information and
  - c) Any changes required in the planned scope of the internal audit plan.
7. Prepare a letter for inclusion in the Annual Report that describes the Committee's composition and responsibilities, and how they were discharged.
8. The Chairman to be present at AGM to answer shareholders queries.
9. Review legal and regulatory matters that may have a material impact on the financial statements, related Company's compliance policies, and programs and reports received from regulators.
10. Report Committee actions to the Board of Directors with such recommendations, as the Committee may deem appropriate.
11. The Committee shall perform such other functions as assigned by law, the Company's charter or bylaws, or



the Board of Directors and shall mandatorily perform following functions as assigned by Clause 49 of the Listing Agreement:

- a) Oversight of the company's financial reporting process and disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- b) Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
- c) Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
- d) Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:
  - i. Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956.
  - ii. Changes, if any, in accounting policies and practices and reasons for the same.
  - iii. Major accounting entries involving estimates based on the exercise of judgment by Management.
  - iv. Significant adjustments made in the financial statements arising out of audit findings.
  - v. Compliance with listing and other legal requirements relating to financial statements.
  - vi. Disclosure of any related party transactions.
  - vii. Qualifications in the draft audit report.
- e) Reviewing, with the management, the quarterly financial statements before submission to the Board for approval
- f) Reviewing, with the Management, performance of statutory and internal auditors, adequacy of the internal control systems.
- g) 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.
- h) Discussion with internal auditors any significant findings and follow up there on.
- i) 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.

- j) Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
- k) 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.
- l) To review the functioning of the Whistle Blower mechanism.
- m) Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.
- n) Management Discussion and Analysis of financial condition and results of operations.
- o) Statement of significant related party transactions (as defined by the audit committee), submitted by Management.
- p) Management letters of internal control weaknesses issued by the Statutory Auditors.
- q) Internal audit reports relating to internal control weaknesses.
- r) The appointment, removal and terms of remuneration of the Chief Internal Auditor shall be subject to review by the Audit Committee.

## 2. Review of Auditors

The Audit Committee shall

- a) Recommend to the Board of Directors, the Independent Auditors to be appointed and approve the compensation of the Independent Auditors.
- b) Confirm and assure the independence of the Independent Auditors and the objectivity of the Internal Auditor.
- c) Require and encourage the Independent Auditors to have open and frank discussions on their judgments about the quality, not just the acceptability of the Company's accounting principles as applied in its financial reporting, including such issues as the clarity of the Company's financial disclosures and degree of aggressiveness or conservatism of the Company's accounting principles.

## 3. Composition of the Audit Committee

It is mandatory that:

- The Audit Committee shall comprise of three or more Directors, all being Non-Executive Directors, with majority of them being independent.

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- Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.
- All members of the Committee shall have a working familiarity with basic finance and accounting practices, and at least one member of the Committee shall have accounting or related financial management expertise.

**The composition of Audit Committee as on March 31, 2010 and the details of the meetings are as follows:**

Name of Director	Position	No. of Meetings	
		Held	Attended
Mr. Arun Shekhar Aran	Chairman of the Committee, Independent Non-Executive Director	10	5
Mr. Prithvi Haldea	Independent Non-Executive Director	10	10
Mr. Suresh Joshi*	Independent Non-Executive Director	2	1
Mr. Sanjiv Sarin	Independent Non-Executive Director	10	10

*\*Ceased to be a Director of the Company w.e.f. 8th July 2009, i.e., the date Annual General Meeting. He vacated his office as he did not offer himself for re-appointment due to advancing age.*

With intent to implement the best Corporate Governance practices, a meeting of the Audit Committee members and the Statutory Auditors, independent of the Management is conducted, every quarter.

The Audit Committee performs the following functions guided by the Charter:

1. Reviewing with Management the annual/quarterly financial statements before submission to the Board, focusing primarily on:
  - (i) Any changes in accounting policies and practices.
  - (ii) Major accounting entries based on exercise of judgment by Management.
  - (iii) Significant adjustments arising out of audit.
  - (iv) The going concern assumption.
  - (v) Compliance with accounting standards.
  - (vi) Compliance with stock exchange and legal requirements concerning financial statements.
  - (vii) Any related party transactions.
2. Reviewing with the management, the adequacy of internal control and internal audit function and the frequency of internal audit.
3. Discussion with internal auditors on any significant findings and follow up thereon.

4. Reviewing the special reports provided by the internal auditors of the specified functions as advised.
5. Discussion with statutory auditors about nature and scope of audit and to ascertain any areas of concern.
6. Reviewing the Company's position on forwards and options and investments.
7. Management discussion and analysis of financial condition and results of operations;
8. Management letters/letters of internal control weaknesses issued by statutory/internal auditors.

### **Audit Committee Report for the Year Ended March 31, 2010**

Each member of the Committee is an Independent Director according to Clause 49 of the Listing Agreement.

The Audit Committee is independent and empowered by the Board with the authority to investigate any matter relating to the internal control system and to review the scope of Internal Audit.

The Internal Auditors of the Company are in the best position to evaluate and report on the adequacy and effectiveness of the internal controls. Keeping in view the need for the Internal Auditors' independence, the Audit Committee has created a formal mechanism to facilitate regular discussions with the Internal Auditors at the end of each quarter. The Committee has recommended the continuance of the Internal Audit function.

The Statutory Auditors are responsible for performing an independent audit of the Company's financial statements in accordance with the Generally Accepted Auditing Standards and for issuing a report thereon. The Committee's responsibility is to review the adequacy of internal audit function. The Committee is also responsible to oversee the processes related to financial reporting and information dissemination, in order to ensure that the financial statements are true, correct, sufficient and credible. The Committee also reviews the quarterly, half yearly and the annual financial statements before they are submitted to Board and ensures compliance of internal control systems. In addition, the Committee recommends to the Board the appointment of the Company's Internal and Statutory Auditors.

The Committee has also reviewed that the internal controls are put in place to ensure that the accounts of the Company are properly maintained and that the accounting transactions are in accordance with prevailing laws and regulations. In conducting such reviews, the Committee found no material discrepancy or weakness in the internal control systems of the Company.

The Committee also reviewed the financial and risk management framework in accordance with revised Clause 49 of the Listing agreement.

The Committee has regularly discussed with the Auditors the



accounting policy and principles followed by the Company. Relying on the review and discussions conducted with the management and the Independent Auditors, the Audit Committee believes that the Company is following prudent and conservative accounting practices and financial statements are fairly presented in conformity with Generally Accepted Accounting Principles in all material aspects.

Moreover, the Committee considered whether any non-audit services provided by the auditors firm could impair the auditors' independence, and concluded that there were no such services provided.

As per the approved Policy of Rotation of Auditors, M/s Deloitte Haskins & Sells have been recommended to be appointed as Statutory Auditors of the Company from the conclusion of the ensuing Annual General Meeting till the conclusion of the next Annual General Meeting. Deloitte Haskins & Sells have also expressed their willingness to act as Statutory Auditors of the Company, if appointed, and have further confirmed that the said appointment would be in conformity with the provisions of Section 224(1B) of the Companies Act, 1956.

Sd/-  
Arun Shekhar Aran

**D. Remuneration Committee**

The Remuneration Committee recommends the remuneration payable to Directors based on their contribution to the growth and development of the Company.

**The composition of Remuneration Committee as on March 31, 2010 and the details of the meetings are as follows:**

Name of Director	Position	No. of Meetings	
		Held	Attended
Mr. Janki Ballabh	Chairman of the Committee, Independent Non-Executive Director	1	1
Mr. Prithvi Haldea	Independent Non-Executive Director	1	1
Mr. Sanjiv Sarin	Independent Non-Executive Director	1	1

**E. Nomination Committee**

Nomination Committee comprising of all Directors was formed during the year ended March 31, 2010. The major role of the committee is to identify suitable persons and recommend them as suitable candidates to fill up casual vacancies on the Board, to appoint additional Directors whenever the need arises, and to develop a policy on the size and the composition of the Board.

**The composition of Nomination Committee as on March 31, 2010 and the details of the meetings are as follows:**

Name of Director	Position	No. of Meetings	
		Held	Attended
Mr. Janki Ballabh	Chairman of the Committee - Independent Non-Executive Director	1	1
Mr. Vishnu R Dusad	Managing Director, Promoter and Executive Director	1	1
Mr. Arun Shekhar Aran	Independent Non-Executive Director	1	1
Mr. Prithvi Haldea	Independent Non-Executive Director	1	1
Mr. Sanjiv Sarin	Independent Non-Executive Director	1	1

**F. Shareholders/Investor Grievance Committee**

The Shareholders/Investor Grievance Committee is empowered to consider and approve the transfer, transmission, transposition, issue of duplicate certificates etc. of the Company and to redress shareholders complaints like transfer of shares, non-receipt of balance sheet, non-receipt of dividend warrants, etc. The Committee members periodically review the investor's complaints received and redressed. The Committee will meet as often as required to discharge its functions.

The status on complaints and share transfers is reported to the full Board.

The composition of Shareholders/Investor Grievance Committee as on March 31, 2010 and the details of the meetings are as follows:

Name of Director	Position	No. of Meetings	
		Held	Attended
Mr. Vishnu R Dusad	Managing Director, Promoter and Executive Director	9	9
Mr. Sanjiv Sarin	Independent Non-Executive Director	9	9

Ms. Poonam Bhasin, Company Secretary is the Compliance Officer.

The Company's Registrar and Share Transfer Agent are:

**M/s. Karvy Computershare Private Limited**  
Plot Np.17-24, Vithal Rao Nagar  
Madhapur  
**Hyderabad 500081**  
**Andhra Pradesh**

## Report on Corporate Governance

Details of investor complaints/requests resolved during the year 2009-10 are as follows:

Nature of complaints received	No. of complaints/requests		
	received during the year	resolved during the year	pending at the end of the year
Non- Receipt of Dividend Warrant	24	24	Nil
Revalidation of Dividend warrants	40	40	Nil
Issue of duplicate share certificates	1	1	Nil
Non receipt of share certificate	2	2	Nil
Non-Receipt of Annual Report	11	11	Nil

### G. Corporate Governance Committee

The Company has formed a Corporate Governance Committee to continuously implement and promote the highest standards of Corporate Governance.

The composition of Corporate Governance Committee as on March 31, 2010 and the details of the meetings are as follows:

Name of Director	Position	No. of Meetings	
		Held	Attended
Mr. Janki Ballabh	Chairman of the Committee - Independent Non-Executive Director	2	2
Mr. Vishnu R Dusad	Managing Director, Promoter and Executive Director	2	2
Mr. Arun Shekhar Aran*	Independent Non-Executive Director	1	1
Mr. Prithvi Haldea	Independent Non-Executive Director	2	2
Mr. Sanjiv Sarin	Independent Non-Executive Director	2	2

\*Mr. Arun Shekhar Aran was inducted as a member of the Corporate Governance Committee, w.e.f. October 11, 2009.

The Committee continuously reviews the Corporate Governance initiatives of the Company and advises on following the best practices in the Company.

The Corporate Governance Committee in accordance with Clause 49 of Listing Agreement approved a Code of Conduct for all Board members and senior management of the Company. The Code of Conduct is also posted on the website of the Company. All Board members and senior management personnel have affirmed compliance with the code for the

year. The Annual Report contains a declaration to this effect signed by the Managing Director.

The Committee also monitors the implementation and compliance of the Company's Code of Conduct.

### H. Compensation Committee

The remuneration policy of the Company is to pay compensation and benefits along with the stock options to motivate and retain the employees of the Company. The Compensation Committee is responsible for administering the stock option plans, including review and grant of options to eligible employees under the plans.

The composition of Compensation Committee as on March 31, 2010 and the details of the meetings are as follows:

Name of Director	Position	No. of Meetings	
		Held	Attended
Mr. Vishnu R Dusad	Managing Director, Promoter	3	3
Mr. Arun Shekhar Aran	Independent Non-Executive Director	3	1
Mr. Prithvi Haldea	Independent Non-Executive Director	3	3
Mr. Suresh Joshi*	Independent Non-Executive Director	1	–
Mr. Sanjiv Sarin	Independent Non-Executive Director	3	3

\*Ceased to be a Director of the Company w.e.f. 8th July 2009, i.e., the date Annual General Meeting. He vacated his office as he did not offer himself for re-appointment due to advancing age.

### I. Means of Communication

The Company initiated a practice of sending audited quarterly results in the form of a printed Quarterly Report to the shareholders since December 1999. From the first quarter of the financial year 2009, the Company started releasing the quarterly report, in the form of a soft copy only and is uploaded on the Company website [www.nucleussoftware.com](http://www.nucleussoftware.com). This, not only resulted in prompt information disposal to the shareholders but also contributes in saving paper thus saving trees and help in making the planet greener.

These reports contain audited financials of the parent Company along with the Auditors Report thereon; unaudited consolidated financials of the Company and subsidiaries and a detailed analysis of results under "Management Discussion and Analysis".

- Quarterly results are published in "Business Standard".
- The results are also displayed on the Company's website- "[www.nucleussoftware.com](http://www.nucleussoftware.com)" after adoption of the same by the Board of Directors.



- The important events as well as official news releases of the Company are also updated on the Company's website regularly.
- Earnings conference calls are conducted after announcement of quarterly/annual results wherein the Management updates investor community on the progress made by the Company and answers their queries. The audio as well as the transcript of the call is uploaded on the website [www.nucleussoftware.com](http://www.nucleussoftware.com), for investors' information.
- The Company also sends an instant alert of the results, to all those who register themselves on the corporate website.
- The Company also posts information relating to its financial results on Electronic Data Information Filing and Retrieval System (EDIFAR) at [www.edifar.com](http://www.edifar.com) as required by The Bombay Stock Exchange Ltd.

## J. Investor Education

Investors are provided with timely information on all Company

## K. General Body Meetings

Particular of Annual General Meetings (AGM) held during the previous three years

AGM date and time	Venue	Ordinary Resolution	Special Resolution
<b>18th AGM</b> July 6, 2007 3.00 p.m.	FICCI Auditorium, New Delhi	<ul style="list-style-type: none"> <li>• Adoption of Annual Accounts for the year ended March 31, 2007</li> <li>• Re-appointment of Mr. Prithvi Haldea and Mr. Suresh Joshi as Directors.</li> <li>• Appointment of M/s B S R &amp; Co. as the Statutory Auditors.</li> <li>• Confirm payment of Interim Dividend.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in the Authorized Share Capital of the Company from Rs.20 crore to Rs.40 crore</li> <li>• Issue of fully paid-up Bonus shares</li> </ul>
<b>19th AGM</b> July 8, 2008 11.00 a.m.	FICCI Auditorium, New Delhi	<ul style="list-style-type: none"> <li>• Adoption of Annual Accounts for the year ended March 31, 2008</li> <li>• Re-appointment of Mr. Arun Shekhar Aran and Mr. Sanjiv Sarin as Directors</li> <li>• Appointment of M/s B S R &amp; Co. as the Statutory Auditors.</li> <li>• Declaration of Dividend on equity shares.</li> </ul>	
<b>20th AGM</b> July 8, 2009 11.30 a.m.	Air Force Auditorium New Delhi	<ul style="list-style-type: none"> <li>• Adoption of Annual Accounts for the year ended March 31, 2009</li> <li>• Re-appointment of Mr. Prithvi Haldea as Director</li> <li>• Appointment of M/s B S R &amp; Co. as the Statutory Auditors</li> <li>• Resolved not to fill the vacancy, for the time being, caused by the retirement of Mr. Suresh Joshi, who retired by rotation and did not seek re-appointment.</li> <li>• Declaration of Dividend on equity shares.</li> <li>• Appointment of Mr. Janaki Ballabh as a Director liable to retire by rotation</li> </ul>	<ul style="list-style-type: none"> <li>• Approval for payment of commission of an amount not exceeding one percent of net profits of the Company to Non-Executive Directors for each year for the period of five years commencing from April 1, 2009.</li> </ul>

During the year ended March 31, 2010, no ordinary or special resolutions were passed through postal ballot.

related matters including recruitment/appointment and remuneration of Executive Directors, share transfers, advantages of dematerialisation etc.

In the Annual Report a chapter named "Shareholders' Referencer" and in the Quarterly Report a chapter named "Additional information to Shareholders" is included which answers substantially all the expected queries of investors about the Company, its history, its promoters, the public issue, employees, share transfers, dematerialisation etc. All such material information is also available on the website.

It is our constant endeavor to offer better and prompt services to our shareholders and in an effort to achieve this objective, a 'Shareholder Satisfaction Survey' is conducted annually to assess the level of satisfaction among Nucleus shareholders and identify areas of strengths and weakness of Nucleus perceived by the shareholders. The satisfaction form is uploaded on the website under Investors section for online filling of survey.

# Report on Corporate Governance

## L. Disclosures

- Disclosures on materially significant related party transactions i.e. transactions of the Company of material nature, with its promoters, the Directors or the management, their Subsidiaries or relatives etc. that may have potential conflict with the interests of Company at large.

Transactions with Related parties have been disclosed under note 12 of schedule 16, which forms part of the financial statements.

The above transactions does not have any potential conflict with the interests of the Company at large.

## M. Details of non-compliance

There has been no non-compliance of any legal requirements nor have there been any strictures imposed by any stock exchange, SEBI, on any matter relating to the capital market for the last year.

## N. Indian Unlisted Subsidiary Company

- Mr. Sanjiv Sarin, independent Director on the Board of Directors of the Company is a Director on the Board of Directors of Virstra I-Technology Services Ltd. - an unlisted Indian Subsidiary Company.
- Mr. Prithvi Haldea and Mr. Sanjiv Sarin, independent Directors on the Board of Directors of the Company are Directors on the Board of Nucleus Software Ltd. - an unlisted Indian Subsidiary Company.
- The Audit Committee of the Company reviews the financial statements, in particular, the investments made by Virstra I-Technology Services Ltd. and Nucleus Software Ltd. - the unlisted Indian Subsidiary Companies.
- The minutes of the Board meetings of both Virstra I-Technology Services Ltd. and Nucleus Software Ltd. - the unlisted Indian Subsidiary companies are placed at the Board meeting of the Company.

(Although Nucleus Software Ltd. and VirStra i-Technology Services Ltd. are not Material Indian unlisted Subsidiary Companies but as a part of good Corporate Governance practice, the above procedure is followed.)

## O. General Shareholder Information

- **Date of incorporation** 9th January, 1989
- **Registered Office** 33-35, Thyagraj Nagar Market  
New Delhi-110003  
India

- **Corporate Office** A-39, Sector 62  
Noida, 201307  
India
- **Date and time of Annual General Meeting** June 24, 2010,  
11.30 A.M.
- **Venue of Annual General Meeting** FICCI Auditorium  
Federation House  
Tansen Marg,  
New Delhi, India
- **Financial Calendar for the financial year 2010-11 (tentative and subject to change)**

Financial reporting for :	Tentative dates
The first quarter ending June 30, 2010	between 20 <sup>th</sup> to 31 <sup>st</sup> of July 2010
The second quarter ending September 30, 2010	between 20 <sup>th</sup> to 31 <sup>st</sup> of October 2010
The third quarter ending December 31, 2010	between 20 <sup>th</sup> to 31 <sup>st</sup> of January 2011
The year ending March 31, 2011	between 21 <sup>st</sup> to 30 <sup>th</sup> of April 2011
Annual General Meeting for the year ending March 31, 2011	July 2011
- **Date of Book Closure for AGM** June 17 to 24, 2010 (both days inclusive)
- **Listing on Stock Exchanges** Nucleus shares are listed at :  
The National Stock Exchange of India Ltd. w.e.f. December 19, 2002  
Bombay Stock Exchange Ltd. w.e.f November 6, 1995  
The Madras Stock Exchange Ltd. w.e.f November 2, 1995

The annual fees for 2010-11 have been paid to all the Stock Exchanges where the shares of the Company are listed.

- **Scrip code (BSE)** 531209  
**(NSE)** NUCLEUS
- **International Securities Identification Number** INE096B01018  
(ISIN code-NSDL and CDSL)



• Market Price data on NSE & BSE for the financial year 2009-10

Month	NSE			BSE		
	High (Rs.)	Low (Rs.)	Total Volume	High (Rs.)	Low (Rs.)	Total Volume
April '09	78.00	50.00	1,827,194	78.35	49.05	677,415
May '09	99.90	58.80	4,562,287	100.00	62.50	2,909,397
Jun '09	120.80	77.00	10,524,202	122.90	77.35	5,342,956
July '09	100.70	74.20	4,248,633	101.00	74.40	2,282,343
Aug '09	138.00	92.00	13,602,892	131.50	91.00	6,303,485
Sept '09	127.85	112.60	6,652,976	128.25	112.60	2,886,411
Oct '09	119.90	102.25	7,099,328	120.00	101.00	2,891,386
Nov '09	123.70	98.55	4,538,341	120.25	98.50	2,059,883
Dec '09	164.00	110.50	21,037,950	164.25	109.00	9,912,455
Jan '10	161.95	120.15	3,577,942	162.00	120.00	1,554,903
Feb '10	134.65	117.35	1,285,645	134.50	115.50	526,518
Mar '10	150.95	119.00	2,366,031	150.60	119.25	1,264,465
<b>Total Shares traded during the year</b>	<b>81,323,421</b>			<b>38,611,617</b>		

Performance of Nucleus Shares at BSE vis-a-vis BSE Sensex



NUCLEUS SHARE PRICE - HIGH/LOW ON NSE



NUCLEUS SHARE PRICE - HIGH/LOW ON BSE



## Report on Corporate Governance

- **Registrars of Company**

**Karvy Computershare Private Limited**

Plot No. 17-24, Vithal Rao Nagar,

Madhapur, Hyderabad-500 081

Tel: 040-23420815-18

Fax: 040-23420814

Email: mailmanager@karvy.com

- The equity shares of the Company are traded in "Group B" category at the Bombay Stock Exchange Ltd.
- The equity share of the Company is a constituent of the Small Cap Index at Bombay Stock Exchange Ltd.

### Share Transfer System

The Company's shares are currently traded in dematerialised form; transfers are processed and approved in the electronic form by NSDL/CDSL through their Depository Participants.

The Shareholders/Investor Grievance Committee is authorised to approve transfer of shares, which are received in physical form, and the said Committee approves transfer of shares as and when required.

All requests for dematerialisation of shares are processed and confirmation is given to the respective Depositories i.e. National Securities Depository Ltd. (NSDL) and Central Depository Services Ltd. (CDSL) within 15 days.

The Company has De-materialised 31,351,358 shares (96.85% of the paid up share capital) as at March 31, 2010.

The Company obtains from a Company Secretary in practice, a half -yearly certificate of compliance with the share transfer formalities as required under Clause 47 (c) of the Listing Agreement and files a copy of the certificate with the Stock Exchanges.

### Shareholding Pattern of the Company as at March 31, 2010

Category of shareholder	Number of Share Holders	Total Number of Shares	Total Share Holding Percentage
<b>Promoter and Promoter Group</b>	10	19,276,990	59.55
<b>Public Share Holding</b>			
<b>Institutions</b>			
Mutual Funds	12	2,170,987	6.71
Financial Institutions /Banks	–	–	–
Foreign Institutional Investors	10	2,550,111	7.88
<b>Non Institutions</b>			
Individuals	17,268	6,619,345	20.45
Bodies Corporate	732	1,201,417	3.71
<b>Any Other</b>			
Overseas Corporate Bodies / Non Resident Indians	334	551,174	1.70
<b>Total</b>	<b>18,366</b>	<b>32,370,024</b>	<b>100.00</b>

- **Distribution of Shareholding**

No of Equity Shares Held	As on March 31, 2010				As on March 31, 2009			
	Share Holders		Shares		Share Holders		Shares	
	No.	%	No.	%	No.	%	No.	%
1-100	10,665	58.07	477,229	1.47	8,507	64.12	344,320	1.06
101-200	2,970	16.17	522,028	1.61	1,600	12.05	284,029	0.88
201-500	2,501	13.62	890,314	2.75	1,405	10.59	503,258	1.55
501-1000	1,256	6.84	921,882	2.85	874	6.59	646,483	2.00
1001-5000	757	4.12	1,610,672	4.98	677	5.11	1,462,235	4.52
5001-10000	108	0.59	770,095	2.38	90	0.68	650,433	2.01
10001 and above	109	0.59	27,177,804	83.96	113	0.86	28,479,266	87.98
<b>TOTAL</b>	<b>18,366</b>	<b>100.00</b>	<b>32,370,024</b>	<b>100.00</b>	<b>13,266</b>	<b>100.00</b>	<b>32,370,024</b>	<b>100.00</b>



## • Locations

Nucleus services its clients through a network of international offices. Nucleus has wholly owned subsidiaries in India, Japan, Netherlands, Singapore, U.S.A, and branch offices in Dubai (UAE) and London (UK).

Nucleus operates state-of-the-art Software Development Centers at Noida (U.P) and Chennai (Tamil Nadu) under the Software Technology Park Scheme of the Government of India.

A Subsidiary, VirStra-I Technology Services Limited operates a Development Centre at Pune (Maharashtra) under the Software Technology Park Scheme of the Government of India.

The Board of Directors, at their meeting held on April 26, 2009, approved closure of two wholly owned subsidiaries viz. Nucleus Software (Australia) Pty Ltd., Australia and Nucleus Software (HK) Ltd., Hongkong subject to regulatory approvals. During the year, Nucleus Software (HK) Ltd., Hongkong was de-registered as per the applicable laws of Hongkong and Nucleus Software (Australia) Pty. Ltd., Australia was de-registered on April 5, 2010 as per the applicable laws of Australia. The future prospects in these countries would be looked after by the Singapore subsidiary, Nucleus Software Solutions Pte. Ltd.

## PARENT COMPANY

### Registered Office

Nucleus Software Exports Ltd.  
33-35, Thyagraj Nagar Market  
New Delhi-110 003  
India

### Corporate Office

A-39 Sector 62  
Noida-201 307  
India

## SUBSIDIARIES

### Nucleus Software Solutions Pte. Ltd.

300, Tampines Avenue-5#05-05,  
Tampines Junction  
Singapore-529653

### Nucleus Software Japan K.K

Marunouchi Building 23rd Floor,  
4-1 Marunouchi 2 Chome,  
Chiyoda-ku,  
Tokyo 100-0005  
Japan

### Nucleus Software Inc.

197 Route 18 South Suite 3000  
East Brunswick, NJ 08816-1440  
USA

### Nucleus Software Netherlands B.V.

Strawinskylaan 921 Tower A  
(World Trade Center) 1077 XX  
Amsterdam  
Netherlands

### VirStra-I Technology Services Limited

Marisoft 1, 6th Floor  
Marigold Premises,  
Vadgaon Sheri  
Pune-411 014  
India

### Nucleus Software Ltd.

33-35, Thyagraj Nagar Market,  
New Delhi-110 003  
India

## STEP-DOWN SUBSIDIARY

### VirStra I Technology (Singapore) Pte Ltd

300, Tampines Avenue-5  
#05-05, Tampines Junction  
Singapore-529 653

## Branch Offices in India

### A. Mumbai

Wellington Business Park  
405-408,4th Floor,  
Near S.M Centre,  
Marol Naka, Andheri Kurla Road  
Andheri (East)  
Mumbai-400 059  
India

### B. Chennai

Plot No. 38,  
Building No. 40,  
II Main Road  
Ambattur Industrial Estate Ambattur  
Chennai-600 058  
India

## Branch Offices in Overseas Locations

### A. London (UK)

Nucleus Software Exports Ltd.  
29th Floor, 1 Canada Square  
Canary Wharf  
London E14 5DY,  
UK

### B. Dubai (U.A.E)

Nucleus Software Exports Ltd  
Office #305, EIB Building # 05,  
Dubai Internet City (DIC),  
Dubai  
U.A.E.

## Report on Corporate Governance

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- **Investor Correspondence may be addressed to:**

- **The Company Secretary**

- Nucleus Software Exports Ltd.,  
33-35, Thyagraj Nagar market  
New Delhi-110003.

- **India**

- Tel: +91-(120)-2404050

- Fax: +91-(120)-2403972

- **Email: investorrelations@nucleussoftware.com**

- **Other General Shareholder Information**

The other mandatory and additional information of interest to investors is voluntarily furnished in a separate section "Shareholders' Referencer" elsewhere in this Report.

- **Code of Insider Trading**

In pursuance of the Securities Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, the Board has laid down "Code of Conduct for the Board" and "Code of Conduct for Prevention of Insider Trading" with the objective of preventing purchase and/or sale of shares of the Company by an Insider on the basis of unpublished price sensitive information. Under this Code, Insiders (Officers, Designated Employees and their dependents) are prevented to deal in the Company's shares during the closure of Trading Window. To deal in Securities beyond limits specified, permission of Compliance Officer is required. All Directors/Officers/Designated Employees are also required to disclose related information periodically as defined in the Code, which in turn is being forwarded to Stock Exchanges, wherever necessary. Company Secretary has been designated as Compliance Officer for this Code.

### **Compliance with Non-Mandatory Requirements of Clause 49 of the Listing Agreement**

Clause 49 of the Listing Agreement mandates us to obtain a certificate from either the auditors or practicing company secretaries regarding compliance of conditions of Corporate Governance as stipulated in the Clause and annex the certificate with the Directors' report, which is sent annually to all our shareholders. We have obtained a certificate to this effect and the same is given as an annexure to the Directors' report.

The Clause further states that the non-mandatory requirements may be implemented as per our discretion. We comply with the following non-mandatory requirements:

- a. **Remuneration Committee**

We have instituted a Remuneration Committee, which recommends the remuneration payable to Directors based on their contribution to the growth and development of the Company. A detailed note on the committee has been provided under 'Remuneration Committee' in the report.

- b. **Shareholder Rights**

The Clause states that a half-yearly declaration of financial performance including summary of the significant events in

the last six months, may be sent to each household of shareholders.

We communicate with investors regularly through e-mail, telephone and face-to-face meetings in investor conferences or company visits. We also leverage the Internet in communicating with our investor base.

The announcement of quarterly results is followed by press conferences and earnings conference calls. Transcripts of the earnings calls are posted on our website [www.nucleussoftware.com](http://www.nucleussoftware.com),

Highlights of the results are also available on the Company website with a comparison with previous quarters/years.

- c. **Training of Board Members**

The Management gives various presentations to Directors giving an overview of latest happenings in the corporate world. They are apprised of their role, responsibilities and liabilities. The Board of Directors are briefed on all business related matters. Risk assessment, mitigation procedures and new initiatives proposed by the Company.

During the year, Directors have attended various external training / Executive education programmes conducted by reputed institutions. These programmes provided an appreciation of what makes effective board members, their roles and responsibilities, especially in the context of the regulatory environment, stakeholder objectives as well as social responsibilities.

- d. **Mechanism for Evaluating Non-Executive Board Members**

With clear guidelines on the expectation of duties, and effective redressal processes. Directors of our Company maintain a high level of accountability. In addition, there is also sufficient disclosure and transparency in the Company operations to enable shareholders to monitor the performance of the Directors and Management

The Non-Executive Directors regularly hold executive sessions during each Board meeting without the Managing Director. These sessions allow Non-Executive/Independent Directors to discuss the effectiveness of Management, the quality of Board meetings and other issues or concerns. Open communication further ensures effectiveness and accessibility to every Board member. Boards' willingness to engage in self-assessment is a model for the rest. It indicates that Board members take their responsibilities very seriously. Their interest in self-improvement sets a tone for others in the Company to engage in ongoing review of their tasks.

The Company has appointed a reputed external consulting body to carry out a comprehensive review and evaluation of Board Performance, Committee Performance and Individual Directors' Performance.

- e. **Whistle-Blower policy**

Nucleus is committed to conduct its business in accordance with the applicable laws, rules and regulations, and with



highest standards of business ethics. Nucleus does not tolerate any malpractice, impropriety, abuse or wrongdoing. The Company wishes that Nucleites too participate in this process and has instituted a Whistler Blower Policy, a mechanism for employees to report concerns about unethical behavior, actual or suspected fraud, or violation of our code of conduct or ethics policy. The Whistle Blower Policy provides the opportunity to every Nucleite to raise his or her concern, by name or on an anonymous basis on alleged breaches of internal or external regulations or other irregularities. We further affirm that during the financial year 2009-10, no employee has been denied access to the Audit Committee.

**Compliance with Corporate Governance Voluntary Guidelines 2009 issued by MCA**

The Ministry of Corporate Affairs (MCA) released in December 2009, the Voluntary Guidelines on Corporate Governance, drawn from best practices. Although voluntary in nature, the listed companies are expected to be proactive in compliance of these Guidelines and provide reasons of non-compliance of any section, if any.

The Company is already compliant with most of the sections of these Guidelines. In addition, in the financial year 2011, the Company has appointed a reputed external consulting body to carry out a comprehensive review and evaluation of Board Performance, Board Committees Performance and Individual Directors' Performance.

Moreover, the Company had already put in place a policy for Rotation of Statutory Auditors, and accordingly, the appointment of new auditors has been placed for approval by the shareholders in the forthcoming Annual General Meeting. A process has also been already put in place to obtain an Annual Certification of Auditor's independence and arm's length relationship with the Company.

There are only three suggestions, where the Company is partly but not fully compliant, the Corporate Governance Committee of the Company has charted out the plan for the implementation as below:

S. No.	Suggestions as per Corporate Governance Voluntary Guidelines 2009 issued by MCA	Action Plan implemented/ to be implemented, for ensuring compliance
<b>I. BOARD OF DIRECTORS</b>		
<b>A. APPOINTMENT OF DIRECTORS</b>		
<b>A.1</b>	Appointments to the Board	Companies should issue formal letters of appointment to Non- Executive Directors (NEDs) and Independent Directors - specifying the terms, expectations, fiduciary duties, provision for directors and officers insurance, list of actions that a director should not do and the remuneration including sitting fees and stock options.
		New Letters of Appointment to the Non - Executive Directors (NEDs) and Independent Directors are being re-drafted to include all the terms as specified in the Guidelines, and will be issued very shortly.
<b>B. INDEPENDENT DIRECTORS</b>		
<b>B.1</b>	Attributes for Independent Directors	1. The Board should put in place a policy for specifying positive attributes of Independent Directors, which may be subject to approval of shareholders.  2. Disclosure about such policy should be made by the Board in its report to the shareholders.
		A brief on the positive attributes of Independent Directors has already been in place and is also included in the Annual Report. However, this brief is now being converted into a Policy Document and shall be formally adopted by the Board and communicated to the shareholders.
<b>C. REMUNERATION COMMITTEE</b>		
<b>C.2</b>	Remuneration Committee	The committee should consider remuneration for Executive Director's and senior management.
		The Charter of Remuneration Committee already includes consideration of remuneration of the Directors. Now the Charter is being revised to include consideration of remuneration of Senior Management also.

## Report on Corporate Governance

### Non-compliance

The only suggestion with which the Company is not compliant, and may not be compliant in the future also, is with regard to the tenure of the Independent Directors. It suggests that an Individual may not remain as an Independent Director in a Company for more than six years.

At Nucleus, all Independent Directors (except Mr. Janki Ballabh, Chairman), have been with the Company for more than 6 years. The tenure of the Independent Directors (as on 31<sup>st</sup> March, 2010) is as follows:

Director	Position	No. of Years
Mr. Janki Ballabh	Chairman, Independent, Non-Executive Director	1.25
Mr. Prithvi Haldea	Independent, Non-Executive Director	8.5
Mr. Sanjiv Sarin	Independent, Non-Executive Director	8.5
Mr. Arun Shekhar	Independent, Non-Executive Director	14.0

Some of the outstanding qualities of the Independent Directors at Nucleus are:

- High level of education
- Reputation of Character and Integrity
- Specialist /Experts in functional areas
- General Management exposure and experience
- Industry Awareness
- Global Awareness
- Entrepreneurial Experience

The profiles of each Independent Director, given elsewhere in this Report, clearly demonstrate the above qualities.

All these Directors are not only professionally but also financially independent and well settled in their own fields of professional expertise and are not dependent on Nucleus in any material way for their financial well-being. Each one of them also devotes valuable time to the Board and other Committee meetings, which typically last for a full day each. Moreover, each agenda item is discussed at length and its impact on minority shareholders is examined in great detail.

The Company has valued the position of Independent Directors, and for the past over a decade, all Directors, except the Managing Director, have been Independent Directors. Even presently, eighty per cent of the Board comprise of Independent, Non-Executive Directors. Moreover, the Chairman of the Board, who was earlier the Chairman of State Bank of India and also a member of CVC, is a highly professional and an intense Independent Director and ensures total independence of all the Directors in the Board.

Under the able guidance of these Independent Directors, the Company has set high standards of Corporate Governance. This is also substantiated by the fact that for the past four consecutive years, the Company has been selected as the Top 25 Companies adopting "Good Corporate Governance Practices" by the Institute of Company Secretaries of India (ICSI). To add to this, their knowledge and insights have helped the Company in following best financial disclosures and practices, which has been recognized through the award of a Gold Shield for the second consecutive year by the Institute of Chartered Accountants of India (ICAI), when the Annual Report and Accounts of the Company were adjudged as the Best under the category 'Information Technology, Communication and Entertainment Enterprises' companies of the 'ICAI Awards for Excellence in Financial Reporting'.

The Board has considered and deliberated on the voluntary guidelines, and is of the view that the continuation of the above three Independent Directors beyond six years is critical for the growth of the Company given the diverse knowledge, experience and expertise that they have brought to the Board, the deep understanding of the Company and the industry, their intense involvement in the deliberations and decisions of the Board. And their independence which is provable beyond any doubt, and that it would in fact be detrimental to the Company's interests to retire any of these Directors.