

CORPORATE GOVERNANCE REPORT

In compliance with Clause 49 of the Listing Agreement entered into with the Stock Exchanges, the Company hereby submits the report on the matters as mentioned in the said Clause and practices followed by the Company.

1. Philosophy of the Company on the Code of Governance:

Corporate Governance is a set of systems and practices to ensure that the affairs of the Company are being managed in a way which ensures accountability, transparency, and fairness in all its transactions in the widest sense and meet its stakeholders' aspirations and societal expectations. Your Company believes in attainment of highest levels of transparency in all facets of its operations. The Company is committed to maximize the shareholder value by adopting the principles of good corporate governance in line with the provisions stipulated in the listing agreement.

2. Board of Directors:

The Company has an optimum combination of executive and non-executive directors with more than fifty per cent of the Board comprising of non-executive directors. All independent non-executive directors comply with the requirement of independent directors definition of Clause 49 of the Listing Agreement entered into with the stock exchanges.

The Board of Directors met eight (8) times during the financial year on 02.04.2012, 14.05.2012, 13.08.2012, 22.08.2012, 28.09.2012, 12.11.2012, 12.01.2013 and 12.02.2013 and the maximum gap between any two meetings was less than four months, as stipulated under Clause 49 of Listing Agreement.

The names and categories of the directors on the Board, their attendance at Board meetings held during the year and the number of directorships and committee memberships held by them in other companies is given below.

| Name | Category | Designation | Attendance Particulars | | | No. of other Director-ships# | Committee member-ships ## | Chairman-ship in Commi-ttees## |
|-------------------------|-------------------------------|-----------------------------------|------------------------|---|----------|------------------------------|---------------------------|--------------------------------|
| | | | Board Meetings | | Last AGM | | | |
| Sri. T. Gopichand | Promoter/ Executive | Vice Chairman & Managing Director | 8 | 8 | yes | - | - | - |
| Smt. T.Pavana Devi | Promoter/ Non-Executive | Director | 8 | 8 | yes | 1 | - | - |
| Sri. T.Bapaiah Chowdary | Promoter/ Non-Executive | Director | 8 | 8 | yes | - | 1 | 1 |
| Sri. K. Rama Rao | Executive | Wholetime Director | 8 | 8 | yes | - | - | - |
| Sri. D.Seetharamaiah | Non-Executive and Independent | Chairman | 8 | 8 | yes | 6 | 7 | 3 |
| Sri. R.S.Bakkannavar | Non-Executive and Independent | Director | 8 | 8 | yes | 1 | 1 | 1 |
| Dr.T.Hanuman Chowdary | Non-Executive and Independent | Director | 8 | 8 | yes | 2 | 3 | 2 |
| Dr. T.V. Lakshmi | Non-Executive and Independent | Director | 8 | 8 | yes | 1 | 1 | - |

#The directorships held by directors as mentioned above, do not include directorships in Private Limited Companies.

Membership/ Chairmanship in Audit and Shareholders' Grievance Committees of public limited companies (including Tera Software Ltd.) has been considered.

Code of Conduct

The Board of Directors of the Company laid a Code of Conduct for Directors and senior management personnel. The Code of Conduct is posted on the Company's web-site www.terasoftware.com. All Directors and designated personnel in the senior management affirmed compliance with the Code for the year under review. The declaration to this effect furnished by Sri T.Gopichand, Vice Chairman & Managing Director is annexed to this report.

3. BOARD COMMITTEES:

The Company has six Board level Committees, namely Audit Committee, Shareholders' Grievance Committee, Remuneration Committee, Investment Committee, Share Transfer Committee and Management Committee.

Audit Committee:

The Audit Committee comprises of three Independent Directors viz.,

| | |
|-----------------------|----------|
| Sri R.S.Bakkannavar | Chairman |
| Sri D. Seetharamaiah | Member |
| Dr.T.Hanuman Chowdary | Member |

All the members of the Audit Committee possess financial / accounting expertise / exposure. The composition of the Audit Committee meets with the requirements of Section 292A of the Companies Act, 1956 and Clause 49 of the Listing Agreement.

Terms of Reference : The terms of reference / powers of the Audit Committee are as under:

1. Overseeing the Company's financial reporting process and the disclosure of its financial information.
2. Recommending to the Board, the appointment, reappointment and, if required, the replacement or removal of Statutory Auditors and fixation of audit fees.
3. Recommending to the Board, the appointment, reappointment and, if required, the replacement or removal of Internal Auditors and fixation of internal audit fees.
4. Reviewing with management of the annual financial statements before submission to the Board, focusing primarily on:
 - ☛ Matters required to be included in the Directors' Responsibility Statement to be included in the Directors' Report in terms of sub-section (2AA) of Section 217 of the Companies Act, 1956
 - ☛ any changes in accounting policies and practices,
 - ☛ major accounting entries based on exercise of judgment by management,
 - ☛ Significant adjustments made in the financial statements arising out of audit findings,
 - ☛ Compliance with stock exchange and legal requirements concerning financial statements
 - ☛ Disclosure of any related party transactions.
 - ☛ Qualifications in draft audit report.

5. Reviewing with the management, external and internal auditors, of adequacy of internal control systems.
6. Reviewing, with the management, the quarterly financial statements before submission to the Board for approval.
7. Reviewing the adequacy of internal audit functions.
8. Discussion with internal auditors on any significant findings and follow up thereon.
9. Reviewing the findings of any internal investigations by the internal auditors into the 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.
10. 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.
11. Approval of appointment of CFO (i.e. the Wholetime Finance Director or any other person heading the finance function or discharging that function) after assessing the qualifications, experience and background, etc. of the candidate.
12. To look into the reasons for substantial defaults, if any, in the payment to the depositors, debenture holders, shareholders (in case of non- payment of declared dividends) and creditors.
13. Carrying out such other functions as may be specifically referred to the Committee by the Board of Directors and/or other Committees of Directors of the Company.

During the year under review, the Committee met 5 times on 14.05.2012, 13.08.2012, 22.08.2012, 12.11.2012 and 12.02.2013 respectively and all the members were present at all the meetings.

Shareholders' Grievance Committee:

The constitution of the Shareholders' Grievance Committee of the Board comprises three Directors viz.,

Sri T. Bapaiah Chowdary Chairman

Dr. T.V. Lakshmi Member

Sri D. Seetharamaiah Member

The Committee primarily focuses on shareholder grievances, inter-alia, redressal of investor complaints attending investor requests, approves the issue of duplicate share certificates and oversees and reviews all matters connected with servicing of investors. The Committee oversees the performance of the Registrar and Transfer Agents and recommends measures for overall quality improvement of investor services.

The Committee met four times during the year i.e. on 30.06.2012, 01.10.2012, 31.12.2012, and 30.03.2013 and all the members were present at all the meetings.

During the year under review, 11 complaints of general nature were received from the shareholders which were attended promptly and replied/resolved to the satisfaction of the concerned shareholders. There were no pending complaints at the close of the financial year. The Company designated a separate email id for investor grievances viz: investors@terasoftware.com.

Compliance Officer Name and Address:

Sri.O. Babu Reddy, AGM - F & A and Legal,
Tera Software Limited,
8-2-293/82/A/1107,
P. No. 1107, R. No. 55,
Jubilee Hills, Hyderabad – 500033.

Remuneration Committee:

The constitution of the Remuneration Committee of the Board comprises four Directors viz.,:

| | |
|------------------------|----------|
| Sri D.Seetharamaiah | Chairman |
| Dr. T.Hanuman Chowdary | Member |
| Sri T.Bapaiah Chowdary | Member |
| Dr. T.V.Lakshmi | Member |

Terms of Reference:

- ❖ To review and approve/recommend the remuneration for the corporate officers, wholetime Director and managing director of the Company.
- ❖ To review and recommend to the Board the remuneration policy for the Company.
- ❖ To discharge such other functions or exercise such powers as may be delegated to the Committee by the Board from time to time.

There were no meetings of Remuneration Committee held during the year under report.

Details of remuneration paid to the Directors for the year:

| | (Rs. in lakh) | |
|--|---------------|---------------|
| Particulars | Current Year | Previous Year |
| Vice Chairman & Managing Director (Sri T. Gopichand) | 87.96 | 143.08 |
| Executive Director (Sri N.V.V.Prasad) (Resigned on 29.08.2011) | — | 9.97 |
| Whole Time Director (Sri K. Rama Rao) | 14.55 | 9.90 |
| Total | 102.51 | 162.95 |

Details of sitting fee paid to the Directors for the year:

(Rs. in lakh)

| Particulars | Current Year | Previous Year |
|------------------------|--------------|---------------|
| Sri D.Seetharamaiah | 1.71 | 1.47 |
| Sri R.S.Bakkannavar | 1.38 | 1.22 |
| Sri T.Bapaiah Chowdary | 1.04 | 1.02 |
| Dr. T.Hanuman Chowdary | 1.43 | 1.03 |
| Dr. T.V.Lakshmi | 1.04 | 0.94 |
| Sri K.Rama Rao | — | 0.63 |
| Smt. T. Pavana Devi | 0.76 | 0.72 |
| Sri M.V.S.R. Prasad | — | 0.08 |
| Total | 7.36 | 7.11 |

Investment Committee:

The constitution of the Investment Committee of the Board comprises three Directors viz.,

| | |
|---------------------|--------|
| Sri T.Gopichand | Member |
| Sri K. Rama Rao | Member |
| Sri D.Seetharamaiah | Member |

There were no meetings of Investment Committee held during the year under report.

Share Transfer Committee:

The Share Transfer Committee was constituted comprising of 2 directors and the Compliance Officer of the Company as indicated below:

| | |
|------------------|-----------------------------|
| Sri T.Gopichand | Member |
| Sri K. Rama Rao | Member |
| Mr. O.Babu Reddy | Member (Compliance Officer) |

During the year, the Committee has met 5 times on 30.06.2012, 01.10.2012, 20.11.2012, 31.12.2012 and 30.03.2013 and all the members were present at all the meetings.

Management Committee:

The constitution of the Management Committee of the Board comprises Five Directors viz.,

| | |
|------------------------|----------|
| Sri D.Seetharamaiah | Chairman |
| Sri R.S.Bakkannavar | Member |
| Dr. T.Hanuman Chowdary | Member |
| Sri T.Gopichand | Member |
| Sri K. Rama Rao | Member |

During the year, the Committee has met 2 times on 31.07.2012, and 07.03.2013 and all the members were present at all the meetings.

4. General Body Meetings:

The date, time and venue of the Annual General Body Meetings held during the preceding three years and the special Resolution (s) passed thereat are as follows:

| Year | AGM | Location | Date | TIME | SPECIAL RESOLUTION PASSED |
|---------|-----|--|-----------------------------------|-----------|---|
| 2009-10 | AGM | Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad | September 21 st 2010 | 10.00 A.M | Nil |
| 2010-11 | AGM | Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad | August 30 th 2011 | 10.00 A.M | <ul style="list-style-type: none"> ● Reappointment of Sri.T. Gopichand as Vice Chairman and Managing Director ● Appointment of Sri. K.Rama Rao as Whole Time Director of the Company ● Inserted new Article 3 (h) in the Articles of Association of the Company (Employees Stock Option Scheme and Employees Stock Purchase Scheme). |
| 2011-12 | AGM | Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad | September 28 th , 2012 | 10.00 A.M | Nil |

All the special resolutions were passed on show of hands with requisite majority.

No special resolution was passed through Postal Ballot during the Financial Year 2012-13.

5. Disclosures:

i. Significant related party transactions:

During the F.Y. 2012-13 certain transactions were entered into with related parties. The details thereof are given under note number 33 forming a part of the Financial Statements.

ii. There were no occasions of non compliance by the Company and no penalties or strictures were imposed on the Company by the stock exchanges or the SEBI or any statutory authority, on any matter related to Capital markets, during the last three years.

iii. The company has complied with all the applicable mandatory requirements of the Clause 49 of the Listing Agreement and also has complied with the following non-mandatory requirements as prescribed in Annexure I D to Clause 49 of the Listing Agreement with the stock exchanges:

- The company has constituted a Remuneration Committee. Please see the Para on Remuneration Committee for details.
- During the year under review, there is no audit qualification in the company's financial statements.
- The Company has no written whistle blower policy.
- The Board of Directors will explore the possibility of introducing all non-mandatory items on a need-based manner.

6. Means of Communication:

The quarterly and annual financial results of the Company are published in English newspaper Financial Express and vernacular newspaper Andhra Prabha shortly after its submission to the Stock Exchanges. The results are also displayed on the Company's website www.terasoftware.com.

The Company's website www.terasoftware.com contains a separate dedicated section 'Investor Relations' where shareholders information is available. Full text of Annual Report is also available on the website in a user friendly and downloadable format as per the requirement of Clause 47 of the Listing Agreement.

7. General Shareholder Information:

| | |
|--|---|
| i. Annual General Meeting (Day, Date, Time and Venue): | Monday, 30 th September, 2013 at 3.00 p.m at Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad - 500 033 |
| ii. Financial Year: | April 1, 2013 to March 31, 2014. The results of every quarter beginning from April are declared within the time specified under the provisions of Listing Agreement. |
| iii. Date of Book Closure: | 23 rd September, 2013 to 28 th September, 2013 (both days inclusive). |
| iv. Listing on stock exchanges: | <p>i. Bombay Stock Exchange Limited (BSE)</p> <p>ii. Bangalore Stock Exchange Limited (BgSE)</p> <p>Annual listing fee for the year 2013-14 has been paid by the Company to BSE and BgSE.</p> |
| v. Stock codes: | <p>BSE : 533982</p> <p>BgSE : TASL</p> |
| vi. Company's ISIN: | INE482B01010 |

vii. Market price data

The monthly high and low stock quotations during the last financial year in Bombay Stock Exchange Limited are given below:

| Month | Bombay Stock Exchange Limited | |
|----------------|-------------------------------|-------------------|
| | Month's High Price | Month's Low Price |
| April 2012 | 82.00 | 74.25 |
| May 2012 | 80.90 | 68.50 |
| June 2012 | 75.00 | 61.10 |
| July 2012 | 66.50 | 59.95 |
| August 2012 | 63.55 | 46.25 |
| September 2012 | 57.80 | 51.10 |
| October 2012 | 54.55 | 48.60 |
| November 2012 | 54.75 | 45.00 |
| December 2012 | 54.50 | 42.70 |
| January 2013 | 48.45 | 36.00 |
| February 2013 | 43.00 | 33.40 |
| March 2013 | 36.90 | 27.00 |

The equity shares of the Company were not traded on the Bangalore Stock Exchange Limited as reported by the Stock Exchange.

viii. Registrars and Transfer Agents

Karvy Computershare Private Limited
 Plot No.17-24, Vittal Rao Nagar,
 Madhapur, Hyderabad - 500 081.
 Tel:+91 40-44655000
 Fax +91 40-23354042
 e-mail: einward.ris@karvy.com
 Website: www.karvy.com

ix. Share transfer system

The share transfers which are received in physical form are processed and the share certificates are returned within a period of 10 to 15 days from the date of receipt, subject to the documents being found valid and complete in all respects.

The Company appointed M/s. Karvy Computershare Private Limited as the Registrar and Transfer Agents for dealing with all the activities connected with both physical and demat segments pertaining to the share transactions of the Company.

x. Distribution of shareholding as on March 31, 2013

| Category (Shares) | Holders | Shares | % of TotalShares |
|-------------------|--------------|--------------------|------------------|
| 1-5000 | 5,354 | 8,47,807 | 81.640747 |
| 5001- 10000 | 532 | 4,10,023 | 8.112229 |
| 10001- 20000 | 274 | 4,11,232 | 4.178103 |
| 20001- 30000 | 94 | 2,36,426 | 1.433364 |
| 30001- 40000 | 74 | 2,58,837 | 1.128393 |
| 40001- 50000 | 32 | 1,51,576 | 0.487954 |
| 50001- 100000 | 75 | 5,52,792 | 1.143641 |
| 100001 & Above | 123 | 96,43,182 | 1.875572 |
| Total: | 6,558 | 1,25,11,875 | 100% |

Shareholding pattern as on March 31, 2013:

| Sl. No. | | | Total Shares | % to Total |
|-----------|---|--------------|-------------------|---------------|
| A. | Shareholding of Promoter & Promoter Group: | | | |
| | Indian | | | |
| | Individuals/HUF | 11 | 56,62,300 | 45.26 |
| | Foreign | Nil | Nil | Nil |
| B. | Public Shareholding: | | | |
| | Institutions | | | |
| | Foreign Institutional Investors | 1 | 11,900 | 0.10 |
| | Non-Institutions: | | | |
| | Bodies Corporate | 140 | 10,13,279 | 8.10 |
| | Individuals | | | |
| | Individual Shareholders holding nominal share capital up to Rs.1 Lakh. | 6,195 | 26,42,622 | 21.12 |
| | Individual Shareholders holding nominal share capital in excess of Rs.1 Lakh. | 89 | 28,30,852 | 22.63 |
| | Any Other (Specify) NRI/OCB | 110 | 2,49,880 | 2.00 |
| | Any Others – Clearing Members | 10 | 21,079 | 0.17 |
| | Any Others – Trust | 2 | 79,963 | 0.64 |
| C. | Shares held by Custodians etc. | Nil | Nil | Nil |
| | Total | 6,558 | 12,511,875 | 100.00 |

xi. Dematerialization of Shares:

The Company's Equity Shares are held in dematerialized form by National Securities Depository Limited (NSDL) and Central Depository Services India Limited (CDSL) under ISIN: **INE482B01010**. As on March 31st, 2013, 98.88 % of the totals shares of the Company have been dematerialized.

Trading in equity shares of the Company is permitted only in dematerialized form as per the notification issued by the Securities and Exchange Board of India (SEBI). The Company's shares are liquid and actively traded.

xii. Outstanding of unclaimed dividend amounts:

In terms of Sections 205A and 205C of the Companies Act, 1956, the Company is required to transfer the amount of dividend remaining unclaimed for a period of seven years from the date of transfer to the unclaimed dividend account to the Investor Education and Protection Fund (IEPF). Shareholders are requested to ensure that they claim the dividend(s) from the Company before transfer to the Investor Education and Protection Fund. In compliance with Sections 205A (6) & 205A(7) of the Companies Act, 1956, the Company transferred on 19-11-2012 the unclaimed dividend amounting to Rs.2,17,680 pertaining to the year 2004-2005 to the Investor Education and Protection Fund.

Details of outstanding amount of unclaimed dividend lying in Unpaid Dividend Account year wise as on 31.03.2013:

| F.Y | 2005-06 | 2006-07 | 2007-08 | 2008- 09 | 2009-10 | 2010-11 | 2011-12 |
|----------------------------------|----------|----------|----------|----------|-------------|----------|----------|
| Unclaimed Dividend Amount in Rs. | 3,61,914 | 4,42,134 | 2,55,340 | 2,54,634 | 2,07,162.50 | 5,21,074 | 3,34,294 |

xiii. Location of our software development center:

8-2-293/82/A/1107, Plot No: 1107,
Road No: 55, Jubilee Hills, Hyderabad-500033
Tel.Nos.040-23540446, 040 – 23547447/8, Fax : 040 - 23547449
E-Mail: info@terasoftware.com
Url: www.terasoftware.com

xiv. Address for Correspondence:

| Company | Registrars and Transfer Agent |
|---|---|
| M/s.Tera Software Limited #8-2-293/82/A/1107 Plot No: 1107, Road No: 55, Jubilee Hills, Hyderabad-500033 Tel.Nos.040-23540446, 040 – 23547447/8 Fax : 040 - 23547449 E-Mail: info@terasoftware.com investors@terasoftware.in Url: www.terasoftware.com | Karvy Computershare Private Limited Plot No.17-24, Vittal Rao Nagar, Madhapur, Hyderabad - 500 081. Tel:+91 40-44655000 Fax +91 40-23354042 e-mail: einward.ris@karvy.com Website: www.karvy.com |