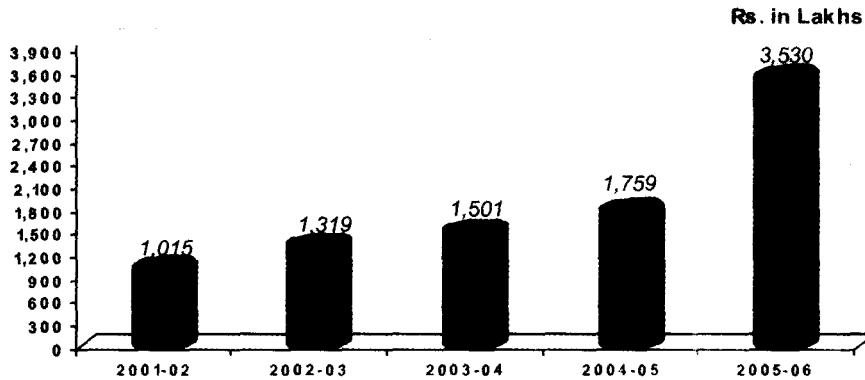
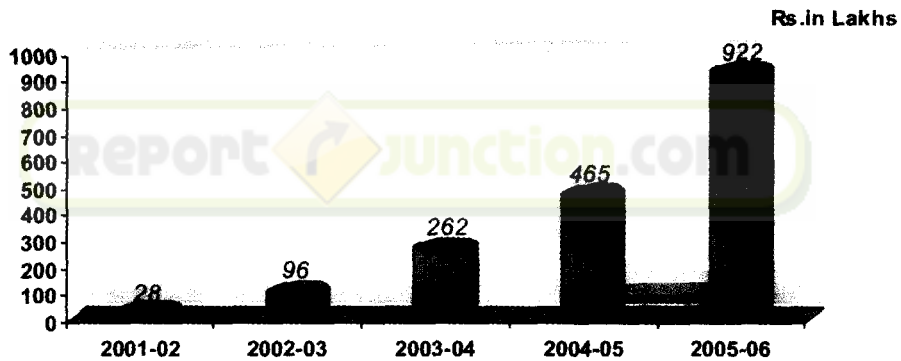
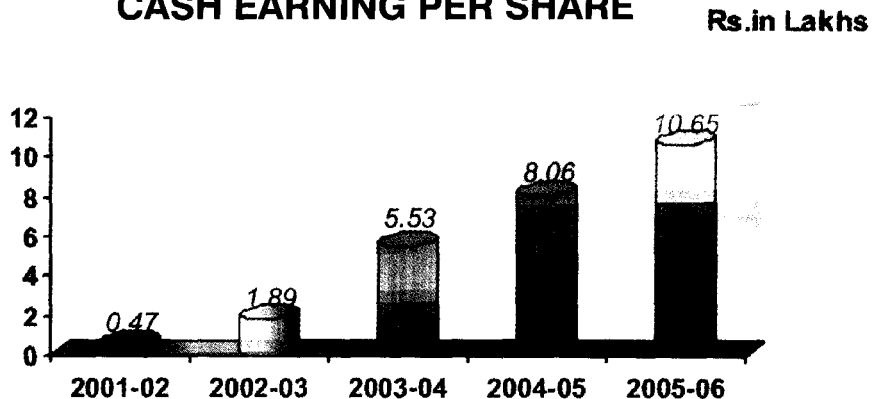


**12th
ANNUAL REPORT
2005-2006**



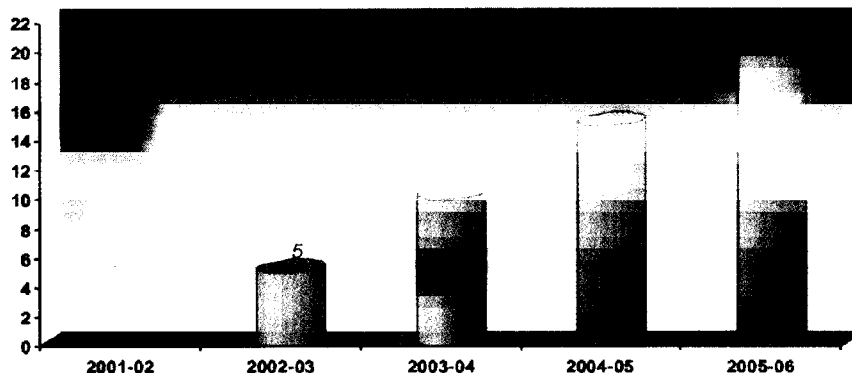
TERA SOFTWARE LIMITED

GRAPHICAL STATEMENTS**GROSS TURNOVER****PROFIT BEFORE TAX (PBT)****CASH EARNING PER SHARE**

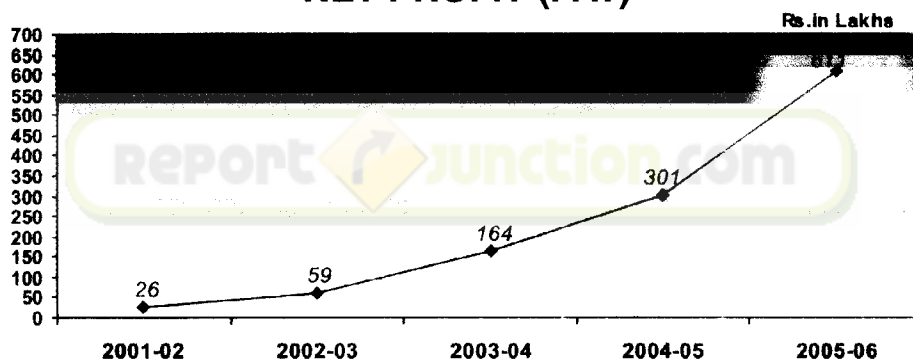
GRAPHICAL STATEMENTS



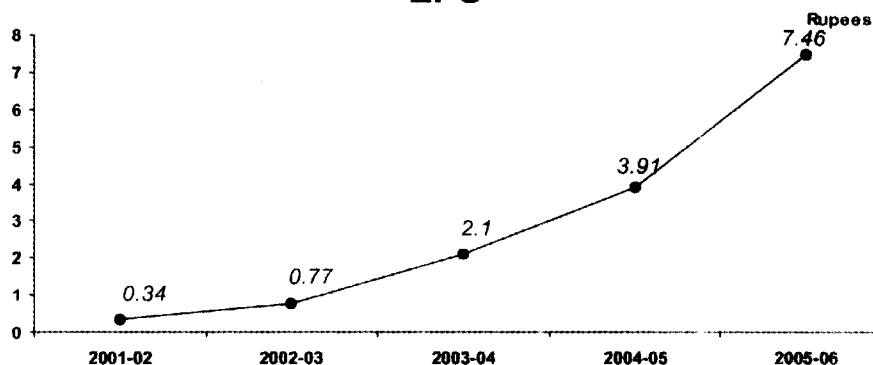
DIVIDEND PER SHARE (%)



NET PROFIT (PAT)



EPS



OUR ONGOING PROJECTS



KAVERI PROJECT IN KARNATAKA STATE



Tera Software Limited

BOARD OF DIRECTORS:

1. Sri D. SEETHARAMAIAH	CHAIRMAN
2. Sri K. RAMA RAO	DIRECTOR
3. Sri T. BAPAAIAH CHOUDARY	DIRECTOR
4. Sri R. S. BAKKANNAVAR	DIRECTOR
5. Dr. T. HANUMAN CHOWDARY	DIRECTOR
6. Dr. T. V. LAKSHMI	DIRECTOR
7. Smt. T. PAVANA DEVI	WHOLE TIME DIRECTOR
8. Sri N.V. V. PRASAD	EXECUTIVE DIRECTOR
9. Sri T. GOPI CHAND	VICE CHAIRMAN and MANAGING DIRECTOR

REGISTERED OFFICE:

8-3-1113/2B, Kesava Nagar,
Srinagar Colony,
Hyderabad - 500 073.
Tel.Nos.91-40-23736833/23730553.
Fax:91-40-23743526.
E-Mail : hyd1_tspl@sancharnet.in
Url: www.terasoftware.com

AUDITORS:

M/s. NARVEN ASSOCIATES
Chartered Accountants
313, Lingapur House,
Himayat Nagar,
Hyderabad - 500 029.

BANKERS:

BANK OF MAHARASHTRA,
Basheer Bagh,
Hyderabad - 500 029.

SYNDICATE BANK,
N.S.Road,
Hyderabad - 500 001.

Tera Software Limited**NOTICE**

Notice is hereby given that the Twelfth Annual General Meeting of the members of the company will be held at the Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad - 500 033, on Friday, the 29th day of September, 2006 at 10.00 a.m. to transact the following business:

AS ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2006, Profit & Loss Account for the year ended on that date together with the Reports of the Directors and Auditors thereon.
2. To declare dividend on Equity shares.
3. To appoint a Director in place of Sri T. Gopi Chand, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Sri N.V.V.Prasad, who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint a Director in place of Sri R.S.Bakkannavar, who retires by rotation and being eligible offers himself for re-appointment.
6. To appoint M/s. NARVEN ASSOCIATES, Chartered Accountants, the retiring auditors as Statutory Auditors of the Company, who shall hold office from the conclusion of this Annual General Meeting up to the conclusion of the next Annual General Meeting and to fix their remuneration

AS SPECIAL BUSINESS:

7. To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution:
"Resolved that pursuant to the provisions of Sections 198,269,309,310,314 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to such other approvals and consents as may be required, the approval and consent of the Company be and is hereby accorded to the appointment of Sri.T.Gopichand, as Vice Chairman and Managing Director of the Company, not liable to retire by rotation pursuant to Article 51 of the Articles of Association of the Company for a period of five years with effect from 29th September, 2006 on the revised remuneration, commission, perquisites and other allowances mentioned below:

- | | |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| i) Salary: | Rs.1,25,000/- per month with an annual increment of Rs.30,000/- |
| ii) Commission: | @0.90% on the net profits of the Company and |
| iii) Perquisites: | <ol style="list-style-type: none"> a) Contribution to provident Fund, Superannuation Fund or Annuity Fund, as per the rules of the Company. b) Gratuity payable shall not exceed half month's salary for each completed year of service. c) Free use of Company's car with driver. d) Free communication facilities like Telephones/Mobiles/Fax at residence. |

"Resolved Further that the remuneration aforesaid including the perquisites and other allowances shall be paid and allowed to Sri. T. Gopichand, Vice Chairman and Managing Director, as minimum remuneration during the Currency of his tenure in the event of loss or inadequacy of profits in any financial year for a period not exceeding three years".

8. To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution:
"Resolved that pursuant to the provisions of Sections 198,269,309,310,314 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to such other approvals and consents as may be required, the approval and consent of the Company be and is hereby accorded to the appointment of Sri.N.V.V.Prasad, as Executive Director of the Company, not liable to retire by rotation pursuant to Article 51 of the Articles of Association of the Company for a period of five years with effect from 29th September, 2006 on the revised remuneration, commission, perquisites and other allowances mentioned below:

- | | |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| i) Salary: | Rs.1,00,000/- per month with an annual increment of Rs.20,000/- |
| ii) Commission: | @0.70% on the net profits of the Company and |
| iii) Perquisites: | <ol style="list-style-type: none"> a) Contribution to provident Fund, Superannuation Fund or Annuity Fund, as per the rules of the Company. b) Gratuity payable shall not exceed half month's salary for each completed year of service. c) Free use of Company's car with driver. d) Free communication facilities like Telephones/Mobiles/Fax at residence. |

Tera Software Limited

"Resolved Further that the remuneration aforesaid including the perquisites and other allowances shall be paid and allowed to Sri. N.V.V. Prasad, Executive Director, as minimum remuneration during the currency of his tenure in the event of loss or inadequacy of profits in any financial year for a period not exceeding three years".

9. To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution:
 "Resolved that pursuant to the provisions of Sections 198,269,309,310,311,314 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to such other approvals and consents as may be required, the remuneration, commission, perquisites and other allowances payable to Smt. T. Pavana Devi, Whole Time Director of the Company, be revised and enhanced with effect from 29th September, 2006 for the remainder of her tenure, as under:

- | | |
|-------------------|----------------------------------------------------------------------------------------------------------|
| i) Salary: | Rs.50,000/- per month with an annual increment of Rs.10,000/- |
| ii) Commission: | @0.40% on the net profits of the Company and |
| iii) Perquisites: | a) Contribution to provident Fund, Superannuation Fund or Annuity Fund, as per the rules of the Company. |
| | b) Gratuity payable shall not exceed half month's salary for each completed year of service. |
| | c) Free use of Company's car with driver. |
| | d) Free communication facilities like Telephone/Mobiles/Fax at residence. |

"Resolved Further that the remuneration aforesaid including the perquisites and other allowances shall be paid and allowed to Smt. T. Pavana Devi, Whole Time Director, as minimum remuneration during the remaining period of her tenure, in the event of loss or inadequacy of profits in any financial year for a period not exceeding three years".

10. To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

"Resolved that the Company be and is hereby authorized to capitalize its reserves by allotting one equity share of Rs. 10/- each for every four equity shares of Rs. 10/- each fully paid up held by the members as fully paid bonus shares".

"Resolved further that the Company be and is hereby authorized to make a provision to allot 2,00,000 equity shares of Rs.10/- each as fully paid up bonus shares to the holders of 8,00,000 warrants convertible into equity shares upon conversion as per the guidelines concerning the issue of bonus shares."

"Resolved further that the Board be and is hereby authorized to do all the things, deeds necessary to implement the above resolution and take necessary steps for the issue of bonus shares including fixing the record date, allotment of shares to the entitled members as on record date and dealing with fractional entitlement as it may deem fit".

By Order of the Board of Directors

Sd/-

(T. Gopi Chand)

Vice Chairman and Managing Director

Date : 28.08.2006

Place : Hyderabad.

Notes:

1. The explanatory statement in respect of item numbers 7 to 10 of the Notice, pursuant to Section 173 (2) of the Companies Act, 1956 is annexed hereto.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to vote at the meeting on his behalf and such proxy need not be a member of the company.
3. The instrument appointing proxy to be valid should be lodged at the Registered Office of the Company not less than forty-eight hours before the commencement of the meeting.
4. Members/Proxies should fill the attendance slip for attending the meeting.
5. Members who hold shares in dematerialized form are requested to bring their Client ID and DP ID numbers for easy identification of attendance at the meeting.
6. The Company has already notified closure of Register of Members and the Share Transfer Books from Saturday, 23rd September 2006 to Friday, 29th September 2006 (both days inclusive).
7. Shareholders are requested to bring their copy of Annual Report to the meeting.

Tera Software Limited

Explanatory statement pursuant to section 173(2) of the Companies Act, 1956.**Items 7 & 8 :**

The members at their meeting held on 20.05.2005 fixed the remuneration of working directors. The Audit Committee on 25.08.2006 reviewed the remuneration as recommended by the Remuneration Committee and the Board of Directors at their meeting held on 28.08.2006 proposed the revision for the approval of the members. It is also proposed to appoint Sri. T. Gopichand and Sri N.V.V. Prasad, as non rotational Directors pursuant to Article 51 of the Articles of Association of the Company.

To commensurate with the services rendered by them, your directors commend the resolution.

None of the directors are interested/deemed to be interested in the resolution except Sri T.Gopichand, the Vice Chairman and Managing Director, Sri N.V.V.Prasad, the Executive Director.

Smt. T. Pavana Devi is interested in the resolution at Item 7 concerning Sri. T. Gopichand being Spouse as per Section 6 (B) of the Companies Act, 1956.

Sri T.Bapaiah Choudary is interested Item 7 being relative of Sri T. Gopichand as per Schedule IA of the Companies Act, 1956.

Item 9:

The members at their meeting held on 20.05.2005 fixed the remuneration of Whole time Director. The Audit Committee on 25.08.2006 reviewed the remuneration as recommended by the Remuneration Committee and the Board of Directors at their meeting held on 28.08.2006 proposed the revision of remuneration for the approval of the members.

To commensurate with the services rendered by the Whole time Director, your directors commend the resolution.

None of the directors are interested/deemed to be interested in the resolution except, Smt T.Pavana Devi, Whole time Director.

Sri. T. Gopichand is interested in the resolution concerning Smt. T. Pavana Devi being Spouse as per Section 6 (B) of the Companies Act, 1956.

Sri T.Bapaiah Choudary is interested being relative of Smt. T. Pavana Devi as per Schedule IA of the Companies Act, 1956.

Item 10:

The Company's accumulated reserves including the securities premium exceeds the paid up capital of the Company and the Board considered at their meeting held on 28.8.2006, capitalization of reserves by allotting fully paid bonus shares in the ratio of 1 equity share of Rs. 10/- each for every 4 equity shares of Rs. 10/- each fully paid up. The members at their meeting held on 4.6.2006 approved allotment of 8,00,000 share warrants convertible into equity shares on preferential basis. As per the guidelines concerning the issue of bonus shares, even the warrant holders are entitled to bonus shares on conversion of warrants to equity shares. Member's approval is sought for issue and allotment of bonus shares.

Your directors commend the resolution

None of the directors are interested/deemed to be interested in the resolution except to the extent they are entitled to the bonus shares.

Tera Software Limited**Particulars of Directors eligible for re-election, pursuant to Clause 49 of the Listing Agreement:**

Serial Number	1	2	3
Name	Sri T. Gopi Chand	Sri N.V.V.Prasad	Sri R.S.Bakkannavar
Designation	V C & M D	E D	Director
Age	47 Years (9.6.1959)	46 Years (14.4.1960)	65 Years (17.6.1941)
Qualification	M. Tech.	B. Tech.	Post Graduate
Date of Appointment	27.09.2003	27.09.2003	27.9.2003
Nature of expertise in specific functional areas	Incharge of all facets of Management with special emphasis on Negotiations, Project Coordination & Implementation and Technical functions.	Incharge of Project Coordination, Marketing, Integrated Services, Post Sales Services and Technical functions.	Over three decades of rich experience in banking sector. Providing guidance on project financing.
Remuneration	Rs.11,32,761/- p.a. As approved by Members	Rs.9,25,339/- p.a. As approved by Members	Rs.39,500/- p.a. (Sitting Fees)
No. of outside Directorships held	1	1	3
Chairman of the Committee of Board of Directors of the Company	Nil	Nil	(1) Audit Committee
Member of the Committee of Board of Directors of the Company	(1) Investment Committee (2) Share Transfer Committee (3) Management Committee	(1) Investment Committee (2) Share Transfer Committee (3) Management Committee	(1) Management Committee
Chairman/member of the Committees of other Companies	Nil	Nil	NIL

By Order of the Board of Directors

Date: 28.08.2006
Place: Hyderabad.

Sd/-
(T. Gopi Chand)
Vice Chairman and Managing Director

Tera Software Limited**DIRECTORS' REPORT**

Dear Shareholders,

Your Directors have pleasure in presenting the Twelfth Annual Report and the audited accounts of the company for the year ended 31st March 2006 together with Auditors' report thereon.

a) Financial Results:**(Rs. in Lakhs)**

PARTICULARS	Year Ended 31.03.2006	Year Ended 31.03.2005
Gross Income	3529.69	1758.65
Expenditure	2138.25	888.47
Profit before interest, depreciation & tax	1391.44	870.18
Less: Interest (Financial Cost)	101.02	95.27
Profit before depreciation & tax	1290.42	774.91
Less: Depreciation	368.20	310.26
Profit before tax	922.22	464.64
Less : Provision for tax		
: Current year	281.17	123.79
: Deferred tax	24.96	39.68
: Fringe Benefit tax	4.60	–
Profit after tax	611.48	301.17
Add: Balance brought forward from Previous Year	345.98	201.87
Add/(Less): Excess provision of Taxation for Earlier years	1.39	(0.14)
Profit available for distribution	958.85	502.90
Less:		
Proposed Dividend @ 20% (Previous Year 15%)	184.19	115.52
Tax on distributable profits	25.83	16.20
Tax on dividend for earlier Years	0.01	0.20
Transferred to General Reserve	500.00	25.00
Residual dividend earlier years	0.04	–
Balance Carried to Balance Sheet	248.78	345.98

b) Dividend:

Your Directors are pleased to recommend a dividend of 20% absorbing a sum of Rs.210.02 Lakh including the tax on distributable profits.

c) Listing of Shares in Stock Exchanges:

At present the Equity Shares of your company are traded under permitted Securities on the Stock Exchange, Mumbai and listed on The Hyderabad Stock Exchange Limited and Bangalore Stock Exchange Limited. The listing fee was paid up to date.

d) Overseas Office:

The foreign branch in U.S.A. is being continued to take the opportunity in participating in the international market.

e) Fixed Deposits:

The Company has accepted fixed deposits to which the provisions of Section 58A of the Companies Act, 1956 are applicable during the year under review. There are no overdue amounts of deposits including the interest thereon as at the end of the year.

f) Directors:

In accordance with the provisions of the Companies Act, 1956, and the Articles of Association of the Company, Sri T. Gopi Chand, Vice chairman and Managing Director, Sri N.V.V.Prasad, Executive Director and Sri R.S.Bakkannavar, Director, will be retiring by rotation at this annual general meeting and being eligible offer themselves for reappointment.