



FAST FORWARD

Annual Report 2003 - 2004

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FAST FORWARD



In thought and in action.

Answers – before the question is posed.

Solutions – before the need is felt.

Savings - before a rupee is spent.

A passion to make a difference to people's lives and an unwavering spirit to take things forward.

For Aurobindo, this is both an aspiration and a motivation.

The will to forge ahead is the result of a commitment to create good health. This energy and vibrancy is felt throughout the Company, acting as a constant driver for improvement.

Our mission is to make quality pharmaceuticals affordable to all. From this aspiration flows the energy that makes the Company successful. Our initiative is making us the most cost effective producer in the world. Ultimately, its a win-win for all - the patients, customers and the Company.

At Aurobindo, we are adding value by optimizing our market mix and leveraging our intellectual resources and experience to quicken the pace of growth; widening our product offering through intelligent research and expanding our manufacturing platform. We are fast tracking the Company.

Beyond the horizon there lie opportunities. We are taking new paths leading to exciting new heights, with the promise of sustained profits. Aurobindo is making the paradigm shift to premium markets.

There is an excitement, driving the change across the organization.

Anticipating needs and exceeding expectations.

Sharpening our focus and striving for excellence.

In thought and in action. Fast Forward.



Dear Friends,

2003-04 was a transitional year. It was also a transformational year for Aurobindo. We moved decisively to strengthen and expand our core businesses. While the financials grew at a healthy clip, we drew satisfaction from the fact that we have positioned the Company for a major thrust into the regulated markets.

Aurobindo has its sights set on the growing market for generics worldwide. We are dedicating ourselves to building the Company into a global pharmaceutical powerhouse. Aurobindo's unique strengths and assets provide us singular ability to achieve this vision.

This goal has captured the spirit and inspired the commitment of our people across the Company, who are determined to make it a reality. And we believe that 2003-04 laid much of the groundwork for this future Aurobindo. We are actually on *fast forward* mode.

Opening new markets

Aurobindo is poised to make a significant impact in the generics market. With governments everywhere opting for low cost health care, the demand for generics is growing exponentially. In line with this need, our product portfolio is being expanded. Through our own developments and business alliances, we will be able to introduce and market generics and exploit this emerging growth potential.

*We are
dedicating
ourselves to
building
Aurobindo
into a global
pharmaceutical
powerhouse*



Aurobindo has inherent strengths to make the move forward. We are leveraging our core competencies to strengthen our business model. We are also leveraging our existing business model to improve our core competencies.

Growing scientific strength, a vibrant business model, and a clear vision of the way ahead are rapidly becoming the Company's competitive strengths.

Aurobindo's cost effectiveness as a producer and completely integrated approach to business will mean that the Company always stays ahead of competing pressures. Our manufacturing presence from the basic raw materials stage, through active ingredients to producing generics for the regulatory markets, is an enormous strength. While we now stand better positioned, our cost effectiveness will give the consumer the best deal.

Ultimately, our mission is to make quality pharmaceuticals affordable to all.

Expanding the Platform

Aurobindo's manufacturing facilities are unmatched. Our recently added production units at Pydhibhimavaram and our fermentation unit for the production of raw materials at China have added to our muscle.

Both units have already begun adding to the Company's bottom-line. It is particularly satisfying that a facility on foreign soil is posting profits within months of going live.

We have now created an end-to-end vertical integration – from basic raw materials to consumable products. Low external dependencies, cost effective production, high scalability, strategic flexibility and control on quality at all levels make us a strong contender in quality conscious regulatory markets.

Growing Scientific strength, a vibrant business model and a clear vision of the way ahead are rapidly becoming the Company's competitive strengths.

At Aurobindo, quality is not just a regulatory stamp. In 2003, we concentrated on honing our processes that put flawless execution within our grasp. We have a mechanism that deals immediately with deviations and remedies them. We are building trust. Our consistent quality will give us the cutting edge.

Growing Scientific Strength

Aurobindo's most crucial priority as we go forward, is to build a world class research and development function. This is essential for our future.

To strengthen our R&D capabilities and increase our productivity, we have better aligned our scientific division with our commercial priorities. We are screening and identifying generic opportunities in tune with our chemical competencies.

R&D is raising the bar by looking for answers in new and different places and coming up with unique and non-infringing processes. These impressive achievements offer the greatest potential to generate the growth needed to sustain our ambitious goals. We will continue to invest in new research.

Partnering Progress

As you are aware, large global investors have taken a stake in your Company. Templeton Strategic

Emerging Markets Fund and Merlion India Fund have become members after the preferential issues made to them. This is a strong showing of support for the efforts being made and a testimony to our diligence at Aurobindo.

We appreciate the continued confidence of all our investors, and we reiterate our commitment to deliver excellent financial performance. We shall reciprocate your trust.

Growing The Business

3100

EMPLOYEES

98

COUNTRIES

Addressing the Future

Today, Aurobindo has crafted strengths in critical areas like manufacturing, marketing and finance. Combined with our integrated architecture, these allow us to plan for our organic growth both vertically through our defined business segments as well as horizontally into new markets.

Our intent – and our commitment to our shareholders – is to remain different, distinctive and driven to expand our potential. In pursuance of this objective, we are taking steps towards the future – acting

from a position of strength and taking our performance to the next level. We are making a paradigm shift.

These are exciting times. We have begun another year with enthusiasm. We will maintain Aurobindo's tradition of prudent conservatism, but will act decisively to grow our business when we identify the right opportunities. We will accelerate Aurobindo's growth rate, provide superior returns and enhance shareholder value.

We are where we are because of the capable people that we have. A

mere thank you will not convey our feelings. We are fortunate and are taking care to build a company of performers. We are grateful to all our employees for their dedicated efforts and for the continued allegiance of you, our shareholders. We shall harness this confidence to deliver on our promise of sustained long-term growth.

Sincerely,

P.V. RAMAPRASAD REDDY
Chairman



Production

China

Our mega facility at China has stabilized operations and begun to function at optimum levels of production well within the first year of its operations. This is a cGMP compliant fermentation facility for the manufacture of Pen G (Penicillin G Potassium) and 6APA, both key raw materials for SSPs (Semi Synthetic Penicillins).

Aurobindo's domestic anti-infective units now receive a guaranteed supply of high grade/low cost raw material in the form of higher yielding strains of Pen G. Our company has insulated itself from the vagaries of the commodity markets. As demand continues to increase, a capacity expansion at this facility has not been ruled out. Our 'China advantage' will prove invaluable.

Plant Approvals

Regulatory Authorities from the UK MHRA and from ANVISA Brazil have approved our manufacturing plant at Unit 3. The first consignments to these markets were shipped as soon as we received the approvals. These approvals are significant milestones for a growing company like Aurobindo. We are hopeful of receiving many more in the coming year. Our consistent quality passes every litmus test.

Pydibhimavaram (near Vizag)

If Aurobindo today is a vertically integrated powerhouse, it is largely due to this plant. The facility at Pydibhimavaram spread over 100 acres went on-stream in early 2003 and has now stabilized. APIs and intermediates are manufactured here. At the current capacity utilization of 75%, this unit alone handles volumes much in excess of what the Company earlier did. A lot of Aurobindo experience and expertise has gone into the design of this facility that has resulted in higher yields and greater economies of scale. 2004-05 will see capacity utilization at over 90%.

New Formulation R&D centre at Mumbai

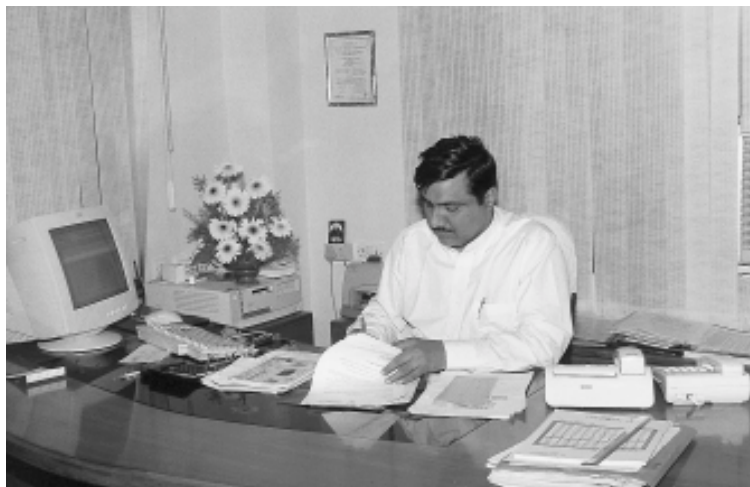
In 2003, we extended our R&D centre with the opening of a state-of-the-art laboratory, exclusively for formulation research. This strategic decision was taken to capture the talents available across the country. This is in addition to the existing laboratory for formulation research at Hyderabad.

Intellectual Property

At Aurobindo, we recognize the importance of knowledge. We seek to safeguard our Intellectual Properties by placing them under patent protection. This year saw the filing of 2 ANDA and 5 DMF with the US FDA; 5 CoS and 10 EDMF with the EDQM and 11 Process Patents.

Every patent filing is a potentially lucrative investment. While we eagerly await the approvals on patents filed, we have already started working towards the next set of filings. The R&D division has set targets for the year ahead. The good work continues, at double the speed.

Consistent *Growth*



Fiscal 2003-04 was another good year. There was encouraging improvement in all key parameters. Gross sales reached Rs.13410 million, up 12.6 per cent over the previous year. Net profit rose to Rs.1270 million, an increase of 23.1 per cent on 2002-03. The EPS of Rs.26.4 (face value Rs.5 per share) showed a healthy rise as compared to the earlier year EPS of Rs.22.7. Overall, we added significant value to the Company.

To me, the most notable thing about our performance was the consistency it reflected. It was another year of sustained growth in sales, income, margins, manufacturing efficiency and employee productivity.

This consistency is the consequence of measures we've taken over the past three years to fine-tune our production and supply chain; to add to capacities; to align our R&D better; and to innovate across the board - including our factory floors. Our management of complex chemistry is our pride. We have become a knowledge based pharmaceutical company.

Cost Leadership

As a pharmaceuticals company, our *raison d'être* is to put our expertise to work for our customers – to bring them quality medicines at affordable prices. Aurobindo is on course to be the most cost-effective producer.

We continue to apply our manufacturing strengths resolutely. This year saw our raw material sourcing facility at China stabilize production levels with the result our API units can now receive raw material at lowered costs. Impact of this initiative will be seen on a full-year basis from 2004-05. The resulting margins will go straight to the bottom line.

Our plant at Pydibhimavaram, near Vizag is in its first year, producing at 75% of capacity. This mega-facility is helping to increase volumes and contributing to greater economies of scale. We are making renewed efforts to step up capacity utilization.

These additions to our manufacturing platform give us agility and flexibility. We can take a 'demand pull' approach. We will

make quicker decisions and respond faster to the needs of the market. We will remain a reliable source for our customers.

Our manufacturing capabilities will give the Company its competitive edge. We can now produce large volumes at optimum cost. Our operating efficiencies mean more value for every invested Rupee.

Solidifying the Standard

In 2003-04, U.K. MHRA and ANVISA Brazil have approved Aurobindo's production facility at Bachupally (Unit 3). Exports to these markets have commenced.

The US FDA has, in April 2004 inspected our Unit 1 (API) and Unit 3 (Formulations). We are hopeful of receiving the formal approvals.

We also expect inspections from the US FDA at other units in 2004. Our processes are geared to clear stringent quality checks and our documentation is comprehensive. We are confident of our high standards and quality.

Our generics program for the regulatory markets is gaining momentum. Currently, we have 5 Drug Master Files (DMF) and

12.6%

2004

2003

Revenue Growth

23%

Growth in Operating Profits

Rs. 13410m

Gross Sales

2 Abbreviated New Drug Applications (ANDA) pending before the US FDA. This number would increase, with 10-15 submissions expected over the next 12 months. Additionally, 5 applications for Certificates of Suitability (CoS) and 10 applications for EDMF have been filed with the EDQM. Approvals have started coming. We have recently received the first CoS.

March 2004 saw the opening of our new formulations research centre at Mumbai. This facility is equipped with sophisticated laboratory testing equipment. This new lab will speed up research for potential generic opportunities.

Aiming Higher

The future dominates our thinking and captures our imagination. We are racing ahead with our master plan. Our objective is to be a significant player in the regulated markets, and enhance stakeholder value.

In 2004-05, we'll focus on higher returns on our committed capital and maintain our financial strength. We'll steer operational initiatives and unleash our R&D potential. Our current product and market offensive will propel top and bottom line growth.

In sum, I believe Aurobindo is well positioned. Ours is a company that works today and patterns itself for the future. We have the base, the expertise and the structure to move ahead.

We know what we are doing. And we know how to do it.
The challenges we face and the strategies we have in place to meet them.

Challenges & *Strategies*

Entering regulatory markets

This will be a challenging time for the Company. We are making the shift to a highly regulated market environment. The rules of the game are going to be very different. Our every step will be evaluated. Quality and consistency are the drivers in these markets. These will determine a company's success.

Aurobindo insists on delivering consistent quality. We are investing in the future by building trust and goodwill. Years of careful thought followed up with diligent preparation have made us ready for this leap.

Timing our entry

Timing of the product's launch is critical to its success. The generics market, especially in the initial years following patent expiry, is highly rewarding. Being the first mover has its advantages. Delays in the launch could mean a loss of market share. Aurobindo wisely commenced work on its generics a few years ago. We hope to commercially launch our product the day the patent expires.

Gearing up for inspection

We expect regulatory audits at some of our production facilities in 2004. Our consistency in maintaining standards will prove our commitment.

At Aurobindo, we believe the process to be every bit as important as the result. Nothing is taken for granted. Perfection is our mantra. Every process, every aspect of production is being put to the test. Conscious of the stringent standards adhered to by the regulatory authorities, we are not leaving any room for error. Checks and counterchecks are the order of the day. With the result, production runs like a well oiled machine; smooth and defect-free.

The dress rehearsals are over. Our systems are in place. Our operating procedures are watertight. Our documentation is complete. As soon as the approvals roll in, Aurobindo is scheduled for take-off.

Aurobindo is entering the global generic market.
Generic drugs are very important today. Here's why-

\$50 billion+
generics market

Generics

FAQ

What are generics?

A generic drug is one which contains the same active substance in the same dose and pharmaceutical form, and is administered in the same way and with the same therapeutic dosage as the existing brand-name drug. A generic can also be taken with the same degree of safety as the brand-name drug and is totally interchangeable with the latter.

Does the generic drug have the same effect as the branded drug?

Yes. Generic drugs have the same therapeutic effect as the branded or reference drugs. The generic drug can be interchanged with the reference drug, since it has been submitted to bioequivalence testing.

What is the bioequivalence test?

The bioequivalence test demonstrates that the generic drug will produce blood levels of the active substance in humans which are equivalent to those produced by the brand-name product.

What is the active substance?

This is the substance in the formula of the drug responsible for its therapeutic effect.

What is the advantage of buying the generic drug?

Good quality of the generic drug confirmed by the regulatory authority and its lower cost as compared to the reference drug.

Are generic drugs successful?

The world market for generic drugs is growing by about 11% a year. In the United States, prescriptions of generic drugs account for around 42% of all prescriptions. The United States, Japan and Germany account for approximately 60% of the world generics market and its growth is inevitable. Drugs sold under the name of the active substance are so successful that in the US market the average cost to the user represents a saving of at least 30% over that of branded drugs.



Post 2005, over \$50 billion worth of branded revenue will be thrown open to generic competition. A huge opportunity. Aurobindo's R&D is playing to win.

Pushing *Forward*

R&D at Aurobindo is the lifeblood and oxygen of the Company. Often times, it is also the backbone.

Even as you read this, some 325 scientists at the Research Centre are hard at work creating and documenting the chemistry of each process. In essence, they are making science go commercial. This is applied research.

Success does depend on the resources available. More importantly, it depends on the commitment of the people involved, on their creativity, enthusiasm and performance. Aurobindo possesses an able team that is delivering value.

In readiness for highly competitive markets, we have reverse integrated our pipeline to include formulations, intermediates and active pharmaceutical ingredients (API). Aurobindo's basket of products now covers the gamut.

Our R&D efforts are providing us with the powerful chemistry we will require to compete in regulated markets. We have identified and standardized non-infringing processes that go toward the making of select antibiotics, anti-depressants and hypertension drugs.

Armed with superior information, our production team has hiked quality levels. We don't just match the standards set by the Pharmacopoeias. We exceed them.

While we realise that research can take many directions and do actively encourage the flow of new ideas, we have directed efforts to ensure that a few near-term objectives bear fruit. Today, our pipeline is broad, diversified and promising.

Fiscal 2005 should see the company able to register a number of potentially lucrative patents.

Our Bioequivalence Program

Generic drugs are every bit as effective and safe as the brand-name drug. Aurobindo produces generic alternatives to existing branded medicine.

To obtain approval of a generic drug, it is necessary to demonstrate that the generic product matches blood levels of the active ingredient in humans equivalent to those produced by the brand-name drug.

If these measures meet the standards set by the regulatory authority, the products are considered to be therapeutically equivalent. That is, both drugs provide the same relief and work equally well. Bioequivalence studies can take anywhere from two to six months.

EDQM

5 CoS

10 EDMF

Our bioequivalence facility is equipped with sophisticated laboratory testing equipment to verify that our generics equal the existing branded products in all aspects. Aurobindo seeks to produce and market affordable bioequivalent formulations.

Invisible R&D efforts

Our visible R&D efforts exist in the form of new products but many of our efforts remain invisible to the outside.

What have we actually done? Some innovations lead to the improvement of manufacturing processes by making them more cost-efficient. Others make possible a better exploitation of raw materials. Both kinds increase productivity. These

11 Process Patents

invisible elements of R&D are equally important to the Company.

Our manufacturing processes have continuously evolved over the past few years. Our senior scientists oversee crucial production stages. Mixing our industrial know-how with scientific insight has provided us with perceivably quicker processes.

Aurobindo has a dedicated kilo lab at the R&D centre. This is a pilot plant capable of simulating production on a small scale. We run-through small experimental batches to test the

Filings in 2003-04

2 ANDA

5 DMF

US FDA

uniformity of the process. Only when we are completely satisfied with its consistency and viability, do we move into full production.

R&D initiatives to improve manufacturing processes have resulted in a significant increase of production efficiency and lesser costs.

Speed to market remains critical to success in our industry. We have relentlessly increased the efficiency of our product development efforts. Our marketing division liaises closely with R&D to ensure that commercial opportunities are identified quicker.

To complete the cycle, feedback from our associates and consumers goes back to our R&D Centre. Improvements are made, resulting in perceptible customer satisfaction.

Aurobindo's aim is long-term sustainable and profitable growth. R&D is the key to achieving this. We like to stay one step ahead.



Aurobindo's extensive experience, world class production infrastructure, and proven product quality makes it the logical choice for its customers.

Premier |
Producer

Aurobindo clearly has the upper hand when it comes to manufacturing. The Company is competitive since it does not outsource most of its key raw materials and handles the entire production process from start to finish.

The Company has invested over Rs.4870 million to scale up its production capabilities during the past three years to ensure it has the capacity to meet present and future demand for its products. Today, Aurobindo operates 12 facilities producing APIs and formulations and supplies to over 98 countries.

The lowest cost operating structure

At Aurobindo, the disciplined use of capital is a credo. Considerable care is taken to ensure that there is no overrun on estimated costs and time.

Investments in technology to enhance productivity and reduce overheads are an ongoing process. We are constantly at work to improve manufacturing economics.

An example will illustrate. One of the significant cost control measures adopted has been a reduction in solvent consumption in the production process, while R&D initiatives have helped obtain better yields for the same inputs. Effectively, we cut wastes, save on production costs and ensure that the end product is as effective as it is meant to be.

We ensure that the quality is what the customer wants, even if it be better than Pharmacopoeia. We strive to be cost-effective as well.

Superior quality

Aurobindo's quality is undisputed. The care starts from basic raw materials. From incoming raw material to the finished product, Aurobindo benchmarks itself to produce top end quality.

A quality control group performs tests at each stage in the manufacturing process to ensure compliance with the Company's strict internal standards. Each batch is carefully scrutinized ensuring that Aurobindo ships zero-defect products.

Quality is a regulatory requirement but it doesn't stop there. Our people take pride in doing what they do. A superior product can never be by coincidence, or accident. The team is dedicated to stamping our quality on every product and every batch we make.

Strategic Flexibility

Aurobindo has the flexibility to shift production according to the requirement in the market. We take a 'demand pull' approach that allows us to sustain our growth in sales, while reducing our dependence on any single product or market.

We believe this to be a unique advantage that allows us to meet our customers' changing needs. Our response level is honed, to be faster and market oriented.

The net result is the Company today has a reputation for being a reliable supplier.

Mammoth Capacities

Aurobindo's regular investments in its manufacturing facilities have created an unmatched scale of production.

Capacities have been uniformly expanded to meet rising demands. The addition of newer facilities like our mega unit at Pydibhimavaram and our raw material sourcing unit at China has added muscle to our manufacturing might. We are also ready for a share of the challenging opportunities of the regulatory markets.

In the process, we have been able to tap into large economies of scale, increasing our cost efficiencies and enhancing competitiveness.

Our present capacities allow us to sustain a broad product portfolio and supply diverse markets while maintaining lowered costs. We are ready for the future.

Sustainable Development

Aurobindo places emphasis on environment friendly processes and products that are safe and gentle on natural resources.

Our commitment to health is central to our research, production and distribution processes. We are not just concerned about the customer and the patient. We care for the process. For instance, Aurobindo uses a reverse osmosis method of processing waste leading to a significantly reduced pollution load.

We meet today's needs while ensuring that the interests of future generations are not compromised.



Forward

Our Performance Drivers

We do everything today, that will make the tomorrow better. Consistent with this focus, we have studied industry trends and mapped our future course.

At Aurobindo, our efforts are focused on delivering real value to our customers, associates, shareowners and employees through sustainable growth over the years ahead. This happens because of a number of initiatives that we have taken. Certain key strategies that we have identified as long-term growth engines are iterated here:

Penetrating Regulatory Markets

It is an exciting period for the pharmaceutical and healthcare industry. The existing patent regime is undergoing an upheaval of sorts. A multitude of drugs are due to come off-patent in the near future. This will throw the markets wide open. Billions of dollars worth of branded revenue will be made available to generic competition. This is an opportunity like never before for our Company to scale up the value chain. Aurobindo is making the transition.

Aurobindo has upgraded its business model. The Company is focusing its energies towards the regulatory as well as the global generics market. This is a value addition move - one that will see the Company grow from strength to strength. Aurobindo will emerge a global pharmaceutical company with a visible presence in the markets of the First World.

Widening our product range

Aurobindo has concentrated its R&D efforts on diversifying the Company's product portfolio. Several drugs facing patent expiry, have been identified as low risk – high return opportunities. We will be present in our recognised areas of competence, with a wider basket backed-up with requisite international regulatory approvals.

The Company respects third party intellectual properties and is committed to creating processes that are non-infringing. **Considerable care is being taken to grow where opportunity exists.**

De-risking the future

Entering the regulated markets with a wide product portfolio will mitigate the risk factors that are inherent to such bold shifts in environment. A large product basket significantly adds to the Company's capability to absorb any temporary setbacks. **We are taking care to be the first mover in as many products as possible. In the process, Aurobindo will stay competitive.**

A potent market mix

Apart from our operations in India, Aurobindo exports pharmaceutical products in the form of APIs, intermediates and formulations to over 98 countries worldwide. **Our strength is in our wide reach.**

We intend to consolidate our market space in these countries. Many of these are emerging markets and offer high growth opportunities.

What Aurobindo's global presence means in real terms is that we will always be in a position to anticipate and seize any opportunity that comes up. The synergies accrued from diversifying our market mix will result in lower costs and higher margins. Our market risks are effectively minimised and capacity utilizations are optimized.

Faster



Vertical Integration

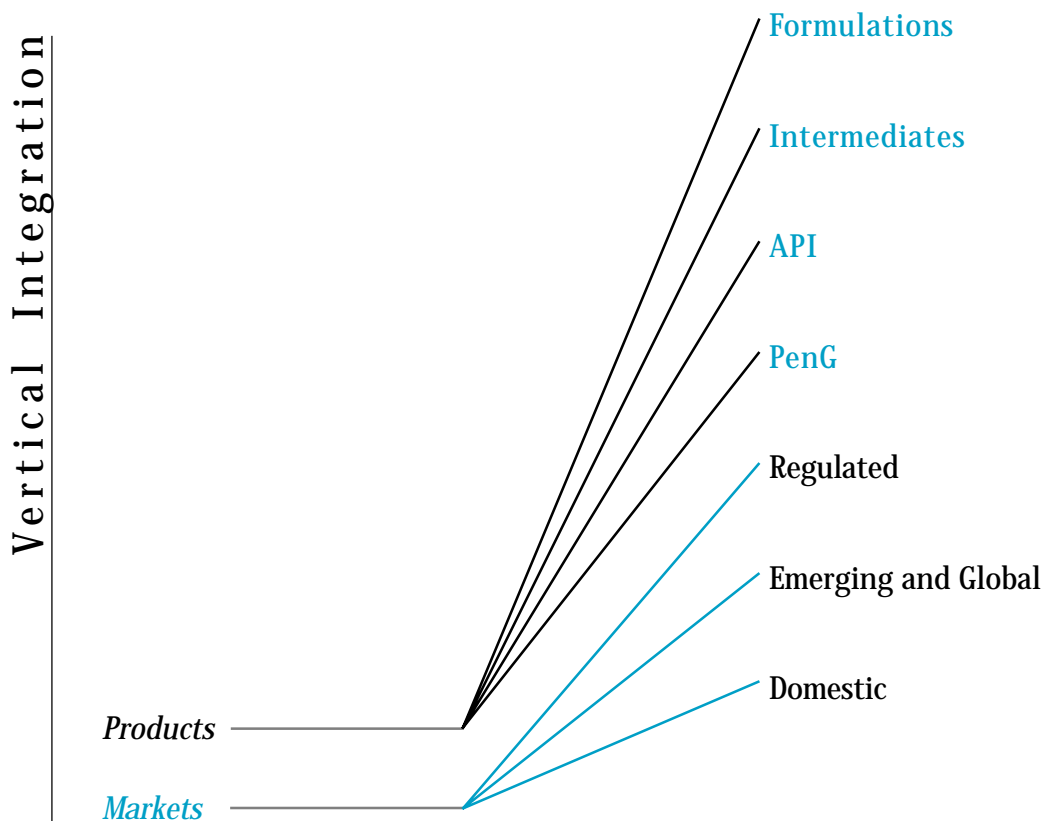
Aurobindo today holds leadership positions in bulk actives both in domestic and global markets. We have added value by moving into generics. **In-house manufacture of active pharmaceutical ingredients (API) and intermediates gives the Company that additional competitive depth.**

Vertical integration will play a key role in Aurobindo's current evolutionary phase. This strategy will act as a fulcrum, stabilizing operating margins. Aurobindo's global generics business will be leveraged on its strength in APIs and intermediates, to maximum advantage.

In 2003, we added a mega facility in China for the manufacture of Penicillin G, a key raw material that goes into the making of our APIs and intermediates. We are now completely reverse integrated.

A vertically integrated Aurobindo is insulated from the fluctuations that routinely plague non-branded markets. Our API facilities are now assured of a consistent volume supply of grade "A" raw material. Our formulation units in turn, enjoy timely production of APIs and intermediates.

We have brought almost all our processes under one roof, effectively reducing our external dependence.



Strategic Alliances

We are building relationship capital. We believe we must work with associates in key markets, and leverage our individual strengths to mutual benefit. Aurobindo has forged strategic linkages with firms who would not only market our products but also provide us with timely and accurate information on market trends.

In developed countries, pharmaceutical products are sold differently. Large numbers of patients are covered by what are known as Healthcare Management Organizations (HMOs). These HMOs command significant bargaining power when they deal with medical suppliers.

If a company's drug is selected by many such HMOs, brisk sales are guaranteed. Recognizing these dynamics, Aurobindo has entered into agreements with select partners who possess strong marketing networks.

We believe that our partnerships will shape the Company's growth curve.

Empowering R&D

Pharmaceutical industry is growing each year. Growth demands speed. To participate, you anticipate. Aurobindo is doing just that.

We like to respond proactively to changes in industry requirements. In keeping with this attitude, we are empowering R&D – equipping our scientists for the next lap of this race.

R&D spending has been increasing steadily each year. This year saw the completion of our new research facility at Mumbai. We have placed sophisticated laboratory equipment at the disposal of our research team. Our existing facility located near Hyderabad has also been upgraded.

Our researchers regularly participate in training workshops to broaden their knowledge. Scientific discussions between our senior experts and fresh graduates are not uncommon. **Aware of the challenges ahead, there is a hunger for knowledge and a renewed sense of purpose in our researchers. They are brimming with talent and are keen to put it to good use.** Aurobindo is also actively adding skillful contributors to the think-tank.

Sustained growth is Aurobindo's promise. Our R&D will make it a reality.

Patenting success

We foresee a significant increase in R&D investments. It thus becomes a key business imperative to obtain adequate protection for the intellectual property (IP) generated from this capital.

Aurobindo has always had a clearly mapped out generics strategy. A central element of this strategy is to focus exclusively on the creation of different processes without infringing on the IP rights of our industry peers. We shall patent our non-infringing processes (NIP), giving an effective shield of enforceable property rights.

The inevitable expiry of product patents will open up the field. Maximizing profits from this opening will be our priority. Aurobindo will file selectively; keeping an eye on fast moving products that can seize opportunities in the post product-patent regime.

The year under review saw us file for a number of patents with the US FDA and the EDQM. In 2004-05, we expect to announce a marked increase in the number of filings.



Regulatory Approvals

Vertical Integration

Wide Product Basket

Potent Market Mix

Where do we go from here?

Aurobindo is constantly evolving and it is R&D that is leading this metamorphosis. We are applying knowledge to maximum advantage. By diversifying our reach and penetrating the regulated markets we stand to gain visibility while also growing our bottom line. Our presence in the domestic and emerging markets gives us a solid platform for growth. Aurobindo will always be in the right place at the right time.

Positioning our products in the regulatory market is the next step. The new alliances we have entered into and our competitive cost strategy will consolidate our presence and secure Aurobindo's future.

We have both the vision and the strategy. Our innovation and industry will see us through. The Aurobindo of tomorrow will be a vertically integrated pharmaceutical powerhouse.

Aurobindo has come a long way. Our experiences have made us a healthier Company – stronger and better prepared for the future. We are poised on the cusp of a bright and exciting tomorrow. We are moving ahead, fast forward.

Board of Directors

Chairman

Mr. P.V. Ramaprasad Reddy

Managing Director

Mr. K. Nityananda Reddy

Whole-time Directors

Dr. M. Sivakumaran

Mr. B. Sivaprasad Reddy

Non-Executive Directors

Mr. Srinivas Lanka

Dr. I. Sathyamurthy

Mr. V.S. Janardhanam

Dr. S. Bimal Singh

Dr. K.A. Balasubramanian

Mr. Karamjit Singh Butalia

Company Secretary

Mr. B. Adi Reddy

Auditors

S.R. Batliboi & Co.
Chartered Accountants
205, Ashok Bhoopal Chambers,
Sardar Patel Road,
Secunderabad – 500 003

Internal Auditors

K. Nagaraju & Associates
Chartered Accountants
Chikkadpally,
Hyderabad

Bankers

Andhra Bank
Canara Bank
EXIM Bank
HDFC Bank Limited
ICICI Bank Limited
Standard Chartered Bank
State Bank of Hyderabad
State Bank of India

Notice

NOTICE is hereby given that the 17th Annual General Meeting of the Company will be held on **Saturday the 31st day of July 2004 at 3.00 P.M. at Sri Sathya Sai Nigamagmam, 8-3-987/2, Srinagar Colony, Hyderabad - 500 073** to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2004 and Profit & Loss Account for the year ended on that date and the reports of the Board of Directors and the Auditors' thereon.
2. To declare dividend on the Equity Share Capital.
3. To appoint a Director in place of Dr. M. Sivakumaran who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. B. Sivaprasad Reddy who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint a Director in place of Mr. V.S. Janardhanam who retires by rotation and being eligible, offers himself for reappointment.
6. To appoint M/s. S.R.Batliboi & Co., Chartered Accountants as Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration.

SPECIAL BUSINESS

7. **To consider and, if thought fit, to pass with or without modification(s) the following resolution as an Ordinary Resolution:**

"RESOLVED THAT Mr. Karamjit Singh Butalia who was appointed as an Additional Director of the Company with effect from 18th February 2004 under Article 37 of the Articles of Association and who holds office under Section 260 of the Companies Act, 1956, up to the date of this Annual General Meeting be and is hereby appointed as a Director of the Company liable to retire by rotation."

8. **To consider and, if thought fit, to pass with or without modification(s) the following resolution as an Ordinary Resolution:**

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309 and all other applicable provisions, if any, of the Companies Act, 1956, or any amendment or modification thereof, read with Schedule XIII to the said Act, and subject to such other consents/approvals as may be required the reappointment of Mr. B. Sivaprasad Reddy as a Whole-time Director of the Company be and is hereby approved for a further period of three years with effect from 1st July 2004 at the following remuneration package:

- a. Salary Rs.117,000 per month
- b. House Rent Allowance Rs.78,000 per month
- c. Reimbursement of medical expenses incurred for self and family subject to a ceiling of one month's salary in a year or 3 months' salary over a period of 3 years
- d. Leave Travel Concession for self & family once in a year as per the rules of the Company
- e. Personal Accident Insurance Premium not exceeding Rs.4,000 per annum
- f. Club Fees subject to a maximum of two clubs, (This will not include admission and life membership fees)

- g. Provident Fund, Superannuation benefits and Gratuity as per the rules of the Company subject to the ceilings as per the guidelines for managerial remuneration in force from time to time
- h. Provision of Company's Car
- i. Provision of free telephone at residence, and,
- j. Encashment of leave at the end of the tenure as per the rules of the Company.

EXPLANATION

For the purpose of c. & d. above, family means, the spouse, dependent children and dependent parents of the appointee.

9. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED THAT in accordance with the provisions contained in the Articles of Association and Section 81 and all other applicable provisions of the Companies Act, 1956 (herein after referred to as "the Act") and the provisions contained in the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (hereinafter referred to as "the SEBI Guidelines") (including any statutory modification(s) or re-enactment of the Act or the SEBI Guidelines, for the time being in force) and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any Committee including ESOP Compensation Committee which the Board may constitute to exercise its powers, including the powers conferred by this resolution), consent of the Company be and is hereby accorded to the Board to create, offer, issue and allot at any time to or for the benefit of such person(s) who are in employment of the Company, including Directors of the Company, whether part time or full time whether working in India or out of India, under a Scheme titled "Employee

Stock Option Plan 2004" (hereinafter referred to as the "ESOP" or "Scheme" or "Plan") such number of equity shares of the Company which could give rise to the issue of equity shares not exceeding 1% of the issued Equity Share Capital of the Company on 31st March, 2004, at such price, in one or more tranches and on such terms and conditions as may be fixed or determined by the Board in accordance with the Guidelines or other provisions of the law as may be prevailing at that time.

"RESOLVED FURTHER THAT the new Equity Shares to be issued and allotted by the Company in the manner aforesaid shall rank pari passu in all respects with the then existing Equity Shares of the Company.

"RESOLVED FURTHER THAT for the purpose of giving effect to any creation, offer, issue, allotment or listing of Securities, the Board be and is hereby authorised on behalf of the Company to evolve, decide upon and bring in to effect the Plan and make any modifications, changes, variations, alterations or revisions in the said Plan from time to time or to suspend, withdraw or revive the Plan from time to time as may be specified by any statutory authority and to do all such acts, deeds, matters and things as it may in its absolute discretion deem fit or necessary or desirable for such purpose and with power on behalf of the Company to settle any questions, difficulties, or doubts that may arise in this regard without requiring the Board to secure any further consent or approval of the members of the Company."

10. To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED THAT in accordance with the provisions contained in the Articles of Association and Section 81 and all other applicable provisions of the Companies Act, 1956 (hereinafter referred to as "the Act") and the provisions contained in the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (hereinafter referred to as "the SEBI Guidelines") (including any statutory modification(s) or re-enactment of the Act or the SEBI Guidelines, for the time being in

Notice contd...

force) and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any Committee including ESOP Compensation Committee which the Board may constitute to exercise its powers, including the powers conferred by this resolution) consent of the Company be and is hereby accorded to the Board to extend the benefits of Employees Stock Option Plan proposed in the resolution under Item no.9 in this Notice to the eligible employees/ directors of the subsidiary companies, and/or to such other persons, as may from time to time be allowed under prevailing laws, rules and regulations, and/or amendments thereto from time to time, on such terms and conditions as may be decided by the Board.

RESOLVED FURTHER THAT for the purpose of giving effect to any creation, offer, issue, allotment or listing of Securities, the Board be and is hereby authorised on behalf of the Company to evolve, decide upon and bring in to effect the Plan and make any modifications, changes, variations, alterations or revisions in the said Scheme from time to time or to suspend, withdraw or revive the Scheme from time to time as may be specified by any statutory authority and to do all such acts, deeds, matters and things as it may in its absolute discretion deem fit or necessary or desirable for such purpose and with power on behalf of the Company to settle any questions, difficulties, or doubts that may arise in this regard without requiring the Board to secure any further consent or approval of the members of the Company."

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

"RESOLVED THAT in modification of the resolution passed at the 15th Annual General Meeting of the Company held on 27th September 2002, the consent of the Company be and is hereby accorded to the Board of Directors of the Company (which term shall include any duly constituted committee of Directors thereof) in terms

of Section 293(1)(d) and all other applicable provisions, if any, of the Companies Act, 1956 to borrow such sum or sums of money in any manner as the Board of Directors may think fit, from time to time with or without security and upon such terms and conditions as they may think fit not withstanding the fact that the moneys borrowed together with the moneys already borrowed by the Company (apart from temporary loans from the Company's Bankers in the ordinary course of business) may exceed the aggregate of paid up capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purpose provided that the total amount so borrowed by the Board of Directors and outstanding at any time shall not exceed the sum of Rs.12,000.0 million (Rupees Twelve Thousand million only).

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

"RESOLVED THAT pursuant to the provisions of section 293 (1) (a) and all other applicable provisions, if any, of the Companies Act, 1956 and in modification of the resolution passed at the 15th Annual General Meeting held on 27th September 2002, the consent of the Company be and is hereby accorded to the Board of Directors of the Company (which term shall include any duly constituted committee of Directors thereof) for mortgaging and/or charging on such terms and conditions for borrowing upto Rs.12,000.0 million (Rupees Twelve Thousand million only) at such time or times and from time to time and in such form or manner, as they may think fit the whole or substantially the whole of the Company's any one or more of the undertakings including the present and/or future properties, whether movable or immovable comprised in any or new undertaking(s) of the Company as the case may be, in favour of financial institutions, corporations, banks, mutual funds, government/other agencies or any other person(s), entities which give, provide or extend loans to the Company or in favour of trustees of such lenders to secure the said amount of loans /debentures together with interest thereon, commitment charges, liquidated damages, premium on redemption, trustees remuneration, costs, charges, expenses and all other moneys payable under the

agreement(s)/arrangement(s) entered into/to be entered into by the Company in respect of the said loans as the Board may deem fit in the best interests of the Company.

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

"RESOLVED THAT the consent of the Company be and is hereby accorded to the Board of Directors for fixing a remuneration not exceeding Rs.1.5 million per annum

by way of quarterly payment to Mr. Srinivas Lanka, a Director of the Company (apart from the sitting fees) and such remuneration shall be payable for a period of 3 years on and from 1st April, 2003."

By Order of the Board

Hyderabad, 2nd June 2004. **B. ADI REDDY**
Company Secretary

NOTES:

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF/HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. In order to become valid, the proxy forms should be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for holding the Meeting.**
2. The Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956, in respect of the Special Business is annexed hereto.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 26th July 2004 to 31st July 2004 (both days inclusive).
4. The Dividend on equity shares as recommended by the Board of Directors, if declared at the ensuing Annual General Meeting, will be payable to those shareholders whose names appear on the Company's Register of Members on 25th July 2004. In respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as per details furnished by NSDL & CDSL for this purpose as on that date.

The unpaid/unclaimed interim dividend for the year 1996-97 amounting to Rs.57,897 has already transferred to the Investor Education and Protection Fund of the

Central Government on 5th April 2004 pursuant to the provisions of Section 205A of the Companies Act, 1956.

Further, the unpaid/unclaimed final dividend for the year 1996-1997 amounting to Rs.41,661 will be due for transfer to the Investor Education and Protection Fund of the Central Government on 26th September 2004 pursuant to the provisions of Section 205A of the Companies Act, 1956.

5. Members holding shares in physical form are requested to notify immediately any change in their address to the Company's Registrar and Transfer Agents M/s. Karvy Computershare Private Limited, 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad – 500 034. Members holding shares in electronic form may intimate any such changes to their respective Depository Participants (DPs).
6. Pursuant to the Amalgamation of Sri Chakra Remedies Ltd (formerly Gold Star Remedies Ltd) with Aurobindo Pharma Ltd, the erstwhile shareholders of Sri Chakra Remedies Ltd, who have not yet exchanged their shares with shares of Aurobindo Pharma Ltd, are hereby requested to do so by surrendering the original share certificates of Sri Chakra Remedies Ltd/Gold Star Remedies Ltd to the Company's Registrar and Transfer Agents, M/s. Karvy Computershare Pvt. Ltd., 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad – 500 034.

Explanatory Statement

(Pursuant to Section 173(2) of the Companies Act, 1956)

ITEM NO.7

As per the terms and conditions of the Share Subscription and Shareholder Agreement entered into between the Promoters, the Company and the Merlion India Fund I Ltd for issue and allotment of 2,370,000 equity shares of Rs.5 each at a premium of Rs.370 per share, Merlion India Fund is entitled to a Board seat for a period of five years subject to holding a minimum of 1,580,000 equity shares. Accordingly, the Board of Directors of the Company appointed Mr. Karamjit Singh Butalia as an Additional Director of the Company with effect from 18th February 2004. According to the provisions of the Companies Act, 1956, he holds office as Director upto the date of ensuing Annual General Meeting.

Mr. Karamjit Singh Butalia is an M.B.A. in Investment & Finance from Hull University, U.K., as well as holds a Masters and Bachelors Degree in Economics from Delhi University. He is a senior private equity professional with many years of experience covering a diverse range of markets and industries. As a commercial banker, he had a proven track record in revenue generation, general management, and relationship/franchise development. Therefore, the Board felt that his association as a Director of the Company would be beneficial to the Company.

A notice in writing under Section 257 of the Companies Act, 1956 along with a necessary deposit has been received from a shareholder of the Company signifying his intention to propose Mr. Karamjit Singh Butalia for the office of Director.

The Board accordingly, commends the resolution for approval of the Members as an ordinary resolution.

None of the Directors of the Company other than Mr. Karamjit Singh Butalia may be deemed to be concerned or interested in the resolution.

ITEM NO.8

Mr. B. Sivaprasad Reddy was reappointed as a Whole-time Director of the Company on 1st July, 2001 for a period of 3 years and keeping in view of the significant contribution made by Mr. B.Sivaprasad Reddy in the growth and

development of the Company and of the expansion and steps to be taken for strengthening the present operations and also based on the recommendation of Remuneration Committee, the Board of Directors reappointed him for a further period of 3 years with effect from 1st July, 2004 subject to the approval of the Members on such terms and conditions as set out in the resolution.

Under the provisions of Sections 198, 269, 309 and all other applicable provisions read with Schedule XIII of the Companies Act, 1956, consent of the Members of the Company is required for the reappointment of and fixation of remuneration payable to the Whole-time Director. The Board of Directors is of the view that the remuneration package is commensurate with the operations of the Company. The Board accordingly, commends the resolution for approval of the Members as an ordinary resolution.

None of the Directors of the Company other than Mr. B. Sivaprasad Reddy, Director and Mr. P.V. Ramaprasad Reddy, Chairman, being a relative, may be deemed to be concerned or interested in the resolution.

ITEM NO. 9

The exponential growth of the Company over the past decade has, in large measure, been possible owing to the wholehearted support, commitment and teamwork of its personnel. The Company has been desirous of finding means to allow its personnel to participate in its growth, through an appropriate mechanism. Stock Options have long been recognised internationally, as an effective instrument, to align the interest of employees with those of the Company, and its shareholders, provide an opportunity to employees to share in the growth of the Company, and create long term wealth in the hands of the employees. Stock Options create a common sense of ownership between the Company and its employees, paving the way for a unified approach to the common objective of enhancing overall shareholder value. Stock Options provide for tax-efficient, performance linked rewards to employees, and serve as an important means, to attract, retain and motivate the best available talent for the Company. From the Company's perspective, Stock Options provide an opportunity to optimise personnel costs, by allowing for an additional, market-driven, mechanism to compensate and reward employees. Besides that Stock

Options also provide the Company with an opportunity to attract and retain skilled employees, considering its business requirement.

The SEBI Guidelines have provided a conducive environment for the implementation of an Employee Stock Option Plan. The Company proposes to introduce the following Stock Option Plan for the benefit of employees of the Company, its Directors, and such other persons/entities as may be prescribed by SEBI from time to time, and in accordance with the provisions of prevailing regulations.

Employee Stock Option Plan 2004

Stock Options:

Under this scheme, employees will be given an option to acquire a certain number of shares of the face value of Rs. 5 each, at the price as mentioned hereinafter.

The broad terms and conditions of the Plan are as under:

The Company will constitute an ESOP Compensation Committee, which will be a Committee of the Board of Directors, and will consist of a majority of independent Directors, for administration and superintendence of the ESOP. The ESOP Compensation Committee will formulate the detailed terms and conditions of the ESOP. The ESOP Compensation Committee will, specify, inter alia, the following:

- Quantum of options to be granted under the Plan per employee, and in aggregate.
- Conditions under which options vested in employees may lapse in case of termination of employment for misconduct.
- Time period within which an employee may exercise vested options in the event of termination or resignation.
- The exercise period within which the employee should exercise the options and that options would lapse on failure to exercise the options within the exercise period.

- Rights of an employee to exercise all the vested options at one time or at various points of time within the exercise period.
- Procedure for making a fair and reasonable adjustment to the number of options and to the exercise period, in case of rights issues, bonus issues, other corporate actions, or otherwise.
- Lock-in period for the shares issued pursuant to exercise of the options, if any.
- Any other related or incidental matters.

The following is the explanatory statement, which sets out the various disclosures as required by Clause 6 of the SEBI Guidelines

The salient features of the Plan are as under:

a. The total number of options to be granted

The total number of Options that may, in aggregate, be issued, under the scheme, cannot exceed 1% of the issued equity share capital of the Company as of 31st March, 2004 i.e. 1% of 50,770,000 equity shares.

b. Identification of classes of employees entitled to participate in the ESOP

Employees entitled to participate in the ESOP are, "employees" of the Company including Directors (whether full time or not), as defined in the ESOP Guidelines (including any statutory modification(s) or re-enactment of the Act or the Guidelines, for the time being in force), and as may be decided by the ESOP Compensation Committee, from time to time. Under the prevailing regulations, an employee who is a promoter or belongs to the promoter group will not be eligible to participate in the ESOP. Identification of employees eligible to participate in the ESOP and Grant of options to identified employees will be based on such parameters as may be decided by the ESOP Compensation Committee, in its discretion, from time to time. The options granted to an employee will not be transferable to any person and shall not be pledged, hypothecated, mortgaged or otherwise alienated in any other manner.

Explanatory Statement contd...

c. Requirements of vesting and period of vesting

Vesting of options commences after a period of 1 year from the date of grant and extends up to 4 years from the date of grant. The vesting occurs in tranches of 15%, 20%, 25% and 40%.

d. Exercise Price or Pricing Formula

The exercise price for the purposes of the grant of options will be computed at Market Price i.e., the average of 2 weeks high and low of the Company's equity shares, preceding the date of grant of the options.

e. Exercise Period and the process of Exercise

The exercise period may commence from the date of vesting, and will expire not later than 6 years from the date of grant of options, or such other period as may be decided by the ESOP Compensation Committee, from time to time. The Options will be exercisable by the Employees by a written application to the Company to exercise the Options, in such manner, and on execution of such documents, as may be prescribed by the ESOP Compensation Committee from time to time. The options will lapse if not exercised within the specified exercise period.

f. Process for determining the eligibility of employees to ESOP

The process for determining the eligibility of the employee will be specified by the ESOP Compensation Committee, and will be based on, such criteria that may be determined by the ESOP Compensation Committee at its sole discretion.

g. Maximum number of options to be issued per employee and in aggregate

The maximum number of Options granted per employee will not exceed 5,000 shares. The aggregate of all such grants shall not exceed 1% of the issued and outstanding equity shares of the Company as on 31st March, 2004.

The Company will conform to the accounting policies specified in Clause 13.1 of the SEBI Guidelines and/or such other guidelines as may be applicable, from time to time.

As the Plan will entail further shares to be offered to persons other than existing shareholders of the Company, consent of the members is sought pursuant to the provisions of Section 81(1A) and all other applicable provisions, if any, of the Act, and as per the requirement of clause 6 of the SEBI Guidelines. The Board accordingly commends the resolution for approval of the Members as a special resolution.

None of the Directors of the Company is, in any way, concerned or interested in the resolution, except to the extent of the securities that may be offered to them under the Plan.

ITEM NO.10

As per the SEBI Guidelines, a separate resolution is required to be passed if the benefits of ESOP are to be extended to employees of the subsidiary or holding company. This separate Resolution is being proposed accordingly, to cover those employees, and/or such other persons as may be permitted from time to time, under prevailing laws, rules and regulations, and/or amendments thereto from time to time. This may be read with explanatory statement for Item No.9. The Board accordingly commends the resolution for approval of the Members as a special resolution.

None of the Directors of the Company is, in any way, concerned or interested in the resolution, except to the extent of the securities that may be offered to them under the Plan.

ITEM NO.11

The Members of the Company at their 15th Annual General Meeting held on 27th September 2002 authorised the Board of Directors of the Company to borrow such sum or sums which together with the moneys already borrowed by the Company may exceed the aggregate of the paid up capital of the Company and its free reserves, provided that the total amount so borrowed and outstanding at any time shall not

Explanatory Statement Contd...

exceed Rs.9,000.0 million (Rupees Nine Thousand million only).

In order to meet the increased long term fund requirements and for financing the present and future projects of the Company, the Board of Directors request the members to accord their consent to borrow moneys upto a maximum limit of Rs.12,000.0 million (Rupees Twelve Thousand million only) as per the provisions of the Companies Act, 1956 and the rules of Banks and Financial Institutions.

Under Section 293(1) (d) of the Companies Act, 1956 consent of the Members is necessary to enable the Board of Directors to borrow moneys, which will exceed the aggregate of the paid up capital of the Company and its free reserves. The Board accordingly commends the resolution for approval of the Members as an ordinary resolution.

None of the Directors of the Company may be deemed to be concerned or interested in the resolution.

ITEM NO.12

The Members of the Company at the 15th Annual General Meeting held on 27th September 2002 accorded their consent to mortgaging and/or charging by the Board of Directors of the Company of all the movable and immovable properties of the Company and its undertakings in favour of Banks, Financial Institutions etc., for borrowing up to a sum of Rs.9,000.0 million (Rupees Nine Thousand million only).

In view of the significant growth in the operations of the Company, it is felt that it may be necessary to pass an enabling resolution to mortgage and/or charge the properties of the Company in favour the Banks and Financial Institutions etc., for securing the requisite finance upto a maximum of Rs.12,000.0 million (Rupees Twelve Thousand million only).

Since mortgaging and/or charging of the assets, properties and/or undertakings of the Company may be regarded as disposal thereof, consent of the Members of the Company is necessary under Section 293 (1) (a) of the Companies Act,

1956. The Board accordingly commends the resolution for approval of the Members as an ordinary resolution.

None of the Directors of the Company may be deemed to be concerned or interested in the resolution.

ITEM NO.13

As you are aware, the Company is engaged in the field of pharma industry and is exploring various opportunities available in United States of America and Europe Countries to sustain its growth and to become one of the largest generic players in the global pharma market. For entering into these lucrative regulated markets, the Company is in the process of filing several DMFs and ANDAs. Mr. Srinivas Lanka has rich professional experience in this area and the Company has been availing of the services of Mr. Srinivas Lanka and proposing to pay remuneration.

As per Section 309(4) of the Companies Act, 1956, a company can make payment of remuneration to a director who is neither a managing director nor in the full time employment, provided the company obtains the central government approval. Accordingly, the Company made an application to the Central Government seeking its permission for payment of remuneration of Rs.1.5 million per annum for a period of three years from 1st April, 2003. The Central Government vide its letter No.8/8/2003-CL.VII dated 26th May, 2004 has approved the same, subject to approval of Members in the General Meeting. Hence, the Board commends the resolution for approval of the Members as an ordinary resolution.

None of the Directors of the Company except Mr. Srinivas Lanka may be deemed to be concerned or interested in the resolution.

By Order of the Board

Hyderabad, 2nd June 2004.

B. ADI REDDY
Company Secretary

Directors', report

Dear Members,

Your Directors are pleased to present the 17th Annual Report of the Company together with the Audited Accounts for the financial year ended 31st March 2004.

FINANCIAL RESULTS

	(Rs. Million)	
	2003-04	2002-03
Gross Turnover	13410.7	11903.8
Profit before Depreciation, Interest and Tax including Extraordinary income	2389.2	2058.6
Depreciation	341.6	231.8
Interest	322.4	425.9
Profit before Tax	1725.2	1400.9
Provision for Tax/Deferred tax	455.0	369.5
Net Profit	1270.2	1031.4
Balance brought forward from Previous year	139.2	125.3
Profit & Loss Account Debit balance		
Transferred on amalgamation	-	(5.8)
APPROPRIATIONS		
Debentures Redemption Reserve	-	172.1
Dividend on Equity Shares	114.2	79.4
Tax on Dividend	14.6	10.2
General Reserve	1080.0	750.0
Balance carried to Balance Sheet	200.6	139.2

REVIEW OF OPERATIONS AND OUTLOOK

Your Company marched ahead during the year under review, creating value and laying a strong foundation for the future years. Considerable improvements were made in the business architecture. Going forward, your Company would see visible benefits especially in its marketing and product strengths.

In terms of financials, the year's highlights include a 12.6 percent increase in gross turnover to Rs.13410.7 million, and a healthy rise in pre-tax profit to Rs.1725.2 million. This is a 23.1 percent improvement over the previous year.

The increase in pre-tax profits is despite the 47.1 per cent increase in provision for depreciation in the current year consequent to a higher asset base.

Profit after tax at Rs.1270.2 million is an improvement of 23.1 per cent over the previous year. Members will recall the net profit in 2002-03 was Rs.1031.4 million including an item of extraordinary income of Rs.124 million. Net of such non-recurring gain, the performance during the year under review showed a robust 40 per cent increase over the earlier year. Earnings per Share (EPS) of Rs. 26.41 points a healthy growth of 16.2 per cent, on enhanced capital.

In 2003-04, in continuation of the efforts initiated earlier, your Company further streamlined the organization. The objective was, and continues to be, to ensure a smooth transition to premium pharmaceutical markets.

Manufacturing facilities earmarked for generics, were upgraded to ensure that regulatory norms are met. Each of these facilities now has improved capacities, state-of-the-art technologies, and standard processes in keeping with current Good Manufacturing Practices (cGMP). A quality team, trained to spot deviations and with the skill to set them right, functions at each unit.

Expansions made at existing units have brought powerful economies of scale. The active pharma ingredients (API) facilities are now run at enhanced capacities. The flexibility to step up volumes has added to the Company's strengths.

Cost efficiencies across all manufacturing plants have created significantly higher operating margins. Reduced costs and higher margins are generating more value for every invested shareholder rupee. These efforts will continue into the future. Your Company is determined in its goal to be the most cost-effective producer.

The raw material sourcing unit at China has stabilized production and has recently turned profitable. Efforts are on to increase its operating efficiency and thereby significantly impact the Company's bottom line. With the addition of this facility as part of its strategic plan, your Company has effectively completed its backward integration.

Your Company has now brought almost all processes under its own umbrella and in doing so, reduced its external dependencies. Every known sensitivity in sourcing is being addressed, not only to insulate the Company from the pressures of the market, but also to enhance operating profits.

The facility at Pydibhimavaram got off to a successful start. In its first operational year, it has begun contributing to cost and volume synergies. Careful thought and planning had gone into the design of this unit. This is paying rich rewards in the form of lower power costs, higher productivity and consistently better solvent recovery. The facility has skilled people guiding quality processes that will go a long way towards the realization of your Company's ambitious plans for the future.

A milestone was crossed when approvals for your Company's Unit 3 facility located at Bachupally, was received from the MHRA (UK) and from ANVISA (Brazil). The Medicines and Healthcare products Regulatory Agency (MHRA), is the executive agency of the Department of Health, and the licensing authority for pharmaceuticals in the U.K. In

Brazil, the Agencia Nacional de Vigilancia Sanitaria (ANVISA) is the national health surveillance agency. These regulatory authorities have cleared the facility for export to their countries. As you are already aware, this unit is also holding approval from the MCC (South Africa). Exports to the UK and to Brazil have since commenced.

Approvals from recognized regulatory organizations are crucial to the Company's impending thrust into premium markets. In April 2004, the US FDA inspected Unit 1 (API) and Unit 3 (formulations). Your Company is hopeful of receiving these approvals in due course.

As you are aware, your Company is aiming to garner a piece of the growing market for generic drugs. To that end, your Company's research and development efforts are currently focused on a few near-term strategies. The Company intends to broaden its product portfolio, create non-infringing processes and patent protect its intellectual property.

So far, your Company filed 2 ANDAs (Abbreviated New Drug Applications) and 5 DMF (Drug Master Files) with the US FDA. 5 Certificates of Suitability (CoS) and 10 EDMFs were also filed with the European Directorate for Quality Medicines (EDQM) for Certificates of Suitability. In addition, applications were submitted for 11 process patents.

It is gratifying to report, your Company received its first CoS approval from the European Directorate for Quality Medicines (EDQM), for its product in the therapeutic segment of Gastro-Enterology.

Aurobindo is working towards creating a very broad portfolio of approvals from international regulatory authorities, and hence is filing DMFs and ANDAs in the therapy

areas of oral and injectable cephalosporins, oral and injectable penicillins, CNS drugs such as antidepressants, cardiovasculars such as ace inhibitors, cholesterol reducing drugs such as statins, anti-diabetic drugs and other lifestyle disease drugs. Your Company is readying itself to make a significant impact in the regulated markets in USA, Europe and a few other countries.

Your Company forecasts steadily growing business and would translate it into higher revenue and profits in 2004-05 and looks forward to the future with optimism. The corporate goal is to achieve long-term growth both in its established strong-holds, and by expanding into new markets with its formulations.

Aurobindo is on a fast forward mode. Your Directors believe the Company is positioned well to ride into the future. Your Company has a strong and vertically integrated architecture and a highly focused set of competencies, unique to it, with a very wide range of potential applications. Aurobindo is leveraging it and is on track for sustainable and reliable growth.

PREFERENTIAL ISSUE & INCREASE IN SHARE CAPITAL

As you are aware, the Company has proposed to place around 8.4 million equity shares of Rs.5 each at a price of Rs.302 per share as per the approvals the Company received from its shareholders on 5th November, 2003 and 26th December, 2003. Due to re-rating of the pharmaceutical sector and other capital market related developments, your Company revised the issue price upwards and your promoters committed to subscribe at the enhanced price of Rs.375 per share. The Citicorp Banking Corporation and ChryCapital could not subscribe to the preferential issue for want of their internal approvals for this revised subscription price.

Merlion India Fund subscribed for 2,370,000 equity shares of Rs.5 each at Rs.375 per share. 2,500,000 convertible share warrants were issued and allotted to Mr. P.V.Ramaprasad Reddy, Chairman of the Company at a price of Rs.375 per warrant. A non-refundable amount of Rs.350 million was paid by him with the balance payable at the time of conversion of these warrants into equity shares of the Company on a one-to-one basis. The Company therefore mobilized a sum of Rs.1238.75 million. These funds were used to prune the Company's high cost debts as well as in meeting other corporate needs.

Further, the balance 950,000 convertible share warrants issued and allotted in the year 2002 to the Promoters and Directors were fully converted.

Consequent to these issues, the paid up equity share capital of the Company has increased from Rs.242 million to Rs.253.85 million and now stands at 50,770,000 equity shares of Rs.5 each.

DIVIDEND

Your Directors are pleased to recommend for approval of Members at the ensuing Annual General Meeting dividend of 45% for the year ended 31st March, 2004 on the expanded capital of Rs.253.85 million. The dividend will be paid, subject to the approval of the Members, to the registered Members as on the book closure date.

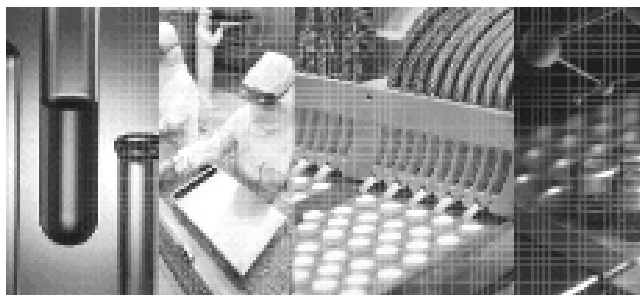
RESEARCH & DEVELOPMENT

The R&D function in Aurobindo is focused on generating the information and knowledge required to develop, register, commercialize and ultimately market medicines for the treatment and prevention of human disease. Fundamental to this goal is gaining a thorough understanding of the chemistry of the process.

Your Company's research efforts are currently bent towards widening the product portfolio with a view to maximizing impact on regulated markets. The emphasis is on creation of non-infringing processes to produce high quality and cost effective generic drug versions.

Aurobindo has stepped up its commitment to the generics program by creating a new R&D centre at Mumbai and equipping this facility with sophisticated laboratory testing equipment. This facility will supplement the existing R&D Centre at Hyderabad and would aid your Company's scientists in their quest for non-infringing bioequivalent versions of brand-name drugs.

As Aurobindo moves into the regulated markets, active R&D efforts will continue to shape its future. Your Company is confident that its research function will lead the organization's march into new markets and new segments. In support of this objective, during the year, R&D investment has been stepped up by Rs.141.5 million. The total spend, both capital and revenue, on R&D was Rs.489.82 million constituting 3.57 per cent of the turnover.



INVESTMENTS

Your Company made fresh investments during the year to add value to its business operations. The details of additional investments made during the financial year 2003-2004 were as follows:

(Rs. Million)

Subsidiary	Country	Form	Amount	Remarks
Aurobindo (H.K.) Limited	HongKong	equity	45.65	additional working capital requirements
APL Holdings Inc Aurobindo (Datong)	USA	loan	15.36	formulation facility
Bio-Pharma Co.Ltd	China	loan	424.26	capacity expansion
AB Farmo Quimica Ltda	Brazil	loan	8.72	formulation facility
Helix Health Care B.V	The Netherlands	equity	0.86	entry into regulated market (Europe)

SUBSIDIARIES

Your Company's subsidiaries have been strategically placed at different key locations so as to facilitate global production and marketing initiatives. Significant advantages have been obtained from the China operations, and the Company would stand to gain at all the locations as the business plans gather momentum.

While the infrastructure is being set up, all overheads are not absorbed. Such losses for all the subsidiaries and JVs during the year, totaled USD 6.25 million approximately, and have been recognised in the Consolidated Financial Statements annexed to this Annual Report.

Major activities/features of some of the subsidiaries are enumerated below:

APL Holdings, Inc. a 100 per cent subsidiary, is an investment company for setting up investment subsidiaries and joint ventures in USA. The Company has invested in two joint ventures viz. Cephazone Pharma LLC and Aurosol Pharmaceuticals LLC.

Aurobindo (Datong) Bio-Pharma Co. Ltd. a 100 per cent subsidiary, has set up a plant for manufacture of 1,500 TPA of 6APA, a key intermediate in the manufacture of semi synthetic penicillins. The entire production is for captive consumption. Being a large facility, it took some time to get clearances, stabilizing the processes and yield. The operations have been streamlined and optimised. The company has started earning net profit from quarter ended March 2004.

Aurobindo TongLing (Datong) Pharmaceutical Co. Ltd. is a subsidiary with 50 per cent each being held by your Company and by Aurobindo (Datong) Bio-Pharma Co. Ltd. This subsidiary caters to the local API market in China and has a plant to manufacture 1,000 TPA of amoxicillin 600 TPA of oral cephalosporins.

Helix Health Care B.V. is a newly incorporated 100 per cent subsidiary. Based in the Netherlands, the company will coordinate the regulated market activities of the step-down subsidiaries planned in various countries.

APL Chemi Natura Ltd. is a trading company which had a turnover of Rs.259.5 million (Rs.324.6 million in 2002-03). The operating profit was Rs.8.2 million as against break even operations in the earlier year. The Company reported a profit before tax of Rs.4.5 million as against a loss of Rs.10.3 million in the previous year.

Citadel Aurobindo Biotech Ltd., a joint venture with 50 per cent holding by your Company, is making inroads into the domestic

markets, and has reported a significant improvement in operations. The turnover more than doubled at Rs.1058.1 million from the previous year figure of Rs.516.9 million. The operating profit was Rs.121.1 million as against an operating loss of Rs.59.2 million. After adjusting for write-off of non-compete fees and brand value totaling Rs.111.2 million and charge for deferred tax, the net loss is only Rs.20.2 million as against Rs.136.1 million.

PERFORMANCE OF SUBSIDIARIES AND JOINT VENTURE ENTITIES

Name of Subsidiary	Total Income	PBT	(Rs. Million)
			Net Profit/(Loss)
APL Pharma Thai Limited	424.5	5.6	2.9
Aurobindo (H.K.) Limited	113.5	(77.5)	(77.5)
APL Chemi Natura Limited	259.5	4.5	2.4
AB Farmo Quimica Limitada	617.0	35.6	28.0
APL Holdings Inc.,	6.5	(6.1)	(6.1)
Aurobindo (Datong)			
Bio-Pharma Co. Limited	991.7	(98.1)	(98.1)
Aurobindo TongLing (Datong)			
Pharmaceutical. Co. Limited	1,374.2	(58.5)	(58.5)
ShangHai Widetex Chemical Co. Limited	66.6	(10.5)	(10.5)
Name of Joint Venture Company			
Aurosol Pharma LLc	0.1	(17.3)	(17.3)
Cephazone Pharma Inc	–	(67.1)	(67.1)
Citadel Aurobindo Biotech Limited	1,058.1	(44.3)	(23.7)

The reports and accounts of the subsidiary companies are annexed to this Report along with statement pursuant to Section 212 of the Companies Act, 1956.

ENVIRONMENT

Your Company is aware of its responsibility for the environment. In keeping with the principles of sustainable development, Aurobindo places emphasis on environment friendly processes and products that are safe and gentle on natural resources.

Considerable care is taken in disposal of its effluents. Aurobindo uses a reverse osmosis method of processing waste leading to a significantly reduced pollution load. Aurobindo is a responsible corporate citizen, and shall work towards preserving a cleaner environment.

DIRECTORS

Mr. Karamjit Singh Butalia, has been inducted with effect from 18th February 2004 into the Board as a nominee of Merlion India Fund and acts as an Independent Non-executive Director of the Company. He is the Managing Director at Merlion India Fund Ltd and Global Head for Private Equity at Standard Chartered Bank. He holds an M.B.A in Investment & Finance from Hull University, U.K., as well as a Masters and Bachelors degree in Economics from Delhi University. His association with the Company is expected to add to its caliber.

With the induction of a new additional director, your Company's Board comprises of 10 Directors of which 6 are independent non-executive directors and 4 are executive directors.

In accordance with the provisions of the Companies Act, 1956, read with the Articles of Association of the Company, **Dr. M. Sivakumaran, Mr. B. Sivaprasad Reddy and Mr. V. S. Janardhanam** retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment. Further, Mr. Karamjit Singh Butalia is being proposed to the office of Director under Section 257 of the Companies Act 1956.

DELISTING OF COMPANY'S EQUITY SHARES FROM AHMEDABAD AND MADRAS STOCK EXCHANGES

As per the approvals received from the Members of the Company at the last Annual General Meeting, the equity shares of your Company were delisted from the Stock Exchange, Ahmedabad and the Madras Stock Exchange Limited and are presently listed on the following stock exchanges:

The Hyderabad Stock Exchange Ltd

The Stock Exchange, Mumbai (BSE)

The National Stock Exchange of India Limited (NSE)

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the provisions of Section 217 (2AA) of the Companies Act, 1956 as amended, the Board of Directors confirms that in the preparation of the Profit & Loss Account for the year ended 31st March 2004 and the Balance Sheet as at that date:

- i. the applicable accounting standards issued by the Institute of Chartered Accountants of India have been followed;
- ii. appropriate accounting policies have been applied consistently. Judgement and estimates that are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of the

Company as at the end of the financial year and of the profits of the Company for the year;

- iii. proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv. the annual accounts have been prepared on a going concern basis.

CORPORATE GOVERNANCE

The certificate of the Auditors, Messrs. S.R. Batliboi & Co., confirming compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges in India, is annexed.

AUDIT COMMITTEE

The Company's Audit Committee comprises of Mr. Srinivas Lanka who is Chairman, and Mr. Karamjit Singh Butalia and Mr. V.S. Janardhanam as Members. Each of them has rich and varied experience in managing companies and all are conversant with the intricacies of the global pharmaceutical industry.

AUDITORS

The Auditors, Messrs. S.R. Batliboi & Co., a member firm of Ernst & Young, retire at the ensuing Annual General Meeting and, being eligible, offer themselves for re-appointment.

The statutory auditors have commented in the audit report on fixed assets of the Company. The Company has taken the observation in a positive spirit. The assets referred by them were transferred from one unit within the Company to other units within the Company. As said by the auditors, the Company confirms that these assets have been properly dealt with in the books of account.

The statutory auditors have reported on the Consolidated Financial Statements based on

the accounts of subsidiaries as at 31st March 2004. The accounts of subsidiaries are closed every year at their respective financial year ends, and these accounts are audited by professional accountants in their respective locations. Following subsidiaries closed their books as at 31st December 2003 – APL Pharma Thai Limited, APL Holdings Inc., AB Farmo Quimica Limitada, Aurobindo (Datong) Bio-Pharma Co. Limited, Aurobindo TongLing (Datong) Pharmaceutical Co. Limited and ShangHai Widetex Chemical Co. Limited.

In order to facilitate consolidation of the accounts, all the above subsidiaries, except APL Pharma Thai Limited and AB Farmo Quimica Limitada, also had their books audited as at 31st March 2004. Your Company's auditors have relied on the audited statements of all companies as audited upto 31st March 2004.

The auditors have relied on the management certification for unaudited accounts prepared as at 31st March 2004 for the two subsidiaries - APL Pharma Thai Limited and AB Farmo Quimica Limitada.

Aurobindo (H.K.) Limited and APL Chemi Natura Limited as in the earlier years, closed their books on 31st March 2004 and your Company's auditors have considered them.

The subsidiary in the Netherlands, Helix Health Care B.V. effected no business transaction during the year, and hence no audit was carried out.

Unaudited figures of the Joint Venture company, Citadel Aurobindo Biotech Limited duly certified by the management was considered by your Company's auditors.

COST AUDITORS

Mr. E. Vidya Sagar, Cost Accountant, was appointed as Cost Auditor of the Company with the consent of the Government of India to conduct cost audit of both the bulk drug and formulations divisions of the Company for the year 2004-05, in place of Mr. R.R. Sharma, who has expressed his inability to be re-appointed as Cost Auditor on health grounds and opted for voluntary retirement.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION ETC.

Information in accordance with the provisions of Sec.217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in Annexure I forming part of this Report.

FIXED DEPOSITS

Your Company has not accepted any fixed deposits during the year under review. As such no amount of principal or interest was outstanding on the date of the Balance Sheet.

INDUSTRIAL RELATIONS

The Company enjoyed cordial relations with its employees at all levels. Your Directors record their appreciation of the support and co-operation of all employees in the accelerated growth of the Company.

PARTICULARS OF EMPLOYEES

The particulars of employees as required to be disclosed in accordance with the provisions of Sec.217 (2A) of the Companies Act, 1956 and the Companies (Particulars of Employees) Rules, 1975 as amended are annexed to the Directors' Report. However, as per the provisions of Sec.219 (1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to all the shareholders of the Company excluding the aforesaid information. Any shareholder interested in obtaining such particulars may write to the Company Secretary.

ACKNOWLEDGEMENTS

Your Directors record their appreciation and acknowledge with gratitude the support and co-operation extended by banks, financial institutions, central and state governments. Your Board is grateful to the customers, the medical fraternity, employees and the shareholders for the confidence reposed in the Company and looks forward to their continued support.

For and on behalf of the board

P. V. RAMAPRASAD REDDY
Chairman

Hyderabad, 2nd June, 2004.

Annexure to the Directors' report

Information required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

FORM – A

	(Rs. Million)	
	31.03.2004	31.03.2003
CONSERVATION OF ENERGY		
1. Power & Fuel Consumption		
a. Electricity Purchased:		
Units (Nos. in Millions)	84.27	58.91
Total Amount (Rs. Millions)	326.22	231.29
Unit Rate (Rs.)	3.87	3.93
b. Own Generation:		
i. Through Diesel Generator		
(No. of units in Millions)	5.51	5.55
Units per litre of diesel	3.00	3.00
Oil Cost per Unit (Rs.)	5.96	6.05
ii. Through Steam Turbine/Generator	18.60	5.69
Units per litre of Oil/Gas	0.19	0.17
Cost per Unit	2.54	4.91
2. Coal		
Quantity (M.T)	68356.43	30685.17
Cost (Rs. Millions)	135.64	62.79
Average Rate/M.T. (Rs.)	1984.30	2046.21
3. Furnace Oil		
Quantity (K.Litres)	4026.63	7112.66
Total Cost (Rs. Millions)	42.34	69.88
Average Rate/K.Litres (Rs.)	10513.90	9824.31
4. Others (Wood)		
Quantity (M.T.)	0.83	–
Total Cost (Rs. Millions)	0.88	–
Average Rate/M.T. (Rs.)	1.05	–

CONSUMPTION PER UNIT OF PRODUCTION

Electricity	}	Since the Company manufactures different types of bulk drugs, drug intermediaries and formulations, it's not practical to give consumption per unit of production.
Coal		
Furnace Oil		
Wood		

FORM - B

TECHNOLOGY ABSORPTION

RESEARCH AND DEVELOPMENT

Specific Areas in which Research and Development carried out by the Company:

The Company carried out process development and commercialized various products in the segment of cephalosporin antibiotics and antiviral compounds. Further, it continued process research for maximizing the yield with improved quality.

Benefits derived as a result of the above R&D

The Company's continuing efforts to become a strong knowledge based and technology oriented R&D driven health care Company have yielded results by way of improved processes in the commercial production, and enabled the Company to own Intellectual Property Rights.

Future Plan of Action:

Your Company has ambitious plans to invest further for enhancing its R&D capabilities.

Expenditure on Research and Development:

	(Rs. Million)	
	2003-04	2002-03
Capital	216.63	75.13
Recurring	<u>273.19</u>	<u>145.33</u>
	489.82	220.46
Total R&D expenditure as a percentage of total turnover	3.57	1.82

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

Efforts, in brief, made towards technology absorption, adaptation and innovation:

Technology absorption is not involved as the process for manufacture of bulk drug is being developed in-house by the company.

Benefits derived as a result of the above efforts, e.g., Product improvement, cost reduction, product development, import substitution etc.

The Processes were simplified and thereby reduction in cost and products improvement.

Particulars of Imported Technology: Nil

Foreign Exchange Earning & Outgo:

Activities relating to exports, initiatives taken to increase exports. Registration of more product dossiers with global authorities, setting up of foreign subsidiaries and commencement of activities at subsidiaries and joint ventures.

Foreign exchange earned and outgo during the year ended 31st March, 2004.

	(Rs. Million)	
	2003-04	2002-03
Foreign exchange earned		
Exports (FOB)	6420.45	5637.38
Others	<u>28.26</u>	<u>14.34</u>
	6448.71	5651.72
Foreign exchange outgo		
Materials	5395.87	4925.93
Other expenses	<u>319.37</u>	<u>121.27</u>
	5715.24	5047.20

Management Discussion and Analysis

OVERVIEW

Aurobindo Pharma is a fast track integrated pharmaceutical company headquartered in Hyderabad, India, developing, manufacturing and marketing Active Pharmaceutical Ingredients (bulk actives), intermediates and generic formulations. The Company ranks among the top five pharmaceutical companies in India and is a multi product, multi technology, and transnational company. Today the Company's products are serving consumers in India and over 98 other countries.

The Company values its contribution to its customers and the medical profession and has planned its strategic growth accordingly; proactively responded to the changing requirements of the medical profession and enabled its core customers to meet their market needs while taking care to remain a quality conscious cost efficient producer.

Aurobindo's goal is to build a globally successful pharmaceutical company and its mission is to make quality pharmaceutical products affordable to all.

ABRIDGED PROFIT & LOSS ACCOUNT

(Rs. Millions)

	1999-00	2000-01	2001-02	2002-03	2003-04
Sales	7,456.0	9,961.0	1,0377.2	11,903.8	13410.7
Other Income	34.7	116.5	143.7	240.5	220.6
Gross Profit (PBDIT)	1,207.1	1,398.8	1,470.4	2,058.6	2389.2
Interest	294.0	416.8	423.9	425.9	322.4
Depreciation	95.2	147.8	158.1	231.8	341.6
Tax	71.9	151.1	203.3	369.5	455.0
Net Profit	746.0	683.1	685.1	1,031.4	1270.2

INDUSTRY DEVELOPMENTS

Rising healthcare costs have led to many governments enforcing stricter cost containment measures. The effect of this is a growing market for generic pharmaceutical products. The generics market is notching percentage growth higher than the industry growth. The world's leading drugs are facing patent expiry in the near future. In the United States alone, close to \$50 billion worth of branded revenue will be made available to generic competition.

This hiatus is the right time for a research led company with quality products, regulatory approvals and a competitive approach to gain significant market share; in the process creating a name for itself. Your Company recognizes this opportunity and has positioned itself to enter regulated pharmaceutical markets. The Company has initiated and completed quality and capacity upgrades and is ready to make the shift.

ABRIDGED BALANCE SHEET

(Rs. Millions)

	1999-00	2000-01	2001-02	2002-03	2003-04
Fixed Assets					
Gross Block	1548.0	2090.6	2750.8	4944.0	6960.1
Less: Depreciation	209.0	376.0	490.5	806.3	1114.1
Net Block	1339.0	1714.6	2260.3	4137.7	5846.0
Investments	24.0	237.6	737.3	1523.1	1488.9
Current Asset, Loans & Advances	3122.3	4440.1	5859.0	7514.2	9037.2
Less: Current Liabilities & Provisions	879.2	1367.1	1545.0	2205.4	1753.4
Bank Borrowings (incl. CP)	519.6	902.1	912.0	1334.0	2255.5
Net Working Capital	1723.5	2170.9	3402.0	3974.8	5028.3
Net Tangible Assets	3086.5	4123.1	6399.6	9635.6	12363.2
Less: Secured Term Loans	615.2	872.4	1415.6	2831.7	2890.6
Unsecured Loans	274.2	484.5	1145.1	1089.0	1037.8
Net Worth	2197.1	2766.2	3838.9	5714.9	8434.8
Represented by					
Share Capital					
Equity Shares	100.0	200.0	206.7	232.5	253.9
Preference Shares	90.0	–	–	–	–
Share Capital Suspense/Share Warrants	–	2.0	10.6	21.5	350.0
Reserves & Surplus	2007.1	2564.2	3406.9	5101.4	7309.9
Total	2197.1	2766.2	3624.2	5355.4	7913.8
Less: Misc. Expenditure not written off	–	–	6.5	–	–
Deferred tax liability	–	–	221.2	359.5	521.0
Net Worth	2197.1	2766.2	3838.9	5714.9	8434.8
Net Worth (excl. Preference Shares)	2107.1	2766.2	3838.9	5714.9	8434.8

Aurobindo today is a manufacturer of anti-infectives, intermediates and active ingredients for anti-infectives with leadership positions in India and a significant presence in emerging global markets. These markets are growing fast and offer steady profitability. The Company has an established reputation as a supplier in domestic as well as other emerging markets. This position shall be maintained and expanded upon. Your Company plans to leverage this strength to open new markets for its products

RISKS AND CONCERNS

Aurobindo's success in regulatory markets depends on its ability to successfully develop, register, produce and market its generic equivalents. Typically, the market for generics is highly active in the first two years following patent expiry of the brand name drug. Prices fall after this period. The timing of the Company's product launch is therefore crucial. There is sensitivity in the ability to sell, as well. All these have been addressed.

Of course, Aurobindo is confident of meeting the needs of the market, given the fact, your Company is possibly the most cost effective producer in its industry.

Your Company had planned its entry into generics much in advance. The Company had

initiated R&D efforts to make possible a timely entry. Drugs due for patent expiry are identified early and their equivalents developed. The next step is to file for and receive patents and plant approvals. The Company has filed its patent applications.

Plant inspections from regulatory authorities have begun and approvals for a few have already arrived.

Reliable production of quality products is the Company's forte and recent capacity increases have seen to it that large volume manufacture can be undertaken. Company's strength has been effective marketing. With an eye on the future, your Company has entered into agreements with strategic partners for widening its reach.

Your Company has therefore identified and mitigated its immediate risks and concerns.

QUALITY AND COST MANAGEMENT

Aurobindo has derived significant business advantages from responsible product stewardship. 2003-04 brought noteworthy advancements in the form of reduced manufacturing costs and consistent quality standards while ensuring that all legal and regulatory requirements were met.

SALES MIX

	(Rs. Million)					
	2003-04		2002-03		2001-02	
	Rs.	%	Rs.	%	Rs.	%
APIs - SSP	3500.0	26	3990.3	34	3613.6	35
APIs - Cephalosporin	3260.6	24	2265.7	19	1577.8	15
Steriles - SSPs	773.2	6	612.3	5	566.3	5
Steriles - Cephalosporin	2107.9	16	2026.5	17	1627.7	16
APIS - Non Betalactams	1722.5	13	1152.5	10	971.6	10
Other Products	2046.5	15	1856.5	15	2020.2	19
Total	13410.7	100	11903.8	100	10377.2	100

A conscious awareness for applying quality controls and cost leadership has permeated the organization at all levels. The skilled and experienced team at all the plants is conscious of its responsibility and delivers what the market wants.

Aurobindo's cost synergies accruing from its holistic integration policy and its insistence on quality have attractively positioned the company to become a competitive player in the increasingly cost-conscious markets of the future.

FINANCIAL MANAGEMENT AND INTERNAL CONTROLS

The Company has a disciplined approach to costs and follows prudential norms. Systems are strictly enforced, and costs are held to budgets. Careful planning ensures there is no time over-runs. As in the previous year, there are certain events or transactions during the year that need mention.

Your Company shed assets, facilities, equipments and products where the returns are not commensurate with the investments or effort. Similarly, products, which gave low returns, have been shed. At the same time, addition to product portfolio has been made where there is competitive advantage.

Your Company works on tight controls and hence the borrowings and therefore interest costs are pegged to the required minimum. Borrowings are made at competitive rates, and utilization is monitored for end use.

Aurobindo has selected Oracle applications for its ERP implementation. The package has been selected to fulfill the needs of finance, distribution and manufacturing activities of the Company. The project started in July 2002 is expected to go live in 2004-2005. The Company would benefit from enhanced integrity of systems, better decision making tools, and effectiveness of management.

The finance, purchasing, sales and related quality and stores activities are in first phase and process manufacturing, quality control, plant maintenance and projects are in the second phase. The plan is to complete both phases during 2004. Apart from core ERP, additional areas like business intelligence, CRM (Customer Relation Management) modules, analytical applications such as financial analyzer and sales analyzer will also be implemented to fulfill the needs of the Company.

SUBSIDIARIES / JOINT VENTURES

Today, Aurobindo Pharma is an acknowledged leader in APIs particularly in anti-infectives, antivirals and select life style disease drugs and has a significant presence in large parts of the world.

In order to further strengthen operations and penetrate the API and dosage formulations segments both in regulated and other global markets, Aurobindo Pharma has established a number of wholly owned subsidiaries, joint ventures, and representative offices at strategic locations.

HUMAN RESOURCES

Your Company currently employs 3100 people. Aurobindo is aware that its own people are the key to the future realization of its goals. To this end, your Company is initiating steps towards a better work environment.

Your Company will continue to focus on talent and talent retention in what is already a skill driven organization.

While the Company today delivers what the customer wants, and is consciously charting its growth with the objective of meeting all the aspirations of the stakeholders, the management is cognizant of the need to further professionalise the organisation. The move has been initiated, and a few milestones crossed. The team is working to institutionalize the gains and turn Aurobindo into effective and self-generating machinery.

OUTLOOK

Aurobindo is climbing the value chain. The goal is to build a vertically integrated global pharmaceutical company. Considerable work

has been done, and the Company has reached the cross road. Mapping has been done in all macro and micro areas, and the direction has been set.

The Company has powerful core competencies. Adding to this is a strong balance sheet, cost effectiveness and a widening knowledge base.

Your Company has a proven ability to confront challenges and turn them into strengths. Competent human resources and intelligent management have built this organization into a potential pharmaceutical powerhouse.

Aurobindo has been on a process of metamorphosis, and now has gained the confidence to take a leap and participate in the emerging opportunities of premium markets. Indeed, the Company is fast tracking towards its goals.

The final equation reveals that Aurobindo is poised for sustainable and profitable long-term growth.



C O R P O R A T E

Governance report

COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

Your Company believes in creating wealth for all its stakeholders. In pursuit of this objective, the policies of the Company are designed to strengthen the ability of the Board of Directors to supervise the management and to enhance long-term shareholder value.

All decisions are taken in the interest of the shareowners. The Board and the management are aware and conscious of minority shareowner interest, and everything is done to enhance shareowner value in totality. Hence, considerable emphasis is placed on accountability in decision-making and ethics in implementing them.

Adequate and timely information is critical to accountability. Aurobindo believes in sharing all the information about its operations with its shareowners. The objective is achieved by communication through the Annual Report or through appropriate press releases issued from time to time.

BOARD OF DIRECTORS

As on date the Board consists of ten directors. Four of them are executive and six are non-executive independent directors. The Board has taken all necessary steps to strengthen the Board with optimum combination of executive and non-executive independent directors. In consonance with the amended listing agreement, the Board comprises of majority of independent directors.

● Composition and category of Board of Directors

Director	Executive/ Non-executive/ Independent/ Promoter	Relationship with other Director	Number of other directorship(s) held*	Total number of Membership(s) in other Board Committees
Mr. P.V. Ramaprasad Reddy	Executive/Promoter	Related to B. Sivaprasad Reddy	2	-
Mr. K. Nityananda Reddy	Executive/Promoter	-	2	1
Dr. M. Sivakumaran	Executive	-	-	-
Mr. B. Sivaprasad Reddy	Executive	Related to P.V. Ramaprasad Reddy	3	2
Mr. Srinivas Lanka	Non-executive Independent	-	-	3
Dr. I. Sathyamurthy	Non-executive Independent	-	-	-
Dr. S. Bimal Singh	Non-executive Independent	-	-	1
Mr. V.S. Janardhanam	Non-executive Independent	-	-	1
Dr. K.A. Balasubramanian	Non-executive Independent	-	1	-
Mr. Karamjit Singh Butalia ^a	Non-executive Independent	-	-	2

* Exclusive of directorships in Indian private limited companies and foreign companies.

^a Appointed with effect from 18th February 2004.

- **Attendance at the Board Meetings during the financial year 2003-04 and the last Annual General Meeting**

Director	No. of Board Meetings	Attendance Board Meeting	AGM held on 12.09.2003
Mr. P.V. Ramaprasad Reddy	9	4	Yes
Mr. K. Nityananda Reddy	9	9	Yes
Dr. M. Sivakumaran	9	8	Yes
Mr. B. Sivaprasad Reddy	9	8	Yes
Mr. Srinivas Lanka	9	8	Yes
Dr. I. Sathyamurthy	9	-	Yes
Dr. S. Bimal Singh	9	9	Yes
Mr. V.S. Janardhanam	9	7	Yes
Dr. K.A. Balasubramanian*	9	-	Yes
Mr. Karamjit Singh Butalia**	-	-	-

* Appointed w.e.f. 13th June 2003

** Appointed w.e.f. 18th February 2004

- **Number of meetings of the Board of Directors held during the financial year 2003-04 and the dates on which held**

Date	Board Strength	No. of Directors Present
30th June, 2003	9	5
31st July, 2003	9	6
9th August, 2003	9	7
4th September, 2003	9	6
12th October, 2003	9	6
31st October, 2003	9	5
29th November, 2003	9	6
31st January, 2004	9	7
18th February, 2004	9	5

Details of Directors proposed for re-appointment

Dr. M. Sivakumaran, Mr. B. Sivaprasad Reddy and Mr. V. S. Janardhanam retire by rotation and being eligible, offer themselves for reappointment. Further, **Mr. Karamjit Singh Butalia** is being proposed to the office of Director under Section 257 of the Companies Act 1956. A Brief bio-data of them is as follows:

Dr. M. Sivakumaran holds a Masters degree in Science and has been awarded a Ph.D in Organic Chemistry. He has about 32 years of experience in the pharmaceutical industry. He is responsible for the technological evolution of the Company. Dr. M.Sivakumaran looks after R&D activities and development, new product development and total quality management and is not a director in any other company.

Mr. B. Sivaprasad Reddy is Qualified as a Bachelor of Engineering (Mechanical), he has over 28 years of working experience and looks after execution of projects in the matter of design, fabrication, erection and commissioning, in addition to overall procurement of plant & machinery and engineering materials. He is a director in APL Chemi Natura Limited, Citadel Aurobindo Biotech Limited, Pravesha Machine Works (P) Limited and Andhra Organics Limited.

Mr. V.S. Janardhanam, M.Sc. (Ag.), aged 64 years, is a senior banker and retired as Asst. General Manager, Allahabad Bank. He has an extensive knowledge and experience in industrial finance and banking. His association in the Board is expected to benefit the

Company in its financial planning and is a Director in Swarna Jyothi Agro & Exports (P) Limited.

Mr. Karamjit Singh Butalia holds an M.B.A in Investment & Finance from Hull University, U.K., as well as a Masters and Bachelors degree in Economics from Delhi University. He is a senior private equity professional with many years of experience covering a diverse range of markets and industries. His association with the Company is expected to contribute to the benefit of the Company and is not a Director in any other Company.

AUDIT COMMITTEE

The Company has an independent audit committee. The composition, procedures, powers and role/functions of the audit committee constituted by the Company comply with requirements of the Companies Act, 1956 as those of the Listing Agreement.

The audit committee has the following responsibilities/powers

- Overseeing the Company's overall financial reporting process.
- Reviewing with management the half-year and annual financial statements with primary focus on accounting policies and practices and compliance therewith, stock exchange requirements and other legal requirements concerning financial statements.
- Reviewing the internal control system, internal audit and the reports.

During the year under report the Audit Committee has met 4 times.

Composition

The Audit Committee comprises three Non-Executive Directors, all of them being Independent Directors. The heads of finance & accounts, Internal Auditor and the representative of the Statutory Auditors are permanent Invitees to the Audit Committee. The Company Secretary is the Secretary to the

Committee. The representative of the Cost Auditors is invited to meetings of the Audit Committee whenever matters relating to cost audit are considered. Mr. Srinivas Lanka the Chairman of the Committee is a Non-Executive Independent Director having expertise in accounting and financial management.

Member	No. of Meetings	Attendance	
		Audit Meeting	AGM held on 12.09.2003
Mr. Srinivas Lanka	4	3	Yes
Dr. S. Bimal Singh ^a	4	4	Yes
Mr. V.S. Janardhanam	4	3	Yes
Mr. Karamjit Singh Butalia ^b	-	N.A	N.A

^a Resigned w.e.f. 18th February, 2004

^b Appointed w.e.f. 18th February, 2004

REMUNERATION COMMITTEE

The composition of the committee comprises three independent directors. The Chairman of the Committee is a Non-executive Independent Director.

Remuneration Policy

The Remuneration Committee of the Company recommends the compensation package and other terms and conditions of Executive Directors and other senior management level. The Chairman and Managing Director and other

Wholtime Directors are paid remuneration as per the resolutions approved by the members at their meetings and such other authorities as may be required. Their remuneration comprises of basic, house rent allowance, perquisites, contribution to provident fund, gratuity and leave salary. The Committee comprises three independent directors and Mr. Srinivas Lanka is the Chairman of the Committee.

During the year the Committee met twice on 30th June, 2003 and 6th November, 2003 and attendance at meetings was as follows:

Member	No. of Meetings	Attendance
Mr. Srinivas Lanka	2	2
Dr. S. Bimal Singh	2	2
Dr. I. Sathyamurthy ^a	2	-
Mr. Karamjit Singh Butalia ^b	-	N.A

^a Resigned w.e.f. 18th February, 2004

^b Appointed w.e.f. 18th February, 2004

Details of remuneration paid to directors during the financial year 2003-2004

a) Executive Directors

(Rs. Lakhs)

Name of Director	Salary	Perquisites	Contribution to P.F	Total
Mr. P.V. Ramaprasad Reddy	23.40	2.65	0.09	26.14
Mr. K. Nityananda Reddy	23.40	9.22	0.09	32.71
Dr. M. Sivakumaran	23.40	7.10	0.09	30.60
Mr. B. Sivaprasad Reddy	23.40	3.01	0.09	26.50
Total	93.60	21.99	0.37	1,15.96

b) Non-executive Directors: Sitting fee of Rs.5,000 is paid for attending each meeting of the Board of Directors. During the year, the sitting fees paid was as follows:

(Rs. Lakhs)

Name of Director		Sitting fee
Mr. Srinivas Lanka	Non-executive Independent	0.40
Mr. V.S. Janardhanam	Non-executive Independent	0.35
Dr. S. Bimal Singh	Non-executive Independent	0.45
Dr. I. Sathyamurthy	Non-executive Independent	-
Dr. K.A. Balasubramanian	Non-executive Independent	-
Mr. Karamjit Singh Butalia*	Non-executive Independent	-

* Appointed w.e.f. 18th February, 2004

SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE

The committee was constituted with the following directors

Mr. Srinivas Lanka,
Non-executive Independent-Chairman

Mr. K. Nityananda Reddy,
Executive Director- Member

Mr. B. Sivaprasad Reddy,
Executive Director-Member

The main object of the Committee is to strengthen the investors' relations.

The main functions of the Committee are to look into the matters of investors' grievance pertaining to:

- Transfer, transmission, split and consolidation of investors holding
- Dematerialisation of shares
- Non receipt of dividends and other corporate benefits
- Replacement of lost/mutilated/stolen share certificates
- Non-receipt of annual reports and change of addresses, etc.

The Committee meets for every fortnight for effecting transfers, transmissions, split, consolidation, etc. The following is the list of complaints received and attended by the Committee during the year:

Nature of Complaints	Received	Resolved	Pending
A. Complaints Received from Shareholders			
- Share Certificates/Split	598	598	-
- Dividend	152	152	-
- Annual Reports	12	12	-
B. Complaints of Shareholders forwarded by			
- SEBI	8	8	-
- Stock Exchanges	5	5	-

There are some pending cases relating to disputes over title to shares in which the Company has been made a party. However, these cases are not material in nature.

VENUE AND TIME OF THE LAST THREE ANNUAL GENERAL BODY MEETINGS

Year	Location	Date	Time
2001	ITC Hotel Grand Kakatiya	29th September, 2001	3.00 P.M
2002	Hotel Viceroy	27th September, 2002	3.00 P.M
2003	Hotel Viceroy	12th September, 2003	3.00 P.M

Special resolution for alteration of Articles of Association was passed through postal ballot last year. The Company appointed Mr. A.N. Sarma, Practising Secretary as Scrutinizer for conducting the postal ballot voting in a fair and transparent manner and to submit his report as per rules and regulations prescribed under Section 192A of the Companies Act, 1956 read with the Companies (Passing of Resolution by Postal Ballot) Rules 2001. The resolution was supported by 1,868 shareholders holding 28,228,076 shares and dissented by 67 shareholders holding 8,341 shares and there is no such proposal to be transacted at this ensuing Annual General Meeting. There is no non-compliance by the Company and the Stock Exchanges, SEBI or any other statutory authority imposed no penalty during the last three years on any matter relating to capital markets.

RELATED PARTY TRANSACTIONS

No transaction of material nature has been entered into by the Company with its

Directors/Management and their relatives, etc. that may have a potential conflict with the interests of the Company. The Register of Contracts containing transactions in which Directors are interested is placed before the Board regularly.

Transactions with related parties are disclosed in Note No. 22 of Schedule 24 to the Accounts forming part of this Annual Report.

MEANS OF COMMUNICATION

The Company has a website viz. www.aurobindo.com. The quarterly and half yearly financial statements are not sent to the individual house holds of the shareholders, however the same are placed on the Company's website for the information of shareholders and general public and generally published in Business Line/Business Standard and Andhra Bhoomi news papers. Further all material information which will have some bearing on the operations of the Company is sent to all stock exchanges concerned and also placed in the Company's website.

**THE MANAGEMENT DISCUSSION AND ANALYSIS
REPORT FORMS PART OF THE DIRECTORS'
REPORT**

The Management Discussion and Analysis forms part of this Report and is provided elsewhere in this report.

GENERAL SHAREHOLDER INFORMATION**17th Annual General Meeting**

As mentioned in the Notice, the 17th Annual General Meeting of the Company will be held on Saturday the 31st day of July 2004 at 3.00 P.M at Sri Sathya Sai Nigamagamam, 8-3-987/2, Sri Nagar Colony, Hyderabad – 500 073.

Quarterly Results

Financial Calendar (tentative and subject to change) of the financial year 2004-2005 is as follows:

Un-audited Financial Results for

1st Quarter	July 2004
2nd quarter	October 2004
3rd Quarter	January 2005
4th Quarter	April 2005*

* In case Company prefers to give audited results instead of unaudited for the last quarter and financial year, the same will be given on or before 30th June 2005.

Book closure

From 26th July, 2004 to 31st July, 2004 (both days inclusive) for the purpose of Annual General Meeting and payment of dividend, subject to approval of shareholders.

Payment of Dividend

Subject to the approval of Members, the dividend, if declared, will be paid from 9th August, 2004 to all eligible shareholders.

Registered Office

Aurobindo Pharma Limited,
Plot No.2, Maitrivihar, Ameerpet,
HYDERABAD – 500 038., A.P.
Tel Nos. 91-40-5572 5000
Fax Nos. 91-40-2374 1080 / 2374 6833
E-mail: info@aurobindo.com

Name & Designation of Compliance Officer

B. Adi Reddy
Company Secretary
Aurobindo Pharma Limited,
Plot No.2, Maitrivihar, Ameerpet,
HYDERABAD – 500 038., A.P.
Tel Nos. 91-40-5572 5333
Fax Nos. 91-40-2374 1080 / 2374 6833
E-mail: cs@aurobindo.com

**Address for correspondence/Investor
Service Centre**

M/s. Karvy Computershare Private Limited has been appointed as Registrars & Share Transfer Agents and Depository Transfer Agents of the Company. Any request pertaining to investors' relations may be addressed to the following address:

Mr. K. Sreedharamurthy,
Karvy Computershare Private Limited
46, Avenue – 4, Street No.1
Banjara Hills, HYDERABAD – 500 034.
Tel Nos. 91-40-2337 6715 / 2331 2454
Fax Nos. 91-40-2331 1968
E-mail: sreedharamurthy@karvy.com

Listing Details

During the year the Company's shares were delisted from the Stock Exchange, Ahmedabad and the Madras Stock Exchange Ltd as per the approval received from the shareholders in the last annual general meeting. The Company's shares are now listed on the following stock exchanges and the listing fee for the financial year 2004-05 has been paid to all the Stock Exchanges.

The Hyderabad Stock Exchange Ltd.
Administrative Office, 6-3-654,
Somajiguda, HYDERABAD - 500 082.

Company Code No. ABD.

The Stock Exchange, Mumbai
Phiroze Jeejeebhoy Towers,
25th Floor, Dalal Street,
MUMBAI - 400 001.

Company Code No.524804.

National Stock Exchange of India Limited.
Exchange Plaza, Bandrakurla Complex
Bandra (E), MUMBAI - 400 051.

Company Code - AUROPHARMA

Reuters Code : ARBN.BO

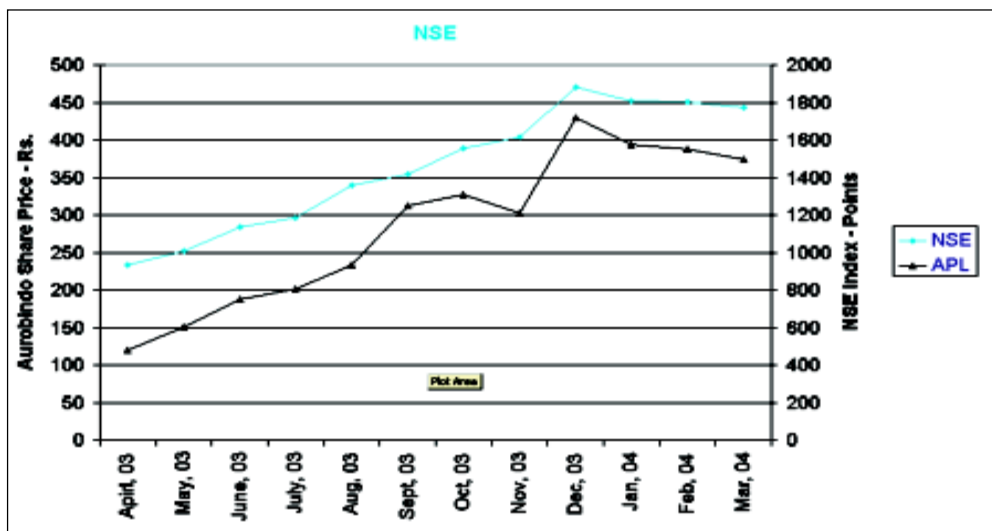
Bloomberg Code: ARBP.IN

Monthly High & Low quotations and Volume of shares traded on NSE & BSE during the year:

(Rupees)

Month	National Stock Exchange				The Stock Exchange, Mumbai			
	High	Low	Close	Volume	High	Low	Close	Volume
2003								
April	242.90	209.05	240.70	271,578	242.75	202.00	240.20	48,446
May	308.00	237.10	301.75	1,217,411	308.00	240.95	302.15	313,497
June	392.00	305.00	374.80	2,066,502	391.85	307.00	372.80	573,278
July	454.65	327.65	402.30	4,079,170	451.00	371.05	398.30	802,703
August	487.00	365.10	465.95	3,490,467	487.00	366.00	464.45	1,203,240
September	645.00	455.60	624.95	9,937,667	650.00	455.55	626.85	3,546,316
October*	356.33	273.25	327.20	5,187,975	356.50	278.55	327.00	1,848,380
November	365.00	277.00	302.90	4,489,671	346.00	275.10	302.50	1,625,896
December	450.00	298.00	430.15	9,658,687	451.95	298.00	429.40	3,477,458
2004								
January	477.00	355.00	394.30	3,625,141	475.00	356.00	393.15	1,094,927
February	418.00	362.00	388.05	2,397,840	418.00	361.00	389.85	913,129
March	403.95	293.20	374.60	1,726,795	403.00	292.80	377.00	553,699

* Note: In the month of October 2003, the Equity Shares of the Company were subdivided into face value of Rs.5 each. Accordingly, the market value and volume of shares traded from the month of October 2003 is based on face value of Rs.5 each.



Distribution Schedule as on 31st March, 2004

(Rs. Million)

Shareholding of Nominal value of	Share Holders		Share Amount Nominal Value			
	From	To	No of cases	% of cases	Amount	% of Amount
Upto	-	5000	35,120	97.08	173.27	6.83
5001	-	10000	517	1.43	39.55	1.56
10001	-	20000	263	0.73	39.15	1.54
20001	-	30000	91	0.25	22.77	0.90
30001	-	40000	40	0.11	14.35	0.57
40001	-	50000	31	0.09	14.26	0.56
50001	-	100000	43	0.12	30.67	1.20
100001 and above			70	0.19	2204.48	86.84
			36,175	100.00	2538.50	100.00

Categories of Shareholders as on 31st March, 2004

Category	No. of Shares	% of Shareholding
Promoters, Directors, Associates & their relatives	2,78,27,770	54.81
NRIs/FIIs/OCBs	1,26,07,972	24.84
Govt/Banks/FIs	21,13,435	4.16
UTI / Mutual Funds	9,37,369	1.85
Bodies Corporate	12,28,913	2.42
General Public	60,13,350	11.84
Clearing members & Others	41,191	0.08

Top Ten Shareholders of the Company as on 31st March, 2004

Name of Shareholder	Category	No. of Shares	% of Share holding
Mr. P.V. Ramaprasad Reddy	Promoter	1,31,99,088	26.00
Mrs. P. Suneela Rani	Promoter	59,63,110	11.75
Templeton Strategic Emerging Markets Fund Ldc-FDI	FII	38,17,027	7.52
Mr. K. Nityananda Reddy	Promoter	37,52,470	7.39
Mrs. K. Rajeswari	Promoter	24,27,550	4.78
Merlion India Fund I Limited	FII	23,70,000	4.67
Copthall Mauritius Investment Ltd.	FII	22,29,827	4.39
ABN Amro Funds	FII	17,99,243	3.54
Life Insurance Corporation of India	IFI	16,34,622	3.22
Dr. M. Sivakumaran	Director	14,69,136	2.89

Dividend & Bonus History

Year	Rate of %	Bonus
1997-98	50	1:1
1998-99	50	-
1999-2000	50	-
2000-01	30	1:1
2001-02	30	-
2002-03	35	-

Share Transfer System and Dematerialization & Liquidity

The Company's shares are covered under the compulsory dematerialization list and are transferable through the depository system. The Company has appointed M/s. Karvy Computershare Private Ltd as its Registrars and Share Transfer Agents and also Depository Transfer Agent. Shares received for physical transfer are generally registered within a period of 15 days from the date of receipt, subject to fulfillment of other legal formalities and the Share Transfer/Investor Grievance Committee will review the same. Further, the Company has signed a tripartite agreement with NSDL/CDSL and Karvy Computershare Private Ltd. to facilitate dematerialization of shares. The shareholders may contact for the redressal of their grievances either M/s. Karvy Computershare Private Ltd or the Company Secretary, Aurobindo Pharma Ltd.

Outstanding ADRs/GDRs/Warrants, etc,

As you are aware, during the previous year the Company has allotted 25,00,000 convertible equity share warrants of Rs.5 each to Mr. P.V. Ramaprasad Reddy, Chairman of the Company. These warrants are to be converted into equity shares of the Company on one to one basis on or before 3rd August, 2005.

Plant Locations

Unit No.	Address
Unit – I	Survey Nos.388 & 389, Borapatla Village, Hathnoora Mandal, Medak District, Andhra Pradesh
Unit – II	103/A, S.V.C.I.E., Industrial Development Area, Bollaram, Jinnaram Mandal, Medak District, Andhra Pradesh
Unit – III	Survey Nos. 313 & 314, Bachupally Village, Qutubullapur Mandal, Ranga Reddy Dist. Andhra Pradesh
Unit – IV	Plot Nos. 32 & 33, Block A, Phase I, Industrial Development Area, Pashamylaram, Patancheru Mandal, Medak District, Andhra Pradesh
Unit – V	Plot Nos. 79-91, 95, 96, 260 & 261, Chemical Zone, Industrial Development Area, Pashamylaram, Patancheru Mandal, Medak District, Andhra Pradesh
Unit – VI	Survey Nos. 329/39, 329/40 & 329/47, Chitkul Village, Patancheru Mandal, Medak District, Andhra Pradesh
Unit – VII	Survey No. 10, Gaddapothram Village, Jinnaram Mandal, Medak District, Andhra Pradesh
Unit – VIII	Survey No. 13, Gaddapothram Village, Jinnaram Mandal, Medak District, Andhra Pradesh
Unit – IX	Survey No. 374, Gundlamachanoor Village, Hathnoora Mandal, Medak District Andhra Pradesh
Unit – X	B-2, SIPCOT Industrial Complex, Kudikadu Village, Cuddalore, Tamil Nadu
Unit – XI	Survey Nos. 61-66, Industrial Development Area, Pydibhimavaram, Ranasthalam Mandal, Srikakulam District, Andhra Pradesh
Unit– XII	Survey No. 314, Bachupally Village, Qutubullapur Mandal, Ranga Reddy Dist., Andhra Pradesh

Auditors' Certificate

To
The Members of
Aurobindo Pharma Limited

We have examined the compliance of conditions of corporate governance by Aurobindo Pharma Limited, for the year ended on 31st March, 2004, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchange(s).

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Shareholders/Investors Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

S. R. BATLIBOI & CO.
Chartered Accountants

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030
Hyderabad, 2nd June, 2004.

Auditors' report

To
The Members of
Aurobindo Pharma Limited

1. We have audited the attached Balance Sheet of Aurobindo Pharma Limited as at 31st March, 2004 and also the Profit and Loss account and the Cash Flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
 - i. we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - ii. in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from the branches not visited by us;
 - iii. the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account and with the returns from the branches;

Auditors' Report

- iv. in our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
- v. on the basis of the written representations received from the Directors, as on 31st March, 2004, and taken on record by the Board of Directors, we report that none of the directors was disqualified as on 31st March, 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
- vi. in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true

and fair view in conformity with the accounting principles generally accepted in India;

- a. in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2004;
- b. in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
- c. in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For **S. R. BATLIBOI & CO.**
Chartered Accountants

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030
Hyderabad, 2nd June, 2004.

Annexure referred to in paragraph [3] of our report of even date

Re: **Aurobindo Pharma Limited**

- i. a. The Company has generally maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- b. All fixed assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. *As informed, material discrepancies were identified on such verification and these have been properly dealt with in the books of account.*
- c. There was no substantial disposal of fixed assets during the year.
- ii. a. The management has conducted physical verification of inventory at reasonable intervals during the year.
- b. The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- c. The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.
- iii. The Company has neither granted nor taken any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- iv. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods. During the course of our audit, no major weakness has been noticed in the internal controls in respect of these areas.
- v. a. According to the information and explanations provided by the management, we are of the opinion that the transactions that need to be entered into the register maintained under Section 301 have been so entered.
- b. In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and exceeding the value of Rupees five lakhs in respect of any party during the year, have been made at prices, which are reasonable, having regard to the prevailing market prices at the relevant time.
- vi. The Company has not accepted any deposit from the public.

- vii. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business. deposited with the appropriate authorities though there has been a slight delay in a few cases.
- viii. We have broadly reviewed the books of accounts maintained by the Company pursuant to the rules made by the Central Government for the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 in respect of the products of the Company, and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained.
- ix. a. Undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, custom duty, excise duty, cess have generally been regularly deposited with the appropriate authorities though there has been a slight delay in a few cases.
- b. According to the information and explanations given to us, no undisputed amounts payable in respect of income-tax, wealth-tax, sales-tax, customs duty and excise duty were outstanding, at the year end for a period of more than six months from the date they became payable.
- c. According to the records of the Company and on the basis of the information and explanations given to us, the dues in respect of sales-tax, income-tax, custom duty, wealth-tax, excise duty, cess which have not been deposited on account of any dispute, are as under:

Name of the statute	Nature of dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Disallowance on account dispute on computation of eligible profits under Section 80 HHC.	44,601,668	2000-01	Commissioner of Income Tax (Appeals)
Income Tax Act, 1961	Shortfall in tax deducted at source.	4,151,300	2001-02	Commissioner of Income Tax (Appeals)
Central Excise Act, 1944	Dispute regarding credit on inputs exclusively used in the manufacture of exempted goods.	16,810,047	From 1996-97 onwards	Commissioner/ Jt. Commissioner/ Addl. Commissioner of various states
Central Excise Act, 1944	Dispute regarding CENVAT Claim and Dispute regarding applicable rate of duty on certain products	55,161,402	From 1998-99 onwards	CESTAT Chennai & Bangalore

- x. The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and immediately preceding financial year.
- xi. Based on our audit procedures and as per the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holders.
- xii. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiii. In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
- xiv. In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
- xv. According to the information and explanations given to us, the Company has given guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof in our opinion are not prima-facie prejudicial to the interest of the Company.
- xvi. Based on information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained.
- xvii. According to the information and explanations given to us and on an overall examination of the balance sheet and cash flow statement of the Company, we report that no funds raised on short-term basis have been used for long-term investment and long-term funds have been used to finance short-term assets (excluding permanent working capital) to the extent of Rs.1,382,940,638.
- xviii. The Company has made preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956. In our opinion the price at which shares have been issued is not prejudicial to the interest of the Company.
- xix. Based on books and records produced to us by the management, securities have been created in respect of debentures issued.
- xx. We have verified that the end use of money raised by public issues is as disclosed in the notes to the financial statements.
- xxi. Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For **S. R. BATLIBOI & CO.**
Chartered Accountants

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030
Hyderabad, 2nd June, 2004.

Balance Sheet as at 31st March, 2004

Rs. Millions	Schedule	As at	
		31st March, 2004	31st March, 2003
I. SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	1	253.8	232.5
Reserves & Surplus	2	<u>7,309.9</u>	<u>5,101.4</u>
		7,563.7	5,333.9
EQUITY SHARE WARRANTS			
	3	350.0	21.5
LOAN FUNDS			
Secured Loans	4	5,146.1	4,065.7
Unsecured Loans	5	<u>1,037.8</u>	<u>1,189.0</u>
		6,183.9	5,254.7
DEFERRED TAX LIABILITY (Net)			
	6	521.1	359.5
TOTAL		<u>14,618.7</u>	<u>10,969.6</u>
II. APPLICATION OF FUNDS			
FIXED ASSETS			
Gross Block	7	5,844.1	3,789.1
Less : Depreciation		<u>1,114.1</u>	<u>806.3</u>
Net Block		4,730.0	2,982.8
Capital Work-in-progress including capital advances		<u>1,116.0</u>	<u>1,154.9</u>
		5,846.0	4,137.7
INVESTMENTS			
	8	1,488.9	1,523.1
CURRENT ASSETS, LOANS AND ADVANCES			
Interest accrued on Investments		0.3	0.3
Inventories	9	2,596.4	2,035.2
Sundry Debtors	10	4,568.5	4,076.5
Cash & Bank Balances	11	374.1	331.5
Other Current Assets	12	3.4	--
Loans and Advances	13	<u>1,494.5</u>	<u>1,070.7</u>
		<u>9,037.2</u>	<u>7,514.2</u>
LESS : CURRENT LIABILITIES AND PROVISIONS			
Liabilities	14	1,550.9	2,064.9
Provisions	15	<u>202.5</u>	<u>140.5</u>
		<u>1,753.4</u>	<u>2,205.4</u>
NET CURRENT ASSETS			
		7,283.8	5,308.8
MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)			
	16	--	--
TOTAL		<u>14,618.7</u>	<u>10,969.6</u>
Notes to Accounts	24		

The Schedules referred to above form an integral part of the Balance Sheet
This is the Balance Sheet referred to in our report of even date

For and on behalf of the Board of Directors

S.R. BATLIBOI & CO.
Chartered Accountants

K. NITYANANDA REDDY
Managing Director

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030
Hyderabad, 2nd June, 2004.

B. ADI REDDY
Company Secretary

P.V. RAMAPRASAD REDDY
Chairman

Profit & Loss Account for the year ended 31st March, 2004

Rs. Millions		Schedule	2003-2004	2002-2003
INCOME				
	Sales (Gross)		13,410.7	11,903.8
	Less : Excise Duty		811.8	764.6
	Sales (Net)		12,598.9	11,139.2
	Other Income	17	220.6	116.5
	Increase in Stocks	18	363.5	318.9
	TOTAL		13,183.0	11,574.6
EXPENDITURE				
	Raw Materials Consumed	19	7,531.8	7,341.4
	Purchase of Trading Goods		339.0	206.3
	Other Manufacturing Expenses	20	1,537.4	1205.3
	Payments to and Provisions for Employees	21	513.5	335.2
	Administrative and Selling Expenses	22	872.1	427.8
	Interest and Finance Charges	23	322.4	425.9
	Depreciation		341.6	231.8
	TOTAL		11,457.8	10,173.7
PROFIT BEFORE TAXATION				
			1,725.2	1,400.9
	Provision for Taxation		292.7	253.0
	Deferred Tax		161.5	112.1
	Tax adjustments of previous years		0.8	4.4
PROFIT AFTER TAXATION				
			1,270.2	1,031.4
	Balance brought forward from last year		139.3	125.3
	Balance of Profit & Loss Account taken over on amalgamation		-	(5.8)
PROFIT AVAILABLE FOR APPROPRIATION				
			1,409.5	1,150.9
APPROPRIATIONS				
	Proposed Dividend @ Rs.2.25 (Rs.3.50) on Equity Shares of Rs.5 (Rs.10) each		114.2	79.4
	Tax on Dividend		14.6	10.2
	Debenture Redemption Reserve		-	172.1
	General Reserve		1,080.0	750.0
	Surplus carried to Balance Sheet		200.7	139.2
			1,409.5	1,150.9
	Basic earnings per share		26.54	22.73
	Diluted earnings per share		26.41	22.73
	Nominal value per share		5	5
	Notes to Accounts	24		

The Schedules referred to above form an integral part of the Profit & Loss Account

This is the Profit & Loss Account referred to in our report of even date

For and on behalf of the Board of Directors

S.R. BATLIBOI & CO.
Chartered Accountants

K. NITYANANDA REDDY
Managing Director

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030
Hyderabad, 2nd June, 2004.

B. ADI REDDY
Company Secretary

P.V. RAMAPRASAD REDDY
Chairman

Schedules

Rs. Millions		As at 31st March, 2004	As at 31st March, 2003
1. SHARE CAPITAL (Refer Note 4 on Schedule 24)			
AUTHORISED	100,000,000 (50,000,000)		
	Equity Shares of Rs.5 (Rs.10) each	500.0	500.0
	1,000,000 Preference Shares of Rs.100 each	100.0	100.0
		<u>600.0</u>	<u>600.0</u>
ISSUED, SUBSCRIBED AND PAID-UP	50,770,000 (23,250,000)		
	Equity Shares of Rs.5 (Rs.10) each fully paid-up	253.8	232.5
	TOTAL	<u>253.8</u>	<u>232.5</u>

Notes:

Of the above Equity Shares

- a. 34,703,200 (17,351,600) Equity Shares of Rs.5 (Rs.10) each were allotted as bonus shares by capitalisation of Share Premium Account.
- b. 1,341,000 (670,500) Equity Shares of Rs.5 (Rs.10) each were allotted for consideration other than cash.
- c. 1,900,000 (580,000) Equity Shares of Rs.5 (Rs.10) each at a premium of Rs.108 (Rs.216) each were allotted to the promoters during the year on exercise of warrants held.
- d. The shareholders at the Annual General Meeting held on 12th Septemeber, 2003 approved the subdivision of Equity Shares of face value of Rs.10 each into two Equity Shares of face value of Rs.5 each. Subsequent to the subdivision the authorised Equity Shares of 50,000,000 of Rs.10 each have been divided into 100,000,000 Equity Shares of Rs.5 each.

Rs. Millions	As at 31st March, 2004	As at 31st March, 2003
2. RESERVES & SURPLUS		
CAPITAL RESERVE		
As per last Balance Sheet	390.2	379.3
Add: On amalgamation		
State Subsidy	–	1.3
Capital Reserve	–	9.6
	<u>–</u>	<u>10.9</u>
	390.2	390.2
CAPITAL REDEMPTION RESERVE	90.0	90.0
SHARE PREMIUM		
As per last Balance Sheet	938.4	380.9
Add: On amalgamation	–	0.3
Received during the year	<u>1,082.1</u>	<u>557.2</u>
	2,020.5	938.4
Less: Utilised towards share issue expenses	<u>15.0</u>	–
	2,005.5	938.4
DEBENTURE REDEMPTION RESERVE		
As per last Balance Sheet	261.3	89.1
Add: Transferred from Profit & Loss Account	–	<u>172.1</u>
	261.3	261.2
GENERAL RESERVE		
As per last Balance Sheet	3,282.3	2,342.3
Add: On amalgamation	–	244.3
Transferred from Profit & Loss Account	<u>1,080.0</u>	<u>750.0</u>
	4,362.3	3,336.6
Less: Adjustment on amalgamation	–	<u>54.3</u>
	4,362.3	3,282.3
PROFIT & LOSS ACCOUNT BALANCE	<u>200.6</u>	<u>139.3</u>
TOTAL	<u>7,309.9</u>	<u>5,101.4</u>
3. EQUITY SHARE WARRANTS		
Upfront consideration of Rs.140 (Rs.22.6) per warrant received towards preferential allotment of 2,500,000 (950,000) Equity Share Warrants of Rs.375 (Rs.226) each. These warrants are to be converted into 2,500,000 (950,000) Equity Shares of Rs.5 (Rs.10) each at a premium of Rs.370 (Rs.216) per Equity Share on exercise of option by the warrant holders on or before 3rd August, 2005 (11th October, 2003).	<u>350.0</u>	<u>21.5</u>

Rs. Millions	As at 31st March, 2004	As at 31st March, 2003
4. SECURED LOANS (Refer Note 5 on Schedule 24)		
DEBENTURES - Non-Convertible Debentures		
Coupon Rate Face Value Numbers Terms of Redemption		
15% Rs.100 500,000 In 3 annual installments by 10/06/04	16.7	33.3
11.75% Rs.100 2,700,000 In 3 annual installments by 10/08/05	180.0	270.0
7.8% Rs.100 2,500,000 In single installment by 16/12/05	250.0	250.0
8.5% Rs.100 2,500,000 In single installment by 26/03/06	250.0	250.0
8.5% Rs.100 2,250,000 In seven half-yearly installments by 26/09/07	<u>225.0</u>	<u>225.0</u>
Note: All the above debentures are redeemable at par.		
	921.7	1,028.3
TERM LOANS From Banks [(Payable within one year - Rs.529.9) (Rs.630.7)]	1,968.9	1,803.3
OTHER LOANS From Banks - Working Capital Loans (Payable within one year)	<u>2,255.5</u>	<u>1,234.1</u>
TOTAL	<u>5,146.1</u>	<u>4,065.7</u>
5. UNSECURED LOANS (Refer Note 6 on Schedule 24)		
SHORT TERM LOANS From Banks - Commercial Paper [(Maximum amount outstanding at any time during the year Rs.100.0) (Rs.400.0)]	-	100.0
Others	<u>418.0</u>	<u>534.5</u>
	418.0	634.5
OTHER LOANS Sales Tax Deferment Loan Payable within one year Rs.1.0 (Rs.Nil)	619.8	554.5
TOTAL	<u>1,037.8</u>	<u>1,189.0</u>
6. DEFERRED TAX LIABILITY (Net) (Refer Note 13 on Schedule 24)		
Deferred Tax liabilities	<u>521.1</u>	<u>359.5</u>
TOTAL	<u>521.1</u>	<u>359.5</u>

7. FIXED ASSETS (Refer Note 7, 23b. on Schedule 24)

Rs. Millions Particulars	Gross Block				Depreciation/Amortisation				Net Block	
	As at 1st April, 2003	Additions	Sales/ Adjustments	As at 31st March, 2004	Up to 1st April, 2003	For the year	On Sales/ adjustments	Up to 31st March, 2004	As at 31st March, 2004	As at 31st March, 2003
Land ^{a & b}	51.2	44.9	--	96.1	--	0.2	--	0.2	95.9	51.2
Buildings ^c	772.7	354.5	14.9	1,112.3	63.6	30.0	3.2	90.4	1,021.9	709.1
Plant & Machinery ^d	2,902.9	1,666.6	45.2	4,524.3	728.2	301.7	28.7	1,001.2	3,523.1	2,174.7
Furniture & Fittings	39.1	39.0	0.2	77.9	10.0	7.1	0.2	16.9	61.0	29.1
Vehicles	23.2	14.2	3.9	33.5	4.5	2.6	1.7	5.4	28.1	18.7
Total	3,789.1	2,119.2	64.2	5,844.1	806.3	341.6	33.8	1,114.1	4,730.0	2,982.8
Previous year's Total	2,191.2	1,636.1	38.2	3,789.1	582.7	231.8	8.2	806.3	2,982.8	
Capital Work-in-progress ^e									1,116.0	1,154.9

Notes

- The title deeds of Land and Buildings aggregating to Rs.43.9 (Rs.43.9) acquired on amalgamation are pending transfer to the Company's name .
- Land acquired includes leasehold land of Rs.28.4 (Rs.0.3).
- Include Rs.0.3 (Rs.0.3) being the value of shares in co-operative housing societies, leasehold buildings of Rs.16.7 (Rs.Nil) and net of government grant received Rs.0.7 (Rs.Nil).
- Includes Foreign Exchange Fluctuations capitalised Rs.0.3 (Rs.0.3) and net of government grant received Rs.1.3 (Rs.Nil)
- Include capital advances of Rs.82.5 (Rs.89.5), acquired on amalgamation of Rs.Nil (Rs.80.3) and expenditure during construction period Rs.34.4 (Rs.51.2) (Refer Note 7 on Schedule 24)

Rs. Millions	Face value per Share	As at 31st March, 2004		As at 31st March, 2003	
		No. of Shares	Rs	No. of Shares	Rs.
8. INVESTMENTS (Refer Note 8 on Schedule 24)					
LONG TERM (Unquoted and at cost)					
TRADE INVESTMENTS					
A. Equity Shares (Fully Paid-up)					
Jeedimetla Effluent Treatment Limited	Rs.100	753	0.1	753	0.1
Patancheru Envirotech Limited	Rs.10	103,709	1.0	103,709	1.0
Progressive Effluent Treatment Limited	Rs.100	1,000	0.1	1,000	0.1
			<u>1.2</u>		<u>1.2</u>
B. Other than Trade					
Government Securities					
Kisan Vika Patra			1.0		1.0
National Savings Certificate *			0.2		0.2
*includes Rs.0.1 held by income tax authorities (Rs.0.1)					
			<u>1.2</u>		<u>1.2</u>
C. In Subsidiaries					
Equity Shares (Fully Paid-up)					
Aurobindo USA LLC, Miami (company under liquidation)	\$1		--		0.8
Less: Consideration received on liquidation			--		<u>0.8</u>
			--		--
Aurobindo (H.K.) Limited, Hong Kong (Purchased during the year 1,000,000 shares)	\$1	2,999,999	142.3	1,999,999	96.6
APL Pharma Thai Limited, Thailand	100 Baht	19,200	2.2	19,200	2.2
APL Holdings Inc. California	\$100	33,000	157.5	33,000	157.5
APL Chemi Natura Limited	Rs.10	5,000,000	50.0	5,000,000	50.0
Aurobindo (Datong) Bio-Pharma Co. Ltd, China		100% of Paid-in-Capital	1,057.3	100% of Paid-in-Capital	1,057.3
AB Farmo Quimica Limitada, Brazil	100 Reais	21,248	48.5	21,248	48.6
Aurobindo TongLing (Datong) Pharmaceutical Co. Ltd. China		50% of Paid-in-Capital	154.1	50% of Paid-in-Capital	154.1
Helix Healthcare B.V. - The Netherlands (Purchased during the year)		100% of Paid-in-Capital	0.9	100% of Paid-in-Capital	--
			<u>1,612.8</u>		<u>1,566.3</u>

Rs. Millions	Face value per Share	As at 31st March, 2004		As at 31st March, 2003		
		No. of Shares	Rs.	No. of Shares	Rs.	
D. In Joint Venture						
	Citadel Aurobindo Biotech Limited (30,000 shares (Nil) pledged with UTI Bank Limited with an undertaking of non-disposal of the balance shares until certain conditions are satisfied)	Rs.100	100,000	10.0	100,000	10.0
				10.0		10.0
	SUB TOTAL (A+B+C+D)		1,625.2			1,578.7
	Less : Provision for diminution in value of Investments		136.3			58.0
	(I)		1,488.9			1,520.7
CURRENT INVESTMENTS (At lower of cost or market value)						
Unquoted - Trade						
	Advance Waste Management Technologies Limited (Liquidated during the year)	Rs.10	--	--	462,400	2.4
	(II)		--			2.4
	TOTAL (I)+(II)		1,488.9			1,523.1
	Aggregate value of unquoted investments		1488.9			1,523.1
			As at 31st March, 2004		As at 31st March, 2003	
9. INVENTORIES (at lower of cost or net realisable value)						
	Raw Materials *		1,063.7			910.0
	Work-in-process		1,054.2			946.1
	Stores, Spares, Consumables & Packing Materials		113.3			58.4
	Finished Goods *		365.2			120.7
	TOTAL		2,596.4			2,035.2
* includes material in transit and lying with third parties.						
10. SUNDRY DEBTORS (Refer Note 9 on Schedule 24)						
UNSECURED						
	Debts outstanding for a period exceeding six months					
	Considered good		1,088.2			1,377.3
	Considered doubtful		99.3			60.6
			1,187.5			1,437.9
	Other debts - Considered good		3,480.3			2,699.2
			4,667.8			4,137.1
	Less: Provision for doubtful debts		99.3			60.6
	TOTAL		4,568.5			4,076.5

Rs. Millions	As at 31st March, 2004	As at 31st March, 2003
11. CASH & BANK BALANCES (Refer Note 10 on Schedule 24)		
Cash & Cheques on Hand	3.2	15.7
Balance with Scheduled Banks on		
Current Accounts	342.8	276.1
Margin Money Deposit Accounts	24.6	36.6
Unpaid Dividend Accounts	2.3	1.7
	<u>369.7</u>	<u>314.4</u>
Balance with Non-Scheduled Banks on		
Current accounts	1.2	1.4
TOTAL	<u>374.1</u>	<u>331.5</u>
12. OTHER CURRENT ASSETS		
Fixed assets held for sale (At net book value or estimated net realisable value, whichever is lower)	3.4	-
	<u>3.4</u>	<u>-</u>
13. LOANS & ADVANCES (Refer Note 11 on Schedule 24) (Unsecured, considered good except stated otherwise)		
Loans - Subsidiaries	793.5	445.9
- Joint Ventures	30.0	30.0
- Employees	7.5	6.2
Advances recoverable in cash or in kind or for value to be received or pending adjustments		
Considered good	314.1	285.1
Considered doubtful	6.2	1.2
	<u>320.3</u>	<u>286.3</u>
Export Incentives Receivable	85.2	109.0
Trade and Other Deposits	73.7	83.2
Advance Income Tax (Net of Provision)	6.1	(54.7)
Balances with Customs and Excise Authorities	184.4	166.0
	<u>1,500.7</u>	<u>1,071.9</u>
Less: Provision for doubtful advances	6.2	1.2
TOTAL	<u>1,494.5</u>	<u>1,070.7</u>

Rs. Millions	As at 31st March, 2004	As at 31st March, 2003
14. CURRENT LIABILITIES (Refer Note 12 on Schedule 24)		
Sundry Creditors for goods, services and expenses		
Dues to small scale industrial undertakings	7.1	4.4
Dues to others	<u>1,283.4</u>	<u>1,967.3</u>
	1,290.5	1,971.7
Dues to Subsidiaries	172.8	46.8
Trade Deposits	1.3	3.6
Unclaimed Dividends	2.3	1.8
Other Liabilities	72.0	27.8
Interest Accrued but not due on Loans	<u>12.0</u>	<u>13.2</u>
TOTAL	<u>1,550.9</u>	<u>2,064.9</u>
15. PROVISIONS		
For Retirement Benefits	73.6	50.9
For Proposed Dividend	114.2	79.4
For Tax on Proposed Dividend	<u>14.7</u>	<u>10.2</u>
TOTAL	<u>202.5</u>	<u>140.5</u>
16. MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)		
Product Development Expenses	--	6.5
Add: Taken over on amalgamation - Effluent treatment expenses	<u>--</u>	<u>1.1</u>
	--	7.6
Less: Written off during the year	<u>--</u>	<u>7.6</u>
	--	--
	<u>38.1</u>	<u>44.1</u>
	38.1	44.1
[Tax deducted at source - Rs.1.5 (Rs.4.7)]		
Processing Charges	3.0	23.6
Dividends from a subsidiary company	0.8	0.8
Dividends from Current Investments	0.2	--
Profit on sale of Current Investments	0.4	5.6
Exchange fluctuation gain (Net)	92.5	3.4
Profit on sale of shares held in trust	28.8	--
Miscellaneous Income	<u>56.8</u>	<u>39.0</u>
TOTAL	<u>220.6</u>	<u>116.5</u>
	2003-2004	2002-2003
17. OTHER INCOME		
Interest on		
Loans to Subsidiaries and Joint Ventures	32.3	32.2
Deposits and overdue bills	4.0	9.9
Other Investments	0.2	0.1
Other Advances	<u>1.6</u>	<u>1.9</u>
	38.1	44.1
Processing Charges	3.0	23.6
Dividends from a subsidiary company	0.8	0.8
Dividends from Current Investments	0.2	--
Profit on sale of Current Investments	0.4	5.6
Exchange fluctuation gain (Net)	92.5	3.4
Profit on sale of shares held in trust	28.8	--
Miscellaneous Income	<u>56.8</u>	<u>39.0</u>
TOTAL	<u>220.6</u>	<u>116.5</u>

Rs. Millions	2003-2004	2002-2003
18. INCREASE IN STOCKS		
Opening Stocks		
Finished Goods	120.7	142.8
Work-in-Process	<u>946.1</u>	<u>489.2</u>
	1,066.8	632.0
Less: Reversal of excise duty on opening stocks	<u>10.9</u>	<u>9.8</u>
	1,055.9	622.2
Add: Acquired on Amalgamation		
Finished Goods	-	22.1
Work-in-Process	<u>-</u>	<u>103.6</u>
	-	125.7
	1,055.9	747.9
Less: Closing Stocks		
Finished Goods	365.2	120.7
Work-in-Process	<u>1,054.2</u>	<u>946.1</u>
	1,419.4	1,066.8
TOTAL	<u>363.5</u>	<u>318.9</u>
19. RAW MATERIALS CONSUMED		
Opening Stock	909.9	574.3
Add: Acquired on Amalgamation	<u>-</u>	<u>90.6</u>
	909.9	664.9
Add: Purchases	<u>7,685.6</u>	<u>7,586.4</u>
	8,595.5	8,251.3
Less: Closing Stock	<u>1,063.7</u>	<u>909.9</u>
TOTAL	<u>7,531.8</u>	<u>7,341.4</u>
20. OTHER MANUFACTURING EXPENSES		
Conversion charges	191.7	272.1
Packing Materials consumed	150.3	108.6
Consumption of Stores & Spares	142.8	77.6
Chemicals consumed	126.9	72.0
Carriage Inward	95.0	86.0
Factory Maintenance	65.8	34.4
Power & Fuel	537.6	399.3
Effluent Treatment Expenses	33.1	26.8
Excise Duty Others	63.8	34.7
Repairs & Maintenance		
Plant & Machinery	26.6	37.4
Buildings	21.5	4.8
Others	<u>21.6</u>	<u>6.5</u>
	69.7	48.7
Miscellaneous Expenses	<u>60.7</u>	<u>45.1</u>
TOTAL	<u>1,537.4</u>	<u>1,205.3</u>

Rs. Millions	2003-2004	2002-2003
21. PAYMENTS TO AND PROVISIONS FOR EMPLOYEES		
Salaries, Wages and Bonus	445.0	285.7
Contribution to Provident and other funds	22.5	16.5
Retirement Benefits	28.0	21.0
Staff Welfare expenses	18.0	12.0
TOTAL	513.5	335.2
22. ADMINISTRATIVE & SELLING EXPENSES		
Rent	6.0	5.8
Rates & Taxes	11.8	5.5
Printing & Stationery	18.2	10.9
Postage, Telegram & Telephones	19.8	14.8
Insurance	48.1	39.0
Legal & Professional Charges	66.2	31.4
Directors sitting fees	0.1	-
Remuneration to Auditors	4.0	2.8
Commission to other Selling Agents	101.3	59.4
Carriage Outwards	197.3	157.4
Selling Expenses	22.9	28.9
Rebates & Discounts	39.0	4.1
Travel & Conveyance	38.1	37.2
Vehicle Maintenance Expenses	6.8	4.4
Product Development Expenses	36.4	3.1
Prior Period Adjustments (Net)	6.9	1.0
Provision for diminution in value of Investments	78.4	58.0
Software License and implementation expenses	18.1	15.3
Miscellaneous Expenditure written off	-	7.6
Provision for Doubtful Debts and Advances	43.7	4.0
Bad Debts written off	33.7	28.4
Loss on Sale of fixed Assets (includes profit on sale of land Rs.Nil (Rs.124.3))	2.6	(124.0)
Fixed Assets written off	36.2	1.3
Donation	0.9	0.4
Miscellaneous Expenses	35.6	31.1
TOTAL	872.1	427.8
23. INTEREST AND FINANCE CHARGES		
Interest on debentures and fixed period loans	257.9	349.3
Interest on Other Loans	4.5	27.3
Bank Charges	60.0	49.3
TOTAL	322.4	425.9

Rs. Millions

24. NOTES ANNEXED TO AND FORMING PART OF THE ACCOUNTS AS AT AND FOR THE YEAR ENDED 31ST MARCH, 2004.**1. Statement of Significant Accounting Policies****a. Basis of Preparation**

The financial statements have been prepared under the historical cost convention on accrual basis to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956.

b. Revenue Recognition

- i. Revenue from sale of goods (other than export sales) is recognised on dispatch and is inclusive of excise duty and net of discounts, sales returns and sales tax, where applicable. Revenue from export sales is recognised on the date of bill of lading.
- ii. Interest is recognized on a time proportion basis taking into account the amount outstanding and the rate applicable.
- iii. Dividend is recognised as and when the right to receive its payment is established.

c. Fixed Assets and Depreciation

- i. Fixed assets are stated at cost less accumulated depreciation. Cost comprises of purchase price, freight, duties (net of CENVAT), taxes and any attributable cost of bringing the asset to its working condition for its intended use.
- ii. Expenditure directly relating to construction activity is capitalised. Indirect expenditure is capitalized to the extent it relates to the construction activity or is incidental thereto. Income earned during construction period is deducted from the total expenditure relating to construction activity.
- iii. Assets identified and evaluated as held for disposal are stated at their estimated net realizable values or net book values, whichever is lower.
- iv. Premium paid on Leasehold Land is amortised over the lease term.
- v. Assets acquired under finance leases, where there is no reasonable certainty that the Company will obtain the ownership by the end of the lease terms are capitalized and are depreciated over the tenure of the lease or estimated useful life of the asset whichever is shorter.
- vi. Depreciation is provided on straight-line method, at the rates and in the manner prescribed under Schedule XIV to the Companies Act, 1956.

d. Borrowing Cost

Borrowing costs that are attributable to the acquisition, construction or production of qualifying assets are capitalised as a part of the cost of that asset.

Rs. Millions

e. Government Grants and Subsidies

Grants and subsidies are recognised when there is a reasonable assurance that the grant or subsidy will be received and that all the underlying conditions thereto will be complied with. When the grant or subsidy relates to an asset, its value is deducted in arriving at the carrying amount of the related asset.

f. Investments

- i. Investments that are intended to be held for more than a year are classified as long term investments. All other investments are classified as current investments.
- ii. Long-term investments are carried at cost. However, due provision is made to recognise a decline, other than temporary, in the value of the investments. Current investments are carried at lower of cost and fair value determined on individual investment basis.

g. Inventories

- i. Raw materials, packing materials, stores, spares and consumables are valued at cost, calculated on "First-in-First out" basis, which is either equal to or less than the net realisable value. Items held for use in the production of inventories are not written down below cost if the finished product in which they will be incorporated are expected to be sold at or above cost.
- ii. Finished goods and Work-in-process are valued at lower of cost and net realisable value. In respect of finished goods, cost includes materials, labour and a proportion of appropriate overheads and excise duty.
- iii. Trading goods are valued at lower of cost and net realisable value.
- iv. Net realizable value is the estimated selling price in the ordinary course of business, reduced by the estimated costs of completion and costs to effect the sale.

h. Miscellaneous Expenditure

Expenses incurred on registration of patents in overseas markets are deferred and are amortised over a period of three years, considering the expected duration of accrual of related benefits. The benefits are reassessed at the end of each year.

i. Retirement Benefits

- i. The Company's contribution to Provident Fund is recognised on accrual basis.
- ii. Gratuity and Leave encashment liability is provided on the basis of an actuarial valuation carried out at the end of each financial year.

j. Research and Development Expenditure

Research and Development expenditure incurred during the year which is of revenue nature, is charged to revenue, while capital expenditure is included in the respective heads under Fixed Assets.

Rs. Millions

k. Income Taxes

Tax expense consists of both current and deferred taxes. Deferred income taxes reflect the impact of the current year timing differences between the taxable income and accounting income for the year and the reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the Balance Sheet date.

Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

l. Foreign Exchange Transactions

- i. Foreign currency transactions (other than those relating to foreign branches) arising during the year are recorded at the exchange rates prevailing at the transaction dates. Expenditure of foreign branches is recorded at the average exchange rate of the month in which such expenses are incurred.
- ii. Foreign currency monetary items are reported at contract rates and/or at year-end rates. The resultant gain/loss, if any, is recognised in the Profit and Loss Account, except exchange differences on liabilities incurred for acquisition of fixed assets, which are adjusted to the carrying amounts of respective assets. Non-monetary assets and liabilities related to foreign currency transactions are reported at the rate prevalent on the date of the transaction.
- iii. In case of forward exchange contracts, difference between the forward rate and the exchange rate on the date of transaction is recognised as expense or income over the life of the contract. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognized as income or as expense for the year.

m. Export Benefits/Incentives

- i. Benefits on account of entitlement to import of goods free of duty under the "Duty Entitlement Pass Book under Duty Exemption scheme" are accrued and accounted in the year of export.
- ii. Benefits on account of Advance Licenses for imports are accounted for on purchase of imported materials.

n. Leases

Leases, where the substantial risks and benefits incidental to ownership of the leased item are transferred to the Company, are classified as Finance Leases. Assets acquired under Finance leases, where there is no reasonable certainty that the Company will obtain the ownership by the end of the lease term are capitalized and are depreciated over the tenure of the lease or estimated useful life of the asset whichever is shorter.

Leases, where the lessor effectively retains substantially all the risks and rewards incidental to ownership are classified as operating leases. Operating lease payments are recognised as an expense in the Profit & Loss account on a straight-line basis over the lease term.

o. Earnings Per Share

Basic earnings per share is calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. The weighted average number of equity shares outstanding during the period are adjusted for share splits during the year.

Rs. Millions

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

2. Capital Commitments

Estimated amount of Contracts (net of advances) remaining to be executed on capital account and not provided for Rs. 217.5 (Rs.174.0)

3. Contingent Liabilities not provided for

- a. Claims against the Company not acknowledged as debts.
b. Outstanding Bank Guarantees on account of:
i. Subsidiaries
ii. Guarantee given for Citadel Aurobindo Biotech Ltd, (50% Joint Venture)
iii. Others
c. Bills discounted with Banks
d. Outstanding letters of credit for imports of materials
e. Direct and Indirect Taxes
f. Product licensing

	2004	2003
	1.7	--
	615.0	432.3
	460.0	460.0
	41.7	27.3
	641.0	604.2
	226.2	236.5
	126.3	13.9
	5.7	--

4. Share Capital

- a. The Company has received an amount of Rs.1,432.0 (Rs.593.9) on account of preferential allotment of 4,270,000 (2,580,000) Equity Shares of face value of Rs.5 (Rs.10) each and upfront consideration towards 2,500,000 (530,000) Equity Share Warrants allotted during the year. The details of utilisation/investment of the said amount is as under:

For Investment in Wholly Owned Subsidiaries/JVs
For Capital Expenditure
For Repayment of Short Term Loans
Total

	2004	2003
	--	348.1
	66.7	245.8
	1,365.3	--
	1,432.0	593.9

- b. 2,500,000 (950,000) Equity Share Warrants issued to the promoters are to be converted into Equity Shares by 3rd August, 2005 at the option of warrant holders.

5. Secured Loans

- a. Debentures are secured by:
- first charge on the immovable property situated at Thane, Maharashtra and further joint mortgage by deposit of title deeds by way of constructive delivery of the Company's lands situated at Hyderabad, Rangareddy and Medak districts, Andhra Pradesh, ranking pari-passu with Term Loans.
 - first charge ranking pari-passu with Term Loans on the movable assets (save and except book debts), both present and future subject to charges created in favour of the Company's Bankers to secure Working Capital requirements.

Rs. Millions

b. Term loans are secured by:

- first charge ranking pari-passu with Debentures on the immovable properties both present and future, and joint mortgage by deposit of title deeds of the Company's lands at Hyderabad, Rangareddy and Medak districts, Andhra Pradesh.
- first charge ranking pari-passu with Debentures on the movable assets (save and except book debts), both present and future subject to charges created in favour of the Company's Bankers to secure working capital requirements.
- personal guarantees given by the Chairman and the Managing Director of the Company aggregating to Rs.1,568.9 (Rs.1,803.3)

c. Other working capital loans from Banks are secured by:

- first charge, ranking pari-passu by way of hypothecation of all the stocks, book debts and other current assets (both present and future).
- second charge on all the immovable properties of the Company subject to charges created in favour of term lenders and debenture holders.
- personal guarantees given by the Chairman and the Managing Director of the Company aggregating to Rs.2,255.5 (Rs.1,234.1).

6. Unsecured loans

Other loans disclosed under Short Term Loans aggregating to Rs.418.0 (Rs.534.5) are personally guaranteed by the Chairman and the Managing Director of the Company.

7. Expenditure during construction period

Particulars

Balance brought forward
Add: Expenditure incurred during construction period
Borrowing cost capitalized

Less: Consumption of intermediates (trial run)
Allocated to Fixed Assets
Balance carried forward

	2004	2003
	51.2	23.9
	25.4	42.3
	53.0	60.0
	<u>129.6</u>	<u>126.2</u>
	14.0	12.3
	81.2	62.7
	<u>34.4</u>	<u>51.2</u>

Rs. Millions

8. Investments

a. During the year, the Company has purchased and sold/redeemed the following investments:-

Description	2004 Nos.	2003 Nos.
Mutual Fund Units		
Prudential ICICI Liquid plan	--	15,944,051
IDBI Mutual Fund – Liquid option	--	47,627,316
Zurich Mutual Fund	--	4,238,294
HDFC Mutual Fund	--	10,640,813
IL & FS Mutual Fund	--	12,323,325
Franklin Templeton Treasury Management	--	23,992
Birla Cash Plus	--	2,215,891
HDFC Cash Management Fund	34,393,530	--
Standard Chartered Grindlays	79,283,493	--
Equity Shares		
Canara Bank Ltd	--	40,600
Andhra Bank Ltd*	--	284,900
Sharp Organics (P) Ltd *	--	320,000
Indian Overseas Bank Ltd	5,700	--
Debentures redeemed		
Lyka Labs Ltd*	--	2,500

* Acquired on amalgamation

b. There has been a diminution in the value of long-term investments assessed on the basis of Net Asset Value as at 31st March, 2004. Due provision of Rs.136.3 (Rs.57.9) has been made to recognize the diminution.

9. Sundry Debtors include dues from companies under the same management

	Closing Balance as at 31st March	
	2004	2003
Andhra Organics Limited	--	0.2
Citadel Aurobindo Biotech Limited	458.9	466.7
Due from Subsidiaries	704.4	737.1

Rs. Millions

10. Cash & Bank balances include

	Closing Balance as at 31st March		Maximum outstanding at any time during the year ended 31st March,	
	2004	2003	2004	2003
Balances with Non-Scheduled banks on current accounts				
Vietcom Bank, Vietnam	0.1	0.4	0.5	0.4
Vheshtorg Bank, Moscow	0.8	0.3	1.4	0.5
Bank of Nova Scotia, Costarica	0.1	0.4	0.6	1.0
Citibank N.A. Tanzania	–	0.3	0.9	0.7
Commerze Bank, USA	0.1	–	4.2	–
Wells Fargo Bank, USA	0.1	–	3.2	–

11. Loans and Advances include

Dues from companies under the same management

Andhra Organics Limited	8.9	17.1	140.9	24.7
Sharp Organics (P) Limited	–	8.1	10.7	10.4
Pravesha Machine Works (P) Ltd	–	0.7	–	4.3
Citadel Aurobindo Biotech Ltd	30.0	30.0	30.0	30.8
Due from subsidiaries	793.5	445.9	949.7	506.1

12. Sundry Creditors

- a. The names of the small scale industrial undertakings to whom the Company owes amounts outstanding for more than 30 days are

Cooling People Pune Pvt limited	Khemas Engineers	Lisa ampoules & Vials (P) Ltd
Lakshmi Engg. Enterprises	Plastic Shapers	Sree Krishna Prasad Graphics (p) ltd
Amar Roto Prints	SVR Industries	Hyderabad Packaging
Paper Pack Industries	Siflon Polymers	Singhania Offset Printers

- b. Gain on account of exchange differences on export bills discounted to be recognised in the Profit & Loss Account of subsequent accounting period Rs. Nil (Rs.3.3).
- c. In respect of the amounts mentioned under Section 205C of the Companies Act, 1956 no dues are to be credited to the Investor Education and Protection Fund as at 31st March, 2004.

Rs. Millions

13. Deferred Taxes

Deferred Tax assets/liabilities consist of:

Particulars

Deferred Tax Liability on account of Fixed Assets

Deferred Tax Assets on account of:

Debtors

Retirement Benefits

Net Deferred Tax Liability

As at 31st March,	
2004	2003
583.0	398.4
37.8	22.9
24.1	16.0
521.1	359.5

14. Software license and implementation expenses

The Company has charged off Rs.18.1 (Rs.15.3) incurred towards software licenses and implementation of ERP solutions.

15. Export Incentives

Sales include export incentives of Rs.62.4 (Rs.100.5).

16. Research and Development Expenses

Research & Development expenses included under various heads of expenses are Rs.273.2 (Rs.145.3).

17. Remuneration to Whole-time Directors (included in Schedule 21) Rs. Lakhs

Particulars

Salary

Contribution to provident fund

Perquisites

Total

2004	2003
93.6	57.6
0.4	0.4
22.0	14.6
116.0	72.6

Note: The above figures do not include provision for gratuity and leave encashment payable to the Directors, as the same is actuarially determined for the Company as a whole.

18. Remuneration to Statutory Auditors included in Schedule 22 (including service tax) Rs. Lakhs

Statutory Audit

Other Audit Services

Other Services

Certification charges

Reimbursement of out of pocket expenses

Total

27.0	16.2
8.2	10.7
3.2	--
1.6	0.9
0.3	0.4
40.3	28.2

Rs. Millions

22. a. The company had the following transactions with related parties during the year

	2004	2003
i. Subsidiaries		
APL Chemi Natura Limited, India		
Purchase of Goods	27.3	100.5
Sale of Goods	23.2	10.1
Interest received	0.9	0.4
Finance (including loans and equity contribution in cash or in kind)	30.0	25.0
Receipt against Loan	55.0	--
Rendering Services	--	1.6
APL Pharma Thai Limited, Thailand		
Sale of Goods	418.8	368.6
Dividend received	0.8	0.8
Guarantees and collaterals	4.6	5.0
Aurobindo (H.K.) Limited, Hong Kong		
Purchase of Goods	33.2	--
Sale of Goods	5.7	234.6
Finance (including loans and equity contribution in cash or in kind)	45.7	93.2
Provision for diminution in value of investment	68.4	44.0
APL Holdings Inc., California		
Interest received	7.3	1.4
Finance (including loans and equity contribution in cash or in kind)	38.6	149.2
Receipt against Loan	23.3	--
AB Farmo Quimica Limitada, Brazil		
Sale of Goods	566.1	107.0
Interest received	1.1	--
Finance (including loans and equity contribution in cash or in kind)	8.7	24.3
Provision for diminution in value of investment	--	13.9
Aurobindo (Datong) Bio-pharma Co. Limited, China		
Purchase of Goods	589.9	64.4
Sale of Goods	6.3	4.2
Interest received	17.6	6.7
Finance (including loans and equity contribution in cash or in kind)	424.3	858.5
Guarantees and collaterals	610.4	427.3
Aurobindo TongLing (Datong) Pharmaceutical Co. Limited, China		
Purchase of Goods	1.0	68.0
Interest received	1.5	5.4
Receipt against Loan	70.8	59.0
Sale of Goods	--	16.4
Helix Health Care B.V., The Netherlands		
Finance (including loans and equity contribution in cash or in kind)	0.9	--

Rs. Millions	2004	2003
ii. Companies over which significant influence exists		
Pravesha Machine Works (P) Limited		
Purchase of Goods	33.7	24.4
Sale of Goods	–	–
Purchase of Fixed Assets	34.3	41.9
Rendering Services	5.3	–
Sale of Fixed Assets	–	–
Andhra Organics Limited		
Purchase of Goods	251.5	123.9
Sale of Goods	88.5	25.8
Purchase of Fixed Assets	1.0	0.8
Rendering Services	1.9	–
Receipt of Services	21.8	–
Sale of Fixed Assets	–	1.1
Repayment of Loans and Equity	–	15.0
Interest Received	–	0.3
Finance (including loans and equity contribution in cash or in kind)	–	15.0
Sharp Organics (P) Limited		
Purchase of Goods	5.1	–
Sale of Goods	–	3.1
Purchase of Fixed Assets	–	1.0
Sale of Fixed Assets	0.4	2.5
Receipt of Services	7.9	13.7
Rendering Services	–	–
Repayment of Loans and Equity	–	9.0
Finance (including loans and equity contribution in cash or in kind)	–	9.0
iii. Joint Venture		
Citadel Aurobindo Biotech Limited		
Management Fee received	12.0	8.0
Sale of Goods	–	–
Guarantees and Collaterals	460.0	460.0
Sale of Brands	–	4.0
Repayment of Loans and Equity	–	300.0
Transfer of Current Liabilities	–	3.1
Interest Received	3.9	15.1
Finance (including loans and equity contribution in cash or in kind)	–	179.9
Provision for diminution in value of investment	10.0	–
Provision for Doubtful Debts	30.0	–

Rs. Millions	2004	2003
iv. Key Management Personnel		
Mr. P.V. Ramaprasad Reddy		
Managerial Remuneration	2.6	2.4
Proposed Dividend	29.7	22.5
Investment in equity	494.9	104.6
Sale of Investment	–	2.4
Guarantees and Collaterals	4,242.4	3,571.9
Mr. K. Nityananda Reddy		
Managerial Remuneration	3.3	1.6
Proposed Dividend	8.4	6.3
Sale of Investment	–	0.8
Investment in equity	32.8	18.6
Repayment of Loans and Equity	–	3.0
Guarantees and Collaterals	4,242.4	3,571.9
Dr. M. Sivakumaran		
Managerial Remuneration	3.1	1.6
Proposed Dividend	3.3	2.5
Investment in equity	15.5	18.7
Mr. B. Sivaprasad Reddy		
Managerial Remuneration	2.7	1.6
Proposed Dividend	–	–
Mr. Lanka Srinivas		
Sitting Fees	–	–
b. Balance outstanding debit/ (credit)		
APL Chemi Natura Limited, India	58.6	26.8
APL Pharma Thai Limited, Thailand	231.3	196.9
Aurobindo (H.K.) Limited, Hong Kong	147.5	472.6
APL Holdings Inc., California	260.2	437.7
AB Farmo Quimica Limitada, Brazil	514.3	133.5
Aurobindo (Datong) Bio-pharma Co. Limited, China	1,605.0	1,271.4
Aurobindo TongLing (Datong) Pharmaceutical Co. Limited, China	154.1	248.5
Helix Health Care B.V., The Netherlands	0.9	–
Citadel Aurobindo Biotech Limited, India	502.6	506.7
Pravesha Machine Works (P) Limited, India	(0.8)	(6.2)
Andhra Organics Limited, India	8.9	17.3
Sharp Organics Private Limited, India	–	7.8

Rs. Millions

c. Names of related parties and description of relationship

Subsidiaries

APL Chemi Natura Limited, India
 APL Pharma Thai Limited, Thailand
 Aurobindo (H.K.) Limited, Hong Kong
 APL Holdings Inc., California,
 AB Farmo Quimica Limitada, Brazil
 Aurobindo (Datong) Bio-pharma Co. Limited, China
 Aurobindo TongLing (Datong) Pharmaceutical Co. Limited, China
 Helix Health Care B.V., The Netherlands

Joint Ventures

Citadel Aurobindo Biotech Limited, India

Companies over which significant influence exists

Pravesha Machine Works (P) Limited, India
 Andhra Organics Limited, India
 Sharp Organics Private Limited, India
 Ranit Agro Private Limited, India

Key Management Personnel

Mr. P.V. Ramaprasad Reddy, Chairman
 Mr. K. Nityananda Reddy, Managing Director
 Mr. M. Sivakumaran, Whole-time Director
 Mr. B. Sivaprasad Reddy, Whole-time Director
 Mr. Lanka Srinivas, Non-Executive Director

d. Loans/advances and Investments in its own shares by the Company, their subsidiaries, associates etc.,

i. Loans and Advances in the nature of Loans to Subsidiaries and associates

Names of the company	Closing Balance as at 31st March		Maximum outstanding at any time during the year ended 31st March,	
	2004	2003	2004	2003
Subsidiaries				
Aurobindo (Datong) Bio-Pharma Co. Limited	690.6	266.5	720.2	266.4
Aurobindo TongLing (Datong) Pharmaceutical Co. Limited	–	75.6	74.7	135.8
APL Holding Inc.	94.2	78.8	107.3	78.8
AB Farmo Quimica Ltda	8.7	–	9.5	–
APL Chemi Natura Limited	–	25.0	38.0	25.0

ii. Investment by the loanees in the shares of the Company

None of the loanees have made investments in shares of the Company.

Rs. Millions

23. Leases

a. Operating Lease

Operating leases are mainly in the nature of lease of office premises with no restrictions and are renewable at mutual consent. There is no escalation clause in the lease agreement. There were no restrictions imposed on the lease. There were no sub-leases.

b. Finance Lease

- i. Building includes factory buildings acquired on finance lease. The lease term is for 66.3 years and the agreement is silent on renewal terms and transfer of legal title at the end of lease term.
- ii. The said lease agreement did not specify the minimum lease payments over the future period. The factory building was acquired on lease at a consideration of Rs.16.7 (including an amount of Rs.11.4 towards expenditure incurred on renovation).
- iii. The net carrying amount of the buildings obtained on finance lease is Rs.16.7 (Rs. Nil).
- iv. The Company has not recognized any contingent rent as income in the Profit & Loss Account.
- v. There is no escalation clause in the lease agreement. There were no restrictions imposed on the lease. There were no sub-leases.

Additional information pursuant to the provisions of paragraph 3, 4C and 4D of part II of Schedule VI to the Companies Act, 1956.

24. Installed Capacity and Actual Production

Category	Unit of Measurement	Installed Capacity		Actual Production	
		2003-04	2002-03	2003-04	2002-03
Bulk Drugs and Drug Intermediates	Tonnes	14,857	12,115	10,457	8,050
Formulations					
Tablets & Capsules	Nos. (in Lakhs)	120,030	11,310	4,368	4,767
Syrups	Ltrs	270,000	270,000	116,615	152,876
Injectibles	Nos.	183,660,000	180,000,000	9,078,523	10,122,757

Notes:

- a. Licensed capacities not stated in view of abolition of industrial licensing for all of the above Bulk Pharmaceutical Substances (including intermediates) and Dosage Forms vide Notification No. F. No 10(11)/92-LP dated 25th October, 1994 issued by the Government of India.
- b. The capacity mentioned above is annual capacity based on maximum utilisation of plant and machinery.
- c. The annual installed capacities are as certified by the management and not verified by the Auditors, being a technical matter.
- d. Production includes quantities processed by loan licensees.

Rs. Millions

25. Opening Stock, Closing Stock, and Sales of Finished Goods

Category	Unit of Measurement	Opening Stock		Closing Stock		Captive Consumption	Sales	
		Qty.	Rs.	Qty.	Rs.		Qty.	Rs.
Bulk Drugs & Drug Intermediates								
Manufactured	Tonnes	26	68.6	220	334.8	5,364	4,899	12,156.6
		(41)	(125.9)	(26)	(68.6)	(4,476)	(3,589)	(10,904.8)
Traded	Tonnes	15	3.1	40	8.4	Nil	5,179	392.0
		(Nil)	(Nil)	(15)	(3.1)	(Nil)	(2,226)	(191.8)
Others								92.3
								(180.2)
Formulations: Manufactured								
Tablets & Capsules	Nos. (in Lakhs)	599	30.5	326	12.9	28	4,613	428.0
		(527)	(27.0)	(599)	(30.5)	(50)	(4,645)	(371.3)
Syrups	Ltrs	23,836	3.0	6,065	0.7	1,219	133,167	23.4
		(19,283)	(2.0)	(23,836)	(3.0)	(7,948)	(140,375)	(27.4)
Injectibles	Nos.	723,505	5.7	501,134	7.7	7,150	9,293,744	284.5
		(648,516)	(9.8)	(723,505)	(5.7)	(2,644,544)	(7,403,224)	(179.7)
Others								33.4
			(0.1)		(Nil)			(36.4)
Formulations: Traded								
Tablets & Capsules	Nos. (in Lakhs)	17	9.8	4	0.5	5	33	0.5
		(Nil)	(Nil)	(17)	(9.8)	(4)	(18)	(12.2)
Injectibles	Nos.	Nil	Nil	19,250	0.1	Nil	1,100	-
		(Nil)	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)
Total			120.7		365.1			13,410.7
			(164.8)		(120.7)			(11,903.8)

Notes:

- Closing stock quantities are after adjustment of samples, transit claims/losses etc.
- Opening Stock of Bulk Drugs and Drug Intermediates includes Nil (2.95) tonnes of Bulk Drugs of Rs.Nil (Rs.22.1) acquired on amalgamation.

Rs. Millions

26. Purchase of Finished Goods

Category	Unit of Measurement	2003-04		2002-03	
		Qty	Rs.	Qty.	Rs.
Bulk Drugs and Drug Intermediates					
Bulk Drugs and Drug Intermediates	Tonnes	5,204	338.7	2,241	186.6
Formulations					
Tablets & Capsules	Nos. (in Lakhs)	25	0.2	39	19.7
Injectibles	Nos.	20,350	0.1	--	--
Total			<u>339.0</u>		<u>206.3</u>

27. Raw Material Consumed

Pencillin.G. Potassium	BOUs	6,138,486	2,179.4	4,951,312	2,640.0
PG Base	Tonnes	809.464	179.9	448.575	103.3
PHPG Base	Tonnes	386.533	121.1	709.770	293.7
7 ACA	Tonnes	175.067	756.9	129.503	822.2
Others			4,294.5		3,482.2
Total			<u>7,531.8</u>		<u>7,341.4</u>

Notes:

1. The Consumption figures are ascertained on the basis of opening stock plus purchases less closing stock.
2. Consumption includes interest on import bills Rs.5.6 (Rs.31.1).

28. Consumption of Raw Materials & Stores and Spares

		%	Rs.	%	Rs.
Raw Materials					
Imported		67	5,049.2	68	4,957.5
Indigenous		33	2,482.6	32	2,383.9
Total		<u>100</u>	<u>7,531.8</u>	<u>100</u>	<u>7,341.4</u>
Stores & Spares					
Imported		1	0.9	2	1.6
Indigenous		99	141.9	98	76.0
Total		<u>100</u>	<u>142.8</u>	<u>100</u>	<u>77.6</u>

Rs. Millions

29. Value of imports calculated on CIF Basis

Raw materials
Packing Materials
Capital goods
Stores, Spares & Consumables
Total

	2004	2003
	5,074.9	4,768.6
	19.9	16.7
	278.4	138.1
	22.7	2.5
	<u>5,395.9</u>	<u>4,925.9</u>

30. Expenditure in foreign Currency (Cash basis)

Travelling
Commission on Sales
Product Registration and Filing fee
Overseas Office expenses
Professional & Consultancy charges
Interest
Others
Total

	8.0	8.8
	101.8	41.2
	33.0	5.0
	46.4	21.3
	21.3	4.4
	77.8	9.3
	31.1	31.3
	<u>319.4</u>	<u>121.3</u>

31. Earnings in Foreign Exchange

Exports on F.O.B. Basis
Interest
Dividend
Total

	6,420.4	5,637.4
	27.5	13.5
	0.8	0.8
	<u>6,448.7</u>	<u>5,651.7</u>

32. Figures in brackets represent those relating to the previous year.

33. Previous year's figures have been regrouped/rearranged to conform to those of the current year.

SIGNATURES TO SCHEDULES 1 TO 24

In terms of our report of even date

S.R. BATLIBOI & CO.
Chartered Accountants

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030
Hyderabad, 2nd June, 2004

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

B. ADI REDDY
Company Secretary

P.V. RAMAPRASAD REDDY
Chairman

Cash Flow Statement for the year ended 31st March, 2004

Rs. Millions	2003-2004	2002-2003
1. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before tax and Extraordinary items	1,725.3	1,400.9
Adjustments for :		
Depreciation	341.6	231.8
Miscellaneous Expenditure written off	-	7.6
Provision for Doubtful Debts and Advances	43.7	4.0
Bad debts written off	33.7	28.4
Provision for diminution in value of investments	78.4	58.0
Export incentives accrued	(40.7)	(63.2)
Assets written off	36.2	1.3
Excess provision written back	-	(1.8)
Provision for Retirement Benefits	22.6	19.2
Interest Paid	328.1	457.0
Interest Received	(38.1)	(44.1)
Dividends Received	(1.0)	(0.8)
Foreign Exchange gain/loss	(27.8)	18.4
Net (Profit)/Loss on Sale of Fixed Assets	2.6	(124.0)
Net (Profit)/Loss on Sale of Shares held in trust	(28.8)	-
Net Profit on Sale of Investments	(0.5)	(5.6)
Operating Profits before Working Capital Changes	<u>2,475.3</u>	<u>1,987.1</u>
Adjustments for :		
Inventories	(561.2)	(537.3)
Sundry Debtors	(677.8)	(678.0)
Loans & Advances	74.3	168.6
Sundry Creditors	(487.4)	366.0
Other Current Assets	(3.4)	-
Cash generated from Operations	<u>819.8</u>	<u>1,306.4</u>
Income Tax Paid	(354.3)	(231.7)
Interest paid	(7.3)	(34.0)
NET CASH FROM OPERATING ACTIVITIES (A)	<u>458.2</u>	<u>1,040.7</u>
2. CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of Fixed Assets	(2,040.0)	(1,651.7)
Sale of Fixed Assets	4.3	153.9
Investments	(1,335.4)	(2,121.6)
Proceeds from sale of investments	1,291.7	1,155.7
Loans to Joint Ventures & Subsidiaries (Net)	(403.5)	(48.2)
Interest Received	12.8	40.4
Dividend Received	1.0	0.8
NET CASH USED IN INVESTING ACTIVITIES (B)	<u>(2,469.1)</u>	<u>(2,470.7)</u>

Aurobindo Pharma Limited
Cash Flow Statement for the year ended 31st March, 2004

Rs. Millions	2003-2004	2002-2003
3. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of Share Capital	1,088.4	583.1
Proceeds from issue of Share Warrants	328.5	10.8
Proceeds from Long Term borrowings	1,507.6	1,758.4
Repayment of Long Term borrowings	(1,368.9)	(748.6)
Other Short Term borrowings (Net)	966.0	370.4
Interest Paid	(376.6)	(487.1)
Dividend and Dividend tax	(89.6)	(60.6)
NET CASH FROM FINANCING ACTIVITIES (C)	<u>2,055.4</u>	<u>1,426.4</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	<u>44.5</u>	<u>(3.6)</u>
Cash and Cash Equivalents - Opening Balance	331.6	224.1
Transferred on Amalgamation	-	111.5
Cash and Cash Equivalents - Closing Balance	<u>376.1</u>	<u>331.9</u>
NET INCREASE/DECREASE) IN CASH AND CASH EQUIVALENTS	<u>44.5</u>	<u>(3.6)</u>
Notes to the Cash Flow Statement for the year ended 31st March, 2004		
1. Cash and Cash equivalents include :		
Cash and Bank Balances	347.2	293.0
Margin Money Deposit Accounts	24.6	36.7
Unpaid dividend Accounts	2.3	1.8
Cash and Cash Equivalents as per Balance Sheet	<u>374.1</u>	<u>331.5</u>
Unrealised gain on Foreign currency cash and cash equivalents	2.0	0.4
Cash and Cash Equivalents considered for Cash Flows	<u>376.1</u>	<u>331.9</u>
2. Investments include investment in subsidiaries Rs.46.5 (Rs.846.8).		
3. Previous year's figures have been regrouped/rearranged to conform to those of the current year.		

This is the Cash Flow Statement referred to in our report of even date

For and on behalf of the Board of Directors

S.R. BATLIBOI & CO.
Chartered Accountants

K. NITYANANDA REDDY
Managing Director

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030
Hyderabad, 2nd June, 2004.

B. ADI REDDY
Company Secretary

P.V. RAMAPRASAD REDDY
Chairman

Balance Sheet Abstract and Company Business Profile

(As per Schedule VI, Part IV of the Companies Act, 1956)

I. Registration Details

Registration No. 15190 State Code 01

Balance Sheet Date 31 03 2004
Date Month Year**II. Capital raised during the year (Rs. in Thousands)**

Public Issue Nil Rights Issue Nil Bonus Issue Nil Private Placement 21350

III. Position of Mobilisation and Deployment of Funds (Rs. in Thousands)

Total Liabilities 14618665 Total Assets 14618665

Sources of Funds

Paid-up Capital 253850 Reserves & Surplus 7309898 Equity Share Warrants 350000 Secured Loans 5146091

Unsecured Loans 1037769

Application of Funds

Net Fixed Assets 5845982 Investments 1488874 Net Current Assets 7283809

Deferred Tax Liabilities (521057) Miscellaneous Expenditure Nil Accumulated Loss Nil

IV. Performance of Company (Rs. in Thousands)

Turnover & Other Income 12819546 Total Expenditure 11094288 Profit before Tax 1725258 Profit after Tax 1270251

Earnings per Share (Rs.) 26.41 Dividend Rate (%) 45

V. Generic Names of three principal products of the Company (As per monetary terms)

Item Code No.	Product Description
2941.10	Amoxicillin Trihydrate
2941.90	Cephalexin
2941.10	Ampicillin Trihydrate

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing DirectorB. ADI REDDY
Company SecretaryP.V. RAMAPRASAD REDDY
Chairman

Hyderabad, 2nd June, 2004.

The Board of Directors,
Aurobindo Pharma Limited

1. We have audited the attached Consolidated Balance Sheet of Aurobindo Pharma Limited ("Group"), as at 31st March, 2004 and the Consolidated Profit and Loss Account and Consolidated Cash Flow Statement for the year ended on that date and annexed thereto.
 2. These financial statements are the responsibility of the management of Aurobindo Pharma Limited. Our responsibility is to express an opinion on these financial statements based on our audit.
 3. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.
 4. *We did not audit the financial statements of any of the subsidiaries and joint ventures, whose financial statements reflect total assets of Rs.6,145.7 million as at 31st March, 2004, total revenues of Rs.4,763.1 million and total net cash inflows of Rs.82.1 million for the year then ended. These financial statements, except to the extent mentioned in para 5 below, have been audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of such subsidiaries and joint ventures, is based solely on the report of such other auditors.*
 5. *These Consolidated Financial Statements for the year ended 31st March, 2004 include the unaudited financial statements of the following entities, consolidated on the basis of management certification:*
 - a. *APL Pharma Thai Ltd., Thailand*
 - b. *AB Farmo Quimica Limitada, Brazil*
 - c. *Citadel Aurobindo Biotech Limited, India and*
 - d. *Helix Healthcare B.V. The Netherlands*

These Consolidated Financial Statements reflect total assets of Rs.1,509.5 million as at 31st March, 2004, total revenues of Rs.1,571.6 million and total net cash outflows of Rs.21.2 million for the year then in respect of the aforesaid consolidated entities.
 6. We report that the Consolidated Financial Statements have been prepared by the management of Aurobindo Pharma Limited in accordance with the requirements of Accounting Standards (AS) - 21, "Consolidated Financial Statements" and AS - 27 "Financial Reporting of Interest in Joint Venture" issued by the Institute of Chartered Accountants of India.
 7. Attention is drawn to the following notes on Schedule 23:
 - a. *Note no.2 (a) regarding non-conformity with Accounting Standard – 22 "Accounting for Taxes on Income" issued by the Institute of Chartered Accountants of India, in the preparation of the Consolidated Financial Statements in the case of certain subsidiary and joint venture companies, whose impact on the Consolidated Financial Statements is not presently ascertainable;*
 - b. *Note no.2 (b) regarding non-conformity with Accounting Standard – 16 "Borrowing Costs" issued by the Institute of Chartered Accountants of India,*
-

in the preparation of the Consolidated Financial Statements in the case of certain subsidiary and joint venture companies, whose impact on the Consolidated Financial Statements is not presently ascertainable;

8. *In the absence of audited financial statements in respect of the entities referred to in Para 4 above, we are unable to express an opinion as to the balances, results from operation and cash flows pertaining to such entities included in the Consolidated Balance Sheet, Profit and Loss Account and Cash Flow respectively as at and for the year ended 31st March, 2004.*

9. On the basis of the information and explanations given to us and on consideration of the separate audit reports on individual audited financial statements of Aurobindo Pharma Limited and its aforesaid subsidiaries and joint ventures and subject to our observations in Para 7 and 8 above, we are of the opinion that in conformity with the accounting principles generally accepted in India:

a. the Consolidated Balance Sheet, gives a true and fair view of the Consolidated State of Affairs of

Aurobindo Pharma Limited and its consolidated entities as at 31st March, 2004;

- b. the Consolidated Profit and Loss Account, gives a true and fair view of the Consolidated results of operations of Aurobindo Pharma Limited and its consolidated entities for the year then ended; and
- c. the Consolidated Cash Flow Statement, gives a true and fair view of the Consolidated cash flows of Aurobindo Pharma Limited and its consolidated entities for the year then ended.

For **S.R. BATLIBOI & CO.**
Chartered Accountants

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030

Hyderabad, 2nd June, 2004.

Consolidated Balance Sheet as at 31st March, 2004

Rs. Millions		Schedule	As at 31st March, 2004	As at 31st March, 2003
I.	SOURCES OF FUNDS			
	SHAREHOLDERS' FUNDS			
	Share Capital	1	253.9	232.5
	Reserves & Surplus	2	<u>6,637.9</u>	<u>4,727.0</u>
			6,891.8	4,959.5
	EQUITY SHARE WARRANTS	3	350.0	21.5
	MINORITY INTEREST		8.1	8.4
	LOAN FUNDS			
	Secured Loans	4	6,465.4	4,705.2
	Unsecured Loans	5	<u>1,765.3</u>	<u>2,260.1</u>
			8,230.7	6,965.3
	DEFERRED TAX LIABILITY (NET) (Refer Note 13 on Schedule 23)		521.1	359.5
	TOTAL		<u>16,001.7</u>	<u>12,314.2</u>
II.	APPLICATION OF FUNDS			
	FIXED ASSETS	6		
	Gross Block		8,638.5	6,608.3
	Less: Depreciation		<u>1,427.6</u>	<u>921.1</u>
	Net Block		7,210.9	5,687.2
	Capital Work-in-Progress		<u>1,594.1</u>	<u>1,727.4</u>
			8,805.0	7,414.6
	INVESTMENTS	7	2.4	11.7
	DEFERRED TAX ASSET (NET) (Refer Note 13 on Schedule 23)		54.5	6.3
	CURRENT ASSETS, LOANS AND ADVANCES			
	Interest Accrued on Investments		0.3	0.3
	Interest Accrued on Deposits		0.2	0.3
	Inventories	8	3,193.9	2,555.6
	Sundry Debtors	9	4,777.2	4,347.8
	Cash & Bank Balances	10	622.2	497.5
	Other Current Assets	11	3.4	–
	Loans and Advances	12	<u>992.2</u>	<u>827.8</u>
			9,589.4	8,229.3
	LESS: CURRENT LIABILITIES AND PROVISIONS			
	Current Liabilities	13	2,439.2	3,381.0
	Provisions	14	<u>217.8</u>	<u>201.2</u>
			2,657.0	3,582.2
	NET CURRENT ASSETS		6,932.4	4,647.1
	MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)	15	207.4	234.5
	BALANCE IN PROFIT & LOSS ACCOUNT		121.9	10.9
	Less: Adjusted against General Reserve (as per contra)		<u>121.9</u>	<u>10.9</u>
			–	–
	TOTAL		<u>16,001.7</u>	<u>12,314.2</u>
	Notes to Accounts	23		

The Schedules referred to above form an integral part of the Consolidated Balance Sheet

This is the Consolidated Balance Sheet referred to
in our report of even date

For and on behalf of the Board of Directors

S.R. BATLIBOI & CO.
Chartered Accountants

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030
Hyderabad, 2nd June, 2004.

B. ADI REDDY
Company Secretary

K. NITYANANDA REDDY
Managing Director

P.V. RAMAPRASAD REDDY
Chairman

Consolidated Profit & Loss Account for the year ended 31st March, 2004

Rs. Millions		Schedule	2003-2004	2002-2003
INCOME				
	Sales (Gross)		15,869.1	13,365.8
	Less: Excise Duty		<u>823.1</u>	<u>767.1</u>
			15,046.0	12,598.7
	Other Income	16	282.4	129.9
	Increase in Stocks	17	<u>415.2</u>	<u>403.5</u>
	TOTAL		<u>15,743.6</u>	<u>13,132.1</u>
EXPENDITURE				
	Raw Materials Consumed	18	8,132.8	8,026.9
	Purchase of Trading Goods		885.1	649.8
	Other Manufacturing Expenses	19	2,324.6	1,338.6
	Payments to and Provisions for Employees	20	715.9	434.4
	Administrative and Selling Expenses	21	1,190.1	654.5
	Interest and Finance Charges	22	407.3	478.1
	Depreciation	6	<u>562.3</u>	<u>310.9</u>
	TOTAL		<u>14,218.1</u>	<u>11,893.2</u>
PROFIT BEFORE TAXATION				
			1,525.5	1,238.9
	Provision for Taxation			
	Current Tax		303.3	255.5
	Deferred Tax		153.0	108.3
	Tax Adjustments of Previous Years		<u>0.8</u>	<u>4.4</u>
	Total Tax Expense		<u>457.1</u>	<u>368.2</u>
PROFIT FOR THE YEAR BEFORE MINORITY INTEREST AND PRIOR PERIOD ITEMS				
			1,068.4	870.7
	Minority Interest		<u>(1.1)</u>	<u>0.5</u>
PROFIT FOR THE YEAR BEFORE PRIOR PERIOD ITEMS				
			1,069.5	870.2
	Prior Period Income/(Expenses)		<u>17.4</u>	<u>(1.3)</u>
PROFIT FOR THE YEAR				
			1,086.9	868.9
	Balance Brought Forward from Last Year		--	107.1
	Share in the Profits of Jointly Controlled Entities as at 1st April, 2002		--	30.6
	Debit Balance in Profit and Loss Account Transferred on Amalgamation		<u>--</u>	<u>(5.8)</u>
PROFIT AVAILABLE FOR APPROPRIATION				
			<u>1,086.9</u>	<u>1,000.8</u>
APPROPRIATIONS				
	Proposed Dividend @ Rs.2.2 (Rs.3.5) on Equity Shares of Rs.5 (Rs.10) Each		114.2	79.4
	Tax on Dividend		14.6	10.2
	Debenture Redemption Reserve		--	172.1
	General Reserve		1,080.0	750.0
	Deficit carried to Balance Sheet		<u>(121.9)</u>	<u>(10.9)</u>
			<u>1,086.9</u>	<u>1,000.8</u>
EARNINGS PER SHARE (Refer Note 17 on Schedule 23)				
	Basic		22.71	19.15
	Diluted		22.60	19.15
	Nominal Value Per Share		5.0	5.0
	Notes to Accounts	23		

The Schedules referred to above form an integral part of the Consolidated Profit & Loss Account

This is the Consolidated Profit & Loss Account referred to in our report of even date.

For and on behalf of the Board of Directors

S.R. BATLIBOI & CO.
Chartered Accountants

K. NITYANANDA REDDY
Managing Director

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030
Hyderabad, 2nd June, 2004.

B. ADI REDDY
Company Secretary

P.V. RAMAPRASAD REDDY
Chairman

Aurobindo Pharma Limited
Consolidated Schedules

Rs. Millions		As at 31st March, 2004	As at 31st March, 2003
1. SHARE CAPITAL			
AUTHORISED	100,000,000 (50,000,000)		
	Equity Shares of Rs.5 (Rs.10) each	500.0	500.0
	1,000,000 Preference Shares of Rs.100 each	<u>100.0</u>	<u>100.0</u>
		<u>600.0</u>	<u>600.0</u>
ISSUED, SUBSCRIBED AND PAID-UP	50,770,000 (23,250,000)		
	Equity Shares of Rs.5 (Rs.10) each fully paid up	<u>253.9</u>	<u>232.5</u>
	TOTAL	<u>253.9</u>	<u>232.5</u>
2. RESERVES & SURPLUS			
CAPITAL RESERVE	As per last Balance Sheet	247.3	379.3
	Add: On Amalgamation		
	- State Subsidy	-	1.3
	- Capital Reserve	-	9.6
	On Acquisition of a Subsidiary	-	7.1
	On Consolidation of Joint Venture	<u>-</u>	<u>(150.0)</u>
		247.3	247.3
CAPITAL REDEMPTION RESERVE	As per last Balance Sheet	90.0	90.0
SHARE PREMIUM	As per last Balance Sheet	938.5	380.9
	Add: On Amalgamation	-	0.3
	Received During the Year	<u>1,082.1</u>	<u>557.3</u>
		<u>2,020.6</u>	<u>938.5</u>
	Less: Utilised towards share issue expenses	<u>15.1</u>	<u>-</u>
		2,005.5	938.5
DEBENTURE REDEMPTION RESERVE	As per last Balance Sheet	261.2	89.1
	Add: Transferred from Profit & Loss Account	<u>-</u>	<u>172.1</u>
		261.2	261.2
GENERAL RESERVE	As per last Balance Sheet	3,224.8	2,345.7
	Less: On Consolidation of Joint Venture	-	50.0
	Add: On Amalgamation	-	244.3
	Less: Adjustment Pursuant to change in Amortization of Brands (Refer Note 3 on Schedule 23)	<u>6.2</u>	<u>-</u>
	Less: Adjustment on Amalgamation	-	54.3
	Add: Transferred from Profit & Loss Account	<u>1,080.0</u>	<u>750.0</u>
	Less: Balance in the Profit & Loss Account (as per contra)	<u>121.90</u>	<u>10.9</u>
		4,176.7	3,224.8
EXCHANGE FLUCTUATION RESERVE		<u>(142.8)</u>	<u>(34.8)</u>
	TOTAL	<u>6,637.9</u>	<u>4,727.0</u>

Rs. Millions	As at 31st March, 2004	As at 31st March, 2003			
3. EQUITY SHARE WARRANTS					
Upfront consideration of Rs.140 (Rs.22.6) per warrant received towards preferential allotment of 2,500,000 (950,000) Equity Share Warrants of Rs.375 (Rs.226) each. These warrants are to be converted into 2,500,000 (950,000) Equity Shares of Rs.5 (Rs.10) each at a premium of Rs.370 (Rs.216) per Equity Share on exercise of option by the warrant holders on or before 3rd August, 2005 (11th October, 2003).	<u>350.0</u>	<u>21.5</u>			
4. SECURED LOANS					
<i>(Refer Note 7&8 on Schedule 23)</i>					
DEBENTURES					
NON-CONVERTIBLE DEBENTURES					
Coupon Rate	Face Value	Numbers	Terms of Redemption		
15%	Rs.100	500,000	In 3 annual installments by 10/06/04	16.7	33.3
11.75%	Rs.100	2,700,000	In 3 annual installments by 10/08/05	180.0	270.0
7.8%	Rs.100	2,500,000	In single installment by 16/12/05	250.0	250.0
8.5%	Rs.100	2,500,000	In single installment by 26/03/06	250.0	250.0
8.5%	Rs.100	2,250,000	In seven half-yearly installments by 26/09/07	<u>225.0</u>	<u>225.0</u>
				921.7	1,028.3
Note: All the above debentures are redeemable at par.					
TERM LOANS				1968.9	1,803.3
			From Financial Institutions [Payable within one year - Rs.529.9 (Rs.630.8)]		
			From Banks	119.1	150.0
OTHER LOANS			From Banks	74.0	-
			Working Capital Loans	3,378.7	1722.2
			Interest Accrued	1.7	0.2
			Hire Purchase Loans	1.3	1.2
			[Payable within one year - Rs.0.5 (Rs.0.4)]		
			TOTAL	<u>6,465.4</u>	<u>4,705.2</u>
5. UNSECURED LOANS					
<i>(Refer Note 9 on Schedule 23)</i>					
SHORT TERM LOANS			From Banks - Commercial Paper [(Maximum amount outstanding at any time during the year - Rs.100.0) (Rs.400.0)]	-	100.0
			From Banks - Other Loans	418.0	550.2
			From Promoters	-	16.4
OTHER LOANS			From Banks	398.0	480.6
			Interest Accrued and Due	2.5	1.7
			From Others	279.8	556.7
			Sales Tax Deferment Loan	<u>667.0</u>	<u>554.5</u>
			TOTAL	<u>1,765.3</u>	<u>2,260.1</u>

6. FIXED ASSETS

Particulars	Gross Block					Depreciation					Net Block	
	As at 1st April, 2003	Additions	Sales/ Adjustments	Exchange difference	As at 31st March, 2004	As at 1st April, 2003	For the Year	Sales/ Adjustments	Exchange difference	As at 31st March, 2004	As at 31st March, 2004	As at 31st March, 2003
Goodwill	7.6	–	7.4 ^a	0.2	–	–	–	–	–	–	–	7.6
Land	57.2	52.4	–	0.4 ^{b&c}	109.2	–	0.2	–	–	0.2	109.0	57.2
Building	1,524.1	473.1	15.9	65.4 ^d	1,915.9	87.6	63.5	3.4	4.2	143.5	1,772.4	1,436.5
Plant & Machinery	4,761.5	1,792.9	92.6	161.2 ^e	6,300.6	803.6	467.7	34.8	17.0	1,219.5	5,081.1	3,957.9
Vehicles	46.5	18.2	4.9	1.5 ^f	58.3	8.8	6.3	2.0	0.4	12.7	45.6	37.7
Furniture & Fixtures	43.0	43.3	0.1	0.1	86.1	10.5	7.8	0.1	0.1	18.1	68.0	32.5
Total	6,439.9	2,379.9	120.9	228.8	8,470.1	910.5	545.5	40.3	21.7	1,394.0	7,076.1	5,529.4
Intangibles - Brands	168.4	–	–	–	168.4	10.6	16.8	(6.2)	–	33.6	134.8	157.8
Total	6,608.3	2,379.9	120.9	228.8	8,638.5	921.1	562.3	34.1	21.7	1,427.6	7,210.9	5,687.2
Previous Year	2,217.0	3,375.5	(1,039.8)	24.0	6,608.3	494.0	311.1	(118.2)	2.2	921.1	5,687.2	1,723.0
Capital work in progress	–	–	–	–	–	–	–	–	–	–	1,594.1	1,727.4

Notes:

- a Goodwill written off on account of sale of investment in the relevant subsidiary.
- b The Title deeds of Land and Buildings aggregating to Rs 44.0 (Rs.44.0) acquired on amalgamation are pending transfer to the APL's name.
- c Land acquired on amalgamation includes leasehold land of Rs.28.4 (Rs.0.3).
- d Include Rs.0.3 (Rs.0.3) and Rs.16.7 (Rs.Nil) being the value of shares in Co-operative housing societies and leasehold buildings respectively.
- e Includes foreign exchange fluctuation capitalised Rs.0.3 (Rs.0.3), capital advances of Rs.83.1 (Rs.89.4) and expenditure during construction period Rs.33.4 (Rs.51.2).
- f Include Vehicles acquired on hire purchase Rs.1.9 (Rs.1.8).

Rs. Millions	Face value per Share	As at 31st March, 2004		As at 31st March, 2003	
		No. of Shares	Rs.	No. of Shares	Rs.
7. INVESTMENTS (at Cost)					
UNQUOTED					
LONG TERM					
TRADE INVESTMENTS	Equity Shares (Fully Paid-up)				
	Jeedimetla Effluent Treatment Limited	Rs.100	753	0.1	753
	Patancheru Envirotech Limited	Rs.10	103,709	1.0	103,709
	Progressive Effluent Treatment Ltd	Rs.100	1,000	0.1	1,000
	Advanced Waste Management Technologies Ltd. (Liquidated during the year ended 31st March, 2004)	Rs.10	–	–	187,000
					3.3
OTHER THAN TRADE	Kisan Vikas Patra			1.0	1.0
	IDBI Principal Mutual Fund			–	5.5
	ICICI - Q/O - Fixed Deposits			–	0.5
	National Savings Certificates (includes certificates of Rs.0.1 held by income tax authorities)			0.2	0.2
	TOTAL		<u>2.4</u>		<u>11.7</u>
8. INVENTORIES	(at lower of cost or net realisable value)				
	Raw Materials *		1,128.9		934.5
	Stores, Spares, Consumables & Packing Materials		136.5		64.1
	Work-in-Process		1,119.8		962.7
	Finished Goods*		<u>808.7</u>		<u>594.3</u>
	TOTAL		<u>3,193.9</u>		<u>2,555.6</u>
	*includes in transit and lying with third parties.				
9. SUNDRY DEBTORS	(Refer Note 10 on Schedule 23)				
UNSECURED					
	Debts Outstanding for a Period Exceeding Six months				
	Considered Good		1,156.3		1,564.0
	Considered Doubtful		99.8		61.2
	Other Debts - Considered Good		<u>3,620.9</u>		<u>2,783.8</u>
			<u>4,877.0</u>		<u>4,409.0</u>
	Less: Provision for Doubtful Debts		99.8		61.2
	TOTAL		<u>4,777.2</u>		<u>4,347.8</u>

Rs. Millions	As at 31st March, 2004	As at 31st March, 2003
10. CASH & BANK BALANCES		
Cash, Cheques & Drafts on Hand	43.5	48.4
Cash-in-Transit	7.0	29.3
Balances with Scheduled Banks on		
Current Accounts	394.0	297.3
Deposit Accounts	33.1	43.7
Unpaid Dividend Accounts	2.3	1.8
Balances with Non-scheduled Banks on		
Current Accounts	69.3	26.3
Deposit Accounts	73.0	50.7
TOTAL	<u>622.2</u>	<u>497.5</u>
11. OTHER CURRENT ASSETS		
Fixed Assets held for sale (At net book value or estimated net realisable value, whichever is lower)	<u>3.4</u>	--
	<u>3.4</u>	--
12. LOANS & ADVANCES (Refer Note 12 on Schedule 23) (Unsecured, considered good except stated otherwise)		
Loans and Advances to Joint Venture Entities	59.0	44.3
Loans to Employees	11.2	6.2
Advances Recoverable in cash or in kind or for value to be received or pending adjustments		
Considered Good	528.0	387.2
Considered Doubtful	6.2	1.2
Trade and Other Deposits	74.0	83.9
Export Incentives Receivable	85.2	109.0
Advance Income Tax (Net of Provision)	41.3	24.4
Balances with Customs and Excise Authorities	193.5	172.8
	<u>998.4</u>	<u>829.0</u>
Less: Provision for Doubtful Advances	6.2	1.2
TOTAL	<u>992.2</u>	<u>827.8</u>

Rs. Millions	As at 31st March, 2004	As at 31st March, 2003
13. CURRENT LIABILITIES		
Sundry Creditors for Goods, Services and Expenses	2251.7	2,346.3
Trade Deposits	4.1	28.0
Unclaimed Dividends	2.3	1.7
Other Liabilities	169.0	991.0
Interest Accrued but not Due on Loans	12.1	14.0
TOTAL	<u>2439.2</u>	<u>3,381.0</u>
14. PROVISIONS		
Advance Tax Payment (net of Taxation)	14.3	57.4
For Retirement Benefits	73.7	53.3
For Proposed Dividend	115.2	80.3
For Tax on Proposed Dividend	14.6	10.2
TOTAL	<u>217.8</u>	<u>201.2</u>
15. MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)		
Product Development & Registration Expenses	2.0	9.5
Less: Written Off During the Year	<u>1.6</u>	<u>7.5</u>
(a)	0.4	2.0
Preliminary Expenses	0.3	0.4
Less: Written Off During the Year	<u>0.1</u>	<u>0.1</u>
(b)	0.2	0.3
Deferred Revenue Expenditure	<u>206.8</u>	<u>232.2</u>
TOTAL (a+b)	<u>207.4</u>	<u>234.5</u>

Rs. Millions	Year ended 31st March, 2004	Year ended 31st March, 2003
16. OTHER INCOME		
Interest on		
Loans to Joint Ventures Entities	5.9	18.5
Deposits and Overdue Bills	5.0	11.8
Other Investments	0.1	–
Other Advances	1.6	1.9
[Tax Deducted at Source Rs.1.4 (Rs.5.0)]		
Tax Refund	–	0.1
Processing Charges	3.0	23.6
Dividends from Current Investments	0.2	–
Exchange Fluctuation Gain (Net)	115.3	2.8
Profit on Sale of share held in trust	28.8	–
Profit on Sale of Investments	0.5	4.5
Profit on Sale of Investments in Subsidiary	24.4	–
Miscellaneous Income	97.6	66.7
TOTAL	<u>282.4</u>	<u>129.9</u>
17. INCREASE IN STOCKS		
Opening Stocks		
Finished Goods	594.3	396.1
Work-in-Process	962.7	494.8
	<u>1,557.0</u>	<u>890.9</u>
Less: Reversal of Excise Duty on Opening Stocks	11.0	9.7
	<u>1,546.0</u>	<u>881.2</u>
Adjustments Due to Consolidation of Joint Venture Entities, Acquisition of Subsidiaries and Amalgamation		
Finished Goods	–	176.3
Work-in-Process	–	103.6
	<u>–</u>	<u>279.9</u>
Less: Closing Stocks		
Finished Goods	808.7	594.3
Work-in-Process	1,119.8	962.7
	<u>1,928.5</u>	<u>1,557.0</u>
Increase in Stocks	382.5	395.9
Adjustment for Fluctuation in Exchange Rates	(32.7)	(7.6)
INCREASE IN STOCKS	<u>415.2</u>	<u>403.5</u>

Rs. Millions	Year ended 31st March, 2004	Year ended 31st March, 2003
18. RAW MATERIALS CONSUMED		
Opening Stocks	934.5	580.0
Add:		
Acquired on Amalgamation	–	90.5
Purchases	<u>8,330.8</u>	<u>8,291.5</u>
	9,265.3	8,962.0
Less: Closing Stock	<u>1,128.9</u>	<u>934.5</u>
Raw Materials Consumed	8,136.4	8,027.5
Adjustment for Fluctuation in Exchange Rates	<u>(3.6)</u>	<u>(0.6)</u>
RAW MATERIALS CONSUMED	<u>8,132.8</u>	<u>8,026.9</u>
19. OTHER MANUFACTURING EXPENSES		
Conversion Charges	191.7	282.7
Packing Materials Consumed	187.0	108.9
Consumption of Stores & Spares	199.2	83.5
Chemicals Consumed	129.1	72.1
Carriage Inward	95.0	87.1
Factory Maintenance	65.9	34.4
Power & Fuel	788.3	466.5
Effluent Treatment Expenses	33.0	26.8
Excise Duty Other / VAT	402.1	81.0
Repairs & Maintenance		
Plant & Machinery	28.3	47.6
Buildings	21.6	0.2
Others	21.5	1.0
Miscellaneous Expenses	<u>161.9</u>	<u>46.8</u>
TOTAL	<u>2,324.6</u>	<u>1,338.6</u>
20. PAYMENTS TO AND PROVISIONS FOR EMPLOYEES		
Salaries, Wages and Bonus	612.3	369.8
Contribution to Provident Fund and other funds	31.5	20.2
Retirement Benefits	28.0	22.8
Staff Welfare Expenses	<u>44.1</u>	<u>21.6</u>
TOTAL	<u>715.9</u>	<u>434.4</u>

Rs. Millions	Year ended 31st March, 2004	Year ended 31st March, 2003
21. ADMINISTRATIVE & SELLING EXPENSES		
Lease Rents	12.4	12.2
Rates & Taxes	20.8	48.9
Printing & Stationery	20.3	12.9
Postage, Telegram & Telephones	24.6	18.5
Insurance	53.2	43.2
Legal & Professional Charges	72.7	39.5
Directors Sitting fees	0.1	–
Remuneration to Auditors	4.4	4.0
Commission to other Selling Agents	129.6	80.5
Carriage Outwards	230.9	176.4
Selling Expenses	88.4	61.7
Rebates & Discounts	39.4	4.1
Travel & Conveyance	74.5	67.6
Vehicle Maintenance Expenses	10.5	5.9
Product Development Expenses	44.5	3.1
Software License & ERP Expense	18.1	15.3
Miscellaneous Expenditure Written Off	28.8	58.0
Provision for Bad and Doubtful Debts and Advances	43.7	4.0
Claims/Bad debts written off	125.0	42.2
Loss/(Profit) on Sales of Fixed Assets	2.6	(124.0)
[include profit on sale of land Rs.Nil (Rs.124.3)]		
Assets written off	36.3	1.3
Goodwill written off	7.4	–
Donation	1.0	0.4
Safety & Security	6.4	0.3
Office Expenses	12.0	4.5
Repairs & Maintenance	5.6	5.1
Management Fees	5.3	4.0
Miscellaneous Expenses	71.6	64.9
TOTAL	<u>1,190.1</u>	<u>654.5</u>
22. INTEREST AND FINANCE CHARGES		
Interest on Fixed Period Loans	317.7	354.7
Interest on Other Loans	19.6	66.9
Finance Charges	70.0	56.5
TOTAL	<u>407.3</u>	<u>478.1</u>

Rs. Millions

23. NOTES ANNEXED TO AND FORMING PART OF THE CONSOLIDATED ACCOUNTS AS AT AND FOR THE YEAR ENDED 31ST MARCH, 2004.

1. Statement of Significant Accounting Policies

a. Basis of Consolidation

The Consolidated Financial Statements of Aurobindo Pharma Limited (APL) together with its subsidiaries and joint venture entities (collectively termed as “the Company” or “Consolidated Entities”) are prepared under historical cost convention on accrual basis to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India.

Investments in subsidiaries, except where the investments in the subsidiaries are held exclusively with a view to its subsequent disposal in the immediate near future, are accounted in accordance with accounting principles as defined in the Accounting Standard - 21 “Consolidated Financial Statements” issued by the Institute of Chartered Accountants of India (ICAI).

Investment in the Joint Venture entities are accounted using the proportionate consolidation method of accounting as prescribed under the Accounting Standard - 27 “Financial Reporting of Interests in Joint Ventures”.

All material inter-company balances and inter-company transactions and resulting unrealized profits or losses are eliminated in full on consolidation.

The Consolidated Financial Statements for the year ended 31st March, 2004 have been prepared on the basis of the financial statements of the following subsidiaries and joint venture entities:

Names of the Consolidated Entities	Country of Incorporation	Nature of Interest	% of Interest
Aurobindo (H.K.) Limited	Hong Kong	Subsidiary	100
APL Pharma Thai Limited	Thailand	Subsidiary	48
APL Holdings Inc.,	USA	Subsidiary	100
AB Farno Quimica Limitada	Brazil	Subsidiary	99.8
Aurobindo (Datong) Bio-Pharma Co. Limited	China	Subsidiary	100
Aurobindo TongLing (Datong) Pharmaceutical Co. Limited	China	Subsidiary	100
ShangHai Widetex Chemical Co. Limited	China	Subsidiary	80
APL Chemi Natura Limited	India	Subsidiary	100
Helix Health Care B.V.	The Netherlands	Subsidiary	100
Citadel Aurobindo Biotech Limited	India	Joint Venture	50
Cephazone Pharma, LLC	USA	Joint Venture	50
Aurosai Pharmaceuticals, LLC	USA	Joint Venture	50

b. Revenue Recognition

- i. Revenue from sale of goods (other than export sales) is recognised on dispatch and is inclusive of excise duty and net of discounts, sales returns, sales tax and VAT, where applicable. Revenue from export sales is recognised on the shipment of goods.

Rs. Millions

- ii. Interest is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.
- iii. Dividends is recognised as and when the right to receive its payment is established.

c. Fixed Assets

- i. Fixed assets are stated at cost less accumulated depreciation. Cost includes freight, duties (net of duties recoverable), taxes and any attributable cost of bringing the asset to its working condition for its intended use.
- ii. Expenditure directly relating to construction activity is capitalised. Indirect expenditure is capitalised to the extent it relates to the construction activity or are incidental thereto. Income earned during construction period is deducted from the total expenditure relating to construction activity.
- iii. Assets identified and evaluated as held for disposal are stated at their estimated net realisable values or net book values, whichever is lower.

d. Depreciation and Amortisation

Depreciation on fixed assets is provided under the "Straight Line Method", at the rates and in the manner as prescribed under Schedule XIV of the Companies Act, 1956, except as stated hereunder:

- i. Fixed assets of overseas subsidiaries & overseas joint venture entities are depreciated over the estimated useful lives using the "Straight Line Method", except in case of a subsidiary where the fixed assets are depreciated as per the written down value method.
- ii. Brands are amortised over a period of 10 years using the "Straight Line Method".
- iii. Premium paid on Leasehold Land is amortised over the lease term.
- iv. Assets acquired under finance leases, where there is no reasonable certainty that the Company will obtain the ownership by the end of the lease terms are capitalised and are depreciated over the tenure of the lease or estimated useful life of the asset, whichever is shorter.

e. Borrowing Cost

Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset are capitalised as a part of the cost of that asset, except in case of certain consolidated entities where the interest costs have been expensed in the year in which the same have been incurred.

f. Government Grants and Subsidies

Grants and subsidies are recognised when there is a reasonable assurance that the grant or subsidy will be received and that all the underlying conditions thereto will be complied with. When the grant or subsidy relates to an asset, its value is deducted in arriving at the carrying amount of the related asset.

g. Investments

Investments that are not readily realisable and which are intended to be held for more than a year are classified as long-term investments. All other investments are classified as current investments.

Investments in subsidiaries are carried at lower of cost or net realisable value, where such investments are held exclusively with a view to subsequent disposal in the immediate near future.

Rs. Millions

h. Inventories

- i. Raw materials, packing materials, stores, spares and consumables are valued at cost, calculated on "First-in-First Out (FIFO)" basis, which is either equal to or less than the net realisable value. Items held for use in the production of inventories are not written down below cost if the finished product in which they will be incorporated are expected to be sold at or above cost.
- ii. Finished goods and Work-in-process are valued at lower of cost and net realisable value. In respect of finished goods, cost includes materials, labour and proportion of appropriate overheads and excise duty.
- iii. Trading goods are valued at lower of cost and net realisable value. Cost is calculated on FIFO basis except in the case of a subsidiary, wherein the same is calculated on weighted average basis.
- iv. Net realisable value is the estimated selling price in the ordinary course of business, reduced by the estimated costs of completion and costs to effect the sale.

i. Miscellaneous Expenditure

Miscellaneous expenditure such as product development expenses, non-compete fees and other deferred revenue expenses incurred during the accounting periods prior to 1st April, 2003 are being amortised as under:

- i. Product development expenses are amortised over a period of three years, considering the expected duration of accrual of related benefits. Product registration expenses incurred in respect of overseas consolidated entities are amortised over a period of ten years from the date of commencement of commercial operations of such consolidated entities. The benefits are reassessed at the end of every year.
- ii. Non-compete fees are amortised on straight-line basis over a period of 10 years from the date of incurring the expense.
- iii. Deferred revenue expenditure incurred in respect of overseas consolidated entities are amortised over a period of five years from the date of commencement of commercial operations of such consolidated entities.

j. Retirement Benefits

- i. The Company's contribution to Provident Fund is recognized on accrual basis.
- ii. The Company provides for its liabilities towards retirement benefits such as gratuity and leave encashment in compliance with the requirements of domestic laws of the countries in which the consolidated entities operates.

k. Income Taxes

- i. Tax expense comprises both current and deferred taxes. Deferred income taxes reflects the impact of current year timing differences between the taxable income and accounting income for the year and the reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the Balance Sheet date.
- ii. Deferred tax assets and deferred tax liabilities across various countries of operation are not set off against each other as the company does not have a legal right to do so. Deferred tax assets are recognised only to the extent that there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Rs. Millions

- iii. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent it has become virtually certain that future taxable income will be available against which such deferred tax assets can be realised.

l. Research and Development

Research and Development expenditure incurred during the year which is of revenue nature, is charged to the revenue, while capital expenditure is included in the respective heads under Fixed Assets.

m. Foreign Exchange Transactions

- i. Foreign currency transactions (other than those relating to foreign branches) arising during the year are recorded at the exchange rate prevailing as at the transaction dates. Expenditure of foreign branches are recorded at the average exchange rate for the month in which such expenses are incurred.
- ii. Foreign currency monetary items are recorded at contract rates and/or at year-end rates. The resultant gain/loss, if any, is recognised in the Profit & Loss Account, except exchange differences on liabilities incurred for acquisition of fixed assets, which are adjusted to the carrying amounts of respective assets. Non-monetary assets and liabilities related to foreign currency transactions are reported at the rate prevalent on the date of the transaction.
- iii. The premium or discount arising at the inception of the forward exchange contract is amortised as expense or income over the life of the contract. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognised as income or expense for the year.

n. Foreign Currency Translation

Indian Rupees is the reporting currency for APL and its domestic subsidiary & joint venture entity. However, the functional currencies of overseas subsidiaries & joint venture entities are different from the functional currencies of APL. The translation of functional currencies into Indian Rupees is performed for assets and liabilities (excluding Share Capital, Opening Reserves & Surplus, Minority Interest and Goodwill), using the exchange rate as at the Balance Sheet date, for revenues, costs and expenses using weighted average exchange rates prevailing during the reporting period. Share Capital, Opening Reserves & Surplus and Minority Interest are carried at historical cost. Resultant currency translation exchange gain or loss is carried as Exchange Fluctuation Reserve in Reserves & Surplus.

o. Export Benefits/Incentives

- i. Benefits on account of entitlement to import of goods free of duty under the "Duty Entitlement Pass Book under Duty Exemption Scheme" are accrued and accounted in the year of export.
- ii. Benefits on account of Advance Licenses for imports are accounted for on purchase of imported materials.

p. Leases

Leases, where the substantial risks and benefits incidental to ownership of the leased items are transferred to the Company, are classified as Finance Leases. Assets acquired under Finance leases, where there is no reasonable certainty that the Company will obtain the ownership by the end of the lease term are capitalised and are depreciated over the tenure of the lease or estimated useful life of the asset, whichever is shorter.

Rs. Millions

Leases, where the lessor effectively retains substantially all the risks and rewards incidental to ownership, are classified as Operating leases. Operating lease payments are recognised as an expense in the Profit & Loss Account on a straight-line basis over the lease term.

q. Earnings Per Share

Basic earnings per share is calculated by dividing the net profit or loss for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year. The weighted average number of equity shares outstanding during the year are adjusted for share splits during the year.

For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares.

2. Conformity with Mandatory Accounting Standards as applicable under Indian GAAP

- a. Deferred taxes as required under Accounting Standard - 22 "Accounting for Taxes on Income" issued by the ICAI, has not been provided for by certain consolidated entities. The impact in this respect on the consolidated profits for the year ended and financial position of the group as at 31st March, 2004 has not been ascertained.
- b. As required under the Accounting Standard - 16 "Borrowing Costs" issued by the ICAI, interest costs incurred towards acquisition of qualifying assets have not been capitalised by certain consolidated entities. The impact of such non-compliance on the consolidated profits for the year ended and financial position of the Company as at 31st March, 2004 has not been ascertained.

3. Effective from 1st April, 2003 the Company has adopted the measurement and disclosure principles as laid down under the Accounting Standard - 26 "Intangible Assets" and has reassessed the estimated useful life of the brands at 10 years as against 14 years considered in the previous years.

Had the Company continued to amortise its brand over a period of 14 years the Consolidated Net Profit for the year ended 31st March, 2004 and fixed assets as at 31st March, 2004 would have been higher by Rs.2.6 and Rs.4.8 respectively.

4. Disposal of a Subsidiary

On 30th January, 2004 Aurobindo (H.K.) Limited, Hong Kong, a wholly owned subsidiary of APL, has sold its entire stake in ShangHai Widetex Chemical Co., Limited, China (SWCL) for a consideration of Rs.16.4. The accompanying Consolidated Profit & Loss Account for the year ended 31st March, 2004 include items of Profit & Loss Account of SWCL for the period 1st April, 2003 to 30th January, 2004. The effect of disposal of subsidiary on the financial position on the reporting date, the results for the reporting period and on the corresponding amounts for the previous year are given below:

	For the period 1st April, 2003 to 30th January, 2004	For the year ended 31st March, 2003
Revenues	3.9	2.2
Expenses	74.9	78.0
Net Loss considered in the Consolidated Profit & Loss Account	10.8	5.0

Rs. Millions

	As at 30th January, 2004	As at 31st March, 2003
Liabilities		
Minority Interest	–	0.9
Unsecured Loans	25.4	18.4
Assets		
Fixed Assets (including Capital Work-in-Progress)	43.4	50.7
Net Current Assets	(22.3)	(14.2)
Goodwill	–	7.6
Debit balance in Profit & Loss Account	17.3	6.4

5. Capital Commitments

Estimated amount of contracts (net of advances) remaining to be executed on capital account and not provided for Rs.360.5 (Rs.336.2).

6. Contingent Liabilities not provided for

	As at 31st March, 2004	As at 31st March, 2003
a. Claims against the Company not acknowledged as debts	1.8	–
b. Outstanding Bank Guarantees on account of:		
i. Guarantee given for Citadel Aurobindo Biotech Limited (50% Joint Venture)	230.0	230.0
ii. Others	41.7	29.9
c. Bills discounted with Banks	563.7	307.3
d. Outstanding Letters of Credit for imports of materials	388.1	384.6
e. Direct and Indirect Taxes	126.2	13.9
f. Product Licensing	5.7	–

7. Leases

Finance Leases

The Company's fixed assets include vehicles and building acquired under finance lease arrangements. The future lease rents payable and other related information in respect of such assets are as follows:

Rs. Millions

Vehicles under finance lease

	As at 31st March,	
	2004	2003
Cost	4.4	3.4
Accumulated Depreciation	2.4	1.6
Net Carrying Amount	2.0	1.8
Future Minimum Lease Rents Payables	1.2	1.1
Less: Interest included in the above	0.1	0.1
Present Value of Future Minimum Lease Rents Payable	1.1	1.0

Future Minimum lease payments and their present value at the Balance Sheet date for each of the following periods.

	Mimum Lease payments as at 31st March,		Present value of Future lease payment as at 31st March,	
	2004	2003	2004	2003
Not Later than One year	0.6	0.5	0.5	0.4
Later than One year and Not Later than Five years	0.7	0.7	0.6	0.6
Total	<u>1.3</u>	<u>1.2</u>	<u>1.1</u>	<u>1.0</u>

Building under finance lease

Building includes factory buildings obtained on finance lease. The lease term is for 66.3 years and the agreement is silent on renewal terms and transfer of legal title at the end of lease term.

The said lease agreement did not specify minimum lease payments over the future period. The factory building was acquired on lease at a consideration of Rs.16.7 (includes an amount of Rs.11.4 towards expenditure incurred on renovation).

The net carrying amount of the buildings obtained on finance lease Rs.16.7 (Rs. Nil).

The company has not recognised any contingent rent as income in the statement of Profit & Loss Account.

There is no escalation clause in the lease agreements. There were no restrictions imposed on the lease. There were no sub-leases.

8. Secured Loans

a. Debentures are secured by

- i. First charge on the immovable property situated at Thane, Maharashtra and further joint mortgage by deposit of title deeds by way of constructive delivery of the Company's lands situated at Hyderabad, Rangareddy and Medak districts, Andhra Pradesh, ranking paripassu with Term Loans;

Rs. Millions

- ii. First charge ranking pari-passu with Term Loans on the movable assets (save and except book debts), both present and future, subject to charges created in favour of the Company's Bankers to secure Working Capital requirements.

b. Term loans are secured by

- i. First charge ranking pari-passu with Debentures on the immovable properties both present and future, and joint mortgage by deposit of title deeds of the APL's lands at Hyderabad, Rangareddy and Medak districts, Andhra Pradesh;
- ii. First charge ranking pari-passu with Debentures on the movable assets (save and except book debts), both present and future subject to charges created in favour of the APL's Bankers to secure working capital requirements;
- iii. Personal guarantees given by the Chairman and the Managing Director of APL aggregating to Rs.1,568.9 (Rs.1,803.3); and
- iv. Further the term loan of a joint venture entity is secured by way of charge on the brands and all the intellectual property rights relating to the brands.

c. Other working capital loans are secured by

- i. First charge, ranking pari-passu by way of hypothecation of the stocks, book debts and other current assets (both present and future);
 - ii. Second charge on the immovable properties of the Company subject to charges created in favour of term lenders and debenture holders; and
 - iii. Personal guarantees given by the Chairman and the Managing Director and other Directors of the Company aggregating to Rs.2,255.5 (Rs.1,818.4).
- d. Hire purchase loans are secured by way of hypothecation of respective assets acquired under Hire Purchase arrangements.

9. Unsecured loans

Other loans aggregating to Rs.418.0 (Rs.534.5) are personally guaranteed by the Chairman and the Managing Director of the Company.

10. Sundry Debtors include

Dues from companies under the same management:

Name of the Company	Closing Balance as at	
	31st March, 2004	31st March, 2003
Andhra Organics Limited	0.4	67.0
Citadel Aurobindo Biotech Limited	229.4	233.4

Rs. Millions

11. Cash & Bank Balances include

a. Balances with Non- scheduled banks on current & savings accounts-

Name of the Bank	Closing balance as at 31st March,		Maximum outstanding at any time during the year ended 31st March,	
	2004	2003	2004	2003
Citibank – Tanzania	–	0.3	0.9	0.7
Vheshtorg Bank – Moscow	0.8	0.3	1.4	0.5
Vietcom Bank – Vietnam	0.1	0.4	0.5	0.4
Bank of Nova Scotia - Costa Rica	0.1	0.4	0.6	1.0
Commerze Bank, USA	0.1	–	4.2	–
Wells Fargo Bank, USA	0.1	–	3.2	–
Industrial and Commercial Bank (ICB) of China Datong, China	0.2	1.2	19.4	173.7
Bank of China	17.0	3.9	225.2	239.9
Bank of China	0.7	–	65.0	–
Agricultural Bank	4.7	0.3	335.0	5.0
Bank of China (USD account)	0.5	–	36.3	–
Bank of China (USD Loan account)	1.2	–	53.2	–
Farm Bank Capital	–	–	–	–
Farm Bank Foreign Loans	–	–	–	–
Farm Bank RMB	–	1.1	–	1.1
Mingsheng Bank	–	–	–	–
Central Bank	–	–	–	–
Central Bank – Money Market	2.1	–	2.7	–
Wells Fargo Bank NA, USA	18.4	7.0	55.1	17.7
Banco Do Brasil	6.7	2.5	25.2	16.2
HSBC Amsterdam, The Netherlands	1.0	–	1.0	–
HSBC Brazil	0.2	0.3	0.8	0.8
HSBC Brazil	–	0.5	–	1.0
HSBC Brazil	–	–	–	0.8
ITAU	11.1	0.2	11.2	10.6
ITAU	0.4	–	1.0	–
Banco Do Brasil	0.3	0.9	9.0	6.5
Banco Do Brasil	1.3	–	1.6	–
Banco Do Brasil	–	–	1.0	–
Nossa Caixa	–	2.6	24.5	13.2
Nossa Caixa	1.9	–	4.4	–
Bharat Overseas Bank	(0.4)	1.9	39.2	37.5
SIAM Commercial Bank, Thailand	–	–	0.5	0.3
Standard Chartered Bank HK- Foreign Currency Account	–	0.5	58.4	57.0
Standard Chartered Bank - HKD Account	0.8	2.0	19.4	27.9
Total	69.3	26.3		

Rs. Millions

b. Balances with Non - scheduled banks on deposit accounts-

Name of the Bank	Closing balance as at 31st March,		Maximum outstanding at any time during the year ended 31st March,	
	2004	2003	2004	2003
Bank of China	70.3	48.1	70.3	48.1
Bharat Overseas Bank	2.7	2.6	2.7	2.6
Total	<u>73.0</u>	<u>50.7</u>		

12. Loans and Advances include

a. Dues from companies under the same management

Pravesha Machine Works (P) Limited	–	0.6	–	4.3
Sharp Organics Pvt. Limited	–	8.1	10.7	10.4
Ranit Agro Pvt. Limited	–	3.7	–	3.7
Andhra Organics Limited	8.9	17.1	140.9	24.7
Citadel Aurobindo Biotech Limited	15.0	15.0	15.0	15.4

b. Investment by the loanee in the shares of the Company - none of the loanees have made investments in shares of the Company.

13. Deferred Taxes

a. Deferred Tax Liability (Net) consist of:

Particulars	As at 31st March,	
	2004	2003
Debtors	(37.8)	(22.9)
Leave Encashment	(13.3)	(9.0)
Gratuity	(10.8)	(7.0)
Depreciation	583.0	398.4
	<u>521.1</u>	<u>359.5</u>

Rs. Millions

b. Deferred Tax Asset (Net) consist of:

Particulars	As at 31st March,	
	2004	2003
Unabsorbed Depreciation	99.3	0.2
Carried Forward Business Losses	20.0	6.2
Debtors	4.7	-
Leave Encashment	-	-
Gratuity	-	-
Disallowance under Section 43B of Income Tax Act, 1961	0.1	-
Amortisation of Non-compete fees	(50.2)	-
Depreciation	(19.4)	(0.1)
	<u>54.5</u>	<u>6.3</u>

14. Export Incentives

Sales include export incentives of Rs.62.4 (Rs.101.1).

15. Research and Development Expenses

Research & Development expenses included under various heads of expenses are Rs.288.5 (Rs.150.5).

16. Directors' Remuneration included under various heads of accounts

Particulars	Year ended 31st March,	
	2004	2003
Salary	13.8	9.0
Contribution to Provident Fund	0.3	-
Perquisites	2.3	2.3
Total	<u>16.4</u>	<u>11.3</u>

17. Earnings Per Share

Earnings per share is computed based on the following

Particulars	Year ended 31st March,	
	2004	2003
Profit after taxation and minority interest considered for calculation of basic and diluted Earnings Per Share (Rs.)	<u>1,086.9</u>	<u>868.9</u>
Weighted average number of Equity Shares considered for calculation of basic Earnings Per Share	47,868,607	45,374,434
Add: Effect of weighted average dilutive Equity Shares - Convertible Share Warrants	228,811	4,536
Weighted average number of Equity Shares considered for calculation of diluted Earnings Per Share	<u>48,097,418</u>	<u>45,378,970</u>

Rs. Millions

18. Dividends

Provision for dividends as at 31st March, 2004 include dividends due to minority shareholders of a subsidiary company Rs.1.0 (Rs.1.0).

19. a. The company has the following transactions with related parties during the year.

	Year ended 31st March,	
	2004	2003
i. Companies over which significant influence exists		
Pravesha Machine Works (P) Limited		
Purchase of Goods	33.7	24.4
Sale of Goods	--	--
Purchase of Fixed Assets	34.3	48.7
Rendering Services	5.3	--
Sale of Fixed Assets	--	--
Andhra Organics Limited		
Purchase of Goods	263.1	145.4
Sale of Goods	115.8	93.2
Purchase of Fixed Assets	1.0	0.8
Rendering Services	1.9	--
Receipt of Services	21.8	--
Sale of Fixed Assets	--	1.1
Repayment of Loans and Equity	--	15.0
Interest Received	--	3.0
Finance (including loans and equity contribution in cash or in kind)	--	15.0
Sharp Organics Pvt. Limited		
Purchase of Goods	5.1	--
Sale of Goods	--	3.1
Purchase of Fixed Assets	--	1.0
Sale of Fixed Assets	0.4	2.5
Receipt of Services	7.9	13.7
Rendering Services	--	--
Repayment of Loans and Equity	--	9.0
Finance (including loans and equity contribution in cash or in kind)	--	9.0

Rs. Millions

	Year ended 31st March,	
	2004	2003
Joint Ventures		
Citadel Aurobindo Biotech Limited		
Management Fee received	6.0	4.0
Guarantees and Collaterals	230.0	230.0
Sale of Brands	–	2.0
Repayment of Loans and Equity	–	150.0
Transfer of Current Liabilities	–	1.5
Interest Received	2.0	7.6
Finance (including loans and equity contribution in cash or in kind)	–	90.0
Provision for diminution in value of Investment	5.0	–
Provision for Doubtful debts	15.0	–
ii. Key Management Personnel		
Mr. P.V. Ramaprasad Reddy		
Managerial Remuneration	2.6	2.4
Proposed Dividend	29.7	22.5
Investment in equity	494.9	104.6
Sale of Investment	–	2.4
Guarantees and Collaterals	4,242.4	3,571.9
Mr. K. Nityananda Reddy		
Managerial Remuneration	3.3	1.6
Proposed Dividend	8.4	6.3
Sale of Investment	–	0.8
Investment in equity	32.8	18.6
Repayment of Loans and Equity	–	3.0
Guarantees and Collaterals	4,242.4	3,571.9
Dr. M. Sivakumaran		
Managerial Remuneration	3.1	1.6
Proposed Dividend	3.3	2.5
Investment in equity	15.5	18.7
Mr. B. Sivaprasad Reddy		
Managerial Remuneration	2.6	1.6
Proposed Dividend	–	–

Rs. Millions

	Year ended 31st March,	
	2004	2003
Mr. Lanka Srinivas Sitting Fees	--	--
Mr. V.M. Gopalakrishnan Managerial Remuneration	1.7	1.4
Mr. Thirachai Chanthaveesarp Managerial Remuneration	1.2	1.2
Mr. M.V. Sastry Managerial Remuneration	0.1	0.8
Mr. Premanandam Modapohala Managerial Remuneration	1.8	0.7

b. Balance outstanding debit/(credit)

	As at 31st March,	
	2004	2003
Citadel Aurobindo Biotech Limited, India	251.3	248.4
Pravesha Machine Works (P) Limited, India	(0.8)	3.3
Andhra Organics Limited, India	8.9	68.8
Sharp Organics Private Limited, India	--	21.0

c. Names of related parties and description of relationships

Joint Ventures

Citadel Aurobindo Biotech Limited, India
Aurosal Pharmaceuticals LLC, USA
Cephazone Pharma LLC, USA

Companies over which significant influence exists

Pravesha Machine Works (P) Limited, India
Andhra Organics Limited, India
Sharp Organics Private Limited, India
Ranit Agro Private Limited, India

Rs. Millions

Key Management Personnel

Aurobindo Pharma Limited

- Mr. P.V. Ramaprasad Reddy, Chairman
- Mr. K. Nityananda Reddy, Managing Director
- Mr. M. Sivakumaran, Whole-time Director
- Mr. B. Sivaprasad Reddy, Whole-time Director
- Mr. Lanka Srinivas, Non-Executive Director

APL Pharma Thai Limited

- Mr. V.M. Gopalakrishnan, Director
- Mr. Thirachai Chanthaveesarp

AB Farmo Quimica Limitada

- Mr. M. Premanandam, Director

Aurobindo (H.K.) Limited

- Mr. M.V. Sastry, Director

20. Segment Information

a. Identification of Reportable Segments

Segments are identified in line with Accounting Standard 17 - "Segment Reporting", taking into consideration the internal organization & management structure as well as the differential risk and returns of the segment.

- i. The Company, in the previous year, had treated the following: (a) "Bulk Drugs"; (b) Formulations; and (c) "Research & Development" as its reportable segments. However during the year based on the Company's business model of vertical integration, pharmaceuticals have been considered as the only reportable business segment and hence no separate financial disclosures provided in respect of its only reportable business segment.
- ii. The operations of the Company are managed from independent locations, which are located in different geographical locations. However each of these operating locations are further aggregated based on the following factors: (a) similarity of economic and political conditions; (b) relationships between operations in different geographical areas; (c) proximity of operations; (d) special risks associated with operations in a particular area; (e) exchange control regulations; and (f) the underlying currency risk. Accordingly, the following have been identified as operating and reportable segments: (a) "India", (b) "China", and (c) "Rest of the World".

b. Method of Pricing Inter Segment Transfers

Inter segment sales are generally accounted at fair values and the same have been eliminated in consolidation. The accounting policies of the segments are substantially the same as those described in the "Statement of Significant Accounting Policies" as under para 1 above.

Rs. Millions

c. Financial information as required in respect of operating and reportable Segments is as given below

Particulars	For the year ended and as at 31st March, 2004				
	India	China	Rest of the World	Eliminations	Consolidated
Revenue					
External Sales	12,340.0	1,587.8	1,118.2	--	15,046.0
Inter - Segment Sales	996.9	632.8	--	1,629.7	--
Total Revenue	13,336.9	2,220.6	1,118.2	1,629.7	15,046.0
Results					
Segment Result	1,547.7	(734.3)	889.8	(52.8)	1,650.4
Operating Profit	--	--	--	--	1,650.4
Interest Expense	--	--	--	--	(407.3)
Interest Income	--	--	--	--	12.6
Other Income	--	--	--	--	269.8
Income Tax	--	--	--	--	(457.1)
Net Profit before Minority Interest	--	--	--	--	1,068.4
Other Information					
Segment Assets	15,055.3	3,783.2	1,122.7	(1,302.6)	18,658.6
Segment Liabilities	9,058.4	2,845.4	739.2	(1,234.3)	11,408.7
Capital Expenditure	2,090.7	120.1	35.9	--	--
Depreciation	359.4	185.0	17.9	--	--
Non-cash expenses other than Depreciation	25.0	3.8	--	--	--
Exchange Difference	--	--	--	4.7	--

Rs. Millions

Particulars	For the year ended and as at 31st March, 2003				
	India	China	Rest of the World	Eliminations	Consolidated
Revenue					
External Sales	10,856.6	791.2	950.9	--	12,598.7
Inter - Segment Sales	735.9	150.2	--	886.1	--
Total Revenue	11,592.5	941.4	950.9	886.1	12,598.7
Results					
Segment Result	1,088.8	(155.4)	655.9	(2.4)	1,586.9
Operating Profit	--	--	--	--	1,586.9
Interest Expense	--	--	--	--	(478.0)
Interest Income	--	--	--	--	32.3
Other Income	--	--	--	--	97.7
Income Tax	--	--	--	--	(368.2)
Net Profit before Minority Interest	--	--	--	--	870.7
Other Information					
Segment Assets	12,392.0	3,530.4	1,283.7	(1,309.6)	15,896.5
Segment Liabilities	8,198.2	2,345.2	1,649.5	(1,285.8)	10,907.1
Capital Expenditure	1,713.5	2,121.4	182.4	--	--
Depreciation	237.2	63.8	9.9	--	--
Non-cash expenses other than Depreciation	42.6	11.1	4.3	--	--
Exchange Difference	--	--	--	3.8	--

21. Figures in brackets represent those relating to the previous year.

22. Previous year's figures have been regrouped/rearranged to conform to those of the current year.

SIGNATURES TO SCHEDULES 1 TO 23

In terms of our report of even date

For and on behalf of the Board of Directors

S.R. BATLIBOI & CO.
Chartered Accountants

K. NITYANANDA REDDY
Managing Director

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030
Hyderabad, 2nd June, 2004.

B. ADI REDDY
Company Secretary

P.V. RAMAPRASAD REDDY
Chairman

Consolidated Cash Flow Statement for the Year Ended 31st March, 2004

Rs. Millions	2003-2004	2002-2003
1. CASH FLOWS FROM OPERATING ACTIVITIES		
Net Profit before Prior Period Item and Taxation	1,525.5	1,238.9
Adjustments for:		
Depreciation	562.3	311.1
Miscellaneous Expenditure Written off	28.8	58.0
Provision for Doubtful Debts	43.7	4.0
Prior Period Item	(31.4)	(1.3)
Export Incentives Accrued	(40.7)	(63.2)
Debts and other Advances Written off	125.0	42.2
Excess Provision Written Back	–	(1.8)
Provision for Retirement Benefits	20.5	21.5
Interest Expense	414.6	510.6
Interest Income	(12.6)	(32.2)
Unrealized Foreign Exchange Loss	87.9	9.6
Loss / (Gain) on Sale of Fixed Assets	2.6	(124.0)
Goodwill Written Off	7.4	–
Gain on Sale of Investments in the Subsidiary	(24.4)	–
Gain on Sale of Shares held in Trust	(28.8)	–
Gain on Sale of Investments	(0.5)	(4.5)
Fixed Assets Written Off	36.3	1.3
Operating Profit before Working Capital Changes	2,716.2	1,970.2
Adjustments for:		
Inventories	(653.9)	(663.7)
Sundry Debtors	(479.6)	(400.1)
Loans & Advances	(58.5)	129.1
Sundry Creditors	(927.1)	1,120.2
Other Current Assets	(3.4)	–
Cash Generated from Operations	593.7	2,155.7
Income Tax Paid	(388.6)	(255.4)
Interest Paid	(10.1)	(34.2)
Miscellaneous Expenditure	–	(13.4)
NET CASH FLOWS FROM OPERATING ACTIVITIES (A)	195.0	1,852.7
2. CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for Net Assets acquired of Subsidiaries and Jointly Controlled Entities	–	(328.1)
Minority Interest in a Subsidiary Acquired	–	(3.9)
Purchase of Fixed Assets	(2,001.2)	(3,925.6)
Proceeds from Sale of Fixed Assets	4.4	153.9
Purchase of Investments	(1,281.9)	(1,133.4)
Loans to Joint Venture Entities	(14.8)	187.4
Proceeds from Sale of Investments in Subsidiary, Net of Cash	43.4	–
Proceeds from Sale of Investments	1,291.7	1,139.0
Interest Received	24.8	31.2
NET CASH FLOWS USED IN INVESTING ACTIVITIES (B)	(1,933.6)	(3,879.5)

Rs. Millions	2003-2004	2002-2003
3. CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of Share Capital	1,088.4	583.1
Proceeds from issue of Share warrants	328.5	10.8
Proceeds from Long Term Borrowings	1,692.1	2,179.2
Repayment of Long Term Borrowings	(1,555.6)	(757.7)
Proceeds from Short Term Borrowings, Net	971.8	655.3
Interest Paid	(461.4)	(539.3)
Dividend and Dividend Tax	(90.5)	(61.6)
NET CASH FLOWS FROM FINANCING ACTIVITIES (C)	<u>1,973.3</u>	<u>2,069.8</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH & CASH EQUIVALENTS (D)	<u>(108.0)</u>	<u>3.0</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	<u>126.7</u>	<u>46.0</u>
Cash and Cash Equivalents - Opening Balance	497.5	315.4
Acquired on Acquisition of Subsidiaries & Consolidation of Joint Venture Entities	–	136.5
Cash and Cash Equivalents - Closing Balance	<u>624.2</u>	<u>497.9</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>126.7</u>	<u>46.0</u>
Notes:		
1. Cash and Cash Equivalents include:		
Cash and Bank Balances	513.8	401.4
Deposit Accounts	106.1	94.4
Unpaid Dividend Accounts	2.3	1.7
Cash and Cash Equivalents as per Balance Sheet	<u>622.2</u>	<u>497.5</u>
Effect of Unrealised Exchange Loss as on the Balance Sheet date	2.0	0.4
Cash and Cash Equivalents considered for Cash Flows	<u>624.2</u>	<u>497.9</u>

2. Previous Year's figures have been regrouped/rearranged to conform to those of the current year.

This is the Cash Flow Statement referred to in our report of even date

S.R. BATLIBOI & CO.
Chartered Accountants

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030
Hyderabad, 2nd June, 2004.

B. ADI REDDY
Company Secretary

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

P.V. RAMAPRASAD REDDY
Chairman

Notes

ADMISSION SLIP

AUROBINDO PHARMA LIMITED

Registered Office : Plot No.2, Maitrivihar, Ameerpet, HYDERABAD – 500 038.

DP. ID* :

Client ID* :

Sr. No.

Reg. Folio No. :

No. of shares :

*Applicable if shares are held in electronic form

Name & Address of Member

I certify that I am a registered shareholder/proxy for the registered shareholder of the Company.

I hereby record my presence at the SEVENTEENTH ANNUAL GENERAL MEETING of the Company on Saturday the 31st day of July 2004 at 3.00 P.M at Sri Sathya Sai Nigamagmam, 8-3-987/2, Srinagar Colony, Hyderabad – 500 073.

Signature of Member/Proxy

NOTE : Please fill this admission slip and hand it over at the entrance of the hall duly signed.

FORM OF PROXY

AUROBINDO PHARMA LIMITED

Registered Office : Plot No.2, Maitrivihar, Ameerpet, HYDERABAD – 500 038.

DP. ID* :

Client ID* :

Reg. Folio No. :

No. of shares :

*Applicable if shares are held in electronic form

I/We _____

of _____ in the district of _____

being a Member/Members of **AUROBINDO PHARMA LIMITED** hereby appoint _____

of _____ in the district of _____ or failing him

of _____ in the district of _____

as my/our Proxy to attend and vote for me/us on my/our behalf at the SEVENTEENTH ANNUAL GENERAL MEETING of the Company to be held at 3.00 P.M. on Saturday 31st July, 2004, or at any adjournment thereof.

Signed this _____ day _____ 2004.

NOTE:

This form in order to be effective should be duly stamped, completed and signed and must be deposited at the Registered Office of the Company, not less than 48 hours before the time of the meeting.

Affix
30P.
Revenue
Stamp

Signature



FORWARD LOOKING STATEMENTS

This communication contains statements that constitute “forward looking statements” including, without limitation, statements relating to the implementation of strategic initiatives, and other statements relating to our future business developments and economic performance.

While these forward looking statements represent our judgements and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations.

These factors include, but are not limited to, general market, macro-economic, governmental and regulatory trends, movements in currency exchange and interest rates, competitive pressures, technological developments, changes in the financial conditions of third parties dealing with us, legislative developments, and other key factors that we have indicated could adversely affect our business and financial performance.

Aurobindo undertakes no obligation to publicly revise any forward looking statements to reflect future events or circumstances.

Epilogue

We are here because of what we did yesterday.
We did a few hundred things to be where we are today.

We changed.
We added and grew.
We are different.

Our future will depend on what we are doing today.

We are aware of the excitements in store,
and are doing a few hundred more things.
We will dramatically change.
Multiplication table and exponential growth is what we see.
We are working for it.
We will move fast, in fact rush ahead.
But with our feet on ground.
We will be different.



Plot No.2, Maitri Vihar, Ameerpet,
Hyderabad - 500 038