AUROBINDO
PHARMA LTD.

Scaling up the organisation

Annual Report
2004 - 2005

CONTENTS

We are on the threshold of growth

The Aurobindo of today is ...

... a multi-product company (65 APIs in the non-antibiotics and over 55 APIs in the antibiotics segment) with presence in diverse segments

... a multi-unit company with *all* units cGMP compliant

... built to excel with facilities to serve the premium markets

... from basic raw material to prescription drugs

... a research-led powerhouse with over 500 talented scientists

... a knowledge based company with Intellectual Property skills; holding patents and product/plant approvals

... targeting soon to be off-patent drugs for that *first-mover* advantage

... present in key segments like penicillins and has made significant footprints in the ARV, CNS and CVS segments

... strong in emerging markets and making forays into the Regulated Markets

... listed as one of Asia's 100 best growth companies by *Forbes* magazine (Nov 01, 2004)

Scaling up the organisation

Dear friends,

As Members are aware, Aurobindo Pharma has taken far reaching initiatives that have enhanced the fundamentals, scaled up the business model, improved the income earning abilities, added manufacturing and marketing strengths, ramped up the skill sets with some of the best professionals on board, and become a dynamic organisation. I am happy to report we have in the process, scaled up the organisation and now have the ability to face the future with confidence.

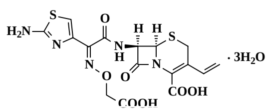
In 2004-05, continuing our efforts of the recent few years in our manufacturing operations, we have boosted our efficiencies, streamlined the cost structure and enhanced productivity.

Today, Aurobindo Pharma is qualitatively different. A clutch of products and facilities have been approved by international regulatory authorities such as US FDA, World Health Organisation (WHO), MHRA (UK), EDQM, Health Canada, MCC(SA) etc. Our marketing strategies have been tested out successfully in USA and Europe. The organisation has become very purposeful in its objective to become a significant player in the generics markets of the developed world. We are ensuring that our tomorrow is better.

Through the pages of this Annual Report, my colleagues and I will briefly describe the actions taken, the current situation and the emerging scenario. Members will notice that we had planned these changes, initiated actions in time, incurred extra-ordinary but necessary costs, received approvals from authorities, and are now busy translating the gains into the balance sheet.

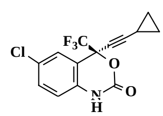
I must hasten to mention, your Company reported in 2004-05 lower revenues and net income. Our revenues were affected since we chose to get the manufacturing facilities ready for inspection by international authorities. Manufacturing was not at

What we make - one of the industry's best product portfolio



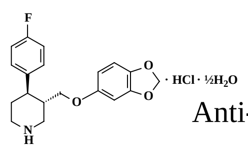
Cephalosporins

Anti-Retrovirals

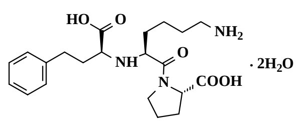


Anti-Convulsants

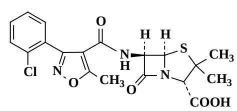
Anti-Fungals



Anti-Depressants

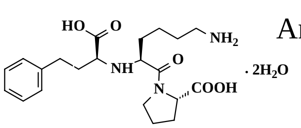


Semi-synthetic Penicillins



Hypnotics & Anti-Psychotics

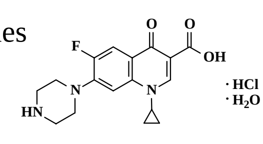
Beta Blockers



Anti-Hypertensives

Statins

Quinolones



…AND MUCH MORE

We are targeting the regulated markets ...huge potential for our products

US$ Billion

	Global	USA	EU	Others
Steriles				
Ceph	3.3	0.9	0.7	1.7
SSP	2.8	1.1	0.7	1.0
Sub-Total	**6.1**	**2.0**	**1.4**	**2.7**
Anti retrovirals	**6.6**	**3.9**	**1.4**	**1.3**
Oral betalactums				
Ceph	3.4	1.2	0.6	1.6
SSP	2.7	1.2	0.6	0.9
Sub-Total	**6.1**	**2.4**	**1.2**	**2.5**
CNS	**33.4**	**25.1**	**4.7**	**3.6**
CVS	**39.9**	**21.1**	**8.9**	**9.9**
Others	**36.7**	**22.9**	**6.1**	**7.7**
Total	**128.8**	**77.4**	**23.7**	**27.7**

full tilt. This was unavoidable. Capacities remained under utilised, at units earmarked for regulatory market sales. We were to some extent also affected by the competitive pressures of the market.

Some of our overseas operations, especially at China, were affected by low end-price for our products, as well as by rising manufacturing costs. We did take suitable action to become leaner, the favourable impact of which would be visible only in the current financial year.

During the year, there were large amounts incurred on accelerated regulatory and R&D programmes. In the process, we got a head start and made the production facilities ready for regulatory inspection.

Members will appreciate these are expenses in the nature of investment. They are incurred to create internationally bench-marked assets that add value to your Company in the long-term, and will in all likelihood generate revenues and profits from the regulated markets. These have been debited to operating profits earned from the domestic and emerging markets.

Costs are being charged to present earnings, while the assets are being created to earn future revenues. With the transformation that we are effecting in our market mix, we hope to make a dramatic change in the quality of future revenues.

I must reiterate, we will continue to pursue regulatory approval of products and facilities. We have a large basket of products, and we wish to submit all our main revenue earners to international authorities. We will work towards first mover advantage.

We surely are looking at the emerging opportunities in the generics market in the future. Aurobindo would like to position itself better, and derive value for its products, and ultimately for its stakeholders.

These efforts will necessitate incurring significant costs. In the near term, we expect the bottomline to be subdued. Lower bottomline is a price we pay today, so that our tomorrows are better. We see all these as essential costs.

Indeed, seen in the right perspective, these are investments made to improve your Company's business model. In the process, we are ensuring long-term sustainability, growth and profit. Our singular focus is to enable Aurobindo to take its rightful place in its chosen segments, in the premium markets of US and Europe.

We had in recent times focused on building infrastructure and delivery capabilities. We will now be making greater impact on positioning of our products, be it with hospitals, chain stores or through other intermediaries.

Now that we hold regulatory approvals, we are investing on the marketing of Aurobindo, and its products. We have added relevance and value. We have earned credentials. We are better positioned to market our products. Today, we have presence in Europe, US and Latin American countries and have started export to some of these markets.

Our improved business model and revenue stream have been put into action. Initial orders and consignments are eliciting encouraging signs. Wherever we have approvals, we have commenced marketing, and we hope to convert all certification and approvals into invoicing.

The financial results for FY06 will show much greater momentum and the impact of the initiatives made. While we would continue to serve the domestic and global markets, both in the API and formulations segments, we hope to make meaningful impact in the regulated markets. Numbers will naturally follow.

We believe we would be able to translate our strong initiatives into better top and bottom line, before the end of FY06. The improved income streams would help the Company take the future costs of filing new dossiers and ANDAs in its stride. Increasing revenues from regulatory markets will make the difference.

Our global footprints

Apart from multiple locations in India, Aurobindo has manufacturing facilities in the USA, Brazil and China

As Members are aware, we have always kept the needs of our customers and markets in forefront, and thereby created value for all stakeholders. Probably, our best efforts did not get the visibility it deserved, due primarily to the fact that costs were absorbed and charged off while the assets had not turned income earning.

At Aurobindo, long term stability and sustainability is as important as growth and profits. We carefully plan our strategies, initiate actions that will add value, gain ground and consolidate before we accelerate.

While what we had set out a couple of years ago may have cost the company time and resources, it has actually made Aurobindo a wealth creator. We have today the opportunity and strength to make a healthy impact in the regulated markets.

We have done all the hard work. We have taken care of the hardware and the software. We are now executing the strategies. The results should be visible in a few months. We believe we have mapped out what needs done, and today have the strength and the excitement to ensure that we go on to deliver results.

My colleagues on the Board and I are certain, our dedicated team of professionals would make every effort to carve a significant market share for our products. Together, we shall create a new level of success.

Our efforts will be to reciprocate the trust and support of all our stakeholders. We are confident that we shall be more effective in creating wealth, and justifiably we can look forward to the future with optimism.

Warm regards,

P. V. Ramaprasad Reddy
Chairman

Leveraging the present for the future

Fortunes of pharma industry were under pressure throughout FY05. The pressures in the global markets were influenced by the new patent regulations, consolidation in the industry worldwide and the compulsions of various governments to lower their health cover costs.

Domestic markets experienced the impact. Newer variables further affected the market adversely. Competitive pressures influenced prices, while volume sales were under pressure when the traders protested the imposition of VAT. Implementation of MRP based excise regime had an effect on some of our customers, and volatility in forex market hurt realisation from exports. Strengthening of the rupee against the dollar was another factor.

While Aurobindo sold more volume in 2004-05 than ever before, the revenue per unit dropped. Capacity utilisation was high at the facilities earmarked for emerging and domestic markets, while production units reserved for manufacturing for the regulated markets were under utilised. Inspections by regulators and time lag between product approvals and shipments to customers meant under recovery of overheads.

Costs were incurred in anticipation of future revenues, and prudential norms were followed in charging them off against current income. Since we believe in quality of earnings and sustainable profits in the future, the efforts and costs have to be leveraged today for visibly improved payback in the foreseeable future.

In the light of the above, it will be easier to appreciate the year's workings. Gross sales were lower 13.5% at Rs.11591 million and the profit after tax saw a 72.4% deceleration.

The numbers however, do not tell the full story. We sold more, used our capacities better and worked on the market pressures to improve on costs. Significant gain was in the ratio of raw material costs as a proportion to revenues. Raw material costs as a proportion of sales were lower, even as the selling prices fell.

More important, we at Aurobindo are upbeat by the fact that our proposals to international regulatory authorities for approvals are receiving encouraging response, and we are getting organised to make an impact in the premium markets of the world.

A few years ago, we had shifted our emphasis and invested in knowledge capital, and made the transition to a research led, chemistry company. We got vertically and horizontally integrated - from chemical and process research to regulatory product approvals and manufacturing excellence, from fermentation to formulation, and across all markets from domestic to the premium, regulated markets. We have created synergies that are improving the productivity of research.

Our manufacturing facilities compare well with the best in the industry; our processes and standard operating procedures are

Cost-revenue mismatch impacted short-term profitability

- Around Rs.4,950 million invested in India on plants (representing 54% of the balance sheet)
- These investments will yield revenue from the end of FY05
- Depreciation and other expenses being charged to P&L, not capitalized
- Incremental regulatory expenditure such as R & D expenses, bio-equivalence studies and maintenance of regulatory plants amounted to approx Rs.870 million more than FY04
- This reduced operating profit by around 7% of revenues as compared to 2004
- Impacted by timing differences between Long-term investments and short-term profitability.
- Regulatory approvals will be converted to revenues and cashflows from FY06 onwards
- In the future revenue from regulated markets will support further regulatory filing expenses

our pride; our products have demand pull; we are piloted by dedicated leadership ably supported by talented professionals; and, due to the approvals and recognitions on hand, we are able to create new marketing structures in the developed world. Our systems, structures and fundamentals have never been as strong as they are now.

The impact of the change is visible. We are able to create value for customers, and offer uniformly high quality, leading to better margin sales.

There has been another qualitative change in looking at business as a whole. Today, your Company is addressing the needs of the quality conscious markets. This has a rub-off effect on all the production units, and the quality systems have been further upgraded. The thinking in all the plants has become regulatory-centric. We believe we will be offering customers in the domestic and less regulated markets better than expected products and services. We expect long-term gains from these markets.

There is considerable satisfaction within the Aurobindo team, that the Company is making a paradigm shift from a domestic market player to a serious player in the generics markets. There is a momentum and sense of urgency in our efforts and we are determined to take our due market share. There is an inspired team that is taking the Company forward.

At Aurobindo, we see the quarterly results as a short-term score card. Actually, we work for the medium-to-longer term, map our goals, and work to create an architecture that enables us to contribute and play a role in advanced markets, have a larger customer base, and create a healthy organization.

As the year unfolds, our optimism will translate into meaningful growth, improved operating profit, wealth creation and shareholder value. We'll stay focused on these goals, and look forward to exceeding your expectations.

K. Nityananda Reddy
Managing Director

Ten tough questions

1

Why did the revenues and profits fall in FY05?

In terms of financials, the numbers were lower than expectations. Lower revenues and lower net profit meant lower earnings per share. In a bid to conserve resources, the dividend has been pruned to 10 per cent.

Competitive pressures kept the product prices lower. This was an industry phenomenon. But more important from Aurobindo's angle was, capacities earmarked for regulatory markets remained under utilised, awaiting product approvals. Incremental regulatory expenditure such as R&D expenses, bio-equivalence studies and maintenance of regulatory plants were approximately Rs.950 million more than that incurred in FY04.

Regulatory expenses were approximately 7% of revenues in FY04, while it was 14% of revenues in FY05. In keeping with prudential norms, profits of the year were debited while the revenue potential was increased for future years.



2

What were the gains of the year?

In real terms, FY05 was one of the most successful years. This was a year in which the Company filed a record number of Drug Master Files (DMFs), Abbreviated New Drug Applications (ANDAs), dossiers and process patents. For instance, the Company filed 64 DMFs (including 24 with US FDA and 11 in Europe) and 25 ANDAs (including 15 with US FDA and 4 in Europe). The Company started receiving approvals as well.

A significant feature of the year was successful inspection of facilities by the regulatory authorities such as the US FDA. Product and facilities approval are enabling the Company to manufacture products for the premium markets.

Status of approved manufacturing infrastructure

Unit	Segments	Certifications
	APIs	
Unit I	High value & Cephs	US FDA
Unit VIII Unit VI	CNS, CVS, ARVs Cephs	US FDA, WHO Health Canada
Unit V, VI & Unit XI – Blocks	Cephs & ARVs	Awaiting US FDA approvals
	Formulations	
Unit III	High value & ARVs	US FDA, UK MHRA, WHO, Health Canada, MCC (SA) & ANVISA (Brazil)
Unit VI A	Cephs	US FDA
Unit XII	Betalactum	Approval Expected
Cephazone (USA)	Cephs, Steriles	Approval Expected
Bio-equivalence centre		US FDA, ANVISA (Brazil)

These encouraging developments helped plan the strategies better. The approvals provided visibility and generated considerable interest amongst market participants. Marketing arrangements for entry into the US markets were tied up, and tested successfully.

This was also a year when the systems were strengthened and assumptions tested out. The Company integrated various processes especially in the area of research and manufacturing. Approvals received demonstrate the visible inherent strength. But more important, they have resulted in the team taking the responsibility to convert the potentials into performance. There is a high energy team in place.

Status of regulatory filings

		Filed	Approved
DMFs/CoS		89	10
	US FDA	35	
	COS/EDQM etc.	54	
ANDAs		51 + 5*	6
	US FDA	27	
	Europe	11	
	WHO	9	
	Others	4	
Patents		139	24

*through the US JV

As at June 30, 2005

R&D: the strength behind APL's entry into regulated markets

- Over 500 talented scientists
- 16,000 sq. mtrs. R&D facilities
- Demonstrated quality of skills, in number of regulatory approvals being filed
- Ability to file for large numbers of regulatory approvals a key edge
- In-house R&D capabilities to deal with complex chemistry
- R&D initiatives have led to 139 patents filed of which 24 have been granted

3

Why would 2005-06 be different?

The business streams are improving. Regulatory approvals will be converted to revenues and cash flows. Modest beginning has been made with monthly sales of around US$ 2 million in the US market. These exports are steadily growing. The revenues are expected to improve to around US$ 9 million per month by the end of FY06.

In the meantime, Q1 & Q2 of FY06 would appear to show lower revenues and profits, largely because the filings to the regulatory authorities have continued. These are expensive processes especially the filing costs involved for entry into Europe. As is our prudent norm, these expenses will be booked.

We are equipping ourselves better to market our products, as and when the product patent expires. As approvals are received, efforts will be made to manufacture and export them. Rising incomes from the regulated markets will support regulatory filing expenses.

Seen in this perspective, there is likely to be noteworthy improvement in the top and bottom lines in the second half of FY06.

4

What is the significant change at Aurobindo?

The Company has come a long way from being a player in the domestic and less regulated markets, and today has its focus on regulated markets. The transition from API manufacturer to a generics player was on the back of a strong R&D and world-class manufacturing system. Product and plant approvals and encouraging response in the US market has revitalised the Company.

In many other respects, there is a perceptible change. For instance, Aurobindo has emerged as the largest producer of semi-synthetic penicillins in the continent, and is the fourth largest in the world. In steriles, a value added product, Aurobindo is strong with its IPR capabilities, basket of 27 products backed-up by manufacturing and process capabilities.

The Company has an enviable basket of products in six key therapeutic segments. These address a wide cross section of population, and have a global market potential of US$ 128 billion and in US alone these products command a market size estimated to be US$ 77 billion.

Vertical integration, with its ability to produce its own APIs for its generics, gives the Company a huge advantage. Apart from being the lowest cost producer, Aurobindo has certainty of source of supplies of consistent quality.

This adds to the competitive strength in the market, especially when the market is sensitive to price. Looked at from another perspective, the Company would find higher than average product margin.

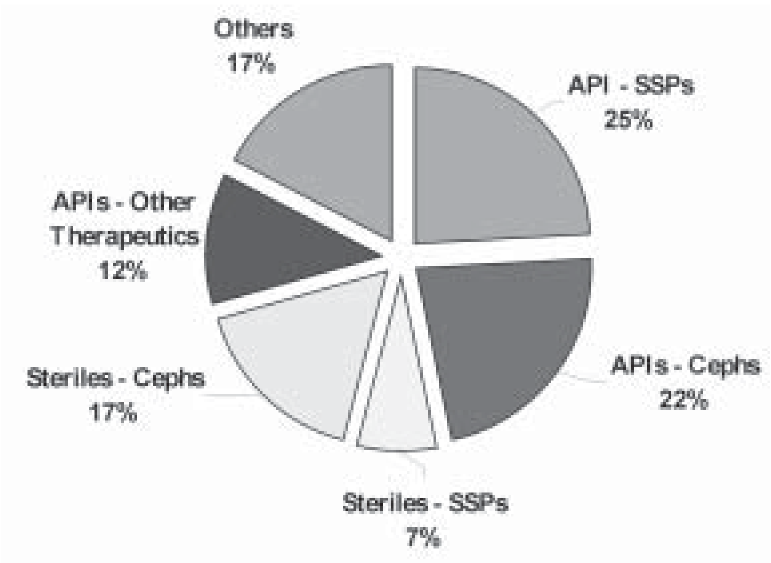
In competitive markets, where volume sales are possible, higher than average margin creates more options. The product and sales volume-margin matrix improves. Aurobindo is better positioned to add value to stakeholders.

Scaling up has resulted in strong internals. Improved systems and processes are ensuring consistency of high quality products and services.

It's not just regulatory approvals for products and facilities that Aurobindo has. Changes have been plenty in the last few years. There are multiple strengths, which make for a robust outlook. Not all of them have been captured in the financials so far.

27
products
in steriles

Broad product portfolio
Diversified sales mix



Consolidated Sales - Rs.14167 million **Indian Sales - Rs.11592 Million**

5

How would revenues improve?

Converting potentials and strengths into market share, invoicing and cash flow is changing the momentum at Aurobindo. While investments have been incurred, the revenue streams have just commenced in the regulated markets.

Aurobindo will have firm footprints in North America and Europe. Initial entry was in the Q4 of FY05, and the beginning was with sales of around US$ 2 million per month. The marketing field force in US did find favourable customer response. As more products get approved and are positioned, there will be more positive developments.

Competitive pressures also seem to have eased, although Aurobindo does take care to remain only in profitable segments. Aurobindo does not chase topline. The emphasis is on building market share in segments in which margins stand protected.

There is a caveat. The costs being incurred for filing new dossiers and ANDAs are expected to impact the bottomline in the first half of FY06. Its in the second half of the financial year that better-quality revenues are expected to impact the bottomline.

The real impact would be in the longer term. The number of approvals is likely to be higher, considering the fact the entire process from chemical research to entering generic market have been nearly fulfilled. It takes about 30+ months to receive approvals and reach the generics market. Aurobindo has already crossed the first 24-odd months for many products.

Making the market moves and their conversion to invoicing has been fast-tracked by Aurobindo, because of the on-ground marketing set-up already established. Marketing structures and joint ventures are already in place.

FY06 onwards...

- Significant basket of approved products in US will be in hand by late 2005
- Key sterile injectable approvals (Market: US$ 1 billion) anticipated
- US/EU marketing strategy is converting approvals into sales
- Key product co-marketing alliances signed in the US
- Aurobindo supports PEPFAR initiative - strong sales growth expected for ARV products
- Alliances are being tied up with MNC customers for supplying APIs
- Assets to sweat much more given volume growth

6

How would Aurobindo succeed in a highly competitive market?

Regulated markets are highly competitive. Yet, Aurobindo will succeed because it has a few unique strong points. The most critical items that would help marketing efforts are iterated below:

- Most of the products being filed and approved are those where the product patents are soon to go off-patent. First mover advantage is being pursued.
- Most ANDAs are sourced from the Company's own DMFs.
- In-house API manufacture lowers cost of production, adds to consistency; Cost competitiveness improves marketing options.
- The manufacturing JV in USA, will provide last-mile connectivity for sterile products to the market. This is a fast-track option to locally manufacture in USA, and supplement Aurobindo's offer of products.
- Customers, especially the trade channels, will find Aurobindo a one-stop shop, since they would get a very large number of products under one-roof.

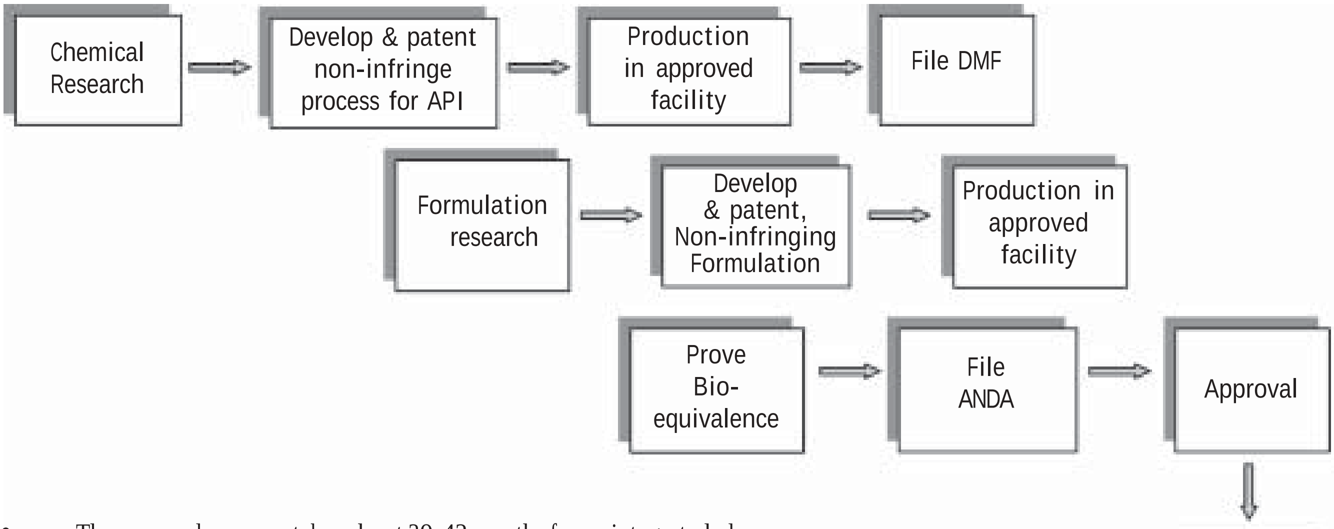
These are enormous strengths, and add to the marketing muscle.

Our diverse product segments

Steriles	Betalactams	Anti-virals	Life style drugs
Market size: US$6.1bn	Market size: US$6.1bn	Market size: US$6.6bn	Market size: US$110bn
A high margin segment	Strongest player with economies of scale	Full range of portfolio	Strong pipeline to balance portfolio in developing markets
Protected by entry barriers	Larger capacities and better cost structure than any competitor	API and finished form facilities US FDA approved	Large manufacturing capacities to meet single umbrella needs of global distribution
IPR capabilities, vertically integrated product base and process add to strengths	Vertically integrated, Fermentation/ API to formulations	Eminently positioned to participate in PEPFAR and meet WOS requirements	
Need expensive manufacturing infrastructure with dedicated facilities	Offer potential for global outsourcing	APL has a credible basket of 12 products	
APL has a basket of around 27 products			

Most ANDAs are sourced from Company's DMFs

Brief note on the approval process for generics



- The approval process takes about 30-42 months for an integrated player.
- Aurobindo has completed the development cycle for over 100 products.
- Patents are issued to innovator companies for research based products.
- When the product patent expires, competitors can make the same product with non-infringing processes. These products are referred to as generics.
- Manufacturing facilities where generics are made, require approval by regulatory authorities (FDA in the US).
- Both the raw material (also called Active Pharmaceutical Ingredient - API) and the formulation (tablets/capsules/etc. as consumed by the user) should be equivalent to innovator's products.
- The API and the formulation need to be approved independently.
- Drug Master Files (DMFs) are the approval submissions for APIs.
  - ✓ DMF must be based on a manufacturing facility approved by the FDA.
- Abbreviated New Drug Applications (ANDAs) are the approval submissions for formulations.
  - ✓ An ANDA must be based on a API, with an approved DMF.

Opportunities for generic players

- Significant number of products are going off-patent in the next 3 years.
- Pressure to reduce healthcare costs offers opportunities for Indian pharmaceutical companies manufacturing generics due to innovation / cost competitiveness.
- Pressure on costs are forcing MNCs to source generics out of India.
- The global generic market was USD 19 billion in 2001 and is expected to grow to USD 36 billion by 2005.

7

In the regulated markets, what would be a powerful income stream?

Aurobindo has a number of products that meet the needs of the PEPFAR programme of the US Government. President's Emergency Plan for AIDS Relief, often known as PEPFAR, is a five year US$ 15 billion global initiative to combat the HIV/ AIDS epidemic.

Out of this amount, 55% is for the treatment of individuals with HIV/AIDS. During 2006 through 2008, 75% of the amount is to be spent on purchase and distribution of antiretroviral (ARV) drugs. There will be approximately US$ 6 billion worth of ARV products bought from the qualified manufacturers.

A clutch of products manufactured by Aurobindo have been approved by US FDA, and the Company is taking care to register and pre-qualify with all the 15 focus countries in Africa & West Indies identified for fast-track relief.

Aurobindo stands a fair chance of being empanelled as a vendor under the PEPFAR programme.

This is in addition to domestic HIV/AIDS expenditure in the US for which the government spends on average US$ 17.5 billion per annum. The recent set of approvals of ARV products and the manufacturing facilities approval by US FDA would add to new money.

World Health Organisation (WHO) has also pre-qualified the Company for its various sponsored programmes. The ARV segment of the Company is expected to be a leading revenue stream. This is another area where Aurobindo has a huge advantage by virtue of its presence in APIs and generics.

8

If the Company is focused on regulated markets, what happens to the domestic and less regulated markets?

These markets and the customer base have been built with considerable care, over an extended number of years. They will continue to be serviced and stay focus areas.

Even as the production facilities have been upgraded, and quality systems scaled up, there are as yet untapped markets in domestic and emerging markets. Breadth and depth of the market will be addressed, with product offering that will match the regulated markets.

The Company recognises that all the markets will sooner or later get upgraded to regulated standards. Hence manufacturing base, product strength, market presence, reach and delivery levels will continue to be uptraded.

9

Could it all have been fast tracked?

There was a dream, a vision, and a strategy. Aurobindo consciously moved up the scale, leveraged its strengths in chemistry and costs to create a product pipeline, ramped up the manufacturing infrastructure and processes upto global scale, added a large pool of skilled professionals, and is now receiving regulatory approvals for facilities and products. These are a series of actionable areas that were addressed.

It takes time to build this level of competitive strength. These need to be well thought-out, sequenced, and actioned on ground. A broad basket of products in some of the largest therapeutic segments, need considerable R&D inputs. Painstaking efforts from the team have brought Aurobindo to the present level, where the Company is making a foray into the premium markets.

Some of them needed to be sequenced. Some could be done simultaneously. Sturdier and fail-safe business model was as imperative as critical path. There cannot be short-cuts or compromises while creating long-term sustainability.

It has been done just in time.

10

How would it translate for all the stakeholders?

Aurobindo worked to ensure long-term sustainable business model. While the Company is dedicated to improving human health, and offer the best products to consumers and medical profession, the Company remains focused on being a successful business organisation.

The recent efforts have been done with an eye on reaching out to a wider spectrum of customers and market, as well as improve the earning capacity. The Company believes in creating visibility through performance, leading to value and wealth for stakeholders.

The journey is just beginning.

R&D
Resolving complex chemistry
with a sense of purpose

Manufacturing excellence
- sustains a broad product portfolio
- enhances competetiveness

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

Chief Financial Officer
Mr. Sudhir B. Singhi

Company Secretary
Mr. B. Adi Reddy

Internal Auditors
M/s. K. Nagaraju & Associates
Chartered Accountants
1-8-197, Chikkadpally,
Hyderabad - 500 020

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

Registrars & Share Transfer Agents
M/s. Karvy Computershare Private Ltd.,
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: mailmanager@karvy.com

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 Eighteenth Annual General Meeting of the Company will be held on Tuesday the 27th day of September 2005 at 3.00 p.m. at Sri Sathya Sai Nigamagamam, 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 March 31, 2005 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. S. Bimal Singh who retires by rotation and being eligible, offers himself for re-appointment.

4. To appoint a Director in place of Dr. K. A. Balasubramanian who retires by rotation and being eligible, offers himself for re-appointment.

5. To appoint a Director in place of Mr. Srinivas Lanka who retires by rotation and being eligible, offers himself for re-appointment.

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.

By Order of the Board

B. ADI REDDY
Company Secretary

June 30, 2005

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 Register of Members and Share Transfer Books of the Company will remain closed from September 22, 2005 to September 27, 2005 (both days inclusive).

3. 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 September 27, 2005. In respect of shares held in electronic form, the dividend will be payable to the beneficial owners of shares as at the end of business hours on September 21, 2005 as per details furnished by NSDL & CDSL for this purpose.

   The unpaid/unclaimed final dividend for the year 1996-97 and interim dividend for the year 1997-98 amounting to Rs.41,661 and Rs.70,088 respectively have already been transferred to the Investor Education and Protection Fund of the Central Government on October 4, 2004 and December 27, 2004 pursuant to the provisions of Section 205A of the Companies Act, 1956.

   Further, the unpaid/unclaimed final dividend for the year 1997-98 amounting to Rs.138,420 will be due for transfer to the Investor Education and Protection Fund of the Central Government on September 30, 2005 pursuant to the provisions of Section 205A of the Companies Act, 1956.

4. 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).

5. 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.

Directors' Report

Dear Members,

Your Directors are pleased to present the 18th Annual Report of the Company together with the Audited Accounts for the financial year ended March 31, 2005.

FINANCIAL RESULTS

Rs. Million

	2004-05	2003-04
Gross Turnover	11591.7	13410.7
Profit before Depreciation, Interest and Tax	1234.0	2389.3
Depreciation	404.9	341.6
Interest	399.9	322.4
Profit before Tax	429.2	1725.3
Provision for Tax/Deferred tax	78.4	455.0
Net Profit	350.8	1270.3
Balance brought forward from Previous year	200.6	139.2
Balance available for appropriation	551.4	1409.5
APPROPRIATIONS		
Dividend on Equity Shares	25.4	114.2
Tax on Dividend	3.3	14.7
General Reserve	–	1080.0
Balance carried to Balance Sheet	522.7	200.6

REVIEW OF OPERATIONS

During 2004-05, your Company significantly improved its fundamentals and added to its strengths. The production facilities as well as product basket were upgraded and a series of approvals were received from international regulators.

Your Company has a clearly laid out strategy to move up the scale as a generic pharmaceutical company in the developed world, and become a significant player in its chosen segments. As Members are aware, your Company has been upgrading its manufacturing facilities, preparing Drug Master Files (DMFs) and Abbreviated New Drug Applications (ANDAs) and has been having the facilities inspected and products approved by authorities such as US FDA, World Health Organisation, EDQM, and so on.

Indeed, the first of the approvals were received from US FDA during the year under review. It is a matter of pride for your Company that marketing of products commenced in the US during the last quarter of the financial year.

In the interim, while the inspection and approval procedures were underway, there has been unavoidable under-utilisation of production capacities earmarked for the regulatory markets. Although your Company had planned and budgeted such underutilisation, Members will appreciate the revenues were inevitably affected.

However, your Company stepped up its manufacture for the emerging markets, from the rest of the facilities and increased its volume produced and sold. There were severe competitive pressures in the market, and your Company's products were subjected to lower realisation.

Prices ruled low throughout the year, and at times, it was found to be unremunerative to manufacture. In a market affected by consolidation pressures, competitive pricing hurt all manufacturers. Your Company took measures to control costs; raw material costs were brought down as a proportion to sales. Yet, the operating margins were squeezed.

The industry also witnessed pressures in the domestic market, with the introduction of VAT. The traders took time to adjust to the changed regulations, and this had an impact on the quantities delivered to them. In line with the industry, your Company also witnessed lower off-take. This phenomenon affected the second half, and it is believed it would impact the performance results for H1 in the current year 2005-06.

In preparation for the stated goal of entering the regulated markets, your Company continued its efforts to file more DMF/ANDAs/dossiers to the regulatory authorities in US and Europe. The Company did incur substantial costs for preparing the dossiers for filing to authorities as well as incur costs of a revenue nature, which while improving the business model for the long-term, did impact the operating costs for the year under review. These expenses, in line with prudential norms, have been charged to revenue, further impacting the profits for the year.

During the year, the Company changed its accounting policy with respect to treatment of Product Development costs. The accounting policy adopted by the Company is in conformity with the Accounting Standards issued by the Institute of Chartered Accountants of India. The Company has capitalized an amount of Rs.167.3 million. Research costs which is of revenue nature, is charged to revenue, while capital expenditure is included in the respective heads under fixed assets.

Product Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. The carrying value of product development costs is reviewed as required.

The year also witnessed high volatility in the forex market, and your company incurred an exchange loss of Rs.134.5 million, as against an exchange gain of Rs.92.5 million in the preceding year. The loss was incurred despite the best efforts of the management. Currency risk is inherent in exports, and can only be minimised.

(Contd...)

These factors impacted the overall financials and your Company. The revenues were lower by 13.5% and the profit before tax was lower by 75%. Profit after tax was lower by 72.4% at Rs.350.8 million, which translated to an EPS of Rs.6.9.

Members will appreciate while the financial performance for 2004-05 was impacted by the strategic changes being made to the fundamentals of the Company, it has leveraged itself better and is poised for dramatic changes in its revenue model. Aurobindo's capabilities to meet the challenges of the future have been significantly improved during the year. This is expected to enhance the earning potential of your Company in the foreseeable future.

RECOGNITION

Its a matter of gratification to report that your Company was listed by the highly respected "Forbes Magazine" as being among the "Best under a Billion - Asia's Rising Companies" in its issue dated November 1, 2004. The list covers the 100 best smaller-size enterprises in both Asia-Pacific and Europe.

The magazine informed that a database of 2,600 publicly traded Asian companies, which had under US$ 1 billion year revenue and five-year returns on capital of at least 5 percent, was screened to prepare the list. Sustained gains in sales and returns were considered for ranking. It also looked for companies with a track record of rewarding their shareholders.

Your Company believes such international recognition shall further fuel the Aurobindo team to excel in its efforts.

DIVIDEND

Your Directors have proposed a dividend of 10% on the Equity Shares of Rs.5 for the year ended 31st March, 2005 and will be paid, subject to the approval of the Members, to the registered Members as on the book closure date.

ACQUISITION

Your Company purchased a sterile plant of Dee Pharma under a court auction (Delhi High Court) for a sale consideration of Rs.38 million. The unit is located at Bhiwadi in Rajasthan and it is intended to be utilised for growing the sterile business.

OUTLOOK

Your Company is ensuring a smooth transition from being an API company to a significant player in the generic segments of the premium pharmaceutical markets. The business model and revenue streams have been scaled up, with appropriate infrastructure, product basket and marketing strategies. Your Company has tested out its assumptions, and has received encouraging response on its marketing efforts in the USA.

There are enormous opportunities in the high margin markets of Europe and your Company has made arrangements for marketing its products. Necessary product approvals are underway, and it is expected that your Company would launch them before the end of the year.

Considerable efforts have been made to position your Company's products in the domestic and emerging markets. Your Company will continue to optimise on its strengths in these markets. Efforts however, will be made to improve margins.

While your Company would see value in accelerating its efforts in marketing its generic products in the regulated markets of North America and Europe, the market mix would continue to include the existing API and generic markets.

Your Company is one of the few producers of anti-retrovirals in the world with product and facility approvals from WHO, US FDA and others.

There is an increased effort from the developed world to address the growing HIV related ailments. A budgetary provision of the Government of USA, named PEPFAR with a budget of US$ 5 billion is expected to contain the ailment in Africa.

The World Health Organisation is taking keen interest in containing this ailment and is sponsoring new programmes that will need supplies from qualified vendors. Your Company is qualified to participate in all such programmes, and expects to contribute to the containment of the ailment.

Most of the initiatives and improvements in the business mix are expected to impact the top and bottomline in the second half of the FY2006. While investments have been made on ground over the last two years, and the approvals from regulatory authorities are being received in recent months, your Company would leverage its strengths and convert revenue potentials in the near future.

The visibility of revenue and net income are expected to improve in the foreseeable future.

RESEARCH & DEVELOPMENT

Your Company is one of the few horizontally integrated pharma companies, and R&D constitutes one of the cornerstones. The R&D function of the Company identifies drugs for launch, creates the necessary processes, validates the systems, pilot-produces the product and hands over the product to the manufacturing function.

It is a matter of pride for the Company that the in-house resources have spearhead and filed DMFs and ANDAs for a very large number of drugs and obtained regulatory approvals from international authorities on a fast-track basis.

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.

Allocation for R&D was stepped up during the year under review by 10.8% over the amount set aside in the previous year. The amount incurred on R&D expenses constituted 4.62% of the total turnover as against 3.57% in 2003-04.

(Contd...)

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 2004-2005 were as follows:

Rs. Million

Subsidiary	Country	Form	Amount
APL Holdings Inc	USA	Loan	22.2
Aurobindo (Datong) Bio-Pharma Co. Ltd	China	Loan	199.1
Helix Healthcare B. V.	The Netherlands	Equity	1.8
Aurobindo Pharma USA Inc	USA	Equity	51.9
		Loan	124.7

SUBSIDIARIES/JOINT VENTURES

Your Company has set up subsidiaries and joint ventures at various strategic locations to take advantage of the available opportunities, and improve the business value chain. Necessary systems, processes and people have been resourced and deputed at every location. The professional managers in the different locations and the value they create are expected to fast track your Company's stated goals of becoming a powerhouse in the generics markets of the world.

Your Company has effectively completed its backward and forward integration, and creates value from fermentation to formulation. The production units not only provide cost advantage, but will also ensure stability in source of supplies and consistent quality.

The marketing linkages will give the necessary capacity to reach the customer much faster. Your Company's enormous strengths are expected to be visible as more and more products compete in the generics markets, and in particular the regulated segments.

Most of the subsidiaries and ventures are at a start-up stage, and have therefore not reached their optimum revenues and profits. These units are presently establishing business interests, creating the necessary infrastructure and alliances, and are being readied to handle volume business.

The raw material sourcing unit at China has stabilized production although the profitability was affected due to lower prices and severe competitive pressure for the products manufactured. The losses were however not significant. For instance, the two subsidiaries at China incurred losses which amounted to 4.75% and 5.5% of their respective turnover for the year.

Efforts have been made to increase the operating efficiency. The prices of their products in the market appear to have bottomed-out, and are expected to stabilize at higher levels.

Some of the other units also incurred operating losses. All the results of the subsidiaries have been fully reflected in the consolidated accounts of the Company.

There has also been a diminution in the value of investments made in subsidiary companies, namely APL Holdings Inc., and Aurobindo Datong Bio-Pharma Co. Ltd, China to an extent of Rs.112.5 million and Rs.373.3 million respectively, on the basis of net asset value of the said subsidiaries, as at March 31, 2005.

Considering the nature of the industry and gestation period involved, your Company believes that the diminution in value is temporary in nature and no provision is necessary for such diminution.

Summarised details of the subsidiaries/joint venture are as follows:

Names of the Entities	Country	Category	% of Interest	Activity
Aurobindo (H.K.) Limited	Hong Kong	Subsidiary	100	Marketing
APL Pharma Thai Ltd.	Thailand	Subsidiary[1]	48	Marketing
APL Holdings, Inc.	USA	Subsidiary	100	Investment (Merged with Aurobindo Pharma USA, Inc.)
AB Farmo Quimica Limitada.	Brazil	Subsidiary	99.8	Marketing & Manufacturing
Aurobindo (Datong) Bio-Pharma Co., Ltd.	China	Subsidiary	100	Manufacturing
Aurobindo TongLing (Datong) Pharmaceutical Co., Ltd.	China	Subsidiary	100	Manufacturing
APL Chemi Natura Ltd.	India	Subsidiary	100	Trading
Helix Healthcare B.V.	The Netherlands	Subsidiary	100	Marketing
Citadel Aurobindo Biotech Limited	India	Joint Venture	50	JV Marketing
Cephazone Pharma, LLC	USA	Joint Venture	50	Manufacturing JV
Aurosal Pharmaceuticals, LLC	USA	Joint Venture	50	Manufacturing JV
Aurobindo Pharma USA, Inc.	USA	Subsidiary	100	Marketing & Investment
Auro Pharma Inc.	Canada	Subsidiary	100	Marketing

[1]APL Pharma Thai Limited is considered to be a subsidiary by virtue of the parent company's control of the composition of the board of directors of APL Pharma Thai.

A brief summary of the activities/features of some of the subsidiaries are enumerated below:

Aurobindo TongLing (Datong) Pharmaceutical Co. Limited (ATPL)

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.

For the financial year ended 2004-05 ATPL has registered a total turnover of Rs.1440.4 million and incurred a loss of Rs.78.8 million, mainly on account of lesser realisation of end products and depreciation & amortisation of Rs.48.0 million. Aurobindo Pharma has invested U.S.$ 3.3 million as equity in the period up to March 31, 2005.

Aurobindo (Datong) Bio-Pharma Co. Limited (ADPL)

ADPL has set up a plant for manufacture of 1500 TPA of 6APA by manufacturing Penicillin G from the basic stage. The entire production is for captive consumptions and used by the parent company and by Aurobindo Tongling (Datong) Pharmaceutical Co. Ltd for their APIs.

The company has commenced commercial production during in the beginning of the year 2003-2004. For the year 2004-05 ADPL has registered turnover of Rs.1254.7 million and incurred a loss of Rs.59.6 million mainly on account of depreciation of Rs.129.1 million and also implementation of phase II which is expected to double the capacity by second half of 2005.

(Contd...)

Aurobindo Pharma has invested U.S.$ 21.8 million as equity and extended debt of U.S.$20.3 million in the period up to March 31, 2005. The investment made is of strategic importance keeping in mind the backward integration of the parent company's operations. The company assures raw materials supplies and price stability.

Helix Healthcare B.V. (HHB)

HHB was incorporated to seize the business opportunities available in Europe and the main objects of the HHB are to carry on R&D, investments in business entities, and the provision of services in the field of pharmaceuticals.

It is an investment vehicle for the step-down subsidiaries planned in UK, Canada and South Africa. The company has incurred a loss of Rs.2.1 million for the financial year ended 2004-05 mainly on account of operating expenses. Aurobindo Pharma has invested U.S.$ 0.1 million in the form of equity in HHB.

APL Pharma Thai Limited (APTL)

APTL is a marketing company and sells goods mainly manufactured by the parent company in India in the South East Asian market and has achieved a turnover of Rs.397.9 million and profit before tax of Rs.11.8 million and profit after tax of Rs.8.8 million for the financial year ended 2004-05. Aurobindo Pharma has invested U.S.$ 0.1 million in the form of equity in APTL in the period up to March 31, 2005.

AB Farmo Quimica Limitada (AFQL)

AFQL's activities are confined to promoting and selling mainly the products of the parent company. AFQL has a warehouse and necessary infrastructure to setup a production facility. AFQL has registered a turnover of Rs.844.7 million and profit before tax of Rs.59.8 million and profit after tax of Rs.24.6 million for the financial year ended 2004-05. Aurobindo Pharma has invested U.S.$ 1 million in the form of equity and U.S.$ 0.2 million in the form of debt to AFQL in the period up to March 31, 2005.

Citadel Aurobindo Biotech Ltd. (CABL)

CABL is a marketing company focused on ethical branded formulations businesses on specific therapeutic areas like cardio vascular, diabetology, gasteroenterology, infection, nutrition, and pain management. CABL has achieved sales of Rs.916.6 million and loss of Rs.200.1 million for the financial year ended 2004-05, out of which APL's share is 50 per cent. i.e. sales Rs.458.3 million and loss of Rs.100.1 million. The total loss of Rs.200.1 million is mainly on account of writing off non-compete fee of Rs.80.0 million depreciation of Rs.43.7 million on formulation brands acquired.

Further, the business of all pharmaceutical companies in India has been affected in the last quarter because of a change in the tax regime with respect to VAT (in lieu of State Sales tax) and levy of excise duty on MRP (maximum retail price). Aurobindo Pharma has invested Rs.10 million in the form of equity and Rs.30 million in the form of debt in the period up to March 31, 2005. Provision in the books of the Company for the diminution in the value to the extent of equity investments has been made.

Cephazone Pharma LLC (CPL)

CPL was formed to make sterile and non-sterile Cephalosporins. For the financial year ended 2004-05 it has incurred a loss of Rs.57.7 million, out of which APL's share is 50 per cent. i.e. Rs.28.9 million. The loss is mainly on account of pre-operating expenses. CPL is waiting for its ANDA approvals to begin the sales.

APL Holding Inc. had invested U.S.$ 3 million in the form of equity and U.S.$ 2.3 million in the form of debt in the period up to March 31, 2005 in CPL. Consequent to the merger of APL Holdings, Inc. with Aurobindo Pharma USA, Inc., this investment got transferred to Aurobindo Pharma USA, Inc.

SUMMARISED PERFORMANCE OF SUBSIDIARIES AND JOINT VENTURE ENTITIES

Rs. Millions

Name of Subsidiary	Country	Total Income	PBT	Net Profit/ (Loss)
APL Chemi Natura Ltd	India	438.5	19.8	11.9
APL Pharma Thai Ltd	Thailand	191.0	5.7	4.2
AB Farmo Quimica Ltda	Brazil	843.0	59.7	24.6
Aurobindo Pharma USA Inc	USA	59.2	(0.3)	(0.3)
Aurobondo (Datong) Bio-Pharma Co.Ltd	China	1,254.7	(59.5)	(59.5)
Aurobindo Tongiling (Datong) Pharmaceuticals Co.Ltd	China	1,440.4	(78.8)	(78.8)
APL Holdings Inc.	USA	–	(5.3)	(5.3)
Aurobindo (H.K.) Ltd	Hong Kong	55.1	(35.7)	(35.7)
Helix Healthcare B.V.	The Netherlands	–	(2.0)	(2.0)
Auro Pharma Inc. (Subsidiary to Helix Healthcare B.V.)	Canada	–	(1.0)	(1.0)
Joint Venture Companies				
Cephazone Pharma LLC (JV of APL Holdings)	USA	–	(28.8)	(28.8)
Aurosal Pharmaceuticals LLC (JV of APL Holdings)	USA	–	(0.5)	(0.5)
Citadel Aurobindo Biotech Ltd (JV of Aurobindo Pharma Ltd)	India	458.3	(93.7)	(100.0)

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.

ENVIRONMENTAL REGULATION

Your Company would always remain a responsible corporate citizen. The production units comply with all relevant governmental regulations relating to Environment, Safety and Health. The Ministry of Environment and Forests, Government of India has accorded clearance for all the units of your Company.

Regular safety audits are carried out in the plants. Indeed, your Company believes in bench marking itself with the best industry standards, and shall keep updating its systems and processes on an on-going basis.

DIRECTORS

In accordance with the provisions of the Companies Act, 1956, read with the Articles of Association of the Company, Dr. S. Bimal Singh, Dr. K. A. Balasubramanian and Mr. Srinivas Lanka retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

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 March 31, 2005 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.

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 reported on the Consolidated Financial Statements based on the accounts of subsidiaries as at March 31, 2005. 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 December 31, 2004 - APL Pharma Thai Limited, APL Holdings Inc., AB Farmo Quimica Limitada, Aurobindo (Datong) Bio-Pharma Co. Limited and Aurobindo TongLing (Datong) Pharmaceutical Co. Limited.

In order to facilitate consolidation of the accounts, all the above subsidiaries, except APL Pharma Thai Limited and Helix Healthcare B.V., also had their books audited as at March 31, 2005. Your Company's auditors have relied on the audited statements of all companies as audited upto 31st March 2005.

The auditors have relied on the management certification for unaudited accounts prepared as at March 31, 2005 for the following entities - APL Pharma Thai Limited, Citadel Aurobindo Biotech Limited and Helix Healthcare B.V.

Four subsidiaries, APL Chemi Natura Limited, Aurobindo (H.K.) Limited, Auro Pharma Inc. and Aurobindo Pharma USA, Inc., had their books audited as at March 31, 2005, and your Company's auditors have considered them.

The subsidiary in the Netherlands, Helix Healthcare B.V. qualifies as a small entity and in conformity with the Dutch Civil Code, auditing of its annual accounts is not required.

The statutory auditors have commented in their report on the Consolidated Financial Statements regarding non-conformity with Accounting Standard- 22 "Accounting for Taxes on Income" and 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. While your Company is grateful for the valuable comments, the accounts of the respective entities have been drawn up in conformity with the laws of the land where those companies have been incorporated.

Earnings per Share was computed on the consolidated profit of the current year, prior to reversal of deferred tax assets of earlier years. While the adjustment has been done as required, the ratio has been drawn to differentiate the earnings for the year. The difference in Earnings per Share as reported in the accounts and as computed by the statutory auditors is on account of such differentiation.

The statutory auditors have commented on Aurobindo (H.K.) Limited, a Wholly Owned Subsidiary of your Company, with respect to the appropriateness of the use of going concern basis in preparation of the financial statements of the said subsidiary for the year ended March 31, 2005. Your Company believes that that the assets of the subsidiary are recoverable and adequate to discharge the known liabilities. No provision is hence considered necessary.

COST AUDITORS

Mr. E. Vidya Sagar, Cost Accountant, has been re-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.

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. The constant upgradation of the facilities, product and facility approvals from international regulators and the present thrust into the regulated markets is a testimony to the competence, skills and result oriented efforts made by the entire team at Aurobindo. Your Directors record their appreciation of the support and co-operation of all employees and counts on them for 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 sincere appreciation and are grateful for the support and co-operation extended by banks, financial institutions, central and state governments. Your Company has been hugely benefited by the support and patronage of its large number of customers and is deeply indebted to them for their encouragement.

Your Company will always keep the interest of its customers, the medical fraternity, employees and the shareholders as a priority, and shall reciprocate their confidence reposed in the Company. It has been a mutually beneficial relationship and looks forward to their continued support.

For and on behalf of the Board

K. NITYANANDA REDDY
Managing Director

Dr. M. SIVAKUMARAN
Director

Hyderabad, June 30, 2005

Annexure to the Directors' Report

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

FORM – A

	31.03.2005	31.03.2004
CONSERVATION OF ENERGY		
Power & Fuel Consumption		
a. Electricity Purchased:		
Units (Nos. in Millions)	96.80	84.27
Total Amount (Rs. Millions)	348.72	326.22
Unit Rate (Rs.)	3.60	3.87
b. Own Generation:		
i. Through Diesel Generator		
(No. of units in Millions)	3.66	5.51
Units per litre of diesel	3.00	3.00
Oil Cost per Unit (Rs.)	10.20	5.96
ii. Through Steam Turbine/Generator	19.76	18.60
Units per litre of Oil/Gas	0.23	0.19
Cost per Unit	2.63	2.54
Coal		
Quantity (M.T)	85328.00	68356.43
Cost (Rs. Millions)	184.20	135.64
Average Rate/M.T. (Rs.)	2158.71	1984.30
Furnace Oil		
Quantity (K. Litres)	2940.57	4026.63
Total Cost (Rs. Millions)	34.17	42.34
Average Rate/K. Litres (Rs.)	11619.54	10513.90
Others (Wood)		
Quantity (M.T.)	1.36	0.83
Total Cost (Rs. Millions)	1.44	0.88
Average Rate/M.T. (Rs.)	1.05	1.05

CONSUMPTION PER UNIT OF PRODUCTION

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

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.

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

	2004-05	2003-04
Capital	183.98	216.63
Recurring	359.13	273.19
	543.11	489.82
Total R&D expenditure as a percentage of total turnover	4.62%	3.57%

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 out-go during the year ended March 31, 2005.

Rs. Million

	2004-05	2003-04
Foreign exchange earned		
Exports (FOB)	5546.20	6420.45
Others	81.00	28.26
	5627.20	6448.71
Foreign exchange outgo		
Materials	5306.90	5395.87
Other expenses	286.97	319.37
	5593.87	5715.24

(Contd...)

Annexure

DETAILS OF STOCK OPTIONS PURSUANT TO SEBI GUIDELINES ON STOCK OPTIONS
AUROBINDO EMPLOYEE STOCK OPTION SCHEME 2004

DESCRIPTION	PLAN 2004
Number of Options available under Aurobindo ESOS 2004	507,700
Total Number of Options granted	412,600
Pricing Formula	The market price of the Shares as on the grant date quoted on the Bombay Stock Exchange or National Stock Exchange, whichever is higher as on grant date.
Options vested during FY 2004-05	Nil
Options Exercised during FY 2004-05	Nil
The total number of shares arising as a result of exercise of option	Nil
Options lapsed during FY 2004-05	9,150
Variation of Terms of options	Nil
Money realised by exercised of Options	Nil
Grant Price (Face value Rs.5)	Rs. 362.60
Total Number of options in force as on March 31, 2005	403,450
Grant details of members of Senior Management Team	139,000

Name	No. of Options	Name	No. of Options
Mr. B. Sivaprasad Reddy	5,000	Mr. K. Prasada Reddy	5,000
Mr. Lanka Srinivas	5,000	Mr. N. Borkar	5,000
Mr. A. J. Kamath	5,000	Mr. V. Muralidharan	5,000
Mr. S. Sadananda Reddy	5,000	Mr. Mario Lavezzi	5,000
Mr. K. A. Venkatachalam	5,000	Mr. N. V. Venkatachalam	4,000
Dr. K. M. Thomas	5,000	Mr. Ravi Kumar Dhir	4,000
Dr. V. K. Handa	5,000	Mr. P. V. V. S. S. S. V. Prasada Rao	4,000
Dr. Ramesh Dandala	5,000	Mr. B. V. A. N. N. Varma	4,000
Dr. A. Rama Mohan Rao	5,000	Dr. A. T. Bapuji	4,000
Mr. M. Madan Mohan Reddy	5,000	Dr. S. Padmaja	4,000
Mr. A. K. Satsangi	5,000	Mr. Anil Kumar Jain	4,000
Mr. M. Premanandam	5,000	Mr. Jacob Joseph	4,000
Mr. C. Balaji	5,000	Mr. K. Krishna Mohan	4,000
Mr. G. P. Prasad	5,000	Mr. Venkata Ramana Reddy	4,000
Mr. M. S. Balaji	5,000	Mr. S. Govindan	4,000

Number of other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year.	Nil
Number of employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant	Nil
Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20 Earnings Per Share.	Rs.6.91
i. Method of Calculation of Employee Compensation Cost	The company has calculated the employee compensation cost using the intrinsic value of the stock options. The grant price is as the market price prevailing on the grant date. Therefore, there will be no Compensation Cost as per Intrinsic Value Basis.
ii. Difference between the employee compensation cost so computed at (i) above and the Employee Compensation Cost that shall have been recognised if it had used the fair value of the options	Since, Compensation Cost as per the fair value basis (i.e., Rs. 288.25), which is less than the Grant Price. Therefore, the difference between the employee compensation cost so computed at (i) above and the Employee Compensation Cost that shall have been recognised if it had used the fair value of the options shall be NIL
iii. The impact of the difference on profits and on EPS of the Company	Profit After Tax (PAT) Rs.350,812,484 Less: Additional Employee Compensation Cost Based on Intrinsic Value Nil Adjusted PAT Rs.350,812,484 Adjusted EPS Rs.6.91
iv. Weighted average exercise price and fair value of stock options granted:	
Stock options granted on	01.08.2004
Weighted Average Exercise Price (in Rs.)	Rs. 362.60
Weighted average fair value (in Rs.)	Rs. 288.25
Closing Market price at NSE on the date of Grant (in Rs.)	Rs. 362.60
v. Description of the Method and significant assumptions used during the year to estimate the fair value of the options, including the following weighted average information	The Black Scholes option-pricing model was developed for estimating fair value of traded options that have no vesting restrictions and are fully transferable. Since, option-pricing models require use of substantive assumptions, changes therein can materially affect the fair value of options. The option-pricing models do not necessarily provide a reliable measure of the fair value of options.
vi. The main assumptions used in the Black Scholes option-pricing model during the year were as follows:	
Risk-free interest rate	7%
Expected Life of options from the date (s) of grant	4 Years
Expected volatility	-4.11%
Dividend yield	2.25

For and on behalf of the Board

K. NITYANANDA REDDY
Managing Director

Dr. M. SIVAKUMARAN
Director

Hyderabad, June 30, 2005

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 100 other countries.

The Company values its contribution to its customers and the medical profession and has planned its strategic growth accordingly. Aurobindo Pharma proactively responds to the changing requirements of the medical profession and enables 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. The Company seeks to establish a strong presence for its generic formulation products in the regulated markets.

INDUSTRY DEVELOPMENTS

The global pharmaceutical industry is growing at 10% per annum and is estimated to be valued at US$ 518 billion, of which North America and Europe account for 48% and 28% respectively. The highly regulated US market includes drugs which are under patent and those that have gone off patent, and is valued at around US$ 248 billion.

The regulated markets protect intellectual property rights, including product patent protection. These are also markets which have stringent quality standards, and stipulate regulatory inspection of manufacturing facilities and approval of products marketed.

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.

Under the new patent regime, the innovator (patent holder) of the drug retains the product patent for a fixed period of ten years. Generic manufacturers are permitted to compete with the innovator after patent expiry.

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 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.

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.

PRODUCTS

Your Company's robust product portfolio is spread over 6 major therapeutic/product areas (antibiotics, anti-Retrovirals, CVS, CNS, gastroenterologicals, and anti-allergics) encompassing around 65 APIs in the non-antibiotics and 55 APIs in the antibiotic segment.

INFRASTRUCTURE

The company has received approvals for several of its manufacturing facilities from leading regulatory agencies like US FDA, UK MHRA, WHO, Health Canada, MCC South Africa. A large Infrastructure supports the operation (as in table).

Unit	Target market [1]	Facility	Approvals
R & D Centres - Hyderabad	RM	Chemical/Formulation Research	
- Mumbai	RM	Formulation Research	US FDA
- Hyderabad	RM	Clinical Pharmacology & Bio equivalence	
Unit - I A	RM	APIs CVS drugs, CNS drugs, anti allergics and other life style drugs	US FDA
Unit - I B	RM	APIs Cephalosporin-Oral.	US FDA
Unit - II	LRM	APIs	cGMP
Unit - III	RM	Multiple blocks - oral dosage Formulations	US FDA, UK MHRA, South African MCC, Brazilian ANVISA, WHO, Health Canada
Unit - V A	LRM	APIs-Betalactams	cGMP
Unit - V B	RM	APIs-SSPs sterile	Awaiting regulatory inspections
Unit - VI A	RM	APIs-Cephalosporins	Compliance with Health Canada. Filed DMFs with US FDA and waiting for inspections.
Unit - VI B	RM	Sterile & oral dosage formulations-Cephalosporins	South African MCC, Brazilian ANVISA, cGMP, US FDA (Oral & Formulations), Health Canada
Unit - VII	LRM	APIs	cGMP
Unit - VIII	RM	APIs	US FDA, cGMP
Unit - IX	LRM	APIs	cGMP
Unit - X	LRM	Drug Intermediates	cGMP
Unit - XI A	LRM	APIs	cGMP
Unit - XI B	RM	APIs	Awaiting regulatory inspections
Unit - XII	RM	Sterile & oral dosage formulations SSPs	South African MCC, Brazilian ANVISA, cGMP, other Regulatory inspections awaited
Aurobindo (Datong) Bio-Pharma	RM/LRM	Intermediates	cGMP
Aurobindo TongLing, China	LRM	APIs-Betalactams	cGMP
Cephazone, JV, USA	RM	Sterile cephalosporin formulations	ANDAs filed and waiting for approvals

[1]RM - highly regulated markets
[1]LRM - Less regulated markets

Management Discussion & Analysis (Contd...)

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.

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.

Your 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. Noteworthy advancements in the form of reduced manufacturing costs and consistent quality standards have been ensured while all legal and regulatory requirements are met.

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 earlier years, there are certain events or transactions during the year that need mention.

ABRIDGED PROFIT & LOSS ACCOUNT

Rs. Millions

	2002	2003	2004	2005
Gross Sales	**10377.2**	**11903.8**	**13410.7**	**11591.7**
Other Income	143.7	240.5	220.6	165.6
Gross profit(PBDIT)	1470.4	2058.6	2389.3	1234.0
Interest	423.9	425.9	322.4	399.9
Depreciation	158.1	231.8	341.6	404.9
Tax	203.3	369.5	455.1	78.4
Net Profit	**685.1**	**1031.4**	**1270.2**	**350.8**

Your Company bought over a sterile facility at Alwar in Rajasthan. Your Company also 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 being tested and expected to go fully live in the last quarter of 2005-2006. 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 the first phase and process manufacturing, quality control, plant maintenance and projects are in the second phase. 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.

ABRIDGED BALANCE SHEET

Rs. Millions

	2002	2003	2004	2005
Fixed Assets				
Gross Block	2750.8	4944.0	6960.1	9062.4
Less: Depreciation	490.5	806.3	1114.1	1516.9
Net Block	2260.3	4137.7	5846.0	7545.5
Intangible Assets	-	-	-	167.3
Investments	737.3	1523.1	1488.9	1512.7
Current Assets, Loans & Advances	5859.0	7514.2	9037.2	9922.8
Less: Current Liabilities & provisions	1545.0	2205.4	1753.4	2061.4
Bank Borrowings (incl.CP)	912.0	1334.0	2255.5	2602.6
Net Working Capital	3402.0	3974.8	5028.3	5258.8
Net Tangible Assets	6399.6	9635.6	12363.2	14484.3
Less: Secured Term Loans	1415.6	2831.7	2890.6	3641.4
Unsecured Loans	1145.1	1089.0	1037.8	2047.2
Net Worth	**3838.9**	**5714.9**	**8434.8**	**8795.7**
Represented by				
Equity Shares	206.7	232.5	253.9	253.9
Share warrants	10.6	21.5	350.0	350.0
Reserves & Surplus	3406.9	5101.4	7309.9	7632.0
Total	3624.2	5355.4	7913.8	8235.9
Less: Misc.Expenditure not written off	6.5	-	-	-
Deferred Tax liability	221.2	359.5	521.0	559.8
Net Worth	**3838.9**	**5714.9**	**8434.8**	**8795.7**

SUBSIDIARIES / JOINT VENTURES

Today, Aurobindo Pharma is an acknowledged leader in APIs particularly in anti-infectives, anti-virals 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 nearly 3,500 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 their 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 has been professionalised in key functions of the organisation. The team is working to institutionalize systems 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.

Report on Corporate Governance

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

The present strength of the Board consists of 10 directors. Four of them are executive and six are non-executive independent directors. Your Company 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**

Name	Category	Number of Memberships[a] in other companies		Attendance at	
		Board	Committees	Board Meetings	AGM
Mr. P. V. Ramaprasad Reddy[b]	Promoter and Executive	2	–	2	Yes
Mr. K. Nityananda Reddy	Promoter and Executive	2	1	4	Yes
Dr. M. Sivakumaran	Executive	–	–	4	Yes
Mr. B. Sivaprasad Reddy[b]	Executive	3	2 (1)[c]	4	Yes
Mr. Srinivas Lanka	Non-executive Independent	–	3	4	Yes
Dr. I. Sathyamurthy	Non-executive Independent	–	–	–	No
Dr. S. Bimal Singh	Non-executive Independent	–	1	3	Yes
Mr. V. S. Janardhanam	Non-executive Independent	–	1	4	Yes
Dr. K. A. Balasubramanian	Non-executive Independent	1	–	2	No
Mr. Karamjit Singh Butalia	Non-executive Independent	1	2	3	Yes

[a] Exclusive of directorships in Indian private limited companies and foreign companies.
[b] Mr. P.V. Ramaprasad Reddy and Mr. B. Sivaprasad Reddy are related to each other.
[c] Figure in ( ) indicates committee membership in other company.

Meetings of the Board of Directors

During the financial year 2004-05, the Board of Directors met four times on the following dates: June 2, July 31, October 29, 2004 and January 15, 2005.

Details of Directors proposed for reappointment

Dr. S. Bimal Singh, Dr. K. A. Balasubramanian and Mr. Srinivas Lanka retire by rotation and being eligible, offer themselves for reappointment.

Dr. S. Bimal Singh, M.B.B.S., D.M.RD., aged about 45 years. He is a consultant radiologist in Hyderabad. His expertise as a healthcare practitioner is expected to help the Company in certain areas of Research & Development, etc. He is not a director in any other company.

Dr. K. A. Balasubramanian, Ph.D., aged about 68 years. He is a scientist worked in India and Canada for about 14 years. He is associated as a Technical Director and Chief consultant with a number of chemical companies. With extensive chemical and technology knowledge and experience in the chemical industry in various capacities, Dr. Balasubramanian contributes to the benefit of the Company in the technology area. He is a director in Velan Hotels Limited, Chennai.

Mr. Srinivas Lanka, aged about 45 years is an alumni of Indian Institute of Management, Ahmedabad and also a member of Institute of Cost and Works Accountants of India. He has over 25 years of rich experience in senior management level in multinational and Indian pharmaceutical companies. He has rich experience in marketing and analysis of global pharma market. He 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 Clause 49 of the Listing Agreement.

The functions of Audit Committee

- Oversight of the Company's overall financial reporting process.
- Reviewing with management the quarterly 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, recommending the appointment of external auditors and fixation of audit fee.
- Reviewing the adequacy of internal control system, internal audit and the reports

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

Composition and other details of Audit Committee

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
Mr. Srinivas Lanka	4	4
Mr. V. S. Janardhanam	4	4
Mr. Karamjit Singh Butalia	4	3

Compensation 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 Wholetime 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 salary, 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 June 2, 2004 and July 31, 2004 and attendance at meetings was as follows:

Member	No. of Meetings	Attendance
Mr. Srinivas Lanka	2	2
Dr. S. Bimal Singh	2	2
Mr. Karamjit Singh Butalia	2	2

Details of remuneration paid to directors during the financial year 2004-2005

a. Executive Directors

Rs.

Name	Salary	Perquisites	Contribution to P.F	Total
Mr. P. V. Ramaprasad Reddy	2,340,000	308,388	9,360	2,657,748
Mr. K. Nityananda Reddy	2,340,000	308,388	9,360	2,657,748
Dr. M. Sivakumaran	2,340,000	308,388	9,360	2,657,748
Mr. B. Sivaprasad Reddy	2,340,000	378,588	9,360	2,727,948
Total	**9,360,000**	**1,303,752**	**37,440**	**10,701,192**

(Contd...)

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.

Name		Sitting fee
Mr. Srinivas Lanka	Non-executive Independent	20,000
Mr. V. S. Janardhanam	Non-executive Independent	20,000
Dr. S. Bimal Signh	Non-executive Independent	15,000
Dr. I. Sathyamurthy	Non-executive Independent	–
Dr. K. A. Balasubramanian	Non-executive Independent	10,000
Mr. Karamjit Singh Butalia	Non-executive Independent	–

Shareholders/Investors Grievance Committee

The main object of Committee is to resolve shareholder grievances and strengthen the investors' relations.

The committee was constituted with the following directors as its Chairman/members

Mr. Srinivas Lanka - Non-executive Independent Director - Chairman

Mr. K. Nityananda Reddy - Executive Director - Member

Mr. B. Sivaprasad Reddy - Executive Director - Member

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

a. Transfer, transmission, split and consolidation of investors holding

b. Dematerialisation of shares

c. Non receipt of dividends and other corporate benefits

d. Replacement of lost/mutilated/stolen share certificates

e. Non-receipt of annual reports and change of addresses, etc.

The Committee meets 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	315	315	–
- Dividend	78	78	–
- Annual Reports	8	8	–
b. Complaints of Shareholders forwarded by			
- SEBI	20	20	–
- Stock Exchanges	4	4	–

There are some pending legal 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 MEETINGS

Year	Location	Date	Time
2002	Hotel Viceroy, Hyderabd	27.09.2002	3.00 p.m.
2003	Hotel Viceroy, Hyderabad	12.09.2003	3.00 p.m.
2004	Sri Sathya Sai Nigamagamam, Hyderabad	31.07.2004	3.00 p.m.

During the year ended March 31, 2005, Special Resolutions for appointment of relatives of directors to the office of profit and for amendment of explanatory statement pertaining to Employee Stock Option - 2004 were passed through postal ballot. The Company has appointed Mrs. P. Renuka, Practicing Company Secretary as Scrutinizer for conducting the postal ballot voting in a fair and transparent manner and to submit her 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.

In all 1,713 shareholders holding 3,16,16,721 shares have sent their ballot papers in time. The result of postal ballot was as follows:

Item No.	No.of Shares voted in favour of resolution	No.of Shares voted against resolution	No.of votes invalid
a. Special Resolution for appointment of Mr. K. Prasada Reddy, a relative of director	30,984,857	620,483	11,381
b. Special Resolution for appointment of Mr. Vishnu M. Sriram, a relative of director	30,981,563	624,141	11,017
c. Special Resolution for appointment of Ms. Shilpa Sivakumaran, a relative of director	30,982,036	625,261	9,424
d. Special Resolution for amendment of explanatory statement dated June 2, 2004 annexed as part of Notice calling 17th Annual General Meeting	31,588,923	13,015	14,783

At present no special resolution is proposed to be transacted through postal ballot.

There is no non-compliance by the Company. 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. 26 of Schedule 24 to the accounts in the 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 published in Financial Express and Andhra Jyothi newspapers. 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

18th Annual General Meeting

As mentioned in the Notice, the 18th Annual General Meeting of the Company will be held on Tuesday, September 27, 2005 at 3.00 p.m. at Sri Sathya Sai Nigamagamam, 8-3-987/2, Srinagar Colony, Hyderabad - 500 073.

Quarterly Results

Financial Calendar (tentative and subject to change) of the financial year 2005-06 is as follows:

Un-audited Financial Results for	(tentative)
1st Quarter	July 2005
2nd Quarter	October 2005
3rd Quarter	January 2006
4th Quarter	April 2006*

* 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 June 30, 2006.

Book closure

From September 22, 2005 to September 27, 2005 (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 within 20 days from the date of the Annual General Meeting to all eligible shareholders.

Registered Office

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

Name & Designation of Compliance Officer

Mr. B. Adi Reddy
Company Secretary
Aurobindo Pharma Limited,
Plot No.2, Maitrivihar, Ameerpet,
Hyderabad – 500 038, Andhra Pradesh.
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,
M/s. 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: mailmanager@karvy.com

Listing Details

The Company's shares are at present listed on the following stock exchanges and the listing fee for the financial year 2005-06 has been paid to all the Stock Exchanges.

Stock Exchanges	Stock Code
The Hyderabad Stock Exchange Ltd. Administrative Office, 6-3-654, Somajiguda, Hyderabad - 500 082.	ABD
The Stock Exchange, Mumbai Phiroze Jeejeebhoy Towers, 25th Floor, Dalal Street, Mumbai - 400 001.	524804
National Stock Exchange of India Ltd., Exchange Plaza, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051.	AUROPHARMA

Depositories	ISIN
National Securities Depository Ltd. (NSDL)	INE 406A01029
Central Depository Services (India) Ltd. (CDSL)	

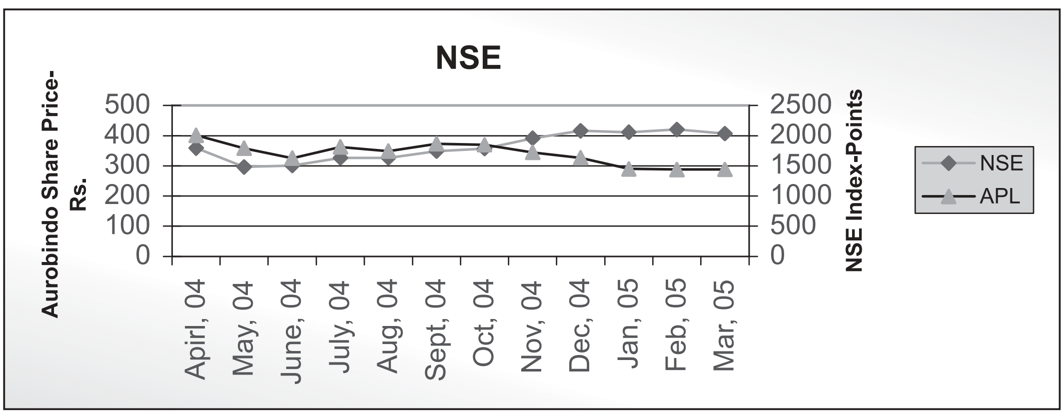
Reuters Code ARBN.BO

Bloomberg Code ARBP.IN

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

Rs.

	National Stock Exchange				The Stock Exchange, Mumbai			
Month	High	Low	Close	Volume	High	Low	Close	Volume
2004								
April	411.00	353.10	401.55	1,717,616	407.00	358.35	401.85	642,853
May	430.00	314.45	358.45	1,796,006	430.00	314.40	359.15	586,551
June	390.90	318.00	325.20	1,511,471	391.00	320.00	325.20	458,195
July	374.40	303.00	362.60	1,374,324	374.00	307.00	362.40	415,322
August	380.10	331.15	349.05	772,378	371.40	334.00	348.20	184,702
September	381.95	335.00	373.65	1,678,125	381.90	336.10	373.30	950,629
October	384.90	337.00	369.65	1,402,290	386.00	348.00	370.05	580,703
November	365.45	328.10	344.70	1,501,326	366.00	328.05	345.50	551,118
December	351.00	313.00	326.70	1,991,411	351.95	310.00	323.95	742,294
2005								
January	332.70	274.05	289.70	1,341,501	335.00	261.10	290.35	387,523
February	320.85	273.00	287.60	1,581,654	321.00	271.00	287.05	470,335
March	352.00	271.00	288.25	3,651,706	351.85	272.00	287.15	1,733,888



Distribution Schedule as on March 31, 2005

Shareholding Nominal value From	To	Shareholders No.	%	Share Amount Nominal Value Rs.	%
Upto -	5000	37,040	97.71	16,836,140.00	6.63
5001 -	10000	412	1.09	3,163,510.00	1.25
10001 -	20000	220	0.58	3,244,785.00	1.28
20001 -	30000	76	0.19	1,885,790.00	0.74
30001 -	40000	33	0.09	1,177,410.00	0.46
40001 -	50000	21	0.06	979,535.00	0.39
50001 -	100000	43	0.11	3,225,195.00	1.27
100001 and above		63	0.17	22,333,7635.00	87.98
		37,908	100.00	253,850,000.00	100.00

Categories of Shareholders as on March 31, 2005

Category	No. of Shares	%
Promoters, Directors & their relatives	27,830,844	54.82
NRIs/FIIs/OCBs	12,976,183	25.56
Govt/Banks/FIs	2,274,368	4.47
UTI / Mutual Funds	861,678	1.70
Bodies Corporate	1,373,376	2.71
General Public	5,397,030	10.63
Others	56,521	0.11

Top Ten Shareholders of the Company as on March 31, 2005

Shareholder	Category	No. of Shares	%
Mr. P. V. Ramaprasad Reddy	Promoter	13,199,088	26.00
Ms. P. Suneela Rani	Promoter	5,963,110	11.75
Mr. K. Nityananda Reddy	Promoter	3,752,470	7.39
Templeton Strategic Emerging Markets Fund LDC	FII	3,597,275	7.08
Ms. K. Rajeswari	Promoter	2,427,550	4.78
Merlion India Fund I Limited	FII	2,370,000	4.67
Copthall Mauritius Investment Limited	FII	2,234,322	4.40
Life Insurance Corporation of India	IFI	1,558,014	3.07
ABN Amro Funds-Global Emerging Markets Equity Fund	FII	1,481,000	2.92
Dr. M. Sivakumaran	Director	1,469,136	2.89

Dividend & Bonus History

Year	Rate of Dividend %	Bonus
1997-98	50	1:1
1998-99	50	–
1999-00	50	–
2000-01	30	1:1
2001-02	30	–
2002-03	35	–
2003-04	45	–

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 2003-04, your Company has allotted 25,00,000 convertible equity share warrants 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 August 3, 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 District, 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 District, Andhra Pradesh
Bhiwadi Unit	No. 1128, RIICO Phase III, Bhiwadi, Alwar District, Rajsthan.

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 March 31, 2005, 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 grievance is 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.

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

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030
Hyderabad, June 30, 2005

Auditors' Report

To
The Members of
Aurobindo Pharma Limited

1. We have audited the attached Balance Sheet of Aurobindo Pharma Limited as at March 31, 2005 and also the Profit & 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 (as amended) 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 & 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;

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 March 31, 2005, and taken on record by the Board of Directors, we report that none of the Directors was disqualified as on March 31, 2005 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;

vi. without qualifying our opinion, we draw attention to the following notes in Schedule 24:

   a. note No.10 regarding diminution in the value of certain investments in subsidiaries which in the opinion of the management is temporary in nature and loans to the said subsidiaries, which in the opinion of the management is fully recoverable.

   b. note No. 11 regarding amounts due from a joint venture company, which in the opinion of the management is good and recoverable.

   we have relied upon the information and explanations provided by the management in respect of the matters cited above.

vii. 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 March 31, 2005;

   b. in the case of the Profit & 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, June 30, 2005.

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

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. However, 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, no material discrepancies were noticed on such verification.

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. a. As informed, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, the provisions of clauses 4(iii)(b), 4(iii)(c) and 4(iii)(d) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

b. As informed, the Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, the provisions of clauses 4(iii)(f) and 4(iii)(g) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company

iv. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of inventory, fixed assets and for the sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas.

v. a. According to the information and explanations provided by the management, we are of the opinion that the particulars of contracts or arrangements referred to in Section 301 of the Companies Act, 1956 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 such contracts or arrangements exceeding value of five lakh rupees have been entered into during the financial year 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.

(Contd...)

viii. We have broadly reviewed the books of account 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, service tax, custom duty, excise duty, cess and other material statutory dues 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 provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other undisputed statutory dues 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 outstanding of income-tax, sales tax, wealth-tax service tax, custom duty, excise duty and cess 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 of dispute of deduction under Section 80 HHC, 80 IA, Foreign agency commission etc.,	37,715,190	1998-99	Commissioner of Income Tax (Appeals)
Income Tax Act, 1961	Disallowance on account of dispute of deduction under Section 80 HHC, 80 IA, foreign agency commission, non-compete fee, interest under 234 and 234 B & C etc.,	145,208,638	2001-02	Commissioner of Income Tax (Appeals)
Central Excise Act, 1944	Dispute regarding credit on inputs exclusively used in the manufacture of exempted goods.	579,269	From 2000-01 onwards	Commissioner-Hyderabad
Central Excise Act, 1944	Dispute regarding dutibility on Intermediates	5,663,134	2000-01	Tribunal, Bangalore
Central Excise Act, 1944	Dispute regarding differential duty on spent solvents.	2,149,617	From 1996-97 to 2000-01	Additional Commissioner - Hyderabad
Central Excise Act, 1944	Dispute regarding valuation of as such inputs transfer from one unit to other unit	655,740	2003-04	Joint Commissioner - Hyderabad
Central Excise Act, 1944	Valuation dispute in case of inter unit transfers	5,055,615	1999-00	CEGAT - Chennai

(Contd...)

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 (as amended) 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 (as amended) 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.

xviii. The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956.

xix. Based on books and records produced to us by the management, securities have been created in respect of debentures issued.

xx. The Company has not raised any money by public issue during the year, accordingly the provisions of Clause 4(xx) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

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, June 30, 2005.

Balance Sheet as at March 31, 2005

Rs. Millions		Schedule	As at March 31, 2005		As at March 31, 2004	
I. SOURCES OF FUNDS						
SHAREHOLDERS' FUNDS	Share Capital	1	**253.9**		253.9	
	Reserves & Surplus	2	**7,632.0**		7,309.9	
				7,885.9		7,563.8
EQUITY SHARE WARRANTS		3		**350.0**		350.0
LOAN FUNDS	Secured Loans	4	**6,244.0**		5,146.1	
	Unsecured Loans	5	**2,047.2**		1,037.8	
				8,291.2		6,183.9
DEFERRED TAX LIABILITY (Net)		6		**559.8**		521.0
	TOTAL			**17,086.9**		14,618.7
II. APPLICATION OF FUNDS						
FIXED ASSETS	Gross Block	7	**7,297.4**		5,844.1	
	Less: Depreciation		**1,516.9**		1,114.1	
	Net Block		**5,780.5**		4,730.0	
	Capital Work-in-progress including capital advances		**1,765.0**		1,116.0	
				7,545.5		5,846.0
INTANGIBLE ASSETS		8		**167.3**		–
INVESTMENTS		9		**1,512.7**		1,488.9
CURRENT ASSETS, LOANS AND ADVANCES	Interest accrued on Investments		**0.3**		0.3	
	Inventories	10	**3,235.8**		2,596.4	
	Sundry Debtors	11	**4,413.8**		4,568.5	
	Cash & Bank Balances	12	**138.0**		374.1	
	Other Current Assets	13	**0.2**		3.4	
	Loans and Advances	14	**2,134.7**		1,494.5	
			9,922.8		9,037.2	
LESS : CURRENT LIABILITIES AND PROVISIONS	Liabilities	15	**1,951.5**		1,550.9	
	Provisions	16	**109.9**		202.5	
			2,061.4		1,753.4	
NET CURRENT ASSETS				**7,861.4**		7,283.8
	TOTAL			**17,086.9**		14,618.7
	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 **S.R. BATLIBOI & CO.**
Chartered Accountants

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030
Hyderabad, June 30, 2005.

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

SUDHIR B. SINGHI
Chief Financial Officer

B. ADI REDDY
Company Secretary

Dr. M. SIVAKUMARAN
Director

Profit & Loss Account for the year ended March 31, 2005

Rs. Millions

		Schedule	2004-2005	2003-2004
INCOME	Sales		**11,591.7**	13,410.7
	Less:Excise Duty		**741.5**	811.8
	Sales (Net)		**10,850.2**	12,598.9
	Other Income	17	**165.6**	128.1
	Increase in Stocks	18	**132.4**	363.5
	TOTAL		**11,148.2**	13,090.5
EXPENDITURE	Raw Materials Consumed	19	**6,404.8**	7,531.8
	Purchase of Trading Goods		**169.6**	339.0
	Other Manufacturing Expenses	20	**1,724.6**	1,537.4
	Payments to and Provisions for Employees	21	**662.2**	513.5
	Administrative and Selling Expenses	22	**953.0**	779.5
	Interest and Finance Charges	23	**399.9**	322.4
	Depreciation		**404.9**	341.6
	TOTAL		**10,719.0**	11,365.2
PROFIT BEFORE TAXATION			**429.2**	1,725.3
	Provision for Taxation		**40.1**	292.7
	Deferred Tax		**38.8**	161.5
	Tax adjustments of previous years		**(0.5)**	0.8
PROFIT AFTER TAXATION			**350.8**	1,270.3
	Balance brought forward from last year		**200.6**	139.2
PROFIT AVAILABLE FOR APPROPRIATION			**551.4**	1,409.5
APPROPRIATIONS	Proposed Dividend @ Re.0.50 (Rs.2.25)			
	on Equity Shares of Rs.5 each		**25.4**	114.2
	Tax on Dividend		**3.3**	14.7
	General Reserve		**–**	1,080.0
	Surplus carried to Balance Sheet		**522.7**	200.6
			551.4	1,409.5
	Basic Earnings per Share Rs.		**6.91**	26.54
	Diluted Earnings per Share Rs.		**6.91**	26.41
	Nominal value per Share Rs.		**5.00**	5.00
	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 **S.R. BATLIBOI & CO.**
Chartered Accountants

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030
Hyderabad, June 30, 2005.

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

SUDHIR B. SINGHI
Chief Financial Officer

B. ADI REDDY
Company Secretary

Dr. M. SIVAKUMARAN
Director

Rs. Millions		As at March 31, 2005	As at March 31, 2004
1. SHARE CAPITAL (Refer Note 4 on Schedule 24)			
AUTHORISED	100,000,000 Equity Shares of Rs.5 each	**500.0**	500.0
	1,000,000 Preference Shares of Rs.100 each	**100.0**	100.0
		600.0	600.0
ISSUED, SUBSCRIBED AND PAID-UP	50,770,000 Equity Shares of Rs.5 each fully paid-up	**253.9**	253.9
	TOTAL	**253.9**	253.9

Notes:

Of the above Equity shares -

a. 34,703,200 Equity Shares of Rs.5 each were allotted as bonus shares by capitalisation of Securities Premium Account.

b. 1,341,000 Equity Shares of Rs.5 each were allotted for consideration other than cash.

c. 2,500,000 Equity Share warrants issued to promoters are to be converted into Equity Shares by August 3, 2005 at the option of warrant holders.

d. During the year, the Company pursuant to special resolution passed at the Annual General Meeting held on July 31, 2004 established a stock option scheme ESOP 2004. As per the scheme, 507,700 (Nil) Options have been allocated for grant to the eligible employees. Each option comprises of one underlying equity share of Rs.5 each. The said options are to be vested on annual basis at 15%, 20%, 25% and 40% over a period of four years.

Rs. Millions			As at March 31, 2005		As at March 31, 2004
2. RESERVES & SURPLUS					
CAPITAL RESERVE	As per last Balance Sheet		**390.2**		390.2
CAPITAL REDEMPTION RESERVE	As per last Balance Sheet		**90.0**		90.0
SHARE PREMIUM	As per last Balance Sheet	**2,005.5**		938.4	
	Add: Received during the year	**–**		1,082.1	
		2,005.5		2,020.5	
	Less: Utilised towards share issue expenses	**–**		15.0	
			2,005.5		2,005.5
DEBENTURE REDEMPTION RESERVE	As per last Balance Sheet	**261.3**		261.3	
	Less: Transferred to General Reserve	**12.5**		–	
			248.8		261.3
GENERAL RESERVE	As per last Balance Sheet	**4,362.3**		3,282.3	
	Add: Transferred from Debenture Redemption Reserve	**12.5**		–	
	Transferred from Profit & Loss Account	**–**		1,080.0	
			4,374.8		4,362.3
PROFIT & LOSS ACCOUNT BALANCE			**522.7**		200.6
	TOTAL		**7,632.0**		7,309.9
3. EQUITY SHARE WARRANTS					
Upfront consideration of Rs.140 per warrant received towards preferential allotment of 2,500,000 Equity Share Warrants of Rs.375 each. These warrants are to be converted into 2,500,000 Equity Shares of Rs.5 each at a premium of Rs.370 per equity share on exercise of option by the warrant holders on or before August 3, 2005			**350.0**		350.0
			350.0		350.0

Rs. Millions					As at March 31, 2005		As at March 31, 2004
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	
	11.75%	Rs.100	2,700,000	In 3 annual installments by 10/08/05	**90.0**	180.0	
	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	**160.7** **750.7**	225.0	921.7
	Note: All the above debentures are redeemable at par.						
	TERM LOANS	From Banks. [Payable within one year - Rs.641.1 (Rs.529.9)]			**2,890.7**		1,968.9
	OTHER LOANS	From Banks - Working Capital Loans [Payable within one year]			**2,602.6**		2,255.5
		TOTAL			**6,244.0**		5,146.1
5.	**UNSECURED LOANS** (Refer Note 6 on Schedule 24)						
	SHORT TERM LOANS	From Banks			**1,350.8**		418.0
	OTHER LOANS	Sales Tax Deferment Loan [Payable within one year Rs.4.9 (Rs.1.0)]			**696.4**		619.8
		TOTAL			**2,047.2**		1,037.8
6.	**DEFERRED TAX LIABILITY** (Net) (Refer Note 16 on Schedule 24)						
		Deferred Tax liabilities			**559.8**		521.0
		TOTAL			**559.8**		521.0

7. FIXED ASSETS (Refer Note 7 & 27 on Schedule 24)

Particulars Rs. Millions	Gross Block As at April 1, 2004	Additions	Sales/ Adjustments	As at March 31, 2005	Depreciation/Amortisation Up to April 1, 2004	For the year	On Sales/ adjustments	Up to March 31, 2005	Net Block As at March 31, 2005	As at March 31, 2004
Leasehold Land	28.4	10.9	–	**39.3**	0.2	0.5	–	**0.7**	**38.7**	28.3
Freehold Land[a]	67.7	6.5	–	**74.2**	–	–	–	**–**	**74.2**	67.7
Leasehold Buildings	31.4	33.4	–	**64.8**	1.8	1.8	–	**3.6**	**61.1**	29.6
Freehold Buildings[b]	1,081.0	165.3	–	**1,246.3**	88.6	37.4	–	**126.0**	**1,120.3**	992.3
Plant & Machinery[c]	4,524.3	1,211.3	4.7	**5,730.9**	1,001.2	350.5	2.0	**1,349.7**	**4,381.2**	3,523.1
Furniture & Fittings	77.9	29.4	–	**107.3**	16.9	11.5	–	**28.4**	**78.9**	61.0
Vehicles	33.4	1.7	0.5	**34.6**	5.4	3.2	0.1	**8.5**	**26.1**	28.0
TOTAL	5,844.1	1,458.5	5.2	**7,297.4**	1,114.1	404.9	2.1	**1,516.9**	**5,780.5**	4,730.0
Previous year	3,789.1	2,119.2	64.2	**5,844.1**	806.3	341.6	33.8	**1,114.1**	**4,730.0**	
Capital Work-in-progress[d]									**1,765.0**	1,116.0

Notes

a. The title deeds of Land and Buildings aggregating to Rs.46.0 (Rs.44.0) are pending transfer to the Company's name.

b. Include Rs.0.3 being the value of shares in co-operative housing societies, and net of government grant received Rs.Nil (Rs.0.7)

c. Includes Foreign Exchange Fluctuations capitalised Rs.0.1 (Rs.0.3) and net of government grant received Rs.Nil (Rs.1.3)

d. Include capital advances of Rs.193.7 (Rs.82.5), foreign exchange fluctuations Rs.0.4 (Rs.0.1) and expenditure during construction period Rs.37.2 (Rs.34.4) (Refer Note 7 on Schedule 24)

8. INTANGIBLE ASSETS (Refer Note 8 on Schedule 24)

Particulars Rs. Millions	Gross Block As at April 1, 2004	Additions	Adjustments	As at March 31, 2005	Amortisation Up to April 1, 2004	For the year	On Sales/ adjustments	Up to March 31, 2005	Net Block As at March 31, 2005	As at March 31, 2004
Product Development Costs	–	162.5	–	**162.5**	–	–	–	**–**	**162.5**	–
Licenses	–	4.8	–	**4.8**	–	–	–	**–**	**4.8**	–
TOTAL	–	167.3	–	**167.3**	–	–	–	**–**	**167.3**	–
Previous year	–	–	–	–	–	–	–	**–**	**–**	–

Note : Product development costs are internally generated intangible assets (Refer Note 8 on Schedule 24)

Rs. Millions	Face value per Share	As at March 31, 2005 No. of Shares	As at March 31, 2005 Rs	As at March 31, 2004 No. of Shares	As at March 31, 2004 Rs.
9. INVESTMENTS (Refer Note 9 & 10 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
			1.2		1.2
B. Other than Trade					
Government Securities					
Kisan Vikas Patra			**1.0**		1.0
National Savings Certificate*			**0.2**		0.2
*includes Rs.0.1 held by income tax authorities			**1.2**		1.2
C. In Subsidiaries					
Equity Shares (Fully Paid-up)					
Aurobindo Pharma USA Inc. (Purchased during the year)	$1	**1,175,000**	**51.9**		–
Aurobindo (H.K.) Limited, Hong Kong	$1	**2,999,999**	**142.3**	2,999,999	142.3
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	48.5
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**	**2.7**	100% of Paid-in-Capital	0.9
			1,666.5		1,612.8

Rs. Millions	Face value per Share	As at March 31, 2005 No. of Shares	As at March 31, 2005 Rs.	As at March 31, 2004 No. of Shares	As at March 31, 2004 Rs.
INVESTMENTS (Contd.)					
D. In Joint Venture					
Citadel Aurobindo Biotech Limited [30,000 shares 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)			**1,678.9**		1,625.2
Less: Provision for diminution in value of investments			**166.2**		136.3
TOTAL			**1,512.7**		1,488.9
Aggregate value of unquoted investments			**1,512.7**		1,488.9

		As at March 31, 2005		As at March 31, 2004
10. INVENTORIES				
(at lower of cost or net realisable value)				
Raw Materials*		**1,492.1**		1,063.7
Work-in-process		**1,271.7**		1,054.2
Stores, Spares, Consumables & Packing Materials		**232.0**		113.3
Finished Goods*		**240.0**		365.2
TOTAL		**3,235.8**		2,596.4
*includes material in transit and lying with third parties.				
11. SUNDRY DEBTORS (Refer Note 11 & 12 on Schedule 24)				
Unsecured — Debts outstanding for a period exceeding six months				
Considered good	**1,067.3**		1,088.2	
Considered doubtful	**122.8**		99.3	
		1,190.1		1,187.5
Other debts - Considered good		**3,346.5**		3,480.3
		4,536.6		4,667.8
Less: Provision for doubtful debts		**122.8**		99.3
TOTAL		**4,413.8**		4,568.5

Rs. Millions		As at March 31, 2005		As at March 31, 2004
12. CASH & BANK BALANCES (Refer Note 13 on Schedule 24)				
Cash on Hand		**2.3**		2.3
Cheques on Hand		**–**		0.8
Balance with Scheduled Banks on				
Current Accounts	**101.6**		342.9	
Margin Money Deposit Accounts	**28.7**		24.6	
Unpaid Dividend Accounts	**2.6**		2.3	
		132.9		369.8
Balance with Non-Scheduled Banks on				
Current accounts		**2.8**		1.2
TOTAL		**138.0**		374.1
13. OTHER CURRENT ASSETS				
Fixed assets held for sale (At net book value or estimated net realisable value, whichever is lower)		**0.2**		3.4
		0.2		3.4
14. LOANS & ADVANCES (Refer Note 10,11,14 on Schedule 24)				
(Unsecured, considered good except stated otherwise)				
Loans - Subsidiaries		**1,140.1**		793.5
- Joint Venture		**30.0**		30.0
- Employees		**10.9**		7.5
Advances recoverable in cash or in kind or for value to be received or pending adjustments				
Considered good	**533.9**		314.1	
Considered doubtful	**6.2**		6.2	
		540.1		320.3
Export Incentives Receivable		**64.6**		85.2
Trade and Other Deposits		**92.6**		73.7
Advance Income Tax (Net of Provision)		**33.6**		6.1
Balances with Customs and Excise Authorities		**229.0**		184.4
		2,140.9		1,500.7
Less: Provision for doubtful advances		**6.2**		6.2
TOTAL		**2,134.7**		1,494.5

Rs. Millions			As at March 31, 2005		As at March 31, 2004
15. CURRENT LIABILITIES (Refer Note 15 on Schedule 24)					
	Sundry Creditors for goods, services and expenses				
	Dues to small scale industrial undertakings		**7.5**		7.1
	Dues to others		**1,828.4**		1,283.4
			1,835.9		1,290.5
	Dues to Subsidiaries		**55.8**		172.8
	Trade Deposits		**1.3**		1.3
	Unclaimed Dividends		**2.6**		2.3
	Other Liabilities		**46.2**		72.0
	Interest Accrued but not due on Loans		**9.7**		12.0
	TOTAL		**1,951.5**		1,550.9
16. PROVISIONS	For Retirement Benefits				
	Gratuity	**18.1**		30.1	
	Leave encashment	**63.1**	**81.2**	43.5	73.6
	For Proposed Dividend		**25.4**		114.2
	For Tax on Proposed Dividend		**3.3**		14.7
	TOTAL		**109.9**		202.5

			2004-2005		2003-2004
17. OTHER INCOME	Interest on				
	Loans to Subsidiaries and Joint Ventures	**64.5**		32.3	
	Deposits	**6.1**		4.0	
	Other Investments	**–**		0.2	
	Other advances	**3.9**		1.6	
	[Tax deducted at source Rs.4.1 (Rs.1.5)]		**74.5**		38.1
	Processing Charges		**7.0**		3.0
	Dividends from a subsidiary company (non-trade)		**0.8**		0.8
	Dividends from current investments (non-trade)		**0.2**		0.2
	Profit on sale of current investments		**–**		0.4
	Balances no longer required written back		**17.3**		–
	Sale of dossiers		**19.6**		–
	Profit on sale of shares held in trust		**–**		28.8
	Miscellaneous Income		**46.2**		56.8
	TOTAL		**165.6**		128.1

Rs. Millions		2004-2005		2003-2004
18. INCREASE IN STOCKS				
Opening Stocks				
Finished Goods	**365.2**		120.7	
Work-in-Process	**1,054.2**		946.1	
	1,419.4		1,066.8	
Less: Reversal of excise duty on opening stocks	**40.2**		10.9	
		1,379.2		1,055.9
Less: Closing Stocks				
Finished Goods	**239.9**		365.2	
Work-in-Process	**1,271.7**		1,054.2	
		1,511.6		1,419.4
TOTAL		**132.4**		363.5
19. RAW MATERIALS CONSUMED				
Opening Stock		**1,063.7**		909.9
Add: Purchases		**6,833.2**		7,685.6
		7,896.9		8,595.5
Less: Closing Stock		**1,492.1**		1,063.7
TOTAL		**6,404.8**		7,531.8
20. OTHER MANUFACTURING EXPENSES				
Conversion charges		**54.4**		191.7
Packing Materials consumed		**178.4**		150.3
Consumption of Stores & Spares		**207.5**		142.8
Chemicals consumed		**200.7**		126.9
Carriage Inward		**83.8**		95.0
Factory Maintenance		**66.4**		65.8
Power and Fuel		**626.5**		537.6
Effluent Treatment Expenses		**27.1**		33.1
Excise Duty Others		**46.7**		63.8
Repairs & Maintenance				
Plant & Machinery	**63.6**		26.6	
Buildings	**75.1**		21.6	
Others	**21.9**		21.5	
		160.6		69.7
Miscellaneous Expenses		**72.5**		60.7
TOTAL		**1,724.6**		1,537.4

Rs. Millions	2004-2005	2003-2004
21. PAYMENTS TO AND PROVISIONS FOR EMPLOYEES		
Salaries, Wages and Bonus	**580.7**	445.0
Contribution to Provident and other funds	**28.0**	22.5
Retirement Benefits	**32.2**	28.0
Staff Welfare expenses	**21.3**	18.0
TOTAL	**662.2**	513.5
22. ADMINISTRATIVE & SELLING EXPENSES		
Rent	**6.3**	6.0
Rates & Taxes	**21.5**	11.8
Printing & Stationery	**26.9**	18.2
Postage, Telegram & Telephones	**24.2**	19.8
Insurance	**60.0**	48.1
Legal & Professional Charges	**80.5**	66.2
Directors sitting fees	**0.1**	0.1
Remuneration to Auditors	**4.3**	4.0
Commission to other Selling Agents	**109.9**	101.3
Carriage Outwards	**166.2**	197.3
Selling Expenses	**22.0**	22.9
Rebates & Discounts	**66.1**	39.0
Travel & Conveyance	**39.6**	38.1
Vehicle Maintenance Expenses	**6.3**	6.8
Provision for diminution in value of Investments	**29.9**	78.4
Software License and implementation Expenses	**8.2**	18.1
Provision for Doubtful Debts and Advances	**23.5**	43.7
Bad debts written off	**70.9**	33.7
Loss on sale of Fixed Assets	**0.7**	2.6
Fixed Assets written off	**–**	36.2
Donation	**1.5**	0.9
Exchange Fluctuation loss/(gain) (Net)	**134.5**	(92.5)
Miscellaneous Expenses	**49.9**	78.8
TOTAL	**953.0**	779.5
23. INTEREST AND FINANCE CHARGES		
Interest on debentures and fixed period loans	**289.0**	257.9
Interest on Other Loans	**69.6**	4.5
Bank Charges	**41.3**	60.0
TOTAL	**399.9**	322.4

Rs. Millions

24. NOTES ANNEXED TO AND FORMING PART OF THE ACCOUNTS AS AT AND FOR THE YEAR ENDED MARCH 31, 2005

1. Statement of Significant Accounting Policies

a. Basis of Preparation

These 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

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured

i. Revenue from sale of goods (other than export sales) is recognised on dispatch which coincides with transfer of significant risks & rewards to customer and is inclusive of excise duty and net of trade discounts, sales returns and sales tax, where applicable. Revenue from export sales is recognised on the date of bill of lading.

ii. Interest is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

iii. Dividend is recognised as and when the shareholder's right to receive payment is established, by the balance sheet date.

iv. Revenue on dossier sales is accounted on the delivery of underlying dossiers.

c. Fixed Assets and Depreciation

i. Fixed assets are stated at cost less accumulated depreciation and impairment if any. Cost comprises the purchase price, freight, duties (net of CENVAT), taxes and any attributable cost of bringing the asset to its working condition for its intended use. Finance costs relating to acquisition of fixed assets are included to the extent they relate to the period till such assets are ready to be put to 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 realisable values or net book values, whichever is lower.

iv. Assets 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.

v. The carrying amount of Fixed Assets are reviewed at each balance sheet date when required to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount.

vi. Premium paid on Leasehold Land is amortised over the lease term.

Rs. Millions

vii. Depreciation is provided on straight-line method, at the rates and in the manner prescribed under Schedule XIV to the Companies Act, 1956. However, with respect to assets acquired at the Bhiwadi unit, Rajasthan of the Company, depreciation is provided on straight line method at rates arrived at based on useful lives as estimated by the management. Such rates are higher than the rates prescribed under Schedule XIV of the Companies Act,1956.

The rates applied are as under:

Building : 5%

Plant & Machinery: 20%

d. Intangibles

i. Licenses

Cost relating to licenses, which are acquired, are capitalized and amortised on a straight-line basis over their useful life not exceeding ten years.

ii. Research and Product Development Costs

Research costs which is of revenue nature, is charged to revenue, while capital expenditure is included in the respective heads under fixed assets.

Product Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised over the period of expected future economic benefit from the related project, not exceeding ten years.

The carrying value of product development costs is reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

ii. Long-term investments are carried at cost. However, provision for diminution in value 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.

Rs. Millions

iii. Trading goods are valued at lower of cost and net realisable value.

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.

h. Retirement and other Employee 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.

i. Income Taxes

Tax expense consists of both current and deferred taxes. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act, 1961. Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and 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. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits.

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.

j. Foreign Exchange Transactions

Initial Recognition

i. Foreign currency transactions (other than those relating to foreign branches) are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and foreign currency at the date of the transaction. Exchange rate differences are charged to profit and loss account except with respect to fixed assets acquired from outside India are capitalised. The financial statements of an integral foreign operation are translated as if the transactions of the foreign operation have been those of the Company itself.

Conversion

ii. Foreign currency monetary items are reported at contract rates and/or at year-end rates. Non-monetary items which are carried in terms of historical cost denominated in foreign currency are reported using the exchange rate at the date of the transaction.

Forward Exchange contracts not intended for trading or speculation purposes

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 recognised as income or as expense for the year.

Rs. Millions

k. 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.

l. 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 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 benefits of ownership of the leased item 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.

m. 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.

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.

n. Provisions

A provision is recognised when the Company has a present obligation as a result of past event i.e., it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

2. Capital Commitments

Estimated amount of contracts (net of advances) remaining to be executed on capital account and not provided for Rs.550.7 (Rs.217.5)

3. Contingent Liabilities not provided for

		2004-2005	2003-2004
a.	Claims against the company not acknowledged as debts	**2.8**	1.8
b.	Outstanding Bank Guarantees on account of:		
	i. Subsidiary Company	**588.6**	615.0
	ii. Guarantee given for Citadel Aurobindo Biotech Ltd, 50% Joint Venture	**400.0**	460.0
	iii. Others	**47.2**	41.7
c.	Bills discounted with Banks	**373.9**	641.0
d.	Outstanding letters of credit for import of materials	**132.0**	226.2
e.	Direct and Indirect Taxes	**221.7**	126.2
f.	Product licensing	**19.6**	5.7

Rs. Millions

4. Share Capital

The Company has received Rs.Nil (Rs.1,432.0) on account of preferential allotment of Nil (4,270,000) equity shares of face value of Rs.5 each and upfront consideration towards Nil (2,500,000) equity share warrants allotted during the previous year.

The details of utilisation/investment of the said amount is as under:

	2004-2005	2003-2004
For Capital Expenditure	–	66.7
For Repayment of Short Term Loans	–	1,365.3
Total	–	1,432.0

5. Secured Loans

a. Debentures are secured by:

- registered mortgage of immovable property situated at Thane, Maharashtra.
- first pari passu charge by equitable mortgage by deposit of title deeds by way of constructive delivery of all the Company's immovable property wherever situated including Plant and Machinery, spares, tools and accessories both present and future.
- first charge by way of hypothecation ranking pari-passu with term loans of all the movable assets (save and except book debts), both present and future subject to prior charges created in favour of the Company's Bankers to secure working capital requirements.

b. Term loans are secured by:

- first charge ranking pari-passu with debentures on the immovable properties both present and future, by equitable mortgage by deposit of title deeds by way of constructive delivery of the Company's lands wherever situated.
- first charge ranking pari-passu with debentures on all the movable assets (save and except book debts), both present and future subject to prior 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.2,890.7 (Rs.1,568.9).

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.2,602.6 (Rs.2,255.6).

Rs. Millions

6. Unsecured loans

Short Term Loans from banks aggregating to Rs.1,300.0 (Rs.418.0) are personally guaranteed by the Chairman and the Managing Director of the Company.

7. Expenditure during construction period

Particulars	2004-2005	2003-2004
Balance brought forward	**34.4**	51.2
Add: Expenditure incurred during construction period	**7.3**	25.4
Borrowing cost capitalized	**33.7**	53.0
	75.4	129.6
Less: Consumption of intermediates (trial run)	**7.3**	14.0
Preoperative expenses charged off	**0.8**	–
Allocated to fixed assets	**30.0**	81.2
Balance carried forward	**37.3**	34.4

8. Intangible Assets

During the year, the Company has changed its accounting policy with respect to treatment of Product Development costs. The accounting policy adopted by the Company is in conformity with the "Accounting Standard 26: Intangible Assets" issued by the Institute of Chartered Accountants of India. The Company has capitalized an amount of Rs.167.3. The said cost was hitherto expensed in the period in which it was incurred. The change in accounting policy resulted in increase of the profit for the year and decrease of Research and Development costs by said amount.

9. Investments

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

Description	2004-2005 Nos.	2003-2004 Nos.
Mutual Fund Units		
HDFC Cash Management Fund	**15,897,155**	34,393,530
GCDB Grindlays Cash Fund	**–**	79,283,493
TATA Liquid Fund	**8,562,597**	–
Principal Cash Management Fund	**250,052**	–
Equity Shares		
Indian Overseas Bank Ltd	**–**	5,700

b. There has been a diminution in the value of long-term investments assessed on the basis of net asset value as at March 31, 2005. Due provision of Rs.166.2 (Rs.136.3) has been made to recognise the diminution.

Rs. Millions

10. There has been a diminution in the value of investments made in subsidiary companies, namely APL Holdings Inc., and Aurobindo Datong Bio-Pharma Co. Ltd, China to an extent of Rs.112.5 (Rs.21.2) and Rs.373.3 (Rs.295.7) respectively, on the basis of net asset value of the said subsidiaries, as at March 31, 2005. An amount of Rs.116.3 (Rs.94.2) and Rs.889.7 (Rs.690.6) is due from each of the said companies on account of loans granted by the Company. Considering the nature of the industry and gestation period involved, the management of the Company is of the opinion that the diminution in value is temporary in nature and no provision is necessary for such diminution.

11. Sundry Debtors and Loans and Advances include receivables from Joint Venture Company primarily on account of non compete fee, sale of brands of Rs.429.8 (Rs.458.9) and Loan Rs.30.0 (Rs.30.0) respectively. In terms of the agreement entered with the said Joint Venture Company, this amount is recoverable over a period of four years. Based upon the future projected business of the said Company, the management is of the opinion that the said amount is fully recoverable.

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

	Closing Balance as at 31st March	
	2005	2004
Citadel Aurobindo Biotech Ltd	**429.8**	458.9
Due from Subsidiaries	**750.9**	704.4

13. Cash & Bank balances include

	Closing Balance as at March 31,		Maximum outstanding at any time during the year ended March 31,	
	2005	2004	**2005**	2004
Balances with Non-Scheduled banks on current accounts				
Vietcom Bank, Vietnam	**0.1**	0.1	**0.5**	0.5
Vheshtorg Bank, Moscow	**0.8**	0.8	**8.6**	1.4
Bank of Nova Scotia, Costarica	**0.1**	0.1	**0.1**	0.6
Commerce Bank, USA	**1.2**	0.1	**22.4**	4.2
Wells Fargo Bank, USA	**0.1**	0.1	**3.3**	3.2
Unicredit Bank, Italy	**0.5**	–	**3.1**	–
14. Loans and Advances include				
Dues from companies under the same management				
Andhra Organics Limited*	**1.6**	8.9	**138.7**	140.9
Citadel Aurobindo Biotech Ltd	**30.0**	30.0	**30.0**	30.0
Due from subsidiaries	**1,140.1**	793.5	**1,197.4**	949.7

*Ceased to be under the same Management with effect from August 1, 2004.

Rs. Millions

15. 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
Lance Engineering
Lisa ampoiules & Vials (P) Ltd
Lakshmi Engg.Enterprises
Plastic Shapers
Sree Krishna Prasad Graphics (P) Ltd
Amar Roto Prints
SVR Industries
Ravi Industries
Global Electronics

b. In respect of the amounts mentioned under Section 205 C of the Companies Act, 1956 no dues are to be credited to the Investor Education and Protection Fund as at March 31, 2005.

16. Deferred Taxes

Deferred Tax assets / (liabilities) consist of:

Particulars	As at March 31,	
	2005	2004
Deferred Tax Liability on account of Fixed Assets	**(765.7)**	(583.0)
Deferred Tax Asset on account of :		
Debtors	**43.4**	37.9
Retirement Benefits	**25.1**	24.1
Unabsorbed depreciation	**137.4**	–
Net Deferred tax liability	**(559.8)**	(521.0)

17. Software license and implementation expenses

The Company has charged off Rs.8.2 (Rs.18.1) incurred towards software licenses and implementation of ERP solutions.

18. Export Incentives

Sales include export incentives of Rs.57.4 (Rs.62.4).

19. Research and Development Expenses

Research & Development expenses included under various heads of expenses are Rs.359.1 (Rs.273.2).

20. Remuneration to Whole-time Directors (included in Schedule 21)

Particulars	2004-2005	2003-2004
Salary	**9.3**	9.3
Contribution to Provident Fund	**0.1**	0.1
Perquisites	**1.3**	2.2
Total	**10.7**	11.6

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.

Rs. Millions

21. Remuneration to Statutory Auditors (including service tax where applicable) (included in Schedule 22)

Particulars	2004-2005	2003-2004
Statutory Audit	3.3	2.7
Other Audit Services	0.8	1.2
Certification charges	0.1	0.1
Reimbursement of out-of-pocket expenses	0.1	–
Total	4.3	4.0

22. Donations

Donation of Rs.1.5(Rs.0.9) disclosed under Schedule 22 includes contribution made to political parties Rs. Nil (CPI State Council Rs.0.03).

23. Employee Stock Option Scheme

During the year, the Company has instituted an Employee Stock Option Plan "ESOP-2004" as per the special resolution passed in the 17th Annual General Meeting held on July 31, 2004. This scheme has been formulated in accordance with the Securities Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999. The Compensation committee accordingly, granted options of 507,700 to eligible employees. Each option comprises of one underlying Equity Share of Rs.5 each. The said options vest on an annual basis at 15%, 20%, 25% and 40% over a period of four years and can be exercised over a period of six years from the date of grant of options.

The options have been granted at prevailing market price of Rs.362.60 per share and hence the question of accounting for employee deferred compensation expenses does not arise.

24. Earnings Per Share

Earnings Per Share is computed based on the following:

Particulars	As at March 31, 2005	As at March 31, 2004
a. Profit after taxation considered for calculation of basic and diluted Earnings Per Share Rs.	350.8	1,270.3
b. Weighted average number of Equity Shares considered for calculation of basic Earnings Per Share	50,770,000	47,868,607
Add: Effect of dilution on account of convertible Share warrants issued on number of shares	–	228,811
Add: Effect of dilution on account of Employee Stock Options Granted	4,960	–
c. Weighted average number of Equity Shares considered for calculation of diluted Earnings Per Share	50,774,960	48,097,418

Rs. Millions

25. Interest in Joint Venture

The Company has 50% interest in the assets, liabilities, expenses and output of the Citadel Aurobindo Biotech Limited, incorporated in India, which is involved in marketing of formulations.

The Company's share of the assets, liabilities, income and expenses of the jointly controlled entity are as follows at March 31, 2005. (Based on the unaudited financial statements certified by the board of directors of Citadel Aurobindo Biotech Limited)

Particulars	As at March 31, 2005	2004
Assets	**653.6**	640.1
Liabilities	**653.6**	640.1
Revenue	**458.5**	529.1
Depreciation	**62.5**	22.6
Other expenses	**489.6**	528.6
Profit/(Loss) before tax	**(93.6)**	(22.1)
Capital Commitments	**Nil**	Nil

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

	2004-2005	2003-2004
i. Subsidiaries		
APL Chemi Natura Limited, India		
Purchase of Goods	**110.3**	27.3
Sale of Goods	**32.2**	23.2
Interest received	**–**	0.9
Finance (including loans and equity contribution in cash or in kind)	**–**	30.0
Receipt against Loan	**–**	55.0
Services Availed	**1.1**	–
APL Pharma Thai Limited, Thailand		
Sale of Goods	**306.0**	418.9
Dividend received	**0.8**	0.8
Guarantees and collaterals	**4.6**	4.6
Aurobindo (H.K.) Ltd, Hongkong		
Purchase of Goods	**–**	33.2
Sales Returns	**3.8**	–
Sale of Goods	**–**	5.7
Finance (including loans and equity contribution in cash or in kind)	**–**	45.7
Provision for Diminution in value of investments	**29.9**	68.4
APL Holdings, Inc., USA		
Interest received	**10.0**	7.2
Finance (including loans and equity contribution in cash or in kind)	**22.5**	38.6
Receipt against Loan	**–**	23.3
AB Farmo Quimica Ltda, Brazil		
Sale of Goods	**409.3**	566.1
Sale of Machinery	**1.8**	–
Interest received	**1.2**	1.2
Finance (including loans and equity contribution in cash or in kind)	**–**	8.7

Rs. Millions

		2004-2005	2003-2004
	Aurobindo (Datong) Bio-pharma Co. Ltd, China		
	Purchase of Goods	**929.1**	589.9
	Sale of Goods	**15.6**	6.3
	Interest received	**44.6**	17.6
	Finance (including loans and equity contribution in cash or in kind)	**201.6**	424.3
	Guarantees and collaterals	**583.9**	610.4
	Aurobindo Tongling (Datong) Pharmaceutical Co. Ltd, China		
	Purchase of Goods	**2.5**	1.0
	Interest received	**–**	1.5
	Receipt against Loan	**–**	70.8
	Aurobindo Pharma USA Inc., USA		
	Sale of Goods	**209.9**	–
	Rebates & Discounts	**51.9**	–
	Finance (including loans and equity contribution in cash or in kind)	**176.6**	–
	Interest received	**4.8**	–
	Helix Healthcare B.V. - The Netherlands		
	Finance (including loans and equity contribution in cash or in kind)	**2.5**	0.9
ii.	**Companies over which significant influence exists**		
	Pravesha Industries (P) Ltd.		
	Purchase of Goods	**34.9**	33.7
	Purchase of Fixed Assets	**12.4**	34.3
	Rendering Services	**3.7**	5.3
	Sale of Fixed Assets	**0.1**	–
	Andhra Organics Ltd.*		
	Purchase of Goods	**31.4**	251.5
	Sale of Goods	**61.0**	88.5
	Purchase of Fixed Assets	**–**	1.0
	Rendering Services	**2.4**	1.9
	Receipt of Services	**9.3**	21.8
iii.	**Joint Ventures**		
	Citadel Aurobindo Biotech Ltd.		
	Management Fee received	**12.0**	12.0
	Guarantees and Collaterals	**400.0**	460.0
	Interest Received	**3.9**	3.9
	Bad debts written off	**30.0**	–
	Provision for Diminution in value of investments	–	10.0
	Provision for doubtful debts	**–**	30.0
iv.	**Key Management Personnel**		
	Mr. P. V. Ramaprasad Reddy		
	Managerial Remuneration	**2.7**	2.6
	Dividend	**6.6**	29.7
	Investment in equity	**–**	494.9
	Guarantees and Collaterals	**6,793.2**	4,242.4

Rs. Millions	2004-2005	2003-2004
Mr. K. Nityananda Reddy		
Managerial Remuneration	**2.7**	3.3
Dividend	**1.9**	8.4
Investment in equity	**–**	32.8
Guarantees and Collaterals	**6,399.0**	4,242.4
Dr. M. Sivakumaran		
Managerial Remuneration	**2.7**	3.1
Dividend	**0.7**	3.3
Investment in equity	**–**	15.5
Mr. B. Sivaprasad Reddy		
Managerial Remuneration	**2.7**	2.7
Dividend	**–**	–
Mr. Lanka Srinivas		
Sitting Fees	**–**	–
Professional Fees	**3.0**	–
b. Balance outstanding debit / (credit)		
APL Chemi Natura Limited, India	**25.4**	58.6
APL Pharma Thai Limited,Thailand	**181.5**	231.3
Aurobindo (H.K.) Limited,Hongkong	**143.3**	147.5
APL Holdings Inc., California	**292.4**	260.2
AB Farmo Quimica Ltda, Brazil	**421.1**	514.3
Aurobindo (Datong) Bio-Pharma Co. Limited, China	**1,763.9**	1,605.0
Aurobindo Tongling (Datong) Pharmaceutical Co. Limited, China	**154.1**	154.1
Helix Healthcare B.V. The Netherlands	**3.4**	0.9
Citadel Aurobindo Biotech Limited, India	**471.4**	502.6
Pravesha Industries (P) Limited, India	**(5.9)**	(0.8)
Andhra Organics Limited, India*	**1.6**	8.9
Aurobindo Phama USA Inc., USA	**338.3**	–

c. Names of related parties and description of relationship

Subsidiaries

APL Chemi Natura Limited
APL Pharma Thai Limited
Aurobindo (H.K) Limited
APL Holdings Inc.
AB Farmo Quimica Ltda
Aurobindo (Datong) Bio-Pharma Co. Limited
Aurobindo Tongling (Datong) Pharmaceutical Co. Limited
Helix Healthcare B.V.
Aurobindo Pharma USA Inc.

Rs. Millions

Joint Ventures

Citadel Aurobindo Biotech Limited

Companies over which significant influence exists

Pravesha Industries (P) Limited

Andhra Organics Limited*

Key Management Personnel

Mr. P. V. Ramaprasad Reddy, Chairman

Mr. K. Nityananda Reddy, Managing Director

Dr. M. Sivakumaran, Whole-time Director

Mr. B. Sivaprasad Reddy, Whole-time Director

Mr. Lanka Srinivas, Non - Executive Director.

*Ceased to be under the same Management with effect from August 1, 2004.

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 March 31,		Maximum outstanding at any time during the year ended March 31,	
	2005	2004	**2005**	2004
Subsidiaries				
Aurobindo (Datong) Bio-Pharma Company Limited	**889.7**	690.6	**933.8**	720.2
Aurobindo Pharma USA Inc.	**124.7**	–	**131.2**	–
Aurobindo Tongling(Datong) Pharmaceutical Company Limited	**–**	–	**–**	74.7
APL Holdings Inc.	**116.3**	94.2	**122.4**	107.3
AB Farmo Quimica Ltda.	**8.7**	8.7	**9.2**	9.4
APL Chemi Natura Limited	**–**	–	**–**	38.0
Helix Healthcare B.V.	**0.7**	–	**0.7**	–

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

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

27. 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 are no restrictions imposed by lease arrangements. There are no sub-leases.

Rs. Millions

b. Finance Lease

i. Building includes factory buildings acquired on finance lease. The agreement is silent on renewal terms and transfer of legal title at the end of lease term.

ii. The lease agreement did not specify minimum lease payments over the future period. The factory building is acquired on lease at a consideration of Rs.64.7 (Rs.31.4) which includes an amount of Rs.19.2 (Rs.11.4) towards expenditure incurred on renovation.

iii. The net carrying amount of the buildings obtained on finance lease Rs.61.2 (Rs.29.6).

iv. The Company has not recognised any contingent rent as expense in the statement of Profit & Loss Account.

v. There is no escalation clause in the lease agreement. There are no restrictions imposed by lease arrangements. There are 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.

28. Installed Capacity and Actual Production

Category	Unit of Measurement	Installed Capacity 2004-05	Installed Capacity 2003-04	Actual Production 2004-05	Actual Production 2003-04
Bulk Drugs and Drug Intermediates	Tonnes	**14,857**	14,857	**10,397**	10,457
Formulations					
Tablets & Capsules	Nos. (in Lakhs)	**120,030**	120,030	**6,149**	4,368
Syrups	Ltrs.	**270,000**	270,000	**31,437**	116,615
Injectibles	Nos.	**183,660,000**	183,660,000	**10,184,258**	9,078,523

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 October 25, 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

29. 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.	Qty.	Rs.
Bulk Drugs & Drug Intermediates								
Manufactured	Tonnes	220	334.8	149	207.7	6,089	4,379	10,257.0
		(26)	(68.6)	(220)	(334.8)	(5,364)	(4,899)	(12,156.6)
Traded	Tonnes	40	8.4	–	–	–	2,994	198.1
		(15)	(3.1)	(40)	(8.4)	(–)	(5,179)	(392.0)
Others								68.2
								(92.3)
Formulations: Manufactured								
Tablets & Capsules	Nos. (in Lakhs)	326	12.9	333	19.4	126	6,016	670.7
		(599)	(30.5)	(326)	(12.9)	(28)	(4,613)	(428.0)
Injections	Nos.	501,134	7.7	437,340	12.3	22,756	10,225,296	350.6
		(723,505)	(5.7)	(501,134)	(7.7)	(7,150)	(9,293,744)	(284.5)
Syrups	Ltrs.	6,065	0.8	1,303	0.6	5,884	30,315	13.3
		(23,836)	(3.0)	(6,065)	(0.8)	(1,219)	(133,167)	(23.4)
Others								33.6
								(33.4)
Formulations: Traded								
Tablets & Capsules	Nos. (in Lakhs)	4	0.5	–	–	4	–	–
		(17)	(9.8)	(4)	(0.5)	(5)	(33)	(0.5)
Injections	Nos.	19,250	0.1	–	–	–	19,250	0.1
		(–)	(–)	(19,250)	(0.1)	(–)	(1,100)	(0.1)
Total			365.2		240.0			11,591.7
			(120.7)		(365.2)			(13,410.7)

Notes: a. Closing stock quantities are after adjustment of samples, transit claims/losses etc.
b. Previous year's figures have been stated in brackets.

Rs. Millions

30. Purchase of Finished Goods

Category	Unit of Measurement	2004-05 Qty.	2004-05 Rs.	2003-04 Qty.	2003-04 Rs.
Bulk Drugs and Drug Intermediates	Tonnes	**2,954**	**169.6**	5,204	338.7
Formulations					
Tablets & Capsules	Nos. (in Lakhs)	**–**	**–**	25	0.2
Injectibles	Nos.	**–**	**–**	20,350	0.1
Total			**169.6**		339.0

31. Raw Material Consumed

		2004-05 Qty.	2004-05 Rs.	2003-04 Qty.	2003-04 Rs.
Pencillin.G. Potassium	BOUs	**3,794,450**	**1,078.2**	6,138,486	2,179.4
PG Base	Tonnes	**589.350**	**128.6**	809.464	179.9
PHPG Base	Tonnes	**636.243**	**207.2**	386.533	121.1
7 ACA	Tonnes	**176.479**	**831.4**	175.067	756.8
Others			**4,159.4**		4,294.6
Total			**6,404.8**		7,531.8

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.Nil (Rs.5.6).

32. Consumption of Raw Materials & Stores and Spares

	2004-05 %	2004-05 Rs.	2003-04 %	2003-04 Rs.
Raw Materials				
Imported	**75**	**4,834.9**	67	5,049.2
Indigenous	**25**	**1,569.9**	33	2,482.6
Total	**100**	**6,404.8**	100	7,531.8
Stores & Spares				
Imported	**–**	**–**	1	0.9
Indigenous	**100**	**207.5**	99	141.9
Total	**100**	**207.5**	100	142.8

Rs. Millions

33. Value of imports calculated on CIF Basis

	2004-2005	2003-2004
Raw materials	**4,898.5**	5,074.8
Packing Materials	**33.4**	19.9
Capital goods	**324.8**	278.4
Stores, Spares & Consumables	**50.2**	22.7
Total	**5,306.9**	5,395.8

34. Expenditure in foreign Currency (Cash basis)

	2004-2005	2003-2004
Travelling	**10.4**	8.0
Commission on Sales	**77.7**	101.8
Product Registration and Filing fee	**12.9**	32.9
Overseas Office expenses	**79.4**	46.4
Professional & Consultancy charges	**41.9**	21.3
Interest	**50.3**	77.8
Others	**14.3**	31.1
Total	**286.9**	319.3

35. Earnings in Foreign Exchange (Accrual basis)

	2004-2005	2003-2004
Exports on F.O.B. basis	**5,546.2**	6,420.4
Interest	**60.6**	27.5
Dividend	**0.8**	0.8
Sale of Dossiers	**19.6**	–
Total	**5,627.2**	6,448.7

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

37. 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

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

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030
Hyderabad, June 30, 2005

SUDHIR B. SINGHI
Chief Financial Officer

B. ADI REDDY
Company Secretary

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

Dr. M. SIVAKUMARAN
Director

Cash Flow Statement for the year ended March 31, 2005

Rs. Millions		2004-2005	2003-2004
1. CASH FLOW FROM			
OPERATING ACTIVITIES	Net Profit before tax	**429.2**	1,725.3
	Adjustments for:		
	Depreciation	**404.9**	341.6
	Provision for Doubtful Debts and Advances	**23.5**	43.7
	Bad debts written off	**70.9**	33.7
	Provision for Diminution in value of investments	**29.9**	78.4
	Export incentives accrued	**(36.9)**	(40.8)
	Assets written off	**–**	36.2
	Balances no longer required written back	**(17.3)**	–
	Provision for Retirement Benefits	**7.6**	22.6
	Interest Paid	**399.9**	328.1
	Interest Received	**(74.5)**	(38.1)
	Dividends Received	**(0.8)**	(1.0)
	Foreign Exchange gain/loss	**31.9**	(27.8)
	Net (Profit)/Loss on Sale of Fixed Assets	**0.7**	2.6
	Net (Profit)/Loss on Sale of shares held in Trust	**–**	(28.8)
	Net Profit on sale of investments	**(0.3)**	(0.5)
	Advances written off	**–**	–
	Operating Profit before Working Capital Changes	**1,268.7**	2,475.2
	Adjustments for:		
	Inventories	**(639.4)**	(561.2)
	Sundry Debtors	**38.8**	(677.8)
	Loans & Advances	**(192.3)**	74.3
	Sundry Creditors	**420.0**	(487.4)
	Other Current Assets	**3.3**	(3.4)
	Cash Generated from Operations	**899.1**	819.7
	Income Tax Paid	**(67.1)**	(354.3)
	Interest paid	**–**	(7.3)
NET CASH FROM OPERATING ACTIVITIES (A)		**832.0**	458.1
2. CASH FLOW FROM			
INVESTING ACTIVITIES	Purchase of Fixed Assets	**(2,078.1)**	(2,040.0)
	Sale of Fixed Assets	**2.4**	4.4
	Investments	**(366.2)**	(1,335.4)
	Proceeds from sale of investments	**312.8**	1,291.7
	Loans to Joint Ventures & Subsidiaries (Net)	**(355.6)**	(403.5)
	Interest Received	**37.5**	12.8
	Dividend Received	**0.8**	1.0
	Intangible assets	**(167.3)**	–
NET CASH USED IN INVESTING ACTIVITIES (B)		**(2,613.7)**	(2,469.0)

Rs. Millions		2004-2005	2003-2004
3. CASH FLOW FROM			
FINANCING ACTIVITIES	Proceeds from issue of Share Capital	–	1,088.4
	Proceeds from issue of Share Warrants	–	328.5
	Proceeds from Long Term borrowings	2,300.0	1,507.6
	Repayment of Long Term borrowings	(1,551.8)	(1,368.9)
	Other Short Term borrowings (Net)	1,356.6	966.0
	Interest Paid	(431.7)	(376.6)
	Dividend and Dividend tax	(128.9)	(89.6)
NET CASH FROM FINANCING ACTIVITIES (C)		1,544.2	2,055.4
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)		(237.5)	44.5
	Cash and Cash Equivalents - Opening Balance	374.1	331.6
	Cash and Cash Equivalents - Closing Balance	136.6	376.1
NET INCREASE/DECREASE) IN CASH AND CASH EQUIVALENTS		(237.5)	44.5

Notes to the Cash Flow Statement for the year ended March 31, 2005

1. Cash and Cash equivalents include :

	2004-2005	2003-2004
Cash and bank balances	106.7	347.2
Margin Money Deposit Accounts	28.7	24.6
Unpaid dividend Accounts	2.6	2.3
Cash and Cash Equivalents as per Balance Sheet	138.0	374.1
Unrealised gain/(loss) on Foreign currency cash and cash equivalents	(1.5)	2.0
Cash and Cash equivalents considered for Cash Flows	136.5	376.1

2. Investments include investment in subsidiaries Rs.53.7 (Rs.46.5).
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 **S.R. BATLIBOI & CO.**
Chartered Accountants

For and on behalf of the Board of Directors

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030

Hyderabad, June 30, 2005.

K. NITYANANDA REDDY
Managing Director

SUDHIR B. SINGHI
Chief Financial Officer

B. ADI REDDY
Company Secretary

Dr. M. SIVAKUMARAN
Director

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 (Date) 03 (Month) 2005 (Year)

II. Capital raised during the year (Rs. in Thousands)

Public Issue	Rights Issue	Bonus Issue	Private Placement
NIL	NIL	NIL	NIL

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

Total Liabilities	Total Assets
17086896	17086896

Sources of Funds

Paid-up Capital	Reserves & Surplus	Equity Share Warrants	Secured Loans
253850	7632008	350000	6243966

Unsecured Loans
2047240

Application of Funds

Net Fixed Assets	Investments	Net Current Assets
7712806	1512689	7861402

Deferred Tax Liabilities	Miscellaneous Expenditure	Accumulated Loss
(559831)	NIL	NIL

IV. Performance of Company (Rs. in Thousands)

Turnover & Other Income	Total Expenditure	Profit before Tax	Profit after Tax
11015759	10586614	429145	350812

Earnings per Share (Rs.)	Dividend Rate (%)
6.91	10

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

Item Code No.	Product Description
2941.10	Amoxycillin Trihydrate
2941.90	Cephalexin
2941.90	Ceftriaxone Sterile

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

Hyderabad, June 30, 2005.

SUDHIR B. SINGHI
Chief Financial Officer

B. ADI REDDY
Company Secretary

Dr. M. SIVAKUMARAN
Director

Rs. Millions

The Board of Directors,
Aurobindo Pharma Limited

1. We have audited the attached Consolidated Balance Sheet of Aurobindo Pharma Limited ("Group"), as at March 31, 2005 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.6,614.1 as at March 31, 2005, total revenues of Rs.4,874.9 and total net cash inflows of Rs.207.4 for the year then ended. These financial statements, except to the extent mentioned in paragraph 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 March 31, 2005 include the unaudited financial statements of the following entities, consolidated on the basis of management certification:

   a) APL Pharma Thai Ltd., Thailand;

   b) Citadel Aurobindo Biotech Limited, India and

   c) Helix Healthcare B.V., The Netherlands

   These Consolidated Financial Statements reflect total assets of Rs.648.8 as at March 31, 2005, total revenues of Rs.858.7 and total net cash outflows of Rs.9.6 for the year then ended 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; this has also resulted in issue of a qualified opinion on the consolidated financial statements for the year ended March 31, 2004.*

Rs. Millions, except earnings per share

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; this has also resulted in issue of a qualified opinion on the consolidated financial statements for the year ended March 31, 2004.*

8. *In the absence of audited financial statements in respect of the entities referred to in Para 5 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 statement respectively as at and for the year ended March 31, 2005, this has also resulted in issue of a qualified opinion on the consolidated financial statements for the year ended March 31, 2004.*

9. *Consolidated Earnings per share for the year ended March 31, 2005 has been calculated on the consolidated profit prior to reversal of deferred tax assets of earlier years. As a result, the consolidated earnings (basic and diluted) per share have been shown at Rs.0.64 as against the consolidated loss (basic and diluted) per share of Rs.1.26.*

10. *In respect of Aurobindo H.K. a Wholly Owned Subsidiary of the Company, whose financial statements reflects assets of Rs.37.5 and liabilities of Rs.79.3 the Auditors' thereof has issued a disclaimer of opinion with respect to the appropriateness of the use of going concern basis in preparation of the financial statements of the said subsidiary for the year ended March 31, 2005.*

11. 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, 8, 9 and 10 above the effect of which on this accounts are not ascertainable,* 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 March 31, 2005;

    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, June 30, 2005

Consolidated Balance Sheet as at March 31, 2005

Rs. Millions		Schedule	As at March 31, 2005		As at March 31, 2004	
I. SOURCES OF FUNDS						
SHAREHOLDERS' FUNDS	Share Capital	1	**253.9**		253.9	
	Reserves & Surplus	2	**6,528.5**		6,637.9	
				6,782.4		6,891.8
EQUITY SHARE WARRANTS		3		**350.0**		350.0
MINORITY INTEREST				**12.4**		8.1
LOAN FUNDS	Secured Loans	4	**7,551.6**		6,465.4	
	Unsecured Loans	5	**2,788.7**		1,765.3	
				10,340.3		8,230.7
DEFERRED TAX LIABILITY (NET)		23(12a)		**612.7**		521.1
	TOTAL			**18,097.8**		16,001.7
II. APPLICATION OF FUNDS						
FIXED ASSETS		6				
	Gross Block		**10,726.9**		8,900.4	
	Less: Depreciation		**2,144.2**		1,482.7	
	Net Block		**8,582.7**		7,417.7	
	Capital Work-in-progress including capital advances		**2,525.4**		1,594.2	
				11,108.1		9,011.9
INVESTMENTS		7		**2.4**		2.4
DEFERRED TAX ASSET (NET)		23(12b)		**0.2**		54.5
CURRENT ASSETS, LOANS AND ADVANCES	Interest Accrued on Investments		**0.3**		0.3	
	Interest Accrued on Deposits		**–**		0.2	
	Inventories	8	**3,754.6**		3,193.8	
	Sundry Debtors	9	**4,533.3**		4,777.2	
	Cash & Bank Balances	10	**593.9**		622.6	
	Other Current Assets	11	**0.9**		3.4	
	Loans and Advances	12	**1,304.1**		992.5	
			10,187.1		9,590.0	
LESS: CURRENT LIABILITIES AND PROVISIONS	Current Liabilities	13	**3,045.3**		2,415.5	
	Provisions	14	**154.7**		241.8	
			3,200.0		2,657.3	
NET CURRENT ASSETS				**6,987.1**		6,932.7
MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)		15		**–**		0.2
	TOTAL			**18,097.8**		16,001.7
	Notes to Consolidated 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.

S.R. BATLIBOI & CO.
Chartered Accountants

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030
Hyderabad, June 30, 2005

SUDHIR B. SINGHI
Chief Financial Officer

B. ADI REDDY
Company Secretary

Dr. M. SIVAKUMARAN
Director

Consolidated Profit & Loss Account for the year ended March 31, 2005

Rs. Millions		Schedule	2004-2005	2003-2004
INCOME	Sales		**14,167.3**	15,869.1
	Less: Excise Duty		**951.3**	823.1
	Sales (Net)		**13,216.0**	15,046.0
	Other Income	16	**176.9**	164.3
	Increase in Stocks	17	**26.7**	415.2
	TOTAL		**13,419.6**	15,625.5
EXPENDITURE	Raw Materials Consumed	18	**6,678.7**	8,132.8
	Purchase of Trading Goods		**1,015.6**	885.1
	Other Manufacturing Expenses	19	**2,253.3**	2,324.6
	Payments to and Provisions for Employees	20	**902.0**	715.8
	Administrative and Selling Expenses	21	**1,241.2**	1,044.7
	Interest and Finance Charges	22	**499.2**	407.3
	Depreciation and amortisation	6	**646.7**	589.8
	TOTAL		**13,236.7**	14,100.1
PROFIT / (LOSS) BEFORE TAXATION			**182.9**	1,525.4
	Provision for Taxation			
	Current Tax		**81.3**	303.3
	Deferred Tax		**49.5**	153.0
	Tax Adjustments of Previous Years		**(0.5)**	0.8
	Total Tax Expense		**130.3**	457.1
PROFIT / (LOSS) FOR THE YEAR BEFORE MINORITY INTEREST AND PRIOR PERIOD ITEMS			**52.6**	1,068.3
	Minority Interest		**4.3**	(1.1)
PROFIT / (LOSS) FOR THE YEAR BEFORE PRIOR PERIOD ITEM			**48.3**	1,069.4
	Prior Period Income/(Expenses)		**(15.8)**	17.4
PROFIT / (LOSS) FOR THE YEAR BEFORE REVERSAL OF DEFERRED TAX ASSETS OF EARLIER YEAR			**32.5**	1,086.8
	Deferred tax asset of earlier years reversed		**(96.4)**	–
PROFIT / (LOSS) FOR THE YEAR AFTER REVERSAL OF DEFERRED TAX ASSETS OF EARLIER YEAR			**(63.9)**	1,086.8
	Accumulated Amortisation of Intangibles		**(41.8)**	–
PROFIT /(LOSS) AVAILABLE FOR APPROPRIATION			**(105.7)**	1,086.8
APPROPRIATIONS				
	Proposed Dividend @ Re.0.50(Rs.2.25) on Equity Shares of Rs.5 Each		**25.4**	114.2
	Tax on Dividend		**3.3**	14.6
	General Reserve		**–**	1,080.0
	Deficit carried to Balance Sheet		**(134.4)**	(122.0)
			(105.7)	1,086.8
EARNINGS PER SHARE (Refer Note 17 on Schedule 23)				
	Basic Rs.		**0.64**	22.71
	Diluted Rs.		**0.64**	22.60
	Nominal Value Per Share Rs.		**5.00**	5.00
	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, June 30, 2005

SUDHIR B. SINGHI
Chief Financial Officer

B. ADI REDDY
Company Secretary

Dr. M. SIVAKUMARAN
Director

Rs. Millions		As at March 31, 2005	As at March 31, 2004
1. SHARE CAPITAL			
AUTHORISED	100,000,000 Equity Shares of Rs.5 each	**500.0**	500.0
	1,000,000 Preference Shares of Rs.100 each	**100.0**	100.0
		600.0	600.0
	Issued, Subscribed and Paid-up:		
	50,770,000 Equity Shares of Rs.5 Each Fully Paid-up	**253.9**	253.9
	TOTAL	**253.9**	253.9

Notes:

Of the above Equity shares

a. 34,703,200 Equity Shares of Rs.5 each were allotted as bonus shares by capitalisation of Securities Premium Account.

b. 1,341,000 Equity Shares of Rs.5 each were alloted for consideration other than cash.

c. 2,500,000 equity share warrants issued to promoters are to be converted into Equity Shares by August 3, 2005 at the option of warrant holders.

d. During the year, the Company pursuant to the special resolution passed at the Annual General Meeting held on July 31, 2004 established a stock option scheme ESOP 2004. As per the Scheme, 507,700 (Nil) options have been allocated for grant to the eligible employees. Each option comprises of one underlying equity share of Rs.5 each. The said options are to be vested on annual basis at 15%, 20%, 25% and 40% over a period of four years.

2. RESERVES & SURPLUS			
CAPITAL RESERVE	As per last Balance Sheet	**247.3**	247.3
CAPITAL REDEMPTION RESERVE	As per last Balance Sheet	**90.0**	90.0
SECURITIES PREMIUM	As per last Balance Sheet	**2,005.5**	938.4
	Add: Received during the year	**–**	1,082.1
		2,005.5	2,020.5
	Less: Utilised towards share issue expenses	**–**	15.0
		2,005.5	2,005.5
DEBENTURE REDEMPTION RESERVE	As per last Balance Sheet	**261.3**	261.3
	Less: Transferred to General Reserve	**12.5**	–
		248.8	261.3
GENERAL RESERVE	As Per Last Balance Sheet	**4,176.6**	3,224.8
	Less: Adjustment Pursuant to change in Amortization of Brands*	**–**	6.2
	Add: Transferred from Debenture Redemption Reserve	**12.5**	–
	Add: Transferred from Profit & Loss Account	**–**	1,080.0
	Add: Debit Balance in the Profit & Loss Account	**(134.4)**	(122.0)
		4,054.7	4,176.6
	*Refer Note 3(ii) on Schedule 23		
EXCHANGE FLUCTUATION RESERVE ACCOUNT		**(117.8)**	(142.8)
	TOTAL	**6,528.5**	6,637.9

Rs. Millions					As at March 31, 2005	As at March 31, 2004
3. EQUITY SHARE WARRANTS						
Upfront consideration of Rs.140 per warrant received towards preferential allotment of 2,500,000 Equity Share Warrants of Rs.375 each. These warrants are to be converted into 2,500,000 Equity Shares of Rs.5 each at a premium of Rs.370 per equity share on exercise of option by the warrant holders on or before August 3, 2005.					**350.0**	350.0
4. SECURED LOANS						
(Refer Note 7 on Schedule 23)						
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
	11.75	Rs.100	2,700,000	In 3 annual installments by 10/08/05	**90.0**	180.0
	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	**160.7**	225.0
Note: All the above debentures are redeemable at par.					**750.7**	921.7
TERM LOANS	From Banks [Payable within one year- Rs.641.1 (Rs.529.9)]				**4,072.6**	3164.9
OTHER LOANS	From Banks - Working capital loans (Payable within one year)				**2,726.0**	2,375.7
	Interest Accrued				**1.6**	1.7
	Hire Purchase Loans [Payable within one year - Rs.0.4) (Rs.0.7)				**0.7**	1.4
	TOTAL				**7,551.6**	6,465.4
5. UNSECURED LOANS						
(Refer Note 8 on Schedule 23)						
SHORT TERM LOANS	From Banks - Other Loans				**1,350.8**	418.0
OTHER LOANS	From Banks				**330.0**	398.0
	Interest Accrued and Due				**5.7**	2.5
	From Others				**297.2**	279.8
	Sales Tax Deferment Loan				**805.0**	667.0
	TOTAL				**2,788.7**	1,765.3

6. FIXED ASSETS *(Refer Note 6 on Schedule 23)*

Particulars	Gross Block					Depreciation					Net Block	
Rs. Millions	As at April 1, 2004	Additions	Sales/ Adjustments	Exchange difference	**As at March 31, 2005**	As at April 1, 2004	For the Year	Sales/ Adjustments	Exchange difference	**As at March 31, 2005**	**As at March 31, 2005**	As at March 31, 2004
Leasehold Land	28.4	10.9	–	–	**39.3**	0.2	0.5	–	–	**0.7**	**38.6**	28.2
Freehold Land[a]	80.8	6.5	0.3	–	**87.0**	–	–	–	–	**–**	**87.0**	80.8
Freehold Building[b]	1,884.5	716.9	545.4	(4.2)	**2,060.2**	141.7	81.3	17.7	0.4	**204.9**	**1,855.3**	1,742.8
Leasehold Building	31.4	33.4	–	–	**64.8**	1.7	1.9	-	-	**3.6**	**61.2**	29.7
Plant & Machinery[c]	6,300.6	1,291.6	11.6	(10.0)	**7,590.6**	1,218.9	499.0	2.1	2.8	**1,713.0**	**5,877.6**	5,081.7
Vehicles	58.3	3.5	2.0	(0.1)	**59.9**	12.7	7.0	1.5	-	**18.2**	**41.7**	45.6
Furniture & Fixtures	86.1	29.8	–	-	**115.9**	18.7	12.4	–	-	**31.1**	**84.8**	67.4
TOTAL	8,470.1	2,092.6	559.3	(14.3)	**10,017.7**	1,393.9	602.1	21.3	3.2	**1,971.5**	**8,046.2**	7,076.2
Intangibles												
Brands	168.4	–	–	–	**168.4**	33.7	16.8	(16.8)	–	**67.3**	**101.1**	134.7
Product Development Cost	–	162.5	–	–	**162.5**	–	–	–	–	**–**	**162.5**	–
Licences	–	4.8	–	–	**4.8**	–	–	–	–	**–**	**4.8**	–
Land usage Rights[f]	11.9	111.4	–	(0.2)	**123.5**	5.1	2.8	2.4	0.1	**5.4**	**118.1**	6.8
Non - Compete fees[f]	250.0	–	–	–	**250.0**	50.0	25.0	(25.0)	–	**100.0**	**150.0**	200.0
TOTAL	430.3	278.7	–	(0.2)	**709.2**	88.8	44.6	(39.4)	0.1	**172.7**	**536.5**	341.5
Grand Total	8,900.4	2,371.3	559.3	(14.5)	**10,726.9**	1,482.7	646.7	(18.1)	3.3	**2,144.2**	**8,582.7**	7,417.7
Capital work-in-progress[d & e]											**2,525.4**	1,594.2
Previous Year	6,872.7	2,379.9	120.9	231.3	**8,900.4**	949.1	589.8	34.1	22.1	**1,482.7**	**7,417.7**	

Notes

a. The title deeds of Land and Buildings aggregating to Rs.46.0 (Rs.44.0) are pending transfer to the Company's name.

b. Include Rs.0.3 (Rs.0.3) being the value of shares in co-operative housing societies and net of Government Grant received Rs.Nil (Rs.0.7).

c. Includes Foreign Exchange Fluctuations capitalised Rs.0.1 (Rs.0.3) and net of Government grant received Rs.Nil (Rs.1.3).

d. Include capital advances of Rs.204.0 (Rs.82.5), Foreign Exchange Fluctuations Rs.0.4 (Rs.0.1) and expenditure during construction period Rs.37.2 (Rs.34.4).

e. Capital work-in-progress include Rs.33.7 (Rs.53.0) towards borrowing cost capitalised during the year.

f. In the year ended March 31, 2005 the Company has reclassified Land Usage Rights and Non - Compete Fees as Intangible Assets as against Miscellaneous Expenditure in the previous year.

Rs. Millions		As at March 31, 2005	As at March 31, 2004
7. INVESTMENTS (at Cost)			
UNQUOTED			
LONG TERM			
TRADE INVESTMENTS	Equity Shares (Fully Paid-up)		
	753 equity shares of Jeedimetla Effluent Treatment Limited of Rs.100 each	**0.1**	0.1
	103,709 equity shares of Patancheru Enviro-Tech Limited of Rs.10 each	**1.0**	1.0
	1,000 equity shares of Progressive Effluent Treatment Ltd of Rs.100 each	**0.1**	0.1
OTHER THAN TRADE	Kisan Vikas Patra	**1.0**	1.0
	National Savings Certificates*	**0.2**	0.2
	*includes Certificates of Rs.0.1 (Rs.0.1) held by income tax authorities		
	TOTAL	**2.4**	2.4
8. INVENTORIES			
(at lower of cost or net realisable value)	Raw Materials*	**1,560.0**	1,128.8
	Stores, Spares, Consumables & Packing Materials	**269.3**	136.5
	Work-in-Process	**1,334.3**	1,119.8
	Finished Goods*	**591.0**	808.7
	TOTAL	**3,754.6**	3,193.8
	* includes material in transit and lying with third parties.		
9. SUNDRY DEBTORS *(Refer Note 9 on Schedule 23)*			
Unsecured	Debts Outstanding for a period exceeding six months		
	Considered Good	**1,114.4**	1,156.3
	Considered Doubtful	**128.6**	99.8
	Other Debts - Considered Good	**3,418.9**	3,620.9
	Less: Provision for Doubtful Debts	**128.6**	99.8
	TOTAL	**4,533.3**	4,777.2

Rs. Millions		As at March 31, 2005	As at March 31, 2004
10. CASH & BANK BALANCES *(Refer Note 10 on Schedule 23)*			
	Cash, Cheques & Drafts on Hand	**16.5**	43.5
	Cash-in-Transit	**–**	7.0
	Balances with Scheduled Banks on:		
	Current Accounts	**125.2**	394.0
	Margin Money Deposit Accounts	**107.0**	33.1
	Unpaid Dividend Accounts	**2.7**	2.3
	Balances with Non-scheduled Banks on		
	Current Accounts	**333.0**	69.7
	Deposit Accounts	**9.5**	73.0
	TOTAL	**593.9**	622.6
11. OTHER CURRENT ASSETS			
	Fixed Assets held for sale (At net book value or estimated net realisable value, whichever is lower)	**0.9**	3.4
		0.9	3.4
12. LOANS & ADVANCES *(Refer Note 11 on Schedule 23)*			
(Unsecured, considered good except stated otherwise)	Loans and Advances to Joint Venture Entities	**81.2**	59.0
	Loans to Employees	**16.3**	11.2
	Advances Recoverable in cash or in kind or for Value to be Received		
	Considered Good	**755.5**	528.4
	Considered Doubtful	**6.2**	6.2
	Trade and Other Deposits	**96.7**	74.0
	Export Incentives Receivable	**64.6**	85.2
	Advance Income Tax (Net of Provision)	**58.9**	41.2
	Balances with Customs and Excise Authorities	**230.9**	193.5
		1,310.3	998.7
	Less: Provision for Doubtful Advances	**6.2**	6.2
	TOTAL	**1,304.1**	992.5

Rs. Millions		As at March 31, 2005	As at March 31, 2004
13. CURRENT LIABILITIES			
	Sundry Creditors for Goods, Services and Expenses	**2,902.8**	2,251.7
	Trade Deposits	**4.8**	4.1
	Unclaimed Dividends	**2.7**	2.3
	Other Liabilities	**125.2**	145.0
	Interest Accrued but not Due on Loans	**9.7**	12.0
	Book Overdraft	**0.1**	0.4
	TOTAL	**3,045.3**	2,415.5
14. PROVISIONS			
	For Tax	**7.6**	14.2
	For Retirement Benefits	**118.4**	97.8
	For Proposed Dividend	**25.4**	115.2
	For Tax on Proposed Dividend	**3.3**	14.6
	TOTAL	**154.7**	241.8
15. MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)			
	Preliminary Expenses	**–**	0.2
	TOTAL	**–**	0.2

Rs. Millions	Year ended March 31, 2005	Year ended March 31, 2004
16. OTHER INCOME		
Interest on		
Loans to Joint Ventures Entities	**5.9**	5.8
Deposits	**11.3**	4.9
Other Investments	**–**	0.2
Other Advances	**3.9**	1.6
[Tax Deducted at Source Rs 4.5 (Rs 1.6)]		
Processing Charges	**7.0**	3.0
Dividends from current investments (Non Trade)	**0.2**	0.3
Profit / (Loss) on Sale of Fixed Assets	**32.8**	(2.6)
Profit on Sale of shares held in trust	**–**	28.7
Profit on Sale of current investments	**–**	0.4
Profit on Sale of Investments in Subsidiary	**–**	24.4
Balances no longer required written back	**17.3**	–
Sale of Dossier	**19.5**	–
Miscellaneous Income	**79.0**	97.6
TOTAL	**176.9**	164.3
17. INCREASE IN STOCKS		
Opening Stocks		
Finished Goods	**808.7**	594.2
Work-in-Process	**1,119.8**	962.7
	1,928.5	1,556.9
Less: Reversal of excise duty on opening stocks	**40.2**	10.9
	1,888.3	1,546.0
Less: Closing Stocks		
Finished Goods	**591.0**	808.7
Work-in-Process	**1,334.3**	1,119.8
	1,925.3	1,928.5
Increase in Stocks	**37.0**	382.5
Adjustment for Fluctuation in Exchange Rates	**10.3**	(32.7)
TOTAL	**26.7**	415.2

Rs. Millions	Year ended March 31, 2005	Year ended March 31, 2004
18. RAW MATERIALS CONSUMED		
Opening Stocks	**1,128.8**	934.5
Add: Purchases	**7,111.0**	8,330.8
	8,239.8	9,265.3
Less: Closing Stock	**1,560.0**	1,128.8
Raw Materials Consumed	**6,679.8**	8,136.5
Adjustment for Fluctuation in Exchange Rates	**(1.1)**	(3.7)
TOTAL	**6,678.7**	8,132.8
19. OTHER MANUFACTURING EXPENSES		
Conversion Charges	**54.4**	191.7
Packing Materials Consumed	**223.9**	187.0
Consumption of Stores & Spares	**248.7**	199.2
Chemicals Consumed	**208.3**	129.1
Carriage Inward	**85.9**	95.0
Factory Maintenance	**68.2**	65.9
Power & Fuel	**949.2**	788.2
Effluent Treatment Expenses	**27.1**	33.1
Excise Duty Others	**46.7**	402.1
Repairs & Maintenance		
Plant & Machinery	**65.6**	28.3
Buildings	**75.1**	21.6
Others	**22.1**	21.5
Miscellaneous Expenses	**178.1**	161.9
TOTAL	**2,253.3**	2,324.6
20. PAYMENTS TO AND PROVISIONS FOR EMPLOYEES		
Salaries, Wages and Bonus	**785.5**	612.3
Contribution to Provident Fund and Other Funds	**43.8**	31.5
Retirement Benefits	**32.2**	28.0
Staff Welfare Expenses	**40.5**	44.0
TOTAL	**902.0**	715.8

Rs. Millions	Year ended March 31, 2005	Year ended March 31, 2004
21. ADMINISTRATIVE & SELLING EXPENSES		
Rent	**12.1**	12.3
Rates & Taxes	**40.5**	20.8
Printing & Stationery	**29.6**	20.3
Postage, Telegram & Telephones	**30.2**	24.6
Insurance	**72.1**	53.5
Legal & Professional Charges	**90.8**	73.1
Directors sitting fees	**0.1**	0.1
Remuneration to Auditors	**4.3**	4.1
Commission to other Selling Agents	**138.2**	129.6
Carriage Outwards	**204.8**	230.9
Selling Expenses	**136.5**	88.4
Rebates & Discounts	**15.1**	39.4
Travel & Conveyance	**87.0**	74.5
Vehicle Maintenance Expenses	**9.9**	10.5
Product Development Expenses	**–**	44.5
Software License & implementation expenses	**8.2**	18.1
Miscellaneous Expenditure Written Off	**0.2**	–
Provision for Bad and Doubtful Debts and Advances	**24.0**	43.7
Claims/ Bad debts written off	**92.2**	125.1
Fixed assets Written Off	**–**	36.3
Goodwill Written Off	**–**	7.4
Donation	**1.5**	1.0
Safety & Security	**3.0**	6.3
Office Expenses	**14.2**	12.0
Repairs & Maintenance	**8.1**	5.6
Management Fees	**6.0**	5.3
Exchange Fluctuation loss/(gain) (Net)	**126.1**	(115.3)
Miscellaneous Expenses	**86.5**	72.6
TOTAL	**1,241.2**	1,044.7
22. INTEREST AND FINANCE CHARGES		
Interest on debentures and fixed period loans	**366.0**	317.7
Interest on Other Loans	**80.5**	19.6
Finance Charges	**52.7**	70.0
TOTAL	**499.2**	407.3

Rs. Millions

23. NOTES ANNEXED TO AND FORMING PART OF THE CONSOLIDATED ACCOUNTS AS AT AND FOR THE YEAR ENDED MARCH 31, 2005.

1. Statement of Significant Accounting Policies

a. Basis of Consolidation

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

Investments in the consolidated entities, except where investments are acquired exclusively with a view to its subsequent disposal in the immediate near future, are accounted in accordance with accounting principles as defined in the AS 21 "Consolidated Financial Statements" & AS 27 "Financial Reporting of Interests in Joint Ventures" issued by the ICAI.

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 March 31, 2005 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 Ltd.	Thailand	Subsidiary[1]	48
APL Holdings, Inc.	USA	Subsidiary	100
AB Farmo Quimica Limitada	Brazil	Subsidiary	99.8
Aurobindo (Datong) Bio-Pharma Co., Ltd.	China	Subsidiary	100
Aurobindo TongLing (Datong) Pharmaceutical Co., Ltd.	China	Subsidiary	100
APL Chemi Natura Ltd.	India	Subsidiary	100
Helix Healthcare B.V.	The Netherlands	Subsidiary	100
Citadel Aurobindo Biotech Limited	India	Joint Venture	50
Cephazone Pharma, LLC	USA	Joint Venture	50
Aurosal Pharmaceuticals, LLC	USA	Joint Venture	50
Aurobindo Pharma USA Inc.	USA	Subsidiary	100
Auro Pharma Inc.,	Canada	Subsidiary	100

[1] APL Pharma Thai Limited is considered to be a subsidiary by virtue of the Parent Company's control of the composition of the Board of Directors of APL Pharma Thai.

b. Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured

i. Revenue from sale of goods (other than export sales) is recognised on dispatch, which coincides with transfer of significant risks and rewards to customer and is inclusive of excise duty and net of trade discounts, sales returns, sales tax and VAT, where applicable. Revenue from export sales is recognised on the date of bill of lading.

ii. Interest is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

Rs. Millions

iii. Dividend is recognised as and when the shareholder's right to receive payment is established, by the balance sheet date.

iv. Revenue on dossier sales is accounted on the delivery of underlying dossiers.

c. Fixed Assets

i. Fixed assets are stated at cost less accumulated depreciation and impairment losses if any. Cost comprises the purchase price, freight, duties (net of CENVAT), taxes and any attributable cost of bringing the asset to its working condition for its intended use. Finance costs relating to acquisition of fixed assets are included to the extent they relate to the period till such assets are ready to be put to use.

ii. Expenditure directly relating to construction activity is capitalised. Indirect expenditure is capitalised 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 realisable values or net book values, whichever is lower.

iv. The carrying amount of Fixed Assets are reviewed at each balance sheet date when required to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount.

d. Depreciation

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. Assets 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.

ii. Premium paid on Leasehold Land is amortised over the lease term.

iii. In respect of assets acquired at Bhiwadi unit, Rajasthan, depreciation is provided on straight line method at rates arrived at based on useful lives as estimated by the management. Such rates are higher than the rates prescribed under Schedule XIV of the Companies Act, 1956. The rates applied are as under:

- Building: 5% and
- Plant & Machinery: 20%

iv. 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.

e. Intangibles

Intangible Assets consists of acquired brands, non-compete fees, land usage rights, software licenses and product development costs.

Expenditure incurred in respect of purchase of intangible assets are capitalised and amortised on a straight-line basis over the useful life as explained below.

Rs. Millions

Intangible Assets	Estimated Useful Life
Brands	10 years
Non-compete Fees	10 years
Land usage rights	27 years
Software Licenses	Useful life not exceeding ten years

Expenditure incurred in respect of internally generated intangible assets such as Product Development is carried forward when the future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised over the period of expected future economic benefit from the related project, not exceeding ten years.

The carrying value of intangible assets is reviewed for impairment annually when the asset is not in use, and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

Research Costs

Research costs which is of revenue nature, is charged to revenue, while capital expenditure is included in the respective heads under fixed assets.

f. 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.

g. 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 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.

h. Investments

i. Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long term investments. Current investments are carried at lower of cost and fair value determined on individual investment basis.

ii. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline, other than temporary, in the value of the investments.

i. 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 products 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 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.

Rs. Millions

j. Retirement and other Employee Benefits

i. The Company's contribution to Provident Fund is recognised on accrual basis.

ii. The Company's contribution towards defined contribution benefit plan is accrued in compliance with the requirements of domestic laws of the countries in which the consolidated entities operate.

iii. Gratuity and Leave encashment liability is provided on the basis of an actuarial valuation carried out at the end of each financial year.

k. Income Taxes

i. Tax expense consists of both current and deferred taxes. Current income tax is measured at the amount to be paid to the tax authorities in accordance with the domestic tax laws of the countries in which the consolidated entities operate. Deferred income taxes reflect the impact of 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 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. In respect of unabsorbed depreciation and carry forward tax losses the deferred tax assets are recognised only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits.

iii. 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.

iv. Deferred tax assets and liabilities pertaining to consolidated entities are not set off against each other as the Company does not have a legal right to do so.

l. Foreign Exchange Transactions

Initial Recognition
Foreign currency transactions (other than those relating to foreign branches) are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and foreign currency at the date of the transaction. Exchange rate differences are charged to profit and loss account except with respect to Fixed Assets acquired from outside India are capitalised.

Conversion
Foreign currency monetary items are reported at year-end rates. Non-monetary items which are carried in terms of historical cost denominated in foreign currency are reported using the exchange rate at the date of the transaction.

Forward Exchange contracts not intended for trading or speculation purposes
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 recognised as income or expense for the year.

m. Foreign Currency Translation

Effective from April 1, 2004, the Company has adopted AS 11 (Revised) "The Effects of Changes in Foreign Currency Rates" issued by the ICAI. In accordance with the accounting principles as prescribed under the AS 11 (Revised) and based on the analysis of relevant criteria, as explained below, the Company has designated its overseas consolidated entities viz AB Farmo Quimica Limitada and APL Pharma Thai Ltd as "integral foreign operations":

Rs. Millions

a. These foreign operations are under the direct supervision and control of the Parent Company's management;

b. There are high proportions of inter-company transactions;

c. These foreign operations are mainly financed by the Parent Company;

d. Cash flows of these foreign operations have direct impact on the cash flows of the Parent Company.

In accordance with AS 11 (Revised), the financial statements of integral foreign operations, including foreign branches, have been translated as if the transactions of foreign operations had been those of the Parent Company.

In respect of non-integral operations, the translation of functional currencies of such foreign operations, into Indian Rupees is performed for assets and liabilities (excluding Share Capital, Reserves & Surplus and Minority Interest), using the exchange rate as at the Balance Sheet date, for revenues, costs and expenses using average exchange rates prevailing during the reporting period. Share Capital, Reserves & Surplus and Minority Interest are carried at historical cost. Resultant currency translation exchange gain or loss is carried as Exchange Fluctuation Reserve Account in the Consolidated Balance Sheet.

n. 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.

o. 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 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.

Leases, where the lessor effectively retains substantially all the risks and rewards incidental to ownership of the leased item 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.

p. Earnings Per Share

Basic earnings per share are 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.

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.

q. Provisions

A provision is recognised when the Company has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Rs. Millions

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

a. Deferred taxes as required under AS 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 March 31, 2005 has not been ascertained.

b. As required under the AS 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 March 31, 2005 has not been ascertained.

3. Changes in Accounting Policies & Estimates

i. During the year, the Company has changed its accounting policy with respect to treatment of Product Development costs. The accounting policy adopted by the Company is in conformity with the AS 26 "Intangible Assets" issued by the ICAI. The Company has capitalised an amount of Rs.167.3. The said cost was hitherto expensed in the period in which it was incurred. The change in accounting policy has resulted in increase of the profit for the year and decrease of Research and development cost by the said amount.

ii. In the year ended March 31, 2004 the Company had adopted the measurement and disclosure principles as laid down under the AS 26 "Intangible Assets" with effect from 1st April 2003, and had 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 amortize 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. Capital Commitments

Estimated amount of contracts (net of advances) remaining to be executed on capital account and not provided for Rs. 575.6 (Rs.360.5).

5. Contingent Liabilities not provided for

	As at March 31, 2005	2004
a. Claims against the Company not acknowledged as Debts	**2.8**	1.8
b. Outstanding Bank Guarantees on account of:		
i. Guarantee given for Citadel Aurobindo Biotech Limited (50% Joint Venture)	**200.0**	230.0
ii. Others	**47.2**	41.7
c. Bills discounted with Banks	**205.3**	563.7
d. Outstanding Letters of Credit for imports of materials	**341.5**	388.1
e. Direct and Indirect Taxes	**227.7**	126.2
f. Product Licensing	**19.5**	5.7

6. 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 are no restrictions imposed by lease arrangements. There are no sub-leases.

Rs. Millions

b. 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:

Vehicles under finance lease

	As at March 31,	
	2005	2004
Cost	**3.2**	4.4
Accumulated Depreciation	**1.9**	2.4
Net Carrying Amount	**1.3**	2.0
Future Minimum Lease Rents Payables	**0.7**	1.4
Less: Interest included in the above	**–**	0.2
Present Value of Future Minimum Lease Rents Payable	**0.7**	1.2

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

	Mimum Lease payments as at March 31,		Present value of Future lease payment as at March 31,	
	2005	2004	2005	2004
Not later than one year	**0.4**	0.7	**0.3**	0.6
Later than one year and not later than five years	**0.3**	0.7	**0.4**	0.6
Total	**0.7**	1.4	**0.7**	1.2

Buildings under finance lease

i. Building includes factory buildings acquired on finance lease. The agreement is silent on renewal terms and transfer of legal title at the end of lease term.

ii. The lease agreement did not specify minimum lease payments over the future period. The factory building is acquired on lease at a consideration of Rs.64.7 (Rs.31.3) which includes an amount of Rs.19.2 (Rs.11.4) towards expenditure incurred on renovation.

iii. The net carrying amount of the buildings obtained on finance lease Rs.61.2 (Rs.29.6).

iv. The Company has not recognised any contingent rent as income in the statement of profit and loss account and there is no escalation clause in the lease agreement. There are no restrictions imposed by lease arrangements. There are no sub-leases.

7. Secured Loans

a. Debentures are secured by

i. registered mortgage of immovable property situated at Thane, Maharashtra.

ii. first pari-passu charge by equitable mortgage by deposit of title deeds by way of constructive delivery of all the Company's immovable property wherever situated including plant and machinery, spares, tools and accessories both present and future.

Rs. Millions

iii. first charge by way of hypothecation ranking pari-passu with Term Loans of all the movable assets (save and except book debts), both present and future subject to prior charges created in favour of the Company's Bankers to secure Working Capital requirements.

b. Term Loans

The term loans of APL are fully secured by way of (i) first charge ranking pari-passu with Debentures on the immovable properties both present and future, by equitable mortgage by deposit of title deeds by way of constructive delivery of APL's lands wherever situated; (ii) first charge ranking pari-passu with Debentures on all the movable assets (save and except book debts), both present and future subject to prior charges created in favour of the Parent Company's Bankers to secure working capital requirements; (iii) personal guarantees given by the Chairman and the Managing Director aggregating to Rs.2,890.7 (Rs.1,568.9).

The term loans of wholly owned subsidiaries namely Aurobindo (Datong) Bio-Pharma Company Limited, China and Aurobindo Tongling (Datong) Pharmaceutical Company Limited, China are secured by way of charge on land, building and plant and machinery.

The term loan of a joint venture entity is secured by way of charge on the brands, intellectual property rights relating to the brands and further guaranteed by APL.

c. Other working capital loans from banks 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 all the immovable properties of APL subject to charges created in favour of term lenders and debenture holders.

iii. personal guarantees given by the Chairman and the Managing Director of the Company aggregating to Rs.2,602.6 (Rs.2,255.5).

iv. working capital loan of a joint venture entity is also secured by way of a guarantee provided by APL.

d. Hire purchase loans are secured by way of hypothecation of respective assets acquired under Hire Purchase arrangements.

8. Unsecured loans

Unsecured loans from Banks aggregating to Rs.1,300.0 (Rs.418.0) are personally guaranteed by the Chairman and the Managing Director of the Company.

9. Sundry Debtors

Sundry Debtors as at March 31, 2005 includes Rs.214.9 (Rs.229.4) receivable from Citadel Aurobindo Biotech Limited a Company under the same management as defined under Section 370(1B) of the Companies Act, 1956 of India.

Rs. Millions

10. Cash & Bank Balances

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

Name of the Bank	Closing balance as at March 31,		Maximum outstanding at any time during the year ended March 31,	
	2005	2004	**2005**	2004
Vheshtorg Bank - Moscow	**0.8**	0.8	**8.6**	1.4
Vietcom Bank - Vietnam	**0.1**	0.1	**0.4**	0.5
Bank of Nova Scotia - Costarica	**0.1**	0.1	**0.1**	0.6
Commerze Bank, USA	**1.2**	0.1	**22.4**	4.2
Wells Fargo Bank, USA	**–**	0.1	**3.3**	3.2
Uni Credit Bank Italy, Italy	**0.5**	–	**3.1**	–
Industrial & Commercial Bank of China, China	**–**	–	**–**	–
Industrial & Commercial Bank of China, China	**0.9**	0.2	**20.2**	19.4
Bank of China, China	**31.3**	12.8	**93.2**	33.0
Bank of China, China	**4.3**	4.1	**121.2**	192.2
Bank of China, China	**–**	0.7	**34.4**	65.0
Agricultural Bank, China	**0.2**	4.7	**34.4**	332.9
Agricultural Bank, China	**–**	–	**–**	2.1
Bank of China (USD account), China	**0.1**	0.5	**53.0**	36.3
Bank of China (USD account), China	**–**	–	**–**	0.2
Bank of China (USD Loan account), China	**0.1**	1.2	**180.0**	52.9
Banco Santander Banespa , Brazil	**–**	–	**0.4**	–
Kruang Thai Bank, Thailand	**–**	–	**48.1**	–
TD Canada Trust, Canada	**–**	–	**0.4**	–
Fortis Bank (USD), The Netherlands	**0.1**	–	**0.4**	–
Fortis Bank (EUR), The Netherlands	**1.4**	–	**1.4**	–
Central Bank, USA	**–**	–	**2.2**	–
Central Bank - Money Market, USA	**–**	2.2	**0.2**	2.7
Bank of America, America	**167.8**	–	**167.8**	–
PNC Bank, America	**4.0**	–	**4.0**	–
Wells Fargo Bank NA, USA	**2.6**	18.4	**31.9**	55.1
Banco Do Brasil , Brazil	**1.0**	6.7	**23.0**	25.2
HSBC Amsterdam, The Netherlands	**–**	1.0	**1.0**	1.0
HSBC, Brazil	**0.2**	0.2	**3.4**	0.8
Banco Do Brasil, Brazil	**2.2**	–	**47.5**	–
HSBC Brazil	**–**	–	**–**	–
ITAU, Brazil	**87.9**	11.1	**87.9**	11.2
ITAU, Brazil	**0.6**	0.4	**1.0**	1.0
Banco Do Brasil, Brazil	**4.3**	0.2	**11.3**	9.0
Banco Do Brasil, Brazil	**1.4**	1.4	**13.0**	1.6
Banco Do Brasil, Brazil	**–**	–	**13.5**	1.0
Nossa Caixa, Brazil	**12.0**	–	**88.7**	24.5
Nossa Caixa, Brazil	**1.1**	1.9	**11.5**	4.4
Bharat Overseas Bank, Thailand	**4.0**	–	**73.6**	39.2
SIAM Commercial Bank, Thailand	**–**	–	**0.4**	0.5
Standard Chartered Bank HK-FC Account, Hong Kong	**2.7**	–	**7.2**	58.4
Standard Chartered Bank - HKD Account, Hong Kong	**0.1**	0.8	**0.8**	19.4
Total	**333.0**	69.7		

Rs. Millions

b. Balances with non-scheduled banks on deposit accounts:

Name of the Bank	Closing balance as at March 31,		Maximum outstanding at any time during the year ended March 31,	
	2005	2004	**2005**	2004
Nossa Caixa FIF, Brazil	**4.2**	–	**19.1**	–
Banco ITAU, Brazil	**0.5**	–	**0.5**	–
Bank of China, China	**4.7**	70.3	**4.6**	70.3
Bharat Overseas Bank, Thailand	**0.1**	2.7	**33.6**	2.7
Total	**9.5**	73.0		

11. Loans and Advances include

a. Dues from companies under the same management:

Name of the company	**2005**	2004	**2005**	2004
Andhra Organics Limited*	**1.6**	8.9	**138.7**	140.9
Citadel Aurobindo Biotech Limited	**15.0**	15.0	**15.0**	15.0

*Ceased to be under the same management with effect from August 1, 2004.

b. Investment by the loanee in the shares of the Parent Company

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

12. Deferred Taxes

a. Deferred Tax Liability (Net) consists of:

Particulars	As at March 31, **2005**	2004
Debtors	**(43.4)**	(37.8)
Unabsorbed Depreciation	**(137.3)**	–
Retirement Benefits	**(25.1)**	(24.1)
Depreciation	**818.5**	583.0
	612.7	521.1

Rs. Millions

b. Deferred Tax Asset (Net) consists of:

Particulars	As at March 31, 2005	2004
Unabsorbed depreciation	–	99.3
Carried forward business losses	–	20.0
Debtors	–	4.6
Retirement benefits	**0.1**	–
Depreciation	**0.1**	(69.5)
Others	–	0.1
	0.2	54.5

During the year, the management has evaluated the realisability of deferred tax assets relating to unabsorbed depreciation and carried forward business losses. Based on the analysis of the concerned consolidated entity's income and in absence of convincing evidence, the management feels that future taxable income from its operations will not be sufficient to utilize the deferred tax benefits hence the deferred tax assets amounting to Rs.96.4 recognised in the earlier years have been reversed during the year.

13. Export Incentives

Sales include export incentives of Rs.58.2 (Rs.62.4).

14. Research and Development Expenses

Research & Development expenses included under various heads of expenses are Rs.359.1 (Rs.288.5).

15. Employee Stock Option Scheme

During the year, APL has instituted Employee Stock Option plan "ESOP-2004" as per the special resolution passed in the 17th Annual General Meeting held on July 31, 2004. This scheme has been formulated in accordance with the Securities Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (as amended). The Compensation committee accordingly, granted options of 507,700 to eligible employees. Each option comprises of one underlying Equity Share of Rs.5 each.

The said options vest on annual basis at 15%, 20%, 25% and 40% over a period of four years and can be exercised over a period of 6 years from the date of grant of options. The options have been granted at prevailing market price of Rs.362.60 per share and hence question of accounting employee deferred compensation expenses does not arise.

16. Directors' Remuneration included under various head of accounts

Particulars	Year ended March 31, 2005	2004
Salary	**15.3**	13.8
Contribution to Provident Fund	**0.3**	0.3
Perquisites	**1.6**	2.3
Total	**17.2**	16.4

Rs. Millions

17. Earnings Per Share

Earnings per share for the year ended March 31, 2005 has been computed based on the following:

Particulars		Year ended March 31, 2005	2004
Profit after taxation and minority interest considered for calculation of basic and diluted Earnings Per Share	Rs.	32.5	1,086.8
Weighted average number of Equity Shares considered for calculation of basic Earnings Per Share		50,770,000	47,868,607
Add: Effect of dilution on account of stock options granted under the ESOP Scheme		4,960	Nil
Add: Effect of weighted average dilutive Equity Shares - Convertible Share Warrants		Nil	228,811
Weighted average number of Equity Shares considered for calculation of diluted Earnings Per Share		50,774,960	48,097,418

18. Dividends

Provision for dividends as at March 31, 2005 includes dividends due to minority shareholders of a subsidiary company Rs. Nil (Rs.1.0).

19. Interest in Joint Ventures

The Company has joint control over the following joint venture entities:

i. Citadel Aurobindo Biotech Limited, incorporated in India, for marketing of formulation products.

ii. Cephazone Pharma LLC incorporated in United States of America for production of sterile and non-sterile cephalosporins.

iii. Aurosal Pharmaceuticals LLC incorporated in United States of America, is engaged in the development, manufacturing and distribution of pharmaceuticals products.

The aggregate amount of the assets, liabilities, income and expenses related to the Company's share in the JVs included in these financial statements as of and for the year ended March 31, 2005 are given below:

Rs. Millions

Interest in Joint Ventures (Contd.)

	As at March 31, 2005	2004
Balance Sheet		
Secured Loans	**123.9**	165.2
Unsecured Loans	**304.6**	280.4
Deferred Tax Liability	**52.9**	–
Total Liabilities	**481.4**	445.6
Fixed assets (Net Block)	**423.2**	500.7
Capital Work in Progress	**10.3**	0.6
Deferred Tax Asset	**–**	49.9
Inventories	**13.7**	18.6
Sundry Debtors	**22.0**	82.0
Cash & Bank Balances	**20.4**	18.2
Loans and Advances	**22.0**	9.9
Current Liabilities	**(137.0)**	(106.1)
Provisions	**(7.8)**	–
Miscellaneous Expenditure	**–**	0.1
Total Assets	**366.8**	573.9

	Year ended March 31, 2005	2004
Profit and Loss account		
Sales	**458.3**	529.1
Other Income	**1.9**	–
Total Revenue	**460.2**	529.1
Raw Materials Consumed	**1.7**	–
Purchase of Trading Goods	**229.1**	272.6
Other Manufacturing Expenses	**10.8**	9.0
Payments to and Provisions for Employees	**88.2**	61.9
Administrative and Selling Expenses	**157.4**	143.5
Interest and Finance Charges	**18.6**	21.0
Depreciation and amortization	**42.5**	54.2
Total Expenses	**548.3**	562.2
Provision for Taxation		
Current Tax	**–**	–
Deferred Tax	**6.4**	(10.3)
Prior Period Income/(Expenses)	**(5.7)**	22.6
Accumulated Amortisation of brands	**(41.8)**	–
Deferred tax asset of earlier years reversed	**(96.4)**	–

Rs. Millions

20. Related Party Transactions

During the year ended March 31, 2005 the Company had entered into several commercial transactions with its related parties. The details of such transactions, balances as at March 31, 2005 and names of related parties and the nature of relationship is given below:

A. Details of transactions with the related parties:

	Year ended March 31, 2005	2004
a. Companies over which significant influence exists		
Pravesha Industries (P) Limited		
Purchase of Goods	**34.9**	33.7
Purchase of Fixed Assets	**12.4**	34.3
Rendering Services	**3.7**	5.3
Sale of Fixed Assets	**0.1**	–
Andhra Organics Limited		
Purchase of Goods	**31.4**	263.1
Sale of Goods	**61.0**	115.8
Purchase of Fixed Assets	**–**	1.0
Rendering Services	**2.4**	1.9
Receipt of Services	**9.3**	21.8
b. Joint Venturer		
Geravi Inc., Interest	**3.3**	2.1
c. Joint Ventures		
Citadel Aurobindo Biotech Limited		
Management Fee received	**6.0**	6.0
Guarantees and Collaterals	**200.0**	230.0
Bad debts written off	**15.0**	–
Interest Received	**2.0**	2.0
Provision for diminution in value of Investment	**–**	5.0
Provision for Doubtful debts	**–**	15.0
Cephazone Pharma LLC		
Sale of goods	**3.0**	–
Sale of Fixed assets	**–**	0.5
d. Key Management Personnel		
Mr. P. V. Ramaprasad Reddy		
Managerial Remuneration	**2.7**	2.6
Dividend	**6.6**	29.7
Investment in equity	**–**	494.9
Guarantees and Collaterals	**6,793.2**	4,242.4

Rs. Millions

	Year ended March 31, 2005	Year ended March 31, 2004
Mr. K. Nityananda Reddy		
Managerial Remuneration	**2.7**	3.3
Dividend	**1.9**	8.4
Investment in equity	**–**	32.9
Guarantees and Collaterals	**6,399.0**	4,242.4
Dr. M. Sivakumaran		
Managerial Remuneration	**2.7**	3.1
Dividend	**0.7**	3.3
Investment in equity	**–**	15.5
Mr. B. Sivaprasada Reddy		
Managerial Remuneration	**2.7**	2.7
Dividend	**–**	–
Mr. Lanka Srinivas		
Sitting Fees	**–**	–
Professional Fees	**3.0**	–
Remuneration to Key Managerial Personnel		
Mr. G.P. Prasad	**1.2**	–
Mr. V.M. Gopalakrishnan	**2.0**	1.7
Mr. Thirachai Chanthaveesab	**1.3**	1.2
Mr. C.V.Seshadri	**0.2**	–
Mr. M.V. Sastry	**–**	0.1
Mr. Premanandam Modapohala	**1.8**	1.8

	As at March 31, 2005	As at March 31, 2004
B. Balance Outstanding Debit/(Credit)		
Citadel Aurobindo Biotech Limited, India	**235.7**	251.3
Pravesha Industries (P) Limited, India	**(5.9)**	(0.8)
Andhra Organics Limited, India	**1.6**	8.9
Cephazone Pharma LLC	**2.7**	0.4
Geravi, Inc	**(56.3)**	(33.4)

Rs. Millions

21. Remuneration to Statutory Auditors (including service tax where applicable)

Particulars	Year ended March 31, 2005	2004
Statutory Audit	**3.3**	2.7
Other Audit Services	**0.8**	1.1
Certification charges	**0.1**	0.2
Reimbursement of out of pocket expenses	**0.1**	0.1
Total	**4.3**	4.1

22. Segment Information

a. Identification of Reportable Segments

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

i. 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 single business segment.

ii. 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 March 31, 2005				
	India	China	Rest of the World	Eliminations	Consolidated
Revenue					
External Sales	10,664.4	1,232.5	1,319.1	–	13,216.0
Interest income	–	–	3.9	–	3.9
Inter - Segment Sales	940.0	928.7	–	1,868.7	–
Total Revenue	11,604.4	2,161.2	1,323.0	1,868.7	13,219.9
Results					
Segment Result	593.4	(37.8)	(103.9)	(47.1)	498.8
Interest Expense					(488.9)
Interest Income					17.1
Other Income					155.9
Income Tax					(130.3)
Net Profit before Minority Interest					52.6
Other Information					
Segment Assets	16,864.1	4,028.6	1,419.5	(1,093.6)	21,218.6
Segment Liabilities	11,027.8	2,315.9	1,510.5	(1,321.5)	13,532.7
Capital Expenditure	2,275.2	459.2	568.1	–	3,302.5
Depreciation/amortization	445.1	177.2	24.4	–	646.7

Rs. Millions

Particulars	For the year ended and as at March 31, 2004 India	China	Rest of the World	Eliminations	Consolidated
Revenue					
External Sales	12,340.0	1,587.8	1,118.2	–	15,046.0
Interest income	–	–	2.7	–	2.7
Inter - Segment Sales	996.9	632.7	–	1,629.6	–
Total Revenue	13,336.9	2,220.5	1,120.9	1,629.6	15,048.7
Results					
Segment Result	1,818.6	(95.5)	(114.6)	(36.8)	1,645.3
Interest Expense					(399.5)
Interest Income					9.8
Other Income					269.8
Income Tax					(457.1)
Net Profit before Minority Interest					1,068.3
Other Information					
Segment Assets	14,177.7	3,748.0	1,123.1	(485.5)	18,563.3
Segment Liabilities	8,537.0	2,134.8	725.7	(523.7)	10,873.8
Capital Expenditure	2,090.7	120.1	35.9	–	2,246.7
Depreciation/amortization	384.3	187.6	17.9	–	589.8

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

24. Previous year's figures have been re-grouped/re-arranged to conform to those of the current year.

SIGNATURES TO SCHEDULES 1 TO 23

In terms of our report of even date

S.R. BATLIBOI & CO.
Chartered Accountants

Per
UTKARSH PALNITKAR
Partner
Membership No. 40030
Hyderabad, June 30, 2005

SUDHIR B. SINGHI
Chief Financial Officer

B. ADI REDDY
Company Secretary

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

Dr. M. SIVAKUMARAN
Director

Consolidated Cash Flow Statement for the Year Ended March31, 2005

Rs. Millions		2004-2005	2003-2004
1. CASH FLOWS FROM OPERATING ACTIVITIES			
	Net Profit before Prior Period Item and Taxation	**182.9**	1,525.4
	Adjustments for:		
	Depreciation and amortisation	**646.7**	589.8
	Miscellaneous Expenditure Written off	**0.2**	–
	Provision for Doubtful Debts	**24.0**	43.7
	Prior Period Item	**(15.8)**	(31.4)
	Export Incentives Accrued	**(36.8)**	(40.7)
	Debts and other Advances Written off	**92.2**	125.1
	Balances no longer required written back	**(17.3)**	–
	Provision for Retirement Benefits	**20.6**	20.4
	Interest Expense	**499.2**	414.5
	Interest Income	**(21.1)**	(12.5)
	Dividends	**(0.2)**	–
	Unrealized Foreign Exchange Loss	**11.3**	87.9
	Loss / (Gain) on Sale of fixed Assets	**(32.8)**	2.6
	Goodwill written off	**–**	7.4
	Gain on sale of investments in the subsidiary	**–**	(24.5)
	Gain on sale of shares held in trust	**–**	(28.7)
	Gain on sale of investments	**–**	(0.5)
	Fixed Assets Written off	**3.3**	36.3
	Operating Profit before Working Capital Changes	**1,356.4**	2,714.8
	Adjustments for:		
	Inventories	**(560.7)**	(653.8)
	Sundry Debtors	**105.9**	(479.6)
	Loans & Advances	**(252.7)**	(58.5)
	Sundry Creditors	**659.1**	(926.7)
	Cash Generated from Operations	**1,308.0**	596.2
	Income Tax Paid	**(87.4)**	(388.6)
	Interest Paid	**–**	(10.0)
	Miscellaneous Expenditure	**–**	1.3
NET CASH FLOWS FROM OPERATING ACTIVITIES (A)		**1,220.6**	198.9
2. CASH FLOWS FROM INVESTING ACTIVITIES	Purchase of Fixed Assets	**(3,005.0)**	(2,004.7)
	Additions to Intangibles	**(281.3)**	–
	Proceeds from sale of Fixed Assets	**563.1**	4.4
	Purchase of Investments	**(312.5)**	(1,281.9)
	Loans to Joint ventures	**(22.1)**	(14.8)
	Proceeds from sale of Investments in subsidiary, net of Cash	**–**	43.4
	Proceeds from sale of Investments	**312.5**	1,291.7
	Interest received	**21.2**	24.8
	Dividend received	**0.2**	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES (B)		**(2,723.9)**	(1,937.1)

Rs. Millions		2004-2005	2003-2004
3. CASH FLOWS FROM FINANCING ACTIVITIES	Proceeds from issue of Share Capital	–	1,088.4
	Proceeds from issue of Share warrants	–	328.5
	Proceeds from Long Term borrowings	905.0	1,692.1
	Repayment of Long Term borrowings	(170.9)	(1,555.6)
	Proceeds from Short Term borrowings, net	1,369.4	971.8
	Interest Paid	(525.6)	(461.4)
	Dividend and Dividend tax	(129.8)	(90.5)
NET CASH FLOWS FROM FINANCING ACTIVITIES (C)		1,448.1	1,973.3
EFFECT OF EXCHANGE RATE CHANGES ON CASH & CASH EQUIVALENTS (D)		25.0	(108.0)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		(30.2)	127.1
	Cash and Cash Equivalents - Opening Balance	622.6	497.5
	Cash and Cash Equivalents - Closing Balance	592.4	624.6
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(30.2)	127.1

Notes

	2004-2005	2003-2004
1. Cash and Cash equivalents include		
Cash and Bank balances	474.7	514.2
Deposit accounts	116.5	106.1
Unpaid dividend Accounts	2.7	2.3
Cash and Cash equivalents as per balance sheet	593.9	622.6
Effect of unrealized exchange loss as on the balance sheet date	(1.5)	2.0
Cash and Cash equivalents considered for cash flows	592.4	624.6

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

This is the Consolidated 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, June 30, 2005

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

Dr. M. SIVAKUMARAN
Director

SUDHIR B. SINGHI
Chief Financial Officer

B. ADI REDDY
Company Secretary

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 EIGHTEENTH ANNUAL GENERAL MEETING of the Company on Tuesday the 27th day of September, 2005 at 3.00 p.m. at Sri Sathya Sai Nigamagamam, 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 EIGHTEENTH ANNUAL GENERAL MEETING of the Company to be held at 3.00 p.m. on Tuesday, September 27, 2005 or at any adjournment thereof.

Signed this ________________________________ day ________________ 2005.

Affix 30P. Revenue Stamp

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.

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.

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

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