Delivering on promises

Annual Report 2005-2006

AUROBINDO PHARMA LTD.

Contents

We have constructed a solid strategic foundation. The business is organised to remain close to the customers, sharing products, values and best practices. This is leveraged on high-level researchers and technology combined to provide world-class performance, unbeatable value for money and the ability to deliver large basket of products.

This did not happen overnight. It came out of a commitment to excel at the best markets. They were not mere promises, but a passion to make an impact in the most competitive markets.

Our businesses are performing well. We are working for strong growth, and shall sustain the momentum.

We shall sharpen our focus on international expansion, even as we consolidate and build on the strengths of our base business in the domestic and emerging markets.

Aurobindo is a high-energy pharmaceutical company and the vibrancy in the organisation gives confidence to make fresh commitment to deliver. To deliver the Earth for our customers, shareholders and in fact, all our stakeholders.

Delivering on promises

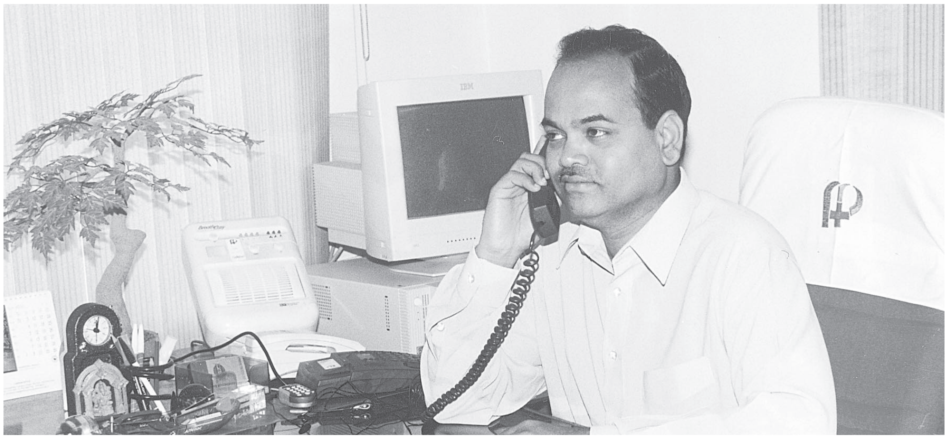
Message from the Chairman

Dear friends,

We at Aurobindo have been actively creating a platform for growth. We pursued a well-laid road map and added to our marketing reach. In particular, we made a strategic entry into the regulated markets of US and Europe. We ensured that we had a marketing strategy and a large number of regulatory approved APIs and formulations.

We made a good beginning and I am happy to report that many of the initiatives undertaken in the recent past to scale up the organization have started to bear fruit. Both in US and Europe, we have started executing repeat orders. Equally significant was our being part of the prestigious PEPFAR program initiated by the Government of USA.

We had planned well; we knew our strengths; were clear on where we wanted to go; what we wanted to deliver; were sure of our milestones and the efforts that we needed to put in to make things happen. We did as well as we planned and navigated through challenging circumstances and environment.



BOTH IN US AND EUROPE, WE HAVE STARTED EXECUTING REPEAT ORDERS. EQUALLY SIGNIFICANT WAS OUR BEING PART OF THE PRESTIGIOUS PEPFAR PROGRAM.

Since we did a calibrated entry into such markets, our learning cost and lag-time was lower. We had sized up the breadth and depth of the market, we are better positioned to deliver larger volume and service wider boundaries.

Our Members are aware, that we at Aurobindo have been a dominant player in the domestic API market and a significant player in the less regulated markets. This is a strength that we have earned over many years. Our endeavor is to retain this leadership position in the base business, and make inroads into the regulated markets.

FY06 was characterised by severe competitive pressure, shortage of raw materials, higher input costs and challenges latent in entering some of the most quality conscious markets. We needed to be better than market expectations, and I am glad to share with you, that the professional team at Aurobindo anticipated and

AUROBINDO'S STRENGTHS ARE ITS ABILITY TO OFFER WHAT THE CUSTOMERS WANT AND BE THE LOWEST COST PRODUCER.

worked to a game plan. We found it much easier to market our products, at affordable prices.

Aurobindo's strengths are its ability to offer what the customers want and be the lowest cost producer. We give them quality that they want, service them especially with delivery deadline, and meet the needs of customers at prices that give them value. We see long-term relationships, and plan to tie up with some of the best names in the industry.

It is a matter of pride for us that two of our ARV products coupled with the analytical methods are becoming the basis for the USP monographs. A few of our talented scientists have been recognised by awards and citations by industry associations. Indeed, Aurobindo has some of the best skills in the industry, especially in critical functions such as research, manufacturing and marketing.

We are working towards revenues of half-a-billion in FY07 and one billion in three years, designated in dollar terms.

Going forward, the Company has the clarity of its future revenue flows and has the capability to protect and improve margins. We have mapped with milestones our future course of managing market needs and are progressively improving the presence of our products.

Over the years, Aurobindo has taken care to keep its commitments, and deliver better than what was earlier estimated. Our team has gained strength and has converted challenges into opportunities. Seen in perspective, we have delivered better to all our stakeholders.

Often, we have deliberated within the Company to take stock of our progress, as well as on what need be done. We have learnt from the market, from our own experiences, and in the process, have fine tuned our growth plans and momentum.

I shall share a few pointers which have helped us gain clarity in our business. Some of the basic questions that we ask ourselves include: Who are we competing? How would we succeed in a market made of leaders in the industry? What should we do to gain larger presence, market share, improved business mix and sustainable long-term growth?

We at Aurobindo believe that we are not competing against MNCs, innovators or other competitors. We believe those equipped to deliver better will demonstrate sustained long term growth.

My colleagues and I believe, our fight is against ailments, disease and ill-health. We work the same market with other players, and together we are challenging the spread of ailments such as HIV; providing support to patients to recover from diabetes, migraine, cardiovascular ailments; and help them with our drugs to control several lifestyle

WE BELIEVE THE WINNERS WILL BE THOSE WHO ARE EQUIPPED TO OFFER EFFECTIVE PRODUCTS AT PRICES THAT ARE COMPETITIVE.

disorders. We have a stake in patients regaining their health.

While there are many players in the same market, with similar facilities, manufacturing systems, product approvals and skill sets, we believe the winners will be those who are equipped to offer effective products at prices that are competitive.

This is where we are distinctive and different. Aurobindo is backward integrated, manufactures most of the APIs that go into its formulation products; and, in many instances, manufactures the key raw material as well. Aurobindo straddles the value chain.

We bring to the market, consistency of products, reliability of sources, ability to produce at shorter time-lag and cost effectiveness. We believe this competitive edge will be maintained and improved upon as we gain stronger foot-prints in the markets.

Our endeavor as in the past, will be to remain the most cost effective producer of the best pharmaceutical products, gain volume and market share and be a dependable resource for patients and medical fraternity.

We believe our efforts will lead to sustainable growth of the Company and wealth creation for our stakeholders. Our portfolio of investments, assets, capacities, products and people talents are reassuring, and we at Aurobindo

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OUR VISION

Aspire to be a leading provider of pharmaceuticals to both brand and generic pharma industry

Shall achieve it by creating a competitive advantage in chemistry through innovation, cost structure and constructive partnerships.

have set short and long term targets. We are working towards revenues of half-a-billion in FY07 and one billion in three years, designated in dollar terms.

We are committed in this mission and shall deliver results that will exceed expectations. I look forward to the future with confidence.

Warm regards

P. V. Ramaprasad Reddy
Chairman

Leadership in chosen segments

Steriles	Betalactams	Anti-virals	Life style drugs
Market size: US$ 6.1 bn	Market size: US$ 6.1 bn	Market size: US$ 6.6 bn	Market size: US$ 110 bn
A high margin segment	Strongest player with economies of scale	Full range of portfolio	Broad portfolio in immediate release and sustained release generics
Protected by entry barriers	Larger capacities and better cost structure than any competitor	US FDA approved API and finished form facilities	Both plain and combination products
IPR capabilities, vertically integrated product base and process add to strengths	Vertically integrated and a leader in the category	Aggressively participating in PEPFAR	Strong pipeline to balance portfolio in developing markets
Strong portfolio of 27 products	Competitive cost structure	Large basket of 17 products	Large manufacturing capacities to meet single umbrella needs of global distribution
	Offer potential for global outsourcing		

Most ANDAs are sourced from Company's DMFs

Executing strategies and making an impact

From the desk of the Managing Director

Each quarter was better than the earlier one. We did significantly better on every measure - entered into newer markets, delivered larger volumes, improved top and bottom lines and recorded higher operating margins. In every activity we progressed as planned.

For instance, we submitted larger number of ANDAs, received expeditious regulatory approvals, commercialised more products for the US & European markets, and more important, participated in the prestigious PEPFAR program.

THE "SPEED-TO-MARKET" IS ONE OF THE FACTORS THAT GIVES US A DISTINCTIVE ADVANTAGE.

The Company's strength has always been manufacturing cost effective active pharmaceutical ingredients (APIs). We leverage this capability to produce generic formulations for the regulatory markets.

We are vertically integrated, and we do add value end-to-end. Our dynamics are different as compared to competition. We offer products at competitive prices, and the "speed-to-market", or the ability to cut short the time between developing a product, get it registered and commercialise it, is one of the factors that gives us a distinctive advantage.

These are powerful drivers, especially while entering markets which have leading players in the industry. Our scaling up to make meaningful presence in regulatory markets, as well as the fast tracking with hardly any time loss between product approvals and their launch in the addressable markets, has now created a healthy platform for much stronger foray of newer products.

Members are aware, we at Aurobindo were confident of participating in the global attempt at making available larger volume of antiretroviral products to help HIV affected people. The Company successfully bid and became authorised vendors to the US government sponsored PEPFAR program. Supplies commenced during the year, helped mainly by the fact that Aurobindo has system inspected manufacturing facilities, large basket of approved products and the ability to respond fast with the experienced in-house scientists.

Aurobindo's large product mix makes it convenient for organisations such as UNICEF to source their supplies of ARV products from us. Its a single window resource to procure drugs for many institutional customers.

While our ARV products got fresh momentum, we maintained our focus and grew in segments such as CNS, SSP and semi-synthetic cephalosporins. Efforts made were successful because of the strong basket of products, potential opportunities and existing relationships with customers, both in international and domestic markets.

While the business mix improved and duly got reflected in the financials, we have challenges in the profitability of some of the overseas production branches. In particular, our ventures at China are yet to reach optimum viability. We are confident that the volume and prices would improve, while the cost of production can be reigned in. Considerable managerial efforts are being made to improve the economics of the units under pressure.

We have acquired a marketing outfit in U.K. and a US FDA approved manufacturing facility in U.S.A. which gives us a platform to accelerate growth.

Capacity utilisation at our API production units have been consistently improving. We are working to de-bottleneck some of

Every quarter... an improvement

Rs. Millions	Q1	Q2	Q3	Q4	FY06
Revenues	2842.4	3271.0	4169.7	4742.4	15025.5
PBDIT	266.3	291.0	661.5	827.8	2046.6
PBT	13.2	25.2	364.0	526.6	929.0
PAT	20.1	36.4	261.9	375.3	693.7
EPS (Rs.)	0.39	0.66	4.49	6.44	12.46

THERE WAS GROWTH IN VOLUMES AS WELL AS IMPROVEMENT IN MARGINS, IN THE INTERNATIONAL BUSINESS. WE SEE THIS AS A RESULT OF OUR COORDINATED APPROACH, WHERE RESEARCH, PRODUCTION AND MARKETING ARE HORIZONTALLY INTEGRATED.

them, as well as exiting non-remunerative products. As business grows, the management will ensure capacities are adequate and optimise their utilisation.

The state-of-the-art formulation units were specially created to cater to regulatory markets, and with increasing demand from the markets, are now expected to move towards optimum utilisation. The economics of scale would be visible in the foreseeable future.

We hope to keep improving our volume sales, market share, revenues, operating margins and net earnings.

There was growth in volumes as well as improvement in margins, in the international business. We see this as a result of our coordinated approach, where research, production and marketing are horizontally integrated. Our ability to respond to the market, reach out to customers as well as meet their needs, offer affordable prices, and flexibility of operations has been enhanced. These strengths enable superior decision making process and better control of operations, which translate into better business and strong fundamentals.

R&D efforts were focused towards creating a product pipeline and obtaining regulatory approvals. The large basket of non-infringing process patents would further enhance the ability of the Company to widen product portfolio.

It is a matter of pride that global investors participated and helped us place two FCCB issues, one for US$ 60 million in August 2005 and another for US$ 200 million in May 2006. We are particular that the funds are best utilised to gain strong foothold for our products in the premium markets.

We have acquired a marketing outfit in U.K. and a US FDA approved manufacturing facility in U.S.A. which gives us a platform to accelerate growth. We shall continue to pursue similar opportunities, in the best interest of Aurobindo.

We shall progress with caution. Operational excellence will be matched by our focus on compliance standards, adherence to EHS norms and raising the bar on system implementation. Our ERP system is dynamic, and fine tuned to protect, assist and reflect the business.

More than ever before, we remain very confident about the future of Aurobindo. Following our vision, we will master the challenges ahead of us. We shall pursue success since we believe we are well equipped for future growth. We shall accelerate and improve our presence in the premium markets of US & Europe.

Product approvals from regulatory authorities on hand and the marketing strategies in place will fast track our volume and top line growth. In addition, we shall continue to submit dossiers for newer products and seek regulatory approvals to ensure a healthy pipeline.

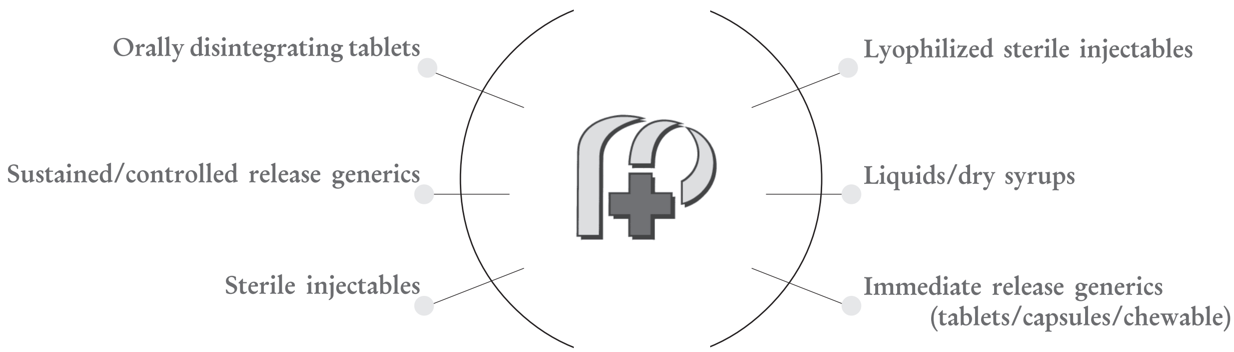
It is expected that with higher formulation sales, in-house capacities of APIs will be better utilised. We are conscious of the need for increased API capacities, and shall add full-fledged blocks where necessary. Simultaneously, we shall review our basket on an on-going basis, and shed non-remunerative products.

We hope to keep improving our volume sales, market share, revenues, operating margins and net earnings. There will be targeted sales and result oriented approach to business. Our Q1FY07 result has demonstrated the trend of improving performance, and we shall maintain the momentum of growth. Such focused efforts can be expected to deliver better performance results and help cross newer milestones.

We are in the business of good health, and in this endeavor we are supported by our competent and capable staff at all levels. As a team, we shall leverage our excellence in sustained execution in key operational areas of sourcing raw materials, production efficiencies and marketing thrust.

K. Nityananda Reddy
Managing Director

Product portfolio in both conventional and high entry barrier dosage forms



R&D interface makes the difference

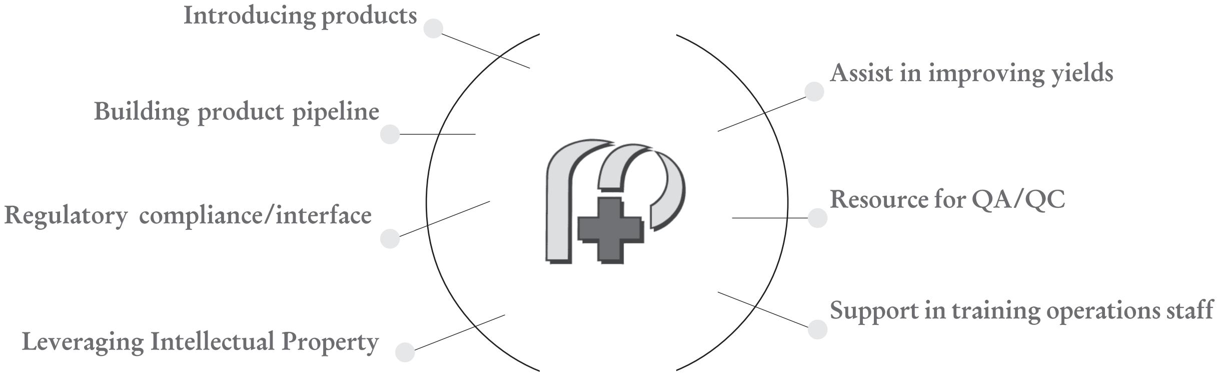
Every organization has an engine of growth. Aurobindo saw its potential in being a knowledge-based company, finding challenging solutions to complex chemistry and a business built on a strong intellectual property foundation.

Our Research & Development initiatives are giving us re-engineered processes with appropriate chemistry. We will always have better technology and non-infringing processes. We are also patenting some of them, to retain the exclusivity with the Company.

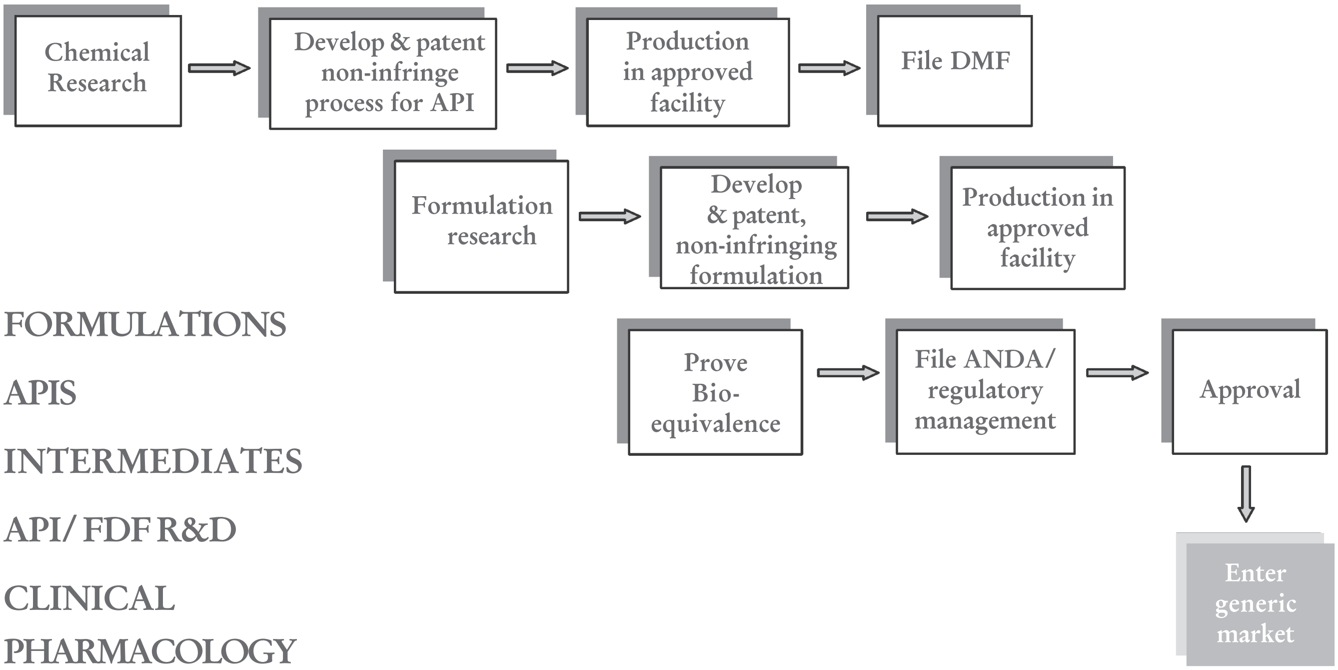
Filings and their management and ensuring non-infringing processes have been followed through to respecting innovators and their IP rights.

FILINGS AND THEIR MANAGEMENT AND ENSURING NON-INFRINGING PROCESSES HAVE BEEN FOLLOWED THROUGH TO RESPECTING INNOVATORS AND THEIR IP RIGHTS.

Adding value to the business



Vertically integrated across the processes



FORMULATIONS

APIS

INTERMEDIATES

API/ FDF R&D

CLINICAL PHARMACOLOGY

The research center capabilities include executing all the related work required for filing ANDAs in-house under one roof. The CRD, ARD, Regulatory, IPR and the CPD departments of the Research Center together act like the fountainhead to meet the organisation's goals.

The evidence is in the large number of filings of DMFs and ANDAs and inspections with hardly any observations/deviations and the number of patents filed. The in-house expertise in R&D is to work on widest range of therapeutic areas thus creating a robust platform for expedited future filings.

A couple of achievements showcase this effort. Aurobindo has possibly maximum number of approvals under the PEPFAR programme. Two of our ARV products coupled with the analytical methods are becoming the basis for the USP monographs.

R&D resources of the Company are not numbers driven; even if over 630 scientists have as a team filed large numbers of dossiers, obtained patents or have enabled meeting regulatory norms.

The in-house scientists have added value by the business interface,

- ✓ strengthened pipelines to business;
- ✓ supported and supplemented quality assurance;
- ✓ helped improve yields and minimise waste; and, more important,
- ✓ trained the production floor.

This close coordination in operations is aimed at greater customer satisfaction. Operational efficiencies need to be perceived in the delivery and value that we add to the product.

Given the reservoir of talents in the Company, Aurobindo will consolidate its knowledge of the customer needs, as well as market opportunities. Contract research is a potential area of business that would add to income stream and help develop long-term relationship with large players in the industry.

The horizontal integration from lab-to-market makes Aurobindo a much stronger player in the market.

We kept our promises

At Aurobindo, we always search for a better way to do everything we do. Over the years, we have developed new knowledge and competencies that have given us competitive edge and path-breaking performance. This comes out of promises that we make to ourselves.

The growth trajectory was mapped with strategic entry into the regulated markets. The Company had taken care to have facilities and products readied and ensure that the delivery mechanisms are in place.

This needed multi-tasking of activities, and implement them simultaneously. For that matter, every segment of the business was refashioned, with the intent to be the best pharmaceutical player of the future.

Distinct manufacturing sites for different segments

Unit	Segments	Certifications
APIs		
Unit I	CVS, CNS, Anti-allergics	US FDA, WHO
Unit I A	Cephs	US FDA
Unit VI	Cephs	US FDA, WHO, Health Canada
Unit VIII	CNS, CVS, Gastroentrological, ARVs	US FDA, WHO
Unit XI	ARVs	US FDA, WHO
Formulations		
Unit III	Multi-purpose Non-Betalactums	US FDA, UK MHRA, WHO, Health Canada, MCC (SA) & ANVISA (Brazil)
Unit VI B	Cephs	US FDA, Health Canada, MCC (SA) & ANVISA (Brazil)
Unit XII	SSPs	US FDA, UK MHRA, Health Canada, MCC (SA) & ANVISA (Brazil)
	Bio-equivalence centre	US FDA, WHO, ANVISA (Brazil)

Status of regulatory filings

		Filed	Approved
DMFs/CoS			
	US FDA	86	*
	CoS/EDQM	50	*
ANDAs		102	48
	US FDA	62	29
	Europe	21	3
	WHO	19	16
Patents		205	29

* No statutory approval required for DMF

As on July 31, 2006

What was the agenda?

- ✓ Upgrade manufacturing facilities to global standards
- ✓ Make the facilities regulatory compliant
- ✓ Add commercially strong product lines
- ✓ Rationalise the product mix, have a large basket of products
- ✓ Move into every generation of select therapeutic segments
- ✓ Be present in high growth segments such as CNS, CVS, Gastroenterology etc.
- ✓ Obtain global regulatory approvals for products
- ✓ Establish top-of-the-line marketing infrastructure
- ✓ Stitch marketing tie-ups in quality conscious developed markets
- ✓ Establish backward and forward integration, be vertically integrated
- ✓ Improve raw material sourcing and control over key raw materials
- ✓ Effect operational efficiencies
- ✓ Chisel the cost structure, in particular raw material costs and overheads
- ✓ Shed inefficient plants and processes
- ✓ Discard low margin products
- ✓ Ramp up the reservoir of skill-sets and result oriented scientists/technicians
- ✓ Professionalise the organisation with high energy resources
- ✓ De-risk the business
- ✓ Improve margins on an increasing top line
- ✓ All the while, remain a knowledge based research company

We did what we set out to do. The corporate objective is clear; Aurobindo would make a meaningful presence in the addressable markets and be globally competitive.

This is only a beginning

It is a process .....

We will keep learning .....

We will keep improving .....

We will make new promises .....

Growth is our Dharma

Aurobindo has strategies to make an impact in the market; has products that hold potential and can carve a slice of the premium markets; has a large basket of products that will add to income streams; has skilled and knowledgeable people who believe in delivering results. All these spell GROWTH.

A period of exponential growth has been engineered, driven on the back of a multi layer strategy. While simultaneous changes are being made, it is yet being seamlessly done.

Sum of all the parts would add to significant change. We will not only offer generic formulations to ultimate consumers, but we shall work with industry players and generate value added solutions to customers. The team at Aurobindo will endeavor to power pack the Company and build a future that will make this Company a significant world player.

A period of exponential growth has been engineered, driven on the back of a multi layer strategy. While simultaneous changes are being made, it is yet being seamlessly done, without disturbing the bread-and-butter lines in the domestic and emerging markets.

Everything essential will be addressed on a day-to-day basis. We will work to ensure that the quality of operations stay consistently high and meet the commercial challenges. Training inputs will be supplemented. The fundamentals of the business such as compliance standards, plant operations, QA and QC will receive heightened attention.

As we progress, we will fine tune the strategies, move the trajectory and accelerate the rate of growth. Product renewals, volume expansion and strong self sustaining bottom line should result in predictable value creation.

We shall work for consistency in growth.

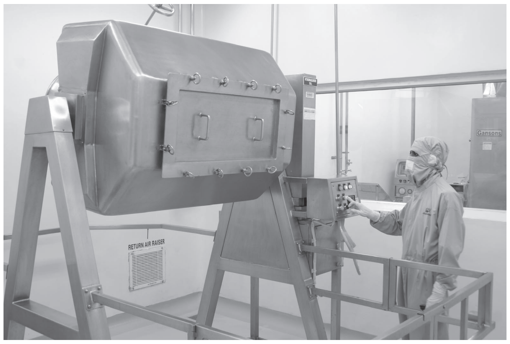
Robust product portfolio spread over 6 major therapeutic areas

- Antibiotics
- Anti-Retrovirals
- CVS/Statins/Diabetology
- CNS
- Gastro/Uro/Kidney therapeutics
- Anti-infectives/allergics/respiratory

encompassing around 65 Betalactam APIs, and, 123 Non-Betalactam APIs

What are the current objectives?

- ✓ Ensure a strong product pipeline with focused filing of new dossiers
- ✓ Commercialise new generic molecules that have market demand
- ✓ Launch into the market newer product approvals
- ✓ Pursue inorganic growth to create marketing platforms in regulated markets
- ✓ Continue the thrust into regulated market for existing approved products
- ✓ Seek larger volume and aggressive top line growth for products already launched
- ✓ Enhance market share wherever Aurobindo is present
- ✓ Consolidate the base business in the domestic as well as emerging markets
- ✓ Enlarge mutually beneficial business relationships and partner with branded pharmaceutical producers in development and supply of finished packs
- ✓ Expand the market presence in Latin & Central America, especially Brazil & Mexico
- ✓ Explore newer market opportunities at Australia, Canada and Japan
- ✓ Add full-fledged production modules to create additional API capacity
- ✓ Undertake process optimisation to improve capacity utilisation
- ✓ Efforts to be made to break-even operations in China
- ✓ Leverage competency in chemistry and enlarge contract research and custom synthesis
- ✓ Invest in human resources and support responsible front-line managers
- ✓ Boost EBIDTA margins with larger formulation sales, better asset utilisation and improved yields
- ✓ Work towards half-a-billion dollar top line performance in FY07
- ✓ Take action so that each sequential half year is an improvement over the earlier one



While there are solid foundations, and we are working to build a strong business enterprise, it would not be prudent to extrapolate the past into the future. Aurobindo of tomorrow will be totally different and growing at a faster clip.

We shall continue to deliver results and create wealth for our stakeholders. That will always remain our priority. The metamorphosis now taking place is an essential part of this agenda.

Commitment beyond the balance sheet

Chairman's address at the United Nations

Aurobindo Pharma was invited to participate in a conference on July 24, 2006 by UN Secretary General Mr. Kofi Annan to review the progress in expanding access to HIV prevention, treatment, care and support in low-and-middle income countries. Mr. P. V. Ramaprasad Reddy, Chairman and Dr. M. Sivakumaran, Whole-time Director represented the Company. The Chairman addressed the august audience. The text of the speech is reproduced here.

Hon'ble Secretary General, senior officials of the UNAIDS, UNICEF, UNDP and WHO, Distinguished delegates, leaders from the pharmaceutical industry, members of the media, Ladies and Gentlemen:

I bring from India an assurance to help stop AIDs and help you keep the promise.

For many years, we at Aurobindo Pharma have been dedicated to the cause of controlling and if possible, effectively overcoming one of the most formidable challenges to human life and dignity. We believe, our generation must work, to ensure that our children will find this world a healthier and better place to live.

Sir, the Declaration of Commitment has been an inspiration for all those who are committed to the cause of mankind, in the fight against HIV, and we pledge our unstinting support for the common objective of reversing the spread of HIV.

Aurobindo Pharma is a vertically integrated pharmaceutical company with an antiretroviral portfolio of 15 US FDA approved products including 2 NDA approvals. We hope to increase the product portfolio to 24 in the foreseeable future. Indeed, our Company has the largest number of products approved by US FDA under the PEPFAR programme.

We at Aurobindo have a product basket that covers both adult patients as well as pediatric offers. As MTCT prevention and ART services began to gather steam in the past few years, we responded to the children's needs and launched pediatric options including zidovudine, didanosine and nevirapine. Despite having an array of dosage forms, we possibly are one of the lowest cost producers in the industry, and hence have been at the forefront of making the drugs affordable.

Aurobindo has reached out to markets across the world, and put momentum in spreading the access to medication. In addition to direct sale of generic formulations, we at Aurobindo have been the backbone of many other industry players, including innovators and generic formulators.

I take this opportunity to compliment my industry colleagues who have licensed their products for manufacture, and look forward to fresh initiatives in licensing some more drugs. I believe, partnering and association of more manufacturers will improve the reach and affordability of medicines.

Presently, forecasting needs and planning is an art than a science. There is limited quality and quantity of data, which rarely captures the number of patients on treatment, the regimens prescribed, or the patients' response over time. Data on consumption and stock-outs is scarce and unreliable. Possibly this is one area, that might need some focus and improvement.

Looking at societal needs, as manufacturers we have done capacity building. I am sure, everyone will agree, that vertically integrated drug product manufacturers can improve reach and affordability with optimised volume-mix-price economics. Opening the doors to more business linkages will add to volume production, and help the cause we are all committed to, in the fight against HIV.

Going forward, Aurobindo would like to commit higher delivery targets, work towards reducing production costs, and contribute to better access to medicines across the world.

I take this opportunity to assure, that our people, manufacturing facilities and market relationships will be better used to improve the health of the HIV patients.

We value human life and good health, and look forward to increasing opportunities to offer medication. We believe good business and shared concerns also mean good economics for manufacturers and better health for those affected.

Sir, we cherish this moment, and appreciate the opportunity. We remain encouraged, and assure you that our societal commitments extend beyond the balance sheet.

Thank you.

Leveraging on excellence - people plus technology

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. P. S. Chandra Mouli

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

Statutory 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 2342 0818 to 0825
Fax Nos. +91 40 2342 0814
E-mail: mailmanager@karvy.com

Bankers
Andhra Bank
Canara 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 Nineteenth Annual General Meeting of the Company will be held on Monday the 18th day of September 2006 at 3.00 p.m. at Fortune Katriya Hotel, 8, Rajbhavan Road, Somajiguda, Hyderabad - 500 082 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at March 31, 2006 and Profit & Loss Account and Cash Flow Statement for the year ended on that date and the report of the Board of Directors and the Auditors thereon.

2. To declare dividend for the year ended March 31, 2006 on Equity Shares.

3. To appoint a Director in place of Mr. Karamjit Singh Butalia who retires by rotation and being eligible, offers himself for reappointment.

4. To appoint a Director in place of Dr. M. Sivakumaran who retires by rotation and being eligible, offers himself for reappointment.

5. To appoint M/s. S. R. Batliboi & Co., Chartered Accountants as Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration.

SPECIAL BUSINESS

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

   "RESOLVED THAT Dr. K. Ramachandran, who has consented to act as Director if appointed, be and is hereby appointed as a Director of the Company, to fill the vacancy caused by retirement of Dr. I. Sathyamurthy in respect of which vacancy the Company has received a notice in writing pursuant to Section 257(i) of the Companies Act 1956, from a member of the Company proposing appointment of Dr. K. Ramachandran as Director of the Company and whose period of office shall be liable to determination by the retirement of Directors by rotation."

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

   "RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 311 and other applicable provisions, if any, of the Companies Act, 1956 (Act) read with Schedule XIII to the said Act and subject to such other consents/ approvals as may be required, Mr. P.V. Ramaprasad Reddy be and is hereby re-appointed as a Whole-time Director of the Company for a further period of five years with effect from June 29, 2006 whose term of office shall not be liable to determination by retirement of Directors by rotation at a remuneration and perquisites as detailed below:

   a. Basic Salary Rs.300,000 per month

   b. House Rent Allowance Rs.200,000 per month

   c. i. Reimbursement of medical expenses incurred for self and family subject to a ceiling of one month's salary in a year or 5 months' salary over a period of 5 years

      ii. Mediclaim Insurance as per the rules of the Company

   d. Leave Travel Concession for self & family once in a year as per the rules of the Company

   e. Personal Accident Insurance premium not exceeding Rs.25,000 per annum

   f. Club fees subject to maximum of two clubs. This will not include admission and life membership fee

   g. Provident fund, superannuation benefits and gratuity as per the rules of the Company subject to the ceilings as per the guidelines for managerial remuneration in force from time to time

   h. Provision of Company's car with driver

   i. Provision of free telephone at residence, and

   j. Encashment of leave as per the rules of the Company

EXPLANATION:

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

"FURTHER RESOLVED THAT notwithstanding anything to the contrary herein contained, where in any financial year during the currency of the tenure of Mr. P.V. Ramaprasad Reddy, the Company has no profits or its profits are inadequate, the Company will pay remuneration by way of salary, allowances and perquisites within the limits as laid down under Sections 198, 309, 310 and all other applicable provisions, if any, of the Act read with Schedule XIII of the Act as in force from time to time."

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

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 311 and other applicable provisions, if any, of the Companies Act, 1956, read with Schedule XIII to the said Act and subject to such other consents/ approvals as may be required, Mr. K. Nityananda Reddy be and is hereby re-appointed as a Managing Director of the Company for a further period of five years with effect from June 29, 2006 whose term of office shall not be liable to determination by retirement of Directors by rotation at a remuneration and perquisites as detailed below:

a. Basic Salary Rs.300,000 per month

b. House Rent Allowance Rs.200,000 per month

c. i. Reimbursement of medical expenses incurred for self and family subject to a ceiling of one month's salary in a year or 5 months' salary over a period of 5 years

ii. Mediclaim Insurance as per the rules of the Company

d. Leave Travel Concession for self & family once in a year as per the rules of the Company

e. Personal Accident Insurance premium not exceeding Rs.25,000 per annum

f. Club fees subject to maximum of two clubs. This will not include admission and life membership fee

g. Provident fund, superannuation benefits and gratuity as per the rules of the Company subject to the ceilings as per the guidelines for managerial remuneration in force from time to time

h. Provision of Company's car with driver

i. Provision of free telephone at residence, and

j. Encashment of leave as per the rules of the Company

EXPLANATION:

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

"FURTHER RESOLVED THAT notwithstanding anything to the contrary herein contained, where in any financial year during the currency of the tenure of Mr. K. Nityananda Reddy, the Company has no profits or its profits are inadequate, the Company will pay remuneration by way of salary, allowances and perquisites within the limits as laid down under Sections 198, 309, 310 and all other applicable provisions, if any, of the Act read with Schedule XIII of the Act as in force from time to time."

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

"RESOLVED THAT in partial modification of the resolution passed at the 16th Annual General Meeting held on September 12, 2003 and pursuant to the provisions of Sections 198, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII of the said Act and subject to such consents/ approvals as may be required, the remuneration payable to Dr. M. Sivakumaran, who was appointed as a Whole-time Director of the Company, be and is hereby revised with effect from July 1, 2006 to Rs.500,000 per month (consisting of Rs.300,000 as Basic Salary and Rs.200,000 as House Rent Allowance), Personal Accident Insurance premium not exceeding Rs.25,000 per annum and to provide Mediclaim Insurance for self and family as per rules of the Company, whilst the other existing terms remain unchanged.

"FURTHER RESOLVED THAT notwithstanding anything to the contrary herein contained, where in any financial year during the currency of the tenure of Dr. M. Sivakumaran, the Company has no profits or its profits are inadequate, the Company will pay remuneration by way of salary, allowances and perquisites within the limits as laid down under Sections 198, 309, 310 and all other applicable provisions, if any, of the Act read with Schedule XIII of the Act as in force from time to time."

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

"RESOLVED THAT in partial modification of the resolution passed at the 17th Annual General Meeting held on July 31, 2004 and pursuant to the provisions of Sections 198, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII of the said Act and subject to such consents/approvals as may be required, the remuneration payable to Mr. B. Sivaprasad Reddy, who was appointed as a Whole-time Director of the Company with effect from July 1, 2004 for a period of three years, be and is hereby revised with effect from

July 1, 2006 to Rs.325,000 per month (consisting of Rs.195,000 as Basic Salary and Rs.130,000 as House Rent Allowance), Personal Accident Insurance premium not exceeding Rs.25,000 per annum and to provide Mediclaim Insurance for self and family as per the rules of the Company, whilst the other existing terms remain unchanged.

"FURTHER RESOLVED THAT notwithstanding anything to the contrary herein contained, where in any financial year during the currency of the tenure of Mr. B. Sivaprasad Reddy, the Company has no profits or its profits are inadequate, the Company will pay remuneration by way of salary, allowances and perquisites within the limits as laid down under Sections 198, 309, 310 and all other applicable provisions, if any, of the Act read with Schedule XIII of the Act as in force from time to time."

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

"RESOLVED THAT pursuant to Article 35 of Articles of Association of the Company Mr. M. Madan Mohan Reddy, who has consented to act as Director if appointed, be and is hereby appointed as a Director of the Company with effect from September 18, 2006 liable to retire by rotation and in respect of which Company has received a notice in writing pursuant to Section 257(i) of the Companies Act, 1956 from a member of the Company proposing appointment of Mr. M. Madan Mohan Reddy as a Director of the Company.

"FURTHER RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 311 and other applicable provisions, if any, of the Companies Act, 1956, read with Schedule XIII to the said Act and subject to such other consents/approvals as may be required, Mr. M. Madan Mohan Reddy be and is hereby appointed as a Whole-time Director of the Company for a period of three years with effect from September 18, 2006 or from the date of any adjourned meeting at a remuneration and perquisites as detailed below:

a. Basic Salary Rs.300,000 per month

b. House Rent Allowance Rs.200,000 per month

c. i. Reimbursement of medical expenses incurred for self and family subject to a ceiling of one month's salary in a year or 3 months' salary over a period of 3 years

   ii. Mediclaim Insurance as per the rules of the Company

d. Leave Travel Concession for self & family once in a year as per the rules of the Company

e. Personal Accident Insurance premium not exceeding Rs.25,000 per annum

f. Club Fees subject to maximum of two clubs. This will not include admission and life membership fee

g. Provident fund, superannuation benefits and gratuity as per the rules of the Company subject to the ceilings as per the guidelines for managerial remuneration in force from time to time

h. Provision of Company's car with driver

i. Provision of free telephone at residence, and

j. Encashment of leave as per the rules of the Company

EXPLANATION:

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

FURTHER RESOLVED THAT notwithstanding anything to the contrary herein contained, where in any financial year during the currency of the tenure of Mr. M. Madan Mohan Reddy, the Company has no profits or its profits are inadequate, the Company will pay remuneration by way of salary, allowances and perquisites within the limits as laid down under Sections 198, 309, 310 and all other applicable provisions, if any, of the Act read with Schedule XIII of the Act as in force from time to time."

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

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 311 and other applicable provisions, if any, of the Companies Act, 1956 (Act) read with Schedule XIII to the said Act and subject to such other consents/approvals as may be required, Dr. M. Sivakumaran be and is hereby re-appointed as a Whole-time Director of the Company for a further period of three years with effect from January 16, 2007, whose term of office shall be liable to determination by retirement of Directors by rotation at a remuneration and perquisites as detailed below:

a. Basic Salary Rs.300,000 per month

b. House Rent Allowance Rs.200,000 per month

c. i. Reimbursement of medical expenses incurred for self and family subject to a ceiling of one month's salary in a year or 3 months' salary over a period of 3 years

   ii. Mediclaim Insurance as per the rules of the Company

d. Leave Travel Concession for self & family once in a year as per the rules of the Company

e. Personal Accident Insurance premium not exceeding Rs.25,000 per annum

f. Club fees subject to maximum of two clubs. This will not include admission and life membership fee

g. Provident fund, superannuation benefits and gratuity as per the rules of the Company subject to the ceilings as per the guidelines for managerial remuneration in force from time to time

h. Provision of Company's car with driver

i. Provision of free telephone at residence, and

j. Encashment of leave as per the rules of the Company

EXPLANATION:

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

"FURTHER RESOLVED THAT notwithstanding anything to the contrary herein contained, where in any financial year during the currency of the tenure of Dr. M. Sivakumaran, the company has no profits or its profits are inadequate, the company will pay remuneration by way of salary, allowances and perquisites within the limits as laid down under Sections 198, 309, 310 and all other applicable provisions, if any, of the Act read with Schedule XIII of the Act as in force from time to time."

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

"RESOLVED THAT pursuant to Section 309 (4) of the Companies Act, 1956 and subject to approval of the Central Government if any, the approval be and is hereby granted to utilize the professional services of Mr. Srinivas Lanka, Non-Executive Director of the Company, at an annual remuneration of Rs.3,600,000 (Rupees Thirty Six Lakhs only) plus applicable service tax, which shall be payable quarterly for a period of three years with effect from April 1, 2006.

"FURTHER RESOLVED THAT the Managing Director or the Secretary of the Company be and is hereby authorized to make an application in the prescribed form as required under Section 309(4) of the Companies Act 1956, to the Central Government and to comply with the necessary formalities in this regard."

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

"RESOLVED THAT in accordance with the provisions contained in the Articles of Association and Section 81 and all other applicable provisions of the Companies Act, 1956 (hereinafter referred to as "the Act") and the provisions contained in the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (hereinafter referred to as "the SEBI Guidelines") (including any statutory modification(s) or re-enactment of the Act or the SEBI Guidelines, for the time being in force) and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any Committee including ESOP Compensation Committee which the Board may constitute to exercise its powers, including the powers conferred by this resolution), consent of the Company be and is hereby accorded to the Board to create, offer, issue and allot at any time to or for the benefit of such person(s) who are in employment of the Company, including eligible Directors of the Company, whether part time or full time, whether working in India or out of India, under a Scheme titled "Employee Stock Option Plan 2006" (hereinafter referred to as the "ESOP" or "Scheme" or "Plan") such number of equity shares of the Company which could give rise to the issue of equity shares of face value of Rs.5 each not exceeding 799,050 being One and Half (1.5) per cent of the issued Equity Share Capital of the Company on March 31, 2006, at such price, in one or more tranches and on such terms and conditions as may be fixed or determined by the Board in accordance with the Guidelines or other provisions of the law as may be prevailing at that time.

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

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

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

"RESOLVED THAT in accordance with the provisions contained in the Articles of Association and Section 81 and all other applicable provisions of the Companies Act, 1956 (hereinafter referred to as" the Act") and the provisions contained in the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (hereinafter referred to as "the SEBI Guidelines") (including any statutory modification(s) or re-enactment of the Act or the SEBI Guidelines, for the time being in force) and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any Committee including ESOP Compensation Committee which the Board may constitute to exercise its powers, including the powers conferred by this resolution) consent of the Company be and is hereby accorded to the Board to extend the benefits of Employees Stock Option Plan proposed in the aforesaid resolution in this Notice to the eligible employees/directors of the subsidiary companies, both present and future, and/or to such other persons, as may from time to time be allowed under prevailing Indian laws, rules and regulations, and/or amendments thereto from time to time, on such terms and conditions as may be decided by the Board.

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

By Order of the Board

Hyderabad
July 31, 2006

K. NITYANANDA REDDY
Managing Director

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 be valid, the proxy should be deposited at the Registered Office of the Company at Plot No.2, Maitrivihar, Ameerpet, Hyderabad - 500 038 not less than 48 hours before the time fixed for holding the Meeting.**

2. The Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956, in respect of the Special Business is annexed hereto.

3. The Register of Members and Share Transfer Books of the Company will remain closed from Tuesday the September 12, 2006 to Monday the September 18, 2006 (both days inclusive).

4. The Dividend on equity shares @ 30% 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 18, 2006. In respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as per details furnished by NSDL & CDSL for this purpose as on that date.

   Pursuant to the provisions of Section 205A of the Companies Act, 1956 the unpaid/unclaimed final dividend for the year 1997-98 amounting to Rs.138,420 was transferred to the Investor Education and Protection Fund of the Central Government on the due date.

   Further, pursuant to the provisions of Section 205A of the Companies Act, 1956 the unpaid/unclaimed final dividend for the year 1998-99 amounting to Rs.148,642 will be transferred to the Investor Education and Protection Fund of the Central Government on the due date.

5. Members holding shares in physical form are requested to notify immediately any change in their address to the Company's Registrar and Transfer Agents M/s. Karvy Computershare Private Limited, 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad - 500 034. Members holding shares in electronic form may intimate any such changes to their respective Depository Participants (DPs).

6. Pursuant to the Amalgamation of Sri Chakra Remedies Limited (formerly Gold Star Remedies Limited) with Aurobindo Pharma Limited, the erstwhile shareholders of Sri Chakra Remedies Limited, who have not yet exchanged their shares with shares of Aurobindo Pharma Limited, are hereby requested to do so by surrendering the original share certificates of Sri Chakra Remedies Limited/Gold Star Remedies Limited 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.

EXPLANATORY STATEMENT

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

Item No. 6

Dr. K. Ramachandran is proposed to be appointed as a Director liable to retire by rotation in place of Dr. I. Satyamurthy who retires by rotation and has expressed his inability to continue as a Director due to his pre-occupation.

Pursuant Section 257 of the Companies Act, 1956 the Company has received notice from one of the members along with the requisite deposit, proposing the candidature of Dr. K. Ramachandran as a Director.

A brief profile of Mr. K. Ramachandran and names of companies in which he holds directorships and memberships/ chairmanships of Board/Committees, as stipulated under Clause 49 of Listing Agreements with the stock exchanges in India, are provided in the Report on Corporate Governance forming part of the Annual Report.

The Board, accordingly, commends the Resolution for approval of the Members as an Ordinary Resolution.

None of the Directors of the Company is in anyway concerned or interested in the Resolution.

Item No. 7

Mr. P. V. Ramaprasad Reddy is presently the Executive Chairman of the Company. The Chairman along with other Whole-time Directors of the Company is required to devote more time and attention to the organization, more so with the requirements of the revised Corporate Governance regulations. The Board therefore recognized the need to re-appoint Mr. P. V. Ramaprasad Reddy as a Whole-time Director of the Company in the capacity of Executive Chairman and to suitably remunerate him. Accordingly, the Board of Directors proposes to reappoint him as Whole Time Director/Executive Chairman for a further period of 5 years with effect from June 29, 2006 on such terms and conditions as set out in the proposed Resolution.

Under the provisions of Sections 198, 269, 309 and all other applicable provisions read with Schedule XIII of the Companies Act, 1956, consent of the Members of the Company is required for the re-appointment of and fixation of remuneration payable to Mr. P. V. Ramaprasad Reddy as a Whole-time Director. The Board of Directors, based on the recommendation of the Remuneration Committee, is of the view that the remuneration package is commensurate with the operations of the Company.

A brief profile of Mr. P. V. Ramaprasad Reddy and names of companies in which he holds directorships and memberships/ chairmanships of Board/Committees, as stipulated under Clause 49 of Listing Agreements with the stock exchanges in India, are provided in the Report on Corporate Governance forming part of the Annual Report.

The Board, accordingly, commends the Resolution for approval of the Members as an Ordinary Resolution.

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

Item No. 8

Mr. K. Nityananda Reddy is presently the Managing Director of the Company. The Board recognizes the significant contribution made by him in the technical up gradation of the Company. He along with other Whole-time Directors is required to devote more time and energies not only to strengthen but also to expand the present operations of the Company. The Board therefore proposes to re-appoint Mr. K. Nityananda Reddy as a Managing Director of the Company for a further period of 5 years with effect from June 29, 2006 on such terms and conditions as set out in the proposed Resolution.

Under the provisions of Sections 198, 269, 309 and all other applicable provisions read with Schedule XIII of the Companies Act, 1956, consent of the Members of the Company is required for the re-appointment of and fixation of remuneration payable to the Managing Director. The Board of Directors, based on the recommendation of Remuneration Committee, is of the view that the remuneration package is commensurate with the operations of the Company.

A brief profile of Mr. K. Nityananda Reddy and names of companies in which he holds directorships and memberships/ chairmanships of Board/Committees, as stipulated under Clause 49 of Listing Agreements with the stock exchanges in India, are provided in the Report on Corporate Governance forming part of the Annual Report.

The Board accordingly, commends the Resolution for approval of the Members as an Ordinary Resolution.

None of the Directors of the Company except Mr. K. Nityananda Reddy may be deemed to be concerned or interested in the Resolution.

Item No. 9

Dr. M. Sivakumaran is Whole-time Director of the Company for a period of three years with effect from January 16, 2004. The Board recognizes the significant and invaluable contribution made by him in the research and development activities of the Company. He along with other Whole-time Directors is required to devote more time and attention in developing new product portfolios for the Company to compete in the international market with other multi national companies. Therefore, the Board proposes to increase his remuneration with effect from July 1, 2006 on such terms and conditions as set out in the proposed Resolution.

Under the provisions of Sections 198, 310, 311 and all other applicable provisions read with Schedule XIII of the Companies Act, 1956, consent of the Members of the Company is required for increase in remuneration payable to Dr. M. Sivakumaran in modification of the Resolution passed at the 16th Annual General Meeting held on September 12, 2003. The Board of Directors, based on the recommendation of Remuneration Committee, is of the view that the remuneration package is commensurate with the operations of the Company.

Further, the same may be treated as abstract of the contract pursuant to Section 302(1)(b) of the Companies Act, 1956.

Accordingly, the Board commends the Resolution for approval of the Members as an Ordinary Resolution.

None of the Directors of the Company except Dr. M. Sivakumaran may be deemed to be concerned or interested in the resolution.

Item No. 10

Mr. B. Sivaprasad Reddy is Whole-time Director of the Company for a period of three years with effect from July 1, 2004. The Board recognizes the significant and invaluable contribution made by him in the present operations and growth of the Company. Hence, the upward revision in the remuneration is commensurate with the responsibilities shouldered by him. Therefore, the Board proposes to increase his remuneration with effect from July 1, 2006 on such terms and conditions as set out in the proposed Resolution.

Under the provisions of Sections 198, 310, 311 and all other applicable provisions read with Schedule XIII of the Companies Act, 1956, consent of the Members of the Company is required for increase in remuneration payable to Mr. B. Sivaprasad Reddy in modification of the Resolution passed at the 16th Annual General Meeting held on September 12, 2003. The Board of Directors, based on the recommendation of Remuneration Committee, is of the view that the remuneration package is commensurate with the operations of the Company.

Further, the same may be treated as abstract of the contract pursuant to Section 302(1)(b) of the Companies Act, 1956.

Accordingly, the Board commends the Resolution for approval of the Members as an Ordinary Resolution.

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

Item No. 11

The Company has received a Notice under Section 257 of the Act along with requisite deposit from one of the members proposing the appointment of Mr. M. Madan Mohan Reddy as a Director. He commands valuable experience in regulatory affairs of the pharma industry. In view of his varied experience in the pharma industry, the Board also recommends the proposal of appointment of Mr. M. Madan Mohan Reddy as a Director of the Company liable to retire by rotation with effect from September 18, 2006.

Further, the Board considering the significant contribution made by Mr. M. Madan Mohan Reddy as one of the top executives of the Company in the growth and development of the Company, especially in the area of regulatory affairs and based on the recommendation of Remuneration Committee, seeks the approval of the Members to appoint him as Whole-time Director of the Company with effect from September 18, 2006 or from the date of any adjourned meeting thereof for a period of 3 years, subject to the terms and conditions as set out in the proposed Resolution.

Under the provisions of Sections 198, 269, 309, 311 and all other applicable provisions read with Schedule XIII of the Companies Act, 1956, consent of the Members of the Company is required for the appointment of and fixation of remuneration payable to the Whole-time Director. The Board of Directors is of the view that the remuneration package is commensurate with the operations of the Company.

A brief profile of Mr. M. Madan Mohan Reddy and names of companies in which he holds directorships and memberships/ chairmanships of Board/Committees, as stipulated under Clause 49 of Listing Agreements with the stock exchanges in India, are provided in the Report on Corporate Governance forming part of the Annual Report.

The Board accordingly, commends the Resolution for approval of the Members as an Ordinary Resolution.

None of the Directors of the Company except Mr. M. Madan Mohan Reddy may be deemed to be concerned or interested in the resolution.

Item No. 12

Dr. M. Sivakumaran is presently the Whole-time Director of the Company. The Board recognizes the significant contribution made by him in the Research and Development activities of the Company. He along with other Whole-time Directors is required to devote more time and energies not only to strengthen but also to expand the present research activities of the Company. The Board therefore proposes to re-appoint Dr. M. Sivakumaran as a Whole-time Director of the Company for a further period of 3 years with effect from January 16, 2007 on such terms and conditions as set out in the proposed Resolution.

Under the provisions of Sections 198, 269, 309 and all other applicable provisions read with Schedule XIII of the Companies Act, 1956, consent of the Members of the Company is required for the re-appointment of and fixation of remuneration payable to the Whole-time Director. The Board of Directors, based on the recommendation of Remuneration Committee, is of the view that the remuneration package is commensurate with the operations of the Company.

A brief profile of Dr. M. Sivakumaran and names of companies in which he holds directorships and memberships/ chairmanships of Board/Committees, as stipulated under Clause 49 of Listing Agreements with the stock exchanges in India, are provided in the Report on Corporate Governance forming part of the Annual Report.

The Board accordingly, commends the Resolution for approval of the Members as an Ordinary Resolution.

None of the Directors of the Company except Dr. M. Sivakumaran may be deemed to be concerned or interested in the Resolution.

Item No. 13

The business strategy of the Company is to emerge as a significant player in specialty generic formulations and to obtain further regulatory approvals for a broad product portfolio by filing Drug Master Files and Abbreviated New Drug Applications. The aim of the Company is to gain a competitive advantage by capturing a large portfolio of approvals, backed up by global standard R&D efforts. The large number of drugs going off patent in the near future could potentially open up the markets for a significant branded formulations business. We further intend to consolidate our market position in various emerging markets, which offers high growth opportunities. The Corporate plan is to ensure growth through organic means, and by adopting strategic acquisitions and alliances in various countries.

Mr. Srinivas Lanka, I.C.W.A, M.B.A. (IIMA) is an alumnus from Indian Institute of Management, Ahmedabad and a Cost Accountant. He is associated with the success of two of the top pharmaceutical companies and several famous pharmaceutical brands in India and has over twenty-five years of management experience. His contribution to Indian pharma companies and MNCs is widely recognized in India. He is a non-executive director and advises the Company on its business strategy, relations with financial community and new business initiatives.

As per Section 309(4) of the Companies Act, 1956, a company can make payment of remuneration to a director who is neither a managing director nor in the full time employment, provided the company obtains the Central Government approval. Accordingly, the Company is making an application to the Central Government seeking its permission for payment of remuneration of Rs.3,600,000 per annum for a period of three years from April 1, 2006. Hence, the Board recommends the Resolution for approval of the Members as an Ordinary Resolution.

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

Item No. 14

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

The SEBI Guidelines have provided a conducive environment for the implementation of an Employee Stock Option Plan. The Company's Employee Stock Option Plan 2004 is in force. To broad base the Employees Stock Options Scheme, the Company proposes to introduce another Stock Option Plan 2006 for the benefit of employees of the Company, its Directors, and such other persons/entities as may be prescribed by SEBI from time to time, and in accordance with the provisions of prevailing regulations.

Employee Stock Option Plan 2006

Stock Options

Under this scheme, employees will be granted an option to acquire a certain number of shares of the face value of Rs.5 each at the price as mentioned hereinafter. Each option will have a right to convert it into one equity share subject to adjustment on account of Corporate Actions, if any.

The broad terms and conditions of the Plan are as under

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

- Quantum of options to be granted under the Plan per employee and in aggregate.
- Conditions under which options vested in employees may lapse in case of termination of employment for misconduct.
- Time period within which an employee may exercise vested options in the event of termination or resignation.
- The exercise period within which the employee should exercise the options and that options would lapse on failure to exercise the options within the exercise period.
- Rights of an employee to exercise all the vested options at one time or at various points of time within the exercise period.
- Procedure for making a fair and reasonable adjustment to the number of options and to the exercise period, in case of rights issues, bonus issues, other corporate actions, or otherwise.

- Lock-in period for the shares issued pursuant to exercise of the options, if any.
- Any other related or incidental matters.

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

The salient features of the Plan are as under

a. The total number of options to be granted

The total number of Options that may, in aggregate, be issued, under the scheme, cannot exceed 799,050 ie. 1.5% of the issued equity share capital of the Company as of March 31, 2006 i.e. 1.5% of 53,270,000 equity shares or such number as may be required on account of Corporation Action.

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

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

c. Requirements of vesting and period of vesting

For the employees who have been granted option and who are in continuous employment of the company, the vesting of options will commence after a period of 1 year from the date of grant and extends up to 5 years from the date of first vesting. The vesting occurs in annual tranches of 10%, 15%, 25% and 50% respectively as shown below. However, no fraction of the vested options shall be exercisable in its fractional form.

S.No.	Vesting period on completion of	No. of Options granted
1.	1st year	10%
2.	2nd year	15%
3.	3rd year	25%
4.	4th year	50%

d. Maximum period of Vesting

The maximum vesting period may extend up to 5 years from the date grant of options as per (c) above. In case of termination of employment for any reason, the vesting period may be extended by the Compensation committee as per the provisions of the scheme.

e. Exercise Price or Pricing Formula

The exercise price for the purposes of the grant of options will be computed at Market Price, subject to adjustments that may be required on account of Corporate Action. The market price shall mean the market price as defined by the Securities Exchange Board of India (Employee Stock Option Scheme and Employee Purchase Scheme) Guidelines, 1999 as may be applicable from time to time.

f. Exercise Period and the process of Exercise

The exercise period may commence from the date of vesting, and will expire not later than 6 years from the date of grant of options, or such other period as may be decided by the ESOP Compensation Committee, from time to time. The Options will be exercisable by the Employees by a written application to the Company to exercise the Options, in such manner, and on execution of such documents, as may be prescribed by the ESOP Compensation Committee from time to time. The options will lapse if not exercised within the specified exercise period. The options lapsed/forfeited will be re-issued, subject to condition that the total options that may be exercised will not exceed 799,050.

g. Process for determining the eligibility of employees/ directors to ESOP

The Board/Compensation Committee shall determine the eligibility criteria for the employees and directors (including whole time directors) under ESOP based on evaluation of the employees/directors on various parameters, such as length of service, designation, performance, technical knowledge, leadership qualities, merit, contribution and conduct, future potential etc., and such other functional and managerial parameters as may be deemed appropriate by it. The appraisal process will be revised at regular intervals in line with emerging global standards.

h. Maximum number of options to be issued per employee/ directors and in aggregate

The number of Options that should be granted to an employee/director under the Scheme shall be decided by the Board/Compensation Committee. However, the maximum number of Options to be granted per employee/ director during any one year and in aggregate shall be less than 1% of the issued and outstanding equity shares of the Company as on March 31, 2006. This is however, subject to Corporate Actions that may require adjustments as decided by Compensation Committee.

i. Accounting Policy

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

j. Method of valuing the options

The Company will adopt the intrinsic value method to value the options granted under the Scheme.

k. Disclosure in Directors' Report

In case the Company calculates the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed in the Directors' Report and also the impact of this difference on profits and on earning per share of the Company shall also be disclosed in the Directors' Report.

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

The Options to be granted under the Plan shall not be treated as an offer or an invitation made to public for subscription in the securities of the Company.

The Board accordingly commends the Resolution for the approval of the Members as a Special Resolution.

The Directors other than (i) promoter directors and (ii) those directors if any, holding directly or indirectly more than 10% of the outstanding equity shares of the Company, shall be deemed to be interested or concerned in passing of this Resolution to the extent of benefit they may derive under the Plan.

Item No. 15

As per Clause 6.3 of SEBI Guidelines, a separate Special Resolution is required to be passed if the benefits of ESOP are to be extended to employees of the subsidiary or holding Company. This separate Resolution is being proposed accordingly, to cover those employees, and/or such other persons as may be permitted from time to time, under prevailing Indian laws, rules and regulations, and/or amendments thereto from time to time. This may be read with explanatory statement for Item No. 14.

The Board accordingly commends the resolution for approval of the Members as a Special Resolution.

The Directors other than (i) promoter directors and (ii) those directors if any, holding directly or indirectly more than 10% of the outstanding equity shares of the Company, shall be deemed to be interested or concerned in passing of this Resolution to the extent of benefit they may derive under the Plan.

By Order of the Board

Hyderabad
July 31, 2006

K. NITYANANDA REDDY
Managing Director

Directors' Report

Dear Members,

Your Directors are pleased to present the 19th Annual Report of the Company together with the Audited Accounts for the financial year ended March 31, 2006.

FINANCIAL RESULTS

Rs. Millions

	2005-06	2004-05
Gross Turnover	14722.0	11591.7
Profit before Depreciation, Interest and Tax including Extraordinary income	2046.6	1234.0
Depreciation/Amortisation	511.2	404.9
Interest	606.4	399.9
Profit before Tax	929.0	429.2
Provision for Tax/Deferred tax	235.2	78.4
Net Profit	693.8	350.8
Balance brought forward from previous year	522.7	200.6
Balance available for appropriation	1216.5	551.4
APPROPRIATIONS		
Dividend on Equity Shares	81.2	25.4
Tax on Dividend	11.6	3.3
General Reserve	69.4	–
Withdrawal from Debenture Redemption Reserve	(248.8)	–
Balance carried to Balance Sheet	1303.1	522.7

REVIEW OF OPERATIONS

During 2005-06, your Company made a strategic entry with its generic formulations in the premium markets of USA & Europe, participated in the PEPFAR program initiated by the Government of USA and consolidated its strengths in the less regulated and emerging markets. This was done while retaining its leadership position in the domestic API market.

All these positive developments helped your Company improve its top and bottom line. Margins were better, and hence the operating profit was higher over the previous year.

Revenues for the year at Rs.14722.0 million were higher by 27% and the consolidated net income was Rs.693.8 million, an increase of 98%. Aurobindo effectively faced the challenges of entering into severely competitive markets, prevailing high raw material costs and pressure on product prices. The strengths of the Company - efficient production systems, ability to manage resources from end-to-end, cost competitiveness, and capacity to deliver what the customer wants at affordable prices - helped overcome the constraints.

Your Company sees big potential for its products in the regulated markets, with its large basket of regulatory approved products. As at March 31, 2006, Aurobindo holds 27 product approvals from US FDA (inclusive of tentative) and approvals for 3 products each from EDQM, UK MHRA and Health Canada. The pipeline of new products being developed by the team in R&D and the pending dossiers awaiting approvals, would add to the offers to the market in the future.

RECOGNITION

The State Labour Department of the Government of Andhra Pradesh has awarded the "Best Management Award" for the year 2005 for your Company's contributions towards community development, harmonious employee relations and their welfare. The award was presented by the Hon'ble Chief Minister of Andhra Pradesh on May 1, 2006 during May Day Celebrations.

Aurobindo's three US Patents received the prestigious national level Patent Appreciation Award from the Indian Drug Manufacturers' Association for the year 2004-2005. Aurobindo received the award for the following patents:

- Preparation of pure Citalopram (Depression)
- A process for Lactonization to produce Simvastatin (Hypercholesterolemia) and,
- Process for producing highly pure Simvastatin (Hypercholesterolemia).

Your Company has filed applications for over 160 patents in various countries.

DIVIDEND

Your Directors have proposed a dividend of 30% (Rs.1.50) on the equity shares of Rs.5 each for the year ended March 31, 2006 and will be paid, subject to the approval of the Members, to the registered Members as on the book closure date.

ACQUISITIONS

Your Company acquired UK based Milpharm Limited, the generic formulation pharmaceutical company engaged in marketing generic formulations mainly in the UK market.

Under the terms of the share purchase agreement, Aurobindo Pharma Limited has acquired 100% shares of Milpharm Limited, a profit making generic formulations company, which owns over one hundred Marketing Authorizations (MAs) approved by Medicines and Healthcare Products Regulatory Agency, UK (UK MHRA).

Milpharm recorded a sale of £7.7 million for the 12 month period ended September 30, 2005. The MAs are well diversified into various segments - CNS, CVS, GI, diabetology, anti-fungal, Anti-bacterial, oncology, macrolides, cephalosporins and SSPs, anti diabetic, NSAIDS and others. Milpharm has established relationships in the generic pharmaceuticals and Aurobindo expects to build on these relationships to participate in the generic pharmaceuticals value chain.

Your Company also acquired a business entity in Dayton, New Jersey, USA, for US$ 19 million, which has US FDA Compliant cGMP facility and freehold land spread over 20 Acres. It has 100,000 sft. of fully integrated state-of-the-art facility with R&D capabilities and for manufacture of formulations and distribution.

In addition to expanding its reach in the market, your Company is pursuing inorganic growth in USA and Europe to reduce the time to market and enhance the relationships in the generic value chain.

OUTLOOK

The presence of your Company in almost all major markets, ability to read the market trends, a large product basket in key therapeutic segments, well-organised manufacturing infrastructure with necessary inspections by international regulatory authorities, a reservoir of skills amongst scientists and technical staff have all made Aurobindo into a powerhouse of opportunities. The Company today has the strategy and strength to play a larger role in all its addressable markets.

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

For instance, Aurobindo has 13 products in its ARV portfolio. This has made it easier for the countries participating in the PEPFAR program to place order at a single window.

RESEARCH & DEVELOPMENT

Your Company's strategic strength is its R&D capabilities. Over the years, the in-house team has committed and contributed to a strong product pipeline, reducing cost of production and ensuring therapeutic values.

Your Company has a planned development program and has identified certain molecules to be patented. The R&D team is involved in the process of optimisation, in-process control tests, analytical method of development, the subsequent activity tests, validation studies and stability of products. Apart from developing new technologies, the team aims at continuously upgrading existing manufacturing techniques to improve process yields, and make world-class quality products.

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 2005-2006 were as given in the table below.

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 stream. Necessary systems, processes and people in place at every location add value and fast track your Company's stated goals of becoming a powerhouse in the generics markets of the world.

Rs. Millions

Subsidiary	Country	Form	Amount
Aurobindo TongLing (Datong) Pharmaceutical Co. Limited	China	Loan	191.9
Aurobindo (Datong) Bio-Pharma Co. Limited	China	Loan	232.1
Helix Healthcare B. V.	The Netherlands	Equity	149.4
		Loan	373.3
Aurobindo Pharma USA Inc.	USA	Equity	79.1
		Loan	94.0

(Contd...)

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 also ensure stability in source of supplies and consistent quality. Marketing linkages 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 joint ventures are yet to reach 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. Efforts will continue to be made to increase the operating efficiency.

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

There has been a diminution in the value of investments made in subsidiary companies, namely Aurobindo Pharma USA, Inc., Aurobindo (Datong) Bio-Pharma Co. Ltd, China and Aurobindo Tongling (Datong) Pharmaceutical Co. Ltd., China to an extent of Rs.126.0 million, Rs.546.9 million and Rs.63.4 million respectively, on the basis of net asset value of the said subsidiaries as at March 31, 2006. 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.

Name of the Entity	Country	Category	% of Interest	Activity
Aurobindo (H.K.) Limited	Hong Kong	Subsidiary	100	Marketing
APL Pharma Thai Limited	Thailand	Subsidiary[1]	48	Marketing
AB Farmo Quimica Limitada	Brazil	Subsidiary	99.8	Marketing & Manufacturing
Aurobindo (Datong) BioPharma Co. Limited	China	Subsidiary	100	Manufacturing
Aurobindo TongLing (Datong) Pharmaceutical Co. Limited	China	Subsidiary	100	Manufacturing
APL Life Sciences Limited (formerly APL Chemi Natura Ltd.)	India	Subsidiary	100	Trading
Helix Healthcare B.V.	The Netherlands	Subsidiary	100	Investment
Citadel Aurobindo Biotech Limited	India	Joint Venture	50	JV Marketing - Ceased to be JV w.e.f. Feb 22, 2006
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
Milpharm Limited	UK	Subsidiary	100	Marketing
Aurobindo Pharma (Pty.) Limited	South Africa	Subsidiary	100	Marketing
ZAO Aurobindo Pharma	Russia	Subsidiary	100	Marketing
Aurex Generics Limited	UK	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 Limited.

Summarised performance of subsidiaries and joint venture entities for the year ended March 31, 2006 (at average annual exchange rate)

Rs. Millions

Name of Subsidiary	Country	Turnover	PBT	Net Profit/ (Loss)
APL Life Sciences Ltd. (formerly APL Chemi Natura Limited)	India	649.0	20.7	13.4
APL Pharma Thai Ltd.	Thailand	237.8	13.3	11.5
AB Farmo Quimica Limitada	Brazil	938.0	71.6	50.4
Aurobindo Pharma USA Inc.	USA	584.0	15.3	15.3
Aurobondo (Datong) Bio-Pharma Co.Ltd.	China	1,210.7	(175.4)	(175.4)
Aurobindo TongLing (Datong) Pharmaceticals Co.Ltd.	China	1,279.5	(64.0)	(64.0)
Aurobindo (H.K.) Ltd.	Hong Kong	3.2	(4.0)	(4.0)
Helix Healthcare B.V.	The Netherlands	–	(2.8)	(2.8)
Aurex Generics Ltd. (Subsidiary of Helix Healthcare)	UK	24.6	(0.2)	(0.2)
Auro Pharma Inc. (Subsidiary of Helix Healthcare)	Canada	–	(1.8)	(1.8)
Milpharm Limited (Subsidiary of Aurex Generics Ltd.)	UK	118.4	10.2	7.1
Aurobindo Pharma (Pty.) Ltd.	South Africa	–	(6.1)	(6.1)
ZAO Aurobindo Pharma	Russia	–	(0.6)	(0.6)
Joint Venture Companies				
Cephazone Pharma LLC (JV of Aurobindo Pharma USA Inc.)	USA	–	(30.5)	(30.5)
Aurosal Pharmaceuticals LLC (JV of Aurobindo Pharma USA Inc.)	USA	4.0	(0.7)	(0.7)

The reports and accounts of the subsidiary companies are not annexed to this Report. The Company has obtained in writing an exemption in this regard from the relevant authority. A statement pursuant to Section 212(8) of the Companies Act, 1956 is annexed.

Annual accounts of the subsidiary companies are kept for inspection by any investor at the Registered Office of your Company as well as at the registered office of the respective subsidiary companies. Any investor interested in a copy of the accounts of the subsidiaries may write to the Company Secretary at the Registered Office of the Company.

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. No major incidents have occurred at any of the plants that have led to any environmental liabilities.

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. I. Sathyamurthy,

(Contd...)

Mr. Karamjit Singh Butalia and Dr. M. Sivakumaran retire by rotation at the ensuing Annual General Meeting. Mr. Karamjit Singh Butalia and Dr. M. Sivakumaran being eligible, offer themselves for re-appointment.

Dr. I. Sathyamurthy, due to his pre-occupation, has expressed his inability to continue as a Director of the Company and therefore has not offered himself for re-appointment.

Dr. K. Ramachandran is proposed to be appointed as a Director liable to retire by rotation in the vacancy caused by the inability of Dr. I. Satyamurthy to continue as a Director.

The Board is also being strengthened by the induction of Mr. M. Madan Mohan Reddy as a Whole-Time Director. A brief profile of M/s. K. Ramachandran and M. Madan Mohan Reddy are provided in the Report on Corporate Governance. The Notice containing the agenda for their proposed appointments are provided separately to the Members.

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, 2006 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 Company Secretaries M/s. S. Chidambaram & Associates confirming compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreements with the stock exchanges in India is annexed.

AUDITORS

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

The Board noted the comments made by the Statutory Auditors in their Report. As regards non-compete fee of Rs.300 million and non-provision for diminution in the value of certain investments, the note 5 and note 9(b) respectively of Schedule 24 are self explanatory.

COST AUDITORS

Mr. E. Vidya Sagar, Cost Accountant, has been re-appointed as Cost Auditor of the Company subject to consent of the Central Government of India to conduct cost audit of both the bulk drug and formulations divisions of the Company for the year 2005-06.

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 permitted by 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 place on record their sincere appreciation for significant contribution made by the employees at all levels through their dedication, hard work and commitment and look forward to their continued support. 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 Directors also wish to place on record their appreciation and acknowledge with gratitude the advice and co-operation extended by banks, financial institutions, government and shareholders and look forward to having the same support at all times in our future endeavors.

For and on behalf of the Board

P.V. RAMAPRASAD REDDY
Chairman

K. NITYANANDA REDDY
Managing Director

Hyderabad, July 31, 2006

Annexure to the Directors' Report

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

FORM – A

	31.03.2006	31.03.2005
CONSERVATION OF ENERGY		
Power & Fuel Consumption		
a. Electricity Purchased:		
Units (Nos. in Millions)	121.46	96.80
Total Amount (Rs. Millions)	426.28	348.72
Unit rate (Rs.)	3.51	3.60
b. Own Generation:		
i. Through Diesel Generator		
(No. of units in Millions)	4.52	3.66
Units per litre of diesel	2.90	3.00
Oil cost per unit (Rs.)	10.60	10.20
ii. Through steam turbine/generator		
(No. of units in Millions)	26.90	19.76
Units per litre of oil/gas	0.30	0.23
Cost per unit (Rs.)	2.19	2.63
Coal		
Quantity (Kgs.)	107,108.17	85,328.00
Cost(Rs. Millions)	223.30	184.20
Average rate/MT (Rs.)	2,084.80	2,158.71
Furnace Oil		
Quantity (K Ltrs)	2,245.52	2,940.57
Cost(Rs. Millions)	33.59	34.17
Average rate/K/Lts (Rs.)	14,956.80	11,619.54
Others (Wood)		
Quantity (M.T)	2.44	1.36
Cost (Rs. Millions)	2.78	1.44
Average rate/MT (Rs.)	1.14	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, its 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. Millions

	2005-06	2004-05
Capital	237.1	184.0
Recurring	533.0	359.1
	770.1	543.1
Total R&D expenditure as a percentage of total turnover	5.23	4.62

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, 2006.

Rs. Millions

	2005-06	2004-05
Foreign exchange earned		
Exports (FOB)	8163.3	5546.2
Others	113.2	45.8
	8276.5	5592.0
Foreign exchange outgo		
Materials	6969.2	5306.9
Other expenses	343.9	315.0
	7313.1	5621.9

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	104,250
Pricing Formula	The market price of the Shares as on the grant date quoted on the Bombay Stock Exchange or National Stock Exchange, wherever volumes traded are higher.
Options vested during FY 2005-06	60,517
Options exercised during FY 2005-06	975
The total number of shares arising as a result of exercise of option	975
Options lapsed during FY 2005-06 which are subject to reissue	45,400
Variation of terms of options	Nil
Money realised by exercise of Options	Nil (During the financial year 2005-06, the Company has received cheques for the Options exercised during the year and was realised in April, 2006)
Grant Price (Face Value Rs.5)	Rs.362.60
Total Number of options in force as on March 31, 2006	461,325

Grant details of members of Senior Management Team
Mr. N. Venkateswarlu 5000; Mr. Sudhir B Singhi 3000; Mr. Arun Kumar 2500; Mr. Sashikumaran P. 3000; Mr. S. Satyanarayana Murthy 3000; Mr. Anirudh Deshpande 5000; Mr. M.V. Ramachandra Rao 4250; Mr. U. Udaya Sankar 3500.

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.12.46

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 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	Rs.380,845
iii.	The impact of the difference on profits and on EPS of the Company	Profit After Tax (PAT) Rs.693,770,815 Less: Additional employee compensation cost based on Intrinsic Value Rs.380,845 Adjusted PAT Rs.693,389,970 Adjusted EPS Rs.12.46
iv.	Weighted average exercise price and fair value of stock options granted:	
	Stock options granted on	July 28, 2005
	Weighted Average Exercise Price (in Rs.)	Rs. 362.60
	Weighted average fair value (in Rs.)	Rs. 386.95
	Closing market price at NSE on the date of Grant (in Rs.)	Rs. 362.55
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	5.62%
	Dividend yield	0.50

For and on behalf of the Board

P.V. RAMAPRASAD REDDY
Chairman

K. NITYANANDA REDDY
Managing Director

Hyderabad, June 27, 2006

Management Discussion and Analysis

INDUSTRY STRUCTURE

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, including the premium markets of US & Europe.

The Company values its contribution to its customers and the medical profession and growth plans have been made keeping this perspective. 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 twenty 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 such as Aurobindo Pharma 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.

In the past two years, concerted efforts have been made successfully, to gain a toe-hold in the developed markets such as US & Europe. Aurobindo will pursue to gain a significant presence in such generic markets.

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).

Table of Plants Inspected

Unit	Authority
API	
Unit I	US FDA, WHO
Unit 1 A	US FDA
Unit VI A	US FDA, WHO, Health Canada
Unit VIII	US FDA, WHO
Unit XI	US FDA
Formulations	
Unit III	US FDA, UK MHRA, WHO, Health Canada, Brazil Anvisa, MCC (SA)
Unit VI B	US FDA, Health Canada, Brazil Anvisa, MCC (SA)
Unit XII	US FDA, UK MHRA, Health Canada, Brazil Anvisa

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 generic 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.

One of Aurobindo's strength has been effective marketing of its products. 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 and does not pursue any risks or concerns other than those which are common to the industry such as exchange risks and other commercial and business related risks.

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 AND THEIR ADEQUACY

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

Your Company acquired UK based Milpharm Limited, the generic formulation pharmaceutical company engaged in selling generic formulations, primarily in the UK market. 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.

ABRIDGED PROFIT & LOSS ACCOUNT

Rs. Millions

	2003	2004	2005	2006
Gross Sales	**11,903.8**	**13,410.7**	**11,591.7**	**14,722.0**
Other Income	240.5	220.6	165.6	303.5
Gross Profit (PBDIT)	2,058.6	2,389.3	1,234.0	2,046.6
Interest	425.9	322.4	399.9	606.4
Depreciation	231.8	341.6	404.9	511.2
Tax	369.5	455.1	78.4	235.2
Net Profit	**1,031.4**	**1,270.2**	**350.8**	**693.8**

The system of internal controls is supplemented by internal audit carried out by competent professionals retained by the Company.

Aurobindo has selected Oracle applications for its ERP implementation. The package has been selected to fulfill the needs of finance, distribution, human resources and manufacturing activities of the Company. The project is live effective 1st April 2006 and expected to be fully operational by the end of 2006-2007. The Company would benefit from enhanced integrity of systems, better decision-making tools, and effectiveness of management.

The finance, purchasing, sales, inventory, process manufacturing, quality control, plant maintenance are now fully operational. Projects, OPM financials, fixed assets are in the process of getting implemented. 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.

In the opinion of your Board, internal control systems are adequate to safeguard the interest of the Company.

ABRIDGED BALANCE SHEET

Rs. Million

	2003	2004	2005	2006
Fixed Assets				
Gross Block	4,944.0	6,960.1	9,062.4	10,223.5
Less: Depreciation	806.3	1,114.1	1,516.9	1,952.2
Net Block	4,137.7	5,846.0	7,545.5	8,271.3
Intangible Assets	–	–	167.3	367.4
Investments	1,523.1	1,488.9	1,512.7	1,741.6
Current Assets, Loans & Advances	7,514.2	9,037.2	9,922.8	14,427.1
Less: Current Liabilities & provisions	2,205.4	1,753.4	2,061.4	2,982.1
Bank Borrowings (incl. CP)	1,334.0	2,255.5	2,602.6	3,291.7
Net Working Capital	3,974.8	5,028.3	5,258.8	8,153.3
Net Tangible Assets	9,635.6	12,363.2	14,484.3	18,533.6
Less: Secured Term Loans	2,831.7	2,890.6	3,641.4	3,149.5
Unsecured Loans	1,089.0	1,037.8	2,047.2	5,611.0
Net Worth	**5,714.9**	**8,434.8**	**8,795.7**	**9,773.1**
Represented by				
Equity Shares	232.5	253.9	253.9	266.7
Share Warrants	21.5	350.0	350.0	–
Reserves & Surplus	5,101.4	7,309.9	7,632.0	8,787.8
Total	5,355.4	7,913.8	8,235.9	9,054.5
Deferred Tax liability	359.5	521.0	559.8	718.6
Net Worth	**5,714.9**	**8,434.8**	**8,795.7**	**9,773.1**

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 4,476 competent men and women. 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 institutionalise 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 roads. 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 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

The spirit and practice of Corporate Governance in Aurobindo Pharma Limited is about commitment to values and ethical business conduct, aimed at best practices, timely compliances and correct disclosures of financial information on performance, ownership and governance of the Company.

The Company is managed in the interest of all its stakeholders and will continue to remain a responsible corporate citizen. Emphasis is placed on accountability in decision making and ethics in implementing them.

The Board and the management are conscious of minority shareholders' interest, and every care is taken to enhance shareholders wealth and prosperity, as well as create trust and confidence. Your Company believes in sharing all relevant information with its shareholders.

BOARD OF DIRECTORS

The Board of Directors guides, directs and oversees the management and protects long term interests of shareholders, employees and the society at large. The Board also ensures compliance of the applicable provisions, code of ethical standards of all other countries, wherever the Company's subsidiaries exist.

Size and Composition of the Board

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 of Board of Directors**

Name of the Director	Category	Number of other Memberships◆ in other companies		Attendance at	
		Board	Committees	Board Meetings	AGM
Mr. P.V. Ramaprasad Reddy*	Promoter and Executive	1	–	–	No
Mr. K. Nityananda Reddy	Promoter and Executive	2	1	4	Yes
Dr. M. Sivakumaran	Executive	–	–	3	Yes
Mr. B. Sivaprasad Reddy*	Executive	1	2 (1)@	4	Yes
Mr. Srinivas Lanka	Non-executive Independent	–	3	3	Yes
Dr. I. Sathyamurthy	Non-executive Independent	–	–	–	Yes
Dr. S. Bimal Singh	Non-executive Independent	–	1	4	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	2	Yes

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

@ Figures in brackets indicate committee membership in other companies.

* Mr. P.V. Ramaprasad Reddy and Mr. B. Sivaprasad Reddy are related to each other.

- During the year four board meetings were held on the following dates

Date	No. of Directors Present
June 30, 2005	8
July 30, 2005	5
October 31, 2005	6
January 31, 2006	7

Details of Directors proposed for appointment/ re-appointment:

Dr. I. Satyamurthy, Mr. Karamjit Singh Butalia and Dr. M. Sivakumaran retire by rotation at the ensuing Annual General Meeting. Dr. I. Sathyamurthy, due to his pre-occupation, has expressed his inability to continue as a Director of the Company and therefore has not offered himself for reappointment. Mr. Karamjit Singh Butalia and Dr. M. Sivakumaran being eligible, offer themselves for re-appointment.

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

Dr. M. Sivakumaran holds a Masters Degree in Science and has been awarded a Ph.D in Organic Chemistry. He has about 34 years of experience in the pharmaceutical industry. He is responsible for the technological evolution of the Company, oversees the R&D activities and total quality management. He is not a director in any other company.

Mr. P. V. Ramaprasad Reddy is presently the Chairman of the Company. Upon his re-appointment he will be discharging his duties as Executive Chairman. Keeping in view the significant contribution made by Mr. P. V. Ramaprasad Reddy in the growth and development of the Company and due to proposed expansion and steps to be taken for strengthening the present operations of the Company, based on the recommendation of Remuneration Committee, the Board of Directors re-appointed him as Whole-time Director/ Executive Chairman for a further period of 5 years with effect from June 29, 2006 subject to the approval of the Members.

Mr. K. Nityananda Reddy was re-appointed as a Managing Director of the Company on June 28, 2006 for a period of 5 years keeping in view of the significant contribution made by Mr. K. Nityananda Reddy in the growth and development of the Company and of the expansion and steps to be taken for strengthening the present operations. Based on the recommendation of Remuneration Committee, the Board of Directors re-appointed him for a further period of 5 years with effect from June 29, 2006 subject to the approval of the Members.

Dr. K. Ramachandran soon after obtaining his PhD from Cranfield School of Management in UK, joined IIM, Ahmedabad in 1986. Since then he has been teaching in IIMA/Indian School

Business, Hyderabad. His strong areas of knowledge include entrepreneur opportunities, growth strategies, resource management, innovation, corporate entrepreneurship, new enterprise management, venture capital industry, family business and SME policies.

He has been a consultant to a number of Indian and international organizations on entrepreneurship and strategy such as ITC, Satyam Computers, Babul, Cadila, Otis Elevators, ICICI Ventures, HPCL, IOC, Ballarpur Industries, Infotech Enterprises and Blue Star. His International Consultancy includes ILO, World Bank, DFID (UK), Swiss Development Agency and ATI (USA).

Further he has been involved on several committees of Government of India including National Advisory Committee on Science and Technology entrepreneurship parks/Technology Business Incubators, Governmnet of India (since 2003), National Advisory Committee on Entrepreneurship Development, Govt. of India(since 2004); Editorial Board, Venture Capital, UK (1999-03); Task Force on Information Technology, Confederation of Indian Industry, Gujarat (1999); Advisor, Union Public Service Commission, Government of India (2000) and Co-Convener, Vision for Venture Capital Industry, Committee of SEBI (1999).

Mr. M. Madan Mohan Reddy has done his Masters Degree in Science (Organic Chemistry) and held top managerial positions in leading pharma companies. He commands valuable experience in regulatory affairs of the pharma industry. Prior to joining the Company, he was working as the Managing Director of M/s. Pravesha Industries (Pvt.) Limited. In view of his varied experience in pharma industry, the Board recommends the proposal of appointment of Mr. M. Madan Mohan Reddy as a Director of the Company with effect from September 18, 2006 liable to retire by rotation.

Audit Committee

The primary objective is to monitor and provide effective supervision of the management's financial reporting process with a view to ensure accurate timely and proper disclosures and transparency, integrity and quality financial reporting. The composition, procedures, powers and role/functions of the Audit committee constituted by the Company comply with the requirements of Clause 49 of the Listing Agreement.

Role of Audit Committee

Overseeing the Company's financial reporting process and disclosure of financial information to ensure that the financial statement is correct, sufficient and credible;

reviewing with management the quarterly and annual financial statement before submission to the Board for approval;

recommending the appointment and removal of statutory auditor, fixation of audit fee and approval for payment of any other services;

discussing with statutory auditors before the audit commences on the nature and scope of audit, as well as having post-audit discussion to ascertain any area of concern;

reviewing the qualifications, if any, in the draft audit report;

reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;

reviewing the adequacy of internal audit function;

discussing with internal auditors any significant findings and follow-up thereon;

reviewing the findings of internal investigation by the internal auditors in matters where there is suspected fraud or irregularity, or a failure of internal control systems of a material nature, and then reporting such matters to the Board;

reviewing the financial statements of material unlisted subsidiary companies, in particular, the investments if any made by the unlisted subsidiary companies;

reviewing the Company's financial and risk management policies; and,

examining reasons for substantial default, if any in the payment to depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors.

(Contd...)

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

Composition and other details of Audit Committee

The Audit Committee comprises of three Non-Executive Directors, all of them being Independent Directors.

The heads of departments of finance & accounts, Internal Auditor and the Statutory Auditors are the permanent Invitees to the Audit Committee.

The Company Secretary is the Secretary to the Committee.

The representative of the Cost Auditors is also invited to the meetings of 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.

Attendance of the Audit Committee during financial year 2005-06

Member	No. of Meetings	Attendance
Mr. Srinivas Lanka	4	4
Mr. V.S. Janardhanam	4	4
Mr. Karamjit Singh Butalia	4	2

Compensation Committee

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

Role of the Compensation Committee

The Compensation/Remuneration Committee of the Company recommends the compensation package and other terms and conditions of Executive Directors and other senior management personnel including grant of Options to eligible Employees and Directors and administers the Employee Stock Option Scheme from time to time.

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. This Committee reviews annually the performance of all Executive Directors on the basis of parameters set in the beginning of each year.

During the year the Committee met on July 28, 2005 and all three Members of the Committee attended the Meeting.

Member	No. of Meetings	Attendance
Mr. Srinivas Lanka	1	1
Dr. S. Bimal Singh	1	1
Mr. Karamjit Singh Butalia	1	1

Details of remuneration paid to directors during the financial year 2005-2006

a. Executive Directors

Rs.

Name of Director	Salary	Perquisites	Contribution to P.F	Total
Mr. P.V. Ramaprasad Reddy	2,340,000	249,888	9,360	2,599,248
Mr. K. Nityananda Reddy	2,340,000	249,888	9,360	2,599,248
Dr. M. Sivakumaran	2,340,000	249,888	9,360	2,599,248
Mr. B. Sivaprasad Reddy	2,340,000	249,888	9,360	2,599,248
Total	9,360,000	999,552	37,440	10,396,992

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

5. Shareholders'/Investors' Grievances Committee

The object of this Committee is to resolve shareholders grievances and strengthen the investors' relations.

Constitution of the Committee

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 is to review and redress shareholders/Investor's grievances pertaining to:

a. Transfer, transmission, split and consolidation of investors holdings;

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.

(Contd...)

The Committee meets every fortnight for effecting transfers, transmissions, split, consolidation, etc. The Committee expresses its satisfaction with the company's performance in dealing with investors grievances and its share transfer system.

Status of complaints received during the Financial Year 2005-06,

Nature of Complaints	Received	Resolved	Pending
A. Complaints Received from Shareholders			
• Share Certificates/Split	304	304	Nil
• Dividend	76	76	Nil
• Annual Reports	6	6	Nil
B. Complaints of Shareholders forwarded by:			
• SEBI	29	29	Nil
• Stock Exchanges	6	6	Nil

General Body meetings

Details of the last three AGMs are given as follows

Year	Location	Date	Time
2003	Hotel Viceroy, Hyderabad	12.09.2003	3.00 p.m.
2004	Sri Sathya Sai Nigamagamam, Hyderabad	31.07.2004	3.00 p.m.
2005	Sri Sathya Sai Nigamagamam, Hyderabad	27.09.2005	3.00 p.m.

During the Financial Year 2005-06, the following Ordinary Resolutions were passed through Postal Ballot. i.e.

a. for sale, transfer and/or disposal of bulk drugs Unit VII at Hyderabad and amendment of explanatory statement pertaining to Employee Stock Option - 2004, and,

b. for sale, transfer and/or disposal of bulk drugs Unit II at Hyderabad.

The Company 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.

a. In all 1,225 shareholders holding 28,080,807 shares have sent their ballot papers in time. The result of postal ballot was as follows:

Item No.	No. of Shares voted favour of resolution	No. of Shares voted against resolution	No. of votes invalid
1. Ordinary Resolution for sale/ disposal of Unit VII	28,073,753	2,612	4,442
2. Special Resolution for amendment of explanatory statement dated June 2, 2004 annexed as part of Notice calling 17th Annual General Meeting	28,057,715	4,399	18,693

b. In all 1,381 shareholders holding 33,453,487 shares have sent their ballot papers in time. The result of postal ballot was as follows:

1. Ordinary Resolution for sale/ disposal of Unit II	33,438,465	4,548	10,474

(Contd...)

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 were disclosed in Note no. 24 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 also published in leading news papers in English and Telugu (Regional Language).

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 on the Company's website.

Management Discussion and Analysis

Management Discussion and Analysis Report forms part of this Annual Report and is provided separately as an Annexure to this Directors Report.

GENERAL SHAREHOLDERS INFORMATION

19th Annual General Meeting

As mentioned in the Notice, the 19th Annual General Meeting of the Company will be held on Monday 18th day of September 2006 at 3.00 p.m. at Fortune Katriya Hotel, 8, Rajbhavan Road, Somajiguda, Hyderabad - 500 082.

Quarterly Results

Financial Calendar (tentative and subject to change) of the financial year 2006-07 is as follows:

Un-audited
Financial Results for

1st Quarter	July 2006
2nd quarter	October 2006
3rd Quarter	January 2007
4th Quarter	June 2007 (audited)

Book Closure

From Tuesday September 12, 2006 to Monday September 18, 2006 (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 30 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 6672 5000
Fax Nos. +91 40 2374 1080 / 2374 6833
E-mail: info@aurobindo.com

Name & Designation of Compliance Officer

Mr. P.S. Chandra Mouli
Company Secretary & GM (Legal Compliances)
Aurobindo Pharma Limited,
Plot No.2, Maitrivihar, Ameerpet,
Hyderabad - 500 038, Andhra Pradesh
Tel Nos. +91 40 6672 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 is the 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 2342 0818 to 0825 (Extn. 189)
Fax Nos. +91 40 2342 0814
E-mail: sreedharamurthy@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 2006-07 has been paid to all the Stock Exchanges.

(Contd...)

Stock Exchanges	Stock Code
The Hyderabad Stock Exchange Ltd. Administrative Office, 6-3-654, Somajiguda, Hyderabad - 500 082.	ABD
Bombay Stock Exchange Ltd, 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)	

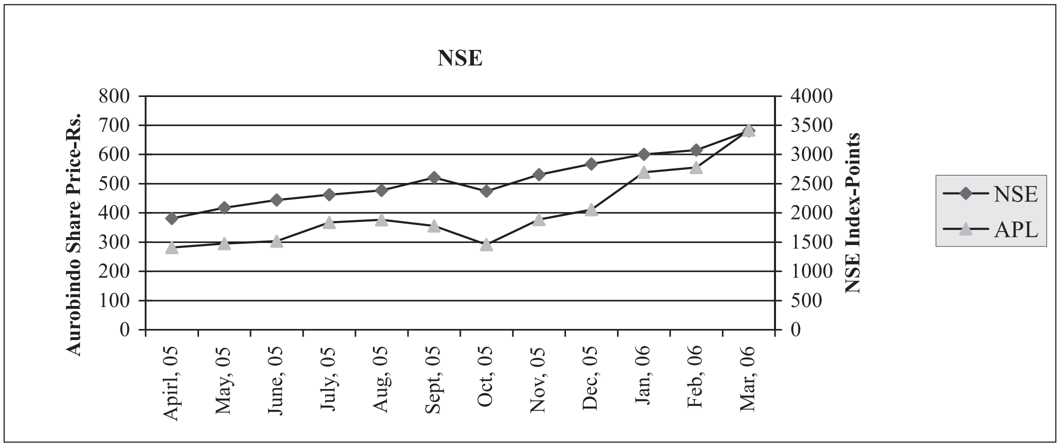
Reuters Code ARBN.BO

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
2005								
April	309.80	262.00	280.95	1,790,387	315.00	262.00	281.00	628,299
May	326.45	276.80	295.40	2,001,690	315.00	276.15	294.45	598,990
June	341.90	292.90	303.30	3,431,861	341.50	294.75	305.15	1,068,032
July	373.80	283.00	366.95	5,801,895	373.70	285.10	367.10	2,369,066
August	379.00	337.20	376.65	2,959,404	379.00	336.00	376.60	1,064,184
September	382.50	335.60	355.00	2,665,336	382.80	331.00	355.85	1,572,804
October	370.50	281.50	291.00	1,276,257	369.40	287.05	291.70	273,773
November	385.00	293.10	376.90	3,787,660	385.90	295.25	378.10	1,057,138
December	429.00	374.10	410.65	2,981,368	429.90	373.20	409.95	4,945,125
2006								
January	580.00	409.60	539.05	16,193,627	567.30	408.65	538.45	3,654,634
February	621.00	532.00	555.70	4,672,871	644.00	535.00	554.45	1,566,895
March	698.05	554.10	683.20	4,954,797	698.90	557.20	682.75	1,724,183



Distribution Schedule as on March 31, 2006

Shareholding Nominal value From	To	Shareholders No.	%	Share Amount Nominal Value Rs.	%
Upto -	5000	27,354	98.03	9,792,065	3.68
5001 -	10000	247	0.88	1,877,660	0.71
10001 -	20000	132	0.47	1,893,505	0.71
20001 -	30000	49	0.18	1,210,715	0.45
30001 -	40000	22	0.08	794,320	0.30
40001 -	50000	13	0.05	612,615	0.23
50001 -	100000	27	0.10	1,846,325	0.69
100001 and above		58	0.21	248,322,795	93.23
		27,902	100.00	266,350,000	100.00

Categories of Shareholders as on March 31, 2006

Category	No. of Shares	%
Promoters, Directors & their relatives	29,712,344	55.78
NRIs/FIIs/FDIs/OCBs	16,583,567	31.13
Govt/Banks/FIs	1,536,697	2.89
Mutual Funds	1,663,851	3.12
Bodies Corporate	533,094	1.00
General Public	3,144,679	5.90
Others	95,768	0.18

Top Ten Shareholders of the Company as on March 31, 2006

Shareholders	Category	No. of Shares	%
Mr. P. V. Ramaprasad Reddy	Promoter	15,699,088	29.47
Mrs. P. Suneela Rani	Promoter	5,963,110	11.19
FID Funds (Mauritius) Ltd.	FII	3,489,020	6.55
Mr. K. Nityananda Reddy	Promoter	3,752,470	7.04
Mrs. K. Rajeswari	Promoter	2,427,550	4.56
Standard Chartered Private Equity Ltd.	FII	2,370,000	4.45
BSMA Limited	FII	1,809,550	3.40
Merrill Lynch Capital Markets Espana S A SVB	FII	945,675	2.91
Dr. M. Sivakumaran	Director	1,469,136	2.76
Reliance Capital Trustee Co.Ltd. A/c Reliance Equity Opportunities Fund	Mutual Fund	1,364,310	2.56

Mr. B. Sivaprasad Reddy, Mr. Srinivas Lanka and Mr. M. Madan Mohan Reddy were given options for shares under ESOP Scheme - 2004. Mr. B. Sivaprasad Reddy also holds 3,700 shares in the Company.

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	–
2004-05	10	–

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. The Share Transfer/Investor Grievance Committee will review the same at regular intervals. Further, the Company has signed a tripartite agreement with NSDL/CDSL and M/s. 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,

During the year 2005-06, the Company issued FCCBs amounting to US$ 60 million during August 2005 and are due for conversion into equity shares on or before August 2010.

Further, The Company issued FCCBs amounting to US$ 200 million in two tranches (US$ 150 million and US$ 50 million) during May 2006 and are due for conversion into equity shares on or before May 2011.

Subsidiary Companies

APL Life Sciences Limited, India (formerly APL Chemi Natura Limited)

APL Pharma Thai Limited, Thailand

Aurobindo (H.K.) Limited, Hong Kong

A B Farmo Quimica Brazil Limitada, Brazil

Aurobindo (Datong) Bio-Pharma Company Limited, China

Aurobindo TongLing (Datong) Pharmaceutical Company Limited, China

Helix Healthcare B.V., The Netherlands

Aurobindo Pharma USA Inc., U.S.A.

Auro Pharma Inc., Canada

Aurex Generics Limited, U.K.

Aurobindo Pharma (Pty.) Limited, South Africa

Milpharm Limited, U.K.

ZAO Aurobindo Pharma, Russia

Plant Locations

Unit No.	Address
Unit - I	Survey Nos.388 & 389, Borapatla Village, Hathnoora Mandal, Medak District, Andhra Pradesh
Unit - II*	103/A, S.V.C.I.E., Industrial Development Area, Bollaram, Jinnaram Mandal, Medak District, Andhra Pradesh
Unit - III	Survey Nos. 313 & 314, Bachupally Village, Qutubullapur Mandal, Ranga Reddy Dist. Andhra Pradesh
Unit - IV	Plot Nos. 32 & 33, Block A, Phase I, Industrial Development Area, Pashamylaram, Patancheru Mandal, Medak District, Andhra Pradesh
Unit - V	Plot Nos. 79-91, 95, 96, 260 & 261, Chemical Zone, Industrial Development Area, Pashamylaram, Patancheru Mandal, Medak District, Andhra Pradesh
Unit - VI	Survey Nos. 329/39, 329/40 & 329/47, Chitkul Village, Patancheru Mandal, Medak District, Andhra Pradesh
Unit - VII*	Survey No. 10, Gaddapothram Village, Jinnaram Mandal, Medak District, Andhra Pradesh
Unit - VIII	Survey No. 13, Gaddapothram Village, Jinnaram Mandal, Medak District, Andhra Pradesh
Unit - IX	Survey No. 374, Gundlamachanoor Village, Hathnoora Mandal, Medak District, Andhra Pradesh
Unit - X	B-2, SIPCOT Industrial Complex, Kudikadu Village, Cuddalore, Tamil Nadu
Unit - XI	Survey Nos. 61-66, Industrial Development Area, Pydibhimavaram, Ranasthalam Mandal, Srikakulam District, Andhra Pradesh
Unit- XII	Survey No. 314, Bachupally Village, Qutubullapur Mandal, Ranga Reddy Dist., Andhra Pradesh
Bhiwadi Unit	No.1128, RIICO Phase III, Bhiwadi, Alwar District, Rajsthan

* The Company has received approval of Shareholders for disposal/transfer of the Units

Declaration

I, K. Nityananda Reddy, Managing Director, hereby declare that as provided under Clause 49 of the Listing Agreements with the stock exchanges, the board members and the senior management personnel have confirmed compliance with the Code of Conduct and Ethics for the year ended 31st March, 2006.

For Aurobindo Pharma Ltd.

K. NITYANANDA REDDY
Managing Director

Hyderabad, July 31, 2006.

(Contd...)

Practicing Company Secretary's Certificate

To
The Members of
Aurobindo Pharma Limited

We have examined the Compliance of conditions of Corporate Governance by Aurobindo Pharma Limited, ("the Company') for the year ended March 31, 2006, as stipulated in Clause 49 of the Listing Agreement of the said Company with the Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to review the procedures and implementation thereof, adopted by the Company, for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on 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 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. Chidambaram & Associates**
Company Secretaries

S. Chidambaram
Partner

Hyderabad,
July 31, 2006.

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, 2006 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 & 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, 2006, and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on March 31, 2006 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 Note 3(g) of Schedule 24 to the financial statements. The management is of the view that the liability to pay premium on redemption is contingent, the ultimate outcome of the matter cannot be presently determined and no provision for any liability that may result in future has been made in the financial statements.

vii. *we draw attention to the following notes in Schedule 24:*

a. *Non compete fee of Rs.300 million arising in the year 2001-02 pursuant to the transfer of certain business of the Company to a Joint Venture Company (as referred in note 5 of Schedule 24) was directly accounted in the capital reserve instead of being routed through the Profit & Loss Account and accordingly qualified by us in our audit report for the said year. During the current year, write off of the same has been made directly against the capital reserve instead of routing the same through the Profit & Loss Account. This has no impact on the profit for the year.*

b. *no provision has been made for diminution in the value of certain investments referred to in Note 9 b). on Schedule 24, since in the opinion of the management such investments are strategic in nature and such diminution is not other than temporary. We are unable to comment upon the impact, if any, of such diminution on the Accounts.*

viii. *Subject to paragraph vii. above,* 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, 2006;

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
RAHUL ROY
Partner
Membership No. 53956
Kolkata, 27 June, 2006

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

Re: **Aurobindo Pharma Limited**

i. a. The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

b. All fixed assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. As informed, 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), 4 (iii) (d) of the Companies (Auditor's Report) Order 2003 (as amended) are not applicable to the Company.

e. 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 and 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 of the Companies Act, 1956 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 Rupees five lakhs 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 deposits 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, 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, customs duty, excise duty, cess have generally been regularly deposited with the appropriate authorities *though there has been a slight delay in a few cases*.

b. According to the information and explanations given to us, no undisputed amounts payable in respect of 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 except work-contract tax of Rs 169,220*.

c. According to the records of the Company, the dues outstanding of income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty and cess on account of any dispute, are as follows:

Name of the statute	Nature of dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Tax and interest	136,940,476	1999-00 to 2002-03	Commissioner of Income Tax (Appeals)
Central Excise Act, 1944	Duty	5,055,615	1999-00	CEGAT - Chennai
Central Excise Act, 1944	Duty	1,023,093	2002-03	Joint Commissioner - Hyderabad
Central Excise Act, 1944	Duty	299,948	2003-04	Commissioner - Hyderabad
Central Excise Act, 1944	Duty	8,526,214	2004-05	Joint Commissioner - Hyderabad
Central Excise Act, 1944	Duty	1,105,552	2004-05	Commissioner - Hyderabad

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 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 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. The Company has unsecured debentures outstanding during the year on which no security or charge is required to be created.

xx. We have verified that the end use of money raised by public issues is as disclosed in the notes to the financial statements.

xxi. Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

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

Per
RAHUL ROY
Partner
Membership No. 53956
Kolkata, 27 June, 2006

(Contd...)

Balance Sheet as at March 31, 2006

Rs. Millions		Schedule	As at March 31, 2006		As at March 31, 2005	
I. SOURCES OF FUNDS						
SHAREHOLDERS' FUNDS	Share Capital	1	**266.3**		253.9	
	Share Application money		**0.4**		–	
	Reserves & Surplus	2	**8,787.8**		7,632.0	
				9054.5		7,885.9
EQUITY SHARE WARRANTS		3		**–**		350.0
LOAN FUNDS	Secured Loans	4	**6,441.2**		6,244.0	
	Unsecured Loans	5	**5,611.0**		2,047.2	
				12,052.2		8,291.2
DEFERRED TAX LIABILITY (Net)		6		**718.6**		559.8
	TOTAL			**21,825.3**		17,086.9
II. APPLICATION OF FUNDS						
FIXED ASSETS	Gross Block	7	**8,769.0**		7,297.4	
	Less: Depreciation		**1,952.2**		1,516.9	
	Net Block		**6,816.8**		5,780.5	
	Capital Work-in-progress including capital advances		**1,454.5**		1,765.0	
				8,271.3		7,545.5
INTANGIBLE ASSETS		8		**367.4**		167.3
INVESTMENTS		9		**1,741.6**		1,512.7
CURRENT ASSETS, LOANS AND ADVANCES	Interest accrued on Investments		**0.4**		0.3	
	Inventories	10	**3,834.4**		3,235.8	
	Sundry Debtors	11	**5,690.0**		4,413.8	
	Cash & Bank Balances	12	**1,420.7**		138.0	
	Other Current Assets	13	**–**		0.2	
	Loans and Advances	14	**3,481.6**		2,134.7	
			14,427.1		9,922.8	
LESS : CURRENT LIABILITIES AND PROVISIONS	Liabilities	15	**2,845.3**		1,951.5	
	Provisions	16	**136.8**		109.9	
			2,982.1		2,061.4	
NET CURRENT ASSETS				**11,445.0**		7,861.4
	TOTAL			**21,825.3**		17,086.9
	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
RAHUL ROY
Partner
Membership No. 53956

Kolkata, June 27, 2006.

For and on behalf of the Board of Directors

P.V. RAMAPRASAD REDDY
Chairman

SUDHIR B. SINGHI
Chief Financial Officer

P. S. CHANDRA MOULI
Company Secretary

K. NITYANANDA REDDY
Managing Director

Hyderabad, June 27, 2006.

Profit & Loss Account for the year ended March 31, 2006

Rs. Millions

		Schedule	2005-2006	2004-2005
INCOME	Sales (Gross)		**14,722.0**	11,591.7
	Less:Excise Duty		**769.9**	741.5
	Sales (Net)		**13,952.1**	10,850.2
	Other Income	17	**303.5**	164.9
	Increase in Stocks	18	**275.2**	132.4
	TOTAL		**14,530.8**	11,147.5
EXPENDITURE	Raw Materials Consumed	19	**8,873.9**	6,404.8
	Purchase of Trading Goods		**152.8**	169.6
	Other Manufacturing Expenses	20	**1,796.5**	1,724.6
	Payments to and Provisions for Employees	21	**792.1**	662.2
	Administrative and Selling Expenses	22	**868.9**	952.3
	Interest and Finance Charges	23	**606.4**	399.9
	Depreciation/Amortisation		**511.2**	404.9
	TOTAL		**13,601.8**	10,718.3
PROFIT BEFORE TAXATION			**929.0**	429.2
	Provision for Taxation			
	Current Tax (MAT Provision)		**90.1**	40.1
	MAT credit entitlement		**(80.9)**	–
	Deferred Tax		**158.8**	38.8
	Fringe Benefit Tax		**2.8**	–
	Tax adjustments of previous years		**64.4**	(0.5)
PROFIT AFTER TAXATION			**693.8**	350.8
	Balance brought forward from last year		**522.7**	200.6
PROFIT AVAILABLE FOR APPROPRIATION			**1,216.5**	551.4
APPROPRIATIONS	Proposed Dividend @ Rs.1.50 (Rs.0.50) on Equity Shares of Rs.5 each		**81.2**	25.4
	Tax on Dividend		**11.6**	3.3
	Withdrawal from Debenture Redemption Reserve on redemption of debentures		**(248.8)**	–
	General Reserve		**69.4**	–
	Surplus carried to Balance Sheet		**1,303.1**	522.7
			1,216.5	551.4
	Basic Earnings per Share Rs.		**13.22**	6.91
	Diluted Earnings per Share Rs.		**12.46**	6.91
	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
RAHUL ROY
Partner
Membership No. 53956

Kolkata, June 27, 2006.

For and on behalf of the Board of Directors

P.V. RAMAPRASAD REDDY
Chairman

SUDHIR B. SINGHI
Chief Financial Officer

P. S. CHANDRA MOULI
Company Secretary

K. NITYANANDA REDDY
Managing Director
Hyderabad, June 27, 2006.

Cash Flow Statement for the year ended March 31, 2006

Rs. Millions		2005-2006	2004-2005
A. CASH FLOW FROM OPERATING ACTIVITIES	Net Profit before tax and Extraordinary Items	**929.0**	429.2
	Adjustments for:		
	Depreciation	**511.2**	404.9
	Provision for Doubtful Debts and Advances	**133.5**	23.5
	Bad debts written off	**3.5**	70.9
	Provision for Diminution in value of investments	**–**	29.9
	Export incentives accrued	**(193.3)**	(36.9)
	Fixed Assets written off	**13.7**	–
	Balances/Provisions no longer required written back	**–**	(17.3)
	Provision for Retirement Benefits	**(35.5)**	7.6
	Interest Paid	**606.3**	399.9
	Interest Received	**(158.1)**	(74.5)
	Dividends Received	**(0.8)**	(0.8)
	Foreign Exchange gain/loss	**68.7**	31.9
	Net (Profit)/Loss on Sale of Fixed Assets	**(28.6)**	0.7
	Net Profit on sale of investments	**0.1**	(0.3)
	Operating Profit before Working Capital Changes	**1,849.7**	1,268.7
	Adjustments for:		
	Inventories	**(598.6)**	(639.4)
	Sundry Debtors	**(1,671.5)**	38.8
	Loans & Advances	**(137.0)**	(192.3)
	Sundry Creditors	**865.2**	420.0
	Other Current Assets	**0.1**	3.3
	Cash Generated from Operations	**307.9**	899.1
	Income Tax Paid	**(270.1)**	(67.1)
NET CASH FROM OPERATING ACTIVITIES (A)		**37.8**	832.0
B. CASH FLOW FROM INVESTING ACTIVITIES	Acquisition of Fixed Assets	**(1,285.0)**	(2,078.1)
	Sale of Fixed Assets	**56.5**	2.4
	Investments	**(228.9)**	(366.2)
	Proceeds from sale of investments	**–**	312.8
	Loans to Joint Ventures & Subsidiaries (Net)	**(725.3)**	(355.6)
	Interest Received	**104.0**	37.5
	Dividend Received	**0.8**	0.8
	Intangible Assets	**(242.2)**	(167.3)
NET CASH USED IN INVESTING ACTIVITIES (B)		**(2,320.1)**	(2,613.7)

Rs. Millions		2005-2006	2004-2005
C. CASH FLOW FROM			
FINANCING ACTIVITIES	Proceeds from issue of Share Capital	**517.3**	–
	Proceeds from Share application money	**0.4**	–
	Proceeds from Long Term borrowings	**871.7**	2,300.0
	Repayment of Long Term borrowings	**(1,391.8)**	(1,551.8)
	Proceeds from FCCB	**2,612.7**	–
	Other Short Term borrowings (Net)	**1,575.7**	1,356.6
	Interest Paid	**(589.8)**	(431.7)
	Dividend and Dividend tax	**(30.4)**	(128.9)
NET CASH FROM FINANCING ACTIVITIES (C)		**3,565.8**	1,544.2
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)		**1,283.5**	(237.5)
	Cash and Cash Equivalents - Opening Balance	**138.0**	374.1
	Cash and Cash Equivalents - Closing Balance	**1,421.5**	136.6
NET INCREASE/DECREASE) IN CASH AND CASH EQUIVALENTS		**1,283.5**	(237.5)

Notes to the Cash Flow Statement for the year ended March 31, 2006

1. Cash and Cash equivalents include :

	2005-2006	2004-2005
Cash and bank balances	**407.2**	106.7
Fixed Deposit Accounts	**1,010.9**	28.7
Unpaid dividend Accounts	**2.6**	2.6
Cash and Cash Equivalents as per Balance Sheet	**1,420.7**	138.0
Unrealised gain/(loss) on Foreign currency cash and cash equivalents	0.8	(1.5)
Cash and Cash equivalents considered for Cash Flows	**1,421.5**	136.5

2. Investments include investment in subsidiaries Rs.228.5 (Rs.53.7).
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

Per
RAHUL ROY
Partner
Membership No. 53956

Kolkata, June 27, 2006.

SUDHIR B. SINGHI
Chief Financial Officer

P. S. CHANDRA MOULI
Company Secretary

For and on behalf of the Board of Directors

P.V. RAMAPRASAD REDDY
Chairman

K. NITYANANDA REDDY
Managing Director
Hyderabad, June 27, 2006.

Rs. Millions			As at March 31, 2006		As at March 31, 2005
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	53,270,000(50,770,000) Equity Shares of Rs.5 each fully paid-up		**266.3**		253.9
	TOTAL		**266.3**		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.

2. RESERVES & SURPLUS (Refer Note 5 on Schedule 24)					
CAPITAL RESERVE	As per last Balance Sheet	**390.2**		390.2	
	Less: Non-Compete fee	**300.0**		–	
			90.2		390.2
CAPITAL REDEMPTION RESERVE	As per last Balance Sheet		**90.0**		90.0
SECURITIES PREMIUM	As per last Balance Sheet	**2,005.5**		2,005.5	
	Add: Received during the year	**925.0**		–	
		2,930.5		2,005.5	
	Less: Foreign currency convertable Bonds issue expenses	**70.2**		–	
			2,860.3		2,005.5
DEBENTURE REDEMPTION RESERVE	As per last Balance Sheet	**248.8**		261.3	
	Less: Transferred to Profit & Loss Account	**248.8**		12.5	
			–		248.8
GENERAL RESERVE	As per last Balance Sheet	**4,374.8**		4,362.3	
	Add: Transferred from Profit & Loss Account	**69.4**		12.5	
			4,444.2		4,374.8
PROFIT & LOSS ACCOUNT BALANCE			**1,303.1**		522.7
	TOTAL		**8,787.8**		7,632.0
3. EQUITY SHARE WARRANTS					
Upfront consideration of Rs.Nil (140) per warrant received towards preferential allotment of Nil (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
	TOTAL		**–**		350.0

Rs. Millions						As at March 31, 2006		As at March 31, 2005
4.	**SECURED LOANS** (Refer Note 6 on Schedule 24)							
	DEBENTURES - Non-Convertible Debentures							
	Coupon Rate	Face Value	Numbers	Terms of Redemptions				
	11.75%	Rs.100	2,700,000	In 3 annual installments by 10/08/05	–		90.0	
	7.8%	Rs.100	2,500,000	In single installment by 16/12/05	–		250.0	
	8.5%	Rs.100	2,500,000	In single installment by 26/03/06	–		250.0	
	8.5%	Rs.100	2,250,000	In seven half-yearly installments by 26/09/07	–		160.7	
	Note: All the above debentures are redeemable at par.					–		750.7
	TERM LOANS	From Banks [Payable within one year - Rs.1,452.5 (Rs.641.1)]				**3,149.5**		2,890.7
	OTHER LOANS	From Banks - Working Capital Loans				**3,291.7**		2,602.6
		TOTAL				**6,441.2**		6,244.0
5.	**UNSECURED LOANS** (Refer Note 7 on Schedule 24)							
	SHORT TERM LOANS	From Banks				**2,175.0**		1,350.8
	OTHER LOANS	Zero coupon Foreign Convertable Bonds*				**2,677.2**		–
		Sales Tax Deferment Loan [Payable within one year Rs.4.0 (Rs.4.9)]				**758.8**		696.4
		*(Convertible at the option of the bond holders on or after 20-09-2005)						
		TOTAL				**5,611.0**		2,047.2
6.	**DEFERRED TAX LIABILITY** (Net) (Refer Note 15 on Schedule 24)							
		Deferred Tax liabilities				**718.6**		559.8
		TOTAL				**718.6**		559.8

7. FIXED ASSETS (Refer Note 8 on Schedule 24)

Particulars	Gross Block				Depreciation/Amortisation				Net Block	
Rs. Millions	As at April 1, 2005	Additions	Sales/ Adjustments	**As at** March 31, 2006	Up to April 1, 2005	For the year	On Sales/ adjustments	**Up to March 31, 2006**	**As at March 31, 2006**	As at March 31, 2005
Leasehold Land	39.3	3.1	–	**42.4**	0.7	0.6	–	**1.3**	**41.1**	38.7
Freehold Land[a]	74.2	65.1	5.5	**133.8**	–	–	–	**–**	**133.8**	74.2
Leasehold Buildings	64.8	–	–	**64.8**	3.6	2.6	–	**6.2**	**58.6**	61.1
Freehold Buildings[b]	1,246.3	265.6	–	**1,511.9**	126.0	46.3	–	**172.3**	**1,339.6**	1,120.3
Plant & Machinery[c]	5,730.9	1,224.9	117.2	**6,838.6**	1,349.7	404.3	31.7	**1,722.3**	**5,116.3**	4,381.2
Furniture & Fittings	107.3	37.4	1.8	**142.9**	28.4	11.8	0.1	**40.1**	**102.8**	78.9
Vehicles	34.6	5.6	5.6	**34.6**	8.5	3.5	2.0	**10.0**	**24.6**	26.1
TOTAL	7,297.4	1,601.7	130.1	**8,769.0**	1,516.9	469.1	33.8	**1,952.2**	**6,816.8**	5,780.5
Previous year	5,844.1	1,458.5	5.2	**7,297.4**	1,114.1	404.9	2.1	**1,516.9**	**5,780.5**	
Capital Work-in-progress[d]									**1,454.5**	1,765.0

Notes

a. The title deeds of Land and Buildings aggregating to Rs.109.1 (Rs.46.0) 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.0.8 (Rs.Nil)

c. Includes Foreign Exchange Fluctuations capitalised Rs.0.4 (Rs.0.1) and net of government grant received Rs.8.0 (Rs.Nil)

d. Include capital advances of Rs.85.8 (Rs.193.7), foreign exchange fluctuations Rs.0.7 (Rs.0.4) and expenditure during construction period Rs.11.1 (Rs.37.3) (Refer Note 8 on Schedule 24)

e. VAT Credit available on opening block Rs.3.7

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

Particulars	Gross Block				Depreciation/Amortisation				Net Block	
Rs. Millions	As at April 1, 2005	Additions	Adjustments	**As at March 31, 2006**	Up to April 1, 2005	For the year	On Sales/ adjustments	**Up to March 31, 2006**	**As at March 31, 2006**	As at March 31, 2005
Product Development Costs	162.5	226.5	–	**389.0**	–	39.1	–	**39.1**	**349.9**	162.5
Licenses	4.8	15.7	–	**20.5**	–	3.0	–	**3.0**	**17.5**	4.8
TOTAL	167.3	242.2	–	**409.5**	–	42.1	–	**42.1**	**367.4**	167.3
Previous year	–	167.3	–	**167.3**	–	–	–	**–**	**167.3**	–

Note : Product development costs are internally generated intangible assets.

Rs. Millions	Face value per Share	As at March 31, 2006 No. of Shares	As at March 31, 2006 Rs.	As at March 31, 2005 No. of Shares	As at March 31, 2005 Rs.
9. INVESTMENTS (Refer Note 9 on Schedule 24)					
I. 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 (Rs.0.1)			**1.2**		1.2
C. In Subsidiaries					
Equity Shares (Fully Paid-up)					
Aurobindo Pharma USA Inc. (Purchased during the year Rs.236.5)	$1	**100% of Paid-in-Capital**	**288.4**	100% of Paid-in-Capital	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. U.S.A. (Merged with Aurobindo Pharma USA Inc. during the year)	$100		**–**	33,000	157.4
APL Life Sciences Limited (Erstwhile 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**	**48.6**	21,248	48.6
Aurobindo TongLing (Datong) Pharmaceutical Co. Ltd. China		**50% of Paid-in-Capital**	**154.1**	50% of Paid-in-Capital	154.1
Helix Healthcare B.V., The Netherlands (Purchased during the year Rs.149.5)		**100% of Paid-in-Capital**	**152.1**	100% of Paid-in-Capital	2.7
			1,895.0		1,666.5

Rs. Millions	Face value per Share	As at March 31, 2006 No. of Shares	As at March 31, 2006 Rs.	As at March 31, 2005 No. of Shares	As at March 31, 2005 Rs.
INVESTMENTS (Contd.)					
D. Other Companies					
Citadel Aurobindo Biotech Limited	100	**100,000**	**10.0**	100,000	10.0
[30,000 shares (30,000) pledged with UTI Bank Limited with an undertaking of non disposal of the balance shares until certain conditions are satisfied]			**10.0**		10.0
Sub Total (A)+(B)+(C)+(D)			**1,907.4**		1,678.9
Less: Provision for diminution in value of investments			**166.2**		166.2
TOTAL			**1,741.2**		1,512.7
II. CURRENT INVESTMENTS (At lower of cost or market value)					
QUOTED - TRADE					
Equity Shares (Fully Paid-up)					
Andhra Bank (Purchased during the year)	10	**4,520**	**0.4**		–
			0.4		–
Total (I) + (II)			**1,741.6**		1512.7
Aggregate value of unquoted investments			**1,741.2**		1,512.7
Aggregate value of quoted investments			**0.4**		–

		As at March 31, 2006		As at March 31, 2005
10. INVENTORIES				
(at lower of cost or net realisable value)				
Raw Materials*		**1,691.7**		1,492.1
Work-in-process		**1,530.5**		1,271.7
Stores, Spares, Consumables & Packing Materials		**383.0**		232.0
Finished Goods*		**229.2**		240.0
TOTAL		**3,834.4**		3,235.8
*includes material in transit and lying with third parties.				
11. SUNDRY DEBTORS (Refer Notes 10 & 11 on Schedule 24)				
Unsecured — Debts outstanding for a period exceeding six months				
Considered good	**903.8**		1,067.3	
Considered doubtful	**226.2**		122.8	
		1,130.0		1,190.1
Other debts - Considered good		**4,786.2**		3,346.5
		5,916.2		4,536.6
Less: Provision for doubtful debts		**226.2**		122.8
TOTAL		**5,690.0**		4,413.8

Rs. Millions		As at March 31, 2006		As at March 31, 2005
12. CASH & BANK BALANCES (Refer Note 12 on Schedule 24)				
Cash on Hand		**3.2**		2.3
Balance with Scheduled Banks on				
Current Accounts	**403.3**		101.6	
Fixed Deposit Accounts	**1,010.9**		28.7	
Unpaid Dividend Accounts	**2.6**		2.6	
		1,416.8		132.9
Balance with Non-Scheduled Banks on				
Current accounts		**0.7**		2.8
TOTAL		**1,420.7**		138.0
13. OTHER CURRENT ASSETS				
Fixed assets held for sale (At net book value or estimated net realisable value, whichever is lower)		**–**		0.2
		–		0.2
14. LOANS & ADVANCES (Refer Note 13 on Schedule 24)				
(Unsecured, considered good except stated otherwise)				
Loans - Subsidiaries		**1,914.5**		1,140.1
- Joint Venture		**–**		30.0
- Employees		**13.4**		10.9
Insurance claim receivable		**54.7**		–
Advances recoverable in cash or in kind or for value to be received or pending adjustments				
Considered good	**634.9**		533.9	
Considered doubtful	**36.3**		6.2	
		671.2		540.1
Export Incentives Receivable		**437.0**		64.6
Trade and Other Deposits		**110.0**		92.6
MAT credit entitlement		**80.9**		–
Advance Income Tax (Net of Provision)		**146.3**		33.6
Balances with Customs and Excise Authorities		**89.9**		229.0
		3,517.9		2,140.9
Less: Provision for doubtful advances		**36.3**		6.2
TOTAL		**3,481.6**		2,134.7

Rs. Millions			As at March 31, 2006		As at March 31, 2005
15. CURRENT LIABILITIES (Refer Note 14 on Schedule 24)					
	Sundry Creditors for goods, services and expenses				
	Dues to small scale industrial undertakings		**17.5**		7.4
	Dues to others		**2,661.8**		1,828.5
			2,679.3		1,835.9
	Dues to Subsidiaries		**83.3**		55.8
	Trade Deposits		**1.0**		1.3
	Unclaimed Dividends		**2.6**		2.6
	Other Liabilities		**44.4**		46.2
	Book Overdraft		**2.2**		–
	Interest Accrued but not due on Loans		**32.5**		9.7
	TOTAL		**2,845.3**		1,951.5
16. PROVISIONS	For Retirement Benefits				
	Gratuity	**22.1**		18.1	
	Leave encashment	**23.6**	**45.7**	63.1	81.2
	For Proposed Dividend		**79.9**		25.4
	For Tax on Proposed Dividend		**11.2**		3.3
	TOTAL		**136.8**		109.9

			2005-2006		2004-2005
17. OTHER INCOME	Interest on				
	Loans to Subsidiaries and Joint Ventures	**80.5**		64.5	
	Deposits	**68.5**		6.1	
	Other Investments	**0.1**		–	
	Other advances	**9.0**		3.9	
	[Tax deducted at source Rs.5.9 (Rs.4.0)]		**158.1**		74.5
	Processing Charges		**1.6**		7.0
	Dividends from a subsidiary company		**0.8**		0.8
	Dividends from current investments		**–**		0.3
	Balances no longer required written back		**39.5**		17.3
	Sale of dossiers		**33.7**		19.6
	Profit on sale of fixed assets (Net)		**28.7**		(0.8)
	Miscellaneous Income		**41.1**		46.2
	TOTAL		**303.5**		164.9

Rs. Millions

		2005-2006		2004-2005	
18. INCREASE IN STOCKS					
Opening Stocks					
Finished Goods	**239.9**		365.1		
Work-in-Process	**1,271.7**		1,054.2		
	1,511.6		1,419.3		
Less: VAT Credit available on opening stocks	**0.6**		–		
Reversal of excise duty on opening stocks	**26.5**		40.1		
		1,484.5		1,379.2	
Less: Closing Stocks					
Finished Goods	**229.2**		239.9		
Work-in-Process	**1,530.5**		1,271.7		
		1,759.7		1,511.6	
TOTAL		**275.2**		132.4	
19. RAW MATERIALS CONSUMED					
Opening Stock		**1,492.1**		1,063.7	
Add: Purchases*		**9,073.5**		6,833.2	
		10,565.6		7,896.9	
Less: Closing Stock		**1,691.7**		1,492.1	
TOTAL		**8,873.9**		6,404.8	
* VAT credit available on opening stock Rs.0.9					
20. OTHER MANUFACTURING EXPENSES					
Conversion charges		**49.6**		54.4	
Packing Materials consumed		**253.0**		178.4	
Consumption of Stores & Spares		**164.1**		207.5	
Chemicals consumed		**211.4**		200.7	
Carriage Inward		**111.4**		83.8	
Factory Maintenance		**39.2**		66.4	
Power and Fuel		**735.5**		626.5	
Effluent Treatment Expenses		**22.4**		27.1	
Excise Duty Others		**44.4**		46.7	
Repairs & Maintenance					
Plant & Machinery	**38.0**		63.6		
Buildings	**20.5**		75.1		
Others	**24.1**		21.9		
		82.6		160.6	
Miscellaneous Expenses		**82.9**		72.5	
TOTAL		**1,796.5**		1,724.6	

Rs. Millions	2005-2006	2004-2005
21. PAYMENTS TO AND PROVISIONS FOR EMPLOYEES		
Salaries, Wages and Bonus	**716.4**	580.7
Contribution to Provident and other funds	**40.0**	28.0
Retirement Benefits	**16.1**	32.2
Staff Welfare expenses	**19.6**	21.3
TOTAL	**792.1**	662.2
22. ADMINISTRATIVE & SELLING EXPENSES		
Rent	**5.0**	6.3
Rates & Taxes	**12.1**	21.5
Printing & Stationery	**35.4**	26.9
Postage, Telegram & Telephones	**24.0**	24.2
Insurance	**65.6**	60.0
Legal & Professional Charges	**52.9**	80.6
Directors' Sitting Fees	**0.1**	0.1
Remuneration to Auditors	**4.9**	4.3
Commission to Other Selling Agents	**88.0**	109.9
Carriage Outwards	**227.3**	166.2
Selling Expenses	**33.9**	22.0
Rebates & Discounts	**2.2**	66.1
Travel & Conveyance	**42.2**	39.6
Vehicle Maintenance Expenses	**5.7**	6.3
Analytical charges	**24.2**	3.9
Provision for diminution in value of Investments	**–**	29.9
Provision for Doubtful Debts and Advances	**133.5**	23.5
Bad debts written off	**3.5**	70.9
Fixed Assets written off	**13.7**	–
Loss on Investments	**0.1**	–
Donation	**1.3**	1.5
Exchange Fluctuation loss/(gain) (Net)	**42.1**	134.5
Miscellaneous Expenses	**51.2**	54.1
TOTAL	**868.9**	952.3
23. INTEREST AND FINANCE CHARGES		
Interest on debentures and fixed period loans	**378.1**	289.0
Interest on Other Loans	**184.3**	69.6
Bank Charges	**44.0**	41.3
TOTAL	**606.4**	399.9

Schedule 24

24. NOTES ANNEXED TO AND FORMING PART OF THE ACCOUNTS AS AT AND FOR THE YEAR ENDED MARCH 31, 2006

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, impairment losses and specific grant/subsidies 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 for intended use.

ii. Expenditure directly relating to construction activity is capitalised. Indirect expenditure is capitalized to the extent it relates to the construction activity or is incidental thereto. Income earned during construction period is deducted from the total expenditure relating to construction activity.

iii. Assets retired from active use and 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.

vii. Depreciation is provided on straight-line method, based on useful life of the assets as estimated by the management which generally coincides with rates prescribed under Schedule XIV to the Companies Act, 1956. Unless otherwise stated, useful life for assets acquired at the Bhiwadi unit, Rajasthan, are lower and consequently the rates of depreciation are higher than the rates prescribed under Schedule XIV of the Companies Act, 1956. In this case the rates 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. 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.

v. Innovator samples not held for sale, required for product development are valued at cost.

h. Retirement and other Employee Benefits

i. The Company's contribution to Provident Fund is recognised on accrual basis; further, employer's contribution of provident fund on leave encashment is provided on the basis of actuarial valuation.

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, deferred taxes and fringe benefit tax. Current income tax and fringe benefit 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. If the company has carry forward of unabsorbed depreciation and tax losses deferred tax assets are recognized only if there is virtual certainty that such deferred tax assets can be realized 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 & 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" and benefits on account of incremental export growth under the "Target Plus 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.553.2 (Rs.550.7)

3. Contingent Liabilities not provided for

		2005-2006	2004-2005
a.	Claims against the company not acknowledged as debts	**1.8**	2.8
b.	Outstanding Bank Guarantees on account of:		
	i. Subsidiary company	**508.9**	588.7
	ii. Guarantee given for Citadel Aurobindo Biotech Ltd (erstwhile 50% Joint Venture company)	**400.0**	400.0
	iii. Others	**49.0**	47.2
c.	Bills discounted with Banks	**452.3**	373.9
d.	Outstanding letters of credit for import of materials	**56.2**	132.0
e.	Direct and indirect taxes	**300.9**	221.7
f.	Product licensing	**40.6**	19.5

Rs. Millions

g. During the period the company has issued 60,000 zero coupon Foreign Currency Convertible Bonds of US$ 1,000 each. The bonds are redeemable at a premium of 39.954% of its principal amount on the maturity date, or in whole at any time on or after February 25, 2008 and on or prior to August 1, 2010 at atleast 130% of the accreted principal amount if the bonds are not converted earlier. Accordingly, the payment of premium on redemption is contingent in nature, the outcome of which is dependant on uncertain future events. Hence, no provision is considered in the accounts in respect of such premium for the year amounting to US$ 3,058,910 equivalent to Rs.136.5 (Rs. Nil) at the prevailing exchange rate as on March 31, 2006.

h. The Employee Provident Fund Organisation (EPFO) has on September 9, 2005 issued a clarification as per which provident fund contributions should be deducted on leave encashment paid on or after May 1, 2005 and further clarified that recovery of PF contribution on leave encashment for the period October 1, 1994 to April 30, 2005 be kept in abeyance. The Company has complied with the said clarification and contributed PF on leave encashment after May 1, 2005. However, for the period October 1, 1994 to April 30, 2005 no provision was made in the books of accounts as the Company's liability towards such contribution is presently not ascertainable.

4. Share Capital

i. The Company has received balance consideration of Rs.587.5 (Rs.Nil) on account of preferential allotment of 2,500,000 (Rs.Nil) equity shares of face value of Rs.5 each at a premium of Rs.370 each on conversion of share warrants allotted during the financial year 2003-04.

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

	2005-2006	2004-2005
For repayment of short term loans	**150.0**	–
For working capital	**437.5**	–
Total	**587.5**	–

ii. **Employee Stock Option Scheme**

The Company 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 as the Company follows intrinsic method.

The details of options outstanding

	2005-2006 Nos.	2004-2005 Nos.
Options at the beginning of the year	**403,450**	–
Granted during the year	**104,250**	412,600
Vested / exercisable during the year	**60,517**	–
Exercised during the year	**975**	–
Forfeited during the year subject to reissue	**45,400**	9,150
Options at end of the year	**461,325**	403,450

Rs. Millions

Disclosure as per Fair value method:

The Company's net profit and Earnings per Share would have been as under, had the compensation cost for employee stock options been recognized based on the fair value at the date of grant in accordance with "Black and Scholes" model.

Particulars	2005-06
1. Profit after Taxation	
- As reported in Profit & Loss Account	**693.8**
Less: Additional Employee Compensation cost based on Fair Value	**0.4**
- Profit after Taxation as per Fair Value Method	**693.4**
2. Earnings per share	
Basic	
- No. of shares	**52,483,699**
- EPS as reported	**13.22**
- EPS as per Fair Value Method	**13.21**
Diluted	
- No. of shares	**55,677,714**
- EPS as reported	**12.46**
- EPS as per Fair Value Method	**12.45**

The following assumptions were used for calculation of fair value of grants:

Risk-free interest rate	7%
Expected life of options	4 years
Expected Volatility	5.62%
Dividend Yield	0.50

iii. During the year, the Company has issued 60,000 Zero Coupon Foreign Currency Convertible bonds due 2010 of US$ 1000 each. Each bond is convertible into 83.12 fully paid equity share with par value of Rs.5 per share at a fixed price of Rs.522.036 per share, on or after September 20, 2005 but prior to close of business hours on August 8, 2010.

5. Reserves and Surplus

The Company had entered into a joint venture agreement with Citadel Fine Pharmaceutical Limited, dated March 27, 2002 and transferred its ethical allopathic branded formulations business to Citadel Aurobindo Biotech Limited (the JV Company) with restrictive clause of not competing in designated markets.

The resultant non-compete fee of Rs.300.0 was directly taken to Capital Reserve Account in the financial year 2001-02 being in the nature of capital receipt, as it was of an exceptional nature which was not earned in the regular course of business.

The said joint venture agreement was terminated during the year. Consequent to such termination the non-compete fee amounting to Rs.300.0 not being recoverable has been adjusted to the Capital Reserve, effectively reversing the initial recognition entry passed in the year 2001-02.

Rs. Millions

6. 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.2,257.1 (Rs.2,890.7)

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.3,291.7 (Rs.2,602.6).

7. Unsecured loans

a. Short Term Loans:

Short Term Loans from banks aggregating to Rs.2,175.0 (Rs.1,300.0) are personally guaranteed by the Chairman and the Managing Director of the Company.

b. Foreign Currency Convertible Bonds:

60,000 Zero Coupon Foreign Currency Convertible bonds (bonds) due 2010 of US$ 1,000 each are:

i. convertible by the holders at any time on or after September 20, 2005 but prior to close of business (at the place the bonds are deposited for conversion) on August 8, 2010. Each bond will be converted into 83.12 fully paid up equity share with par value of Rs.5 per share at a fixed price of Rs.522.036 per share at a fixed exchange rate conversion of Rs.43.3925 = US$ 1.

ii. redeemable in whole but not in part at the option of the Company at any time on or after February 25, 2008 and on or prior to August 1, 2010 as per the terms and conditions of the bonds mentioned in the Offering circular.

Rs. Millions

iii. redeemable on maturity date at 139.954% of its principal amount if not redeemed or converted earlier.

iv. the Company is of the opinion that since the bonds are convertible into equity shares, the creation of Debenture Redemption Reserve is not required.

The details of utilization of the said amount is as under:

	2005-2006	2004-2005
Issue proceeds	**2,677.2**	–
Less: Utilised for Investments	**1,728.9**	–
Balance with Banks	**948.3**	–

8. Expenditure during construction period

Particulars	2005-2006	2004-2005
Balance brought forward	**37.3**	34.4
Add: Expenditure incurred during construction period	**2.0**	7.3
Borrowing cost capitalized	**6.5**	33.7
	45.8	75.4
Less: Consumption of intermediates (trial run)	**1.9**	7.3
Preoperative expenses charged off	**0.1**	0.8
Allocated to fixed assets	**32.7**	30.0
Balance carried forward	**11.1**	37.3

9. Investments

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

Description	2005-2006 Nos.	2004-2005 Nos.
Mutual Fund Units		
HDFC Cash Management Fund	–	15,897,155
TATA Liquid Fund	–	8,562,597
Principal Cash Management Fund	–	250,052
Equity Shares		
Andhra Bank	**4,520***	–

* purchased during the year

b. There has been a diminution in the value of investments made in subsidiary companies, namely Aurobindo Datong Bio-Pharma Co. Limited, China and Aurobindo Tongling (Datong) Pharmaceutical Co. Limited to an extent of Rs.546.9 (Rs.373.3) and Rs.63.4 (Rs.37.1) respectively, on the basis of net asset value of the said subsidiaries, as at March 31, 2006. An amount of Rs.1121.7 (Rs.889.7) and Rs.191.9 (Rs.Nil) is due from each of the said companies on account of loans granted by the Company. The management considers these investments as strategic in nature and, considering the nature of the industry and gestation period involved, the management is of the opinion that the diminution in value is temporary and no provision is necessary for such diminution.

Rs. Millions

10. Sundry Debtors and Loans and Advances include receivables from Citadel Aurobindo Biotech Limited (CABL) towards non-compete fee Rs.Nil (Rs.300.0) and towards sale of brands Rs.128.9 (Rs.129.8) and Loan Rs.30.0 (Rs.30.0) respectively. Due to termination of Joint Venture Agreement during the current year, the Company has fully provided for Rs.158.9 (Rs.Nil) in books of account.

11. Sundry Debtors include dues from companies under the same management:

	Closing Balance as at March 31	
	2006	2005
Citadel Aurobindo Biotech Ltd**	**128.9**	429.8
Due from Subsidiaries	**1,391.7**	750.9

** Ceased to be under same management with effect from February 22, 2006.

12. Cash & Bank balances include

	Closing Balance as at March 31		Maximum outstanding at any time during the year ended March 31	
	2006	2005	**2006**	2005
Balances with Non-Scheduled banks on current accounts				
Vietcom Bank, Vietnam	**0.2**	0.1	**0.2**	0.5
Vheshtorg Bank, Russia	**0.1**	0.8	**5.4**	8.6
Bank of Nova Scotia, Costa Rica	**0.1**	0.1	**0.1**	0.1
Commerce Bank, USA	**0.1**	1.2	**6.1**	22.4
Wells Fargo Bank, USA	**0.1**	0.1	**0.1**	3.3
Unicredit Bank, Italy	**0.1**	0.5	**3.1**	3.1
Sber Bank, Russia	**–**	–	**10.6**	–

13. Loans and Advances include

	Closing Balance as at March 31		Maximum outstanding at any time during the year ended March 31	
	2006	2005	**2006**	2005
Dues from companies under the same management				
Citadel Aurobindo Biotech Ltd **	**30.0**	30.0	**30.0**	30.0
Due from subsidiaries	**1,914.5**	1,140.1	**2,084.1**	1,197.4

** Ceased to be under same management with effect from February 22, 2006.

14. Sundry Creditors

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

Lisa Ampoules & Vials (P) Ltd	Plastic Shapers	Global Electronics
Ravi Industries	Rolon Seals	Fine Fabs Pvt Ltd
Polomon Instruments Pvt. Ltd	Forbes Marshall (Hyd) Limited	Paper Pack Industries

b. In respect of the amounts mentioned under Section 205C of the Companies Act, 1956 no dues are to be credited to the Investor Education and Protection Fund as at March 31, 2006.

Rs. Millions

15. Deferred Taxes

Deferred Tax assets / (liabilities) consist of:

Particulars	As at March 31 2006	As at March 31 2005
Deferred Tax Liability on account of Fixed Assets	**(826.5)**	(765.7)
Deferred Tax Liability on account of Intangibles	**(117.8)**	–
Deferred Tax Asset on account of :		
Debtors	**88.4**	43.4
Retirement Benefits	**13.2**	25.1
Unabsorbed depreciation	**124.1**	137.4
Net Deferred tax liability	**(718.6)**	(559.8)

16. Export Incentives

Sales include export incentives on account of Duty Exemption Pass Book Scheme and Target Plus Scheme Rs.235.5 (Rs.57.4).

17. Research and Development Expenses

Research & Development Expenses incurred during the year, debited under various heads of Profit & Loss Account:

Particulars	2005-2006	2004-2005
Material Consumed	**131.5**	147.3
Power and Fuel	**14.8**	18.6
Personnel Costs	**151.3**	118.5
Others	**326.6**	237.2
Total	**624.2**	521.6
Less: Transferred to Intangible Assets	**226.6**	162.5
	397.6	359.1

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

Particulars	2005-2006	2004-2005
Salary	**9.3**	9.3
Contribution to Provident Fund	**0.1**	0.1
Perquisites	**1.3**	1.3
Total	**10.7**	10.7

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

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

Particulars	2005-2006	2004-2005
Statutory Audit	4.1	3.3
Other Audit Services	0.6	0.8
Certification charges	0.1	0.1
Reimbursement of out-of-pocket expenses	0.1	0.1
Total	4.9	4.3

20. Donations

Donation of Rs.1.3 (Rs.1.5) disclosed under Schedule 22 includes contribution made to Andhra Pradesh Congress Committee Rs.0.5 (Rs.Nil).

21. Credit available in respect of Minimum Alternative Tax

During the year the Company has recognised Minimum Alternative Tax Credit amounting to Rs.80.9 (Rs.Nil) on excess of income tax liability computed as per provisions of Sec.115JB over the normal provisions of Income Tax Act, 1961 as per Guidance note on Accounting for Credit available in respect of Minimum Alternative Tax under Income Tax Act, 1961 issued by the Institute of Chartered Accountants of India.

22. Earnings per Share

a. Earnings per Share is computed based on the following:

Particulars	As at March 31	
	2006	2005
i. Profit after taxation considered for calculation of basic and diluted Earnings per Share	693.8	350.8
ii. Weighted average number of Equity Shares considered for calculation of basic Earnings per Share	52,483,699	50,770,000
Add: Effect of dilution on account of Convertible Debentures into shares	3,183,674	–
Add: Effect of dilution on account of Employee Stock Options granted	10,341	4,960
iii. Weighted average number of Equity Shares considered for calculation of diluted Earnings per Share	55,677,714	50,774,960

b. Subsequent to the Balance Sheet date the Company has issued Foreign Currency Convertible Bonds as under; however, the transaction do not affect the Capital used to produce the net profit or loss for the year, hence Earnings per Share was not adjusted for the transaction.

US$ 150 Million Convertible Bonds due 2011 (the "Tranche A Bonds") and USD 50 Million Convertible Bonds due 2011 ("Tranche B Bonds").

The issue of the Bonds was authorised by a resolution of the Board of Directors of the Company passed on April 1, 2006 and by a resolution of shareholders of the Company passed on April 27, 2006.

Unless previously redeemed, converted or repurchased and cancelled, the Company will redeem the Tranche A Bonds at 146.285 per cent of its principal amount on the Maturity date, and the Tranche B Bonds at 146.991 per cent of its principal amount on the Maturity date.

Rs. Millions

In respect of the Tranche A Bonds the Conversion Price (as defined in "Terms and Conditions of the Tranche A Bonds - Conversion") will initially be Rs.1014.06 per share with a fixed rate of exchange on conversion of Rs.45.145 =1 USD. The Conversion Price is subject to adjustment in certain circumstances in the manner provided in such Conditions.

In respect of Tranche B Bonds the Conversion Price (as defined in "Terms and Conditions of Tranche B Bonds - Conversion") will initially be the price per share determined on the Conversion Price Setting date (as defined in "Terms and Conditions of the Tranche B Bonds - Conversion") in accordance with the formula set out in Conditions.

23. Interest in Joint Venture

During the year the Company has terminated 50% Joint Venture with Citadel group in respect of Citadel Aurobindo Biotech Limited (CABL), incorporated in India, which was involved in marketing of formulations. Accordingly, CABL cease to be a Joint Venture company with effect from February 22, 2006.

The Company's share of the assets, liabilities, income and expenses of CABL, the erstwhile jointly controlled entity are as follows at March 31, 2006.

Particulars	As at March 31	
	2006	2005
Assets	–	653.6
Liabilities	–	653.6
Revenue	–	458.5
Depreciation	–	62.5
Other expenses	–	489.6
Profit/(Loss) before tax	–	(93.6)

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

	2005-2006	2004-2005
i. Subsidiaries		
APL Life Sciences Limited, India		
Purchase of Goods	**224.2**	110.3
Sale of Goods	**75.7**	32.2
Services Availed	**2.6**	1.1
APL Pharma Thai Limited, Thailand		
Sale of Goods	**401.9**	306.0
Dividend received	**0.8**	0.8
Guarantees and collaterals	**4.7**	4.6
Aurobindo (H.K.) Limited, Hong Kong		
Sales Returns	–	3.8
Provision for diminution in value of investments	–	29.9
APL Holdings Inc., USA		
Interest received	–	10.0
Finance (including loans and equity contribution in cash or in kind)	–	22.5
Receipt against Loan	**116.4**	–
AB Farmo Quimica Limiteda, Brazil		
Sale of Goods	**624.6**	409.3
Sale of Machinery	–	1.8
Interest received	**1.2**	1.2

Rs. Millions

		2005-2006	2004-2005
	Aurobindo (Datong) Bio-Pharma Company Limited, China		
	Purchase of Goods	**906.0**	929.1
	Sale of Goods	**9.2**	15.6
	Interest received	**69.0**	44.6
	Finance (including loans and equity contribution in cash or in kind)	**210.5**	201.6
	Guarantees and collaterals	**504.2**	583.9
	Aurobindo TongLing (Datong) Pharmaceutical Company Limited, China		
	Purchase of Goods	**3.2**	2.5
	Sale of Goods	**126.3**	–
	Interest received	**0.1**	–
	Finance (including loans and equity contribution in cash or in kind)	**192.1**	–
	Aurobindo Pharma USA Inc.		
	Sale of Goods	**639.9**	209.9
	Rebates & Discounts	**–**	51.9
	Finance (including loans and equity contribution in cash or in kind)	**441.9**	176.6
	Receipt against Loan	**271.0**	–
	Interest received	**7.1**	4.8
	Helix Healthcare B.V., The Netherlands		
	Receipt against Loan	**16.2**	–
	Interest received	**3.0**	–
	Finance (including loans and equity contribution in cash or in kind)	**–**	2.5
	Aurex Generics Limited, UK		
	Sale of Goods	**23.4**	–
ii.	**Companies over which significant influence exists**		
	Pravesha Industries (Private) Limited		
	Purchase of Goods	**82.4**	34.9
	Purchase of Fixed Assets	**–**	12.4
	Rendering Services	**1.0**	3.7
	Sale of Fixed Assets	**–**	0.1
	Sale of Goods	**0.4**	–
iii.	**Joint Ventures**		
	Citadel Aurobindo Biotech Limited**		
	Management Fee received	**6.0**	12.0
	Guarantees and Collaterals	**–**	400.0
	Interest Received	**–**	3.9
	Bad debts written off	**–**	30.0
	Cephazone Pharma LLC, USA		
	Sale of Goods	**2.4**	–
iv.	**Key Management Personnel**		
	Mr. P. V. Ramaprasad Reddy		
	Managerial Remuneration	**2.7**	2.7
	Proposed Dividend	**23.5**	6.6
	Dividend paid on allotment of fresh shares	**1.2**	–
	Investment in equity	**587.5**	–
	Guarantees and Collaterals	**8,118.2**	6,793.2

Rs. Millions

	2005-2006	2004-2005
Mr. K. Nityananda Reddy		
Managerial Remuneration	**2.7**	2.7
Proposed Dividend	**5.6**	1.9
Guarantees and Collaterals	**8,118.2**	6,399.0
Dr. M. Sivakumaran		
Managerial Remuneration	**2.7**	2.7
Proposed Dividend	**2.2**	0.7
Mr. B. Sivaprasad Reddy		
Managerial Remuneration	**2.7**	2.7
Proposed Dividend	**0.1**	0.1
Mr. Lanka Srinivas		
Sitting Fees	**0.1**	0.1
Professional Fees	**1.5**	3.0
(v) Key Management person relative		
Mrs. P. Suneela Rani		
Purchase of land	**1.9**	–
Proposed Dividend	**8.9**	3.0
Mrs. K. Rajeswari (partner Sri Sai Packaging)		
Sale of land	**0.1**	–
Proposed Dividend	**3.6**	1.2
Mrs. B. Shilpa		
Salary	**0.1**	–
Proposed Dividend	**0.1**	0.1

b. Balance outstanding debit / (credit) as at

	March 31 2006	March 31 2005
APL Life Sciences Limited, India	**(22.6)**	25.4
APL Pharma Thai Limited, Thailand	**202.3**	181.5
Aurobindo (H.K.) Limited, Hong Kong	**–**	143.3
APL Holdings Inc., USA	**–**	292.4
AB Farmo Quimica Limiteda, Brazil	**504.1**	421.1
Aurobindo (Datong) Bio-Pharma Company Limited, China	**959.9**	1,763.8
Aurobindo TongLing (Datong) Pharmaceutical Company Limited, China	**318.6**	154.1
Helix Healthcare B.V., The Netherlands	**376.3**	3.4
Cephazone Pharma LLC, USA	**7.2**	–
Citadel Aurobindo Biotech Limited, India**	**158.9**	471.4
Pravesha Industries (Private) Limited, India	**1.9**	(5.9)
Aurobindo Pharma USA Inc.	**699.0**	338.3
Aurex Generics Limited, USA	**21.3**	–

c. Names of related parties and description of relationship

Subsidiaries

APL Life Sciences Limited, India
APL Pharma Thai Limited, Thailand
Aurobindo (H.K.) Limited, Hong Kong
APL Holdings Inc., USA,
AB Farmo Quimica Limiteda, Brazil
Aurobindo (Datong) Bio-Pharma Company Limited, China
Aurobindo TongLing (Datong) Pharmaceutical Company Limited, China
Helix Healthcare B.V., The Netherlands
Aurobindo Pharma USA Inc.

Rs. Millions

Joint Ventures

Citadel Aurobindo Biotech Limited, India**

Cephazone Pharma LLC, USA

Companies over which significant influence exists

Pravesha Industries (Private) Limited, India

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

Key Management person relative

Mrs. P. Suneela Rani
Mrs. K. Rajeswari (partner Sri Sai Packaging)
Mrs. B. Shilpa

** Ceased to be Joint Venture Company with effect from February 22, 2006.

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	
	2006	2005	**2006**	2005
Subsidiaries				
Aurobindo (Datong) Bio-Pharma Company Limited, China	**1,121.7**	889.7	**1,132.4**	933.8
Aurobindo Pharma USA Inc.	**218.6**	124.7	**241.3**	131.2
Aurobindo TongLing (Datong) Pharmaceutical Company Limited, China	**191.9**	–	**191.9**	–
APL Holding Inc., USA	**–**	116.3	**116.4**	122.4
AB Farmo Quimica Limitada, Brazil	**8.9**	8.7	**9.0**	9.2
Helix Healthcare B.V., The Netherlands	**373.3**	0.7	**393.1**	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.

25. 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.64.7) which includes an amount of Rs.Nil (Rs.19.3) towards expenditure incurred on renovation.

iii. The net carrying amount of the buildings obtained on finance lease Rs.58.6 (Rs. 61.2).

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.

26. Disclosure regarding Derivative Instruments

a. There are no Derivative Contracts outstanding as on March 31, 2006.

b. Particulars of unhedged foreign currency exposure as at March 31, 2006 are detailed below at the exchange rate prevailing at the year-end:

Particulars	March 31 2006
Loan Availed	**(1,709.0)**
Sundry Debtors	**4,346.0**
Loans and Advances	**2,045.6**
Sundry Creditors	**(1,358.5)**
Foreign Currency Convertible Bonds	**(2,677.2)**

Previous year's figures are not disclosed, as the above disclosure has become mandatory in respect of accounting periods ending on or after March 31, 2006.

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

27. Installed Capacity and Actual Production

Category	Unit of Measurement	Installed Capacity 2005-06	Installed Capacity 2004-05	Actual Production 2005-06	Actual Production 2004-05
Bulk Drugs and Drug Intermediates	Tonnes	**16,807**	14,857	**8,683**	10,397
Formulations					
Tablets & Capsules	Nos. (in lakhs)	**24,402**	15,096	**9,290**	6,149
Injectibles	Nos.	**56,960,000**	41,960,000	**13,917,151**	10,184,258
Syrups	Nos.	**32,500,000**	11,100,000	**2,833,869**	784,404

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. Based on product mix the quantity of installed capacity may vary.

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.

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

Category	Unit of Measurement	Opening Stock		Closing Stock		Captive Consumption	Sales	
Rs. Millions		Qty.	Rs.	Qty.	Rs.	Qty.	Qty.	Rs.
Bulk Drugs & Drug Intermediates								
Manufactured	Tonnes	149	207.6	104	121.8	3,964	4,764	11,773.7
		(220)	(334.8)	(149)	(207.7)	(6,089)	(4,379)	(10,257.0)
Traded	Tonnes	–	–	4	4.1	–	725	164.3
		(40)	(8.4)	(–)	(–)	(–)	(2,994)	(198.2)
Others								80.4
								(68.2)
Formulations: Manufactured								
Tablets & Capsules	Nos. (in Lakhs)	333	19.4	458	87.9	290	8,875	2,188.9
		(326)	(12.9)	(333)	(19.4)	(126)	(6,016)	(670.7)
Injections	Nos.	437,340	12.3	522,128	6.2	640,358	13,192,005	324.8
		(501,134)	(7.7)	(437,340)	(12.3)	(22,756)	(10,225,296)	(350.6)
Syrups	Ltrs	32,622	0.6	247,508	9.1	122,763	2,496,220	103.4
		(96,263)	(0.7)	(32,622)	(0.6)	(83,300)	(764,745)	(13.3)
Others								86.5
								(33.6)
Formulations: Traded								
Tablets & Capsules	Nos. (in Lakhs)	–	0.1	0.39	0.1	–	0.01	0.1
		(4)	(0.5)	(–)	(–)	(4)	(–)	(–)
Injections	Nos.	–	–	–	–	–	–	–
		(19,250)	(0.1)	(–)	(–)	(–)	(19,250)	(0.1)
Total			240.0		229.2			14,722.0
			(365.2)		(240.0)			(11,591.7)

Note : a. Closing stock quantities are after adjustment of samples, transit claims/losses etc.

b. Previous year's figures have been stated in brackets.

c. Quantitative information with respect to formulation products are stated in Nos. in which they are normally dealt and consist of various strengths.

Rs. Millions

29. Purchase of Finished Goods

Category	Unit of Measurement	2005-06 Qty.	2005-06 Rs.	2004-05 Qty.	2004-05 Rs.
Bulk Drugs and Drug Intermediates	Tonnes	**729.42**	**152.8**	2,954	169.6
Formulations					
Tablets & Capsules	Nos. (in Lakhs)	**0.41**	**0.1**	–	–
Total			**152.9**		169.6

30. Raw Material Consumed

	Unit of Measurement	2005-06 Qty.	2005-06 Rs.	2004-05 Qty.	2004-05 Rs.
Pencillin G Potassium	BOUs	**4616.960**	**1,327.5**	3,794.450	1,078.2
7 ACA	Tonnes	**256.320**	**1,202.2**	176.479	831.3
6APA	Tonnes	**809.989**	**761.3**	890.122	849.8
Beta - Thymidine	Tonnes	**80.544**	**419.8**	2.426	12.6
PHPG Base	Tonnes	**794.562**	**310.9**	636.243	207.2
GCLE	Tonnes	**72.200**	**309.6**	53.622	322.8
Pen G Sulphoxide	Tonnes	**400.965**	**199.9**	240.235	122.8
PG Base	Tonnes	**608.909**	**140.8**	589.350	128.7
Others			**4,201.9**		2,851.4
Total			**8,873.9**		6,404.8

Note: The Consumption figures are ascertained on the basis of opening stock plus purchases less closing stock.

31. Consumption of Raw Materials & Stores and Spares

	2005-06 %	2005-06 Rs.	2004-05 %	2004-05 Rs.
Raw Materials				
Imported	**75**	**6,663.9**	75	4,834.9
Indigenous	**25**	**2,210.0**	25	1,569.9
Total	**100**	**8,873.9**	100	6,404.8
Stores & Spares				
Imported	**2**	**3.5**	–	–
Indigenous	**98**	**160.6**	100	207.5
Total	**100**	**164.1**	100	207.5

Rs. Millions

		2005-2006	2004-2005
32.	**Value of imports calculated on CIF Basis**		
	Raw Materials	**6,547.5**	4,898.5
	Packing Materials	**75.8**	33.4
	Capital Goods	**292.1**	324.8
	Stores, Spares & Consumables	**53.8**	50.2
	Total	**6,969.2**	5,306.9
33.	**Expenditure in foreign currency (Cash basis)**		
	Travelling	**9.3**	10.4
	Commission on Sales	**76.9**	77.7
	Product Registration and Filing fee	**56.8**	12.9
	Overseas Office expenses	**59.2**	79.4
	Professional & Consultancy charges	**16.8**	41.9
	Interest	**58.5**	50.3
	Others	**39.0**	14.3
	Total	**316.5**	286.9
34.	**Earnings in foreign exchange (Accrual basis)**		
	Exports on F.O.B. Basis	**8,163.3**	5,546.2
	Interest	**131.7**	60.6
	Dividend	**0.8**	0.8
	Sale of Dossiers	**33.7**	19.6
	Total	**8,329.5**	5,627.2

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

36. 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
RAHUL ROY
Partner
Membership No. 53956

Kolkata, June 27, 2006.

SUDHIR B. SINGHI
Chief Financial Officer

P. S. CHANDRA MOULI
Company Secretary

For and on behalf of the Board of Directors

P.V. RAMAPRASAD REDDY
Chairman

K. NITYANANDA REDDY
Managing Director
Hyderabad, June 27, 2006.

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)	2006 (Year)

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

Public Issue	Rights Issue	Bonus Issue	Private Placement
NIL	NIL	NIL	12500

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

Total Liabilities	Total Assets
21825252	21825252

Sources of Funds

Paid-up Capital	Reserves & Surplus	ESOP Share Application Money	Secured Loans
266350	8787751	354	6441182

Unsecured Loans
5610990

Application of Funds

Net Fixed Assets	Investments	Net Current Assets
8638762	1741525	11444965

Deferred Tax Liabilities	Miscellaneous Expenditure	Accumulated Loss
718626	NIL	NIL

IV. Performance of Company (Rs. in Thousands)

Turnover & Other Income	Total Expenditure	Profit before Tax	Profit after Tax
14255629	13326590	929039	693771

Earnings per Share (Rs.)	Dividend Rate (%)
13.22	30

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

P.V. RAMAPRASAD REDDY
Chairman

SUDHIR B. SINGHI
Chief Financial Officer

P. S. CHANDRA MOULI
Company Secretary

K. NITYANANDA REDDY
Managing Director

Hyderabad, June 27, 2006.

Statement pursuant to exemption received under Section 212(8) of the Companies Act, 1956 relating to subsidiary companies

Rs. Millions

Particulars	Reporting currency	Exchange rate	Capital	Reserves	Total assets	Total liabilities	Investments other than investment in subsidiary	Turnover	Profit Before Taxation	Provision for Taxation	Profit After Taxation	Country
APL Pharma Thai Limited[a]	THB	1.39	5.6	45.2	248.8	198.0	–	513.8	28.7	3.8	24.9	Thailand
Aurobindo (H.K.) Limited	HKD	5.75	134.0	(142.7)	18.1	26.9	–	3.2	(4.0)	–	(4.0)	Hong Kong
Aurobindo Pharma USA, Inc.	USD	44.62	280.0	2.6	751.6	603.9	135.0	588.4	15.4	–	15.4	USA
AB Farmo Quimica Limitada[a]	Reais	20.61	43.9	102.6	726.2	579.7	–	1,020.6	77.9	23.0	54.9	Brazil
Aurobindo (Datong) Bio Pharma Co Limited[a]	RMB	5.57	1,002.6	(407.6)	3,632.9	3,037.9	–	1,239.7	(179.5)	–	(179.5)	China
Aurobindo TongLing (Datong) Pharmaceutical Co. Limited[a]	RMB	5.57	300.8	(119.4)	1,269.8	1,088.5	–	1,310.1	(65.5)	–	(65.5)	China
APL Life Sciences Limited[b]	INR	–	50.0	20.2	347.3	277.2	–	649.0	20.7	7.3	13.4	India
Helix Healthcare B.V.[a]	EURO	54.07	152.3	(4.8)	526.3	378.7	–	–	(2.8)	–	(2.8)	The Netherlands
Auro Pharma Inc.	CND	38.18	2.6	(2.9)	–	0.3	–	–	(1.9)	–	(1.9)	Canada
Aurex Generics Limited	GBP	77.50	129.3	(0.3)	432.4	303.3	–	24.1	(0.3)	–	(0.3)	UK
Aurobindo Pharma (Pty) Limited	ZAR	6.17	6.9	(5.9)	2.6	1.6	–	–	(5.9)	–	(5.9)	South Africa
Milpharm Limited	GBP	77.50	63.7	100.0	328.6	164.9	–	116.3	10.0	3.0	7.0	UK
Zao Aurobindo Pharma[a]	Rubles	1.61	2.7	(0.7)	101.2	99.1	–	–	(0.6)	–	(0.6)	Russia

Notes:

1. As required under para (iii) of the approval letter dated April 27, 2006, issued by the Ministry of the Company Affairs, Indian rupee equivalents of the figures given in foreign currencies in the accounts of the subsidiary companies, have been reported based on the prevailing exchange rate as on March 31, 2006.
2. None of the subsidiaries have proposed dividend during the year. However, APL Pharma Thai Limited has paid an amount of Rs.0.8 as dividend during the year.

[a] The financial year of these companies ends on December 31. However, the results given are as of March 31, 2006.

[b] Formerly APL Chemi Natura Ltd.

For and on behalf of the Board of Directors

P.V. RAMAPRASAD REDDY
Chairman

SUDHIR B. SINGHI
Chief Financial Officer

P. S. CHANDRA MOULI
Company Secretary

K. NITYANANDA REDDY
Managing Director

Hyderabad, June 27, 2006.

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, 2006 and the Consolidated Profit & Loss Account and Consolidated Cash Flow Statement for the year ended on that date and annexed thereto. 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.

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 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 the management, as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.

3. We did not audit the financial statements of any of the subsidiaries and joint ventures, whose financial statements reflect total assets of Rs.9,077.3 as at March 31, 2006, total revenues of Rs.5,408.4 and total net cash inflows of Rs.129.3 for the year then ended. These financial statements, except to the extent mentioned in paragraph 4 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.

4. These Consolidated Financial Statements for the year ended March 31, 2006 include the unaudited financial statements of the following entities, consolidated on the basis of management certification:

   a. Helix Healthcare B.V., The Netherlands;

   b. Aurobindo Pharma Pty Limited, South Africa;

   c. Milpharm Ltd U.K.; and

   d. Zao Aurobindo Pharma, Russia.

   These Consolidated Financial Statements reflect total assets of Rs.947.0 as at March 31, 2006, total revenues of Rs.126.2 and total net cash outflows of Rs.0.7 for the year then ended in respect of the aforesaid consolidated entities.

5. 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.

6. Without qualifying our opinion, we draw attention to Note 4(g) of Schedule 22 to the Consolidated Financial Statements. The management is of the view that the liability to pay premium on redemption is contingent, the ultimate outcome of the matter cannot be presently determined and no provision for any liability that may result in the future has been made in the financial statements.

7. *Attention is drawn to the following notes on Schedule 22*

   a. Note no.2 on Schedule 22 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 issuance of a qualified opinion on the Consolidated Financial Statements for the year ended March 31, 2005.

Rs. Millions, except earnings per share

b. Non compete fee of Rs.150.0 arising in the year 2001-02 pursuant to the transfer of certain business of the Company to a Joint Venture Company (as referred in note 6 of Schedule 22) was directly accounted in the capital reserve instead of being routed through the Consolidated *Profit and Loss Account and accordingly qualified by us in our audit report for the said year. During the current year, write off of the same has been made directly against the capital reserve instead of routing the same through the Consolidated Profit and Loss Account. This has no impact on the consolidated profit for the year.*

8. *In the absence of audited financial statements in respect of the entities referred to in Para 4 above, we are unable to express an opinion as to the balances, results from operation and cash flows pertaining to such entities included in the Consolidated Balance Sheet, Profit & Loss Account and Cash Flow Statement respectively as at and for the year ended March 31, 2006. This has also resulted in issuance of a disclaimer of opinion on the Consolidated Financial Statements for the year ended March 31, 2005.*

9. *Consolidated Earnings per share for the year ended March 31, 2005 was 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. *The Auditors' of Aurobindo (H.K.) Limited a Wholly Owned Subsidiary of the Company, whose financial statements as at March 31, 2006 reflect assets of Rs.18.1 and liabilities of Rs.26.9 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, 2006. This has also resulted in issuance of a qualified opinion on the Consolidated Financial Statements 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 Paras 6, 7, 8 and 9 above the effect of which on these accounts is presently 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, 2006;

    b. the Consolidated Profit & 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
RAHUL ROY
Partner
Membership No. 53956

Kolkata, June 27, 2006

Consolidated Balance Sheet as at March 31, 2006

Rs. Millions		Schedule	As at March 31, 2006		As at March 31, 2005	
I. SOURCES OF FUNDS						
SHAREHOLDERS' FUNDS	Share Capital	1	**266.3**		253.9	
	Share Application Money		**0.4**		–	
	Reserves & Surplus	2	**7,882.0**		6,528.5	
				8,148.7		6,782.4
EQUITY SHARE WARRANTS		3		**–**		350.0
MINORITY INTEREST				**24.3**		12.4
LOAN FUNDS	Secured Loans	4	**7,502.5**		7,551.6	
	Unsecured Loans	5	**6,228.2**		2,788.7	
				13,730.7		10,340.3
DEFERRED TAX LIABILITY (NET)		22(13a)		**725.6**		612.7
	TOTAL			**22,629.3**		18,097.8
II. APPLICATION OF FUNDS						
FIXED ASSETS		6				
	Gross Block		**13,561.6**		10,726.9	
	Less: Accumulated Depreciation/ amortization		**2,724.1**		2,144.2	
	Net Block		**10,837.5**		8,582.7	
	Capital Work-in-progress including capital advances		**1,497.4**		2,525.4	
				12,334.9		11,108.1
INVESTMENTS		7		**2.8**		2.4
DEFERRED TAX ASSET (NET)		22(13b)		**0.1**		0.2
CURRENT ASSETS, LOANS AND ADVANCES	Interest Accrued on Investments		**0.5**		0.3	
	Inventories	8	**4,718.1**		3,754.6	
	Sundry Debtors	9	**5,822.3**		4,533.3	
	Cash & Bank Balances	10	**2,019.3**		593.9	
	Other Current Assets	11	**–**		0.9	
	Loans and Advances	12	**1,996.6**		1,304.1	
			14,556.8		10,187.1	
LESS: CURRENT LIABILITIES AND PROVISIONS	Liabilities	13	**4,090.2**		3,045.3	
	Provisions	14	**175.1**		154.7	
			4,265.3		3,200.0	
NET CURRENT ASSETS				**10,291.5**		6,987.1
	TOTAL			**22,629.3**		18,097.8
	Notes to Consolidated Accounts	22				

The Schedules referred to above and Notes to Consolidated Accounts form an integral part of the Consolidated Balance Sheet.

As per our report of even date.

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

Per
RAHUL ROY
Partner
Membership No. 53956

Kolkata, June 27, 2006.

For and on behalf of the Board of Directors

P.V. RAMAPRASAD REDDY
Chairman

SUDHIR B. SINGHI
Chief Financial Officer

P. S. CHANDRA MOULI
Company Secretary

K. NITYANANDA REDDY
Managing Director

Hyderabad, June 27, 2006.

Consolidated Profit & Loss Account for the year ended March 31, 2006

Rs. Millions

		Schedule	2005-2006	2004-2005
INCOME	Sales (Gross)		**16,955.0**	14,167.3
	Less: Excise Duty/Value Added Tax		**(1,018.9)**	(951.3)
	Sales (Net)		**15,936.1**	13,216.0
	Other Income	15	**312.6**	50.8
	Increase in Inventories	16	**518.3**	26.7
	Exceptional item	22 (21)	**309.8**	–
	TOTAL		**17,076.8**	13,293.5
EXPENDITURE	Purchase of Trading Goods		**908.5**	1,015.6
	Raw Materials Consumed	17	**9,146.3**	6,678.7
	Other Manufacturing Expenses	18	**2,405.4**	2,253.3
	Personnel Expenses	19	**1,024.2**	902.0
	Administrative and Selling Expenses	20	**1,194.5**	1115.1
	Interest and Finance Charges	21	**691.0**	499.2
	Depreciation and Amortisation	6	**721.3**	646.7
	TOTAL		**16,091.2**	13,110.6
PROFIT BEFORE TAX, MINORITY INTEREST AND PRIOR PERIOD ITEMS			**985.6**	182.9
	Provision for Current Tax		**128.4**	81.3
	Less: MAT credit entitlement		**(80.9)**	–
	Deferred Tax		**159.0**	49.5
	Fringe Benefit Tax		**2.8**	–
	Tax Adjustments of previous years		**64.4**	(0.5)
	Total Tax Expense		**273.7**	130.3
PROFIT AFTER TAX AND BEFORE MINORITY INTEREST AND PRIOR PERIOD ITEMS			**711.9**	52.6
	Minority Interest		**(14.3)**	(4.3)
	Prior period items		**(0.6)**	(15.8)
PROFIT FOR THE YEAR BEFORE REVERSAL OF DEFERRED TAX ASSETS OF EARLIER YEARS			**697.0**	32.5
	Deferred tax asset of earlier years reversed		**–**	(96.4)
NET PROFIT			**697.0**	(63.9)
	Accumulated Amortisation of Intangibles		**–**	(41.8)
PROFIT/(LOSS) AVAILABLE FOR APPROPRIATION			**697.0**	(105.7)
APPROPRIATIONS				
	Proposed Dividend @ Rs.1.50(Rs.0.50) on Equity Shares of Rs.5 Each		**81.2**	25.4
	Tax on Dividend		**11.6**	3.3
	Withdrawal from Debenture Redemption Reserve on redemption of debentures		**(248.8)**	(12.5)
	Transfer to General Reserve		**69.4**	–
	Surplus/(deficit) carried to Balance Sheet		**783.6**	(121.9)
			697.0	(105.7)
EARNINGS PER SHARE		22 (19a)		
	Basic Rs.		**13.28**	0.64
	Diluted Rs.		**12.52**	0.64
	Nominal Value per Share Rs.		**5.00**	5.00
	Notes to Consolidated Accounts	22		

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

As per our report of even date.

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

Per
RAHUL ROY
Partner
Membership No. 53956

Kolkata, June 27, 2006.

For and on behalf of the Board of Directors

P.V. RAMAPRASAD REDDY
Chairman

SUDHIR B. SINGHI
Chief Financial Officer

P. S. CHANDRA MOULI
Company Secretary

K. NITYANANDA REDDY
Managing Director

Hyderabad, June 27, 2006.

Consolidated Cash Flow Statement for the Year Ended March 31, 2006

Rs. Millions		2005-2006	2004-2005
A. CASH FLOWS FROM OPERATING ACTIVITIES			
	Net profit before tax, minority interest and prior period items	**985.6**	182.9
	Adjustments for:		
	Depreciation and amortisation	**721.3**	646.7
	Miscellaneous expenditure written off	**–**	0.2
	Provision for Doubtful Debts	**136.1**	24.0
	Prior period items	**(0.6)**	(15.8)
	Gain on sale of fixed assets	**(28.7)**	(32.8)
	Export incentives accrued	**(88.2)**	(36.8)
	Claims/ bad debts written off	**16.1**	92.2
	Balances no longer required written back	**(39.5)**	(17.3)
	Provision for retirement benefits	**(42.7)**	20.7
	Loss on sale of investments	**0.1**	–
	Write off/other adjustments of fixed assets	**–**	3.3
	Foreign exchange loss (net)	**8.5**	11.3
	Interest income	**(86.9)**	(21.1)
	Dividend income	**–**	(0.2)
	Exceptional item	**(309.8)**	–
	Interest expense	**691.0**	499.2
	Operating Profit before Working Capital Changes	**1,962.3**	1356.5
	Movements in working capital :		
	(Increase) / Decrease in sundry debtors	**(1,411.6)**	105.9
	Increase in inventories	**(926.4)**	(560.7)
	Increase in loans and advances	**(426.2)**	(252.7)
	Increase in current liabilities	**1032.1**	659.3
	Cash generated from operations	**230.2**	1,308.3
	Direct taxes paid (net of refunds)	**(320.7)**	(87.4)
NET CASH (USED IN) / FROM OPERATING ACTIVITIES (A)		**(90.5)**	1,220.9
B. CASH FLOWS FROM INVESTING ACTIVITIES	Purchase of fixed assets	**(2,037.2)**	(3,025.0)
	Additions to intangibles	**–**	(261.3)
	Proceeds from sale of fixed assets	**56.5**	563.1
	Payment for net assets acquired of subsidiary	**(358.4)**	–
	Payment for purchase of sundry debtors	**(19.9)**	–
	On disposal of Joint venture entity	**(18.8)**	–
	Purchase of investments	**(0.4)**	(312.5)
	Sale of investments	**–**	312.5
	Loans to joint ventures	**(20.4)**	(22.1)
	Interest received	**86.7**	21.2
	Dividends received	**–**	0.2
NET CASH USED IN INVESTING ACTIVITIES (B)		**(2,311.9)**	(2,723.9)

Rs. Millions		2005-2006	2004-2005
C. CASH FLOWS FROM			
FINANCING ACTIVITIES	Proceeds from issuance of share capital	**587.5**	–
	Proceeds from share application money	**0.4**	–
	Proceeds from long-term borrowings	**70.3**	905.0
	Repayment of long-term borrowings	**(750.7)**	(170.9)
	Proceeds from short term borrowings (Net)	**4,541.8**	1,369.4
	Interest paid	**(690.8)**	(525.6)
	Dividends and dividend tax paid	**(30.3)**	(129.8)
NET CASH FLOWS FROM FINANCING ACTIVITIES (C)		**3,728.2**	1,448.1
EFFECT OF EXCHANGE RATE CHANGES ON CASH & CASH EQUIVALENTS (D)		**43.4**	25.0
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**1,369.2**	(29.9)
	Cash and Cash Equivalents at the beginning of the year	**593.8**	622.2
	Cash and Cash Equivalents at the end of the year	**1,963.0**	592.3
Components of cash and cash equivalents as at			
Cash and cheques on hand		**50.5**	16.5
With banks - on current account		**796.3**	458.2
- on deposit account		**138.7**	9.5
- on unpaid dividend account		**2.6**	2.7
- on margin money account		**1,031.2**	107.0
- overdraft		**(57.6)**	(0.1)
Cash and Cash equivalents as per balance sheet		**1,961.7**	593.8
Effect of unrealized exchange loss as on the balance sheet date		**1.3**	(1.5)
Cash and Cash equivalents considered for cash flows		**1,963.0**	592.3

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

As per our report of even date

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

Per
RAHUL ROY
Partner
Membership No. 53956

Kolkata, June 27, 2006.

SUDHIR B. SINGHI
Chief Financial Officer

P. S. CHANDRA MOULI
Company Secretary

For and on behalf of the Board of Directors

P.V. RAMAPRASAD REDDY
Chairman

K. NITYANANDA REDDY
Managing Director
Hyderabad, June 27, 2006.

Rs. Millions		As at March 31, 2006	As at March 31, 2005
1. SHARE CAPITAL *(Refer Note 5 on Schedule 22)*			
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:		
	53,270,000 (50,770,000) Equity Shares of		
	Rs.5 each fully paid-up	**266.3**	253.9
	TOTAL	**266.3**	253.9
2. RESERVES & SURPLUS *(Refer Note 6 on Schedule 22)*			
CAPITAL RESERVE	As per last Balance Sheet	**247.3**	247.3
	Less: On termination of joint venture	**(150.0)**	–
		97.3	247.3
CAPITAL REDEMPTION RESERVE	As per last Balance Sheet	**90.0**	90.0
SECURITIES PREMIUM	As per last Balance Sheet	**2,005.5**	2,005.5
	Add: Received during the year	**925.0**	–
		2,930.5	2,005.5
	Less: Foreign currency convertible bonds issue expenses	**(70.2)**	–
		2,860.3	2,005.5
DEBENTURE REDEMPTION RESERVE	As per last Balance Sheet	**248.8**	261.3
	Less: Transferred to Profit & Loss Account	**(248.8)**	(12.5)
		–	248.8
GENERAL RESERVE	As per last Balance Sheet	**4,054.7**	4,176.6
	Add: Transferred from Profit & Loss Account	**69.4**	–
		4,124.1	4176.6
	Less: Debit Balance in the Profit & Loss Account	**–**	(121.9)
		4,124.1	4,054.7
FOREIGN CURRENCY TRANSLATION RESERVE		**(73.3)**	(117.8)
BALANCE IN PROFIT & LOSS ACCOUNT		**783.6**	–
	TOTAL	**7,882.0**	6,528.5
3. EQUITY SHARE WARRANTS			
Upfront consideration of Rs.Nil (Rs.140) per warrant received towards preferential allotment of Nil (2,500,000) Equity Share Warrants of Rs.375 each. These warrants are to be converted into Nil (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.		**–**	350.0
	TOTAL	**–**	350.0

Rs. Millions

					As at March 31, 2006	As at March 31, 2005
4.	**SECURED LOANS**					
	(Refer Note 8 on Schedule 22)					
	DEBENTURES					
	NON-CONVERTIBLE DEBENTURES					
	Coupon Rate	Face Value	Numbers	Terms of Redemptions		
	15.25%	Rs.100	2,700,000	In 3 annual installments by 10/08/05	–	90.0
	7.8%	Rs.100	2,500,000	In single installment by 16/12/05	–	250.0
	8.5%	Rs.100	2,500,000	In single installment by 26/03/06	–	250.0
	8.5%	Rs.100	2,250,000	In seven half yearly installments by 26/09/07	–	160.7
	Note: All the above debentures are redeemable at par.				–	750.7
	TERM LOANS			From Banks	**4,183.1**	4,072.6
				[Payable within one year- Rs.1957.0 (Rs.641.1)]		
	OTHER LOANS			From Banks - Working capital loans	**3,316.5**	2,726.0
				(Payable within one year)		
				Interest Accrued	**2.4**	1.6
				Hire Purchase Loans	**0.5**	0.7
				[Payable within one year - Rs.0.4) (Rs.0.4)]		
				TOTAL	**7,502.5**	7,551.6
5.	**UNSECURED LOANS**					
	(Refer Note 9 on Schedule 22)					
	SHORT TERM LOANS			From Banks - Other Loans	**2,175.0**	1,350.8
	OTHER LOANS			From Banks	**329.7**	330.0
				Interest Accrued and Due	**11.2**	5.7
				Zero coupon foreign currency convertible bonds*	**2,677.2**	–
				From Others	**87.3**	297.2
				Sales Tax Deferment Loan	**947.8**	805.0
				[Payable within one year - Rs 4.0 (Rs 5.0)]		
				TOTAL	**6,228.2**	2,788.7

* [Convertible at the option of the bond holders on or after 20-09-2005]

6. FIXED ASSETS *(Refer Note 7 on Schedule 22)*

Particulars	Gross Block					Depreciation					Net Block	
Rs. Millions	As at April 1, 2005	Additions	Sales/ Adjustments	Foreign Currency translation adjustment	**As at March 31, 2006**	Up to April 1, 2005	For the year	Sales/ Adjustments	Foreign Currency translation adjustment	**Up to March 31, 2006**	**As at March 31, 2006**	As at March 31, 2005
Leasehold Land	39.3	3.1	–	–	**42.4**	0.7	0.6	–	–	**1.3**	**41.1**	38.6
Freehold Land[a]	87.0	68.8	12.7	(0.1)	**143.2**	–	–	–	–	**–**	**143.2**	87.0
Leasehold Buildings	64.8	0.1	–	–	**64.9**	3.6	2.6	–	–	**6.2**	**58.7**	61.2
Freehold Buildings[b]	2,060.2	427.5	0.8	(38.9)	**2,525.8**	204.9	74.3	–	(4.5)	**283.7**	**2,242.1**	1,855.3
Plant & Machinery[c]	7,590.6	2,075.5	122.6	(102.6)	**9,646.1**	1,713.0	577.7	33.5	(24.1)	**2,281.3**	**7,364.8**	5,877.6
Vehicles	59.9	4.5	7.3	(1.8)	**58.9**	18.2	6.2	2.6	(0.9)	**22.7**	**36.2**	41.7
Furniture & Fixtures	115.9	38.2	2.0	(0.4)	**152.5**	31.1	12.8	0.1	(0.3)	**44.1**	**108.4**	84.8
TOTAL	10,017.7	2,617.7	145.4	(143.8)	**12,633.8**	1,971.5	674.2	36.2	(29.8)	**2,639.3**	**9,994.5**	8,046.2
Intangibles												
Goodwill	–	235.0	–	–	**235.0**	–	–	–	–	**–**	**235.0**	–
Brands	168.4	–	168.4	–	**–**	67.3	–	67.3	–	**–**	**–**	101.1
Product Development Cost	162.5	229.0	(149.5)	–	**541.0**	–	39.9	(31.6)	–	**71.5**	**469.5**	162.5
Licences	4.8	15.7	–	–	**20.5**	–	3.0	–	–	**3.0**	**17.5**	4.8
Land usage Rights	123.5	–	–	(7.8)	**131.3**	5.4	4.2	–	(0.7)	**10.3**	**121.0**	118.1
Non - Compete fees	250.0	–	250.0	–	**–**	100.0	–	100.0	–	**–**	**–**	150.0
TOTAL	709.2	479.7	268.9	(7.8)	**927.8**	172.7	47.1	135.7	(0.7)	**84.8**	**843.0**	536.5
GRAND TOTAL	10,726.9	3,097.4	414.3	(151.6)	**13,561.6**	2,144.2	721.3	171.9	(30.5)	**2,724.1**	**10,837.5**	8,582.7
Capital work-in-progress[d]											**1,497.4**	2,525.4
Previous year	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

Notes

a. The title deeds of land and buildings aggregating to Rs.109.1 (Rs.46.0) acquired which 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.0.8 (Rs.Nil).

c. Includes foreign exchange fluctuations capitalised Rs.0.4 (Rs.0.1) and net of government grant received Rs.8.0 (Rs.Nil).

d. Include capital advances of Rs.94.4 (Rs.204.0), foreign exchange fluctuations Rs.0.7 (Rs.0.4) and expenditure during construction period Rs.11.1 (Rs.37.3).

e. VAT credit available on opening block Rs.3.7.

Rs. Millions		As at March 31, 2006	As at March 31, 2005
7. INVESTMENTS			
UNQUOTED			
LONG TERM (at Cost)			
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
		1.2	1.2
OTHER THAN TRADE	Government securities		
	Kisan Vikas Patra	**1.0**	1.0
	National Savings Certificates*	**0.2**	0.2
	Other companies		
	100,000 shares of Citadel Aurobindo Biotech Limited of Rs.100 each**	**10.0**	–
	Less: Provision of diminution in the value of investment	**(10.0)**	–
	TOTAL	**1.2**	1.2
	* includes Rs.0.1 held by income tax authorities (Rs.0.1)		
	** [30,000 shares (30,000) pledged with UTI Bank Limited with an undertaking of non-disposal of the balance shares until certain conditions are satisfied]		
CURRENT INVESTMENTS			
UNQUOTED - TRADE	Equity Shares (Fully Paid-up)		
	4,520 equity shares of Andhra Bank of Rs.10 each	**0.4**	–
	TOTAL	**2.8**	2.4
	Aggregate value of unquoted investments	**2.4**	2.4
	Aggregate value of quoted investments	**0.4**	–
8. INVENTORIES			
(at lower of cost or net realisable value)	Raw Materials*	**1,823.5**	1,560.0
	Stores, Spares, Consumables & Packing Materials	**421.6**	269.3
	Work-in-Process	**1,615.6**	1,334.3
	Finished Goods*	**857.4**	591.0
	TOTAL	**4,718.1**	3,754.6
	* includes material in transit and lying with third parties.		

Rs. Millions

		As at March 31, 2006	As at March 31, 2005
9. SUNDRY DEBTORS *(Refer Note 10 on Schedule 22)*			
Unsecured	Debts Outstanding for a period exceeding six months		
	Considered Good	**1,144.7**	1,114.4
	Considered Doubtful	**241.5**	128.6
		1,386.2	1,243.0
	Other Debts - Considered Good	**4,677.6**	3,418.9
		6,063.8	4,661.9
	Less: Provision for Doubtful Debts	**(241.5)**	(128.6)
	TOTAL	**5,822.3**	4,533.3
10. CASH & BANK BALANCES			
	Cash, Cheques & Drafts on Hand	**50.5**	16.5
	Balances with Scheduled Banks on:		
	Current Accounts	**403.3**	125.2
	Margin Money Deposit Accounts	**1,031.2**	107.0
	Unpaid Dividend Accounts	**2.6**	2.7
	Balances with other Banks on		
	Current Accounts	**393.0**	333.0
	Deposit Accounts	**138.7**	9.5
	TOTAL	**2,019.3**	593.9
11. OTHER CURRENT ASSETS			
	Fixed Assets held for sale (At net book value or estimated net realisable value, whichever is lower)	**–**	0.9
		–	0.9
12. LOANS & ADVANCES *(Refer Note 12 on Schedule 22)*			
(Unsecured, considered good except stated otherwise)	Loans and Advances to Joint Venture Entities	**86.6**	81.2
	Loans to Employees	**15.7**	16.3
	Advances Recoverable in cash or in kind or for value to be received or pending adjustments		
	Considered Good	**927.4**	755.5
	Considered Doubtful	**36.3**	6.2
	Insurance claim receivable	**54.7**	–
	Trade and Other Deposits	**126.5**	96.7
	Export Incentives Receivable	**437.0**	64.6
	MAT credit entitlement	**80.9**	–
	Advance Income Tax (Net of Provision)	**176.8**	58.9
	Balances with Customs and Excise Authorities	**91.0**	230.9
		2,032.9	1,310.3
	Less: Provision for Doubtful Advances	**(36.3)**	(6.2)
	TOTAL	**1,996.6**	1,304.1

Rs. Millions		As at March 31, 2006	As at March 31, 2005
13. CURRENT LIABILITIES			
	Sundry Creditors for Goods, Services and Expenses	**3,861.3**	2,902.8
	Trade Deposits	**1.0**	4.8
	Unclaimed Dividends	**2.6**	2.7
	Other Liabilities	**135.2**	125.2
	Interest Accrued but not due on loans	**32.5**	9.7
	Book Overdraft	**57.6**	0.1
	TOTAL	**4,090.2**	3,045.3
14. PROVISIONS			
	Provision for Taxation (net of advance payments)	**7.2**	7.6
	Provision for Retirement Benefits	**75.6**	118.4
	Proposed Dividend	**81.1**	25.4
	For Tax on Proposed Dividend	**11.2**	3.3
	TOTAL	**175.1**	154.7
15. OTHER INCOME			
	Interest on		
	Loans to Joint Ventures Entities	**5.9**	5.9
	Deposits	**71.4**	11.3
	Other Investments	**0.6**	–
	Other Advances	**9.0**	3.9
	[Tax Deducted at Source Rs 6.3 (Rs 4.5)]		
	Processing Charges	**1.6**	7.0
	Dividends from current investments	–	0.2
	Gain on sale of fixed assets	**28.7**	32.8
	Exchange Fluctuation Gain (Net)	**25.2**	(126.1)
	Balances no longer required written back	**39.5**	17.3
	Sale of Dossiers	**33.7**	19.5
	Miscellaneous Income	**97.0**	79.0
	TOTAL	**312.6**	50.8

Rs. Millions	Year ended March 31, 2006	Year ended March 31, 2005
16. INCREASE IN INVENTORIES		
Opening Stocks		
Finished Goods	**591.0**	808.7
Work-in-Process	**1,334.3**	1,119.8
	1,925.3	1,928.5
Less: VAT credit available on opening stocks	**(0.6)**	–
Less: Reversal of excise duty on opening stocks	**(26.5)**	(40.2)
	1,898.2	1,888.3
Acquired on acquisition		
Finished Goods	**52.1**	–
	1,950.3	1,888.3
Less: Closing Stocks		
Finished Goods	**(857.4)**	(591.0)
Work-in-Process	**(1,615.6)**	(1,334.3)
	(2,473.0)	(1,925.3)
Increase in Inventories	**522.7**	37.0
Adjustment for Fluctuation in Exchange Rates	**(4.4)**	(10.3)
TOTAL	**518.3**	26.7
17. RAW MATERIALS CONSUMED		
Opening Stocks	**1,560.0**	1,128.8
Add: Purchases during the year*	**9,401.5**	7,111.0
Less: Closing Stock	**(1,823.5)**	(1,560.0)
	9,138.0	6679.8
Adjustment for fluctuation in Exchange Rates	**8.3**	(1.1)
TOTAL	**9,146.3**	6,678.7

* VAT Credit available on opening stock Rs.0.9

Rs. Millions	Year ended March 31, 2006	Year ended March 31, 2005
18. OTHER MANUFACTURING EXPENSES		
Conversion Charges	**55.0**	54.4
Packing Materials Consumed	**322.2**	223.9
Consumption of Stores & Spares	**213.2**	248.7
Chemicals Consumed	**210.3**	208.3
Carriage Inward	**111.3**	85.9
Factory Maintenance	**39.2**	68.2
Power & Fuel	**1,139.3**	949.2
Effluent Treatment Expenses	**22.4**	27.1
Excise Duty Others	**115.0**	46.7
Repairs & Maintenance		
Plant & Machinery	**39.2**	65.6
Buildings	**20.7**	75.1
Others	**34.7**	22.1
Miscellaneous Expenses	**82.9**	178.1
TOTAL	**2,405.4**	2,253.3
19. PERSONNEL EXPENSES		
Salaries, Wages and Bonus	**918.6**	785.5
Contribution to Provident Fund and Other Funds	**55.6**	43.8
Retirement Benefits	**16.1**	32.2
Staff Welfare Expenses	**33.9**	40.5
TOTAL	**1,024.2**	902.0

Rs. Millions	Year ended March 31, 2006	Year ended March 31, 2005
20. ADMINISTRATIVE & SELLING EXPENSES		
Rent	**21.3**	12.1
Rates & Taxes	**31.4**	40.5
Printing & Stationery	**38.1**	29.6
Postage, Telegram & Telephones	**31.6**	30.2
Insurance	**89.4**	72.1
Legal & Professional Charges	**81.3**	90.8
Directors sitting fees	**0.1**	0.1
Remuneration to Auditors	**6.1**	4.3
Commission to other Selling Agents	**118.6**	138.2
Carriage Outwards	**270.6**	204.8
Selling Expenses	**85.8**	136.5
Rebates & Discounts	**2.3**	15.1
Travel & Conveyance	**68.2**	87.0
Vehicle Maintenance Expenses	**10.2**	9.9
Product Development Expenses	**27.2**	–
Software License & implementation expenses	**0.1**	8.2
Miscellaneous Expenditure Written Off	**–**	0.2
Provision for Bad and Doubtful Debts and Advances	**136.1**	24.0
Claims/ Bad debts written off	**16.1**	92.2
Fixed assets Written Off	**13.7**	–
Donation	**1.3**	1.5
Loss on investments	**0.1**	–
Safety & Security	**2.9**	3.0
Office Expenses	**17.9**	14.2
Repairs & Maintenance	**13.3**	8.1
Management Fees	**3.6**	6.0
Miscellaneous Expenses	**107.2**	86.5
TOTAL	**1,194.5**	1,115.1
21. INTEREST AND FINANCE CHARGES		
Interest on debentures and fixed period loans	**441.4**	366.0
Interest on Other Loans	**193.4**	80.5
Finance Charges	**56.2**	52.7
TOTAL	**691.0**	499.2

22. NOTES ANNEXED TO AND FORMING PART OF THE CONSOLIDATED ACCOUNTS AS AT AND FOR THE YEAR ENDED MARCH 31, 2006.

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 under AS 21 "Consolidated Financial Statements" and 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, 2006 have been prepared on the basis of the financial statements of the following subsidiaries and joint venture entities:

Names of the Consolidated Entities	Country of Incorporation	Nature of Interest	% of Interest
Aurobindo (H.K.) Limited	Hong Kong	Subsidiary	100%
APL Pharma Thai Limited[1]	Thailand	Subsidiary	48%
AB Farmo Quimica Limitada	Brazil	Subsidiary	99.8%
Aurobindo (Datong) Bio-Pharma Co. Limited	China	Subsidiary	100%
Aurobindo TongLing (Datong) Pharmaceutical Co., Limited	China	Subsidiary	100%
APL Life Sciences Limited (formerly known as APL Chemi Natura Limited)	India	Subsidiary	100%
Helix Healthcare B.V.	The Netherlands	Subsidiary	100%
Aurobindo Pharma USA, Inc.	USA	Subsidiary	100%
Auro Pharma Inc., Canada	Canada	Subsidiary	100%
Aurex Generics Limited	UK	Subsidiary	100%
Aurobindo Pharma (Pty) Limited	South Africa	Subsidiary	100%
Zao Aurobindo Pharma, Russia	Russia	Subsidiary	100%
Milpharm Limited	UK	Subsidiary	100%
Cephazone Pharma, LLC	USA	Joint Venture	50%
Aurosal Pharmaceuticals, LLC	USA	Joint Venture	50%

[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 Limited.

b. Revenue Recognition

Revenue is recognized 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 shipment.

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

iii. Dividend income is recognised when the shareholders' right to receive payment is established by the balance sheet date.

iv. Revenue from 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, impairment losses and specific grant/subsidies if any. Cost comprises the purchase price, freight, duties (net of refundable duties), 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 for intended use, except in case of certain consolidated entities where the interest costs have been expensed in the year in which the same have been incurred.

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 retired from active use and 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.

vii. Depreciation is provided on straight-line method, based on useful life of the assets as estimated by the management which generally coincides with rates prescribed under Schedule XIV to the Companies Act, 1956. Unless otherwise stated useful life for assets acquired at the Bhiwadi unit, Rajasthan, are lower and consequently the rates of depreciation are higher than the rates prescribed under Schedule XIV of the Companies Act, 1956. In this case the rates are as under:

Building : 5%

Plant and Machinery : 20%

viii. Fixed assets of overseas subsidiaries and overseas joint venture entities are depreciated over the estimated useful lives using the "Straight Line Method".

d. Intangibles

Intangible Assets consists of goodwill, 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.

Intangible Assets	Estimated Useful Life
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.

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 (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. 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. Innovator samples not held for sale, required for product development are valued at cost.

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, further provident fund employer contribution on leave encashment is provided on the basis of actuarial valuation.

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.

i. Income Taxes

i. Tax expense consists of both current, deferred taxes and fringe benefit tax (where applicable). Current income tax and fringe benefit tax is measured at the amount expected 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 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.

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. If the Company has carry forward of unabsorbed depreciation and tax losses deferred tax assets are recognized only if there is virtual certainity that such deferred tax assets can be realized 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.

j. 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. 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
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
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.

k. Foreign Currency Translation

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 the operations of following overseas consolidated entities viz AB Farmo Quimica Limitada, APL Pharma Thai Ltd, Aurobindo (H.K.) Ltd, Helix Health Care B.V., Zao Aurobindo Pharma, Auro Pharma Inc, Aurobindo Pharma (Pty.) Ltd. and Aurex Generics Ltd as "integral foreign operations":

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; and

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.

l. 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" and benefits on account of incremental export growth under the "Target Plus 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.

m. 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.

n. 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.

o. 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. 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, 2006 has not been ascertained.

Rs. Millions

b. Deferred tax liabilities include Rs.6.9 in respect of certain consolidated entities, which have been determined in accordance with accounting principles of the respective countries instead of in accordance with AS 22 issued by the ICAI. The management believes that presently it is not practicable to measure deferred tax in respect of the said entities using the measurement principles prescribed under AS 22.

3. Capital Commitments

Estimated amount of contracts (net of advances) remaining to be executed on capital account and not provided for Rs.553.2 (Rs.575.6).

4. Contingent Liabilities not provided for

	As at March 31, 2006	2005
a. Claims against the Company not acknowledged as debts	**1.8**	2.8
b. Outstanding Bank Guarantees on account of:		
i. Guarantee given for Citadel Aurobindo Biotech Limited (50% Joint Venture)	**400.0**	200.0
ii. Others	**49.0**	47.2
c. Bills discounted with Banks	**289.7**	205.3
d. Outstanding Letters of Credit for imports of materials	**259.1**	341.5
e. Direct and Indirect Taxes	**300.9**	227.7
f. Product Licensing	**40.6**	19.5

g. During the year ended March 31, 2006 the Company has issued 60,000 zero coupon Foreign Currency Convertible Bonds of US$ 1,000 each. The bonds are redeemable at a premium of 39.954% of its principal amount on the maturity date, or in whole at any time on or after February 25, 2008 and on or prior to August 1, 2010 atleast 130% of the accreted principal amount if the bonds are not converted earlier. Accordingly, the payment of premium on redemption is contingent in nature, the outcome of which is dependant on uncertain future events. Hence, no provision is considered in the accounts in respect of such premium amounting to US$ 3,058,910 equivalent to Rs.136.5 (Rs. Nil) at the prevailing exchange rate as on March 31, 2006.

h. The Employee Provident Fund Organisation (EPFO) has on September 9 , 2005 issued a clarification as per which provident fund contributions should be deducted on leave encashment paid on or after May 1, 2005 and further clarified that recovery of PF contribution on leave encashment for the period October 1, 1994 to April 30, 2005 be kept in abeyance. The Company has complied with the said clarification and contributed PF on leave encashment after May 1, 2005. However, for the period October 1, 1994 to April 30, 2005 no provision was made in the books of accounts as the Company's liability towards such contribution is presently not ascertainable.

5. Share Capital

i. The Company has received Rs.587.5 (Rs. Nil) on account of conversion of 2,500,000 share warrants into equivalent number of shares during the financial year 2005-06.

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

	Year Ended March 31, 2006	2005
For Repayment of Short Term Loans	**150.0**	–
For working Capital	**437.5**	–
Total	**587.5**	–

Rs. Millions

ii. **Employee Stock Option Scheme**

The Company 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 as the Company follows intrinsic method.

(Nos.)

The details of options outstanding	As at March 31, 2006	As at March 31, 2005
Options at the beginning of the year	**403,450**	–
Granted during the year	**104,250**	412,600
Vested/excercisable during the year	**60,517**	–
Exercised during the year	**975**	–
Forfeited during the year subject to reissue	**45,400**	9,150
Options at end of the year	**461,325**	403,450

Disclosure as per Fair Value Method:

The Company's net profit and Earnings per Share would have been as under, had the compensation cost for employees stock options been recognized based on the fair value at the date of grant in accordance with "Black and Scholes" model.

Particulars	2005-06
Profit after Taxation	
- As reported in Profit and Loss Account	**697.0**
Less: Additional Employee Compensation cost based on Fair Value	**0.4**
- Profit after Taxation as per Fair Value Method	**696.6**
Earnings per share	
Basic	
- No. of shares	**52,483,699**
- EPS as reported	**13.28**
- EPS as per Fair Value Method	**13.27**
Diluted	
- No. of shares	**55,677,714**
- EPS as reported	**12.52**
- EPS as per Fair Value Method	**12.51**
The following assumptions were used for calculation of fair value of grants:	
Risk-free interest rate	**7%**
Expected life of options	**4 years**
Expected Volatility	**5.62%**
Dividend Yield	**0.50**

Rs. Millions

iii. During the year, the Company has issued 60,000 Zero Coupon Foreign Currency Convertible bonds due 2010 of US$ 1,000 each. Each bond is convertible into 83.12 fully paid equity share with par value of Rs.5 per share at a fixed price of Rs.522.036 per share, on or after September 20, 2005 but prior to close of business hours on August 8, 2010.

6. Reserves and Surplus

The Company had entered into a Joint venture agreement with Citadel Fine Pharmaceutical Limited, dated March 27, 2002 and transferred its ethical allopathic branded formulations business to Citadel Aurobindo Biotech Limited (the JV Company) with restrictive clause of not competing in designated markets.

The non-compete fee of Rs.150.0, to the extent of Company's share were directly taken to capital reserve account in the consolidated financial statements as it being in the nature of capital receipt and were of an exceptional nature which was not earned in the regular course of business.

Effective February 22, 2006 the Company, based on a legal opinion terminated the said joint venture agreement. Consequent to such termination the non-compete fee amounting to Rs.150.0 not being recoverable has been adjusted to the capital reserve account, effectively reversing the initial recognition entry passed in the year 2001-02.

7. 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.

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,	
	2006	2005
Cost	**4.0**	3.2
Accumulated Depreciation	**3.1**	1.9
Net Carrying Amount	**0.9**	1.3
Future Minimum Lease Rents Payables	**0.5**	0.7
Less: Interest included in the above	**0.1**	–
Present Value of Future Minimum Lease Rents Payable	**0.4**	0.7

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,	
	2006	2005	**2006**	2005
Not later than one year	**0.4**	0.4	**0.3**	0.3
Later than one year and not later than five years	**0.1**	0.3	**0.1**	0.4
Total	**0.5**	0.7	**0.4**	0.7

Rs. Millions

Buildings under finance lease

i. Buildings include 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.64.7) which includes an amount of Rs. Nil (Rs.19.2) towards expenditure incurred on renovation.

iii. The net carrying amount of the buildings obtained on finance lease Rs.58.6 (Rs.61.2)

iv. The Company has not recognised any contingent rent as expense 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.

8. Secured Loans

a. Debentures were 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 APL's immovable property wherever situated including plant and machinery, spares, tools and accessories both present and future.

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.2257.1 (Rs.2890.7).

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

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) of APL;

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 APL aggregating to Rs.3,291.7 (Rs.2,602.6); and,

iv. working capital loans of a subsidiary from banks are secured by hypothecation of present and future stocks of raw materials, finished goods and book debts of the subsidiary company and personally guaranteed by two of the directors of the subsidiary company.

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

Rs. Millions

9. Unsecured loans

a. Short Term Loans:

Unsecured loans from Banks aggregating to Rs.2,175.0 (Rs.1,300.0) are personally guaranteed by the Chairman and the Managing Director of APL.

b. Foreign Currency Convertible Bonds:

60,000 Zero Coupon Foreign Currency Convertible bonds (bonds) due 2010 of US$ 1,000 each are:

i. convertible by the holders at any time on or after September 20, 2005 but prior to close of business (at the place the bonds are deposited for conversion) on August 8, 2010. Each bond will be converted into 83.12 fully paid up equity share with par value of Rs.5 per share at a fixed price of Rs.522.036 per share at a fixed exchange rate conversion of Rs.43.3925 = US$ 1;

ii. redeemable in whole but not in part at the option of the Company at any time on or after February 25, 2008 and on or prior to August 1, 2010 as per the terms and conditions of the bonds mentioned in the Offering circular;

iii. redeemable on maturity date at 139.954% of its principal amount if not redeemed or converted earlier.

iv. the Company is of the opinion that since the bonds are optionally convertible into equity shares, the creation of Debenture Redemption Reserve is not required.

The detail of utilization of the said amount is as under:

	As at March 31,	
	2006	2005
Issue proceeds	**2,677.2**	–
Less: Utilised for Investments	**1,728.9**	–
Balance with Banks	**948.3**	–

10. Sundry Debtors and Loans and Advances include receivables from Citadel Aurobindo Bio-tech Limited (CABL) towards non-compete fee Rs. Nil (Rs.150.0) and towards sale of brands Rs.128.9 (Rs.64.9) and Loan Rs.30.0 (Rs.15.0) respectively. Due to termination of Joint Venture Agreement during the current year, the Company has fully provided for Rs.158.9 (Rs. Nil) in the books of account.

11. Sundry Debtors include dues from companies under the same management:

	As at March 31,	
	2006	2005
Citadel Aurobindo Biotech Ltd *	–	429.8

* Ceased to be under same management with effect from February 22, 2006.

Rs. Millions

12. Loans and advances include:

a. Dues from companies under the same management

Name of the Company	Closing balance as at March 31, 2006	Closing balance as at March 31, 2005	Maximum outstanding at any time during the year ended March 31, 2006	Maximum outstanding at any time during the year ended March 31, 2005
Citadel Aurobindo Biotech Limited *	–	15.0	30.0	15.0

* Ceased to be under same management with effect from February 22, 2006.

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.

13. Deferred taxes

a. Deferred Tax Liability (Net) consists of:

Particulars	As at March 31, 2006	As at March 31, 2005
Debtors	(88.3)	(43.4)
Unabsorbed Depreciation	(124.1)	(137.3)
Retirement Benefits	(13.2)	(25.1)
Depreciation	826.5	818.5
Intangibles	124.7	-
	725.6	612.7

b. Deferred Tax Asset (Net) consists of:

Particulars	2006	2005
Retirement benefits	0.1	0.1
Depreciation	–	0.1
	0.1	0.2

14. Export incentives

Sales include export incentives on account of Duty Exemption Pass Book scheme and Target Plus Scheme Rs.235.5 (Rs.58.2).

15. Research and Development Expenses

Research and Development expenses incurred during the year, debited under various heads of Profit & Loss Account:

	Year ended March 31, 2006	Year ended March 31, 2005
Material Consumed	131.5	147.3
Power and Fuel	14.8	18.6
Personnel Costs	151.3	118.5
Others	329.0	237.2
Total	626.6	521.6
Less: Transferred to Intangible Assets	229.0	162.5
	397.6	359.1

Rs. Millions

16. Acquisition of a Subsidiary

Effective February 9, 2006 Aurex Generics Limited, the ultimate subsidiary of APL acquired 100% stake in the share capital of Milpharm Ltd ("acquired entity"), U.K.

The acquisition of the interest in the acquired entity has been accounted in accordance with the accounting principles laid down under AS 21. Accordingly, the excess of purchase price over the net assets acquired has been recorded as Goodwill in the Consolidated Financial Statements. Transactions relating to Profit & Loss Account of the acquired entity have been included in the Consolidated Profit & Loss Account from the effective date of acquisition.

The interest of APL in the net assets of the acquired entity and resulting goodwill as on the date of acquisitions is as given hereunder:

Purchase consideration	(A)	390.7
Net assets as on the date of acquisition	(B)	155.7
Goodwill	(A-B)	235.0

a. Summary of post acquisition profits of the acquired entity included in the Consolidated Profit & Loss Account for the year ended March 31, 2006

Revenues	118.4
Expenses	111.3
Net Profit considered in the Consolidated Financial Statements	7.1

b. The assets and liabilities of the acquired entity included in the Consolidated Balance Sheet as at March 31, 2006 are:

Liabilities	
Deferred tax liability	6.9
Assets	
Fixed assets (Net)	119.5
Net current assets	51.1
Goodwill	235.0

17. Directors' Remuneration included under various head of accounts

	Year ended March 31,	
Particulars	**2006**	2005
Salary	**21.9**	15.3
Contribution to provident fund	**2.1**	0.3
Perquisites	**1.3**	1.6
Total	**25.3**	17.2

18. Minimum Alternative Tax Credit Entitlement

Effective April 2005, the ICAI has issued a guidance note on "accounting for credit available in respect of minimum alternative tax under the Income-tax Act, 1961" in respect of accounting of taxes paid in accordance with the provisions of section 115JB of the Income-tax Act, 1961. In accordance with the said guidance note the Company has recognized Rs.80.9 (Rs.Nil) to the extent of future tax credit entitlement.

Rs. Millions

19. Earnings per Share

a. Earnings per share for the year ended March 31, 2006 has been computed based on the following:

Particulars	Year ended March 31, 2006	2005
Profit after tax, minority interest and prior period items considered for calculation of basic and diluted earnings per share Rs.	**697.0**	32.5
Weighted average number of Equity Shares considered for calculation of basic earnings per share	**52,483,699**	50,770,000
Add: Effect of dilution on account of stock options granted under the ESOP Scheme	**10,341**	4,960
Add: Effect of dilution on account of Convertible Debentures into shares	**3,183,674**	–
Weighted average number of Equity Shares considered for calculation of diluted earnings per share	**55,677,714**	50,774,960

b. Subsequent to the Balance sheet date the Company has issued Foreign Currency Convertible Bonds as under; However, the transaction do not affect the Capital used to produce the net profit or loss for the year, hence Earnings per Share was not adjusted for the transaction.

US$ 150 million Convertible Bonds due 2011 (the "Tranche A Bonds") and US$ 50 million Convertible Bonds due 2011 ("Tranche B Bonds").

The issue of the Bonds was authorized by a resolution of the Board of Directors of the Company passed on April 1, 2006 and by a resolution of shareholders of the Company passed on April 27, 2006.

Unless previously redeemed, converted or repurchased and cancelled, the Company will redeem the Tranche A Bonds at 146.285 per cent of its principal amount on the maturity date, and the Tranche B Bonds at 146.991 per cent of its principal amount on the maturity date.

In respect of the Tranche A Bonds the Conversion Price (as defined in "Terms and Conditions of the Tranche A Bonds - Conversion") will initially be Rs.1014.06 per share with a fixed rate of exchange on conversion of Rs.45.145 =1 US$. The conversion price is subject to adjustment in certain circumstances in the manner provided in such Conditions.

In respect of Tranche B Bonds the Conversion Price(as defined in "Terms and Conditions of Tranche B Bonds - Conversion") will initially be the price per share determined on the Conversion Price Setting date (as defined in "Terms and Conditions of the Tranche B Bonds - Conversion") in accordance with the formula set out in Conditions.

20. Dividends

Provision for dividends as at March 31, 2006 includes dividends due to minority shareholders of a subsidiary company Rs.1.2 (Rs. Nil).

21. Interest in Joint Ventures

Effective February 22, 2006 a 50% joint venture, Citadel Aurobindo Bio-tech Limited (CABL) incorporated in India, involved in marketing of generic products, ceased to be a joint venture due to termination of joint venture agreement by the Company. As at March 31, 2005 the Company in its consolidated financial statements has recorded net losses amounting to Rs.309.8. Since the Company no longer controls the joint venture it has reversed all such losses during the year ended March 31, 2006.

Rs. Millions

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

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

ii. 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 JV's included in these financial statements as of and for the year ended March 31, 2006 are given below:

	As at March 31,	
	2006	2005
Balance Sheet		
Secured loans	**–**	123.9
Unsecured loans	**89.8**	304.6
Deferred tax liability	**–**	52.9
Total Liabilities	**89.8**	481.4
Fixed assets (Net block)	**188.3**	423.2
Capital work in progress including advances	**–**	10.3
Inventories	**3.4**	13.7
Sundry debtors	**-**	22.0
Cash and bank balances	**0.8**	20.4
Loans and advances	**10.6**	22.0
Current liabilities	**(9.2)**	(137.0)
Provisions	**–**	(7.8)
Total Assets	**193.9**	366.8

	Year ended March 31,	
	2006	2005
Profit & Loss Account		
Sales	**3.9**	458.3
Other income	**0.1**	1.9
Total Revenue	**4.0**	460.2
Raw materials consumed	**3.9**	1.7
Purchase of trading goods	**–**	229.1
Other manufacturing expenses	**6.5**	10.8
Payments to and provisions for employees	**7.5**	88.2
Administrative and selling expenses	**4.9**	157.4
Interest and finance charges	**11.3**	18.6
Depreciation and amortization	**–**	42.5
Total Expenses	**34.1**	548.3
Provision for taxation		
Deferred tax	**–**	6.4
Prior period income/(expenses)	**–**	(5.7)
Accumulated amortisation of brands	**–**	(41.8)
Deferred tax asset of earlier years reversed	**–**	(96.4)

Rs. Millions

22. Related Party Transactions

During the year ended March 31, 2006 the Company had entered into several commercial transactions with its related parties. The details of such transactions, balances as at March 31, 2006 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, 2006	2005
a. Companies over which significant influence exists		
Pravesha Industries (P) Limited		
Purchase of goods	**82.4**	34.9
Purchase of fixed assets	**–**	12.4
Rendering of services	**1.0**	3.7
Sale of goods	**0.4**	–
Sale of fixed assets	**–**	0.1
b. Joint Venturer		
Geravi Inc.,		
Interest Paid	**5.4**	3.3
c. Joint Ventures		
Citadel Aurobindo Biotech Limited		
Management fee received	**6.0**	6.0
Guarantees and collaterals	**–**	200.0
Bad debts written off	**–**	15.0
Interest received	**–**	2.0
Cephazone Pharma LLC		
Sale of goods	**1.2**	3.0
d. Key Management Personnel		
Mr. P. V. Ramaprasad Reddy		
Managerial remuneration	**2.7**	2.7
Proposed dividend	**23.5**	6.6
Dividend paid on allotment of fresh shares	**1.3**	–
Investment in equity	**587.5**	–
Guarantees and collaterals	**8,118.2**	6,793.2
Mr. K. Nityananda Reddy		
Managerial remuneration	**2.7**	2.7
Proposed dividend	**5.6**	1.9
Guarantees and collaterals	**8,118.2**	6,399.0
Dr. M. Sivakumaran		
Managerial remuneration	**2.7**	2.7
Proposed dividend	**2.2**	0.7

Rs. Millions

	Year ended March 31, 2006	2005
Mr. B. Sivaprasada Reddy		
Managerial remuneration	**2.7**	2.7
Proposed dividend	**–**	–
Mr. Lanka Srinivas		
Sitting fees	**–**	–
Professional fees	**1.5**	3.0
Key Management person relative		
Mrs. P. Suneela Rani		
Purchase of land	**1.9**	–
Proposed Dividend	**8.9**	3.0
Mrs. K. Rajeswari (partner Sri Sai Packaging)		
Sale of land	**0.1**	–
Proposed Dividend	**3.6**	1.2
Mrs. B. Shilpa		
Salary	**0.1**	–
Proposed Dividend	**–**	–
Remuneration to Key Managerial Personnel		
Mr. G. P. Prasad	**1.2**	1.2
Mr. V. M. Gopalakrishnan	**2.9**	2.0
Mr. Thirachai Chanthaveesarp	**2.0**	1.3
Mr. C. V. Seshadri	**0.7**	0.2
Mr. Premanandam Modapohala	**7.1**	1.8
Mr. P. V. Giridhar Rao	**0.6**	–

	As at March 31, 2006	2005
b. Balance Outstanding Debit/(Credit)		
Citadel Aurobindo Biotech Limited, India*	**–**	235.7
Pravesha Industries (P) Limited, India	**1.9**	(5.9)
Cephazone Pharma LLC	**3.6**	2.7
Geravi, Inc	**89.8**	(56.3)

*Ceased to be joint venture Company with effect from February 22, 2006.

Rs. Millions

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

Particulars	Year ended March 31, 2006	2005
Statutory Audit	**4.1**	3.3
Other Audit Services	**0.6**	0.8
Certification charges	**0.1**	0.1
Reimbursement of out of pocket expenses	**0.1**	0.1
Total	**4.9**	4.3

24. Disclosure regarding Derivative Instruments

a. There are no Derivative Contracts outstanding as on March 31, 2006.

b. Particulars of unhedged foreign currency exposure as at March 31, 2006 are detailed below at the exchange rate prevailing at the year-end.

Particulars	As at March 31, 2006
Loans availed	(7,088.7)
Sundry debtors	4,728.9
Loans and advances	2,418.9
Sundry creditors	(2,588.6)
Foreign Currency Convertible Bonds	(2,677.2)

Previous figures are not disclosed, as the above disclosure has become mandatory in respect of accounting periods ending on or after March 31, 2006.

25. Segment Information

a. Identification of Reportable Segments

Segments are identified in line with AS 17 "Segment Reporting", taking into consideration the internal organization and 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, 2006				
	India	China	Rest of the World	Eliminations	Consolidated
Revenue					
External Sales	12,507.4	1,306.6	2,122.2	–	15,936.2
Inter - Segment Sales	1,846.6	910.3	–	2,756.9	–
Total Revenue	14,354.0	2,216.9	2,122.2	2,756.9	15,936.2
Results					
Segment Result	1,237.4	(104.5)	29.7	208.5	1,371.1
Interest Expense					(687.9)
Interest Income					86.9
Other Income					214.9
Income Tax					(273.9)
Minority Interest					(14.1)
Profit for the year					697.0
Other Information					
Segment Assets	21,315.7	4,452.8	2,862.0	(1,912.7)	26,717.8
Other Assets					176.9
Segment Liabilities	15,398.3	2,469.7	2,590.0	(2,464.3)	17,993.7
Other Liabilities					727.9
Capital Expenditure	1,549.0	262.8	257.7	–	2,069.5
Depreciation/amortization	511.3	200.9	9.1	–	721.3

	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	572.8	(32.8)	(104.1)	47.1	483.0
Interest Expense					(488.9)
Interest Income					17.2
Other Income					155.9
Income Tax					(130.4)
Minority Interest					(4.3)
Profit for the year					32.5
Other Information					
Segment Assets	16,884.1	4,028.6	1,419.5	(1,093.6)	21,238.6
Other Assets					59.1
Segment Liabilities	11,027.8	2,315.9	1,510.5	(1,321.5)	13,532.7
Other Liabilities					620.3
Capital Expenditure	2,275.2	459.2	568.1	–	3,302.5
Depreciation/Amortization	445.1	177.2	24.4	–	646.7

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

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

SIGNATURES TO SCHEDULES 1 TO 22

As per our report of even date

For **S.R. BATLIBOI & CO.** Chartered Accountants			For and on behalf of the Board of Directors
Per **RAHUL ROY** Partner			**P.V. RAMAPRASAD REDDY** Chairman
Membership No. 53956	**SUDHIR B. SINGHI** Chief Financial Officer	**P. S. CHANDRA MOULI** Company Secretary	**K. NITYANANDA REDDY** Managing Director
Kolkata, June 27, 2006.			Hyderabad, June 27, 2006.

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 NINETEENTH ANNUAL GENERAL MEETING of the Company on Monday the 18th day of September, 2006 at 3.00 p.m. at Fortune Katriya Hotel, 8, Rajbhavan Road, Somajiguda, Hyderabad - 500 082.

____
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 NINETEENTH ANNUAL GENERAL MEETING of the Company to be held at 3.00 p.m. on Monday, September 18, 2006 or at any adjournment thereof.

Signed this ____________________ day ____________________ 2006.

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

A Glossary

Some of the terms used in the annual report are briefly explained below:

ANDA	Abbreviated New Drug Application (to the FDA)
ANVISA	Agência Nacional de Vigilância Sanitária (National Health Surveillance Agency Brazil)
API	Active Pharmaceutical Ingredient
ARD	Analytical Research Department
ART	Antiretroviral Therapy (HIV)
ARV	Antiretroviral
Bioequivalence	performs in the same manner as the innovator drug
CNS	Central nervous system
CoS	Certificate of Suitability
CPD	Clinical Pharmacology Department
CRD	Chemical Research Department
CVS	Cardiovascular system
DMF	Drug Master File
EBIDTA	Earnings before Interest, Taxes, Depreciation and Amortization
EDQM	European Directorate for the Quality of Medicines
EHS	Environmental Health and Safety
EPS	Earnings per Share
ERP	Enterprise Resource Planning
FCCB	Foreign Currency Convertible Bond
FDF	Finished dosage form
HIV	Human Immunodeficiency Virus
IPR	Intellectual Property Rights
MCC	Medicines Control Council, South Africa
MTCT	Mother to child transmission
NDA	New Drug Application
PEPFAR	President's Emergency Plan for AIDs Relief
QA/QC	Quality assurance/Quality control
SSP	Semi-synthetic penicillins
UK MHRA	The Medicines and Healthcare products Regulatory Agency, U.K.
UNICEF	United Nations Children's Fund
UNDP	United Nations Development Program
US FDA	U. S. Food and Drug Administration
USP	United States Pharmacopeia
WHO	World Health Organization

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.

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