AUROBINDO

On Track

Annual
Report
2006-07

AUROBINDO
PHARMA LIMITED

AUROBINDO

From 1986 to 2007, **AUROBINDO PHARMA** has come a long way to become India's top five pharmaceutical companies and undisputed world leader in certain product categories. Today we have 11 operational plants across the globe, around 6000 employees, 20 overseas subsidiaries, half a billion dollar revenue...............

And we are just readying for take off!!

Our new corporate logo reflects this pace and leadership. Artistic lines intersect to make up our initials. Initial "A" which is like the arrow in the lift, shows the direction in which we are moving - Upwards at a rapid pace. The way the initial P has been designed to convey our global coverage. The way the initials "A" and "P" have joined conveys the spirit of "partnership" with which we conduct our business with all our stake holders. The logo doesn't have any boundaries - to communicate that Aurobindo is not bounded by any limitations - knowledge wise, resources wise, ambition wise or attitude wise...

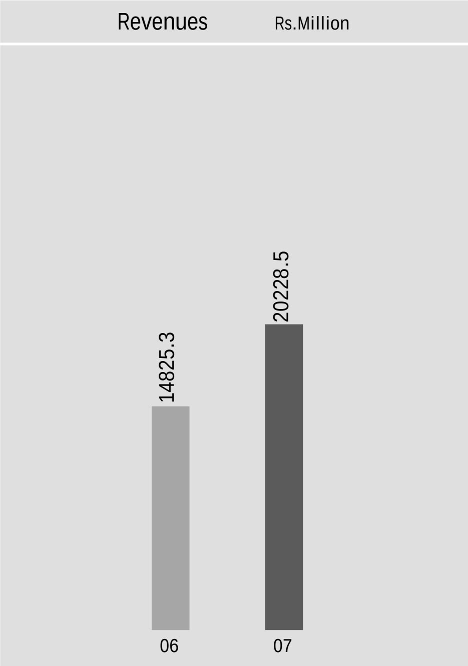
A spherical gray line in the center signifies the extent of our positive influence in our planet.

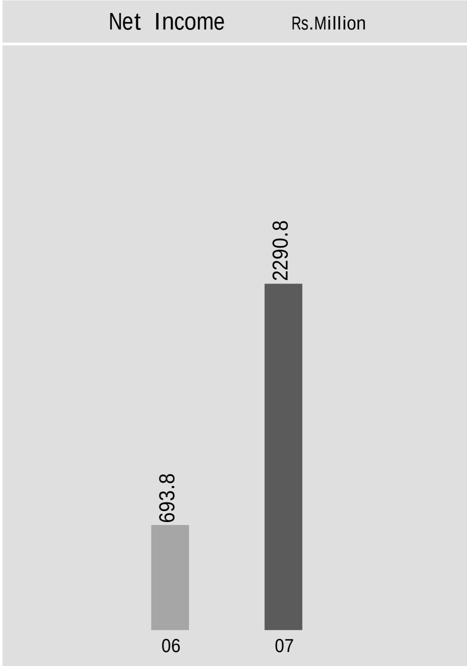
Our logo colours are green, gray and blue which are pleasant & friendly colors- not harsh on eyes - which reflect our philosophy of being friendly to our environment - wherever we operate.

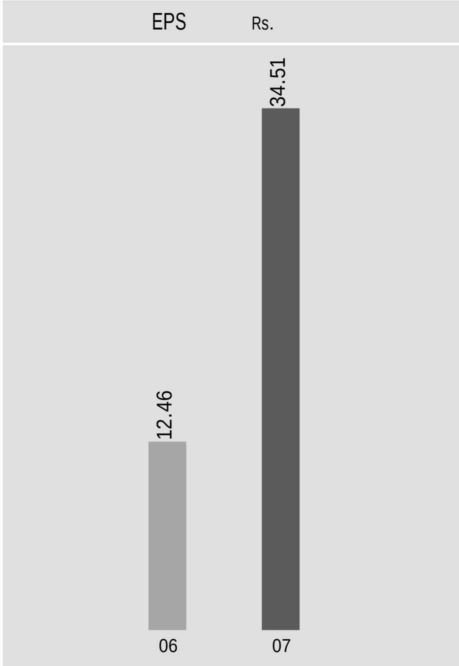
We believe this new look is in tune with the enormous opportunities that lay ahead of us, which will enable us to become a global powerhouse!!

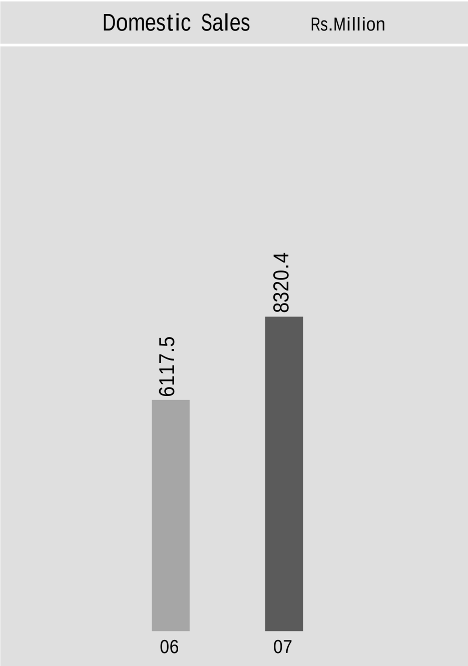
Committed to healthier life

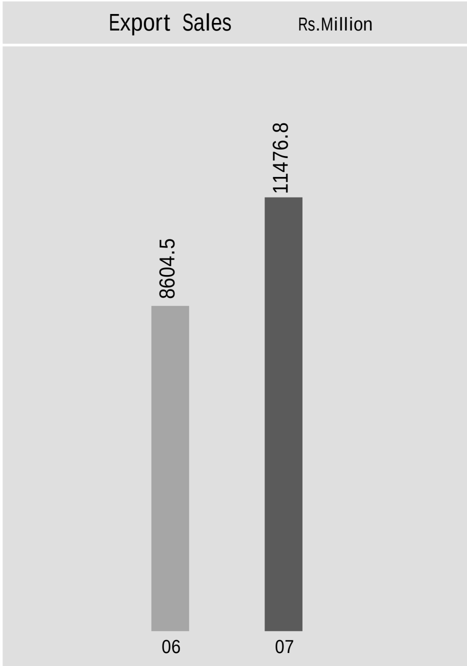
Highlights 2006-07

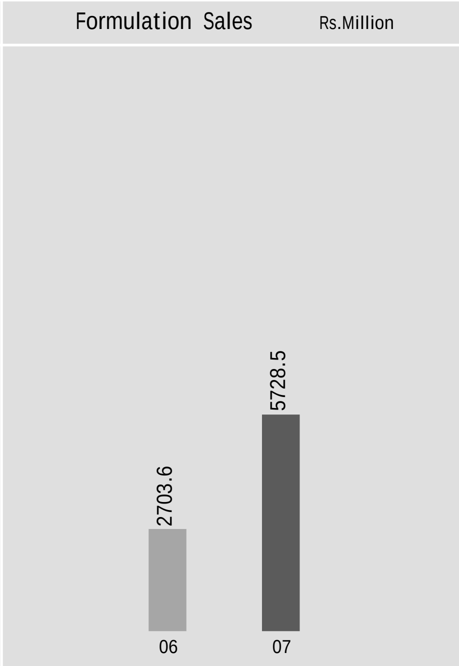












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On track to create long term value

If anyone were to ask me what is it that I want, I would say that I want Aurobindo to be in high growth markets with high margin products and increasing market share. In essence, I want Aurobindo to have long term sustainable growth and to create wealth for all those associated with the Company.

Dear friends

At the outset, I am happy that we delivered well in 2006-07. We have reported stellar performance in revenues, net income, EBITDA, EPS and other key parameters such as market presence, volumes sold and capacity utilization. What excites all of us at Aurobindo is the platform that we have created for launch into the future. We are actually market ready.

Completion of a financial year is an opportunity to take a quick view of where we are and where we are heading. In the past few years, we got our plans ready, decided where we wanted to go, worked out our strategies, and estimated the resources required for the transformation to be one of the most efficient pharmaceutical companies.

We know our destination; we have clarity in what we want to do; and have a clear road map to achieve it; we know our strengths and are consolidating them; we also are aware of the areas that we need to improve to fast track our progress, and are addressing them.

The business plan was built around the belief that Aurobindo puts long-term profitability before short term growth.

Our strengths of expertise, quality and security support us in implementing this strategy. We want to grow but not at any price. We are not interested in entering every therapeutic segment merely to achieve topline growth. We seek long term sustainable growth that will add value to the Company and all its stakeholders. We are on track.

I am aware that we have done a hundred things to reach where we are, hundred tough things such as established world class manufacturing facilities which were inspected by international regulatory authorities, filed a few hundred dossiers and ANDAs and got approvals, created a capable marketing infrastructure, successfully launched products into the most competitive US markets and many others. Indeed, it is gratifying to believe that we are present in six therapeutic segments that have worldwide addressable market size of US$ 229 billion.

Our volumes are surging, topline is on a climb, profits are rising and the product pipeline gives many more entry points. We are becoming a billion dollar company primarily by the passion of our dedicated team and the momentum of growth. Yet, there are hundred other things that need to be done.

If anyone were to ask me what is it that I want, I would say that I want Aurobindo to be in high growth markets with high margin products and increasing market share. In essence, I want Aurobindo to have long term sustainable growth and to create wealth for all those associated with the Company. We are striving to execute this plan from several directions. We will do what is good for Aurobindo.

It is in pursuit of this objective that my colleagues and I are expanding Aurobindo – developing products at R&D that could become stars, entering the high end markets, adding capacities for active ingredients, investing in Special Economic Zone at Jedcherla near Hyderabad, and Pharma City near Visakhapatnam. We are also setting up one more state-of-the-art R&D facility exclusively to meet the needs of increasing business of contract research.

I would also like to get ready for the second billion. We would have a larger team to work with the same zeal and commitment for excellence. We will strive to replicate the success in more markets, on newer products as well as deepen the existing relationships.

The initiatives now being taken will add to the momentum of growth and add value to Aurobindo. These are exciting times, and I look forward to the future with confidence.

Warm regards

P. V. Ramaprasad Reddy
Chairman

Market size of our therapeutic segments

Year ending Dec 31, 2006 US$ Million

	US	Europe	Worldwide
Anti Infectives	10,263	6,060	27,593
ARVs	6,441	3,237	11,775
CNS	31,076	9,320	47,705
CVS	37,816	20,158	81,014
Gastroenterologicals	16,603	6,966	29,463
Others	16,495	5,326	31,915
Total	**118,693**	**51,066**	**229,465**

Focusing on stakeholder expectations

I am pleased to report that the year 2006-07 was another successful year for our Company. We continued to achieve significant growth in both revenues and earnings, and we generated an after-tax return on beginning equity of 860%. This is a good indication that we are continuing to create significant value for our shareholders.

We are indebted to our 4,966 talented and dedicated associates for their hard work in making this performance possible, as well as millions of consumers who continue to place their trust in our Company and our products.

During the year 2006-07, our net income increased to Rs.2291 million as against Rs.694 million in the previous year or Rs.34.5 per diluted share as compared to Rs.12.4 in the previous year.

This is after growing by 97% in the previous financial year. Our revenues grew by 36% to Rs.20228 million in 2006-07. Overall capacity utilisation at our API plants increased to 57% from 52% in the previous year.

In the year under review, we made significant progress in market presence and volumes sold, and have carved distinct shelf space for many of our products.

We are one of the large players within the country, and have grown by 36% in 2006-07, on the back of 5% growth in 2005-06. Domestic sales were

Capacity utilisation API

Per cent	
52	57
2006	2007

Rs.8320 million in 2006-07 as compared to Rs.6117 in the previous year. This leadership role will be sustained and further improved.

While we have achieved better than industry average growth in earnings, we have not compromised our conservative approach to our business. During the year under review, we continued our commitment to maintaining a strong balance sheet.

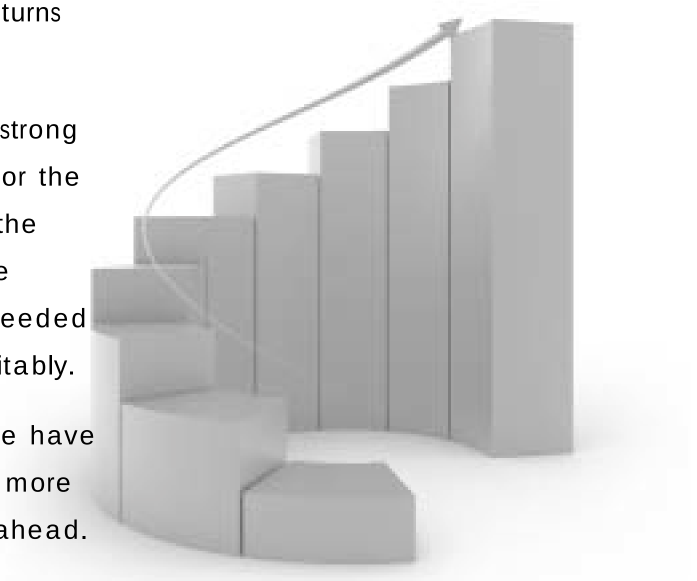
We also raised US $ 200 million by the FCCB route to help fund our future growth.

Our recent performance is the result of strategies that we have put in place over the past several years. While we continue to benefit from a growing global pharma market, our success in outpacing the earnings growth rates of our peers is testament to our strategies to achieve growth while maintaining high returns on invested capital.

At the same time, these strong results are a foundation for the future, providing us with the financial strength and the operational excellence needed to continue to grow profitably.

We are proud of what we have accomplished and even more excited about what lies ahead. We will stay focused on stakeholder expectations and strive for value unlocking.

Looking forward, we will continue to expand into new markets that offer attractive opportunities for us to grow and extend our successful business model. We will continue to offer and expand our diverse product mix to meet the changing needs of the pharmaceutical market.



On Track

Quarterly Performance

Rs. Millions	Q1	Q2	Q3	Q4	FY07
Revenues	4445.8	4898.6	5404.2	5479.9	20228.5
PBDIT	718.9	789.6	904.9	803.9	3217.3
PBT	506.2	605.6	688.4	511.4	2311.6
PAT	362.1	546.4	601.2	781.1	2290.8
EPS Diluted (Rs.)	5.73	7.99	8.79	11.56	34.51

The profitability program includes not only cost savings but also investments in the competitiveness of our production facilities to overcome the challenges of the market. We are also investing in the products and creating a marketing infrastructure in about 15 countries of Europe, further strengthening the US operations and making a foray into Australia.

Aurobindo has products and markets that display excellent strength. We have a very large regulatory approved product basket of generics for US, Europe as well as South Africa.

Our greatest strengths are world class manufacturing facility, vertically integrated production platform from fermentation to active ingredients that meets the needs of manufacturing formulations, a large portfolio of regulatory approved products in high demand therapeutic/ product segments such as antibiotics, anti-retrovirals, CVS, CNS, gastroenterologicals, and anti-allergics.

We at Aurobindo have filed todate 114 DMFs and 100 ANDAs for the USA market in addition to several filings in other countries. The pace of filings is matched by rapid product approvals from various markets. Till date Aurobindo received 50 ANDA approvals (both final and tentative) from US alone. Today Aurobindo operates in over 100 countries and markets over 180 APIs and 250 formulations.

The formulation portfolio is built on six technology platforms such as immediate release generics, SR/CR generics, and orally disintegrating/mouth dissolving generics, combination products, sterile/lyophilized generics and liquids/dry syrups.

Globally expanding businesses require continuous and structural adaptation to ensure scalability, effectiveness, consistency and quality. We have ensured that Aurobindo stays on these dynamics to implement global strategies consistently to become more effective at operational level. Our efforts are providing multifold improvements in productivity, and in mastering processes efficiently.

We remain committed to improving our operational efficiencies to be ahead of the dynamics of the changing global pharma market. Recognising that there will be increased competition, we have placed greater emphasis on efficiency, process improvements and competitive differentiations. We are at the crossroads of this transformation and stand to gain market share.

We are implementing new programs that standardize the best practices across the Company making us the most cost effective as well as more responsive to our customers' needs.

Finally we continue to invest in recruitment and training programs to attract, retain and motivate the best associates in the business. Since our past success rests on the shoulders of our associates, our future growth in an increasingly competitive market will depend even more on their creativity, entrepreneurial spirit and dedication.

K. Nityananda Reddy
Managing Director

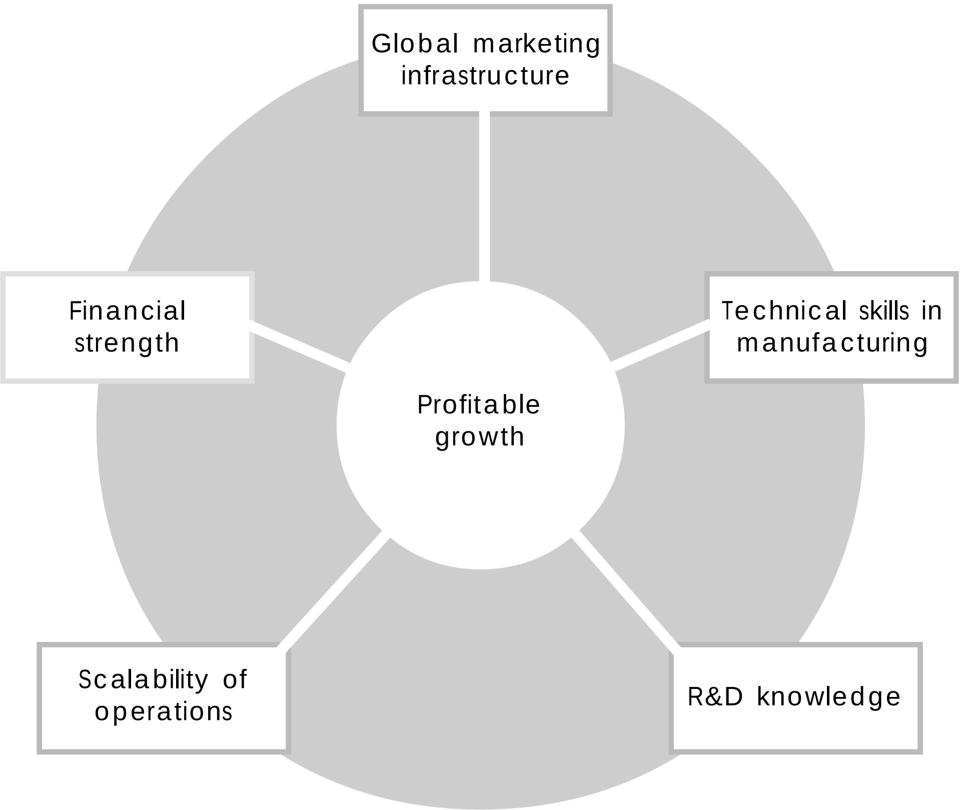
On track to profitable growth

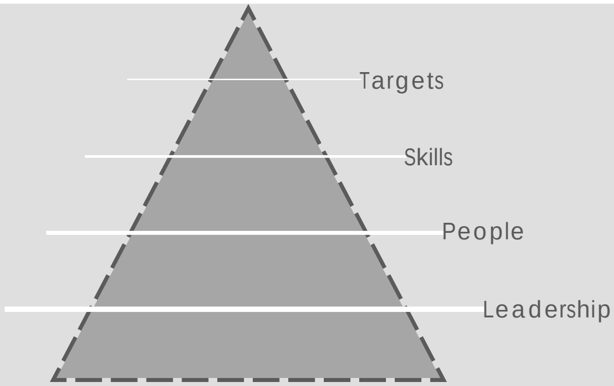
What will it take to lead Aurobindo Pharma into the future?

Everything the past required and more. Strengths such as integrated global systems and an empowered worldwide talent pool which in the past were worthy objectives, but in the future will be bedrock requirements in support of fast growing markets.

The Company has clearly identified its goals including when and where it wants to be. The strategies, action plans and the resultant outlook have been mapped with the best interest of all of Aurobindo's stakeholders.

Globalisation has redrawn the lines between the domestic and developed markets. Aurobindo is ready.





Building blocks of continuous improvements

Strategy

Formulated towards profitability

Our objective

Aurobindo's objective is to be one of the leading global pharmaceutical company and to create lasting value and quality.

Our strengths

We aim for market leadership in those areas where we see opportunities for profitable business development. In so doing, we build on our strengths:

- ✓ our technical skills in manufacturing processes;
- ✓ our R&D knowledge and our competence which we are systematically expanding with regard to the launch of products of the future;
- ✓ our capacity for innovation which supports us in commercialising the products developed by the in-house R&D;
- ✓ our global network of marketing infrastructure and replicate our successes in markets such as US and Canada and achieve the same levels of accomplishment in Europe and Australia;
- ✓ our financial strength.

Our product launches in North America has begun to take firm footholds. The team has created a marketing and distribution network that gives some of Aurobindo's products significant market share in the generics market. This acceleration has been achieved in a very short time.

North American learnings and success will be replicated in all other major markets. We count on the know-how of our staff throughout the world, their experience and their specialist and intercultural knowledge and strive to achieve a strong presence in all the carefully chosen markets.

Our transformation so far

Over the last few years we have adopted strategic courses, which shaped our decisions in the year under review.

- ✓ Since our shift from domestic market bias to developed market orientation, we have consistently geared our pharmaceutical business to the objective of profitability and growth;
- ✓ We have prioritised our target markets, customers and products according to anticipated earnings;
- ✓ We have substantially reduced the risks in our market and product portfolio;
- ✓ We have significantly strengthened our cash flow.

Our challenges and market prospects

The demand for effective and affordable drugs is increasing in all markets. While healthcare costs are increasing, customers have been seeking for more effective drugs at affordable prices. These challenges need to be met, for in the long run there is no getting round the fact that healthcare needs to be inexpensive and within reach of the common man.

Aurobindo has a vertically integrated manufacturing platform that enables costs to be contained and facilitates offering the products at competitive prices. Being a producer from fermentation to formulations, Aurobindo is straddling the value chain.

The Company is far better placed to provide quality products with raw materials under its control, within shortest time to market and at prices that are competitive.

Our strategic guidelines

Profitability with growth. We keep both perspectives in the interest of all the stakeholders.

Our application for ANDAs, pipeline of approvals and product mix are geared to long-term sustainable profitability. This commitment to consistent earnings preference recognises margin oriented growth.

Our simultaneous involvement in APIs and formulations improves our internal balance of risks and results and creates a greater overall stability. It is our objective to achieve sustainable profitability in all business segments.

Decision making tools are fine tuned to developments in our business environment. At Aurobindo, the team realises that sustainable companies tend to outperform their peers.

Our sustainability emphasis enables us to initiate change and structure our future. At Aurobindo the sustainability practices include commitment to quality, consistent performance, a history of good execution in business and strong balance sheet.

Action Plan

We work for future growth

Focus areas

To capitalize on opportunities to expand into new market segments, we have developed specific action plans for each of the key areas of our business. These strategies are to:

- ✓ Expand the generic business by increasing exports to developed markets;
- ✓ Enhance our established base in API;
- ✓ Build strong customer relationships through value added products and services;
- ✓ Achieve manufacturing excellence;
- ✓ Develop technology solutions through path finding R&D;
- ✓ improve efficiency and reduce operating costs while maintaining quality;
- ✓ Strengthen our competitive position through alliances;
- ✓ Pursue acquisition opportunities that enhance our range of products and global presence.

Market oriented

Aurobindo means to be the preferred supplier in each of its markets, providing value exceeding anything available from other sources. This is why the Aurobindo manufacturing systems are based on producing for use in the specific market, not for inventory.

For an Aurobindo customer, this means getting exactly what you want, when you want it - at the most competitive cost - anywhere in the world.

In the process, we work with and for our customers. They are our partners.

Sound on base business

Ensure the base business is on sound foundations. Our strength has been a large portfolio of pharmaceutical ingredients, and we have leadership positions in many of them. We shall grow this business and consolidate our market presence.

R&D to find solutions

While we deal with complex chemistry, we have kept our innovation processes very simple. We are market and customer driven, take care to be reliable and ensure that we are ahead of the curve. This is a simple process, with a large team of professionals dedicated to creating product pipeline that will protect and enhance human health.

Commitment to customers is being enlarged by developing the existing business of contract research. India offers a dependable alternative for customers across the world and Aurobindo with its proven track record in complex chemistry and ensuring compliance with regulatory needs is cementing the relationship with a few large customers. A new R&D facility is likely to be set up in the near future.

Consistent manufacturing quality

The production facilities are effective to ship out batch after batch of consistent quality. The infrastructure has scalability to cater to large volume needs and is manned by committed professionals.

Aurobindo believes in being cost effective and improving productivity while maintaining the quality. Our lab-to-market process is already fast tracked. World class facilities and trained operational staff demonstrate on a daily basis, excellence in manufacturing is the first step towards offering reliability to the customer.

Strengthen competitive presence in the market

We work with some of the best names in the pharmaceutical industry and look forward to strengthening the alliances - whether for being a vendor of first choice for its products, in contract research and as a contract manufacturer. Aurobindo will extend the present linkages and build them into strong relationships.

Seek inorganic growth

Aurobindo sees huge potential for its products and will strive to have organic growth. However, there is a felt need to shorten-the-time-and-distance to the market. Wherever there is synergy and where there is a cultural fit, the Company will attempt to fast track by growing the inorganic way.

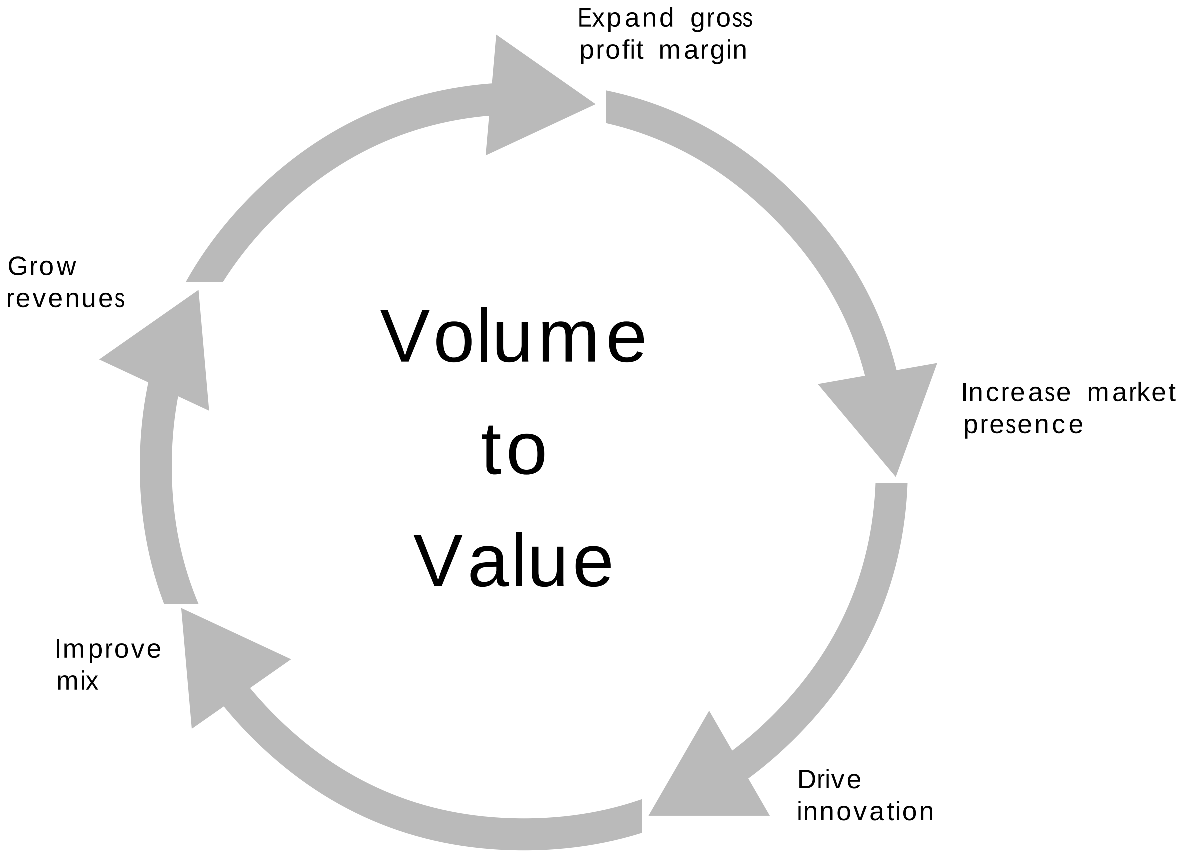
Unlocking organisational value demands that we make the best use of our resources. We shall seek growth, both by organic and inorganic routes.

Status of regulatory filings

		Filed	Approved
DMFs/CoS			
	US FDA	114	*
	EDMF/CoS	93	*
ANDAs		160	74
	US FDA	100	50
	Europe	40	7
	WHO	20	17
Patents		272	40

* No statutory approval required for DMF

As on July 31, 2007



Outlook

Sustained profitable growth

Its called a virtuous cycle.

Profitable growth builds financial strength which underwrites the profitable growth to come. Over the past five years, Aurobindo has invested in growth with capital improvements and talent pool. Assets have grown, and so have productivity and rate of return.

Result - a larger, stronger and powerful Aurobindo with abundant resources to capitalise on future opportunities.

While the destination and milestones are clear, carefully calibrated, effective steps are being taken towards the needs of the market.

The Company has

- ✓ strategy of carefully planned growth and balance sheet discipline;
- ✓ the commitment to make performance the fulcrum of the organisation;
- ✓ the will to do what works for our customers, our business, our suppliers, our employees and our investors.

Planned growth

Organizational plans are to reach one billion revenues by 2010, with margins rising faster than the topline. Focus will be on high value, high margin products.

Performance the fulcrum

Every transaction and each customer is being treated as the best that value can offer. Very high due date performance backed up by service that meets critical customer expectations will continue to be pursued.

What is good for the customer will be good for our business.

Enhance value for stakeholder

Our stakeholder trust and confidence will be reciprocated. They have been our inspiration and we understand their perspective. Our suppliers are valuable and they help us to perform better. We shall strive to become the preferred employer and for our investors the preferred investment decision.

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 VA	SSPs	US FDA
Unit VI	Cephs	US FDA, WHO, Health Canada
Unit VIII	CNS, CVS, Gastroentrological, ARVs	US FDA, WHO
Unit XI A	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, MCC (SA), Health Canada, Brazil ANVISA
Unit XII	SSPs	US FDA, UK MHRA, Health Canada, MCC (SA) & ANVISA (Brazil)
Bio-equivalence centre		US FDA, WHO, ANVISA (Brazil)

Management Discussion & Analysis

Global Developments

The pharmaceutical industry worldwide showed 7% growth in 2006 with USA growing at 8.2%. During the same period, Europe grew at 4.4% with an industry size of US$ 156 billion. Some of the other markets such as Canada and Australia grew by 7% and 6% respectively.

North America and Europe are the largest markets and account for 48% and 28% respectively of the global industry. The highly regulated US market includes drugs which are under patent and those that have gone off patent, and is valued at around US$ 276 billion.

The regulated markets protect intellectual property rights of the product including process of manufacture. 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 growth prospects for the industry are attractive. The global pharmaceutical market is forecast to grow to US$ 842 billion in 2010, an equivalent CAGR of 6.9% over the next few years.

More significant, the world's leading drugs are facing patent expiry in the near future. In the United States alone, close to US$ 50 billion worth of branded revenue will be made available to generic competition.

Indian industry trends

The pharmaceutical industry in India is set to expand and demonstrate tremendous growth, with western manufacturers seeking to shift jobs to this country to reduce cost and to tap the skilled pool of professionals available here.

The US and European pharmaceutical markets are heading toward generics, and this move is expected to offer enormous benefits to India. Thanks to high priced drugs in western world, manufacturers are pressurized from their government to control cost, and this implies that they'll have to move their manufacturing base to India.

Indian pharmaceutical market is poised to grow by 10% by the year 2010. Some of the best players in the world are in India, and are taking the initiative to lead the country on a trajectory of growth.

Growth in the country is primarily on account of commitment to intellectual property rights, strict patent regime, growing pool of skilled professionals, and opportunities for both up and down stream businesses.

Company Perspective

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. The Company recognizes this opportunity and has positioned itself to make its presence felt in the regulated pharmaceutical markets. The Company has initiated and completed quality and capacity upgrades and is ready to make the shift.

Aurobindo Pharma is a fast track integrated pharmaceutical company headquartered in Hyderabad, India, developing, manufacturing and marketing active pharmaceutical ingredients (APIs also referred as 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.

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. The 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.

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.

Products

The Company's robust product portfolio is spread over six major therapeutic/product areas (antibiotics, anti-retrovirals, CVS, CNS, gastroenterologicals, and anti-allergics) encompassing 65 APIs in the non-antibiotics and 55 APIs in the antibiotic segment. These segments have an addressable worldwide market size of US$ 229 billion, including US$ 118 billion in US and US$ 51 billion in Europe.

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 operations.

Threats & Challenges

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 the Company is possibly the most cost effective producer in its industry.

The 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, the Company has entered into agreements with strategic partners for widening its reach.

ABRIDGED PROFIT & LOSS ACCOUNT

Rs. Millions

	2004	2005	2006	2007
Gross Sales	**13,410.7**	**11,591.7**	**14,722.0**	**19,797.2**
Other Income	182.5	91.1	103.3	431.3
Gross Profit (PBDIT)	2,351.2	1,159.5	1,888.5	3,217.3
Interest	284.3	325.4	448.3	187.3
Depreciation	341.6	404.9	511.2	718.4
Tax	455.1	78.4	235.2	20.8
Net Profit	**1,270.2**	**350.8**	**693.8**	**2,290.8**

The 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. These are being addressed separately, in detail.

Quality and Cost Management

Aurobindo has derived significant business advantages from responsible product stewardship. Noteworthy advancements in the form of reduced manufacturing costs and consistent quality standards have been ensured while all legal and regulatory requirements are met.

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

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

Financial management and internal controls

The Company has a disciplined approach to costs and follows prudential norms. Systems are strictly enforced, and costs are 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.

Aurobindo through its wholly owned subsidiary Agile Pharma B.V., the Netherlands, has acquired 100% holding in Pharmacin International B.V. This enterprise is engaged in the business of supply of licensing of generic pharmaceuticals in Netherlands and select key markets in Europe. Pharmacin International B.V. has further two subsidiary companies viz., Pharmacin Products B.V. and Pharmacin B.V. The Company believes that similar to the acquisition of Milpharm Limited in U.K. in early 2006, these acquisitions reduce the time to market and enhance the relationships in the generic value chain and help build a broad and formidable product portfolio.

The Company also shed assets, facilities, equipments and products where the returns are not commensurate with the investments or effort. Aurobindo TongLing (Datong) Pharmaceutical Company Limited (ATDPL) located at Datong,

ABRIDGED BALANCE SHEET

Rs. Millions

	2004	2005	2006	2007
Fixed Assets				
Gross Block	6,960.1	9,062.4	10,223.5	11256.0
Less: Depreciation	1,114.1	1,516.9	1,952.2	2318.1
Net Block	5,846.0	7,545.5	8,271.3	8937.9
Intangible Assets	–	167.3	367.4	18.3
Investments	1,488.9	1,512.7	1,741.6	2027.3
Current Assets, Loans & Advances	9,037.2	9,922.8	14,427.1	22210.1
Less: Current Liabilities & provisions	1,753.4	2,061.4	2,982.1	3464.8
Bank Borrowings	2,255.5	2,602.6	3,291.7	5362.0
Net Working Capital	5,028.3	5,258.8	8,153.3	13383.3
Net Tangible Assets	12,363.2	14,484.3	18,533.6	24366.8
Less: Secured Term Loans	2,890.6	3,641.4	3,149.5	1497.5
Unsecured Loans	1,037.8	2,047.2	5,611.0	12903.9
Net Worth	**8,434.8**	**8,795.7**	**9,773.1**	**9965.4**
Represented by				
Equity Shares	253.9	253.9	266.7	266.9
Share Warrants	350.0	350.0	–	–
Reserves & Surplus	7,309.9	7,632.0	8,787.8	9026.3
Total	7,913.8	8,235.9	9,054.5	9293.2
Deferred Tax liability	521.0	559.8	718.6	672.2
Net Worth	**8,434.8**	**8,795.7**	**9,773.1**	**9965.4**

Shanxi, China, a wholly owned subsidiary engaged in a manufacture of pharmaceutical products catering to local Chinese markets had been incurring losses and in the best interests of the Company, the entire holding was disinvested.

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.

The 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.

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 and manufacturing activities of the Company. The project went live effective April 1, 2006 and is fully operational. The Company would benefit from enhanced integrity of systems, better decision-making tools, and effectiveness of management.

Finance, purchasing, sales, inventory, process manufacturing, quality control, plant maintenance areas are now fully operational. Projects, OPM financials, fixed assets and human resources 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 the Board, internal control systems are adequate to safe guard the interests of the Company.

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

The Company currently employs 4,966 competent men and women. Aurobindo is aware that its own people are the key to the future realization of its goals. To this end, the Company is initiating steps towards a better work environment.

The Company will continue to focus on talent and their retention in what is already a skill driven organization. Continuous program of training to help enhance skills has ensured that there is a large reservoir of knowledgeable professionals in each function.

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 that is strong in its therapeutic segments across the premium markets. 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.

The Company has proven ability to confront challenges and turn them into strengths. People skills, R&D initiatives, manufacturing facilities and systems, marketing infrastructure and strategically positioned organisational presence in key markets would be unlocking value for all stakeholders.

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.

R&D will continue to provide the head wind, with the Company entering in a big way the business of contract research. Not only the present strengths would get fully utilized, but the Company would be able to draw on downstream gains when the projects turn commercially viable. This is an attempt to meets the needs of the global industry with significant potential for Aurobindo to improve its business stream.

The strategies and action plans are in place and the final equation reveals that Aurobindo is poised for sustainable and profitable long-term growth. The Company has set itself targets which include becoming a billion dollar company by 2009-10 with bottomline to grow at a faster clip.

Risks & their Management

The management of Aurobindo periodically assesses the risks and takes comprehensive steps to pre-empt, manage and control them. While all productive assets are insured, some of the industry specific risks need iteration:

Risk related to Human Resources

Aurobindo's success depends largely upon the highly-skilled professionals and the ability to attract and retain competent managerial personnel. The industry is human capital intensive with a high rate of attrition.

The Company has a proactive approach to people management and gives them a free hand to take responsibility in line with their roles. Accountability is earmarked and the staff at all levels is challenged to perform to their potential. The professional approach in day to day management has enabled the staff to stay motivated. They are encouraged to learn and develop their work content and are supported to take leadership roles.

Aurobindo has been refining its HR practices with the objective of providing excellent working environment. The organisation is on fast tracked growth and the systems are strengthened in anticipation of future needs. At all key functions, managers take care to create a succession plan with hierarchy of trained staff.

Risk related to economic and political conditions in the world

An economic slowdown in the U.S. or Europe could adversely affect the Company's business and results of operations.

The Company holds approvals for large number of products in US and Europe in a bid to improve the geographical spread by seeking new business. The portfolio is being dispersed, so as to increase the proportion of markets and individual customers.

Slowdown in any one economy will not have a major influence on the industry. Overall, the healthcare industry is not price elastic, and is reasonably insulated from recessionary trends.

Risk related to high dependence on specific markets

Current operations are mainly at USA for generic business. Large percentage of the API is sold within India. High dependence on any market could adversely affect the business, results of operations and financial condition.

The Company has been consciously spreading its risks. Formulations business is growing as a proportion of the revenues, which has reduced the dependence on APIs.

While the initial thrust for the generic business was made to gain foothold in USA, the Company has commenced making significant inroads into the European markets, especially in UK and The Netherlands. Aurobindo would be further accelerating with its marketing strategy to gain business volume in 15 more countries of Europe.

Ongoing efforts are to widen the geographical spread by foraying into markets with large potential such as South Africa, Brazil, Australia and Japan. In order to improve the business, results of operations and financial condition, the strategy is being implemented with a time bound action plan.

Risk related to competitive pressures

All the markets, both domestic and export, are subject to high competitive pressures. Volumes, prices and margins could be under pressure.

Aurobindo has unique strengths which enable the Company to face its competitive pressures better than its peers. This risk perception would not apply to Aurobindo since it is vertically integrated. For most of its generic formulations, the Company has captive manufacture of APIs. This helps keep the cost under control, and improve margins. In a price sensitive industry, Aurobindo is able to offer products at competitive prices. This is one of the major strengths of the Company.

Risk related to lack of pricing power

There is almost no control on pricing of products. There is a risk of margins being under pressure.

With near perfect competition in the generic industry, prices are a function of supply and demand. Prices do trend in response to supplies as well as competitive pressures. Domestic pricing is also influenced by global trends in both availability and price of imported APIs.

Industry players with marked presence in segments with demand are able to differentiate themselves and offer value proposition. In some segments, the brand value and offer has enabled players to price the products appropriately. Aurobindo is able to cope with pricing pressures and the emphasis on quality has minimised the possibilities of commoditization. Aurobindo strives to protect margins and has been responsive to the needs of growth as well as profitability.

Risk related to litigation against product launch

Product launches in markets such as US and Europe could face various pre-emptive actions including legal issues by competitors aimed at restricting or impeding the launch. This can not only deter the launch but result in high legal costs.

Aurobindo is conscious of such attempts in the market and takes precautions from the initial stage of product development. The Company ensures that no infringement is ever done with processes and products of the patent owners, and all development work involves non-infringing processes.

Risk related to serious observations during regulatory audits and inspections

There is the risk related to regulatory audits and inspections making serious observations that can apply a set back from obtaining product approvals. This can have serious repercussions in the business.

The Company strictly follows cGMP standards and the best industry practices. Senior officials conduct internal audits regularly to validate systems and processes as well as identify probable failures. Training to the operational staff is given with intent to increase awareness levels and to ensure conformity with the best manufacturing processes.

Beyond the regulatory needs, the organisational commitment is to good health. The staff are responsible and sensitive to the importance of discipline and the needs of healthcare industry. The consciousness of the Aurobindo team is aligned with good health of the consumers.

Risk related to currency moves

Currency exchange rates could undergo change with Indian rupee gaining strength. This could reduce earnings.

The rupee is showing signs of strength in relation to the USD and the Company is conscious of the possibility of weakening dollar impacting earnings. This is being mitigated by the following actions:

Hedging of the dollar is likely to minimise the adverse impact of rupee appreciation. Need based forward cover has been taken on a selective basis.

Operating margins are being improved by larger proportion of formulations sales. This will help drive the margins mitigating the possible currency exchange loss.

In the ultimate analysis, Aurobindo is in the business of manufacturing and marketing APIs and formulations and will always make effort to mitigate the temporary shading of profits.

Risk related to interest rate

Higher interest rates can shade the bottomline.

The Company's financial instruments comprise borrowings, cash and liquid resources and various items such as trade debtors and trade creditors, that arise directly from operations. The principal risk arising from the Company's financial instruments is interest rate risk.

Aurobindo finances its operations through a mixture of retained profits and borrowings from financial institutions and banks. Borrowings are at both fixed and floating rates of interest. The Company's operations are principally financed by floating rate borrowings, whereas significant investment, are generally financed through fixed rate borrowings.

Interest rate regime has hardened, although it is seen as a temporary phenomenon caused by the central bank's attempt at controlling inflation. The rates are expected to ease during the latter half of 2007.

Board of Directors

Chairman
Mr. P. V. Ramaprasad Reddy

Managing Director
Mr. K. Nityananda Reddy

Wholetime Directors
Dr. M. Sivakumaran
Mr. M. Madan Mohan Reddy

Non-executive Directors
Mr. Srinivas Lanka
Dr. K. Ramachandran
Mr. V. S. Janardhanam
Dr. S. Bimal Singh
Dr. K. A. Balasubramanian
Mr. B. Sivaprasad Reddy

Chief Financial Officer
Mr. Sudhir B. Singhi

Company Secretary
Mr. A. Mohan Rami Reddy

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, Ashoka Bhoopal Chambers,
Sardar Patel Road,
Secunderabad – 500 003

Registrars & Share Transfer Agents
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
Fax Nos. +91 40 2342 0814
E-mail: mailmanager@karvy.com

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

Notice

NOTICE is hereby given that the Twentieth Annual General Meeting of the Company will be held on **Thursday the 27th day of September, 2007 at 3.00 p.m. at Katriya Hotel & Towers, 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, 2007 and Profit and 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, 2007 on the Equity Shares.

3. 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

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

   "RESOLVED that Mr. M. Sitarama Murthy, 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 Mr. V.S. Janardhanam in respect of which vacancy the Company has received a notice in writing pursuant to Section 257 (1) of the Companies Act,1956, from a Member of the Company proposing the appointment of Mr. M. Sitarama Murthy as Director of the Company and whose period of office shall be liable to determination by the retirement of Directors by rotation."

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

   "RESOLVED that Dr. P. L. Sanjeev Reddy 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. K.A. Balasubramanian in respect of which vacancy the Company has received a notice in writing pursuant to Section 257(1) of the Companies Act, 1956, from a Member of the Company proposing the appointment of Dr. P. L. Sanjeev Reddy as Director of the Company and whose period of office shall be liable to determination by the retirement of Directors by rotation."

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

   "RESOLVED that Mr. P. Sarath Chandra Reddy, 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 Mr. B. Sivaprasad Reddy in respect of which vacancy the Company has received a notice in writing pursuant to Section 257 (1) of the Companies Act,1956, from a Member of the Company proposing the appointment of Mr. P. Sarath Chandra Reddy 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 a Special Resolution:**

   "RESOLVED that pursuant to Section 31 and other applicable provisions of the Companies Act, 1956 the Articles of Association of the Company be and are hereby amended in the manner set out below:

   1. a. The following Article 1(ii) (c) be deleted:

      "Agreement**"** shall mean the Shareholders Agreement dated February 1, 2004 between the Company, Promoters and Merlion and any modifications thereto which have been agreed to in writing by all Parties from time to time, and shall include all attachments, annexures and schedules to the Agreement.

b. The following Article 1(ii) (h) be deleted:

"Majority Affirmative Vote" means the consent of the nominee Director of Merlion (or his/her alternate) unless there are more than two Private Equity Investors and the nominee Director of Merlion (or his/her alternate) refuses consent, in which case any two Private Equity Investors voting in favour will constitute Majority Affirmative Vote;

c. The following Article 1(ii) (j) be deleted:

"Merlion" means Merlion India Fund I Limited a Company incorporated under the laws of the Republic of Mauritius and having its registered office at TM Building, Pope Hennessy Street, Port Louis, Mauritius

d. The following Article 1(ii) (k) be deleted:

"Merlion Shares" shall mean 2,370,000 fully paid-up equity shares of the Company issued and allotted in terms of the Agreement.

e. The following Article 1(ii) (p) be deleted:

"Private Equity Investors" shall collectively mean and include Templeton Strategic Emerging Markets Fund, Merlion, and any other financial investor(s) who subscribe(s) to an aggregate of up to four million equity shares in tranche(s) by preferential allotment in terms of the Agreement;

Subject to the above amendment, the sub numbers in Article 1(ii) be renumbered.

2. The following Article 2A be deleted:

"In the event of any contradiction between Articles 24-A, 24-B, 24-C, 26-A, 39-A, 39-B, 55-A, 55-B, 80-A and/or 80-B and the other Articles, the provisions of Articles 24-A, 24-B, 24-C, 26-A, 39-A, 39-B, 55-A, 55-B, 80-A and 80-B shall prevail."

3. The following Article 24A be deleted:

"Notwithstanding anything that may be contained in these Articles, Merlion shall have the right to participate, in proportion to its shareholding in the Company, in any future issue of equity shares on the same terms and conditions as granted to any other new or existing Member provided that such right is exercised by Merlion within 7 days of the Company informing Merlion of the proposed issue with relevant details and provided further that for 18 months from February 14, 2004, the Company shall not issue equity and/or equity linked instruments at a price lower than the price offered to Merlion and/or with rights that are materially superior to the ones given to Merlion in terms of the Agreement."

4. The following Article 24B be deleted:

"Subject only to regulatory and procedural feasibility, notwithstanding anything that may be contained in these Articles, Merlion shall have a tag-along right proportionate to Merlion's shareholding in the Company in the event of any sale by the Promoters that would result in the aggregate shareholding of the Promoters falling below the threshold mentioned in the Agreement."

5. The following Article 24C be deleted:

"Subject only to applicable laws, notwithstanding anything that may be contained in these Articles, if any Shares or other securities of the Company are listed or proposed to be listed on one or more stock exchanges overseas, the Company shall take all steps, do all such things, execute all such writings and make all regulatory applications and filings as may be required by law for permitting or facilitating the unrestricted sale and distribution of the Merlion Shares on such exchanges such that the Merlion Shares are freely transferable on such stock exchanges. In connection therewith, Merlion will be entitled to demand any piggyback registration rights to be exercised at any time at the discretion of Merlion, and for this purpose the Company and Merlion shall negotiate and execute a Registration Rights Agreement in customary form and on customary terms and conditions, within thirty (30) days after such request by Merlion."

6. The following Article 26A be deleted:

"Notwithstanding anything that may be contained in these Articles, all the rights and obligations of Merlion under the Agreement shall terminate and relevant definitions contained in Article 1(ii), as well as Articles 24-A, 24-B, 24-C, 39-A, 39-B, 55-A, 55-B, 80-A and 80-B of the Articles of Association of the Company shall be deemed to be deleted without any further act or deed, upon the earlier of (i) expiry of 5 years from the date of allotment of Merlion shares or (ii) the shares held by Merlion and its affiliates falling below 1,580,000 shares or (iii) a change in control of Merlion shares from Standard Chartered Plc or its affiliates to any other Person without the prior written consent of the Company, such consent not to be unreasonably withheld."

7. The following Article 39A be deleted:

"Notwithstanding anything that may be contained in these Articles, Merlion shall have the right to nominate a Director (and the alternate director for this Director) on the Board for a period of 5 years from February 14, 2004, unless its shareholding falls below 1,580,000 Shares. Merlion shall ensure that its nominee Director (1) shall not, during the tenure of his/her Directorship in the Company, is a director on the board of any competitor Company and, (2) shall at all times keep confidential all proprietary information of the Company. For the purposes of these Articles, a 'competitor' shall mean any company whose primary business is the manufacture of pharmaceutical products.

8. The following Article 39B be deleted:

"Notwithstanding anything that may be contained in these Articles, Merlion shall have the right to recommend by written notice to the Company the removal of their nominee Director (or his/her alternate, as the case may be) at any time, and the appointment of another person in his/her place and to fill any vacancy in the office of such nominee Director/alternate Director."

9. The following Article 55A be deleted:

"Notwithstanding anything that may be contained in these Articles, at least 7 (seven) days notice of each Board meeting shall be given to Merlion's nominee Director, in the event that the business to be transacted at such meetings includes any of the matters set out in Articles 80-A and 80-B of the Articles of the Company unless Merlion's nominee Director agrees to a shorter notice. The agenda setting out in reasonable detail the items of business proposed to be transacted at such meetings of the Board (the "Agenda") shall be sent to the Merlion nominee Director (and his/her alternate) at least 7 days before the date of each such meeting of the Board. In general, the items not specified in the Agenda may not be discussed at any Board meeting. However, in circumstances where the Chairman considers it fit and expedient to do so, items not specified in the Agenda may also be disclosed at a Board meeting so long as the same do not include any of the matters set out in Articles 80-A and 80-B of the Articles of the Company. For any matter other than the matters set out in Articles 80-A and 80-B of the Articles of the Company, the nominee Director of Merlion will also be duly informed of the agenda prior to the meeting of the Board. Quorum for Board meetings of the Company which deal with any of the matters set out in Articles 80-A and 80-B of the Articles of the Company shall require the presence of the Director nominated by Merlion. In the event that quorum is not present within half an hour of the time appointed for holding the meeting, for any reason whatsoever, the meeting shall stand adjourned to the same day in the next week (or such other later date as the Chairman may decide) at the same time and place and the Directors present at such adjourned meeting shall constitute a quorum provided that:

a. written notice of the adjournment was given to the Merlion nominee Director and his/her alternate at their usual address for service of notices of Board meetings not less than five (5) days before the date of the adjourned meeting;

b. no agenda items are considered at the adjourned meeting which were not on the Agenda for the meeting which was adjourned; and

c. the requisite quorum as per the Act is present."

10. The following Article 55B be deleted:

"Notwithstanding anything that may be contained in these Articles, pursuant to a meeting convened in accordance with Article 55-A above, in the event that the Merlion nominated Director (and his/her alternate) choose to absent themselves from such adjourned meeting of the Board where their affirmative vote is required, then their affirmative vote and/or consent, as the case may be, to the resolutions to be tabled at the said meeting will, subject to the above Article 55-A, be deemed to have been given and the resolutions will be accordingly adopted by the Board and/or the Company as the case may be."

11. The following Article 80A be deleted:

"Notwithstanding anything that may be contained in these Articles, the Company shall, in respect of, (i) any amendment to its Memorandum and Articles of Association, (ii) voluntary winding-up or dissolution, (iii) any merger or any acquisition that is greater than 10% of its market cap, (iv) any transfer of Promoter Shares in contravention of the Agreement, (v) any sale or disposal of its whole or any substantial assets, (vi) any change in its business other than healthcare and/or (vii) any delegation of any of these matters, obtain the affirmative vote of the nominee Director of Merlion at a meeting of the Board convened in accordance with Articles 55-A and 55-B, failing which the matters referred to in this Article 80-A shall not be put to vote at a shareholders meeting of the Company."

12. The following Article 80B be deleted:

"Notwithstanding anything that may be contained in these Articles, the Company shall, in respect of, (i) the appointment of any director other than Directors appointed by Promoters, nominee directors of financial institutions and Private Equity Investors, (ii) any capital expenditure greater than 7.5% of sales or Rs.500 million whichever is higher in the aggregate in any financial year, (iii) the appointment of any relative as defined under the Act to the top 10 key management positions, (iv) any buy back of its shares, (v) the issuance of any equity or equity-linked instruments other than as set out in the Agreement, (vi) the appointment or changing of the "big four" statutory auditor and/or (vii) any delegation of the above matters, obtain the Majority Affirmative Vote at a meeting of the Board convened in accordance with Articles 55-A and 55-B of the Articles of Association of the Company, failing which the matters referred to in this Article 80-B shall not be put to vote at a shareholders meeting of the Company."

By Order of the Board

Hyderabad
July 31, 2007

A. MOHAN RAMI REDDY
Company Secretary

Notes

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF/HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. In order to become valid, the proxy forms should be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for holding the Meeting**.

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

3. The Register of Members and Share Transfer Books of the Company will remain closed from September 18, 2007 to September 27, 2007 (both days inclusive).

4. The Dividend on Equity Shares @ 50% 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, 2007. 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 Dividend for the year 1999-2000 amounting to Rs.273,492 has already been transferred to the Investor Education and Protection Fund of the Central Government on June 5, 2007.

   Further, pursuant to the provisions of Section 205A of the Companies Act, 1956, the unpaid/unclaimed Dividend for the year 2000-2001 will be transferred to the Investor Education and Protection Fund of the Central Government on the due date.

5. The dividend is proposed to be disbursed by way of ECS (Electronic Clearance Services). For this purpose, the details such as, name of the bank, name of the branch, 9-digit code number appearing on the MICR band of the cheque supplied by the bank, account type, account number etc are to be furnished to your DP if the shares are in electronic form or to the Registrars & Transfer Agents if they are held in physical mode.

6. 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).

7. Pursuant to the amalgamation of Sri Chakra Remedies Ltd (formerly Gold Star Remedies Ltd) with Aurobindo Pharma Ltd, the erstwhile shareholders of Sri Chakra Remedies Ltd, who have not yet exchanged their shares with shares of Aurobindo Pharma Ltd, are hereby requested to do so by surrendering the original share certificates of Sri Chakra Remedies Ltd/Gold Star Remedies Ltd to the Company's Registrar and Transfer Agents, M/s. Karvy Computershare Pvt. Ltd., 46, Avenue-4, Street No. 1, Banjara Hills, Hyderabad - 500 034.

Explanatory Statement

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

Item 4

Mr. M. Sitarama Murthy is proposed to be appointed as a Director liable to retire by rotation in place of Mr. V.S. Janardhanam who retires by rotation and expressed his inability to continue as a Director due to his pre-occupation.

Pursuant to 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 Mr. M. Sitarama Murthy as a Director.

A brief profile of Mr. M. Sitarama Murthy and names of companies in which he holds directorships and membership/chairmanship of Board/Committees, as stipulated under Clause 49 of Listing Agreement with the Stock Exchanges in India, are provided in 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 any way concerned or interested in the Resolution.

Item 5

Dr. P.L. Sanjeev Reddy is proposed to be appointed as a Director liable to retire by rotation in place of Dr. K.A. Balasubramanian who retires by rotation and expressed his inability to continue as a Director due to his pre-occupation.

Pursuant to 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. P.L. Sanjeev Reddy as a Director.

A brief profile of Dr. P.L. Sanjeev Reddy and name of company in which he holds directorship and membership/ chairmanship of Board/Committees, as stipulated under Clause 49 of Listing Agreement with the Stock Exchanges in India, are provided in 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 any way concerned or interested in the Resolution.

Item 6

Mr. P. Sarath Chandra Reddy is proposed to be appointed as a Director liable to retire by rotation in place of Mr. B. Sivaprasad Reddy who retires by rotation and expressed his inability to continue as a Director due to his pre-occupation.

Pursuant to 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 Mr. P. Sarath Chandra Reddy as a Director.

A brief profile of Mr. P. Sarath Chandra Reddy and names of companies in which he holds directorships and memberships/chairmanships of Board/Committees, as stipulated under Clause 49 of Listing Agreement with the Stock Exchanges in India, are provided in 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.

Mr. P. Sarath Chandra Reddy is the son of Mr. P.V. Ramaprasad Reddy, Chairman of the Company. Except Mr. P.V. Ramaprasad Reddy none of the Directors of the Company is in any way concerned or interested in the Resolution.

Item 7

The Articles of Association of the Company was altered so as to give effect to the terms and conditions contained in the shares subscription and the shareholders agreement dated February 1, 2004 entered into between the Company, its Promoters viz., Mr. P.V. Ramaprasad Reddy and Mr. K. Nityananda Reddy and Merlion India Fund (I) Limited. Consequent to the sale of 1,334,630 shares held by Merlion India Fund (I) Limited (Standard Chartered Equity (Mauritius) Limited) in the Company, the agreement stands terminated.

The Board, accordingly, commends the Resolution for approval of the Members for amendment to the Articles of Association of the Company.

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

By Order of the Board

Hyderabad
July 31, 2007

A. MOHAN RAMI REDDY
Company Secretary

Directors' Report

Dear Members

Your Directors are pleased to present the 20th Annual Report of the Company together with the Audited Accounts for the financial year ended March 31, 2007.

Financial Results

Rs. Millions

	2006-07	2005-06
Gross Sales	**19797.2**	14722.0
Profit before Depreciation, Interest and Tax		
including Extraordinary Income	**3217.3**	1888.5
Depreciation/Amortisation	**718.4**	511.2
Interest (net)	**187.3**	448.3
Profit before Tax	**2311.6**	929.0
Provision for Tax/Deferred Tax	**20.8**	235.2
Net Profit	**2290.8**	693.8
Balance brought forward from Previous Year	**1303.1**	522.7
Balance of Profit and Loss Account taken over on amalgamation	**0.1**	–
Balance available for appropriation	**3594.0**	1216.5
Appropriations		
Dividend on Equity Shares	**133.4**	81.2
Tax on Dividend	**22.7**	11.6
Transfer to General Reserve	**230.0**	69.4
Withdrawal from Debenture Redemption Reserve	**–**	(248.8)
Balance carried to Balance Sheet	**3207.9**	1303.1

Dividend

Your Directors have recommended a dividend of 50 per cent on the equity shares of Rs.5 each for the financial year 2006-2007 against 30 per cent paid in the previous year.

Review of Operations

Revenues for the year at Rs.19797.2 million were higher by 34.5 per cent and the net profit showed a growth of 230 per cent at Rs.2290.9 million. Domestic sales increased by 28 per cent and larger revenues from exports included participation in the prestigeous PEPFAR program.

Your Company effectively faced the challenges of entering into severely competitive markets, high raw material costs and pressure on product prices. During the year under review, leveraging on the large product basket, successful efforts were made to achieve volume growth in the US market. Some of the products have carved out a large slice of the market share.

Exports constituted Rs.10968 million, approximately 55.4 per cent of the revenues maintaining the same proportion as in the previous year. However, in the year under review, there was higher proportion of value added products with exports of formulations to the regulated markets. Formulations sales accounted for 31 per cent of the revenues in 2006-07, as against 16 per cent in 2005-06.

Your Company's products found rapid acceptance in US, UK, Brazil and the key ARV markets. A strong marketing infrastructure has been set up in US, UK and Europe manned by outstanding professionals with rich management experience in their respective markets. Subsidiaries and offices in key markets have helped getting nearer to the customer. Acquisition of Milpharm in UK with over 100 market authorizations on hand, and Pharmacin in the Netherlands with over 200 market authorizations have become powerful engines to drive your Company's products.

These efforts augur well for the future. Your Company has gained a foothold in the highly competitive markets and with further additions to the product basket in 2007, the momentum of growth is expected to be maintained. There is huge potential for the products in the regulated markets, with its large basket of market specific regulatory approved products.

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 future. Aurobindo has filed 112 DMFs and 98 ANDAs for the USA market alone in addition to filings in other countries.

Merger

The scheme of arrangement for the merger of APL Life Sciences Limited and Senor Organics Private Limited, the subsidiaries of the Company with itself w.e.f. April 1, 2006 was approved by the shareholders at the Meeting held on February 20, 2007, convened as per the directions of the Hon'ble High Court of Andhra Pradesh.

The Hon`ble High Court of Andhra Pradesh, vide order dated June 21, 2007, in the Company Petition of No.40/2007 has sanctioned the scheme of arrangement as proposed and for utilizing the Securities Premium Account. Accordingly, the Order of the Hon'ble High Court of Andhra Pradesh has been reflected in the accounts of the Company for the year ended March 31, 2007.

Acquisitions

Your Company through its wholly owned subsidiary Agile Pharma B.V., The Netherlands, has acquired 100% holding in Pharmacin International B.V. and its two subsidiary companies viz., Pharmacin Products B.V. and Pharmacin B.V. This enterprise is engaged in the business of supply of licensing of generic pharmaceuticals in the Netherlands and select key markets in Europe. Your Company believes that similar to the acquisition of Milpharm Limited in U.K. in early 2006, these acquisitions reduce the time to market and enhance the relationships in the generic value chain and help build a broad and formidable product portfolio.

Recognition

Aurobindo Pharma was invited to participate in a conference on July 24, 2006 by the then 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 and committed higher delivery targets, work towards reducing production costs, and contribute to better access to medicines across the world. He also assured that your Company's people, manufacturing facilities and market relationships will be better used to improve the health of the HIV patients.

Dr. M. Sivakumaran, Whole-time Director of the Company was invited to the White House, at Washington to explore the prospects of addressing the needs of HIV affected children and pharmaceutical industry's support for pediatric drugs.

Your Company was awarded "Asia Star 2006" award for Packaging Excellence. This award is presented for excellence in packaging product designed for US markets called Compliance pack. The pack is developed keeping in mind the compliance of the patient, consumer friendliness, child resistant and eco friendliness. The Asia Star is an award presented by Asian Packaging Federation (APF), a non-profit organisation, established in Tokyo, Japan to unite the packaging interests of all trades and industries in the Asia-Pacific region and beyond, under one co-operative umbrella.

Disinvestment

Aurobindo Tongling (Datong) Pharmaceutical Company Limited (ATDPL) located at Economic and Technology Development Zone, Datong, Shanxi, China, a wholly owned subsidiary engaged in the manufacture of pharmaceutical products catering to the local Chinese markets had been incurring losses and in the best interests of your Company, the entire holding was disinvested. However, Aurobindo (Datong) Bio-Pharma Company Limited, the other Wholly Owned Subsidairy in China, which is manufacturing raw materials such as PenicillinG, 6 APA etc. for our captive consumption, would continue its operations in China.

The operations of Aurobindo (H.K.) Limited, Hong Kong was discontinued during the year.

FCCB Issue

During the year your Company has issued Foreign Currency Convertible Bonds (FCCB) aggregating to US$ 200 million equivalent to approximately Rs.9000 million in the overseas market for the purpose of financing new projects, modernization, expansion of existing plants, acquisitions and for any other use including other growth requirements and repayment of existing loans, as may be permitted under applicable laws or regulations.

Out of these, convertible bonds (Tranche A) of US$ 150 million are convertible at any time on or after June 27, 2006 upto May 10, 2011 into Equity Shares of Rs.5 each for each bond at a conversion price of Rs.1,014.16. The balance of US$ 50 million (Tranche B) are convertible at any time on or after May 17, 2007 upto May 10, 2011 into Equity Shares of Rs.5 each for each bond at a conversion price of Rs.879.13.

The funds raised through FCCB issue are being utilized as stated above.

Pursuant to the applications received, US$ 4.5 million out of US$ 60 million FCCB raised during 2005-2006 was converted into 374,046 Equity Shares of Rs.5 each at a premium of Rs.517.036 on July 11, 2007 as per the terms of the issue.

Outlook

Your Company is on track to make a strong presence in select premium markets such as US, Canada, Europe and Australia leveraging on the large product portfolio, well balanced therapeutic presence, well-organised manufacturing infrastructure and experienced marketing resources. While these are highly competitive markets, the products of the Company are in large therapeutic segments that are as yet growing. The team at Aurobindo is highly motivated and confident of increasing volumes and market share, and be a significant player in these markets.

One of the major strengths of your Company is its ability to offer products at competitive prices because of the vertically integrated manufacturing platform. While your Company protects its margins on its products, it is able to offer them at competitive prices.

Looking ahead, the strengths of the Company in complex chemistry, large investments made in facilities and people skills, and the ability to deliver what the customer wants at affordable prices, would make Aurobindo a significant player in the developed markets. Rising volumes and larger geographical presence in segments that hold value would enable your Company to demonstrate robust growth in both top and bottom lines. Efforts will be made to improve margins and enhance shareholder value.

Research & Development

The ability to work on complex chemistry, create products that have market potential, present them for regulatory approvals and follow through to get them commercialised has been the driver for your Company's path breaking entry into the premium markets. A highly result oriented in-house R&D has strived to offer a strong pipeline of products at the time they are needed.

As at July 31, 2007 your Company's R&D team has filed 100 ANDAs in US and 40 ANDAs in Europe and approvals on hand from US and Europe aggregate to 57. Your Company has the infrastructure to market the new products at the shortest lead time and convert the approvals into invoicing. The additional product pipeline is expected to improve the income stream in 2007-08.

The enormous strength in R&D is being further leveraged to expand the strategic entry already made into the business of contract research. Your Company has a large reservoir of knowledge base, skills and experience which would be rewardingly utilized to partner the global pharmaceutical industry in conducting research and development. A new state-of-the-art research center is being planned and is expected to be operational in the foreseeable future. This business would not only be adding to the income stream but would also help build long term sustainable relationship with the customers.

Your Company has mapped a development program to work on identified molecules which would culminate in new research findings and would be commercially patented. More important, the R&D efforts will be directed towards a meaningful contribution to the healthcare industry.

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 2006-2007 were as follows:

Rs. Millions

Subsidiary	Country	Form	Amount
AB Farmo Industria Farmaceutica Ltda	Brazil	Equity	26.8
Helix Healthcare B.V.	The Netherlands	Equity Loan	151.6 235.0
Aurobindo Pharma USA Inc.	U.S.A.	Equity Loan	483.6 1070.3
Aurobindo (Datong) Bio-Pharma Company Limited	China	Equity Loan	499.5 977.6
Aurobindo (H.K.) Limited	Hong Kong	Equity	12.2
Aurobindo TongLing (Datong) Pharmaceutical Company Limited	China	Loan	111.0
APL Healthcare Limited	India	Equity Loan	0.5 1.2
APL Research Centre Limited	India	Equity Loan	0.5 24.5

Subsidiaries/Joint Ventures

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 open 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.

Environment & Safety

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.

Your Company as a responsible corporate citizen has been not only protecting the health of the employees but also safeguarding the environment. Health and safety of the employees are primary concern, and adequate training inputs as well as counseling are done to retain the awareness levels of the operating staff. Dedicated officials have been vested with the authority to follow through to ensure that employees protect themselves and those around them.

Directors

In accordance with the provisions of the Companies Act, 1956, read with the Articles of Association of the Company, Mr. V.S. Janardhanam, Dr. K.A. Balasubramanian and Mr. B. Siva Prasad Reddy, retire by rotation. However due to their preoccupation, they have expressed their inability to continue as directors of the Company and therefore have not offered themselves for re-appointment.

Consequent to the termination of share subscription and shareholders' agreement between the Company, Promoters and Merlion India Fund (I) Limited, the nominee of Merlion, Mr. Karamjit Singh Butalia, Director of the Company, resigned from the Board w.e.f. June 11, 2007.

The Board places on record its appreciation for the services rendered by the aforesaid Directors during their association with the Company.

Mr. M. Sitarama Murthy, Dr. P. L. Sanjeev Reddy and Mr. P. Sarath Chandra Reddy are proposed to be appointed as directors liable to retire by rotation in the vacancy caused by the inability of Mr. V.S. Janardhanam, Dr. K.A. Balasubramanian and Mr. B. Siva Prasad Reddy to continue as directors.

A brief profile of Mr. M. Sitarama Murthy, Dr. P. L. Sanjeev Reddy and Mr. P. Sarath Chandra Reddy proposed as directors are provided in the Report on Corporate Governance. The Notice containing the agenda for their appointment is 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 and Loss Account for the year ended March 31, 2007 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; and,

iv. the annual accounts have been prepared on a going concern basis.

Corporate Governance

A Report on Corporate Governance is given in the Annexure forming part of this Report along with 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 Agreement with the Stock Exchanges in India.

Auditors

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

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 2006-07.

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 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 as on the date of the Balance Sheet.

Industrial Relations

The Company enjoyed cordial relations with its employees at all levels. The constant upgradation of the facilities, product and facility approvals from international regulators and the present thrust into the regulated markets is a testimony to the competence, skills and result oriented efforts made by the entire team at Aurobindo. Your Directors record their appreciation of the support and co-operation of all employees and counts on them for the accelerated growth of the Company.

Particulars of Employees

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

Employee Stock Option Scheme

At the Annual General Meeting of the Company held on July 31, 2004 the Members approved formulation of “Employee Stock Option Scheme - 2004” (ESOP 2004) for the eligible employees and Directors of the Company and its subsidiaries.

Further, the Members at the Annual General Meeting of the Company held on September 18, 2006 approved formulation of “Employee Stock Option Scheme - 2006” (ESOP 2006) for the eligible employees and Directors of the Company and its subsidiaries.

During the year, 35,000 options were granted under ESOP-2006. Under ESOP - 2004, total of 79,162 options were exercised and 78,637 Equity Shares were issued and allotted under the Scheme and for the balance 525 options exercised, the shares were allotted during the current financial year.

Details of the options granted up to 31st March 2007 are set out in the annexure to this Report, as required under Clause 12 of the Securities and Exchange Board of India (Employee Stock Options Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

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 support and co-operation extended by banks, financial institutions, government and shareholders and look forward to having the same support in all our future endeavors.

For and on behalf of the Board

Hyderabad — **P. V. RAMAPRASAD REDDY**
July 31, 2007 — Chairman

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

FORM – A

	31.03.2007	31.03.2006
CONSERVATION OF ENERGY		
Power & Fuel Consumption		
a. Electricity Purchased:		
Units (Nos. in Millions)	**139.25**	121.46
Total Amount (Rs. Millions)	**460.21**	426.28
Unit rate (Rs.)	**3.30**	3.51
b. Own Generation:		
i. Through Diesel Generator		
(No. of units in Millions)	**6.19**	4.52
Units per litre of diesel	**3.28**	2.90
Oil cost per unit (Rs.)	**7.80**	10.60
ii. Through Steam Turbine/Generator		
(No. of units in Millions)	**29.63**	26.90
Units per litre of oil/gas	**0.31**	0.30
Cost per unit (Rs.)	**1.77**	2.19
Coal		
Quantity (Kgs.)	**114,634.25**	107,108.17
Cost (Rs.Millions)	**252.11**	223.30
Average rate/MT (Rs.)	**2,199.29**	2,084.80
Furnace Oil		
Quantity (KL)	**2,778.21**	2,245.52
Cost (Rs.Millions)	**46.84**	33.59
Average rate/KL (Rs.)	**16,860.67**	14,956.80
Others (Wood)		
Quantity (MT)	**1,114.69**	2440.00
Cost (Rs.Millions)	**1.52**	2.78
Average rate/MT (Rs.)	**1,360.47**	1139.34

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

	2006-07	2005-06
Capital	**154.9**	23.7
Recurring	**812.2**	624.2
Total R&D expenditure	**967.1**	647.9
as a percentage of total turnover	**4.89%**	4.40%

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, 2007

Rs. Millions

	2006-07	2005-06
Foreign exchange earned		
Exports (FOB)	**10968.3**	8163.3
Others	**644.6**	166.2
	11612.9	8329.5
Foreign exchange outgo		
Materials	**9869.7**	6969.2
Other expenses	**520.6**	316.5
	10390.3	7285.7

For and on behalf of the Board

Hyderabad
July 31, 2007

P. V. RAMAPRASAD REDDY
Chairman

DETAILS OF STOCK OPTIONS PURSUANT TO SEBI GUIDELINES ON STOCK OPTIONS

DESCRIPTION	PLAN 2004	PLAN 2006
Number of Options available under the Scheme	507,700	799,050
Total Number of Options granted	507,700	35,000
Options granted during the year	Nil	35,000
Pricing Formula	The market price of the Share quoted on a day prior to the grant date quoted on the Bombay Stock Exchange or National Stock Exchange, wherever volumes traded are higher.	
Options vested during FY 2006-07	74,473	Nil
Options exercised during FY 2006-07	79,162	Nil
The total number of shares arising as a result of exercise of option	79,162	Nil
Options lapsed during FY 2006-07 which are subject to reissue	72,461	Nil
Variation of terms of options	Nil	Nil
Money realised by exercise of Options	Rs.2,87,04,141	Nil
Grant Price (Face Value Rs.5)		
August 1, 2004	Rs.362.60	N.A
July 28, 2005	Rs.362.60	N.A
October 30, 2006	N.A	Rs.603.50
Total Number of options in force as on March 31, 2007 (Cumulative)	3,10,677	35,000
Grant details of members of senior management team during the year 2006-07	Nil	Mr. Scott White -20,000 Mr. Corrine Hogan -10,000 Mr. Stuart Blake - 5,000
Number of other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year	Nil	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	Nil
Diluted Earnings per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20	Rs.34.51	Rs.34.51

DESCRIPTION	PLAN 2004	PLAN 2006
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.8,16,937	Rs.1,59,545
iii. The impact of the difference on profits and on EPS of the Company	PAT	Rs.2,290,851,807
	Less: Additional cost based on Fair Value	Rs.9,76,342
	Adjusted PAT	Rs.2,289,875,325
	Adjusted EPS	Rs.42.92
iv. Weighted average exercise price and fair value of stock options granted:		
Stock options granted on	Nil	35,000 options on 30.10.2006
Weighted Average Exercise Price (Rs.)	362.60	603.50
Weighted average Fair Value (Rs.)	375.45	730.95
Closing market price at NSE on the date of grant (Rs.)	362.55	603.45
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	8
Expected Life of options from the date (s) of grant (Years)	5	6
Expected volatility (%)	5.62	5.64
Dividend yield	0.50	0.30

For and on behalf of the Board

Hyderabad
July 31, 2007

P. V. RAMAPRASAD REDDY
Chairman

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 key elements of corporate governance are transparency, disclosure, accountability, supervision and internal controls, risk management, internal and external communications, and high standards of safety, health, environment, accounting fidelity, product and service quality. The Board has empowered responsible persons to implement its broad policies and guidelines and has set up adequate review process.

The Company is committed to optimizing long term value for its stakeholders with a strong emphasis on the transparency of its operations and instilling pride of association. The Company follows the best practices of corporate governance and reporting systems.

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 the compliance of the applicable provisions, code of ethical standards of all other countries wherever the Company's subsidiaries do exist.

Size and Composition of the Board

As of the date of the Report, the Board consists of ten directors. Four of them are executive and six are non-executive directors. Your Company has taken all necessary steps to strengthen the Board with optimum combination of executive and non-executive / independent directors.

- **Composition of Board of Directors as on March 31, 2007**

Name	Category	Number of Memberships in other companies		Attendance at	
		Board	Committees	Board Meetings	AGM
Mr. P.V. Ramaprasad Reddy	Promoter and Executive	1	–	4	Yes
Mr. K. Nityananda Reddy	Promoter and Executive	4	–	7	No
Dr. M. Sivakumaran	Executive	2	–	6	Yes
Mr. B. Sivaprasad Reddy	Executive	3	1	7	Yes
Mr. M. Madan Mohan Reddy (w.e.f. September 18, 2006)	Executive	1	1	3	Yes
Mr. Srinivas Lanka	Non-executive Independent	–	–	5	Yes
Dr. K. Ramachandran (w.e.f. September 18, 2006)	Non-executive Independent	2	–	4	No
Dr. S. Bimal Singh	Non-executive Independent	–	–	7	Yes
Mr. V.S. Janardhanam	Non-executive Independent	–	–	7	No
Dr. K.A. Balasubramanian	Non-executive Independent	1	–	2	Yes
Mr. Karamjit Singh Butalia	Non-executive Independent	1	–	6	No

Note:

1. Mr. P.V. Ramaprasad Reddy and Mr. B. Siva Prasad Reddy are related to each other.
2. Other directorships are exclusive of Indian private limited companies and foreign companies.
3. Dr. I. Satya Murthy did not offer himself for re-appointment at the AGM held on September 18, 2006. He was granted leave of absence for not attending any of the three Board Meetings held up to September 18, 2006.
4. Dr. K. Ramachandran was appointed as Director at the AGM held on September 18, 2006. He has attended all the four Board Meetings held subsequent to his appointment.
5. Mr. M. Madan Mohan Reddy was appointed as Wholetime Director at the AGM held on September 18, 2006. He has attended three out of the four Board Meetings held subsequent to his appointment.
6. Mr. Karamjit Singh Butalia resigned as Director w.e.f. June 11, 2007.
7. Mr. B. Sivaprasad Reddy relinquished the executive responsibilities w.e.f. July 1, 2007 and continues to be on the Board as Non-executive Director.

- During the year seven Board Meetings were held on the following dates:

Date	Board Strength	No. of Directors Present
April 1, 2006	10	7
June 27, 2006	10	8
July 31, 2006	10	8
October 30, 2006	11	10
November 14, 2006	11	7
December 15, 2006	11	8
January 31, 2007	11	10

Details of Directors proposed for appointment:

Mr. B. Sivaprasad Reddy, Mr. V. S. Janardhanam and Dr. K.A. Balasubramanian retire by rotation. Due to their pre-occupation, they have expressed their inability to continue as Directors of the Company and therefore have not offered themselves for re-appointment.

Mr. M. Sitarama Murthy aged 63 years is a B.Sc. (Hons.) and M.Sc. (Electronics). He is professionally qualified as CAIIB with all India 1st Rank in Part-II. Mr. Murthy has over three decades of experience as a banker and held various positions in nationalized banks and retired as Managing Director & CEO of State Bank of Mysore, Bangalore in the year 2003. His specialized areas of interest are - international banking, foreign exchange, money markets, funds management, credit management, rural development, computerization, commercial law and systems and procedures. He has authored several books on banking system and contributes regular articles to the financial magazines / papers. He is not holding directorship in any other Company and does not hold any shares in Aurobindo Pharma Limited.

Dr. P.L. Sanjeev Reddy aged 63 years, is B.A. (Hons.) with Ist Rank, M.A. (Economics) with Ist Rank and holding P.G. Diploma in Development of Studies, University of Cambridge (U.K.) and a Doctorate in Industrial Management. He is from the Indian Administrative Service, Andhra Pradesh Cadre (Batch 1964). He has 35 years of experience in various capacities in the IAS and retired on December 31, 2000 as Secretary to Government of India, Department of Company Affairs, Ministry of Law, Justice and Company Affairs.

During his service, he has held various sensitive, responsible, challenging and level assignments in different fields. He is specialized in the fields of industry, finance, international trade and commerce and development administration including social development. He has won several national awards for his managerial excellence in several fields. In the year 2002, he was awarded Golden Peacock Award instituted by the Institute of Directors, London for excellence in public service. During his service with the Government, he has held various positions viz., District Collector, Secretary to various Ministries of Central Government, Vice Chairman and Managing Director of A.P. State Agro Industries Development Corporation Limited, Andhra Pradesh Industrial Development Corporation, A.P. State Financial Corporation and A.P. State Non-Resident Investment Corporation.

He was the Principal Secretary to the Chief Minister, Govt. of A.P. during 1988 to 1989. He was also the Secretary to the erstwhile M.R.T.P. Commission during 1990 to 1992. He was Ex-Officio Additional Secretary to D.G.F.T. during

1993 to 1995. He was Director General - Indian Institute of Foreign Trade during 1995 to 1997. He was the Principal Advisor to the Planning Commission, Govt. of India during 1999 and was Secretary to the Govt. of India, Dept. of Rural Development during 1999 to 2000. He is a Director of VBC Ferro Alloys Limited and does not hold any shares in Aurobindo Pharma Limited.

Mr. P. Sarath Chandra Reddy aged 22 years, is a graduate of Business Administration. He is a second generation entrepreneur and has established his business acumen after he took over the management of Trident Life Sciences Ltd, as Managing Director from December, 2005. He has experience in general management and expertise in project executions. He is presently Managing Director of Trident Life Sciences Limited and also Director in Trident Chemphar Limited and SARAS Infrastructure and Projects Ltd. He holds 3,278 shares in Aurobindo Pharma Limited.

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

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 Finance & Accounts, Internal Auditor and the Representative of the Statutory Auditors are the 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.

During the year under report the Audit Committee has met 5 times.

Attendance at the Audit Committee Meetings during financial year 2006-07

Member	No. of Meetings	Attendance
Mr. Srinivas Lanka	5	5
Mr. V.S. Janardhanam	5	5
Mr. Karamjit Singh Butalia	5	5

Compensation Committee

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 grant of options to eligible employees and directors and administers the Employee Stock Option Scheme from time to time.

The remuneration of Chairman, Managing Director and other Wholetime Directors is recommended by the Compensation Committee and the remuneration is paid based on the resolutions approved by the members at their meetings and such other authorities as may be required. This Committee reviews the performance of all Executive Directors.

Composition and other details of Compensation Committee:

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

During the year the Compensation Committee met three times.

Attendance at the Compensation Committee Meetings during financial year 2006-07

Member	No. of Meetings	Attendance
Mr. Srinivas Lanka	3	3
Dr. S. Bimal Singh	3	3
Mr. Karamjit Singh Butalia	3	3

Details of remuneration paid to directors during the financial year 2006-2007

a. Executive Directors

Rs.

Name	Salary	Perquisites	Contribution to P.F	Total
Mr. P.V. Ramaprasad Reddy	5,105,333	793,543	9,360	5,908,236
Mr. K. Nityananda Reddy	5,105,333	793,543	9,360	5,908,236
Dr. M. Sivakumaran	5,085,000	791,509	9,360	5,885,869
Mr. B. Sivaprasad Reddy	3,510,000	562,509	9,360	4,081,869
Mr. M. Madan Mohan Reddy*	3,216,667	903,045	9,360	4,129,072
Total	22,022,333	3,844,149	46,800	25,913,282

* Part of the year

b. Non-executive Directors: Sitting fee of Rs.10,000 is being paid w.e.f. July 1, 2006 (prior to this Rs.5,000) for attending each meeting of the Board of Directors. During the year, the sitting fees paid was as follows:

Rs.

Name	Designation	Sitting fee
Mr. Srinivas Lanka	Non-executive Independent	35,000
Mr. V.S. Janardhanam	Non-executive Independent	55,000
Dr. S. Bimal Singh	Non-executive Independent	55,000
Dr. K. Ramachandran	Non-executive Independent	40,000
Dr. K.A. Balasubramanian	Non-executive Independent	20,000
Mr. Karamjit Singh Butalia	Non-executive Independent	–

The Central Government has approved under Section 309(4) of the Companies Act, 1956 for payment of remuneration of Rs.36 lakhs per annum plus applicable service tax for a period of three years w.e.f. April 1, 2006 to Mr. Srinivas Lanka.

Shareholders'/Investors' Grievance Committee

The main functions of the Committee are to review and redress shareholders'/investors' grievance pertaining to:

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

b. Dematerialisation/Rematerialisation 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.

Constitution of the Committee

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

Mr. K. Nityananda Reddy - Managing Director - Member

Mr. B. Sivaprasad Reddy - Executive Director - Member

The Committee meets every fortnight for effecting transfers, transmissions, split, consolidation, etc and also for review of the redressal of investor complaints. The Committee expresses its satisfaction with the Company's performance in dealing with investor grievances and its share transfer system.

Status of complaints received during the financial year 2006-07:

Nature of Complaints	Received	Resolved	Pending
Complaints received from Shareholders:			
• Share Certificates	260	260	Nil
• Dividend	79	79	Nil
• Annual Reports	18	18	Nil
Complaints of Shareholders forwarded by:			
• SEBI	12	12	Nil
• Stock Exchanges	1	1	Nil

General Body Meetings

Details of the last three AGMs are given as follows:

Year	Location	Date	Time	No. of Special Resolutions passed
2004	Sri Sathya Sai Nigamagamam, Hyderabad	31.07.2004	3.00 p.m.	2
2005	Sri Sathya Sai Nigamagamam, Hyderabad	27.09.2005	3.00 p.m.	Nil
2006	Fortune Katriya Hotel, Hyderabad	18.09.2006	3.00 p.m.	2

During the financial year 2006-07, an Extra Ordinary General Meeting of the Members of the Company was held on April 27, 2006. The Members have approved for issue of Foreign Currency Convertible Bonds, increase in the Borrowing Powers from the existing limit of Rs.1500 crore to Rs.3000 crore and consequently for creation of mortgage and charge for the said Borrowings.

A Meeting of the Members of the Company was convened on February 20, 2007 as per the directions of the Hon`ble High Court of A.P. at Hyderabad. The proposal for the scheme of arrangement between the Company and its Subsidiaries APL Life Sciences Limited and Senor Organics Private Limited and for adjusting the difference between the amount of assets taken over and diminution in the value of investments in Subsidiary Companies and for utilising the Securities Premium Account pursuant to Sections 78 and 100 of the Companies Act, 1956 was approved.

There was no special resolution passed through postal ballot during the year and no special resolution is proposed through postal ballot at the ensuing AGM.

Disclosures

CEO and CFO Certification

The Managing Director and Chief Financial Officer have given a Certificate to the Board as contemplated in Clause 49 of the Listing Agreement.

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 24 of Schedule 22 to the Accounts in the Annual Report.

Details of Non Compliance and Penalties

No penalties have been imposed on the Company by the stock exchanges where the Company's shares are listed or SEBI or any other statutory authority on any matter during the last three years.

Code of Conduct

The Board of Directors has laid down a 'Code of Conduct' (code) for all the Board members and the senior management of the Company and this code is posted on the website of the Company. Annual declaration is obtained from every person covered by the Code.

The Company has established a mechanism for employees to report to the management, concerns about unethical behaviour, actual or suspected fraud or violation of the Company's code of conduct or ethics policy. The employees have been appropriately communicated within the organization about the mechanism and have been provided direct access to the Chairman of the Audit Committee. The mechanism also emphasis on making enquiry into whistle blower complaint received by the Company.

Risk Management

The Board regularly discusses the significant business risks identified by the management and the mitigation process being taken up.

Details of compliance with mandatory requirements and adoption of the non-mandatory requirements:

The Company has complied with the mandatory requirements of Clause 49 and is in the process of implementation of non-mandatory requirements.

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.

The Management Discussion and Analysis Report forms part of the Directors' Report

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

GENERAL SHAREHOLDERS INFORMATION

20th Annual General Meeting

As mentioned in the Notice, the 20th Annual General Meeting of the Company will be held on 27th September, 2007 at 3.00 p.m. at Katriya Hotel & Towers, 8, Rajbhavan Road, Somajiguda, Hyderabad 500 082.

Quarterly Results

The financial year of the Company is April to March.

Financial Calendar (tentative and subject to change) of the financial year 2007-08 is as follows:

Un-audited
Financial Results for

1st Quarter	July 2007
2nd quarter	October 2007
3rd Quarter	January 2008
4th Quarter	June 2008 (audited)

Book Closure

From 18th September, 2007 to 27th September, 2007 (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. A. Mohan Rami Reddy
Company Secretary
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 are Registrars & Share Transfer Agents and Depository Transfer Agents of the Company. Any request pertaining to investors' relations may be addressed to the following address:

Mr. K. Sreedharamurthy
Karvy Computershare Private Limited
46, Avenue - 4, Street No.1
Banjara Hills, Hyderabad - 500 034
Tel Nos. +91 40 2311 4087/2342 0815
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 2007-08 has been paid to all the Stock Exchanges.

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

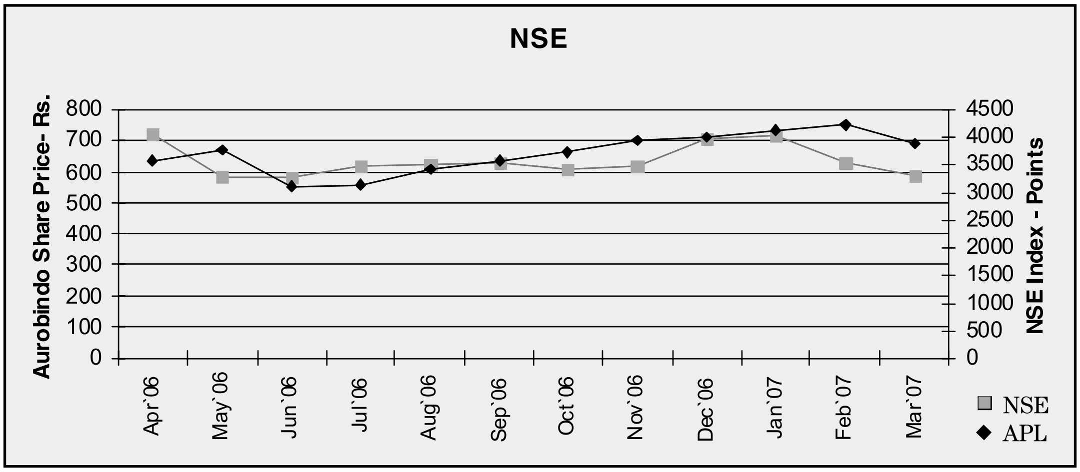
Depositories	ISIN
National Securities Depository Ltd. (NSDL)	INE 406A01029
Central Depository Services (India) Ltd. (CDSL)	

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				Bombay Stock Exchange			
Month	High	Low	Close	Volume	High	Low	Close	Volume
2006								
April	739.40	632.00	723.95	3,783,821	740.00	630.00	723.90	856,384
May	734.90	499.00	579.80	2,556,287	735.00	497.00	581.35	582,933
June	666.00	467.00	582.05	2,231,832	601.50	467.90	582.25	489,471
July	642.90	550.05	619.25	1,527,653	643.00	552.00	617.65	571,570
August	655.00	602.10	622.65	1,277,369	654.90	600.05	624.80	400,292
September	664.70	590.00	629.15	1,846,419	664.80	595.00	628.40	725,234
October	649.00	590.00	608.95	1,586,693	636.00	592.50	609.00	737,500
November	630.90	570.00	621.30	2,866,760	649.20	580.00	619.90	1,238,160
December	713.00	618.00	705.95	3,508,866	715.35	615.90	705.15	1,220,709
2007								
January	761.00	676.00	718.10	1,947,476	762.00	700.00	719.10	569,569
February	759.90	594.05	632.85	1,890,888	760.00	627.00	634.90	1,236,351
March	686.00	585.00	678.55	1,371,585	686.00	567.00	679.15	495,956



Distribution of shareholding as on March 31, 2007

Shareholding Nominal value		Shareholders		Share Amount Nominal Value	
From	To	No.	%	Rs.	%
Upto -	5,000	26,981	98.21	9,295,690	3.48
5,001 -	10,000	210	0.76	1,599,010	0.60
10,001 -	20,000	120	0.44	1,737,240	0.65
20,001 -	30,000	44	0.16	1,102,540	0.41
30,001 -	40,000	16	0.06	574,910	0.22
40,001 -	50,000	9	0.03	429,585	0.16
50,001 -	100,000	24	0.09	1,617,145	0.61
100,001 and above		68	0.25	250,387,065	93.87
		27,472	100.00	266,743,185	100.00

Categories of shareholding as on March 31, 2007

Category	No. of Shares	%
Promoters, Directors & their relatives	29,712,232	55.69
NRIs/FIIs/FDIs/OCBs	16,392,692	30.73
Govt/Banks/FIs	1,393,175	2.61
Mutual Funds	2,756,475	5.16
Bodies Corporate	221,908	0.42
General Public	2,862,219	5.37
Others	9,936	0.02

Top Ten Shareholders of the Company as on March 31, 2007

Shareholders	Category	No. of Shares	%
Mr. P. V. Ramaprasad Reddy	Promoter	15,699,088	29.43
Mrs. P. Suneela Rani	Promoter	5,966,110	11.18
Mr. K. Nityananda Reddy	Promoter	3,752,470	7.03
FID Funds (Mauritius) Ltd	FII	3,384,783	6.34
Mrs. K. Rajeswari	Promoter	2,427,550	4.55
Standard Chartered Private Equity Ltd	FDI	2,370,000	4.44
Quantum (M) Ltd.	FII	2,206,710	4.14
Morgan Stanley and Co. International Limited	FII	1,817,220	3.41
Dr. M. Sivakumaran	Director	1,469,136	2.75
BSMA Limited	FII	1,143,144	2.14

Mr. B. Sivaprasad Reddy, Mr. Srinivas Lanka and Mr. M. Madan Mohan Reddy, Directors were given options for 5,000 shares each under ESOP Scheme - 2004. Out of which, 1750 options were vested so far to each and Mr. B. Sivaprasad Reddy has exercised 750 shares, Mr. Srinivas Lanka 1,750 shares and Mr. M. Madan Mohan Reddy 1,750 shares respectively. Mr. B. Sivaprasad Reddy and Mr. M. Madan Mohan Reddy are also holding further 3,700 and 1 share respectively in the Company.

The Non executive - Independent Directors viz. Dr. S. Bimal Singh, Dr. K. A. Balasubramanian, Dr. K. Ramachandran, Mr. V. S. Janardhanam and Mr. Karamjit Singh Butalia do not hold any shares in the Company.

Dividend & Bonus History

Year	Rate of Dividend %	Bonus
1997-98	50	–
1998-99	50	1:1
1999-00	50	–
2000-01	30	1:1
2001-02	30	–
2002-03	35	–
2003-04	45	–
2004-05	10	–
2005-06	30	–

Share Transfer System and Dematerialisation & Liquidity

The Company's shares are covered under the compulsory dematerialisation list and are transferable through the depository system. The Company has appointed M/s. Karvy Computershare Private Limited 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 reviews the same at regular intervals. Further, the Company has signed a tripartite agreement with NSDL/CDSL and Karvy Computershare Private Limited to facilitate dematerialization of shares. The shareholders may contact for the redressal of their grievances either M/s. Karvy Computershare Private Limited or the Company Secretary, Aurobindo Pharma Limited.

Outstanding ADRs/GDRs/Warrants, etc

During the year 2005-06 the Company issued FCCBs amounting to USD 60 Million in August 2005 and are due for conversion into equity shares on or before August 8, 2010. Further, during the year 2006-2007 the Company has issued FCCBs amounting to USD 200 Million in May 2006 and are due for conversion into equity shares on or before May 10, 2011.

Subsidiary Companies

APL Healthcare Limited, India

APL Research Centre Limited, India

APL Pharma Thai Limited, Thailand

Aurobindo (H.K.) Limited, Hong Kong[1]

AB Farmo Industria Farmaceutica Ltda, Brazil (formerly AB Farmo Quimica Ltda)

Aurobindo (Datong) Bio-Pharma Company Limited, China

Aurobindo Tongling (Datong) Pharmaceutical Company Limited, China[1]

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

Aurobindo Pharma (Australia) Pty. Limited, Australia

Aurobindo Pharma Hungary, KFT

Agile Pharma B.V., The Netherlands

Aurobindo Switzerland AG, Switzerland

Pharmacin International B.V., The Netherlands

Pharmacin Products B.V., The Netherlands

Pharmacin B.V., The Netherlands

Auro Healthcare (Nigeria) Limited, Nigeria

[1] During the year, Aurobindo Tongling (Datong) Pharmaceutical Company Limited, China ceased to be a subsidiary and Aurobindo (H.K.) Limited, Hong Kong was wound up.

Plant Locations

Unit No.	Address
Unit - I	Survey Nos. 269, 385, 386, 388 to 396, Borapatla Village - 502 251 Hathnoora Mandal, Medak District, Andhra Pradesh
Unit - III	Survey Nos. 313 & 314, Bachupally Village - 500 072, Qutubullapur Mandal, Ranga Reddy District, Andhra Pradesh
Unit - V	Plot Nos. 68-70, 73 - 91, 95 & 96 , Chemical Zone, Industrial Development Area, Pashamylaram - 502 307, Patancheru Mandal, Medak District, Andhra Pradesh
Unit - VI	Survey Nos. 329/39, 329/40 & 329/47, Chitkul Village - 502 307, Patancheru Mandal, Medak District, Andhra Pradesh
Unit - VIII	Survey No. 10 & 13, Gaddapothram Village - 502 319, Jinnaram Mandal, Medak District, Andhra Pradesh
Unit - IX	Survey No. 374, Gundlamachanoor Village - 502 251, Hathnoora Mandal, Medak District, Andhra Pradesh
Unit - X	B-2, SIPCOT Industrial Complex, Kudikadu Village - 607 005, Cuddalore, Tamil Nadu
Unit - XI	Survey Nos. 61-66, Industrial Development Area, Pydibhimavaram - 532 409, Ranasthalam Mandal, Srikakulam District, Andhra Pradesh
Unit - XII	Survey No. 314, Bachupally Village - 500 072, Qutubullapur Mandal, Ranga Reddy District, Andhra Pradesh
Bhiwadi Unit	No.1122, RIICO Phase III, Bhiwadi - 301 019, Alwar District, Rajasthan

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 March 31, 2007.

For Aurobindo Pharma Ltd.

K. NITYANANDA REDDY
Managing Director

Hyderabad, July 31, 2007.

Certificate on compliance with the conditions of Corporate Governance under Clause 49 of the Listing Agreement

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, 2007, 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, 2007.

Auditors' Report

The Members of
Aurobindo Pharma Limited

1. We have audited the attached Balance Sheet of Aurobindo Pharma Limited as at March 31, 2007 and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 (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 and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account and with the returns from the branches;

   iv. in our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;

   v. on the basis of the written representations received from the Directors, as on March 31, 2007, and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on March 31, 2007 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(h) and Note 3(i) of Schedule 22 to the financial statements. Management is of the view that the liability to pay premium on redemption if any, of Foreign Currency Convertible Bonds is contingent. As the ultimate outcome of the matter cannot be presently determined no provision has been made for liability if any, that may arise on resolution of the contingency;

   vii. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India-

      a. in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2007;

      b. in the case of the Profit and Loss Account, of the profit for the year ended on that date; and

      c. in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

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

Per
RAHUL ROY
Partner
Membership No. 53956
Kolkata, June 30, 2007

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, discrepancies noticed on such verification have been dealt with in the books of account.

c. There was no substantial disposal of fixed assets during the year.

ii. a. The management has conducted physical verification of inventory at reasonable intervals during the year.

b. The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

c. The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.

iii. 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.

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

iv. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of inventory 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.

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.

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	23,533,225	2003-04	Commissioner of Income Tax (Appeals)
Central Excise Act, 1944	Duty	1,023,093	2002-03	Joint Commissioner - Hyderabad
Central Excise Act, 1944	Duty	6,633,718	2004-05	Joint Commissioner - Hyderabad
Central Excise Act, 1944	Duty	40,085	2004-05	Commissioner - Hyderabad
Central Excise Act, 1944	Duty	36,690,537	2005-06	Commissioner - Hyderabad
Central Excise Act, 1944	Duty	396,698	2005-06	Asst. 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. The Company does not have any outstanding debentures during the year.

xx. The Company has not raised any money by way of public issue during the year.

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, June 30, 2007

Balance Sheet as at March 31, 2007

Rs. Millions

			Schedule	As at March 31, 2007		As at March 31, 2006	
I.	**SOURCES OF FUNDS**						
	SHAREHOLDERS' FUNDS	Share Capital	1	**266.7**		266.3	
		Share Application money		**0.2**		0.4	
		Reserves & Surplus	2	**9,026.3**		8,787.8	
					9,293.2		9054.5
	LOAN FUNDS	Secured Loans	3	**6,859.5**		6,441.2	
		Unsecured Loans	4	**12,903.9**		5,611.0	
					19,763.4		12,052.2
	DEFERRED TAX LIABILITY (Net)		5		**672.2**		718.6
		TOTAL			**29,728.8**		21,825.3
II.	**APPLICATION OF FUNDS**						
	FIXED ASSETS	Gross Block	6	**9,424.6**		8,769.0	
		Less: Accumulated Depreciation		**2,318.1**		1,952.2	
		Net Block		**7,106.5**		6,816.8	
		Capital Work-in-progress including capital advances		**1,831.4**		1,454.5	
					8,937.9		8,271.3
	INTANGIBLE ASSETS		7		**18.3**		367.4
	INVESTMENTS		8		**2,027.3**		1,741.6
	CURRENT ASSETS, LOANS AND ADVANCES	Interest accrued on Investments		**0.5**		0.4	
		Inventories	9	**5,472.8**		3,834.4	
		Sundry Debtors	10	**6,244.1**		5,690.0	
		Cash & Bank Balances	11	**5,000.7**		1,420.7	
		Loans and Advances	12	**5,492.0**		3,481.6	
				22,210.1		14,427.1	
	LESS: CURRENT LIABILITIES AND PROVISIONS	Liabilities	13	**3,228.5**		2,842.5	
		Provisions	14	**236.3**		139.6	
				3,464.8		2,982.1	
	NET CURRENT ASSETS				**18,745.3**		11,445.0
		TOTAL			**29,728.8**		21,825.3
		Notes to Accounts	22				

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 30, 2007.

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

SUDHIR B. SINGHI
Chief Financial Officer

A. MOHAN RAMI REDDY
Company Secretary

Dr. M. SIVAKUMARAN
Director
Hyderabad, June 30, 2007.

Profit and Loss Account for the year ended March 31, 2007

AUROBINDO

Rs. Millions

		Schedule	2006-2007	2005-2006
INCOME	Sales (Gross)		**19,797.2**	14,722.0
	Less: Excise Duty		**1,011.5**	769.9
	Sales (Net)		**18,785,7**	13,952.1
	Other Income	15	**431.3**	103.3
	Increase in Stocks	16	**744.2**	275.2
	TOTAL		**19,961.2**	14,330.6
EXPENDITURE	Raw Materials Consumed	17	**11,483.4**	8,873.9
	Purchase of Trading Goods		**480.7**	152.8
	Other Manufacturing Expenses	18	**2,498.0**	1,796.5
	Payments to and Provisions for Employees	19	**1,128.8**	792.1
	Administrative and Selling Expenses	20	**1,153.0**	826.8
	Interest and Finance Charges (Net)	21	**187.3**	448.3
	Depreciation/Amortisation		**718.4**	511.2
	TOTAL		**17,649.6**	13,401.6
PROFIT BEFORE TAXATION			**2,311.6**	929.0
PROVISION FOR TAXATION				
	Current Tax (MAT Provision)		**180.5**	90.1
	Less: MAT credit entitlement		**(145.5)**	(80.9)
	Deferred Tax		**(40.6)**	158.8
	Fringe Benefit Tax		**4.0**	2.8
	Tax adjustments of previous years		**22.4**	64.4
PROFIT AFTER TAXATION			**2,290.8**	693.8
	Balance brought forward from last year		**1,303.1**	522.7
	Balance of Profit and Loss Account taken over on amalgamation		**0.1**	–
PROFIT AVAILABLE FOR APPROPRIATION			**3,594.0**	1,216.5
APPROPRIATIONS	Proposed Dividend @ Rs.2.50 (Rs.1.50) on Equity Shares of Rs.5 each		**133.4**	81.2
	Tax on Dividend		**22.7**	11.6
	Withdrawal from Debenture Redemption Reserve on redemption of debentures		**–**	(248.8)
	General Reserve		**230.0**	69.4
	Surplus carried to Balance Sheet		**3,207.9**	1,303.1
			3,594.0	1,216.5
EARNINGS PER SHARE	Basic Rs.		**42.98**	13.22
	Diluted Rs.		**34.51**	12.46
	Nominal value per Share Rs.		**5.00**	5.00
	Notes to Accounts	22		

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

This is the Profit and 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 30, 2007.

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

SUDHIR B. SINGHI
Chief Financial Officer

A. MOHAN RAMI REDDY
Company Secretary

Dr. M. SIVAKUMARAN
Director
Hyderabad, June 30, 2007.

Cash Flow Statement for the year ended March 31, 2007

Rs. Millions

		2006-2007	2005-2006
A. CASH FLOW FROM OPERATING ACTIVITIES	Net Profit before tax and Extraordinary Items	**2,311.6**	929.0
	Adjustments for:		
	Depreciation and Amortisation	**718.4**	511.2
	Provision for Doubtful Debts and Advances	**78.8**	133.5
	Bad Debts written off	**36.7**	3.5
	Investments written off	**13.6**	–
	Export incentives accrued	**(45.0)**	(193.3)
	Fixed Assets written off	**1.0**	13.7
	Balances/Provisions no longer required written back	**(52.8)**	–
	Provision for Retirement Benefits	**14.4**	(32.7)
	Interest Paid	**760.7**	606.4
	Interest Received	**(573.4)**	(158.1)
	Dividends Received	**(0.8)**	(0.8)
	Foreign Exchange (gain)/loss	**(257.5)**	68.7
	Profit on Sale of Fixed Assets	**(41.2)**	(28.6)
	Misc Expenditure written off	**0.1**	–
	Sales Tax availed as deferment loan	**19.5**	64.3
	Loss on sale of Investments	**–**	0.1
	Operating Profit before Working Capital Changes	**2,984.1**	1,916.9
	Adjustments for:		
	Inventories	**(1,569.2)**	(598.6)
	Sundry Debtors	**(564.1)**	(1,671.5)
	Loans & Advances	**(302.7)**	(137.0)
	Sundry Creditors	**206.5**	1,035.3
	Other Current Assets	**–**	0.1
	Cash Generated from Operations	**754.6**	545.2
	Income Tax Paid	**(259.8)**	(270.1)
NET CASH FROM OPERATING ACTIVITIES (A)		**494.8**	275.1
B. CASH FLOW FROM INVESTING ACTIVITIES	Acquisition of Fixed Assets	**(1,521.8)**	(1,458.0)
	Sale of Fixed Assets	**155.3**	56.5
	Investments	**(3,201.3)**	(242.3)
	Loans to Subsidiaries (Net)	**(1,740.2)**	(725.3)
	Interest Received	**528.4**	104.0
	Dividend Received	**0.8**	0.8
	Intangible Assets	**(287.6)**	(242.2)
NET CASH USED IN INVESTING ACTIVITIES (B)		**(6,066.4)**	(2,506.5)

Rs. Millions

		2006-2007	2005-2006
C. CASH FLOW FROM FINANCING ACTIVITIES	Proceeds from issue of Shares	**28.5**	587.5
	Proceeds from Share application money	**(0.2)**	0.4
	Proceeds from Long Term borrowings	**–**	871.7
	Repayment of Long Term borrowings	**(1,637.0)**	(1,391.8)
	Proceeds from Foreign Currency Convertible Bonds	**9,102.0**	2,612.7
	Other Short Term borrowings (Net)	**739.9**	1,511.4
	Interest Paid	**(772.1)**	(589.8)
	Foreign Currency Convertible Bond issue expenses	**(135.6)**	(70.2)
	Dividend and Dividend tax	**(91.2)**	(30.4)
NET CASH FROM FINANCING ACTIVITIES (C)		**7,234.3**	3,501.5
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)		**1,662.7**	1,270.1
	Cash and Cash Equivalents - Opening Balance	**1,420.7**	138.0
	Add: On amalgamation	**20.6**	–
	Cash and Cash Equivalents - Closing Balance	**3,104.0**	1,408.1
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,662.7**	1,270.1

Notes to the Cash Flow Statement for the year ended March 31, 2007

1. Cash and Cash equivalents include :

	2006-2007	2005-2006
Cash and Bank Balances	**146.7**	407.2
Fixed Deposit Accounts	**4,851.2**	1,010.9
Unpaid Dividend Accounts	**2.8**	2.6
Cash and Cash equivalents as per Balance Sheet	**5,000.7**	1,420.7
Unrealised gain on foreign currency cash and cash equivalents	**114.0**	0.8
Less Fixed Deposits considered as Investments	**2,010.7**	13.4
Cash and Cash equivalents considered for Cash Flows	**3,104.0**	1,408.1

2. Investments include investment in subsidiaries Rs.1,190.5 (Rs.228.5)
3. During the year, sale of fixed assets includes Rs.100.0 received in cash on account of sale of one of the business units.
4. The amalgamation of the erstwhile APL Life Sciences Limited and Senor Organics (Private) Limited is considered as non cash transaction.
5. Utilisation of Securities Premium Account pursuant to High Court of Judicature, Andhra Pradesh as detailed in Note 6 of Schedule 22 is a non cash transaction and has been dealt accordingly for this Cash Flow Statement.
6. 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 30, 2007.

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

SUDHIR B. SINGHI
Chief Financial Officer

A. MOHAN RAMI REDDY
Company Secretary

Dr. M. SIVAKUMARAN
Director
Hyderabad, June 30, 2007.

Rs. Millions

			As at March 31, 2007		As at March 31, 2006
1. SHARE CAPITAL (Refer Note 4 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	53,348,637 (53,270,000) Equity Shares of Rs.5 each fully paid-up		**266.7**		266.3
	TOTAL		**266.7**		266.3

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.

			As at March 31, 2007		As at March 31, 2006
2. RESERVES & SURPLUS (Refer Note 6 on Schedule 22)					
CAPITAL RESERVE	As per last Balance Sheet	**90.2**		390.2	
	Add: On Amalgamation	**0.1**		–	
	Less: Non-Compete fee	**–**		300.0	
			90.3		90.2
CAPITAL REDEMPTION RESERVE	As per last Balance Sheet		**90.0**		90.0
SECURITIES PREMIUM	As per last Balance Sheet	**2,860.3**		2,005.5	
	Add: Received during the year	**28.1**		925.0	
		2,888.4		2,930.5	
	Less: Utilisation pursuant to High Court Order	**1,796.1**		–	
	Less: Foreign Currency Convertible Bonds issue expenses	**135.6**		70.2	
			956.7		2,860.3
DEBENTURE REDEMPTION RESERVE	As per last Balance Sheet	**–**		248.8	
	Less: Transferred to Profit and Loss Account	**–**		248.8	
			–		–
GENERAL RESERVE	As per last Balance Sheet	**4,444.1**		4,374.8	
	Add: On amalgamation	**18.5**		–	
	Less: Adjustments for employee benefits provision (net of tax of Rs.5.8)	**11.2**		–	
	Refer Note 8 on Schedule 22	**–**		–	
	Add: Transferred from Profit and Loss Account	**230.0**		69.4	
			4,681.4		4,444.2
PROFIT AND LOSS ACCOUNT BALANCE			**3,207.9**		1,303.1
	TOTAL		**9,026.3**		8,787.8

Rs. Millions

			As at March 31, 2007		As at March 31, 2006
3.	**SECURED LOANS** (Refer Note 9 on Schedule 22)				
TERM LOANS	From Banks		**1,497.5**		3,149.5
	[Payable within one year - Rs.975.9 (Rs.1,452.5)]				
OTHER LOANS	From Banks - Working Capital Loans	**5,360.2**		3,291.7	
	From Banks - Hire Purchase Loan	**1.8**		–	
			5,362.0		3,291.7
	TOTAL		**6,859.5**		6,441.2
4.	**UNSECURED LOANS** (Refer Note 10 on Schedule 22)				
SHORT TERM LOANS	From Banks		**900.0**		2,175.0
OTHER LOANS	Zero coupon Foreign Currency Convertible Bonds*		**11,299.6**		2,677.2
	Sales Tax Deferment Loan		**704.3**		758.8
	[Payable within one year Rs.3.2 (Rs.4.0)]				
	*Refer Note 10(b) on Schedule 22				
	TOTAL		**12,903.9**		5,611.0
5.	**DEFERRED TAX LIABILITY** (Net) (Refer Note 16 on Schedule 22)				
	Deferred Tax liabilities		**672.2**		718.6
	TOTAL		**672.2**		718.6

6. FIXED ASSETS (Refer Note 11 on Schedule 22)

Rs. Millions

Particulars	Gross Block					Depreciation/Amortisation					Net Block	
	As at April 1, 2006	Acquired on Amalgamation	Additions	Sales/ Adjustments	As at March 31, 2007	Up to April 1, 2006	Acquired on Amalgamation	For the year	On Sales/ adjustments	Up to March 31, 2007	As at March 31, 2007	As at March 31, 2006
Leasehold Land	42.4	–	–	–	**42.4**	1.3	–	0.6	–	**1.9**	**40.5**	41.1
Freehold Land[a]	133.8	4.1	9.3	21.6	**125.6**	–	–	–	–	**–**	**125.6**	133.8
Leasehold Buildings	64.8	–	–	–	**64.8**	6.2	–	2.6	–	**8.8**	**56.0**	58.6
Freehold Buildings[b]	1,511.9	7.7	66.5	40.7	**1,545.4**	172.3	1.1	48.4	6.4	**215.4**	**1,330.0**	1,339.6
Plant and Machinery[c]	6,838.6	19.3	1,003.8	425.3	**7,436.4**	1,722.3	9.6	547.4	251.6	**2,027.7**	**5,408.7**	5,116.3
Furniture and Fittings	142.9	0.2	24.6	8.2	**159.5**	40.1	0.1	15.3	4.5	**51.0**	**108.5**	102.8
Vehicles	34.6	3.0	16.6	3.7	**50.5**	10.0	1.1	4.2	2.0	**13.3**	**37.2**	24.6
TOTAL	8,769.0	34.3	1,120.8	499.5	**9,424.6**	1,952.2	11.9	618.5	264.5	**2,318.1**	**7,106.5**	6,816.8
Previous year	7,297.4	–	1,601.7	130.1	8,769.0	1,516.9	–	469.1	33.8	1,952.2	6,816.8	
Capital Work-in-progress[d]											**1,831.4**	1,454.5

Notes

a. The title deeds of Land and Buildings aggregating to Rs.90.1 (Rs.109.1) are pending transfer to the Company's name.

b. Include Rs.0.3 being the value of shares in co-operative housing societies, and net of government grant received Rs.Nil (Rs.0.8).

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

d. Include capital advances of Rs.76.9 (Rs.85.8), foreign exchange fluctuations Rs.Nil (Rs.0.7) and expenditure during construction period Rs.11.1 (Rs.11.1) (Refer Note 11 on Schedule 22).

e. Gross Block deletions include Rs.306.6 and deletions in depreciation block include Rs.186.6 adjusted pursuant to High Court of Judicature, Andhra Pradesh at Hyderabad vide Order dated June 21, 2007 (Refer Note 6 on Schedule 22).

f. Additions during the year include Rs.154.9 (Rs.23.7) towards Research Centre capital expenditure.

7. INTANGIBLE ASSETS (Refer Note 8 on Schedule 22)

Rs. Millions

Particulars	Gross Block				Amortisation				Net Block	
	As at April 1, 2006	Additions	Adjustments	As at March 31, 2007	Up to April 1, 2006	For the year	On Sales/ adjustments	Up to March 31, 2007	As at March 31, 2007	As at March 31, 2006
Product Development Cost	389.0	273.4	662.4	**–**	39.1	86.4	125.5	**–**	**–**	349.9
Licenses	20.5	14.3	–	**34.8**	3.0	13.5	–	**16.5**	**18.3**	17.5
Total	409.5	287.7	662.4	**34.8**	42.1	99.9	125.5	**16.5**	**18.3**	367.4
Previous year	167.3	242.2	–	**409.5**	–	42.1	–	**42.1**	**367.4**	

Note: Product development costs are internally generated intangible assets.

Deletions include Rs.536.9 adjusted pursuant to High Court of Judicature, Andhra Pradesh at Hyderabad vide Order dated June 21, 2007 (Refer Note 6 on Schedule 22).

Rs. Millions

	Face value per Share	As at March 31, 2007 No. of Shares	As at March 31, 2007 Rs.	As at March 31, 2006 No. of Shares	As at March 31, 2006 Rs.
8. INVESTMENTS (Refer Note 7 on Schedule 22)					
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 Certificates*			**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.	$1	**100% of Paid-in-Capital**	**772.0**	100% of Paid-in-Capital	288.4
Aurobindo (H.K.) Limited, Hong Kong	$1	**–**	**–**	2,999,999	142.3
APL Pharma Thai Limited, Thailand	100 Baht	**19,200**	**2.2**	19,200	2.2
APL Life Sciences Limited (Merged during the year)	Rs.10	**–**	**–**	5,000,000	50.0
Aurobindo (Datong) Bio-Pharma Company Limited, China		**100% of Paid-in-Capital**	**799.8**	100% of Paid-in-Capital	1,057.3
AB Farmo Industria Farmaceutica Ltda, Brazil	1 Reais	**3,412,892**	**75.4**	2,124,800	48.6
Helix Healthcare B.V., The Netherlands		**100% of Paid-in-Capital**	**303.7**	100% of Paid-in-Capital	152.1
APL Research Centre Limited	Rs.10	**50,000**	**0.5**	–	–
APL Healthcare Limited	Rs.10	**50,000**	**0.5**	–	–
			1,954.1		1,740.9
Sub Total (A)+(B)+(C) = I			**1,956.5**		1,743.3

Rs. Millions

	Face value per Share	As at March 31, 2007 No. of Shares	As at March 31, 2007 Rs.	As at March 31, 2006 No. of Shares	As at March 31, 2006 Rs.
INVESTMENTS (Contd.)					
II. CURRENT INVESTMENTS (At lower of cost or market value)					
QUOTED - TRADE					
Equity Shares (Fully paid-up)					
Andhra Bank	Rs.10	**4,520**	**0.3**	4,520	0.4
UNQUOTED - NON TRADE					
Citadel Aurobindo Biotech Limited (Equity shares - fully paid-up)	Rs.100	**70,000**	**7.0**	100,000	10.0
Aurobindo TongLing (Datong) Pharmaceutical Company Limited, China		**50% of Paid-in-Capital**	**84.4**	**50% of Paid-in-Capital**	154.1
Sub Total II			**91.7**		164.5
Sub Total (I) + (II)			**2,048.2**		1,907.8
Less: Provision for diminution in value of investments			**20.9**		166.2
TOTAL			**2,027.3**		1,741.6
Notes					
1. Aggregate value of unquoted investments			**2,027.0**		1,741.2
2. Aggregate value of quoted investments			**0.3**		0.4
3. Market value of quoted investments			**0.3**		0.4

		As at March 31, 2007		As at March 31, 2006
9. INVENTORIES				
(at lower of cost or net realisable value)				
Raw Materials*		**2,533.6**		1,691.7
Work-in-process		**2,066.3**		1,530.5
Stores, Spares, Consumables & Packing Materials		**454.6**		383.0
Finished Goods*		**418.3**		229.2
TOTAL		**5,472.8**		3,834.4
*includes material in transit and lying with third parties.				
10. SUNDRY DEBTORS (Refer Note 12 on Schedule 22)				
Unsecured — Debts outstanding for a period exceeding six months				
Considered good	**921.5**		903.8	
Considered doubtful	**307.1**		226.2	
		1,228.6		1,130.0
Other debts - Considered good		**5,322.6**		4,786.2
		6,551.2		5,916.2
Less: Provision for doubtful debts		**307.1**		226.2
TOTAL		**6,244.1**		5,690.0

Rs. Millions

		As at March 31, 2007		As at March 31, 2006
11. CASH & BANK BALANCES (Refer Note 13 on Schedule 22)				
Cash on Hand		**4.0**		3.2
Balance with Scheduled Banks on				
Current Accounts	**141.4**		403.3	
Fixed Deposit Accounts	**4,851.2**		1,010.9	
Unpaid Dividend Accounts	**2.8**		2.6	
		4,995.4		1,416.8
Balance with Non-Scheduled Banks on				
Current Accounts		**1.3**		0.7
TOTAL		**5,000.7**		1,420.7
12. LOANS & ADVANCES (Refer Note 14 on Schedule 22)				
(Unsecured, considered good except stated otherwise)				
Loans - Subsidiaries		**3,415.4**		1,914.5
- Employees		**18.4**		13.4
Insurance claim receivable		**16.0**		54.7
Advances recoverable in cash or in kind or for value to be received or pending adjustments				
Considered good	**685.1**		634.9	
Considered doubtful	**36.3**		36.3	
		721.4		671.2
Export Incentives Receivable		**476.0**		437.0
Trade and Other Deposits		**254.7**		110.0
MAT credit entitlement		**231.9**		80.9
Advance Income Tax and tax paid on appeals (Net of Provision)		**192.0**		146.3
Balances with Customs and Excise Authorities		**202.5**		89.9
		5,528.3		3,517.9
Less: Provision for doubtful advances		**36.3**		36.3
TOTAL		**5,492.0**		3,481.6

Rs. Millions

			As at March 31, 2007		As at March 31, 2006
13. CURRENT LIABILITIES (Refer Note 15 on Schedule 22)					
	Sundry Creditors for goods, services and expenses				
	Dues to Small Scale Industrial undertakings		**20.9**		17.5
	Dues to others		**2,819.9**		2,659.0
			2,840.8		2,676.5
	Dues to Subsidiaries		**307.2**		83.3
	Trade Deposits		**1.0**		1.0
	Unclaimed Dividends		**2.8**		2.6
	Other Liabilities		**44.0**		44.4
	Book Overdraft		**11.6**		2.2
	Interest Accrued but not due on Loans		**21.1**		32.5
	TOTAL		**3,228.5**		2,842.5
14. PROVISIONS	For Retirement Benefits				
	Gratuity	**19.8**		22.1	
	Leave encashment	**60.4**	**80.2**	26.4	48.5
	For Proposed Dividend		**133.4**		79.9
	For Tax on Proposed Dividend		**22.7**		11.2
	TOTAL		**236.3**		139.6

		2006-2007	2005-2006
15. OTHER INCOME			
	Processing Charges	**0.4**	1.6
	Dividends from a Subsidiary Company	**0.8**	0.8
	Balances/Provisions no longer required written back	**52.8**	39.5
	Exchange Fluctuation loss/(gain) (Net)	**174.8**	(42.1)
	Dossier sales	**112.7**	33.7
	Profit on sale of Fixed Assets (Net)	**41.2**	28.7
	Miscellaneous Income	**48.6**	41.1
	TOTAL	**431.3**	103.3

Rs. Millions

	2006-2007		2005-2006	
16. INCREASE IN STOCKS				
Opening Stocks				
Finished Goods	**229.2**		239.9	
Work-in-Process	**1,530.5**		1,271.7	
	1,759.7		1,511.6	
Less: VAT Credit available on opening stocks	**–**		0.6	
Reversal of excise duty on opening stocks	**19.5**		26.5	
		1,740.2		1,484.5
Less:Closing Stocks				
Finished Goods	**418.3**		229.2	
Work-in-Process	**2,066.3**		1,530.5	
		2,484.6		1,759.7
TOTAL		**744.2**		275.2
17. RAW MATERIALS CONSUMED				
Opening Stock		**1,691.7**		1,492.1
Add: Purchases		**12,325.3**		9,073.5
		14,017.0		10,565.6
Less:Closing Stock		**2,533.6**		1,691.7
TOTAL		**11,483.4**		8,873.9
18. OTHER MANUFACTURING EXPENSES				
Conversion charges		**131.8**		49.6
Packing Materials consumed		**440.3**		253.0
Consumption of Stores & Spares		**276.3**		164.1
Chemicals consumed		**323.9**		211.4
Carriage Inward		**139.8**		111.4
Factory Maintenance		**77.5**		39.2
Power and Fuel		**827.2**		735.5
Effluent Treatment Expenses		**19.0**		22.4
Excise Duty Others		**44.7**		44.4
Repairs & Maintenance				
Plant & Machinery	**56.3**		38.0	
Buildings	**20.6**		20.5	
Others	**33.0**		24.1	
		109.9		82.6
Miscellaneous Expenses		**107.6**		82.9
TOTAL		**2,498.0**		1,796.5

Rs. Millions

	2006-2007		2005-2006	
19. PAYMENTS TO AND PROVISIONS FOR EMPLOYEES				
Salaries, Wages and Bonus		**1,012.8**		716.4
Contribution to Provident and other funds		**47.2**		40.0
Retirement Benefits		**42.1**		16.1
Staff Welfare expenses		**26.7**		19.6
TOTAL		**1,128.8**		792.1
20. ADMINISTRATIVE & SELLING EXPENSES				
Rent		**7.1**		5.0
Rates & Taxes		**15.6**		12.1
Printing & Stationery		**41.8**		35.4
Postage, Telegram & Telephones		**23.7**		24.0
Insurance		**76.2**		65.6
Legal & Professional Charges		**86.6**		52.9
Directors' Sitting Fees		**0.2**		0.1
Remuneration to Auditors		**6.0**		4.9
Commission to Other Selling Agents		**130.1**		88.0
Carriage Outwards		**318.0**		227.3
Selling Expenses		**26.8**		36.1
Travel & Conveyance		**49.3**		42.2
Vehicle Maintenance Expenses		**1.9**		5.7
Analytical charges		**83.3**		24.2
Investments written off	**158.9**		–	
Less: Diminution provided in earlier years	**145.3**	**13.6**	–	–
Provision for Doubtful Debts and Advances		**78.8**		133.5
Bad debts written off		**36.7**		3.5
Fixed Assets written off		**1.0**		13.7
Loss on Investments		–		0.1
Donation		**1.6**		1.3
Registration and filing charges		**35.8**		–
Miscellaneous Expenses (Refer Note 22 on Schedule 22)		**118.9**		51.2
TOTAL		**1,153.0**		826.8
21. INTEREST AND FINANCE CHARGES (NET)				
Interest on fixed period loans	**328.9**		378.1	
Interest on other loans	**374.7**		184.3	
Bank Charges	**57.1**		44.0	
		760.7		606.4
Less: Interest received				
Loans to Subsidiaries and Joint Ventures	**178.9**		80.5	
Deposits	**384.6**		68.5	
Other investments	**0.1**		0.1	
Income tax refunds	**6.0**		–	
Other advances	**3.8**	**573.4**	9.0	158.1
[Tax deducted at source Rs.18.9 (Rs.5.9)]				
TOTAL		**187.3**		448.3

22. NOTES ANNEXED TO AND FORMING PART OF THE ACCOUNTS AS AT AND FOR THE YEAR ENDED MARCH 31, 2007

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 the 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 Company's right to receive payment is established.

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 comprise of purchase price, freight, duties (net of CENVAT), taxes and any attributable cost of bringing the asset to its working condition for its intended use. Finance costs relating to acquisition of fixed assets which take substantial period of time to get ready for use 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 capitalised to the extent those relate 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. Capitalised leased assets are depreciated over the lease term 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 the straight-line method, based on the useful life of the asset as estimated by 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 are 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.

h. Retirement and other Employee Benefits

i. Retirement benefits in the form of Provident Fund is a defined contribution scheme and the contributions are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due. Further, employer contribution of Provident Fund on leave encashment is provided for on the basis of actuarial valuation.

ii. Gratuity is a defined benefit obligation and is provided for on the basis of an actuarial valuation made at the end of each financial year.

iii. Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation.

iv. Actuarial gains/losses are immediately taken to Profit and Loss Account and are not deferred.

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 recognised only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits.

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

Minimum Alternative Tax (MAT) credit is recognised as an asset only when and to the extent there is convincing evidence that the Company will pay normal income tax during the specified period. In the year in which the MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in Guidance Note issued by the Institute of Chartered Accountants of India, the said asset is created by way of a credit to the profit and loss account and shown as MAT Credit Entitlement. The Company reviews the same at each balance sheet date and writes down the carrying amount of MAT Credit Entitlement to the extent there is no longer convincing evidence to the effect that Company will pay normal Income Tax during the specified period.

j. Foreign Exchange Transactions

Initial Recognition

i. Foreign currency transactions (other than those relating to foreign branches) are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and foreign currency at the date of the transaction. Exchange rate differences are charged to profit and loss account except with respect to fixed assets acquired from outside India which 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 export promotion schemes included in revenues 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, such capitalized assets 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 and 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.178.6 (Rs.553.2).

3. Contingent Liabilities

		2006-2007	2005-2006
a.	Claims against the company not acknowledged as debts	**4.9**	1.8
b.	Outstanding Bank Guarantees on account of:		
	i. Subsidiary Company	**4.6**	508.9
	ii. Guarantee given for Citadel Aurobindo Biotech Limited (erstwhile 50% Joint Venture company)	**–**	400.0
	iii. Others	**64.0**	49.0
c.	Bills discounted with Banks	**400.5**	452.3
d.	Outstanding letters of credit for import of materials	**518.3**	56.2
e.	Direct and indirect taxes	**210.7**	300.9
f.	Dossier sales	**110.9**	40.6

Rs. Millions

g. 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 has been made in the books of accounts as the Company's liability if any towards such contribution is presently not certain.

h. During the financial year 2005-06, the company had issued 60,000 zero coupon Foreign Currency Convertible Bonds of USD 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 a minimum of 130% of the accreted principal amount if the bonds are not converted earlier. 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 USD 4.8 million (USD 3.06 million) equivalent to Rs.204.7 (Rs.136.5) and the cumulative premium amounts to USD 7.9 million equivalent to Rs.341.2 at the prevailing exchange rate as at the Balance Sheet date.

i. During the year, the company has issued 150,000 zero coupon Foreign Currency Convertible Bonds due 2011 (Tranche A Bonds) of USD 1,000 each and 50,000 Forward Conversion Convertible Bonds due 2011 (Tranche B Bonds) of USD 1,000 each. Tranche A Bonds and Tranche B Bonds are redeemable at 146.285% and 146.991% respectively of its principal amount on the maturity date. 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 USD 16.3 million equivalent to Rs.707.0 at the prevailing exchange rate as at the Balance Sheet date.

4. Share Capital

i. Employee Stock Option Scheme

a. Employee Stock Option Plan "ESOP-2004"

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 to grant 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 the then 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 value method.

The details of options outstanding of ESOP 2004 Scheme

	2006-2007 Nos.	2005-2006 Nos.
Options outstanding at the beginning of the year	**461,325**	403,450
Granted during the year	**–**	104,250
Vested / exercisable during the year	**74,473**	60,517
Exercised during the year	**78,187**	975
Forfeited during the year subject to reissue	**72,461**	45,400
Options outstanding at end of the year	**310,677**	461,325

Rs. Millions

b. Employee Stock Option Plan "ESOP-2006"

The Company instituted an Employee Stock Option Plan "ESOP-2006" as per the special resolution passed in the 19th Annual General Meeting held on September 18, 2006. 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 35,000 to eligible employees. Each option comprises of one underlying Equity Share of Rs.5 each. The said options vest on an annual basis at 10%, 15%, 25% and 50% 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 the then prevailing market price of Rs.603.50 per share and hence the question of accounting for employee deferred compensation expense does not arise as the Company follows intrinsic value method.

The details of options outstanding of ESOP 2006 Scheme

	2006-2007 Nos.	2005-2006 Nos.
Options outstanding at the beginning of the year	–	–
Granted during the year	35,000	–
Vested / exercisable during the year	–	–
Exercised during the year	–	–
Forfeited during the year subject to reissue	–	–
Options outstanding at end of the year	35,000	–

c. Disclosures 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 - Scholes" model.

Particulars	2006-2007	2005-2006
Profit after Taxation		
- As reported in Profit and Loss Account	2,290.9	693.8
Less: Additional Employee Compensation cost based on Fair Value	1.0	0.4
- Profit after Taxation as per Fair Value Method	2,289.9	693.4
Earnings per share		
Basic		
- No. of shares	53,302,309	52,483,699
- EPS as reported	42.98	13.22
- EPS as per Fair Value Method	42.96	13.21
Diluted		
- No. of shares	66,381,236	55,677,714
- EPS as reported	34.51	12.46
- EPS as per Fair Value Method	34.50	12.45

Rs. Millions

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

	2006-2007		2005-2006
	ESOP 2004	ESOP 2006	ESOP 2004
Risk-free interest rate (%)	**8**	**7**	7
Expected life of options (years)	**6**	**5**	4
Expected volatility (%)	**5.64**	**5.62**	5.62
Dividend yield	**0.30**	**0.50**	0.50

ii. During the Financial Year 2005-06, the Company issued 60,000 Zero Coupon Foreign Currency Convertible Bonds due 2010 of USD 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.

iii. During the year, the Company has issued 150,000 Zero Coupon Foreign Currency Convertible Bonds (Tranche A bonds) and 50,000 Forward Conversion Convertible Bonds (Tranche B Bonds) due 2011 of USD 1000 each. Each Tranche A Bond is convertible into 44.52 fully paid equity share with par value of Rs.5 per share at a fixed price of Rs.1014.06 per share, on or after June 27, 2006 but prior to close of business hours on May 10, 2011. Each Tranche B Bond is convertible into fully paid equity share with par value of Rs.5 per share at an initial conversion price to be determined on conversion price setting date on or after May 17, 2007 but prior to close of business hours on May 10, 2011.

5. Amalgamation of AP Life Sciences Limited (Life Sciences) and Senor Organics Private Limited (Senor) with the Company

a. Pursuant to the approval of the shareholders of the Company at the Extra-ordinary General Meeting held on February 20, 2007, the Hon'ble High Court of Judicature Andhra Pradesh at Hyderabad vide its Order passed on June 21, 2007 sanctioned the Scheme of Arrangement (Scheme) under Section 391 to 394 read with Section 78 and Section 100 of the Companies Act, 1956 between Life Sciences and Senor, wholly owned subsidiaries of the Company, with the Company, with effect from April 01, 2006, and confirmed the utilisation of Securities Premium Account towards adjustment of the reduction in the carrying value of certain assets. Accordingly, the erstwhile Life Sciences and Senor have amalgamated with the Company with effect from April 01, 2006. All the assets, liabilities and reserves of the erstwhile Life Sciences and Senor, were transferred to and vest with the Company. The Company has since made the necessary filings with the Registrar of Companies, Andhra Pradesh.

b. Life Sciences was engaged in the business of trading in pharmaceuticals, chemicals and solvent products. Senor was engaged in the business of active pharmaceutical ingredients and drug intermediates.

c. The amalgamation has been accounted for under the "pooling of interests" method as prescribed under Accounting Standard 14 issued by the Institute of Chartered Accountants of India. Accordingly, the assets, liabilities and reserves of the erstwhile Life Sciences and Senor as at April 01, 2006, have been taken over at their respective book values.

d. Erstwhile Life Sciences and Senor, being Wholly Owned Subsidiaries of the Company, no equity shares were issued by the Company to effect the amalgamation.

e. The difference between the value of the investments and the underlying net assets of the amalgamating companies taken over amounting to Rs.0.7 adjusted against Securities Premium Account as per the scheme.

Rs. Millions

6. Utilisation of Securities Premium Account

The High Court of Judicature, Andhra Pradesh at Hyderabad vide its Order dated June 21, 2007, has confirmed the utilization of the Securities Premium account to an extent of Rs.1,795.4 in accordance with the provisions of Section 78 read with Section 100 of the Companies Act, 1956. Details are as under:

Particulars	2006-07
Certain receivables, loans and advances not recoverable written off	313.2
Product development cost under the head "Intangible Assets"	536.9
Diminution in value of investments in Chinese subsidiaries	825.3
Reduction in value of fixed assets	120.0
Total	1,795.4

7. Investments

The movement in investments during the year

Particulars	2006-07	2005-06
Investments made during the year		
Aurobindo Pharma USA Inc., U.S.A.	**483.6**	79.0
Aurobindo (H.K.) Limited, Hong Kong	**12.2**	–
Aurobindo (Datong) Bio-Pharma Company Limited, China	**499.5**	–
Helix Healthcare B.V., The Netherlands	**151.6**	149.5
AB Farmo Industria Farmaceutica Ltda, Brazil	**26.8**	–
APL Research Centre Limited, India	**0.5**	–
APL Healthcare Limited, India	**0.5**	–
Andhra Bank	**–**	0.4
National Saving Certificates	**0.1**	–
Investments written off during the year		
Aurobindo TongLing (Datong) Pharmaceutical Company Limited, China	**1.4**	–
Aurobindo (H.K.) Limited, Hong Kong	**154.5**	–
Citadel Aurobindo Biotech Limited, India	**3.0**	–
Investments adjusted against Securities Premium Account		
Aurobindo (Datong) Bio-Pharma Company Limited, China	**757.0**	–
Aurobindo TongLing (Datong) Pharmaceutical Company Limited, China	**68.3**	–

8. Retirement Benefits

The Company has adopted the Revised Accounting Standard 15 "Employee Benefits", the Company has preferred earlier adoption of the standard effective April 01, 2006. Pursuant to such adoption, the transitional obligation of Rs.11.2 (net of deferred tax Rs.5.8) has been adjusted to General Reserve. Since this being the first year of adoption of revised Accounting Standard 15 "Employee Benefits" previous corresponding figures are not furnished.

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on departure at 15 days last drawn salary for each completed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy.

Rs. Millions

The following tables summarise the components of net benefit expense recognised in the Profit and Loss Account and the funded status and amounts recognised in the Balance Sheet for the respective plans:

Profit and Loss Account

	2006-07
Net employee benefit expense (recognised in employee cost)	
Current service cost	13.8
Interest cost on benefit obligation	3.7
Expected return on plan assets	(2.4)
Net actuarial (gain) / loss recognised in the year	(2.8)
Past service cost	–
Net benefit expense	12.3
Actual return on plan assets	3.1
Balance Sheet	
Details of Provision for gratuity	
Defined benefit obligation	62.1
Fair value of plan assets	42.2
Net Plan (asset) / liability	19.9
Changes in the present value of the defined benefit obligation	
Opening defined benefit obligation	49.5
Interest cost	3.7
Current service cost	13.8
Benefits paid	(2.7)
Actuarial (gains) / losses on obligation	(2.2)
Closing defined benefit obligation	62.1
Changes in the fair value of plan assets	
Opening fair value of plan assets	28.8
Expected return	2.4
Contributions by employer	13.1
Benefits paid	(2.7)
Actuarial gains / (losses)	0.6
Closing fair value of plan assets	42.2

The major categories of plan assets as a percentage of the fair value of total plan assets

Investments with insurer	100%

The expected rate of return on assets is based on the expectation of the average long term rate of return expected on investments of the fund during the estimated term of the obligations.

The principal assumptions used in determining gratuity obligations for the Company's plans are shown below

Discount rate		7.70 %
Expected rate of return on assets		7.50 %
Employee turnover	**Age(years)**	**Rates**
	21-30	11%
	31-40	4%
	41-57	1%

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

The Company expects to contribute Rs.14.4 to gratuity in 2007-08.

9. Secured Loans

a. Term loans are secured by:

- first charge 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 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.802.1 (Rs.2,257.1).

b. Other working capital loans from banks are secured by:

- first charge by way of hypothecation of all the stocks, book debts and other current assets (both present and future).
- second charge on all the fixed assets of the Company both present and future subject to charges created in favour of term lenders.
- personal guarantees given by the Chairman and the Managing Director of the Company aggregating to Rs.5,183.7 (Rs.3,291.7).

c. Hire purchase loans from banks are secured by hypothecation of the related assets.

10. Unsecured loans

a. Short Term Loan

Short term loans from banks aggregating to Rs.900.0 (Rs.2,175.0) are personally guaranteed by the Chairman and the Managing Director of the Company.

b. Foreign Currency Convertible Bonds

1. 60,000 Zero Coupon Foreign Currency Convertible Bonds (bonds) due 2010 of USD 1,000 each issued in financial year 2005-06 are:

   i. either convertible by the holders at any time on or after Se3ptember 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=USD 1

   ii. or 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. in the opinion of the Company, bonds are convertible into equity shares, the creation of Debenture Redemption Reserve is not required.

2. During the year, the Company has issued 150,000 zero coupon Foreign Currency Convertible Bonds due 2011 (Tranche A Bonds) of USD 1,000 each and 50,000 Forward Conversion Convertible Bonds due 2011 (Tranche B Bonds) of USD 1,000 each, which are:

Rs. Millions

i. either convertible by the Tranche A bondholders at any time on or after June 27, 2006 but prior to close of business (at the place the bonds are deposited for conversion) on May 10, 2011 and by the Tranche B bondholders at any time on or after May 17, 2007 (Conversion price setting date) but prior to close of business (at the place the bonds are deposited for conversion) on May 10, 2011. Each Tranche A bond will be converted into 44.52 fully paid up equity share with par value of Rs.5 per share at a fixed price of Rs.1,014.06 per share at a fixed exchange rate conversion of Rs.45.145 = USD 1. Each Tranche B bond will be converted into share of Rs.5 per share at an initial conversion price to be determined on Conversion Price Setting Date with a fixed rate of exchange on conversion of Rs.45.145 = USD 1

ii. or redeemable by the Company in respect of Tranche A bonds at the relevant Accreted Principal Amount, in whole but not in part at any time on or after November 16, 2008 and on or prior to May 10, 2011 and in respect of Tranche B bonds at the relevant Accreted Principal Amount, in whole but not in part at any time on or after May 17, 2009 and on or prior to May 10, 2011 as per the terms and conditions of the bonds mentioned in the Offering Circular.

iii. redeemable at 146.285% of its principal amount on maturity date in respect of Tranche A bonds and at 146.991% of its principal amount on maturity date in respect of Tranche B bonds if not redeemed or converted earlier.

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

3. The details of utilization of USD 260 million Foreign Currency Convertible Bonds are as under:

	2006-2007	2005-2006
Opening Balance with banks	**948.3**	–
Issue proceeds	**8,929.0**	2,677.2
Less: Utilised for Investments *	**5,161.0**	1,728.9
Balance with banks under deposits	**4,716.3**	948.3

*includes foreign currency translation.

11. Expenditure during construction period

Particulars	2006-2007	2005-2006
Balance brought forward	**11.1**	37.3
Add: Expenditure incurred during construction period *	**11.9**	2.0
Borrowing cost capitalised	**–**	6.5
	23.0	45.8
Less: Consumption of intermediates (trial run)	**11.9**	1.9
Pre-operative expenses charged off	**–**	0.1
Allocated to Fixed Assets	**–**	32.7
Balance carried forward	**11.2**	11.1

*comprises of trial run expenditure of Rs.11.9 (2.0) and other pre-operative expenses

Rs. Millions

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

Name of the Company	Closing Balance as at March 31 2007	2006
Aurobindo (Datong) Bio-Pharma Company Limited, China	**5.6**	7.4
Aurobindo Pharma USA Inc., U.S.A.	**582.2**	474.7
Aurobindo TongLing (Datong) Pharmaceutical Company Limited, China	**141.5**	126.6
APL Pharma Thai Limited, Thailand	**318.1**	202.3
AB Farmo Industria Farmaceutica Ltda., Brazil	**455.0**	491.5
ZAO Aurobindo Pharma, Russia	**1.8**	–
Auro Pharma Inc., Canada	**2.3**	–
Aurex Generics Limited, U.K.	**100.0**	21.3
Cephazone Pharma LLC, U.S.A.	**4.6**	7.1
Pravesha Industries (Private) Limited, India	**1.3**	0.1
Trident Life Sciences Limited, India	**4.9**	9.4

13. Cash & Bank balances include

	Closing Balance as at March 31		Maximum outstanding at any time during the year ended March 31	
	2007	2006	**2007**	2006
Balances with Non-Scheduled banks on current accounts				
Vietcom Bank, Vietnam	**0.2**	0.2	**0.4**	0.2
Vheshtorg Bank, Russia	**–**	0.1	**0.1**	5.4
Bank of Nova Scotia, Costa Rica	**0.1**	0.1	**0.1**	0.1
Commerce Bank, U.S.A.	**–**	0.1	**6.8**	6.1
Wells Fargo Bank, U.S.A.	**0.1**	0.1	**0.1**	0.1
Unicredit Bank, Italy	**–**	0.1	**2.9**	3.1
Sber Bank, Russia	**–**	–	**–**	10.6
Wegagen Bank Share Company, Ethiopia	**0.8**	–	**3.7**	–
Standard Chartered Bank Ghana Limited, Ghana	**0.2**	–	**0.5**	–
UBS AG, London	**48.1**	–	**138.8**	–

Rs. Millions

14. Loans and Advances include

	Closing Balance as at March 31		Maximum outstanding at any time during the year ended March 31	
Dues from companies under the same management	**2007**	2006	**2007**	2006
Subsidiaries				
Aurobindo (Datong) Bio-Pharma Company Limited, China	**1,415.5**	1,121.7	**1,537.9**	1,132.4
Aurobindo Pharma USA Inc., U.S.A.	**1,250.5**	218.6	**1,250.6**	241.3
Aurobindo TongLing (Datong) Pharmaceutical Company Limited, China	**84.3**	191.9	**197.4**	191.9
AB Farmo Industria Farmaceutica Ltda., Brazil	**8.7**	8.9	**8.9**	9.0
Helix Healthcare B.V. The Netherlands	**630.6**	373.3	**638.1**	393.1
APL Research Centre Limited, India	**1.2**	–	**1.2**	–
APL Healthcare Limited, India	**24.5**	–	**24.5**	–

15. Sundry Creditors

a. The names of the Small Scale Industrial Undertakings to whom the Company owes amounts outstanding for more than 30 days are:

Khemas Engineers	Lance Engineering	Global Electronics
Ravi Industries	Rolon Seals	Fine Fabs Private Limited
Forbes Marshall (Hyd) Limited	Virupaksha Organics	Radiant Engineers
Polymer House	Siflon Polymers	Sreenex Machines Private Limited
MSN Laboratories Limited	Mahidhara Chemicals	Sreepathi Pharmaceuticals Limited
Maithri Laboratories Private Limited	Lakshmi Engineering Industries	Sree Krishnaprasad Graphics Private Limited
Anu's Laboratories Limited	Plastic Shapers	Coral Drugs Limited
Lisa Ampoules & Vials Private Limited	Ashrea Clean Room Presentations Private Limited	

The above information and the amount given in the Current Liabilities (Schedule 13) regarding Small Scale Industrial Undertakings has been determined to the extent such parties have been identified on the basis of information available with the Company.

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, 2007.

c. The Company has accrued interest of Rs.0.3 due to Micro, Small and Medium enterprises to the extent identified and the same is unpaid as at the Balance Sheet date.

Rs. Millions

16. Deferred Tax assets / (liabilities) consist of

Particulars	As at March 31 2007	2006
Deferred Tax Liability on account of Fixed Assets	**(867.9)**	(826.5)
Deferred Tax Liability on account of Intangibles	**–**	(117.8)
Deferred Tax Asset on account of :		
Debtors	**116.7**	88.4
Retirement Benefits	**27.8**	13.2
Unabsorbed depreciation	**–**	124.1
FCCB Issue expenses	**51.2**	-
Net Deferred tax liability	**(672.2)**	(718.6)

17. Export Incentives

Sales include export incentives on account of various schemes Rs.86.3 (Rs.235.5).

18. Research and Development Expenses

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

Particulars	2006-2007	2005-2006
Materials consumed	**250.7**	131.5
Power and Fuel	**17.3**	14.8
Personnel costs	**222.2**	151.3
Others	**322.0**	326.6
Total	**812.2**	624.2
Less: Transferred to Intangible assets	**273.4**	226.6
	538.8	397.6

19. Remuneration to Wholetime Directors (included in Schedule 19)

Particulars	2006-2007	2005-2006
Salary	**22.0**	9.3
Contribution to Provident Fund	**0.1**	0.1
Perquisites	**3.7**	1.3
	25.8	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

20. **Remuneration to Statutory Auditors (including Service Tax where applicable)**

Particulars	2006-2007	2005-2006
Statutory audit	**4.8**	4.1
Other audit services	**0.9**	0.6
Certification charges	**0.2**	0.1
Reimbursement of out-of-pocket expenses	**0.1**	0.1
	6.0	4.9

Note: Remuneration towards other audit services aggregating to Rs.2.0 (Rs.0.8) is charged to Securities Premium Account being in the nature of expenses incurred for issue of Foreign Currency Convertible Bonds.

21. **Donation**

Donation of Rs.1.6 (Rs.1.3) disclosed under Schedule 20 includes contribution made to Andhra Pradesh Congress Committee Rs.0.5 (Rs.0.5), Communist Party of India (Marxist) Rs.0.2 (Rs.Nil) and Communist Party of India Rs.0.1 (Rs.Nil).

22. Miscellaneous Expenses include an amount of Rs.59.4 incurred towards claim for invocation of corporate guarantee given to a bank on behalf of erstwhile Joint Venture.

23. **Earnings per Share**

Earnings per Share is computed based on the following:

	Particulars	As at March 31	
		2007	2006
i.	Profit after Taxation considered for calculation of basic and diluted Earnings per Share	**2,290.9**	693.8
ii.	Weighted average number of Equity Shares considered for calculation of basic Earnings per Share	**53,302,309**	52,483,699
	Add: Effect of dilution on account of Foreign Currency Convertible Bonds into shares	**13,067,574**	3,183,674
	Add: Effect of dilution on account of Employee Stock Options granted	**11,353**	10,341
iii.	Weighted average number of Equity Shares considered for calculation of diluted Earnings per Share	**66,381,236**	55,677,714
iv.	Basic Earnings per Share Rs.	**42.98**	13.22
	Diluted Earnings per Share Rs.	**34.51**	12.46

24. **a.** **The Company had the following transactions with related parties during the year:**

		2006-2007	2005-2006
i.	**Subsidiaries**		
	APL Pharma Thai Limited, Thailand		
	Sale of Goods	**546.0**	401.9
	Dividend received	**0.8**	0.8
	Guarantees and collaterals	**4.6**	4.7
	AB Farmo Industria Farmaceutica Ltda, Brazil		
	Sale of Goods	**621.7**	624.6
	Interest received	**1.2**	1.2
	Finance (including loans and equity contribution in cash or in kind)	**26.8**	–

Rs. Millions

	2006-2007	2005-2006
Aurobindo (H.K.) Limited, Hong Kong		
Finance (including loans and equity contribution in cash or in kind)	**12.2**	–
Aurobindo (Datong) Bio-Pharma Company Limited, China		
Purchase of goods	**1,465.1**	906.0
Sale of goods	**5.8**	9.2
Interest received	**89.3**	69.0
Finance (including loans and equity contribution in cash or in kind)	**839.7**	210.5
Investment adjusted against Securities Premium Account	**757.0**	–
Guarantees and collaterals	**–**	504.2
Aurobindo TongLing (Datong) Pharmaceutical Company Limited, China		
Purchase of goods	**–**	3.2
Sale of goods	**48.9**	126.3
Interest received	**13.1**	0.1
Finance (including loans and equity contribution in cash or in kind)	**80.8**	192.1
Finance adjusted against Securities Premium Account	**243.3**	–
Investment written off	**1.4**	–
Aurobindo Pharma USA Inc., U.S.A.		
Sale of goods	**1,400.6**	639.9
Product development expenses incurred on behalf of APL	**28.9**	–
Finance (including loans and equity contribution in cash or in kind)	**1,553.9**	441.9
Receipt against loan	**–**	387.4
Interest received	**47.0**	7.1
Helix Healthcare B.V., The Netherlands		
Receipt against loan	**–**	16.2
Interest received	**28.3**	3.0
Finance (including loans and equity contribution in cash or in kind)	**386.6**	–
Aurex Generics Limited, U.K.		
Sale of goods	**104.4**	23.4
ZAO Aurobindo Pharma, Russia		
Sale of goods	**10.6**	–
Auro Pharma Inc., Canada		
Sale of goods	**22.7**	–
APL Research Centre Limited, India		
Finance (including loans and equity contribution in cash or in kind)	**1.7**	–
APL Healthcare Limited, India		
Finance (including loans and equity contribution in cash or in kind)	**25.0**	–
ii. **Enterprises over which Company has significant influence exists**		
Pravesha Industries (Private) Limited		
Purchase of goods	**185.1**	82.4
Services received	**–**	1.0
Sale of goods	**10.5**	0.4
Trident Life Sciences Limited		
Services Received	**102.4**	34.1
Sale of Goods	**0.1**	–
Rent paid	**2.6**	–
Sale of fixed assets	**26.0**	–
Advance transferred	**3.9**	–

Rs. Millions

		2006-2007	2005-2006
	Sri Sai Packaging		
	Purchase of goods	**1.7**	–
	Sale of goods	**0.1**	–
iii.	**Joint Ventures**		
	Cephazone Pharma LLC, USA		
	Sale of goods	**2.3**	2.4
iv.	**Key Management Personnel**		
	Mr. P. V. Ramaprasad Reddy		
	Managerial Remuneration	**5.9**	2.7
	Proposed Dividend	**39.2**	23.5
	Dividend paid on allotment of fresh shares	**–**	1.2
	Investment in equity	**–**	587.5
	Guarantees and Collaterals	**6,885.8**	8,118.2
	Mr. K. Nityananda Reddy		
	Managerial Remuneration	**5.9**	2.7
	Proposed Dividend	**9.4**	5.6
	Guarantees and Collaterals	**6,885.8**	8,118.2
	Dr. M. Sivakumaran		
	Managerial Remuneration	**5.9**	2.7
	Proposed Dividend	**3.7**	2.2
	Mr. B. Sivaprasad Reddy		
	Managerial Remuneration	**4.1**	2.7
	Proposed Dividend	**0.1**	0.1
	Mr. M. Madan Mohan Reddy		
	Managerial Remuneration	**4.1**	–
	Proposed Dividend	**0.1**	–
	Mr. Lanka Srinivas		
	Sitting Fees	**0.1**	0.1
	Professional Fees	**3.6**	1.5
	Proposed Dividend	**0.1**	–
v.	**Relatives of Key Management personnel**		
	Mrs. P. Suneela Rani		
	Purchase of land	**–**	1.9
	Proposed Dividend	**14.9**	8.9
	Mrs. K. Rajeswari (Partner, Sri Sai Packaging)		
	Sale of land	**–**	0.1
	Proposed Dividend	**6.1**	3.6
	Mrs. B. Shilpa		
	Salary	**0.2**	0.1
	Proposed Dividend	**0.1**	0.1
	Mrs. Shilpa Sivakumaran		
	Salary	**0.7**	–
	Mr. P. Sarath Chandra Reddy		
	Proposed Dividend	**0.1**	–

Rs. Millions

b. Balance outstanding debit/(credit) as at

	As at March 31	
	2007	2006
APL Pharma Thai Limited, Thailand	**326.6**	202.3
AB Farmo Industria Farmaceutica Ltda, Brazil	**490.7**	504.1
Aurobindo (Datong) Bio-Pharma Company Limited, China	**1,198.0**	959.9
Aurobindo TongLing (Datong) Pharmaceutical Company Limited, China	**412.7**	318.6
Helix Healthcare B.V., The Netherlands	**662.0**	376.3
Cephazone Pharma LLC, U.S.A.	**4.5**	7.2
Pravesha Industries (Private) Limited, India	**(20.9)**	1.9
Aurobindo Pharma USA Inc.	**1,889.8**	699.0
Aurex Generics Limited, U.K.	**100.7**	21.3
Trident Life Sciences Limited, India	**(35.2)**	9.4
Sri Sai Packaging, India	**(0.3)**	–
ZAO Aurobindo Pharma, Russia	**1.9**	–
Auro Pharma Inc., Canada	**2.0**	–
APL Research Centre Limited, India	**1.2**	–
APL Healthcare Limited, India	**24.5**	–

c. Names of related parties and description of relationship

Subsidiaries

APL Pharma Thai Limited, Thailand
Aurobindo (H.K.) Limited, Hong Kong
AB Farmo Industria Farmaceutica Ltda, Brazil (formerly AB Farmo Quimica Ltda)
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
Aurobindo Pharma (Australia) Pty Limited, Australia
Aurobindo Switzerland AG, Switzerland
Agile Pharma B.V., The Netherlands
Pharmacin International B.V., The Netherlands
Pharmacin Products B.V., The Netherlands
Pharmacin B.V., The Netherlands
Aurex Generics Limited, U.K.
Milpharm Limited, U.K.
Aurobindo Pharma Hungary, KFT
Auro Healthcare (Nigeria) Limited, Nigeria
ZAO Aurobindo Pharma, Russia
Aurobindo Pharma PTY Limited, South Africa
APL Research Centre Limited, India
APL Healthcare Limited, India

Joint Ventures

Aurosal Pharmaceuticals LLC, U.S.A. (Joint Venture of a Subsidiary)
Cephazone Pharma LLC, U.S.A. (Joint Venture of a Subsidiary)

Enterprises over which significant influence exists

Pravesha Industries (Private) Limited, India (formerly Pravesha Machine Works (Private) Limited)
Trident Life Sciences Limited, India
Sri Sai Packaging, India

Rs. Millions

Key Management Personnel

Mr. P.V. Ramaprasad Reddy, Chairman
Mr. K. Nityananda Reddy, Managing Director
Dr. M. Sivakumaran, Wholetime Director
Mr. B. Sivaprasad Reddy, Wholetime Director
Mr. M Madan Mohan Reddy, Wholetime Director
Mr. Lanka Srinivas, Non-Executive Director.

Key Management person relative

Mrs. P. Suneela Rani (Wife of Mr. P.V. Ramaprasad Reddy, Chairman)
Mrs. K. Rajeswari (Wife of Mr. K. Nityananda Reddy, Managing Director)
Mrs. B. Shilpa (Daughter of Mr. B. Sivaprasad Reddy, Wholetime Director)
Mrs. Shilpa Sivakumaran (Daughter of Dr. M. Sivakumaran, Wholetime Director)
Mr. P. Sarath Chandra Reddy (Son of Mr. P.V. Ramaprasad Reddy, Chairman)

d. Disclosures required as per Clause 32 of Listing Agreement

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	
	2007	2006	**2007**	2006
Subsidiaries				
Aurobindo (Datong) Bio-Pharma Company Limited, China	**1,415.6**	1,121.7	**1,538.0**	1,132.4
Aurobindo Pharma USA Inc., U.S.A.	**1,250.6**	218.6	**1,250.6**	241.3
Aurobindo TongLing (Datong) Pharmaceutical Company Limited, China	**84.3**	191.9	**197.4**	191.9
AB Farmo Industria Farmaceutica Ltda., Brazil	**8.7**	8.9	**8.9**	9.0
Helix Healthcare B.V., The Netherlands	**630.6**	373.3	**638.1**	393.1
APL Research Centre Limited, India	**1.2**	–	**1.2**	–
APL Healthcare Limited, India	**24.5**	–	**24.5**	–

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

None of the loanees have made investments in the 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/cancelable 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 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).

iii. The net carrying amount of the buildings obtained on finance lease Rs.56.0 (Rs.58.6).

iv. The Company has not recognised any contingent rent as expense in the statement of Profit and 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, 2007.

b. Particulars of unhedged foreign currency exposure are detailed below at the exchange rate prevailing as at the Balance Sheet date.

Particulars	As at March 31	
	2007	2006
Loan availed	**(2,337.8)**	(1,709.0)
Sundry Debtors	**4,056.8**	4,346.0
Loans and Advances	**3,575.6**	2,045.6
Sundry Creditors	**(1,814.5)**	(1,358.5)
Foreign Currency Convertible Bonds	**(11,299.6)**	(2,677.2)
Investments	**2,037.5**	1,845.0

27. During the year, the Company has changed its policy of accounting for product development costs as "Intangible Assets" since in the opinion of the management it is prudent and conservative to expense such items upon incurrence. Accordingly, an amount of Rs.538.7 up to March 31,2007 has been expensed during the year by charge of Rs.536.9 to Securities Premium Account as per Sanction of Andhra Pradesh High Court Order and balance Rs.1.8 to Profit and Loss Account. Further various expenditure eligible for capitalization as product development costs amounting to Rs.18.8 have been directly debited to Profit and Loss Account. Had this been capitalised, the profit for the year would have been higher by Rs.20.7.

28. In accordance with ASI 14 (Revised) on 'Disclosure of Revenue from Sales Transactions' issued by the Institute of Chartered Accountants of India, excise duty on sales amounting to Rs.1,011.5 (Rs.769.9) has been reduced from sales in the Profit and Loss Account and excise duty on increase/decrease in stock amounting to Rs.19.4 (Rs.26.5) has been considered as income in Schedule 16 of financial statements.

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

29. Installed Capacity and Actual Production

Category	Unit of Measurement	Installed Capacity		Actual Production	
		2006-07	2005-06	**2006-07**	2005-06
Bulk Drugs and Drug Intermediates	Tonnes	**15,266**	16,807	**8,637**	8,683
Formulations					
Tablets & Capsules	Nos. (in lakhs)	**31,540**	24,402	**17,695**	9,290
Injectibles	Nos.	**46,460,000**	56,960,000	**15,550,304**	13,917,151
Syrups	Nos.	**47,400,000**	32,500,000	**5,049,508**	2,833,869

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 management and not verified by the Auditors, being a technical matter.

d. Production includes quantities processed by loan licensees.

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

Category	Unit of Measurement	Opening Stock		Closing Stock		Captive Consumption	Sales	
		Qty.	Rs.	Qty.	Rs.	Qty.	Qty.	Rs.
Bulk & Intermediates								
Manufactured	Tonnes	104 (149)	121.8 (207.6)	133 (104)	241.2 (121.8)	(3,444) (3964)	5,164 (4764)	13,129.7 (11,773.7)
Traded	Tonnes	4.00 (–)	4.1 (–)	0.70 (4.02)	1.8 (4.1)	5.70 (–)	12,499.71 (725.4)	542.3 (164.3)
Others								396.7 (80.4)
Formulations: Manufactured								
Tablets & Capsules	Nos. (in Lakhs)	458 (333)	87.9 (19.4)	1,023 (458)	153.9 (87.9)	428 (290)	16,702 (8,875)	4,915.6 (2,188.9)
Injections	Nos.	522,128 (437,340)	6.2 (12.3)	646,514 (522,128)	8.1 (6.2)	190,560 (640,358)	152,235,358 (13,192,005)	400.5 (324.8)
Syrups	Nos.	247,508 (32,622)	9.1 (0.6)	297,094 (247,508)	13.3 (9.1)	65,111 (122,763)	4,934,811 (2,496,220)	330.6 (103.4)
Others								81.8 (86.6)
Formulations: Traded								
Tablets & Capsules	Nos.	39,970 (Nil)	0.1 (Nil)	– (39,970)	– (0.1)	38,071 (Nil)	1,899 (1,030)	0.0 (Nil)
Total			229.2 (240.0)		418.3 (229.2)			19,797.2 (14,722.0)

Note :
a. Closing stock quantities are after adjustment of samples, transit claims/losses etc.
b. Figures in brackets represent previous year figures.
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

31. Purchase of Finished Goods

Caregory	Unit of Measurement	2006-07 Qty.	2006-07 Rs.	2005-06 Qty.	2005-06 Rs.
Bulk Drugs and Drug Intermediates	Tonnes	**12,502.11**	**480.7**	729.42	152.8
Formulations					
Tablets & Capsules	Nos. (in Lakhs)	**–**	**–**	0.41	0.1
Total			**480.7**		152.9

32. Raw Material Consumed

		2006-07 Qty.	2006-07 Rs.	2005-06 Qty.	2005-06 Rs.
Pencillin G Potassium	Bou's	**3775.522**	**1,270.2**	4616.960	1327.5
7 ACA	Tonnes	**272.967**	**1,035.8**	256.320	1202.2
6APA	Tonnes	**1368.736**	**1,521.4**	809.989	761.3
Beta - Thymidine	Tonnes	**140.664**	**849.6**	80.544	419.8
PHPG Base	Tonnes	**1037.000**	**441.9**	794.562	310.9
GCLE	Tonnes	**114.159**	**558.6**	72.200	309.6
Pen G Sulphoxide	Tonnes	**292.085**	**153.4**	400.965	199.9
PG Base	Tonnes	**603.201**	**160.1**	608.909	140.8
Others			**5,492.2**		4,201.9
Total			**11,483.4**		8,873.9

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

33. Consumption of Raw Materials & Stores and Spares

	2006-07 %	2006-07 Rs.	2005-06 %	2005-06 Rs.
Raw Materials				
Imported	**79**	**9,016.8**	75	6,663.9
Indigenous	**21**	**2,466.6**	25	2,210.0
Total	**100**	**11,483.4**	100	8,873.9
Stores & Spares				
Imported	**2**	**4.9**	2	3.5
Indigenous	**98**	**271.4**	98	160.6
Total	**100**	**276.3**	100	164.1

Rs. Millions

34. Value of imports calculated on CIF Basis

	2006-2007	2005-2006
Raw materials	**9,292.0**	6,547.5
Packing Materials	**104.2**	75.8
Capital goods	**381.8**	292.1
Stores, Spares and Consumables	**91.7**	53.8
Total	**9,869.7**	6,969.2

35. Expenditure in foreign currency (Cash basis)

	2006-2007	2005-2006
Travelling	**11.3**	9.3
Commission on Sales	**95.0**	76.9
Product Registration and Filing Fee	**86.3**	56.8
Overseas Office Expenses	**23.7**	59.2
Professional & Consultancy Charges	**79.1**	16.8
Interest	**80.8**	58.5
Others	**144.4**	39.0
Total	**520.6**	316.5

36. Earnings in foreign exchange (Accrual basis)

	2006-2007	2005-2006
Exports on F.O.B. Basis	**10,968.3**	8,163.3
Interest	**531.1**	131.7
Dividend	**0.8**	0.8
Sale of dossiers	**112.7**	33.7
Total	**11,612.9**	8,329.5

37. The current year figure include those relating to transferor companies viz., APL Life Sciences Limited and Senor Organics Private Limited and therefore the figures of the previous year are not comparable with those of the current year. Further, the figures of the previous year have been re-grouped/rearranged, wherever necessary to conform to those of current year.

SIGNATURES TO SCHEDULES 1 TO 22

In terms of our report of even date.

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

Per
RAHUL ROY
Partner
Membership No. 53956

Kolkata, June 30, 2007.

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

SUDHIR B. SINGHI
Chief Financial Officer

A. MOHAN RAMI REDDY
Company Secretary

Dr. M. SIVAKUMARAN
Director

Hyderabad, June 30, 2007.

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

Corporate Identification No. L24239AP1986PLC015190

Balance Sheet Date 31 03 2007

Date Month Year

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

Public Issue	Rights Issue	Bonus Issue	Private Placement
NIL	NIL	NIL	393

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

Total Liabilities	Total Assets
29728868	29728868

Sources of Funds

Paid-up Capital	Reserves & Surplus	ESOP Share Application Money	Secured Loans
266743	9026336	190	6859529

Unsecured Loans
12903896

Application of Funds

Net Fixed Assets	Investments	Net Current Assets	Deferred Tax Liabilities
8956307	2027359	18745202	672174

IV. Performance of Company (Rs. in Thousands)

Turnover & Other Income	Total Expenditure	Profit before Tax	Profit after Tax
19216966	16905355	2311611	2290852

Earnings per Share (Rs.)	Dividend Rate (%)
42.98	50

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

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

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

SUDHIR B. SINGHI
Chief Financial Officer

A. MOHAN RAMI REDDY
Company Secretary

Dr. M. SIVAKUMARAN
Director

Hyderabad, June 30, 2007.

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	1.35	5.4	60.8	349.9	283.7	–	657.0	33.1	14.1	19.0	Thailand
Aurobindo Pharma USA, Inc.	USD	43.46	738.8	56.0	2,397.8	1,734.4	131.4	1,487.8	53.4	–	53.4	U.S.A.
AB Farmo Industria Farmaceutica Ltda[a&b]	Reais	21.14	72.2	62.4	792.7	658.1	–	1,020.1	(46.0)	–	(46.0)	Brazil
Aurobindo (Datong) Bio-Pharma Company Ltd[a]	RMB	5.59	1,486.9	(620.9)	3,930.6	3,064.6	–	1,948.7	(209.3)	–	(209.3)	China
Helix Healthcare B.V.[a]	EURO	58.04	313.3	(6.6)	969.1	662.4	–	–	(1.5)	–	(1.5)	The Netherlands
Agile Pharma B.V.[a]	EURO	58.04	95.1	(4.6)	305.9	215.4	–	–	(4.6)	–	(4.6)	The Netherlands
Pharmacin International B.V.[a]	EURO	58.04	9.0	4.1	14.1	1.0	–	–	(2.7)	–	(2.7)	The Netherlands
Pharmacin Products B.V.[a]	EURO	58.04	1.1	(0.1)	1.0	–	–	–	–	–	–	The Netherlands
Pharmacin B.V.[a]	EURO	58.04	1.1	(38.3)	119.2	156.4	–	94.2	(3.6)	(0.9)	(2.7)	The Netherlands
Auro Pharma Inc.	CAD	37.67	13.2	(4.3)	10.4	1.5	–	19.6	(1.5)	–	(1.5)	Canada
Aurobindo Pharma (Australia) Pty Limited	AUD	35.50	1.0	(0.8)	0.2	–	–	–	(0.8)	–	(0.8)	Australia
Aurobindo Switzerland AG [a]	CHF	35.92	3.6	(3.1)	2.3	1.8	–	–	(3.1)	–	(3.1)	Switzerland
Aurex Generics Limited	GBP	85.51	142.7	31.1	629.9	456.1	–	193.3	44.7	13.3	31.4	U.K.
Milpharm Limited	GBP	85.51	70.3	124.2	428.9	234.4	–	767.6	16.1	2.2	13.9	U.K.
Aurobindo Pharma (Pty) Ltd	ZAR	5.99	21.4	(21.9)	2.1	2.6	–	–	(16.1)	–	(16.1)	South Africa
Aurobindo Pharma Hungary, KFT.	HUF	0.24	3.4	(0.7)	2.7	–	–	–	(0.7)	–	(0.7)	Hungary
Auro Healthcare (Nigeria) Limited	Naira (NGN)	0.35	0.2	(0.3)	–	0.1	–	–	(0.3)	–	(0.3)	Nigeria
ZAO Aurobindo Pharma[a]	Rubles	1.67	5.7	(14.3)	124.9	133.5	–	21.0	(13.7)	–	(13.7)	Russia
APL Research Centre Limited	INR	–	0.5	–	1.7	1.2	–	–	–	–	–	India
APL Healthcare Limited	INR	–	25.0	–	25.0	–	–	–	–	–	–	India

Notes:

1. As required under para (iii) of the approval letters dated January 8, 2007 and April 26, 2007, 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 rates as on March 31, 2007.
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.
3. During the year, Aurobindo Tongling (Datong) Pharmaceutical Company Limited, China ceased to be a Subsidiary and Aurobindo (H.K.) Limited, Hong Kong was wound up.

[a] The financial year of these companies ends on December 31. However, the results given are as of March 31, 2007.

[b] Formerly AB Farmo Quimica Ltda.

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

SUDHIR B. SINGHI
Chief Financial Officer

A. MOHAN RAMI REDDY
Company Secretary

Dr. M. SIVAKUMARAN
Director

Hyderabad, June 30, 2007.

Auditors' Report

The Board of Directors,
Aurobindo Pharma Limited

1. We have audited the attached Consolidated Balance Sheet of Aurobindo Pharma Limited and its subsidiaries and joint ventures ("Group"), as at March 31, 2007 and the Consolidated Profit and Loss Account and the 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.10,600.5 as at March 31, 2007, total revenues of Rs.7,344.2 and total net cash inflows of Rs.296.1 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, 2007 include the unaudited financial statements of the following entities, consolidated on the basis of management certification:

   a. Helix Healthcare B.V., The Netherlands

   b. Agile Pharma B.V., The Netherlands

   c. Aurobindo Pharma (Australia) Pty Limited

   d. Auro Healthcare (Nigeria) Limited

   e. Aurobindo Pharma Hungary KFT

   These Consolidated Financial Statements reflect total assets of Rs.1,257.9 as at March 31, 2007, total revenues of Rs.29.9 and total net cash inflows of Rs.20.3 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(h) and Note 4(i) of Schedule 20 to the Consolidated Financial Statements. Management is of the view that the liability to pay premium on redemption if any, of Foreign Currency Convertible Bonds is contingent. As the ultimate outcome of the matter cannot be presently determined and no provision has been made for liability if any, that may arise on resolution of the contingency.

7. *Attention is drawn to Note 2 on Schedule 20 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, 2006.*

8. *In the absence of audited financial statements in respect of the entities referred to in Para 4 above, we are unable to express an opinion as to the balances, results from operation and cash flows pertaining to such entities included in the Consolidated Balance Sheet, Profit and Loss Account and Cash Flow Statement respectively as at and for the year ended March 31, 2007. This has also resulted in issuance of a disclaimer of opinion on the Consolidated Financial Statements for the year ended March 31, 2006.*

9. *The Auditors' of Pharmacin International B.V., Pharmacin Products B.V. and Pharmacin B.V., ultimate subsidiaries of the Company, whose financial statements as at March 31, 2007 reflect assets of Rs.172.6 and liabilities of Rs.157.4 has issued a disclaimer of opinion with respect to appropriateness of the composition and the amount of the result for the period January 1, 2007 up to and including March 31, 2007.*

10. 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 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, 2007;

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

    c. the Consolidated Cash Flow Statement, gives a true and fair view of the Consolidated Cash Flows of Aurobindo Pharma Limited and its consolidated entities for the year then ended.

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

Per
RAHUL ROY
Partner
Membership No. 53956
Kolkata, June 30, 2007

Consolidated Balance Sheet as at March 31, 2007

Rs. Millions

			Schedule	As at March 31, 2007		As at March 31, 2006	
I.	**SOURCES OF FUNDS**						
	SHAREHOLDERS' FUNDS	Share Capital	1	**266.7**		266.3	
		Share Application Money		**0.2**		0.4	
		Reserves & Surplus	2	**8,593.2**		7,882.0	
					8,860.1		8,148.7
	MINORITY INTEREST				**35.4**		24.3
	LOAN FUNDS	Secured Loans	3	**7,390.7**		7,502.5	
		Unsecured Loans	4	**13,390.7**		6,228.2	
					20,781.4		13,730.7
	DEFERRED TAX LIABILITY (Net)		20(13a)		**681.9**		725.6
		TOTAL			**30,358.8**		22,629.3
II.	**APPLICATION OF FUNDS**						
	FIXED ASSETS	Gross Block	5	**14,681.4**		13,561.6	
		Less: Accumulated Depreciation/ Amortization		**3,155.3**		2,724.1	
		Net Block		**11,526.1**		10,837.5	
		Capital Work-in-progress including capital advances		**2,187.1**		1,497.4	
					13,713.2		12,334.9
	INVESTMENTS		6		**2.7**		2.8
	DEFERRED TAX ASSET (Net)		20(13b)		**–**		0.1
	CURRENT ASSETS, LOANS AND ADVANCES	Interest Accrued on Investments		**0.5**		0.5	
		Inventories	7	**6,544.0**		4,718.1	
		Sundry Debtors	8	**6,261.1**		5,822.3	
		Cash & Bank Balances	9	**5,824.6**		2,019.3	
		Loans and Advances	10	**2,718.9**		1,996.6	
				21,349.1		14,556.8	
	LESS: CURRENT LIABILITIES AND PROVISIONS	Liabilities	11	**4,434.5**		4,090.2	
		Provisions	12	**271.7**		175.1	
				4,706.2		4,265.3	
	NET CURRENT ASSETS				**16,642.9**		10,291.5
		TOTAL			**30,358.8**		22,629.3
		Notes to Consolidated Accounts	20				

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 30, 2007.

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

SUDHIR B. SINGHI
Chief Financial Officer

A. MOHAN RAMI REDDY
Company Secretary

Dr. M. SIVAKUMARAN
Director

Hyderabad, June 30, 2007.

Consolidated Profit and Loss Account for the year ended March 31, 2007

Rs. Millions

		Schedule	2006-2007	2005-2006
INCOME	Sales (Gross)		**22,502.2**	16,955.0
	Less: Excise Duty/Value Added Tax		**(1,273.0)**	(1,018.9)
	Sales (Net)		**21,229.2**	15,936.1
	Other Income	13	**493.1**	225.7
	Increase in Inventories	14	**890.5**	518.3
	Exceptional item		**–**	309.8
	TOTAL		**22,612.8**	16,989.9
EXPENDITURE	Purchase of Trading Goods		**1,351.1**	908.5
	Raw Materials Consumed	15	**11,243.6**	9,146.3
	Other Manufacturing Expenses	16	**3,358.9**	2,405.4
	Personnel Expenses	17	**1,504.2**	1,024.2
	Administrative and Selling Expenses	18	**1,640.0**	1,195.1
	Interest and Finance Charges (Net)	19	**453.6**	604.1
	Depreciation and Amortisation	5	**997.2**	721.3
	TOTAL		**20,548.6**	16,004.9
PROFIT BEFORE TAX, MINORITY INTEREST			**2,064.2**	985.0
PROVISION FOR TAXATION				
	Current tax (includes MAT Provision of Rs.180.5)		**203.3**	128.4
	Less: MAT credit entitlement		**(145.5)**	(80.9)
	Deferred Tax		**(40.6)**	159.0
	Fringe Benefit Tax		**4.0**	2.8
	Tax Adjustments of previous years		**22.4**	64.6
	Total Tax Expense		**43.6**	273.9
PROFIT AFTER TAX AND BEFORE MINORITY INTEREST			**2,020.6**	711.1
	Minority Interest		**(11.0)**	(14.1)
NET PROFIT			**2,009.6**	697.0
	Balance brought forward from previous year		**783.6**	–
	Balance of Profit and loss account taken over on amalgamation		**(1.7)**	–
PROFIT AVAILABLE FOR APPROPRIATION			**2,791.5**	697.0
APPROPRIATIONS				
	Proposed Dividend @ Rs.2.50 (Rs.1.50) on Equity Shares of Rs.5 Each		**133.4**	81.2
	Tax on Dividend		**22.7**	11.6
	Withdrawal from Debenture Redemption Reserve on redemption of debentures		**–**	(248.8)
	Transfer to General Reserve		**230.0**	69.4
	Surplus carried to Balance Sheet		**2,405.4**	783.6
			2,791.5	697.0
EARNINGS PER SHARE		20 (21a)		
	Basic Rs.		**37.70**	13.28
	Diluted Rs.		**30.27**	12.52
	Nominal Value per Share Rs.		**5.00**	5.00
	Notes to Consolidated Accounts	20		

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 30, 2007.

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

SUDHIR B. SINGHI
Chief Financial Officer

A. MOHAN RAMI REDDY
Company Secretary

Dr. M. SIVAKUMARAN
Director

Hyderabad, June 30, 2007.

Consolidated Cash Flow Statement for the Year Ended March 31, 2007

Rs. Millions

		2006-2007	2005-2006
A. CASH FLOW FROM OPERATING ACTIVITIES			
	Net Profit before Tax, minority interest and prior period items	**2,064.2**	985.0
	Adjustments for:		
	Depreciation and amortisation	**997.2**	721.3
	Miscellaneous Expenditure written off	**0.1**	–
	Provision for Doubtful Debts	**82.5**	136.1
	Gain on sale of Fixed Assets	**(41.2)**	(28.7)
	Export incentives accrued	**(45.1)**	(88.2)
	Claims/ bad debts written off	**39.2**	16.1
	Balances no longer required written back	**(52.9)**	(39.5)
	Provision for Retirement Benefits	**2.3**	(39.9)
	Loss on sale of Investments	**0.1**	0.1
	Write off/other adjustments of Fixed Assets	**1.0**	13.7
	Foreign Exchange loss (net)	**(327.0)**	8.6
	Interest income	**(410.9)**	(86.9)
	Sales Tax deferment loan availed	**(28.5)**	64.3
	Profit on sale of Investments in Subsidiary	**(58.5)**	–
	Exceptional item	**–**	(309.8)
	Interest expense	**864.5**	691.0
	Operating Profit before Working Capital changes	**3,087.0**	2,043.2
	Movements in working capital :		
	Increase in Sundry Debtors	**(796.4)**	(1,411.6)
	Increase in Inventories	**(1,832.2)**	(926.4)
	Increase in Loans and Advances	**(684.5)**	(426.2)
	Increase in Current Liabilities	**645.7**	1,202.2
	Cash generated from operations	**419.6**	481.2
	Direct taxes paid (net of refunds)	**(233.1)**	(320.7)
NET CASH (USED IN) / FROM OPERATING ACTIVITIES (A)		**186.5**	160.5
B. CASH FLOW FROM INVESTING ACTIVITIES	Purchase of Fixed Assets and Intangibles	**(3,318.7)**	(2,224.0)
	Proceeds from sale of Fixed Assets	**155.3**	56.5
	Payment for Net Assets acquired of Subsidiary, net of cash	**(284.7)**	(358.4)
	Payment for purchase of Sundry Debtors	**–**	(19.9)
	On disposal of Joint Venture entity	**–**	(18.8)
	Proceeds from sale of Investment in Subsidiary, net of cash	**(24.5)**	–
	Purchase of Investments	**(2,026.6)**	13.0
	Loans to Joint Ventures	**–**	(20.4)
	Interest received	**366.0**	86.7
NET CASH USED IN INVESTING ACTIVITIES (B)		**(5,133.2)**	(2,485.3)

Rs. Millions

		2006-2007	2005-2006
C.	**CASH FLOW FROM FINANCING ACTIVITIES**		
	Proceeds from issuance of shares	**28.2**	587.5
	Proceeds from Share application money	**0.2**	0.4
	Proceeds from Long Term borrowings	**9,484.8**	70.3
	Repayment of Long Term borrowings	**(2,327.6)**	(680.5)
	Proceeds from Short Term borrowings (Net)	**757.0**	4,477.6
	Interest paid	**(875.9)**	(690.8)
	FCCB issue expenses	**(135.6)**	(70.2)
	Dividends and dividend tax paid	**(92.3)**	(30.3)
	NET CASH FLOW FROM FINANCING ACTIVITIES (C)	**6,838.8**	3,664.0
D.	**EFFECT OF EXCHANGE RATE CHANGES ON CASH & CASH EQUIVALENTS (D)**	**7.6**	43.4
	NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**1,899.7**	1,382.6
	Cash and Cash Equivalents at the beginning of the year	**1,961.7**	593.8
	Add: On amalgamation	**0.1**	–
	Cash and Cash Equivalents at the end of the year	**3,861.5**	1,976.4

Components of cash and cash equivalents as at March 31,	2007	2006
Cash, Cheques and Drafts on hand	**9.3**	50.5
With Banks - on Current Accounts	**765.9**	796.3
- on Deposit Accounts	**195.4**	138.7
- on Unpaid Dividend Accounts	**2.8**	2.6
- on Fixed Deposit Accounts	**4,851.2**	1,031.2
- Overdraft	**(66.3)**	(57.6)
Cash and Cash equivalents as per Balance Sheet	**5,758.3**	1,961.7
Less: Fixed Deposits considered as Investments	**(2,010.8)**	13.4
Effect of unrealized exchange loss as on the Balance Sheet date	**114.0**	1.3
Cash and Cash equivalents considered for cash flows	**3,861.5**	1,976.4

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 30, 2007.

SUDHIR B. SINGHI
Chief Financial Officer

A. MOHAN RAMI REDDY
Company Secretary

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

Dr. M. SIVAKUMARAN
Director
Hyderabad, June 30, 2007.

Rs. Millions

			As at March 31, 2007	As at March 31, 2006
1.	**SHARE CAPITAL** *(Refer Note 5 on Schedule 20)*			
	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	53,348,637 (53,270,000) Equity Shares of Rs.5 each fully paid-up	**266.7**	266.3
		TOTAL	**266.7**	266.3
		Note: Of the above 1,341,000 Equity Shares of Rs.5 each were alloted for consideration other than cash.		
2.	**RESERVES & SURPLUS**			
	CAPITAL RESERVE	As per last Balance Sheet	**97.3**	247.3
		Add: On Amalgamation	**0.1**	–
		Less: On disposal of Subsidiary	**(7.1)**	–
		Less: On termination of Joint Venture	**–**	(150.0)
			90.3	97.3
	CAPITAL REDEMPTION RESERVE	As per last Balance Sheet	**90.0**	90.0
	SECURITIES PREMIUM *(Refer Note 7 on Schedule 20)*			
		As per last Balance Sheet	**2,860.3**	2,005.5
		Add: Received during the year	**28.1**	925.0
			2,888.4	2,930.5
		Less: Utilisation pursuant to High Court Order	**(1,039.1)**	–
		Less: Foreign Currency Convertible Bonds issue expenses	**(135.6)**	(70.2)
			1,713.7	2,860.3
	DEBENTURE REDEMPTION RESERVE	As per last Balance Sheet	**–**	248.8
		Less: Transferred to Profit and Loss Account	**–**	(248.8)
			–	**–**
	GENERAL RESERVE	As per last Balance Sheet	**4,124.1**	4,054.7
		Add: Transferred from Profit and Loss Account	**230.0**	69.4
			4,354.1	4,124.1
		Less: Adjustment for employee benefits provision (net of tax of Rs.5.8) *(Refer Note 8 on Schedule 20)*	**(11.2)**	–
			4,342.9	4,124.1
	FOREIGN CURRENCY TRANSLATION RESERVE			
		As per last Balance Sheet	**(73.3)**	(117.9)
		Add: Current year translation adjustment	**24.2**	44.6
			(49.1)	(73.3)
	PROFIT AND LOSS ACCOUNT		**2,405.4**	783.6
		TOTAL	**8,593.2**	7,882.0

Rs. Millions

		As at March 31, 2007	As at March 31, 2006
3. SECURED LOANS *(Refer Note 10 on Schedule 20)*			
TERM LOANS	From Banks	**2,028.5**	4,183.1
	[Payable within one year- Rs.975.9 (Rs.1,957.0)]		
OTHER LOANS	From Banks - Working capital loans	**5,360.2**	3,316.5
	(Payable within one year)		
	Interest Accrued	**0.1**	2.4
	Hire Purchase Loans		
	From Banks	**1.9**	–
	From Others	**–**	0.5
	[Payable within one year - Rs.Nil (Rs.0.3)]		
	TOTAL	**7,390.7**	7,502.5
4. UNSECURED LOANS *(Refer Note 11 on Schedule 20)*			
SHORT TERM LOANS	From Banks	**900.0**	2,175.0
OTHER LOANS	From Banks	**158.9**	329.7
	Interest Accrued and Due	**18.0**	11.2
	Zero coupon Foreign Currency Convertible Bonds	**11,299.6**	2,677.2
	From Others	**99.6**	87.3
	Sales Tax Deferment Loan	**914.6**	947.8
	[Payable within one year - Rs.3.2 (Rs 4.0)]		
	TOTAL	**13,390.7**	6,228.2

5. **FIXED ASSETS** *(Refer Note 9 on Schedule 20)*

Rs. Millions

Particulars	Gross Block						Depreciation						Net Block	
	As at April 1, 2006	Acquired on Amalgamation/ Acquisitions	Additions	Sales/ Adjustments	Foreign Currency translation adjustment	**As at March 31, 2007**	Up to April 1, 2006	Acquired on Amalgamation/ Acquisitions	For the year	On Sales/ Adjustments	Foreign Currency translation adjustment	**Up to March 31, 2007**	**As at March 31, 2007**	As at March 31, 2006
Leasehold Land	42.4	–	–	–	–	**42.4**	1.3	–	0.5	–	–	**1.8**	**40.6**	41.1
Freehold Land[a]	143.2	0.3	174.6	21.6	0.1	**296.4**	–	–	–	–	–	**–**	**296.4**	143.2
Leasehold Buildings	64.8	–	–	–	–	**64.8**	6.2	–	2.6	–	–	**8.8**	**56.0**	58.6
Freehold Buildings[b]	2,525.8	11.0	602.5	189.9	0.7	**2,948.7**	283.7	2.8	82.0	42.5	0.7	**325.3**	**2,623.4**	2,242.1
Plant & Machinery[c]	9,645.1	18.7	1,224.9	877.4	(8.1)	**10,019.4**	2,281.4	9.3	774.5	419.5	3.7	**2,642.0**	**7,377.4**	7,363.7
Vehicles	60.1	2.8	20.5	15.7	–	**67.7**	22.7	1.2	7.6	5.3	0.1	**26.1**	**41.6**	37.4
Furniture & Fixtures	152.5	19.8	34.7	8.2	0.1	**198.7**	44.0	12.9	18.7	4.5	0.1	**71.0**	**127.7**	108.5
Sub Total	12,633.9	52.6	2,057.2	1,112.8	(7.2)	**13,638.1**	2,639.3	26.2	885.9	471.8	4.6	**3,075.0**	**10,563.1**	9,994.6
Intangibles														
Goodwill	235.0	–	278.4	0.8	(26.0)	**538.6**	–	–	–	–	–	**–**	**538.6**	235.0
Product Development Cost	389.0	26.8	439.4	662.4	–	**192.8**	39.1	10.5	87.8	125.5	–	**11.9**	**180.9**	349.9
Licences	172.4	–	14.4	13.2	(15.7)	**189.3**	35.4	–	18.6	0.5	(3.3)	**56.8**	**132.5**	137.0
Land usage Rights	131.3	–	8.4	17.6	(0.5)	**122.6**	10.3	–	4.9	3.5	0.1	**11.6**	**111.0**	121.0
Sub Total	927.7	26.8	740.6	694.0	(42.2)	**1,043.3**	84.8	10.5	111.3	129.5	(3.2)	**80.3**	**963.0**	842.9
TOTAL	13,561.6	79.4	2,797.8	1,806.8	(49.4)	**14,681.4**	2,724.1	36.7	997.2	601.3	1.4	**3,155.3**	**11,526.1**	10,837.5
Capital work in progress[d]													**2,187.1**	1,497.4
Previous Year	10,726.9	149.5	3,097.4	563.8	(151.6)	**13,561.6**	2,144.2	31.7	721.3	203.6	(30.5)	**2,724.1**	**10,837.5**	8,582.7

Notes

a. The title deeds of Land and Buildings aggregating to Rs.90.1 (Rs.109.1) are pending transfer to the Company's name.

b. Includes Rs.0.3 being the value of shares in co-operative housing societies, and net of government grant received Rs.Nil (Rs.0.8).

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

d. Includes capital advances of Rs.76.9 (Rs.94.4), foreign exchange fluctuations Rs.Nil (Rs.0.7) and expenditure during construction period Rs.11.1 (Rs.11.1).

e. Gross Block deletions include Rs.969.0 and deletions in depreciation block included Rs.312.1 adjusted pursuant to High Court of Judicature, Andhra Pradesh at Hyderabad vide Order dated June 21, 2007 (Refer Note 7 on Schedule 20).

f. Additions during the year include Rs.154.9 (Rs.23.7) towards Research Centre capital expenditure.

Rs. Millions

		As at March 31, 2007	As at March 31, 2006
6. INVESTMENTS			
UNQUOTED			
LONG TERM (at Cost)			
TRADE INVESTMENTS	Equity Shares (Fully Paid-up)		
	753 (753) equity shares of Jeedimetla Effluent Treatment Limited of Rs.100 each	0.1	0.1
	103,709 (103,709) equity shares of Patancheru Enviro-Tech Limited of Rs.10 each	1.0	1.0
	1,000 (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
		1.2	1.2
	* includes Rs.0.1 held by income tax authorities (Rs.0.1)		
CURRENT INVESTMENTS	(At lower of cost or market value)		
UNQUOTED NONTRADE	Equity Shares (Fully Paid-up)		
	4,520 (4,520) equity shares of Andhra Bank of Rs.10 each	0.3	0.4
	70,000 (100,000) Shares of Citadel Aurobindo Biotech Limited of Rs.100 each	7.0	10.0
	Less:Provision for diminution in the value of investment	(7.0)	(10.0)
	TOTAL	2.7	2.8
	Aggregate value of unquoted investments	2.4	2.4
	Aggregate value of quoted investments	0.3	0.4
	Market value of quoted investments	0.3	0.4
7. INVENTORIES			
(at lower of cost or net realisable value)	Raw Materials*	2,809.7	1,823.5
	Stores, Spares, Consumables & Packing Materials	480.8	421.6
	Work-in-Process	2,105.1	1,615.6
	Finished Goods*	1,148.4	857.4
	TOTAL	6,544.0	4,718.1
	* includes material in transit and lying with third parties.		

Rs. Millions

		As at March 31, 2007	As at March 31, 2006
8. SUNDRY DEBTORS			
Unsecured	Debts outstanding for a period exceeding six months		
	Considered Good	**1,093.3**	1,144.7
	Considered Doubtful	**321.4**	241.5
		1,414.7	1,386.2
	Other Debts - Considered Good	**5,167.8**	4,677.6
		6,582.5	6,063.8
	Less: Provision for Doubtful Debts	**(321.4)**	(241.5)
	TOTAL	**6,261.1**	5,822.3
9. CASH & BANK BALANCES			
	Cash, Cheques & Drafts on Hand	**9.3**	50.5
	Balances with Scheduled Banks on:		
	Current Accounts	**151.1**	403.3
	Fixed Deposit Accounts	**4,851.2**	1,031.2
	Unpaid Dividend Accounts	**2.8**	2.6
	Balances with other Banks on:		
	Current Accounts	**614.8**	393.0
	Deposit Accounts	**195.4**	138.7
	TOTAL	**5,824.6**	2,019.3
10. LOANS & ADVANCES			
(Unsecured, considered good except stated otherwise)	Loans and Advances to Joint Venture Entities	**120.9**	86.6
	Loans to Employees	**28.2**	15.7
	Advances recoverable in cash or in kind or for value to be received or pending adjustments		
	Considered Good	**1,187.0**	927.4
	Considered Doubtful	**36.3**	36.3
	Insurance claim receivable	**18.0**	54.7
	Trade and Other Deposits	**259.7**	126.5
	Export Incentives Receivable	**476.0**	437.0
	MAT credit entitlement	**231.9**	80.9
	Advance Income Tax and tax paid on appeals (Net of Provision)	**192.0**	176.8
	Balances with Customs and Excise Authorities	**205.2**	91.0
		2,755.2	2,032.9
	Less: Provision for Doubtful Advances	**(36.3)**	(36.3)
	TOTAL	**2,718.9**	1,996.6

Rs. Millions

		As at March 31, 2007	As at March 31, 2006
11. CURRENT LIABILITIES			
	Sundry Creditors for Goods, Services and Expenses	**4,205.1**	3,861.3
	Trade Deposits	**1.0**	1.0
	Unclaimed Dividends	**2.8**	2.6
	Other Liabilities	**138.2**	135.2
	Interest Accrued but not due on loans	**21.1**	32.5
	Bank overdraft	**66.3**	57.6
	TOTAL	**4,434.5**	4,090.2
12. PROVISIONS			
	Provision for Taxation (net of advance payments)	**27.4**	7.2
	Provision for Retirement Benefits	**88.2**	75.6
	Proposed Dividend	**133.4**	81.1
	Tax on Proposed Dividend	**22.7**	11.2
	TOTAL	**271.7**	175.1

		2006-2007	2005-2006
13. OTHER INCOME			
	Processing Charges	**0.4**	1.6
	Dividend from current investments	**0.1**	–
	Gain on sale of Fixed Assets	**41.2**	28.7
	Exchange Fluctuation Gain (Net)	**127.3**	25.2
	Balances no longer required written back	**52.9**	39.5
	Sale of Dossiers	**132.6**	33.7
	Miscellaneous Income	**80.1**	97.0
	Profit on sale of Investments in Subsidiary	**58.5**	–
	TOTAL	**493.1**	225.7

Rs. Millions

	2006-2007	2005-2006
14. INCREASE IN INVENTORIES		
Opening Stocks		
Finished Goods	**857.4**	591.0
Work-in-Process	**1,615.6**	1,334.3
	2,473.0	1,925.3
Less: VAT credit available on opening stocks	**–**	(0.6)
Less: Reversal of excise duty on opening stocks	**(19.5)**	(26.5)
	2,453.5	1,898.2
Acquired on acquisition		
Finished Goods	**–**	52.1
	2,453.5	1,950.3
Less: Closing Stocks		
Finished Goods	**(1,148.4)**	(857.4)
Work-in-Process	**(2,105.1)**	(1,615.6)
	(3,253.5)	(2,473.0)
Increase in Inventories	**800.0**	522.7
Adjustment for Fluctuation in Exchange Rates	**90.5**	(4.4)
TOTAL	**890.5**	518.3
15. RAW MATERIALS CONSUMED		
Opening Stocks	**1,823.5**	1,560.0
Add: Purchases during the year	**12,231.8**	9,401.5
Less: Closing Stock	**(2,809.7)**	(1,823.5)
	11,245.6	9,138.0
Adjustment for fluctuation in Exchange Rates	**(2.0)**	8.3
TOTAL	**11,243.6**	9,146.3

Rs. Millions

	2006-2007	2005-2006
16. OTHER MANUFACTURING EXPENSES		
Conversion Charges	**131.8**	55.0
Packing Materials consumed	**512.1**	322.2
Consumption of Stores & Spares	**330.1**	213.2
Chemicals consumed	**326.3**	210.3
Carriage Inward	**139.8**	111.3
Factory Maintenance	**81.1**	39.2
Power & Fuel	**1,452.7**	1,139.3
Effluent Treatment Expenses	**20.4**	22.4
Excise Duty Others	**116.7**	115.0
Repairs & Maintenance		
Plant & Machinery	**71.8**	39.2
Buildings	**20.6**	20.7
Others	**33.0**	34.7
Miscellaneous Expenses	**122.5**	82.9
TOTAL	**3,358.9**	2,405.4
17. PERSONNEL EXPENSES		
Salaries, Wages and Bonus	**1,361.2**	918.6
Contribution to Provident Fund and other funds	**66.8**	55.6
Retirement Benefits	**43.5**	16.1
Staff Welfare Expenses	**32.7**	33.9
TOTAL	**1,504.2**	1,024.2

Rs. Millions

		2006-2007	2005-2006
18. ADMINISTRATIVE & SELLING EXPENSES			
	Rent	**45.1**	21.3
	Rates & Taxes	**46.7**	31.4
	Printing & Stationery	**50.9**	38.1
	Postage, Telegram & Telephones	**36.5**	31.6
	Insurance	**88.1**	89.4
	Legal & Professional Charges	**126.1**	81.3
	Directors sitting fees	**0.3**	0.1
	Remuneration to Auditors	**10.8**	6.1
	Commission to other Selling Agents	**176.4**	118.6
	Carriage Outwards	**372.8**	270.6
	Selling Expenses	**110.5**	85.8
	Rebates & Discounts	**0.5**	2.3
	Travel & Conveyance	**84.9**	68.2
	Vehicle Maintenance Expenses	**7.8**	10.2
	Analytical Charges	**83.3**	–
	Product Development Expenses	**6.8**	27.2
	Software License & implementation expenses	**0.3**	0.1
	Provision for Bad and Doubtful Debts and Advances	**82.5**	136.1
	Claims/ Bad Debts written off	**39.2**	16.1
	Fixed assets written off	**1.0**	13.7
	Donations	**1.8**	1.3
	Loss on trading investments	**–**	0.1
	Registration & Filing charges	**35.8**	–
	Safety & Security	**2.9**	2.9
	Office Expenses	**20.0**	17.9
	Repairs & Maintenance	**36.7**	13.3
	Management Fees	**21.6**	3.6
	Miscellaneous Expenses	**150.7**	107.8
	TOTAL	**1,640.0**	1,195.1
19. INTEREST AND FINANCE CHARGES			
	Interest on debentures and fixed period loans	**415.1**	441.4
	Interest on other loans	**383.4**	193.4
	Finance charges	**66.0**	56.2
		864.5	691.0
	Less: Interest On		
	Loans to Joint Venture entities	**7.9**	5.9
	Deposits	**385.7**	71.4
	Other investments	**7.5**	0.6
	Income Tax Refunds	**6.0**	–
	Other advances	**3.8**	9.0
	[Tax deducted at source Rs 18.9 (Rs 6.3)]		
		410.9	86.9
	TOTAL	**453.6**	604.1

20. NOTES ANNEXED TO AND FORMING PART OF THE CONSOLIDATED ACCOUNTS AS AT AND FOR THE YEAR ENDED MARCH 31, 2007.

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, 2007 have been prepared on the basis of the financial statements of the following subsidiaries and joint venture entities:

Name 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 Industria Farmaceutica Ltda (formerly known as AB Farmo Quimica Limitada)	Brazil	Subsidiary	99.8%
Aurobindo (Datong) Bio-Pharma Company Limited	China	Subsidiary	100%
Aurobindo TongLing (Datong) Pharmaceutical Company Limited	China	Subsidiary	100%
Helix Healthcare B.V.	The Netherlands	Subsidiary	100%
Aurobindo Pharma USA, Inc.	U.S.A.	Subsidiary	100%
Auro Pharma Inc.	Canada	Subsidiary	100%
Aurex Generics Limited	U.K.	Subsidiary	100%
Aurobindo Pharma (Pty) Ltd	South Africa	Subsidiary	100%
ZAO Aurobindo Pharma	Russia	Subsidiary	100%
Milpharm Limited	U.K.	Subsidiary	100%
Agile Pharma B.V.	The Netherlands	Subsidiary	100%
Aurobindo Pharma (Australia) Pty Limited	Australia	Subsidiary	100%
Auro Healthcare (Nigeria) Limited	Nigeria	Subsidiary	100%
Aurobindo Switzerland AG	Switzerland	Subsidiary	100%
Aurobindo Pharma Hungary, KFT	Hungary	Subsidiary	100%
Pharmacin International B.V.	The Netherlands	Subsidiary	100%
Pharmacin Products B.V.	The Netherlands	Subsidiary	100%
Pharmacin B.V.	The Netherlands	Subsidiary	100%
APL Research Centre Limited	India	Subsidiary	100%
APL Healthcare Limited	India	Subsidiary	100%
Cephazone Pharma, LLC	U.S.A.	Joint Venture	50%
Aurosal Pharmaceuticals, LLC	U.S.A.	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 recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured

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

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 comprise of 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 which take substantial period of time to get ready for use 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 capitalised to the extent those relate 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 capitalised. Capitalised leased assets are depreciated over the lease term 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 asset as estimated by 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 to acquire land usage rights is being amortised over the period of the contract. 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 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.

h. Retirement and other Employee Benefits

i. Retirement benefits in the form of Provident Fund is a defined contribution scheme and the contributions are charged to the Consolidated Profit and Loss Account of the year when the contributions to the respective funds are due. Further, employer contribution of Provident Fund on leave encashment is provided for 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 liability is a defined benefit obligation and is provided for on the basis of an actuarial valuation made at the end of each financial year.

iv. Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation.

v. Actuarial gains/losses are immediately taken to Consolidated Profit and Loss Account and are not deferred.

i. Income Taxes

i. Tax expense consists of current, deferred 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 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 recognised only if there is virtual certainty 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.

v. Minimum Alternative tax (MAT) credit is recognised as an asset only when and to the extent there is convincing evidence that the Company will pay normal income tax during the specified period. In the year in which the MAT credit becomes eligible to be recognised as an asset in accordance with the recommendations contained in Guidance Note issued by the Institute of Chartered Accountants of India, the said asset is created by way of a credit to the Consolidated Profit and Loss Account and shown as MAT Credit Entitlement. The Company reviews the same at each balance sheet date and writes down the carrying amount of MAT Credit Entitlement to the extent there is no longer convincing evidence to the effect that Company will pay normal Income Tax during the specified period.

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 Consolidated Profit and Loss Account except with respect to fixed assets acquired from outside India which 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 Industria Farmaceutica Ltda, APL Pharma Thai Limited, Aurobindo (H.K.) Limited, Helix Healthcare B.V., ZAO Aurobindo Pharma, Auro Pharma Inc, Aurobindo Pharma (Pty) Limited, Aurobindo Switzerland AG, Aurobindo Pharma (Australia) Pty Limited, Auro Healthcare (Nigeria) Limited, Aurobindo Pharma Hungary, KFT, Agile Pharma B.V. and Aurex Generics Limited 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 Foreign Currency Translation 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 export promotion schemes 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 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, such capitalised assets 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 Consolidated 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 consolidated 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 consolidated 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, 2007 has not been ascertained.

b. Deferred tax liabilities include Rs.9.7 (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.178.6 (Rs.553.2).

Rs. Millions

4. Contingent Liabilities

		As at March 31, 2007	2006
a.	Claims against the Company not acknowledged as debts	**4.9**	1.8
b.	Outstanding Bank Guarantees on account of:		
	i. Guarantee given to banks	**4.6**	508.9
	ii. Guarantee given for Citadel Aurobindo Biotech Limited (50% Joint Venture)	**–**	400.0
	iii. Others	**74.1**	49.0
c.	Bills discounted with Banks	**241.6**	289.7
d.	Outstanding Letters of Credit for imports of materials	**518.3**	259.1
e.	Direct and Indirect Taxes	**210.7**	300.9
f.	Dossier sales	**110.9**	40.6

g. 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 parent 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 has been made in the books of accounts as the Company's liability if any towards such contribution is presently not certain.

h. During the financial year 2005-06, the parent company had issued 60,000 zero coupon Foreign Currency Convertible Bonds of USD 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 a minimum of 130% of the accreted principal amount if the bonds are not converted earlier. 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 USD 4.8 million (USD 3.1 million) equivalent to Rs.204.7 (Rs.136.5) and the cumulative premium amounts to USD 7.9 million equivalent to Rs.341.2 at the prevailing exchange rate as at the Balance Sheet date.

i. During the year, the parent company has issued 150,000 zero coupon Foreign Currency Convertible Bonds due 2011 (Tranche A Bonds) of USD 1,000 each and 50,000 Forward Conversion Convertible Bonds due 2011 (Tranche B Bonds) of USD 1,000 each. Tranche A Bonds and Tranche B Bonds are redeemable at 146.285% and 146.991% respectively of its principal amount on the maturity date. 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 USD 16.3 million equivalent to Rs.707.0 at the prevailing exchange rate as at the Balance Sheet date.

5. Share Capital

i. Employee Stock Option Scheme

a. Employee Stock Option Plan "ESOP-2004"

The parent 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 to grant 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 the then 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 parent company follows intrinsic value method.

Rs. Millions

The details of options outstanding of ESOP 2004 Scheme

(Nos.)

	2006-07	2005-06
Options Outstanding at the beginning of the year	**461,325**	403,450
Granted during the year	**–**	104,250
Vested/exercisable during the year	**74,473**	60,517
Exercised during the year	**78,187**	975
Forfeited during the year subject to reissue	**72,461**	45,400
Options Outstanding at end of the year	**310,677**	461,325

b. **Employee Stock Option Plan "ESOP - 2006"**

The parent company instituted an Employee Stock Option Plan "ESOP-2006" as per the special resolution passed in the 19th Annual General Meeting held on 18th September 2006. 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 35,000 to eligible employees. Each option comprises of one underlying Equity Share of Rs.5 each. The said options vest on an annual basis at 10%, 15%, 25% and 50% 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 the then prevailing market price of Rs.603.50 per share and hence the question of accounting for employee deferred compensation expense does not arise as the parent company follows intrinsic value method.

The details of options outstanding of ESOP 2006 Scheme

(Nos.)

	2006-07	2005-06
Options at the beginning of the year	**–**	–
Granted during the year	**35,000**	–
Vested/excercisable during the year	**–**	–
Exercised during the year	**–**	–
Forfeited during the year subject to reissue	**–**	–
Options at end of the year	**35,000**	–

c. **Disclosure as per Fair Value Method**

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

Particulars	2006-07	2005-06
Consolidated Profit after Taxation		
- As reported in Consolidated Profit and Loss Account	**2,009.6**	697.0
Less: Additional Employee Compensation cost based on Fair Value	**1.0**	0.3
- Consolidated Profit after Taxation as per Fair Value Method	**2,008.6**	696.7
Earnings per Share		
Basic		
- No. of shares	**53,302,309**	52,483,699
- EPS as reported	**37.70**	13.28
- Pro forma EPS	**37.68**	13.27
Diluted		
- No. of shares	**66,381,236**	55,677,714
- EPS as reported	**30.27**	12.52
- Pro forma EPS	**30.26**	12.51

Rs. Millions

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

	2006-07		2005-06
	ESOP 2004	ESOP 2006	ESOP 2004
Risk-free interest rate (%)	**8**	**7**	7
Expected life of options (years)	**6**	**5**	4
Expected Volatility (%)	**5.64**	**5.62**	5.62
Dividend Yield	**0.30**	**0.50**	0.50

ii. During the Financial Year 2005-06, the parent company issued 60,000 Zero Coupon Foreign Currency Convertible Bonds due 2010 of USD 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.

iii. During the year, the parent company has issued 150,000 Zero Coupon Foreign Currency Convertible Bonds (Tranche A bonds) and 50,000 Forward Conversion Convertible Bonds (Tranche B Bonds) due 2011 of USD 1,000 each. Each Tranche A bond is convertible into 44.52 fully paid equity share with par value of Rs.5 per share at a fixed price of Rs.1,014.06 per share, on or after June 27, 2006 but prior to close of business hours on May 10, 2011. Each Tranche B bond is convertible into fully paid equity share with par value of Rs.5 per share at an initial conversion price to be determined on conversion price setting date on or after May 17, 2007 but prior to close of business hours on May 10, 2011.

6. Amalgamation of AP Life Sciences Limited (Life Sciences) and Senor Organics Private Limited (Senor) with the parent company

a. Pursuant to the approval of the shareholders of the parent company at the Extra-ordinary General Meeting held on February 20, 2007, the Hon'ble High Court of Judicature Andhra Pradesh at Hyderabad vide its Order passed on June 21, 2007 sanctioned the Scheme of Arrangement (Scheme) under Section 391 to 394 read with Section 78 and Section 100 of the Companies Act, 1956 between Life Sciences and Senor , wholly owned subsidiaries of the parent company, with the parent company, with effect from April 01, 2006, and confirmed the utilisation of Securities Premium Account towards adjustment of the reduction in the carrying value of certain assets. Accordingly, the erstwhile Life Sciences and Senor have amalgamated with the parent company with effect from April 01, 2006. All the assets, liabilities and reserves of the erstwhile Life Sciences and Senor, were transferred to and vest with the parent company. The parent company has since made the necessary filings with the Registrar of Companies, Andhra Pradesh.

b. Life Sciences was engaged in the business of trading in pharmaceuticals, chemicals and solvent products. Senor was engaged in the business of active pharmaceutical ingredients and drug intermediates.

c. The amalgamation has been accounted for under the "pooling of interests" methods as prescribed under AS 14 issued by the Institute of Chartered Accountants of India. Accordingly, the assets, liabilities and reserves of the erstwhile Life Sciences and Senor as at April 01, 2006, have been taken over at their respective book values.

d. Erstwhile Life Sciences and Senor, being Wholly Owned Subsidiaries of the parent company, no equity shares were issued by the parent company to effect the amalgamation.

e. The difference between the value of the investments and the underlying net assets of the amalgamating companies taken over amounting to Rs.0.7 adjusted against Securities Premium Account as per the scheme.

Rs. Millions

7. Utilisation of Securities Premium Account

The High Court of Judicature, Andhra Pradesh at Hyderabad vide its Order dated June 21, 2007, has confirmed the utilization of the Securities Premium Account to an extent of Rs.1,795.4 in accordance with the provisions of Section 78 read with Section 100 of the Companies Act, 1956. Details are as under:

Particulars	2006-07
Certain receivables, loans and advances not recoverable written off	313.2
Product development cost under the head "Intangible Assets"	536.9
Diminution in value of investments in Chinese subsidiaries	68.3
Reduction in value of fixed assets	120.0
Total	1,038.4

8. Retirement Benefits

The parent company has adopted the Revised AS 15 "Employee Benefits", the parent company has preferred earlier adoption of the Standard effective April 01, 2006. Pursuant to such adoption, the transitional obligation of Rs.11.2 (net of deferred tax Rs.5.8) has been adjusted to general reserve. Since this being the first year of adoption of revised AS 15 "Employee Benefits" previous corresponding figures are not furnished.

The parent company has a defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on departure at 15 days last drawn salary for each completed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy.

The following tables summarise the components of net benefit expense recognised in the Consolidated Profit and Loss Account and the funded status and amounts recognised in the Consolidated Balance Sheet for the respective plans.

Consolidated Profit and Loss Account

	2006-07
Net employee benefit expense (recognised in employee cost)	
Current service cost	13.8
Interest cost on benefit obligation	3.7
Expected return on plan assets	(2.4)
Net actuarial(gain) / loss recognised in the year	(2.8)
Past service cost	–
Net benefit expense	12.3
Actual return on plan assets	3.1

Consolidated Balance Sheet

	2006-07
Details of Provision for gratuity	
Defined benefit obligation	62.1
Fair value of plan assets	42.2
Net Plan (asset)/ liability	19.9

Rs. Millions

Changes in the present value of the defined benefit obligation are as follows:

	2006-07
Opening defined benefit obligation	**49.5**
Interest cost	**3.7**
Current service cost	**13.8**
Benefits paid	**(2.7)**
Actuarial (gains) / losses on obligation	**(2.2)**
Closing defined benefit obligation	**62.1**
Changes in the fair value of plan assets are as follows:	
Opening fair value of plan assets	**28.8**
Expected return	**2.4**
Contributions by employer	**13.1**
Benefits paid	**(2.7)**
Actuarial gains / (losses)	**0.6**
Closing fair value of plan assets	**42.2**

The major categories of plan assets as a percentage of the fair value of total plan assets

Investments with insurer	100%

The expected rate of return on assets is based on the expectation of the average long term rate of return expected on investments of the fund during the estimated term of the obligations.

The principal assumptions used in determining gratuity obligations for the parent company's plans are shown below:

Discount rate		7.70 %
Expected rate of return on assets		7.50 %
Employee turnover	**Age (years)**	**Rates**
	21-30	11%
	31-40	4%
	41-57	1%

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

The parent company expects to contribute Rs.14.4 to gratuity in 2007-08.

9. Leases

a. Operating Lease

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

Rs. Millions

b. Finance Leases

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

Vehicles under finance lease

	As at March 31, 2007	As at March 31, 2006
Cost	–	4.0
Accumulated Depreciation	–	3.1
Net Carrying Amount	–	0.9
Future Minimum Lease Rents Payables	–	0.5
Less: Interest included in the above	–	0.1
Present Value of Future Minimum Lease Rents Payable	–	0.4

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

	Minimum Lease payments as at March 31,		Present value of future lease payments as at March 31,	
	2007	2006	2007	2006
Not later than one year	–	0.4	–	0.3
Later than one year and not later than five years	–	0.1	–	0.1
Total	–	0.5	–	0.4

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).

iii. The net carrying amount of the buildings obtained on finance lease Rs.56.0 (Rs.58.6)

iv. The Company has not recognised any contingent rent as expense in the statement of Consolidated Profit and 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.

10. Secured Loans

a. Term Loans

The term loans of APL are fully secured by

i. first charge on the immovable properties both present and future, by equitable mortgage by deposit of title deeds by way of constructive delivery of the APL's lands wherever situated;

ii. first charge 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 of APL aggregating to Rs.802.1 (Rs.2,257.1).

The term loan of wholly owned subsidiary namely Aurobindo (Datong) Bio-Pharma Company Limited in China are secured by way of charge on plant and machinery.

b. Other working capital loans from banks are secured by:

i. first charge 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 fixed assets of APL both present and future subject to charges created in favour of term lenders;

iii. personal guarantees given by the Chairman and the Managing Director of APL aggregating to Rs.5,183.7 (Rs.3,291.7); and

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

11. Unsecured loans

a. Short Term Loans:

Short term loans from Banks aggregating to Rs.900.0 (Rs.2,175.0) are personally guaranteed by the Chairman and the Managing Director of APL.

b. Foreign Currency Convertible Bonds:

1. 60,000 Zero Coupon Foreign Currency Convertible Bonds (bonds) due 2010 of USD 1,000 each issued in Financial Year 2005-06 are:

   i. either 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=USD 1;

   ii. or redeemable in whole but not in part at the option of APL 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. in the opinion of APL, convertible into equity shares, the creation of Debenture Redemption Reserve is not required.

2. During the year, APL has issued 150,000 zero coupon Foreign Currency Convertible Bonds due 2011 (Tranche A Bonds) of USD 1,000 each and 50,000 Forward Conversion Convertible Bonds due 2011 (Tranche B Bonds) of USD 1,000 each, which are:

   i. either convertible by the Tranche A bondholders at any time on or after June 27, 2006 but prior to close of business (at the place the bonds are deposited for conversion) on May 10, 2011 and by the Tranche B bondholders at any time on or after May 17, 2007 (Conversion price setting date) but prior to close of business (at the place the bonds are deposited for conversion) on May 10, 2011. Each Tranche A bond will be converted into 44.52 fully paid up equity share with par value of Rs.5 per share at a fixed price of Rs.1,014.06 per share at a fixed exchange rate conversion of Rs.45.145 = USD 1. Each Tranche B bond will be converted into share of Rs.5 per share at an initial conversion price to be determined on Conversion Price Setting Date with a fixed rate of exchange on conversion of Rs.45.145 = USD 1;

   ii. or redeemable by APL in respect of Tranche A bonds at the relevant Accreted Principal Amount, in whole but not in part at any time on or after November 16, 2008 and on or prior to May 10, 2011 and in respect of Tranche B bonds at the relevant Accreted Principal Amount, in whole but not in part at any time on or after May 17, 2009 and on or prior to May 10, 2011 as per the terms and conditions of the bonds mentioned in the Offering Circular.

   iii. redeemable at 146.285% of its principal amount on maturity date in respect of Tranche A bonds and at 146.991% of its principal amount on maturity date in respect of Tranche B bonds if not redeemed or converted earlier.

   iv. in the opinion of APL bonds are convertible into equity shares, the creation of Debenture Redemption Reserve is not required.

Rs. Millions

The details of utilization of USD 260 million Foreign Currency Convertible Bonds are as under:

	2006-07	2005-06
Opening Balance with Banks	**948.3**	–
Issue proceeds	**8,929.0**	2,677.2
Less: Utilised for Investments*	**5,161.0**	1,728.9
Balance with Banks under deposits	**4,716.3**	948.3

* Includes Foreign Currency translation.

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

	Closing Balance as at March 31,	
	2007	2006
Pravesha Industries (Private) Limited	**1.3**	0.1
Trident Life Sciences Limited	**4.9**	9.4

13. Deferred taxes

a. Deferred Tax Liability (Net) consists of:

	As at March 31,	
Particulars	**2007**	2006
Debtors	**(116.7)**	(88.3)
Fixed Assets (Unabsorbed Depreciation)	**–**	(124.1)
Retirement Benefits	**(25.7)**	(13.2)
FCCB Issue Expenses	**(51.2)**	–
Depreciation	**875.5**	826.5
Intangibles	**–**	124.7
	681.9	725.6

b. Deferred Tax Asset (Net) consists of:

Particulars	**2007**	2006
Retirement benefits	**–**	0.1
Depreciation	**–**	–
	–	0.1

14. Export incentives

Sales include export incentives on account of various schemes Rs.87.5 (Rs.235.5).

15. Research and Development Expenses

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

	Year ended March 31,	
	2007	2006
Material consumed	**250.7**	131.5
Power and Fuel	**17.3**	14.8
Personnel costs	**222.2**	151.3
Others	**322.0**	326.6
Total	**812.2**	624.2
Less: Transferred to Intangible assets	**273.4**	226.6
	538.8	397.6

Rs. Millions

16. Acquisition of a Subsidiary

Effective December 29, 2006 Agile Pharma B.V., the ultimate subsidiary of APL acquired 100% stake in the share capital of Pharmacin International B.V. ("acquired entity"), The Netherlands. Acquired entity had two wholly owned subsidiaries on the date of acquisition namely Pharmacin Products B.V., The Netherlands and Pharmacin B.V., The Netherlands.

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 and Loss Account of the acquired entity have been included in the Consolidated Profit and 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)	294.2
Net assets as on the date of acquisition	(B)	15.8
Goodwill	(A-B)	278.4

a. Summary of post acquisition profits of the acquired entity included in the Consolidated Profit and Loss Account for the year ended March 31, 2007:

Revenues	94.4
Expenses	97.1
Net Loss considered in the Consolidated Financial Statements	2.7

b. The assets and liabilities of the acquired entity included in the Consolidated Balance Sheet as at March 31, 2007 are:

Liabilities	
Unsecured Loan	8.7
Assets	
Fixed assets (Net)	24.3
Net current assets	(2.5)
Goodwill	277.7

17. Disposal of a Subsidiary

On November 1, 2006 APL and its wholly owned subsidiary Aurobindo (Datong) Bio Pharma Company Limited has entered into an agreement to sell their entire stake in Aurobindo TongLing (Datong) Pharmaceutical Company Limited, China (ATDPL) for a consideration of Rs.168.2. Effective from the date of agreement APL ceases to control ATDPL and consequently ATDPL ceases to be a subsidiary of APL. The accompanying Consolidated Profit and Loss Account for the year ended March 31, 2007 include items of Profit and Loss Account of ATDPL for the period April 1, 2006 to October 31, 2006. The effect of disposal of subsidiary on the financial position on the reporting date, the results for the reporting period and on the corresponding amounts for the previous year are given below:

Particulars	For the period April 1, 2006 to October 31, 2006	For the year ended March 31, 2006
Revenues	1,018.8	1,512.9
Expenses	1,032.8	1,577.4
Net loss considered in the Consolidated Profit and Loss Account	14.0	64.5

Particulars	As at October 31, 2006	As at March 31, 2006
Liabilities		
Unsecured Loans	264.9	192.2
Assets		
Fixed Assets (including capital work-in-progress)	462.0	447.7
Net Current Assets	(23.9)	(69.4)
Debit balance in Profit and Loss Account	118.2	104.2

Rs. Millions

18. Effective March 12, 2007 Aurobindo (H.K.) Limited, a wholly owned subsidiary of APL, has discontinued its operations. The accompanying Consolidated Profit and Loss Account for the year ended March 31, 2007 include items of Profit and Loss Account of Aurobindo (H.K.) Limited for the period April 1, 2006 to March 12, 2007. The effect of discontinuation of operations of subsidiary on the financial position on the reporting date, the results for the reporting period and on the corresponding amounts for the previous year are given below:

Particulars	**For the period April 1, 2006 to March 12, 2007**	For the year ended March 31, 2006
Revenues	**–**	–
Expenses	**3.7**	6.2
Net loss considered in the Consolidated Profit and Loss Account	**3.7**	6.2

Particulars	**As at March 12, 2007**	As at March 31, 2006
Assets		
Fixed Assets (including capital work-in-progress)	**–**	0.1
Net Current Assets	**–**	(8.9)
Debit balance in Profit and Loss Account	**154.8**	151.0

19. **Directors' Remuneration included under various head of accounts**

Particulars	**Year ended March 31, 2007**	Year ended March 31, 2006
Salary	**51.3**	21.9
Contribution to provident fund	**10.1**	2.1
Perquisites	**3.7**	1.3
Total	**65.1**	25.3

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.

20. Miscellaneous expenses include an amount of Rs.59.4 incurred towards claim for invocation of corporate guarantee given to a bank on behalf of erstwhile Joint Venture.

21. **Earnings per Share**

Earnings per share is computed based on the following:

Particulars	**Year ended March 31, 2007**	Year ended March 31, 2006
Consolidated Profit after Tax and minority interest considered for calculation of basic and diluted Earnings per Share	**2009.6**	Rs. 697.0
Weighted average number of Equity Shares considered for calculation of basic Earnings per Share	**53,302,309**	52,483,699
Add: Effect of dilution on account of Stock Options granted under the ESOP Scheme	**11,353**	10,341
Add: Effect of dilution on account of Foreign Currency Convertible Bonds into shares	**13,067,574**	3,183,674
Weighted average number of Equity Shares considered for calculation of diluted Earnings per Share	**66,381,236**	55,677,714
Basic Earnings per Share Rs.	**37.70**	13.28
Diluted Earnings per Share Rs.	**30.27**	12.52

Rs. Millions

22. Dividends

Provision for dividends as at March 31, 2007 includes dividends due to minority shareholders of a subsidiary company Rs. Nil (Rs.1.2).

23. Interest in Joint Ventures

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, 2007 are given below:

	As at March 31,	
	2007	2006
Consolidated Balance Sheet		
Unsecured loans	**109.2**	89.8
Total Liabilities	**109.2**	89.8
Fixed assets (Net block)	**197.4**	188.3
Inventories	**1.8**	3.4
Cash and bank balances	**0.6**	0.8
Loans and advances	**0.3**	10.6
Current liabilities	**1.8**	(9.2)
Total Assets	**201.9**	193.9

	Year ended March 31,	
	2007	2006
Consolidated Profit and Loss Account		
Sales	**–**	3.9
Other income	**0.6**	0.1
Total Revenue	**0.6**	4.0
Raw materials consumed	**21.3**	3.9
Other manufacturing expenses	**11.6**	6.5
Payments to and provisions for employees	**16.9**	7.5
Administrative and selling expenses	**2.1**	4.9
Interest and finance charges	**7.4**	11.3
Total Expenses	**59.3**	34.1

Rs. Millions

24. Related Party Transactions

During the year ended March 31, 2007 the Company had entered into several commercial transactions with its related parties. The details of such transactions, balances as at March 31, 2007 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, 2007	2006
a. Enterprises over which significant influence exists		
Pravesha Industries (Private) Limited		
Purchase of goods	**185.1**	82.4
Rendering of services	**–**	1.0
Sale of goods	**10.5**	0.4
Trident Life Sciences Limited		
Services Received	**102.4**	–
Sale of Goods	**0.1**	–
Rent paid	**2.6**	–
Sale of Fixed Assets	**26.0**	–
Advance transferred	**3.9**	–
Sri Sai Packaging		
Purchase of goods	**1.7**	–
Sale of goods	**0.1**	–
b. Joint Venturer		
Geravi Inc., Interest	**7.4**	5.4
Geravi Inc., Loan Received	**14.7**	–
c. Joint Ventures		
Citadel Aurobindo Biotech Limited		
Management fee received	**–**	6.0
Cephazone Pharma LLC		
Sale of goods	**1.1**	1.2
d. Key Management Personnel		
Mr. P. V. Ramaprasad Reddy		
Managerial remuneration	**5.9**	2.7
Proposed dividend	**39.2**	23.5
Dividend paid on allotment of fresh shares	**–**	1.2
Investment in equity	**–**	587.5
Guarantees and collaterals	**6,885.8**	8,118.2
Mr. K. Nityananda Reddy		
Managerial remuneration	**5.9**	2.7
Proposed dividend	**9.4**	5.6
Guarantees and collaterals	**6,885.8**	8,118.2
Dr. M. Sivakumaran		
Managerial remuneration	**5.9**	2.7
Proposed dividend	**3.7**	2.2

Rs. Millions

		Year ended March 31, 2007	2006
	Mr. B. Sivaprasada Reddy		
	Managerial remuneration	**4.1**	2.7
	Proposed dividend	**0.1**	0.1
	Mr. M. Madan Mohan Reddy		
	Managerial Remuneration	**4.1**	–
	Proposed Dividend	**0.1**	–
	Mr. Lanka Srinivas		
	Sitting fees	**0.1**	0.1
	Professional fees	**3.6**	1.5
	Proposed Dividend	**0.1**	–
e.	**Relatives of Key Managemerial Personnel**		
	Mrs. P. Suneela Rani		
	Purchase of land	**–**	1.9
	Proposed Dividend	**14.9**	8.9
	Mrs. K. Rajeswari (Partner, Sri Sai Packaging)		
	Sale of land	**–**	0.1
	Proposed Dividend	**6.1**	3.6
	Mrs. B. Shilpa		
	Salary	**0.2**	0.1
	Proposed Dividend	**0.1**	0.1
	Mrs. Shilpa Sivakumaran		
	Salary	**0.7**	–
	Mr. P. Sarath Chandra Reddy		
	Proposed Dividend	**0.1**	–
f.	**Remuneration to Key Managerial Personnel**		
	Mr. G. P. Prasad	**0.9**	1.2
	Mr. M. V. Sastry	**0.4**	–
	Mr. V. M. Gopalakrishnan	**0.9**	2.9
	Mr. Thirachai Chanthaveesarp	**–**	2.0
	Mr. C. V. Seshadri	**–**	0.7
	Mr. C. S. Balaji	**11.35**	–
	Mr. Premanandam Modapohala	**5.3**	7.1
	Mr. Y. Udaya Bhasker Reddy	**5.6**	–
	Mr. S.B. Reddy	**3.0**	–
	Mr. Suresh Kalidoss	**0.7**	–
	Mr. P. V. Giridhar Rao	**2.4**	0.6
	Mr. Arvind Kumar Chandak	**0.8**	–
	Mr. Bhagawant Singh Rattan	**1.0**	–
	Mr. Okere George Ugwuanya C	**0.1**	–
	Mr. Avi Ram Charan	**5.4**	–
	Mr. D.V.N. Murthy	**1.4**	–

Rs. Millions

	As at March 31, 2007	2006
B. Balance Outstanding Debit/(Credit)		
Pravesha Industries (Private) Limited, India	**(20.9)**	1.9
Trident Life Sciences Limited, India	**(35.2)**	9.4
Sri Sai Packaging, India	**(0.3)**	–
Cephazone Pharma LLC., U.S.A.	**2.3**	3.6
Geravi, Inc., U.S.A.	**(109.2)**	(89.7)

25. Remuneration to Statutory Auditors (including Service Tax where applicable)

Particulars	Year ended March 31, 2007	2006
Statutory Audit	**4.8**	4.1
Other Audit Services	**0.9**	0.6
Certification charges	**0.2**	0.1
Reimbursement of out of pocket expenses	**0.1**	0.1
Total	**6.0**	4.9

Note: Remuneration towards other audit services aggregating to Rs.2.0 (Rs.0.8) is charged to securities premium account being in the nature of expenses incurred for issue of Foreign Currency Convertible Bonds.

26. Disclosure regarding Derivative Instruments

a. There are no Derivative Contracts outstanding as on March 31, 2007.

b. Particulars of unhedged foreign currency exposure are detailed below at the exchange rate prevailing as at Balance Sheet date.

Particulars	As at March 31, 2007	2006
Loan availed	**(4,663.2)**	(7,088.7)
Sundry Debtors	**4,864.8**	4,728.9
Loans and Advances	**4,031.7**	2,419.0
Sundry Creditors	**(2,639.6)**	(2,588.6)
Foreign Currency Convertible Bonds	**(11,299.6)**	(2,677.2)
Investments	**2,231.1**	1,990.4

27. During the year, APL has changed its policy of accounting for product development costs as "Intangible Assets", since in the opinion of the management it is prudent and conservative to expense such items upon incurrence. Accordingly, an amount of Rs.538.7 up to March 31, 2007 has been expensed during the year by charge of Rs. 536.9 to Securities Premium Account as per sanction of Andhra Pradesh High Court Order and balance Rs.1.8 to Consolidated Profit and Loss Account. Further various expenditure eligible for capitalization as product development costs amounting to Rs.18.8 have been directly debited to Consolidated Profit and Loss Account. Had this been capitalised, the consolidated profit for the year would have been higher by Rs.20.7.

Rs. Millions

28. In accordance with ASI 14 (Revised) on 'Disclosure of Revenue from Sales Transactions' issued by the Institute of Chartered Accountants of India, excise duty on sales amounting to Rs.1,011.5 (Rs.769.9) has been reduced from sales in Consolidated Profit and Loss Account and excise duty on increase/decrease in stock amounting to Rs.19.4 (Rs.26.5) has been considered as income in Schedule 14 of Consolidated Financial Statements.

29. 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.

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, 2007				
	India	China	Rest of the World	Eliminations	Consolidated
Revenue					
External sales	16,023.4	976.0	4,229.8	–	21,229.2
Inter - segment sales	2,762.5	1,714.2	–	(4,476.7)	–
Total revenue	18,785.9	2,690.2	4,229.8	(4,476.7)	21,229.2
Results					
Segment result	2,450.4	(129.0)	(18.1)	139.1	2,442.4
Interest expense					(836.0)
Interest income					404.9
Other income					52.9
Income tax					(43.6)
Minority interest					(11.0)
Consolidated Profit for the year					2,009.6
Other information					
Segment assets	23,206.2	3,841.5	5,091.6	(2,312.9)	29,826.4
Other assets					5,238.6
Total assets					35,065.0
Segment liabilities	15,717.6	1,075.2	2,779.7	(2,679.5)	16,893.0
Other liabilities					9,311.9
Total liabilities					26,204.9
Capital expenditure	1,801.3	191.4	1,494.8		3,487.5
Depreciation/amortization	718.4	258.9	19.9		997.2
Non-cash expenses other than depreciation	116.4	–	6.3		122.7

Rs. Millions

	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	2,122.1	–	15936.1
Inter - segment sales	1,846.6	910.3	–	(2,756.9)	–
Total revenue	14,354.0	2,216.9	2,122.1	(2,756.9)	15936.1
Results					
Segment result	1,357.5	(101.7)	82.0	208.7	1,546.5
Interest expense					(687.9)
Interest income					86.9
Other income					39.5
Income tax					(273.9)
Minority interest					(14.1)
Consolidated Profit for the year					697.0
Other information					
Segment assets	20,978.0	4,452.0	2,721.5	(2,603.7)	25,547.8
Other assets					1,346.8
Total assets					26,894.6
Segment liabilities	6,594.7	1,266.5	2,063.7	(2,041.8)	7,883.1
Other liabilities					10,862.8
Total liabilities					18,745.9
Capital expenditure	1,549.0	262.8	257.7		2,069.5
Depreciation/amortization	511.3	200.8	9.2		721.3
Non-cash expenses other than depreciation	153.7	–	12.3		166.0

30. The current year figure include those relating to transferor company viz., Senor Organics Private Limited and therefore the figures of the previous year are not comparable with those of the current year. Further, the figures of the previous year have been re-grouped/rearranged, wherever necessary to conform to those of current year.

SIGNATURES TO SCHEDULES 1 TO 20

As per our report of even date

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

Per
RAHUL ROY
Partner
Membership No. 53956

Kolkata, June 30, 2007.

For and on behalf of the Board of Directors

K. NITYANANDA REDDY
Managing Director

SUDHIR B. SINGHI
Chief Financial Officer

A. MOHAN RAMI REDDY
Company Secretary

Dr. M. SIVAKUMARAN
Director

Hyderabad, June 30, 2007.

NOTES

ADMISSION SLIP

AUROBINDO PHARMA LIMITED

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

DP ID* :

Client ID* : Sr. No.

Reg. Folio No. :

No. of shares :

*Applicable if shares are held in electronic form

Name & Address of Member

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

I hereby record my presence at the TWENTIETH ANNUAL GENERAL MEETING of the Company on Thursday the 27th day of September, 2007 at 3.00 p.m. at Katriya Hotel & Towers, 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 TWENTIETH ANNUAL GENERAL MEETING of the Company to be held at 3.00 p.m. on Thursday, September 27, 2007 or at any adjournment thereof.

Signed this ____________________ day ____________________ 2007.

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

Affix
30P.
Revenue
Stamp

Vision

To become Asia s leading and one among the top 15 generic pharma companies in the world, by 2015

Mission

Aurobindo s mission is to become the most valued pharma partner for the world pharma fraternity by continuously researching, developing and manufacturing a wide range of pharmaceutical products complying to the highest regulatory standards.

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
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.

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