



FAST FORWARD

Annual Report 2003 - 2004

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FAST FORWARD



In thought and in action.

Answers – before the question is posed.

Solutions – before the need is felt.

Savings - before a rupee is spent.

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

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

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

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

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

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

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

Anticipating needs and exceeding expectations.

Sharpening our focus and striving for excellence.

In thought and in action. Fast Forward.



FAST FORWARD

Dear Friends,

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

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

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

Opening new markets

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

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

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

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

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

Expanding the Platform

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

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

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

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

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

Growing Scientific Strength

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

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

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

Partnering Progress

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

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

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

Growing The Business

3100

EMPLOYEES

98

COUNTRIES

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Addressing the Future

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

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

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

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

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

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

Sincerely,

P.V. RAMAPRASAD REDDY
Chairman



Production

China

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

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

Plant Approvals

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

Pydibhimavaram (near Vizag)

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

New Formulation R&D centre at Mumbai

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

Intellectual Property

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

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

Consistent *Growth*



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

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

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

Cost Leadership

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

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

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

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

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

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

Solidifying the Standard

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

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

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

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

12.6%

2004

2003

Revenue Growth

23%

Growth in Operating Profits

Rs. 13410m

Gross Sales

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

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

Aiming Higher

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

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

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

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

Challenges & *Strategies*

Entering regulatory markets

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

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

Timing our entry

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

Gearing up for inspection

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

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

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