

Building a staircase
of growth



Contents

Building a staircase of growth	Review of operations	R&D - customer focused	Generics - a growth area
2	5	7	8
Challenges and response	Regulatory approvals	This is a 'Will Do' team	Managing environment and safety
10	15	16	18
Moving to the next level	Board of Directors	Management Discussion & Analysis	Risks & their management
19	20	22	24
Notice	Directors' Report	Report on Corporate Governance	Auditors' Report
26	33	41	53
Balance Sheet	Profit and Loss Account	Cash Flow Statement	Schedules to the accounts
56	57	58	60
Statement regarding subsidiary companies	Consolidated Financial Statements	Attendance slip/ Proxy	Forward looking statements
94	96	131	IBC



We know good health.

We are committed to healthier life.

We know economics of good health.

We are committed to affordable health for all.





From the desk of the Chairman

Building a staircase of growth

Dear friends,

I am gratified that in an uncertain environment, we at Aurobindo performed well during the financial year 2008-09. All the efforts made in the past stood us well and we in fact used the challenging environment to further streamline operations and reduce costs. We built up a global portfolio of products and healthy customer relationships that has added traction to our business volume and higher revenues. Indeed, the efforts of the year have further improved our revenue streams and competitiveness. Our ability to meet our financial goals and readily adapt to changing market dynamics demonstrated the resilience of our business model.

The year however, hurt all our investors. I was distressed that the economic environment impacted adversely all our investors during latter half of 2008 and early 2009. Market valuations of asset categories across all classes were lower and Aurobindo's investors also had to face the impact of global recessionary trends. Unfortunately, the values dropped even for good quality assets. I am happy that there is much more confidence in the market, and hope our investors would have regained their asset values.

The year witnessed Aurobindo's formal association with Pfizer, a global leader in pharmaceuticals and execution of a licensing and supply agreement for several solid dosage and sterile products. The agreement allows access to Pfizer to exploit the sales potential for these products through its global commercial presence. As you are aware, Aurobindo has a large manufacturing base approved by several regulatory authorities with a strong product portfolio for the manufacture of formulations and such

association will strengthen our relationship for mutual benefit.

Such partnerships are an affirmation of our knowledge base, hard work in creating products, world class manufacturing capabilities and compliance standards. Aligning with the best names in the industry provides us an opportunity to widen our global reach, enhance our size and financial resources. Networking with larger players also allows Aurobindo to access and update competencies, know-how and resources necessary to be successful in the industry. Considerable work has already been initiated and my colleagues and I are working hard to create an integrated, project oriented organization that can quickly react to the needs of the market, for both our partners and Aurobindo.

Members will appreciate that our successful track record in converting opportunities throughout the product chain has demonstrated the depth of our skills and expertise. We are confident that we can continue to deliver on our promises underpinning these competencies. Our performance culture will remain the hallmark of our success and an assurance for all our stakeholders.

Our essential strategy and direction continues unchanged. We shall pursue strong growth and solid returns from an integrated and internationally spread pharmaceutical

business. The emphasis will continue to be in increasing the formulations business, adding to the product pipeline and gaining meaningful presence in premium as well as emerging markets.

The near term goals for 2009-10 are straight forward: to continue the strong performance in all our addressable markets, shorten the time between product approvals and launch of products, enhance the operating matrix at all our manufacturing facilities and improve cash flow.

At Aurobindo, we have a clear vision on our long range plans. We intend to become one of the leading global pharmaceutical companies with a large portfolio of successful generic formulations. We wish to be a little better than our competitors in whatever we do. We have drawn up a strategy which focuses on the principle competitive parameters to reach our goal. The roadmap for our work in the coming years has been set.

We see a huge market that needs quality conscious and affordable pharmaceutical products. We understand the needs of the market and more important, we know we have the competence and strength to deliver what the market wants. Yet, I believe a lot needs to be done.

Moving forward, our agenda is to further expand our product basket, enhance our competitiveness, widen the geographical reach and improve commercial operations.



Total income

Consolidated Financials Rs.Million

30,949.3	25,256.1	21,722.3
2008-09	2007-08	2006-07

Dividend

%

90	65	50
2008-09 ^a	2007-08	2006-07

^a including 60% interim paid and 30% proposed.

We propose to achieve our goals by adopting a five-point action plan:

- ✓ Focusing on the major therapeutic segments, including niche products
- ✓ Maximising the value of our product portfolio
- ✓ Entering into partnership agreements
- ✓ Strengthening the organizational set-up
- ✓ Enhancing the earnings stream

We are committed to our business strategies predicated on our ability to deliver the best in human health care and create a sustainable institution for the long-term that shall always remain close to our customers.

Today, we have powerful headlights which are providing clearer visibility in business and earnings. At Aurobindo, we recognize that the best way to influence the future is to create it, rather than be at the mercy of events. We shall therefore continue to expand our R&D and manufacturing competencies - the engines that will secure the long-term success and growth of our business.

In executing our plans, we shall derisk our business and ensure a stable source of cash flow. Sustaining a high level of reliability calls for a strong financial base. Financial viability and cost effectiveness will create the basis for our solid growth. We will maintain our competitiveness and move closer to fulfilling our vision.

We are working hard for building a platform of growth. Can we underwrite growth? Can we work towards consistent growth year-on-year that is better than industry average? My team and I are examining opportunities that

will add momentum to our business and grow on several parameters such as market share, geographical reach, volumes, revenues, margins and return on investment.

Most certainly, we are underwriting our best efforts to become an admired pharmaceutical company. We want to be known for the largest basket of products across several therapeutic segments. We want to be well-known for our professional team in R&D which is creating what the medical profession and consumers need. We will always have the best manufacturing technology and processes that will produce large volume of affordable drugs. We will ensure that our quality assurance standards match the best practices across the industry. Indeed, we shall invest and strive to reach a stage when Aurobindo shall spell Quality. We will be present in all the markets with significant volume in our product range. We will be the best partner for all our stakeholders. Aurobindo will underwrite best efforts and best practices and be counted among the select few who are admired in the pharmaceutical industry.

I have a dream for Aurobindo and have the courage and stamina to transform ourselves in the top three pharmaceutical companies in the country aided by our dedicated team of 6,900+ colleagues. We shall continue to shape our organization for the future and promote the interests of all our stakeholders. My colleagues have the expertise and passion to make the difference. They will make a difference for people who need healthier life.

Warm regards



P. V. Ramprasad Reddy



From the desk of the Managing Director

Review of operations

We used the challenging market conditions of 2008-09 and stepped up our generics business in North America, Latin America, European Union and the emerging markets; scaled up and commercialized more products; consolidated our manufacturing capabilities, systems and processes; increased plant utilization; devoted considerable effort and time to get the SEZ formulations Unit VII on-stream due to be commissioned in 2010; controlled costs, improved productivity and increased operating margins. 2008-09 was a better year for Aurobindo on almost all parameters.

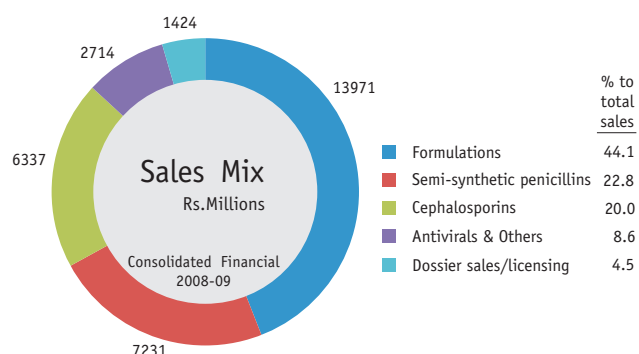
The accomplishments of the year were not without a setback. The financials were affected by the mark-to-market losses that we incurred due to the volatility of the dollar. The impact was primarily on re-instatement of FCCBs and was non-cash in nature. We preferred to be conservative and booked all the exchange fluctuation loss of Rs.2278.2 million. In comparison, there was an exchange fluctuation gain of Rs.481.3 million in 2007-08.

Gross revenue for the year at Rs.28852.5 million was 19.75% higher over the previous year and is the highest ever recorded by Aurobindo. The costs were contained with material consumption rising by 19.35% at

Rs.16416.3 million as compared to Rs.13754.6 million in the previous year. Similarly the manufacturing expenses were higher by only 9.12% at Rs.2725 million in the same comparative period.

The profit after tax and exceptional items was lower mainly due to exchange fluctuation loss at Rs.1285.4 million as compared to Rs.2907.8 million. Seen in perspective, the core business showed better earnings and was shaded only by exceptional and non-recurring items. The diluted EPS for the year is Rs.19.9 on the face value of Rs.5.

The year 2008-09 brought much more clarity in our business and we created greater cross functional coordination. The activities and operations of the Company were controlled and coordinated to ensure a dynamic and inspiring



interplay between research and development, pharmaceutical production, marketing initiatives and commercial administration. At the same time, we stayed customer focused and all the operating processes were tuned to bring out approved products that have demand.

The recessionary conditions in the global markets changed the market dynamics and there was greater demand for affordable drugs with same efficacy as patented drugs i.e. the absorption and pharmacokinetic profile need to be similar to those of the proprietary or patented drugs. Most health services and insurance companies in North America, Europe and Japan seek to lower their budgets and that means, there is increasing need for generics.

The marketing initiatives as well as tailwinds added to the traction in our business. Large basket of products, manufacturing competence, operational excellence, controlled cost atmosphere improved our long-term forward curve. There was 18.6% improvement in volume of generics sold over the previous year while the value climbed by 41.83% at Rs.12,035.3 million year-on-year. The steps we have taken to enhance the liquidity have enabled us to maintain a sound financial position.

Notwithstanding the excellent development of our business, we at Aurobindo are hungry for success and are using our momentum to constantly improve our Company. We realize we have opportunities to grow and are responding by cranking the multiple levers that we have in the Company. In the race to reach the shelf space, we have not taken our foot off the pedal from our focus on quality assurance. We shall not only work to ensure that we meet all the regulatory

300 +

The Company has one of the widest portfolio of 300+ products

Major therapeutic segments:

Cardio vascular	Neuroscience
Anti-retroviral	Gastro-intestinal
Anti-infective	Pain management
Osteoporosis	Diabetology

guidelines and adopt best practices, we shall stay invested in quality of products and processes. We believe our best insurance is in being quality conscious.

Another area that is being addressed is improving the due date performance of orders on hand. We are examining our constraints and are working towards seamlessly executing supply chain needs such as delivering the product to the end customer at the right time, at the right place, in a secure mode and at a competitive operational cost.

Our progress will be deliberate, systematic, well-planned and disciplined to build on our leadership positions in existing markets and expand our presence in important emerging ones. We shall strive for double digit growth per year and attempt to raise the margins. While meeting customer needs we will exceed investor expectations.

Warm regards



K. Nithyanada Reddy

Book value			
Consolidated Financials		Rs.	
230.9	209.1	166.1	
2009	2008	2007	
as at March 31,			



R&D - customer focused

We know what it takes to create good health. This is our strength, inspiration and therefore our agenda to offer consumers affordable products for a healthier life. We stay focused on continual development of technologies and use our knowledge of complex chemistry and expertise for product development and product improvements.

Our every day efforts encompass the development of new marketable products. We focus on molecules and develop products both for active ingredients and formulations businesses. We find the shortest route to synthesis to construct new generics that have the bio-equivalence for soon to be off-patent products. We work hard to develop non-infringing processes for products set to expire in the foreseeable future, presently aimed to launch within the next seven years.

Over the past few years, Aurobindo has intensified its research and development activities and sets aside a significant proportion of its revenues (Rs.952 million in 2008-09). In order to handle all phases of R&D, Aurobindo employs a wide-range of competencies including the ability to identify and validate potential targets, investigate the effect of compounds on the targets, the ability to synthesize compounds, develop new products with shortest route of synthesis and deal with complex chemistry.

The Company has been able to attract highly qualified researchers and scientists and retain competent employees and has a dynamic working environment with fast decision making processes. New technologies have been introduced and integrated in the research process, innovative research specialties have been set-up and the existing facilities have been further upgraded in the state-of-the-art R&D Center.

Intellectual property at Aurobindo is an enabler and differentiator with competence and initiative geared for all markets, with ability to file, seek approval and launch products for respective territories. We have stepped up the number of filings for products and are taking up

difficult molecules and those aimed at creating niche products. There is a targeted filing for US and Europe and select emerging markets.

Product improvement efforts are directed to scale up the manufacture from pilot projects to commercialization by simple, rapid and economical route. Aurobindo possesses the right competencies, facilities and organizational structure to optimize the production processes with respect to both time and cost. We have result oriented approach in R&D, which increases the productivity and helps completion of projects on time.

R&D Center	
Employee strength	
March 31, 2009	
PhD	27
Post Graduates	470
Graduates	142
Others	12
TOTAL	651

Aurobindo takes care to reassure regarding the safety of its products and hence compliance with pharmacopeias and meeting the standards set by regulators are given overriding importance. There are no compromises on compliance issues. Equally, the Company has in-house senior managers to monitor patient safety (pharmaco vigilance) and integrity of our products and processes to ensure we are compliant with international guidelines.

The Company keeps the customer health in focus as it moves ahead. What does the customer get? He or she gets products that meet pharmacopeia standards, are regulatory approved, ensure patient safety and are manufactured at world class facilities inspected by global regulators. The customer gets reliability and affordability to good health.

R&D at Aurobindo is hence the driver, enabler and insurer. For the Company, it works as the guarantor of success.

Generics - a growth area

The business model of Aurobindo Pharma is built around creating a significant presence in the generics market. The Company has found strong acceptance for its products in key premium markets such as USA, Europe and growth markets such as Brazil and South Africa.

Over the past few years, the Company has stepped up its exports of generic formulations as can be seen from the table below:

	2008-09	2007-08
Value (Rs. Million)	12,035.3	8485.6
Generic as a % of revenues	41.7	35.2

The market size and potential needs a quick look. Prescription of generics in the US is estimated to grow from the current 55% to 69% in the next few years and globally is growing annually at approximately 14%. This trend will be replicated in other countries especially in Canada, UK, Japan and European Union primarily because

all governments, health services and insurance companies want affordable drugs and generics will play an important role in bringing down the cost to consumer.

Although historically the US market has enjoyed a higher rate of popularity for new generic entrants, due to increased competition, companies now tend to look into expanding into markets with developing growth potential, such as the under-penetrated markets of the EU and the emerging markets in Asia and Africa. Generics formulations business is poised for future growth with upcoming expiries of several blockbuster products.

Over the past few years, Aurobindo anticipated the changing dynamics of the market. The Company was confident that vertically integrated and quality conscious manufacturers with presence through the value chain and with ability to be cost effective will be able to meet the expectations of the market. In addition, if they have a

