

Shaping the future

NEULAND LABORATORIES LIMITED

28TH ANNUAL REPORT 2011-12



Internalize. Believe. Practice.

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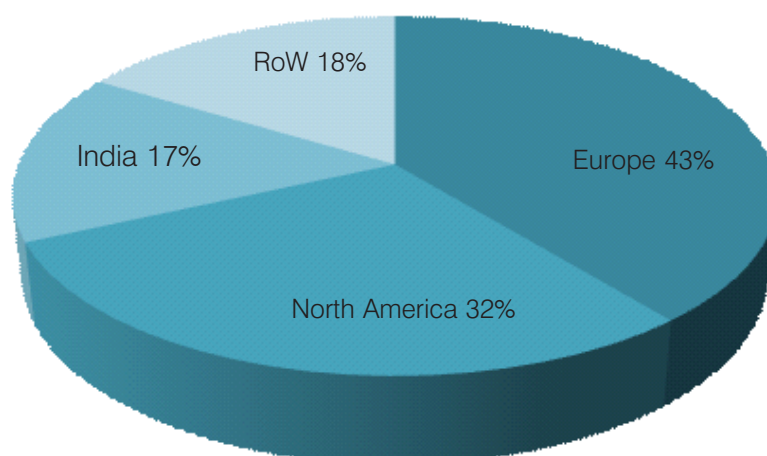
Neuland is a dynamic company. We continue to take focused and determined steps to achieve our goals. Today, we are far stronger than we were a year ago and better prepared to face challenges. We have a clear plan, and we're executing it with confidence. We're transforming ourselves. We're shaping the future.

In the following pages, you'll read about the action we are taking to strengthen our position and how we intend to be successful in 2012-13 and beyond.

This is Neuland.

Neuland is a leading manufacturer of active pharmaceutical ingredients (API) and end-to-end solution provider of chemistry related services for the pharmaceutical industry. We are based out of Hyderabad, India.

Neuland's strength lies in its ability to partner with companies for manufacture of APIs from early stages of drug discovery, where speed and effectiveness are paramount, and continuing that support through the development and commercial launch of the product. We serve some of the largest pharmaceutical companies in the world and export to Europe, North America and Israel among others.



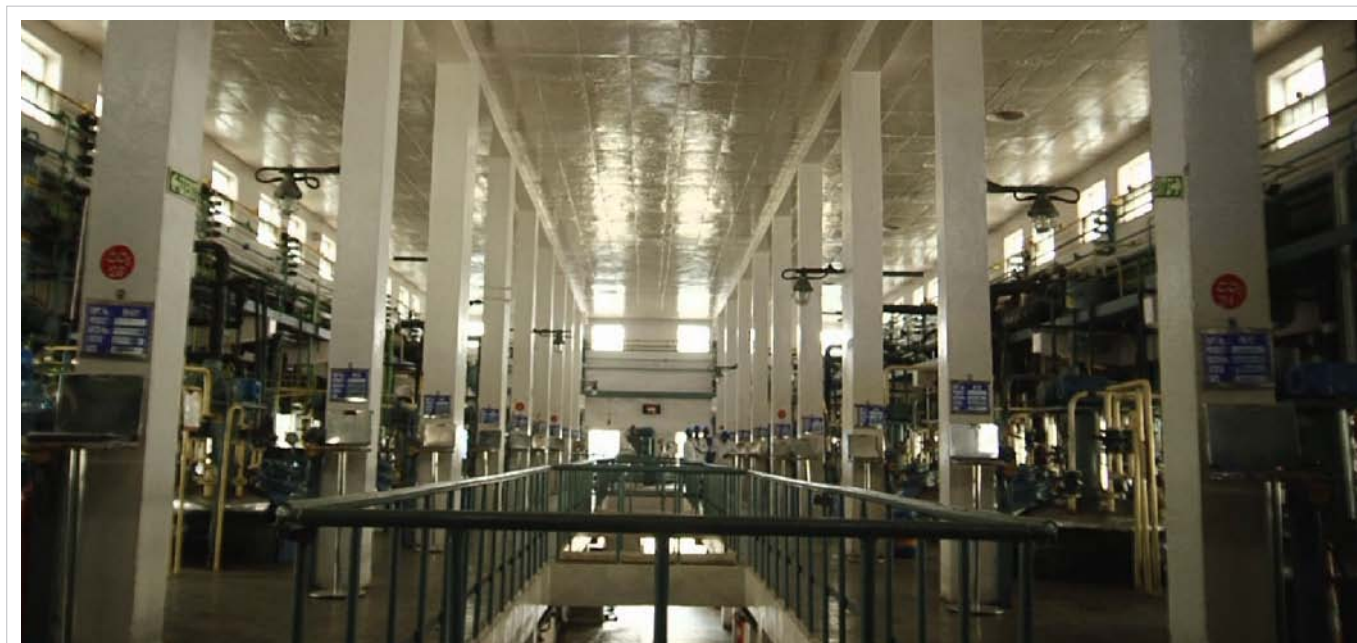
Revenue spread across geographies in 2011-12

OUR VISION

To be a superior and reliable science and technology driven company in manufacturing active pharmaceutical ingredients and providing contract research services to the global pharmaceutical industry.

Neuland operates in the following therapeutic segments:

- | | |
|--------------------|--------------------------|
| ➤ Anti-Asthmatic | ➤ Central Nervous System |
| ➤ Anti-Infective | ➤ Anti-Depressants |
| ➤ Cardiovascular | ➤ Anti-Parkinson's |
| ➤ Anti-Ulcerants | ➤ Anti-Alzheimer's |
| ➤ Anti-Fungals | ➤ Anti-Diabetic |
| ➤ Flouroquinolones | |

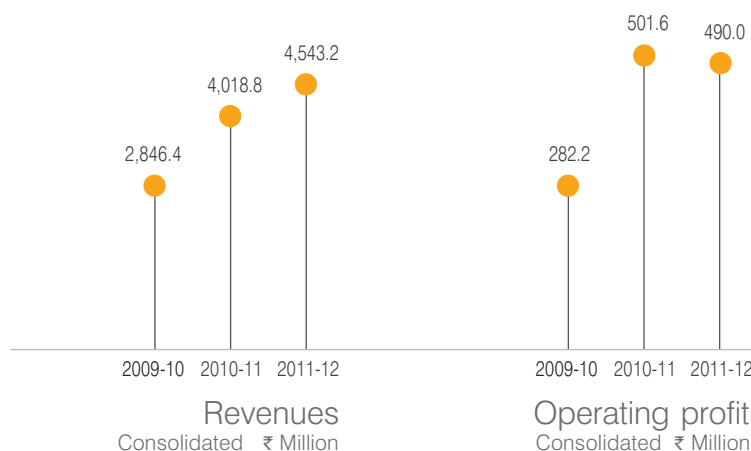




Dr. D.R. RAO
CHAIRMAN & MANAGING DIRECTOR

Under extraordinarily challenging circumstances, and despite being tested on several fronts, we at Neuland performed better. We recognized the trends in the market quickly and adapted ourselves. We launched and stepped up volumes of high-value products; developed new products in line with customer expectations; strengthened our presence in our traditional markets of Europe and North America, and received an encouraging response from our new frontiers such as Japan and Australia. While we initiated the enhancements early in the year, the visibility in order executions improved only in the last quarter.

We emerged stronger, with renewed purpose and intent.



The macroeconomic challenges, tight monetary and fiscal policies, and the dynamics of local political environment only added to the challenges.

Yet, seen in financial terms, we could grow our consolidated revenues by 13% to ₹4543.2 million from ₹4018.8 million achieved in 2010-11. This was commendable given the above background. Throughout the year, due to rising input costs (inflation, currency, financial costs) combined with tight liquidity conditions, we ended with an after tax profit of ₹25.6 million as compared to ₹52.9 million achieved in 2010-11.

At the same time, my team and I draw inspiration from the fact that despite the headwinds, we maintained market share of our products, increased our pipeline, global presence and relationships for future revenue and earnings growth. We have launched 7 new products during this year that have the potential to address the identified needs of the customers.

Our R&D is working on 20 new products that are being scaled up or are in the process of being readied for commercialization. R&D efforts are reaching fruition after

several years of efforts. We have manufacturing facilities that comply with global standards with capacities offering headroom for growth.

As Members are aware, we have completed a successful rights issue at an investor-friendly premium. We are also in the process of re-organizing our business, improving our profitability, simplifying operations and focusing on our long-term objectives, while making optimum use of resources. These initiatives will enable us to reduce gearing, improve our working capital management and ensure a strong balance sheet.

I am grateful to our customers and vendors for standing by us during the challenging times. I am proud of our leadership team that is striving to transform the business and to position Neuland for sustainable growth. Our 952 talented people have the resolve to take us to the next level.

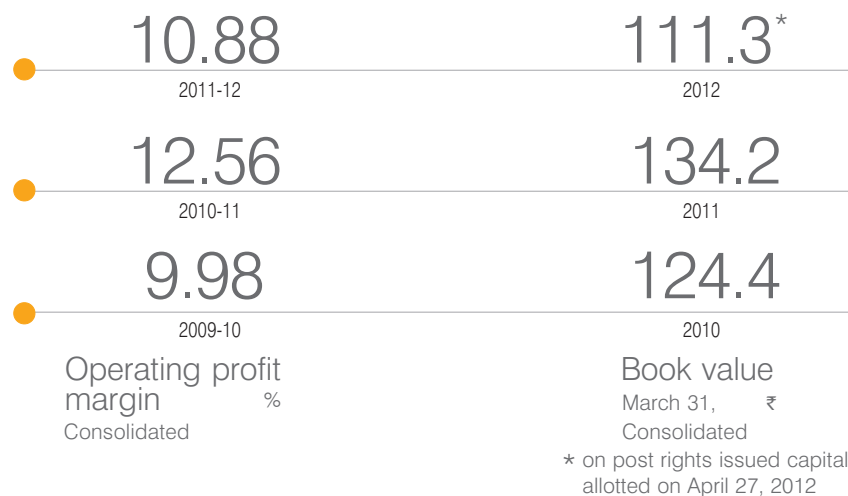
I believe that Neuland has been tested and is responding very well. We are much stronger than we were before and I hope this will lead to healthy results the same time next year.



D. SUCHETH RAO
CHIEF EXECUTIVE OFFICER

We are striving to transform the Company where the visibility of the change in quality of business model and its sustainability in the long-term is truly reflected in improved earnings and a sound balance sheet. We owe it to our investors to offer a return commensurate with their expectations and trust in us.

Transforming the business model to target consistent growth.



Q. What were the new initiatives in 2011-12?

A. We saw it early. Saw it coming: cost push inflation, pricing challenges and competitive pressures with customers.

We responded and challenged ourselves to transform the organization, strengthened our core business by consciously moving towards high-value, complex chemistry products; we built a portfolio of products that are on a rising demand curve; we carefully developed a pipeline that meets both customer needs and features niche products with requirement of our expertise in complex chemistry or have high entry barriers; We aligned with our customers on our exposure to low value products; rationalized fixed costs; and positioned ourselves as a knowledge led organization with sustainable long-term profitability.

Q. What made it sustainable?

A. It was a learning experience to cope with the fast changing dynamics of the advanced markets and we used the opportunity to validate our operational efficiencies and institutionalized the same.

Our people set about creating benchmarks, recognized good performances and built a team of professionals. They built the passion to drive a high-quality, high-value business.

Q. Where is Neuland heading?

A. The present transformational process will enable us to create niche products, to serve our customers - both

generic formulators as well as innovator pharma, build on facilities complying with global standards and have on-board talented people who have the passion to create a culture that replicates success.

By streamlining the business model and with infusion of funds, we shall remove the last vestige of constraints. Improved working capital cycle and cash flow will enable us to serve our customers better and satisfy our vendors as well.

Our employees and the top management are the key element of the transformation process to make Neuland an admired company.

Q. How will it translate to the balance sheet?

A. We want to be Number One or establish a dominant market share in the addressable markets. We have identified 17 products from our basket that enable us to achieve this objective. The renewed energy in the organization, customer traction and our differentiating strategy of complex chemistry and niche APIs will enable us to build a powerful portfolio of products.

Currently, it is work-in-progress. As we look ahead, we shall continue to be bottom line focused through improved quality of revenue stream, optimized supply chain costs and process improvements.

Infusion of funds post re-organization and improved working capital cycles, would further enable us to de-leverage our balance sheet and post better post-tax profits and per share earnings.

Neuland: Now and in the future.

Throughout 2011-12, Neuland continued the process of transformation, moving towards creating a portfolio of niche products that address a right mix of volume and value, tuned to customer needs.

As a team, we are intensely focused on the emerging opportunities that can deliver results during the current year and beyond. We are engaging with our customers to understand their needs for coming years.

In 2011-12, it was our aim to be better organized as we had the visibility of orders from customers ahead of time. We executed better and reviewed our plans almost on a daily basis.

We changed our product mix and successfully launched high-value products such as Levofloxacin, Olanzapine and Levetiracetam. At the end of the year, we had 5 products contributing to 70% of our revenues.

We believe that our top 10 products can give us traction in the market and continue to accelerate our growth. While some of the products already hold a dominant share of the market, the others are growing. The following chart shows the market share of our top 10 products in regulated markets, on volume terms:

Products	%
Ciprofloxacin Hcl	67
Sotalol Hcl	56
Enalapril	41
Mirtazapine	40
Ranitidine Hcl	32
Levofloxacin	22
Olanzapine	14
Ramipril	8
Levetiracetam	7
Salmeterol	6

(Data source: Internal estimates of the Company)

Our top 7 customers contributed to 60% of our revenues. Except two, all others grew their businesses with us on absolute terms.

The changing business mix, with focus shifting to niche products due to complex chemistry and infrastructure has started impacting the bottom line, more so, in the last quarter of the financial year.

We also reviewed every aspect of our operations. Improvements were made to systems, processes, cost control and people accountability.

A daily system of review has improved our working capital management, due date performance on delivery to customers, cycle time reductions and waste elimination. This approach enhanced teamwork and provided a 360° view which has enabled the managers to streamline processes and costs with a holistic mindset and to stay focused on the bottom line. The Neuland Way (TNW) with its five core values of customer centricity, reliability, accountability, ownership and openness & transparency engaged the employees in being sensitive to the needs of the Company and all those that we deal with.

Neuland is making all efforts to reduce the overall borrowings. It has been able to reduce the long term borrowings by ₹109.9 million (Net) compared to last year; it also reduced the working capital borrowing by ₹37.9 million. Despite the increase in revenue by 13%, primarily on account of close monitoring, debtors were brought down to 78 days as at March 31, 2012 from 91 days, a year ago.

Finance costs for the year under review were ₹332.7 million in 2011-12, as compared to ₹298.4 million in 2010-11. Interest as a percentage of our revenue moved down to 7.4% in 2011-12 from 7.5% in 2010-11 and we shall taper this charge to our Statement of Profit and Loss after the reorganization and infusion of funds.