Neuland

Experience. Insight. Vision.

GLOBAL PERSPECTIVE. INDIVIDUALIZED FOCUS.

Neuland Laboratories Limited | Annual Report 2010

CONTENTS

ANNUAL REPORT 2010

Neuland is recognized by its customers as the preferred source worldwide. Reasons are simple:

- ✓ Our strength is in understanding of complex chemistry.
- ✓ Our core competence is in manufacturing active pharmaceutical ingredients.
- ✓ We deliver the quality that the customer wants.
- ✓ We are always regulatory compliant.
- ✓ We ensure reliability in service.
- ✓ Our prices are cost competitive.
- ✓ We support customers to compete better in their markets.

At Neuland, the mantra is '**Customer Alignment.**'
The customers say, '**Preferred Source.**'

Neuland today

Neuland is a leading Hyderabad based manufacturer of active pharmaceutical ingredients (APIs) and an end-to-end solution provider for the pharmaceutical industry for chemistry related services. The core competence is in its deep understanding of complex chemistry and proven manufacturing expertise from exploratory gram scale to commercial multi-ton scale for the highly regulated markets.

For over 25 years, Neuland has been at the forefront of supporting drug development and cGMP manufacturing of APIs. The Company's infrastructure and scientific teams provide reliable solutions and services to the global pharmaceutical industry.

The organization's strength lies in its ability to partner with companies from early stages of drug discovery, where speed and effectiveness are important, and continuing that support through the development and commercial launch of the product.

Active Pharmaceutical Ingredients

The Company's core business and operational expertise has been manufacturing of active pharmaceutical ingredients (APIs). Neuland has become a **Preferred & Reliable** source in the pharmaceutical industry primarily due to:

- ✓ Consistency in product quality;
- ✓ Knowledge and ability to deal with niche chemistry; and
- ✓ On-time delivery performance.

Neuland has two world-class API manufacturing facilities close to the city of Hyderabad, capable of handling complex and hazardous reactions. The manufacturing facilities have collective capacity of 600 KL to produce more than 40 APIs across 10 diverse therapeutic areas.

The APIs comply with stringent guidelines & requirements of Good Manufacturing Practices (GMP) and are successfully inspected/approved by international health and regulatory agencies such as the US FDA, EDQM, BfArM (Germany), TGA (Australia) and PMDA (Japan) - GMP compliance.

These ensure an effective structural methodology at workplace which includes manufacturing of quality products, rational and effective use of available resources, minimization of waste along with good safety and hygiene standards.

Safety aspects are given utmost significance in plant installation, equipment, systems and personnel to ensure productivity. Combination of a dedicated team and world class production techniques guarantee delivery of products to customers across the globe.

The Company's strengths in synthetic chemistry, process development, controlled supply chain and project management approach, built into all its operations and product development programs makes Neuland an ideal API partner.

Contract Manufacture

Neuland's Contract Manufacturing Services derives its strength from its proven expertise in manufacturing at varied scales, a deep understanding of complex chemistry and the Company's manufacturing facilities that are compliant with the guidelines of the leading regulatory authorities such as US FDA, EDQM, TGA and PMDA and applicable EHS standards (ISO 14001:2004 and OHSAS 18001:2007).

Neuland offers integrated and versatile GMP manufacturing facilities capable of handling complex reactions tuned to ensure seamless transfer of the processes from small-scale through validation to commercial manufacturing thus helping the customers expedite the discovery to market timelines.

Neuland's range of services includes,

- ✓ Manufacturing API as per specific requirements of the customer;
- ✓ Designing and developing the processes for manufacturing (in case customer does not provide the process);
- ✓ Process optimization for cost competitiveness;
- ✓ Filing of DMF/CMC for the API;
- ✓ Facilitating approvals from regulatory authorities in EU, US FDA and others for the products of customers; and
- ✓ Patent protection for the manufacturing process developed.

A key business principle

Neuland never competes with its customers. The Company today supports some of the successful global pharmaceutical companies in both research and manufacturing and focuses on a service provider model.

Research & Development

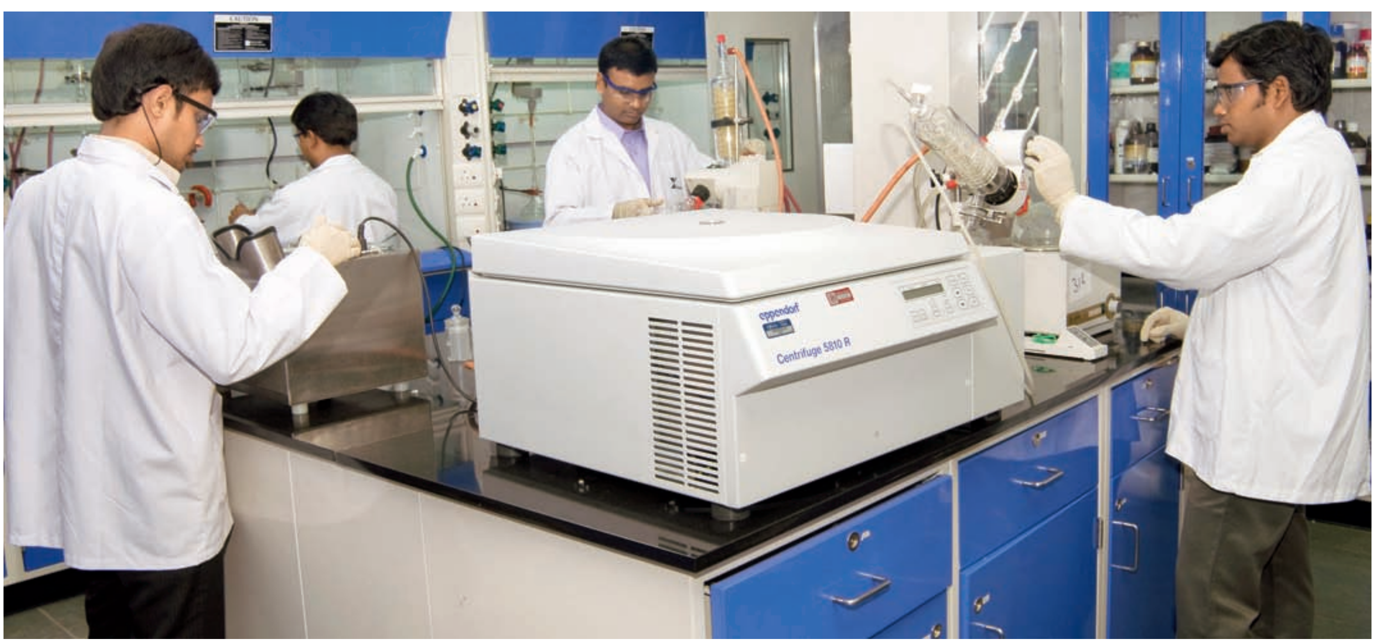
At Neuland's 40,000 sq. ft. R&D Center, a large dedicated team of well experienced, qualified scientists work to bring complex molecules with efficient processes to market, develop non-infringing processes, develop cost effective routes, reduce impurities levels by better process understanding & reduce effluent generation.

Our R&D along with a pilot plant and kilo lab has proven its capabilities in carrying out a wide range of reactions.

Custom synthesis is one area where Neuland has been concentrating and is taking up several projects. The Company has been working in close association with clients, under strict confidentiality to bring products early to markets. Under custom synthesis, the team offers services and technology to meet customer requirements through established and proven synthesis routes, analytical backup at all stages of the process etc.

Corporate Fact sheet

- ✓ 26 years of successful presence in the pharmaceutical industry.
- ✓ Focused on manufacture of APIs, contract research and contract manufacturing.
- ✓ 2 US FDA inspected manufacturing facilities.
- ✓ Inspected by US FDA, TGA, EDQM, German Health Authority, BfArM, PMDA.
- ✓ ISO 14001, ISO 27001 and OHSAS 18001 Certified.
- ✓ Over 370 DMFs (50 APIs) worldwide; servicing customers in over 44 countries.
- ✓ 40,000 sq. ft. state-of-the-art R&D facility at Hyderabad, India.
- ✓ 946 full time employees as at March, 2010.
- ✓ 170 scientists working in R&D with over 25 PhDs.
- ✓ Listed on the Bombay Stock Exchange and National Stock Exchange of India.



Market size for Neuland's top 10 products*

The Company is present in ten major therapeutic categories including cardiovasculars, central nervous systems, anti-infectives, anti-asthmatics, anti-fungals, anti-ulcerants and anti-spasmodics.

Products	Market size Tonnes	Market size at API prices Rs. in Million	Market size at API prices US$ in Milliion
Ciprofloxacin	400	720.00	16.00
Ranitidine	475	619.88	13.78
Mirtazapine	18	607.50	13.50
Enalapril Maleate	50	360.00	8.00
Ramipril	21	37.80	0.84
Sotalol HCl	55	247.50	5.50
Salbutamol Sulphate	10	135.00	3.00
Escitalopram Oxalate	30	3375.00	75.00
Levofloxacin Hemihydrate	150	1687.50	37.50
Ofloxacin	4	19.80	0.44

* Market size for organized markets of North America, Europe, Japan and a few other countries where Neuland has a significant footprint. Conversion rate 1 US$ = Rs.45.67. Estimated from global trends.

Our markets

Neuland has significant footprints in several countries with 81% of the revenues accounted for by export to 44 countries in 2009-10. Europe constitutes a major market with 42% of the revenue share. Exports to North America constituted 29% of the revenues. The two large markets - Europe and North America - accounted for 88% of the Company's exports.

Todate the Company has filed 31 DMFs with the USFDA and over 340 DMFs with various health authorities.

Vision

To be a preferred partner for the pharmaceutical industry by providing the most reliable products and research solutions that create added value for the customers.

Mission

To be an end-to-end resource for the pharmaceutical industry and deliver the best to the customers, be accountable and transparent in every transaction.

Our offices

We are a Hyderabad, India based Company and our two overseas subsidiaries are at:

- San Clemente, California, United States
- Tokyo, Japan.

Fr. Nieuwland was the inspiration……

We are all inspired by great thoughts, thought leaders and their foot-prints. The impact can be permanent.

Julius Arthur Nieuwland, (1878-1936), PhD, a Belgian born Catholic priest, an alumni of the University of Notre Dame, USA and a Professor of Organic Chemistry, worked with a single-minded devotion on acetylene and ended up being the father of synthetic rubber. He created a formula that works.

He made a great impact with his industrial invention. His creation chloroprene, when polymerized, forms an elastic material very similar to fully vulcanized rubber. The new material is resistant to degradation by oil, sunlight, and air, and chloroprene rubber does not require the addition of sulfur for vulcanization. He had created history.

Father Nieuwland was an unassuming man who stayed mostly in his laboratory, often eating and sleeping there, stretched out on the lab bench, a rolled up lab coat as a pillow. He refused any royalties on his creation due to his vow of poverty as a priest.

His single-minded devotion to organic chemistry and his humble nature has inspired many generations of students at Notre Dame. Dr. D. R. Rao was one of them.

When he formed the Company, he decided to pay his tributes to this path finder. The name was kept Neuland (more easy to spell). The devotion to chemistry, the dedication to find solutions and the humble approach to life has remained the same.

Neuland logo - what it represents

The one inverted triangle over another is indicative of the hour glass, suggesting that Neuland has found its rightful place in the time slot.

The deep filled in colours to the left of the angles depict Neuland's single-minded philosophy, viz. commitment to customer satisfaction, while the stripes to the right of the angles depict Neuland's expansion of capacities and newer facets of the business.

The oval ring moving across suggests two things:

Dynamism (true to Neuland's performance)

The chemical reaction process (true to Neuland's activities)

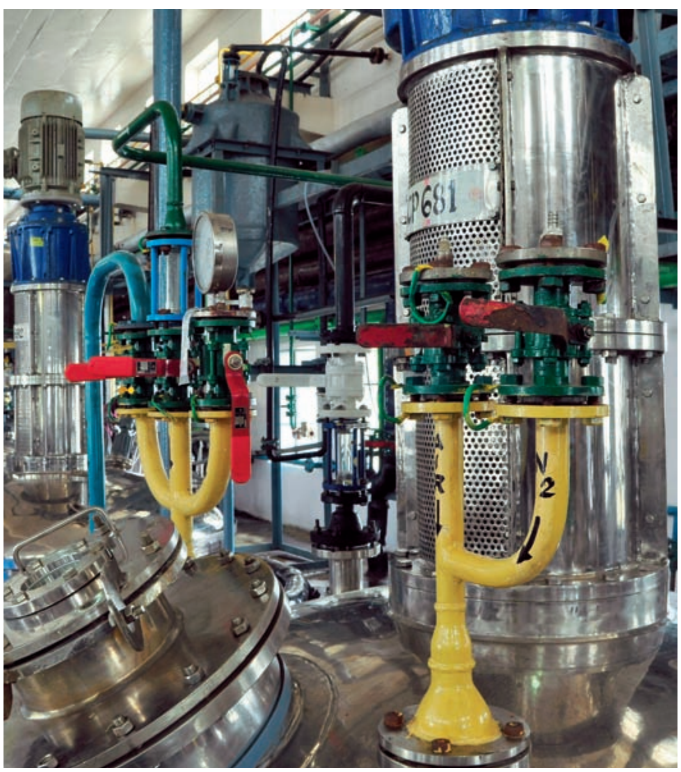
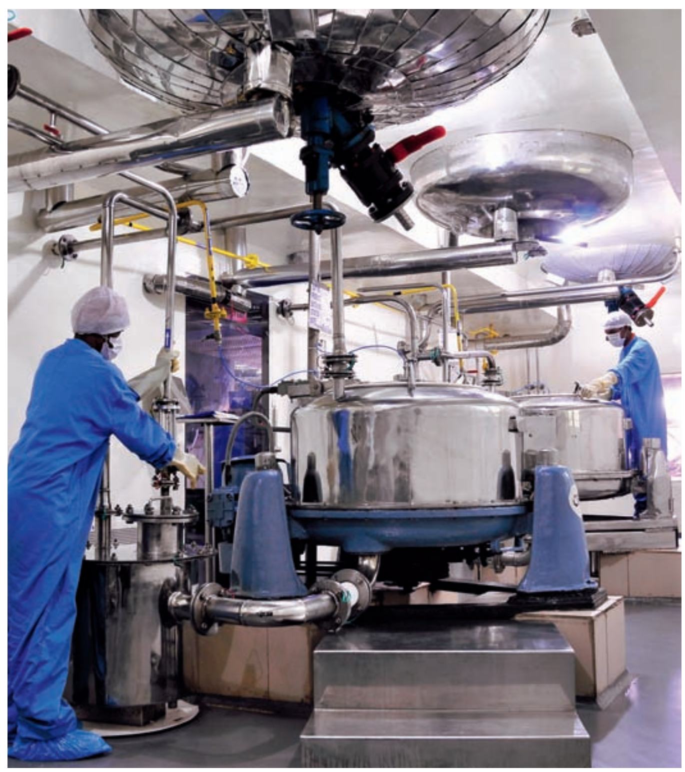
The point at which the oval ring meets is also the epicenter, suggesting that this is the point that sparks off Neuland's dynamic activity.

The logo represents the basic philosophy of the Company - dynamism and customer satisfaction.

The Neuland Way

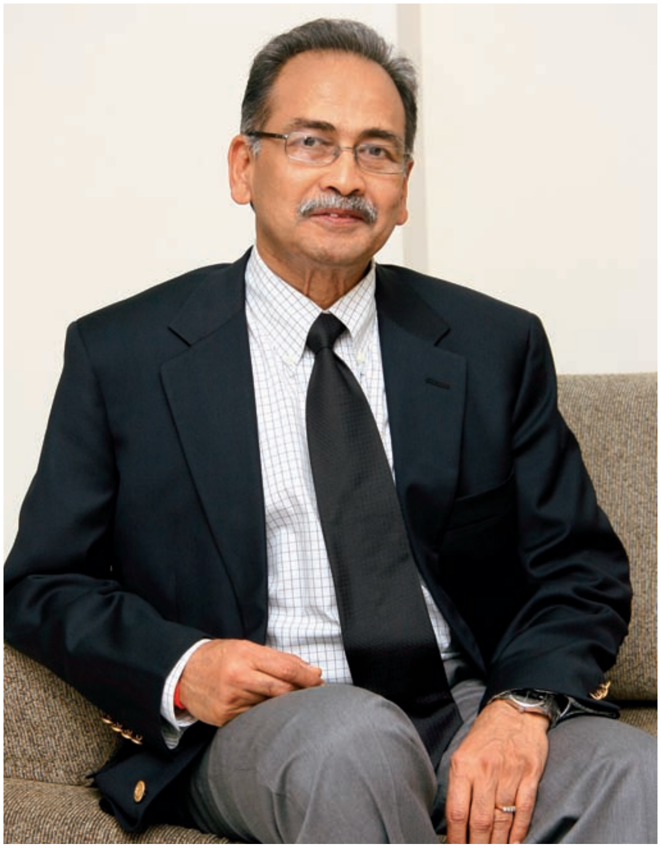
With our customers:	Everything we do reflects alignment with our customers.
With our business associates:	We act in a spirit of sincere co-operation, mutual assistance, and complete transparency.
With our shareholders:	We aim to keep the support of our shareholders by creating wealth in the long term.
With our employees:	We are one team.
With our society:	We will continuously strive to increase our role in improving the community around us.



Ensuring sustainability of business

From the Desk of the Chairman & Managing Director



All the investments that have been made during the last 36 months will start to yield significant results from the second half of the current financial year.

In 2009-10, Neuland's business, revenues, margins and bottom line were impacted by several factors including slowdown in the global markets, negative currency movements and loss of competitive opportunity to our customers due to regulatory constraint for one of our products. These had a cascading effect on Neuland and the circumstances were not in our control.

The investments on enhancing facilities for products that were unfortunately delayed impacted the bottom line. Price erosion for our products in the face of global head winds compounded the situation. Dollar weakening meant that we got less for what we exported.

The financials reflect lower realization and higher costs with the result the revenues declined to Rs.2812.53 million, a decline of 9.8% over Rs.3120.26 million in the previous year. The operating profit was lower at Rs.280.76 million in 2009-10 as compared to Rs.361.41 million in 2008-09. The loss for the year was Rs.70.45 million as compared to profit after tax of Rs.117.90 million in the previous year.

It is unfortunate that the year ended in a loss and we are single-minded that Neuland must return to days of profitability. I believe that we will revert to profitable growth from around the quarter ending September 2010 and are confident that we shall maintain our forward momentum thereafter.

We are further derisking the business and are determined that a solitary incident does not affect our operations.