

UNLOCK VALUE

TRANSFORM

FOCUS

INVEST

ACQUIRE

NICHOLAS
PIRAMA

Corporate Governance begins with the Board of Directors. Of particular importance is the inclusion on the Board of strong "non-executive" directors. Their accumulated business expertise and strategic insights are on call to give Nicholas Piramal management the impetus for quick and effective performance. An Audit Committee has been constituted under Mr. R.A.Shah. Board Directors appointed this year include:

Mr. N. Vaghul, Chairman, ICICI Ltd., who has changed ICICI from a development bank to a financial conglomerate. He was selected as Businessman of the Year in 1992 by Business India.

Mr. Y. H. Malegam, Senior Partner of S. B. Billimoria & Co., is a leading Chartered Accountant.

Mr. Dalip Pathak, Managing Director of E. M. Warburg, Pincus & Co. Asia Ltd. , who had earlier conducted a comprehensive due diligence audit on NPIL, prior to investing Rs. 57 crores in our company.

Board of Directors Ajay G. Piramal, *Chairman*

G. P. Goenka

C. M. Hattangdi

Y. H. Malegam

Dalip Pathak

Dr. Francis J. Pinto

Dr. (Smt.) Swati A. Piramal

Urvi A. Piramal

J. C. Saigal

R. A. Shah

Vijay Shah

M. R. Shroff

B. K. Taparai

N. Vaghul

S. Venkitaramanan

Company Secretary

Smt. Jasmine Tamboli



Mr. C.M.Hattangdi, MD, Nicholas Piramal, is the designated conscience keeper of our Core Values.

In our quest to become the most admired company, top management comprehensively debated how best should our business be run. The resulting unambiguous document on "Our Values" will ensure constant implementation in our evolving organisation.

As part of our Core Values, we have committed ourselves to contribute to the well-being of the community and the environment in which we operate. We must involve ourselves in making a positive social contribution through community projects.



Mrs. Urvi A. Piramal.

OUR VALUES

In our pursuit of excellence and growth, we shall act as

TRUSTEES

for our CUSTOMERS, EMPLOYEES, SHAREHOLDERS & SOCIETY by

Continually enhancing value for our customers with quality products and services to meet their changing needs
Empowering our employees, encouraging innovation and entrepreneurship in an environment which makes work fun

Steadily building wealth for our shareholders.

Contributing to the well-being of society and the environment.

WE SHALL MAKE INNOVATION AND CHANGE A WAY OF LIFE
AND CONDUCT OURSELVES WITH HONESTY, FAIRNESS AND TRUST IN GOD.

NICHOLAS PIRAMAL INDIA LIMITED

CORPORATE MANAGEMENT

Ajay G. Piramal, Managing Director
C.M. Hattangdi, Managing Director
Dr. Francis J. Pinto, Managing Director
Umesh Asaika, Managing Director, Operations
Rustom P. Bharucha, Managing Director, HRD & Legal
Nitin Ghadiyar, Managing Director, Research & Development
Mahesh S. Gupta, Chief Financial Officer
Madhukar S. Kurtkoti, President, India & Pharmaceuticals
Dr. (Smt.) Swati A. Piramal, Chief Scientific Officer
Jagdish C. Singh, President, Manufacturing & VFC Operations
Vijay Shah, Managing Director, Corporate Affairs

Auditors

PwC Waterhouse, Mumbai

Solicitors

Crawford Bayley & Co.

Bankers

All India Bank
 Bank of Baroda
 Bank of India
 Citibank N.A.
 Credit Lyonnais
 Deutsche Bank
 The Hongkong & Shanghai Banking Corp. Ltd.
 Oriental Bank of Commerce
 State Bank of Hyderabad

Registered Office

101, Centropoint,
 Dr. Ambedkar Road, Parel,
 Mumbai - 400 012.

Contents

| | Pages |
|----------------------------------|-------------------|
| Chairman's Letter | 2 |
| Operations Review | 4 |
| Manufacturing Review | 6 |
| Finance Review | 8 |
| Financials Section | |
| Notice | F-1 |
| Directors Report | F-4 |
| Report of the Auditors | F-9 |
| Balance Sheet | F-12 |
| Profit & Loss Account | F-13 |
| Schedules to Balance Sheet/ P&L | F-14 |
| Notes | F-23 |
| Cash Flow | F-30 |
| Balance Sheet Abstract/Annexures | F-32 |
| Global Home Products Limited | F-34 |
| NPIL Fininvest Limited | F-45 |
| Piramal International | F-48 |
| Adelwise Investments Limited | F-50 |
| Financial Snapshots | 9 |
| Strategic Alliances | 10 |
| Infotechnology | 15 |
| Research & Development | 16 |
| Indian Biodiversity | Inside Back Cover |

Share Transfer Agent

Amtrac Management Services Limited
 Administrative Building,
 Morarjee Mills Compound,
 Dr. Ambedkar Road, Parel,
 Mumbai 400 012

Annual General Meeting

At Yashwantrao Chavan Pratishthan,
 General Jagannath Bhosale Marg,
 Next to Sachivalaya Gymkhana
 Mumbai 400 021.

Date : 1st July 1998

Time : 3:30 p.m.

ANNUAL REPORT COVER

Computer-generated art captures the NPIL strategy. An emerging giant entity rises from ground level. Uncertain territory must be charted before arriving at the promise of a sunrise industry. Ahead is the challenge of healthcare in India and abroad. The dynamics for achievement lie in the arrows of initiatives that unlock shareholder value.

Design: Thackers Multimedia Pvt. Ltd.

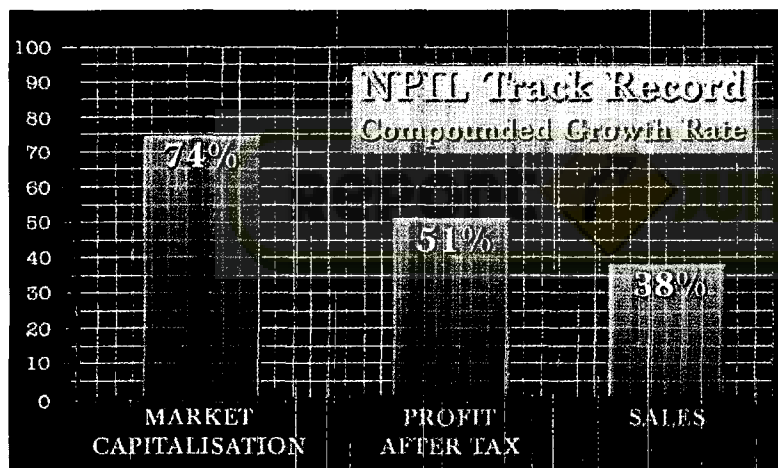
Digital Art: Bharat Tyagi.

Printing: Good Print, Mumbai.



Dear Shareholder,

Nearly ten years have elapsed since I became Chairman of your Company. In that period, we have come a long way. The acquisition of Nicholas, the merger with Gujarat Glass, the acquisitions of Roche ..Sumitra..and Boehringer Mannheim have all helped your company grow into a health care giant, among the five largest companies in India. By any yardstick....sales, profits, market capitalisation, growth, our track record in those ten years ranks among the best.

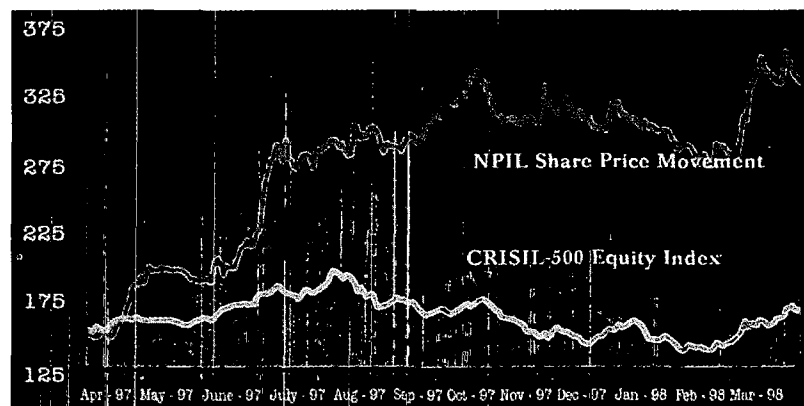


While our merger and acquisition skills are readily acknowledged, what is not generally understood is our emphasis on strategic fit and our "win-win" approach which makes for friendly takeovers. This in turn ensures a rapid yet harmonious integration and long term access to technology. Our new project "aftercare" is the key to building partnerships that prosper. Time and time again,

we have demonstrated the ability to focus new acquisitions by eliminating marginal activities and investing in long term strategies.

Our farsighted investment in our Pithampur plant is now paying off with production of the highest quality products at very competitive costs. Our investments in speciality field forces for Biotek, for OTC, for Diagnostics, for Cardiovasculars/ Diabetes, are boosting market shares and long term growth prospects.

Our efforts to unlock shareholder value this year are reflected in increased dividends and in the way our share price has outperformed the market.



HEALTH CARE CHALLENGE

16% of world's population
 18% of world's mortality
 20% of world's morbidity
 1% of world's investment



BURDEN OF DISEASE IN INDIA 2000

Total Mortality 9.48 million
 Infant Mortality 2.34 million
 Cardiovascular 3.01 million
 Cancer 0.70 million
 Diabetes 3.43 million

For the last two years, we have also placed emphasis on organisational renewal and transformation. **Professional** management, dynamic **leadership**, and a steady influx of **youthful talent**, will help us build intellectual capital for the future. Discarding the familial, hierarchical organisation models so common in India, we have opted for 'networking' with emphasis on teamwork and human capital. Our management team has also been incentivized via shares so that their financial rewards are coincident with shareholders.

To unlock shareholder value over the next few years, we are paying special attention to Return on Capital Employed (ROCE). In assessing our component businesses - Pharma, Glass and Bulk Drugs - we were aware that Pharma had the highest return of 24%, with Glass and Bulk lower because they are more capital intensive. Moreover, Pharma has the greatest opportunity for ROCE growth in future. Our strategy for the spin-offs of Glass and Bulk Drugs, effective April 1998, has focused the business, dramatically improved the balance sheet, and positioned us to reach a 30% ROCE within two years.

Given the health care challenge in India, Pharma market growth should continue at 15%, making it a "sunrise" sector. But the market is changing rapidly ... new biotechnology, combinatorial chemistry, rapid

globalisation, evolving rules for intellectual property rights. The lifeblood for the industry continues to be Research. Nicholas Piramal has therefore invested wisely in a comprehensive business-driven R & D strategy which will guarantee a strong new product pipeline for the next twenty years.

With the support of our shareholders and our employees, I am confident that our newly focused company will contribute substantially to alleviating the disease burden in our country while rising to industry leadership in Healthcare.

| Year | MILESTONE | Revenue (Rs. In Millions) | Profit After Tax (Rs. in Millions) |
|------|---|------------------------------|---------------------------------------|
| 1988 | Piramal acquires Nicholas from Sara Lee Corpn. | 206 | 8 |
| 1993 | Piramal acquires Roche | 1061 | 101 |
| 1997 | Nicholas acquires Boehringer Mannheim merges Pharmia Divns. | 5427 | 565 |
| 1998 | Glass & Bulk Drug Spinoffs R&D acquisition | | |

Ajay Piramal
 Chairman,

Nicholas Piramal India Limited



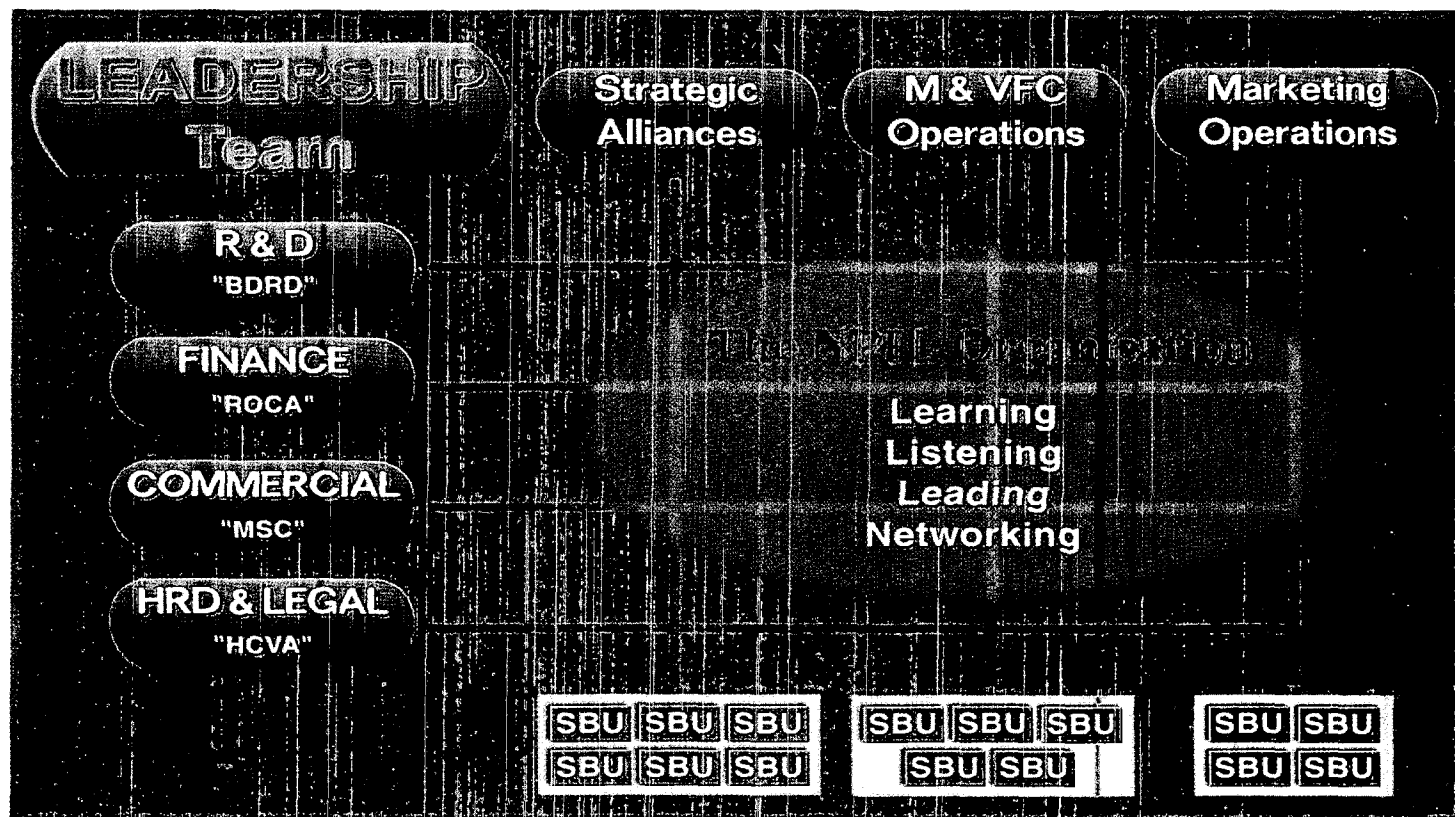
Dr. Francis J. Pinto
Chief Executive Officer

OPERATIONS REVIEW

During 1997 & 1998, we have laid the foundation to make Nicholas Piramal the most admired healthcare company in India. Our successful triple merger and strategic OTC thrust have propelled us to market leadership in Diagnostics, OTC and hightech Biotek. The cornerstone is an emerging business-driven R & D strategy customised to address the disease burden in India, notably, infectious diseases, malnutrition, cancer and diabetes. Consequently our new product pipeline is exceptionally strong and we will be launching twenty new products during the next two years. We are making a special effort to bring our products within the reach of the rural population via expanded distribution and appropriate promotion.

The Nicholas Piramal "networked" organisation is basically decentralised with twenty "strategic business units". Each SBU is focused on a specific business or functional operational unit with delegated responsibility for sales, profits and human capital development. This is a listening, learning organisation, increasingly characterised by networks of inter-disciplinary teams focused on key long-term tasks.

The provision of monthly Return on Controllable Asset or "ROCA" data to each SBU, the emphasis on Human Capital Value Added or "HCVA" via enhanced training and developmental programs, and the focus on Management of the Supply Chain or "MCS" will all help in building a modern, professional, world class organisation.



INVESTING IN HEALTHCARE

Cyber Centres - a marketing initiative for medical service



Our challenge in 1997 was the turnaround of our most recent acquisition, Boehringer Mannheim. The previous year was particularly tough for Boehringer Mannheim with costs high, sales flat, morale low and a hostile press. All these problems were overcome. The old production plant was closed. The organisation was focused towards Diagnostics, Diabetes and Cardiovasculars. This resulted in a dramatic sales and profit recovery, the full impact of which will be seen in 1998.

The triple merger integration (the unification of the pharma operations of the old Nicholas, Roche and Boehringer Mannheim units) was also completed. Four older plants were closed, resulting in a streamlined, TQM oriented, world class manufacturing organisation. On the distribution front, our network has been focused on 20 C & F agents and expanded to 2500 wholesalers and 70,000 pharmacies. Infotechnology upgrades with proper supply chain management should lead to improved inventory control and significant gains in working capital management.



Mr. M.S. Kurkoti,
President,
Ethical Pharma



Mr. A. Ojha
VP, Multispecialty



Mr. G. Verghese
VP, Extracare



Mr. B. Vijayan
VP, Diagnostics



Mr. R. P. Bharucha,
Group President,
HRD & Legal

The newly integrated marketing teams are focused on market leadership in selected areas. Our four marketing divisions, Biotek, Diagnostics, Extracare and Multispecialty, provide a focused approach with a disease management orientation. To ensure critical mass when new products are launched, and for increased cost effectiveness, a strong team orientation has been developed between divisions, providing co-operation and co-marketing to alliance partners as needed. The combined Field Force, which should cross 2000 detailmen later this year, will be the largest in the country.

New medical-marketing and IT programmes are being developed to improve Field Force support and provide better service to the medical profession through novel "Cyber Centres".

We have benchmarked our operations against healthcare industry leaders and the top 200 Indian companies. The independent Business India Survey in 1997 cited our growth as the fastest in the industry. We are well on our way to becoming one of the top 20 Indian companies in the longer term.

| | SALES | PROFITS | MARKET | OVERALL |
|----------|-------|---------|--------|----------|
| | CA. | CA. | CA. | 97 |
| RANBAXY | 87 | 29 | 22 | 40 → 34 |
| GLAXO | 122 | 81 | 28 | 86 → 85 |
| NICHOLAS | 156 | 62 | 83 | 182 → 80 |
| PIRAMAL | | | | |



Mr. J. C. Saigal

*President, Manufacturing &
VFCD Operations*

MANUFACTURING REVIEW

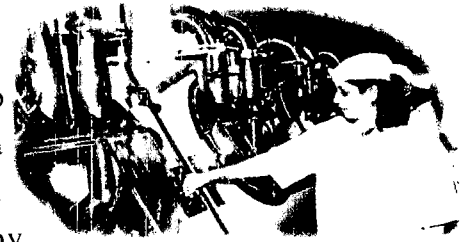
The cornerstone of our Manufacturing philosophy is **Quality**. The goal is to boost long-term export prospects. Quality pervades our state-of-the-art manufacturing plant at Pithampur. Thanks to the recent commissioning of Phase II of our Rs. 25 crore expansion project, employee strength will go up to 600. They will have excellent working conditions and regular exposure to GMP and TQM training.

Maintaining world-class quality standards is an obsession with top management that percolates to every level, making the Pithampur plant a pharmaceutical landmark.



Designed for approval by

Medicine Control Agencies and the US-FDA, it is accredited with WHO -GMP. It has obtained the coveted ISO-9001 certificate from BVQI, making NPIL one of the first seven pharmaceutical companies in India to do so.



There is an ongoing effort to integrate Information Technology with Total Quality Management. Kaizen activities at all our plants have greatly blossomed. By



Juran Quality Award

implementing the principles of Gemba Kaizen, workers are encouraged to use their talent, initiative and ideas to improve their work and workplace.

Appreciation Certificates are given for suggestions

to improve productivity, safety and quality. Juran Quality Improvement projects are also in use for continuous improvement in the Group's activities.



Kaizen Award

Increased investment in formulations is expected to provide higher return in equity. At Pithampur and Mahad, major plant investments were completed on budget and on time, resulting in double-digit growth. Long-term wage settlements for both these plants were signed in 1997 and these will last till 2001.



The world-wide downturn in the bulk drug business has forced a re-focus at our Hyderabad bulk drug unit. Improving quality and concentrating on higher value intermediates will be the pattern till pricing prospects improve.

UNLOCKING VALUE

*The Batch Charger
at Jambusar*



Acquired by Piramal Enterprises in 1984, Gujarat Glass was merged into NPIL in 1990. Total income from 21 crores that year shot up to 112 crores in 1997-98. Market share in the amber glass bottle segment is 34% and in the vials segment 50%, making Gujarat Glass the clear market leader in its category.

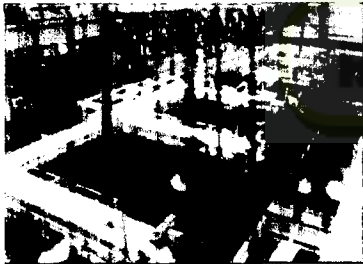


It is the only vendor in the Indian pharma glass industry to be given the ISO-9002 from BVQI. For the second year running, Gujarat Glass was presented with the Best Vendor Award in the Packaging Materials category by the OPPI. This

bears testimony to its remarkable record in customer service.

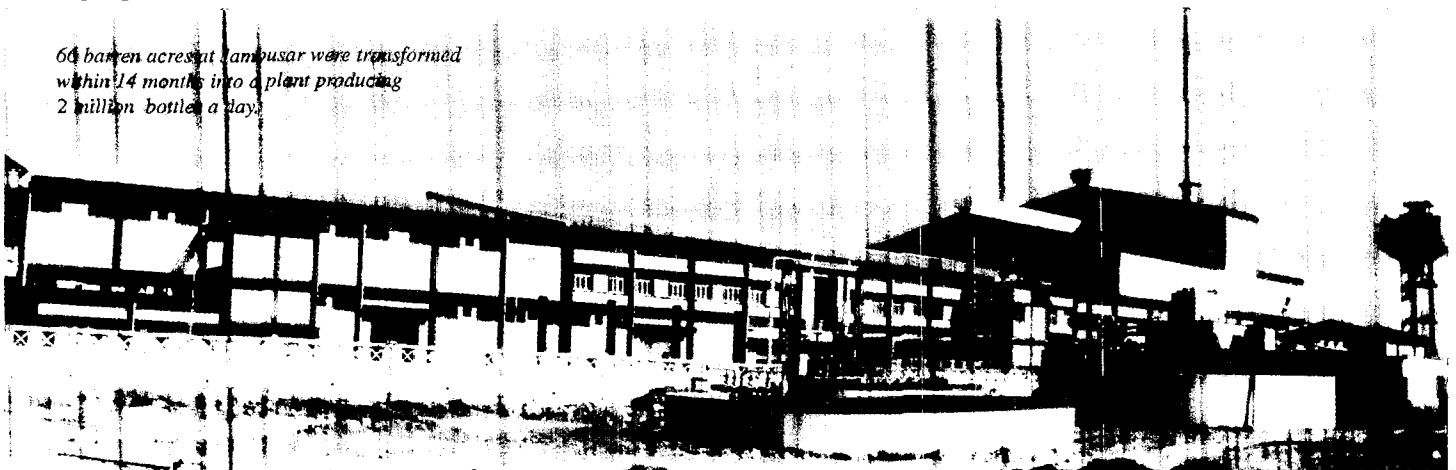


The Jambusar glass bottle manufacturing plant was completed on schedule at a cost of Rs.125 crores incorporating state-of-the-art technology. It has India's largest furnace capable of melting 230 tonnes of glass per day. The computer controlled bottle forming machines provide high flexibility for required shapes and sizes without loss of production. The level of automation and aseptic conditions is unparalleled, making bottle washing redundant. There is automatic inspection of the two million bottles produced daily. The new plant provides Gujarat Glass with the infrastructure and capacity to meet its mission: to be the preferred provider of flaconnage by continuous value addition.



To allow Gujarat Glass to blossom to its full potential, it was spun off as a separate entity effective April 1998. Nevertheless, Nicholas Piramal will retain a majority in the company, which will now be free to explore export markets aggressively, under the leadership of Managing Director, **Vijay Shah**, and his experienced team.

*60 barren acres at Jambusar were transformed
within 14 months into a plant producing
2 million bottles a day.*

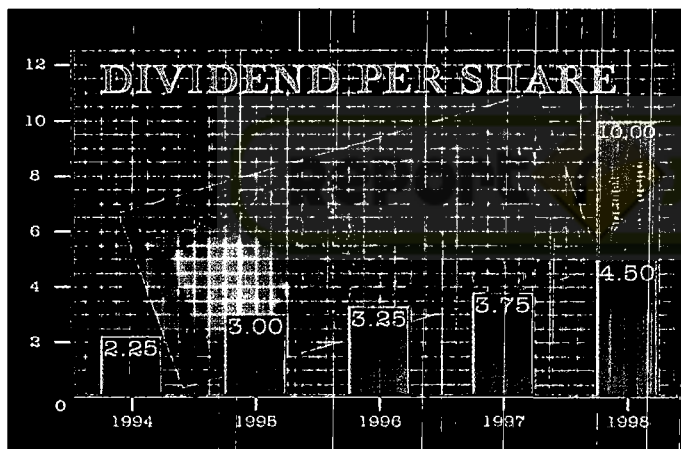
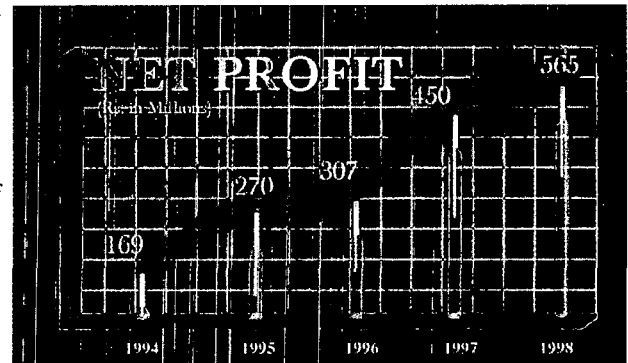




Mr. Mahesh Gupta
Chief Financial Officer

FINANCE REVIEW

The Finance function at Nicholas Piramal aims at being the best of its class in the industry. To this end, we are benchmarking our finance function with some of the leading corporates in India and abroad. At Nicholas Piramal, we are exposing our finance managers, as also members of senior management, to the latest developments in the areas of capital mobilisation, capital allocation, financial control, M&A, risk management and external reporting. Through this, we hope to further strengthen the company's reputation for financial excellence, which has led to its favourable recognition amongst members of the financial community.



Our credit rating of AA+ and P1+ by CRISIL in long-term debt and commercial paper respectively, ranks the company in the upper echelons of credit-worthiness and has created an access to debt at significantly lower costs.

During 1998-99, we will be providing our business units with information on ROCE with a view to achieve our long-term goal of a



Mr. V. Hariharan
Senior VP, Finance

30% return on capital employed via an increasingly efficient use of working capital.

Investor Relations

The investor relations function at Nicholas Piramal has been designed to ensure efficient two-way communication between the company and the investor community.



Mr. Vinay J. Parikh
VP, Investor Relations

Our constant dialogue with our shareholders provides us with a rich source of feedback. Many invaluable suggestions from investors have already been incorporated into our business plans. Nicholas Piramal will provide investors with timely information about the company's operations and future plans. We are committed to maintaining high levels of transparency in all our communications with shareholders.

SHAREHOLDING PATTERN

| | |
|---------------------------------------|---------------|
| Promoters | 44.7% |
| Foreign Institutional Investors | 10.4% |
| Financial Institutions / Mutual Funds | 12.9% |
| E.M. Warburg, Pincus & Co. Asia Ltd. | 9.9% |
| Public / Others | 22.1% |
| TOTAL | 100.0% |
| Number of Shareholders | 74,760 |