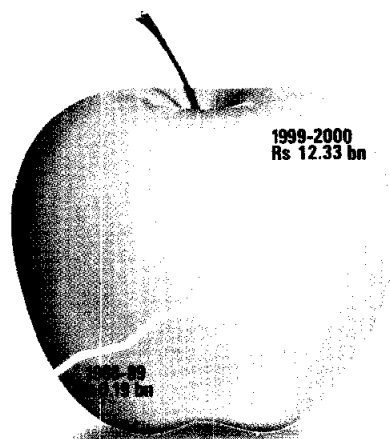


Focus on Healthcare Research in the Third Millennium



ANNUAL REPORT 1999-2000

Nicholas Piramal India Limited

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Dear Shareholders,

First of all let me share with you in very brief the highlights of our performance in the year we just completed as per our current Indian Accounting Standards and also the Consolidated Accounts prepared as per US GAAP.

NPIL Stand-Alone Profit & Loss Account

NPIL Stand-alone	Current Year 1999-2000	Previous Year 1998-1999	% Growth
Sales (Rs. Crores)	486.5	430.0	13
Profit After Tax(Rs. Crores)	56.9	45.3	26
EVA (Rs. Crores)	23.9	14.9	60.4

NPIL Consolidated Profit & Loss Account (In consonance with US GAAP)

NPIL Consolidated	Current Year 1999-2000	Previous Year 1998-1999	% Growth
Net Sales (Rs.Crores) (Net of Excise Duty & Sales Tax)	624.7	516.1	21
Net Income from continuing operations (Rs. Crores)	42.5	30.1	41

It has been another good year for us – no matter whether you look at the Indian or the US GAAP accounting. You will find a detailed discussion of our performance under Management Discussion.

I want to take this opportunity to share with you a few of my thoughts on the future strategies of your Company in the rapidly changing business environment.

Mergers & Acquisitions

Our first strategy was to use Mergers & Acquisitions to attain critical mass. Having acquired Nicholas Laboratories Ltd. in 1988, Roche Products Ltd in 1993, Boehringer Mannheim Ltd. in 1996, and creating access to new product pipeline of our partners from whom we acquired their business in India. In 1997 we resorted to a three-way merger under Nicholas Piramal India Limited to gain considerably by creating one large company under a single management with the obvious other benefits of mergers. Careful consideration was given to rationalising operations, integrating cultures, developing a world class-manufacturing base. The strongest marketing / distribution infrastructure in the Indian healthcare market was created via ten or more focused field forces and a streamlined supply chain with 2000+ stockists. NPIL today, is a clear leader in M&A capability within Indian healthcare. This was later supplemented by key strategic alliances / joint ventures e.g. Scholl Piramal 1994, Allergan 1995, Sarabhai Piramal 1997, Reckitt 1998, Solumiks Piramal 1998, Boots 1999, Charak Piramal 1999.

In future also, we will continue to seek out synergistic & win-win acquisitions / partnerships in the domestic as well as international markets.

However, the greatest single advantage of achieving critical mass in my opinion was our new ability to invest in serious and sustainable Discovery Research and Development of patentable new products. Let me share with you why I think this is so important to the future growth of your company.

The Emerging Business Environment

While our quantum growth : 29 times increase in Sales and 73 times increase in Profits (on stand alone basis) over the last 12 years after our acquisition of Nicholas is a good testimony to the strategy we adopted in our formative phase, we cannot rest on our oars now. The business environment has changed dramatically after India joined the WTO, has accepted TRIPS and changed our Patent Law to fall in line to give full 20 years patent protection to product patents filed after January 1995. (India did not allow Product patents since 1970, only process patents were allowed in pharmaceuticals). The full impact of this change will be felt perhaps after the next 7 to 10 years when the products patented after 1995 will start coming in the Indian market and the Indian Industry will be unable to copy these freely as was possible in the past.

I am greatly pleased to assure you that thanks to the strategy we adopted, our company has secured a good access to the new product pipeline of our strategic alliance and JV partners, particularly Roche & Boehringer Mannheim, Reckitt Benckiser and Boots. This was possible entirely because we had anticipated these changes and implemented strategies proactively to secure these relationships. We have therefore secured a major advantage for our company as compared to others in India for several years ahead.

Research & Development – the New Thrust Area

However, in the long term the real sustainable strength of any Pharmaceutical Company under the new business environment can come only from its own Research efforts and the stable of patented and effective new products it can generate continuously at low costs.

To achieve this strength, your Board of Directors have agreed to make significant additional investments in Discovery Research.

- When it comes to R&D, we in India have a special advantage over the rest of the world. It is said that, *“in the new knowledge millenium the centre of focus of knowledge production will shift to India. Why is this so ? First and foremost it pertains to our cost advantage. The intellectual capital available per dollar in India is the highest in the world”*. (Source : **Presidential Address by Dr. R. A. Mashelkar at the 87th Indian Science Congress, Pune, 3rd January 2000**). It is estimated that in India, we could undertake Discovery Research at one-third the international costs and in addition compress the time taken between discovery and bringing it to market – a very substantial benefit. Every year gained for marketing before the 20 years span of patent protection expires can mean in the International market millions of dollars in profits.
- We were able to crystallise our strategy of Discovery Research with the acquisition of the Hoechst Basic Research Facility in 1998 – just one year after we achieved “critical mass” through the 3-way merger of NPIL, PHL & BMIL. The facility is now re-named “Quest Institute of Life Sciences (QILS)” This has been revitalized using a “business driven R&D” approach and strengthened with an additional orientation to natural / herbal products, where India globally has a unique niche because of its rich bio-diversity and our ancient heritage in Ayurveda. The net result is the high probability of a strong new herbal product pipeline with a choice of several products to choose from for launch in the 2000-2003 period because of the relatively short time needed for product registration for herbal products. The investment led R&D strategy also creates the platform to go global for herbal as well as modern medicine.

Our research strategy has several elements

Discovery research is conducted at the Quest Institute of Life Sciences (QILS) and has focused on five therapeutic areas and in three of these we have already identified patentable leads. While determining the success probability of these still needs a couple of years more work, we have in the meantime ‘licensed- in’ two additional NCEs from other sources. The first NCE to be launched in India will be the anti-malarial bulaquine – Ablaquin* in the second half of 2000. Bulaquin has been the fruit of efforts by leading CDRI Scientists in discovery and clinical trials and development Scientists from **your company taking it from the laboratory to a commercial product**. Bulaquin is to be jointly developed by CDRI & **your company**. The special feature of Ablaquin* is its ability to get rid of the malaria parasites from the liver and thereby prevent relapse of malaria so common with other treatments. In addition to launching the product exclusively in India, we also have the exclusive rights to market or license the product globally. A second NCE is in advanced clinical trials for cancer and AIDS. The company will be actively looking for international partners to help take its NCEs including Ablaquin* global.

The Herbal research will also be conducted at the QILS facility supplemented by a key alliance with CDRI (The Central Drug & Research Institute, Lucknow). There are more than a dozen projects in this Herbal pipeline, with a good chance of about four new products being launched in the next 18 to 24 months.

Our programme on chemical synthesis / chiral chemistry primarily uses reverse engineering with 12+ projects on hand, some of which are directed towards the global generics market. This developmental work is undertaken both at QILS and at our Thane facility.

A new Clinical Research organisation (CRO) will come on stream mid year at Parel, Mumbai with access to both Pathlab and Genomic capability situated within the same hospital complex “Wellsprings”.

I am also pleased to inform you that, we plan to start genomic research. The objective is to ‘harvest’ the knowledge of the International Human Genome Research project which is in the public domain i.e. NOT PATENT PROTECTED and can be accessed by any one. We will use this knowledge for the development of genetic healthcare products which can be patent protected. We plan to look for alliances in this area. We in India seem to have certain special advantages when it comes to discovery and development of products to treat diseases triggered by genetic problems. The Genome research facility in Mumbai will be located in the Wellspring Centre. I believe, we are the first Indian

company to invest in development of genetic healthcare products.

Strategic Alliances

NPIL sees Strategic Alliances as vital to access technology and improve learning. The initial thrust was on marketing alliances, notably in the OTC segment, where the company is now a market leader thanks to its alliances with Reckitt Benckiser and Boots. The alliance with Allergan in eye care has also achieved leadership in that segment. Our entry into herbal / natural products category is being facilitated by learnings we are acquiring from our Charak and Solumiks JV partnerships. The emphasis will increasingly be on Research Partnerships in the future, which should help NPIL go global.

International Expansion

NPIL already has a cost effective world class manufacturing base which we propose to leverage to manufacture and market products to our alliance partners and other multinationals in the international market.

As regards the product line for international expansion, NPIL has three options

A range of branded generics

The new Herbal / Naturals line

The NCEs in its own pipeline

The early geographic targets include Africa, South East Asia, Europe and the USA in that or with entry facilitated by strategic investments, alliances and / or small acquisitions to speed up take off.

Pursue World Class Operating Model

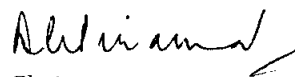
The company is committed to developing a world class organisation, with our top 101 Managers/Leaders identified, being trained and empowered to perform via a decentralised SBU (Strategic Business Unit) structure with clearly defined objectives emphasising entrepreneurship. A performance culture is being developed by modifying compensation packages to key employees to be in tune with their profit performance. Long term performance is also supported via a successfully implemented ESOP programme.

The company also periodically looks at cost compression, using 'benchmarking', and a 'zero-base' approach. The next initiative in this regard is scheduled for the second half of the year. The comprehensive 'IT' strategy review currently underway will also look at the impact of the Internet on various aspects of the business, with a view to using IT power for most cost effective and empowering solutions.

Listing on the American Stock Exchange (ADS)

As you are aware, our shareholders have already approved our proposal in the Extra Ordinary General Meeting of shareholders held on 29th April, 2000. We propose to go through with this at an opportune time. In the meantime, let me share with you how the company proposes to use the money as and when it is raised abroad. A part of the money will be used for funding capital expenditure related to R&D projects. Some will be used for potential acquisitions in India or outside and partly for repaying debt & reducing our interest burden.

With all the proactive strategies we are implementing and the focused entrepreneurial way in which our empowered Strategic Business Unit Chiefs are focusing on our 'here-and-now' business operations in our reorganised structure gives me every confidence that we will continue to give excellent results year on year while also getting ready to face the evolving market place with strength and confidence.



Chairman

Nicholas Piramal India Ltd.

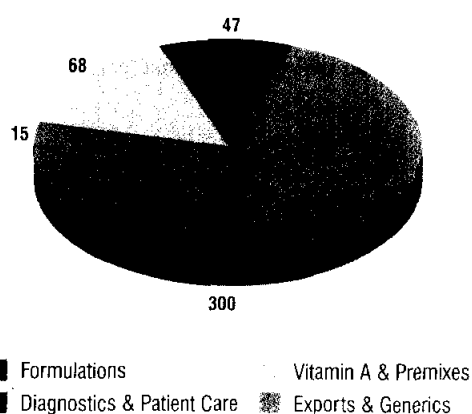
For NPIL the year 1999-2000 was a year of satisfactory performance. Company's revenue grew by 13% over prior year and profit after tax showed a much higher growth of 26%. We continued to focus on the strategies identified earlier, to attain leadership position in Healthcare sector, i.e.

- Increased emphasis on introduction of new products.
- Investment in Research & Development with emphasis on new drug discovery
- Growth from alliances.
- Create world class manufacturing, marketing and distribution infrastructure and become the preferred partner for alliances & licensing for manufacturing & marketing patented new products of our interest.

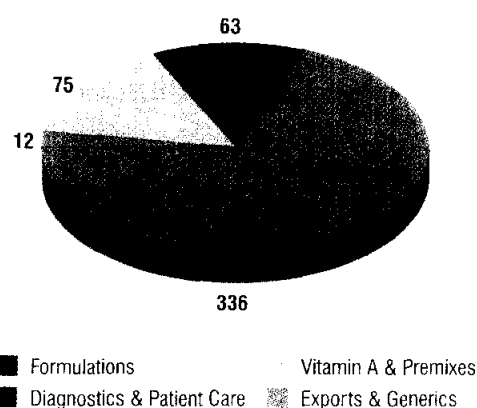
Revenue Break-up

	F-2000 (Rs.Crores)	F-1999 (Rs.Crores)	Growth %
1. Formulations	336	300	12
2. Diagnostics & Patient Care	63	47	32
3. Vitamin A & Premixes	75	68	11
4. Exports & Generics	12	15	(18)
Total	486	430	13

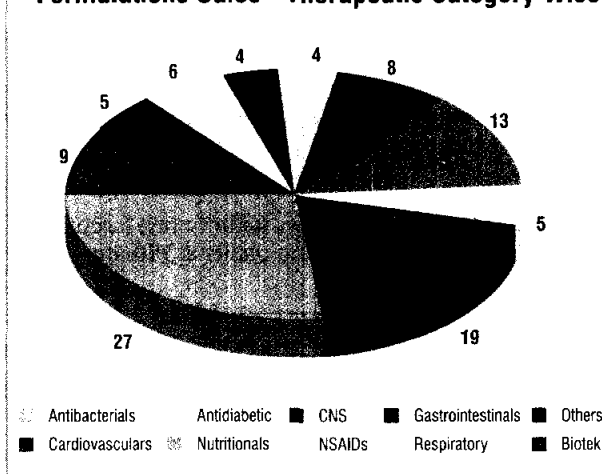
REVENUE BREAK-UP
F - 1999 (Rs. Crores)



REVENUE BREAK-UP
F - 2000 (Rs. Crores)



Formulations Sales - Therapeutic Category Wise



The Pharma Industry growth for the 12 month period ended March 31, 2000 as reported by ORG & IMS separately is estimated at 9.8% and 10% respectively –much below the normal 15+% growth reported over the last few years. The large anti-bacterial plus systemic antibiotics segment of the market which together constitutes an estimated 26.1% of the total pharma market according to IMS and 20% according to ORG reports is shown to have grown by a mere 5% as compared to 15%, 27% and 20% in the previous 3 years, i.e. 1996, 1997 and 1998 respectively. (*Source : ORG Dec'1996, 1997, 1998*).

The current year's lower industry growth in all probability is a combination of two factors—lack of epidemics or in other words a a healthier year and possibly a cutback in inventory by the wholesale and retail trade. This was obviously a vagary of nature last year. And, one can expect the market to return to normalcy in the years ahead i.e. 15%+ growth in line with the historical long term trend.

In our own case these two therapeutic categories i.e. systemic antibiotics + anti-bacterials, with about 9 brands constitute nearly 27% of our Formulations turnover and we actually suffered a decline of nearly 6% in this category. However, our strategy of focussing on new product launches in chronic disease areas such as cardiovasculars, anti-diabetic & biotek category products has helped us to overcome the decline in the systemic antibiotic/anti-bacterial category and yet show a better overall growth than the Industry average thanks to the excellent growth in Biotek +89%*, Cardiovascular +50%*, Anti-diabetics +39%* Respiratory +23%*, etc. (** Company data*)

We are increasingly focusing on Neutraceuticals as a strategy for growth. In addition to the success of two brands of antioxidants we had launched (Exerge* and AO 7*) we are focusing launch of further brands targeted at niche segments.

In the systemic antibiotic/anti-bacterial category, we have already taken corrective action by launching a newer generation anti-biotic brand Omnatax* (Cefotaxime) acquired from Hoechst Marion Roussel (HMR) and in addition are proposing to launch Zidime* (Ceftazidime) acquired from Eli Lilly. The major impact of both these strategies we hope will be visible in our operations for the next year.

Apart from Omnatax* which was launched in January 2000, the Company introduced the following new products during the year :

- | | |
|-----------------------------|--|
| Haemacel*
(January 2000) | — a plasma expander acquired from HMR. |
| Rejoint*
(January 2000) | — We consolidated in the NSAID (Non-Steroidal Anti- Inflammatory Drugs) segment by the launch of REJOINT* - an outstanding product for osteo-arthritis patients with significantly improved benefits. This product has had outstanding sales since its launch in January 2000. |
| Glimer* | — Glimepiride which is being co-marketed with HMR and will (October 1999) complement the company's strong franchise in the anti-diabetic market. |

The full year impact of the above four brands launched during the year is expected to be substantial in the next year's operations and results.

The Company has lined up 'Aablaquin*', a new generation anti-malarial with a special ability to prevent relapse of malaria by acting on the malaria parasites hiding in the liver and seven more products for marketing in 2000-2001 and by the year end, the Company expects the new products launched from 1999 onwards to contribute in excess of 20% of the total formulation sales as against 6% in 1999-2000.

Biotek

The Biotek business which focuses on critical care segments such as oncology, AIDS, transplants, etc. is already a leader in several of its product categories. During the year Cellcept* – an immuno suppressant from Roche mainly used by kidney transplant patients was launched in July 1999 and was very well received by the medical profession.

Diagnostics & Patient Care

In spite of severe competition, this business achieved an impressive growth of 32%. The division plans to continue the strategy of introducing newer models of instruments for both pathlabs as well as patient self monitoring and reagents for newer parameters coupled with aggressive marketing through doctor meets, patient awareness programmes and diabetic detection camps.

The Company has also plans to start manufacture of certain products both for the local market as well as exports.

Vitamin A & Premixes

During the year, the company was granted a 28% price increase by the government on Vitamin A manufactured by the company after a gap of 5 years. This has helped the division to improve its profitability. The annualised impact of this on the profitability of the Vitamin A Division would be approx. Rs.4.0 crores. During the year, the Company also introduced many new premixes tailored to meet customer specific requirements. Vigorous efforts on de-bottlenecking and yield improvements have potentially resulted in the installed capability of the plant being raised to produce a much larger quantity of Vitamin A from the basic stage.

Manufacturing

The expansion of Mahad unit with a new tablet manufacturing line and a dedicated facility for hormone formulation manufacturing was completed during the year. The company's formulation manufacturing plants at Pithampur and Mahad are state-of-the-art plants matching international quality standards.

Plant	Quality Certification
1. Pithampur	1. ISO 9001, ISO 14001, WHO GMP MCC of South Africa for tablets and Capsules. 2. MCC of South Africa for ophthalmics under progress. 3. MCA U.K. under progress.
2. Mahad	1. ISO 9001, ISO 14001 and WHO GMP 2. MCA U.K. under progress.
3. Deonar	1. ISO 9001.

The Company is in negotiations with alliance partners and various multinationals for long term arrangements for manufacturing their products either for sale in India or for export. The Company expects to become the preferred partner for multinational companies for licensing, manufacturing and marketing of patented products. The Company was successful in downsizing the high cost manufacturing operations in Deonar with 91 workmen accepting Voluntary Retirement and 67 workmen transferred to other units out of total work force of 262. The Company has already obtained shareholders' approval for disposing the Deonar unit including sale of the plant as a going concern. The Company's Employees Union has approached the Hon'ble Industrial Court seeking stay on the transfers but the same has not been granted. The matter is subjudice and the orders of the court are expected in July 2000.

Divestments to focus on our core business

As mentioned in our previous year's Annual Report, our strategy is to concentrate on our core business and divest our other businesses and activities which are capital intensive and as a precursor to this we had also mentioned the spinning off of Gujarat Glass Limited and Global Bulk Drugs & Fine Chemicals Ltd. as separate entities.

As a follow up action of this policy decision, we have divested entire equity held by the company in Global Bulk Drugs & Fine Chemicals Ltd. However, Gujarat Glass Limited will continue to remain a subsidiary company of NPIL with 53.76 % equity.

New Acquisitions & Alliances

During the year, the company invested Rs.2.25 crores towards 90% equity in the new Joint Venture – Drs. Tribedi & Roy Diagnostics Laboratories Ltd. a reputed Pathlab in Calcutta. It is a part of our strategy to establish a state-of-the-art network of pathological laboratories in the metro and mini-metro cities in the country interconnected to each other via satellites and making each one of them a centre of excellence in the high tech advanced diagnostics area.

The company also increased its involvement in Ayurvedic segment by investing Rs.4.27 crores in the 50:50 Joint Venture with the Charak Group to market Ayurvedic OTC products.

Advantages of Acquisitions; Joint Ventures; Strategic Alliances

All the three strategies of acquisitions, joint ventures and strategic alliances have been of significant importance in the quantum growth of your company over the last 12 years, since we acquired Nicholas Laboratories India Limited in 1988.

The acquisitions such as Roche Products Ltd and Boehringer Mannheim India Ltd., etc. are merged with NPIL and therefore the results of these merged companies are fully reflected in the results of NPIL. However, the performance of our Joint Venture companies and the return on these investments your company earns, are not fully visible because

the Indian Accounting Standards do not as yet require Consolidation of Accounts. Whereas in most advanced countries it is a mandated requirement as it gives full transparency to where a company has invested money and what returns it earns.

In the new globalised business environment where FIIs are freely welcomed, India too is expected to make changes in line with International Accounting Standards and we expect Consolidation of Accounts to be mandated sooner than later.

During the year, the Company has voluntarily prepared financial statements as per US GAAP. Under this consolidated statements, the **Net Sales** (net of excise duty and sales tax) for the year 1999-2000 showed a **growth of 21%** over that of the previous year, whereas '**Net Income from continuing Operations**' showed a **growth of 41%** over the previous year. US GAAP Accounts are reproduced later in the Annual Report.

JOINT VENTURES :

Operations and Performance

Sarabhai Piramal Pharmaceuticals Limited (SPPL) – After the successful turnaround of the SG division acquired from Ambalal Sarabhai Enterprises (ASE), the company acquired the remaining pharma brands and marketing rights from ASE at a consideration of Rs.85 crores. These initiatives are expected to result in significant growth in both sales and profits in future years.

During the year, SPPL achieved sales of Rs.121.8 crores (Growth of 107% over previous year) and a Profit After Tax (PAT) of Rs.7.98 crores (Growth of 110% over previous year). The organic sales growth of SPPL i.e. excluding the new brands acquired from ASE was 23%.

Reckitt Piramal Ltd. – The Joint Venture with Reckitt Benckiser has achieved the leadership position in the OTC category of business. Reckitt Piramal Limited achieved sales of Rs.271.2 crores (Growth of 27% over previous year) and PAT of Rs.3.58 crores which was impacted by higher advertising spend due to severe competitions from new entrants.

Boots Piramal Healthcare Limited – In the first full year of operations, Boots Piramal Healthcare Limited achieved Sales of Rs.29.99 crores and PAT of Rs.3.94 crores.

The following table highlights the company's investments in each of the Joint Ventures and the return on investment by each one of them :

Return on Investments in Joint Ventures

Company's Name	Sum Invested (Rs. Crores)	NPIL Share of PAT F-2000 (Rs. Crores)	Return (%)	Remarks
Reckitt Piramal	4.0	1.4	36	Annualised Start-up Start-up
Boots Piramal	2.5	1.8	72	
Allergan	3.9	0.5	13	
Sarabhai Piramal	22.5	4.0	24	
Solumiks Piramal	3.2	(0.1)		
Charak Piramal	4.3	(1.1)		
Scholl Piramal	2.0	(0.1)		

The return in case of Solumiks Piramal and Charak Piramal is a minor loss mainly because they are in their 'Start-up' phase and we are confident that this will be turned around in a short period. In the case of Scholl Piramal, we are discussing with our partners various alternative strategies as the current level of volume is below the break-even level.

FINANCIAL HIGHLIGHTS : INDIAN ACCOUNTS**Income Statement**

Rs. Crores

	Year ended March 31, 2000	Year ended March 31, 1999
Income		
Sales	486.5	430.0
<i>% Growth</i>	13.0%	
Other Operating Income	18.2	18.8
PBIDT Before R & D Exp.	93.4	77.7
<i>% to Sales</i>	19.2%	18.1%
R & D Expenses	8.6	3.4
PBIDT After R & D Exp.	84.7	74.2
<i>% to Sales</i>	17.4%	17.3%
Interest (net)	11.2	14.5
Depreciation	10.6	8.9
Profit Before Tax	62.9	50.8
<i>% to Sales</i>	12.9%	11.8%
Taxes	6.0	5.5
Profit After Taxes	56.9	45.3
<i>% to Sales</i>	12.0%	11.0%
<i>% Growth</i>	26.0%	

Sales

Sales during the current year registered a growth of 13% over the previous year. Detailed analysis of sales are explained earlier in this report.

Other Income

Dividend Income increased from Rs.2.08 crores in 1998-99 to Rs.7.82 crores in 1999-2000 mainly on account of income flowing from joint ventures after the initial start-up period. Total Other Income showed a marginal decline of 3% on account of decline in Service Income.

Profit before Interest, Depreciation and Tax (PBIDT)

PBIDT margins before charging R&D expenses of Rs.8.6 crores (previous year Rs.3.4 crores) increased from 18.1% previous year to 19.2%. The margin improvement was achieved through a combination of :

- Controlled marketing and promotional expenditure.
- Better product mix.
- Downsizing of Deonar operations.
- Use of Field force infrastructure by joint ventures.
- Reduced toll manufacturing.

Interest

Interest cost declined by 23% to Rs.11.2 crores in 1999-2000 (previous year Rs.14.5 crores) mainly on account of sustained efforts to reduce the cost of borrowings and better working capital management. Average interest cost during the year was 10.4% compared to 12.8% in the previous year.