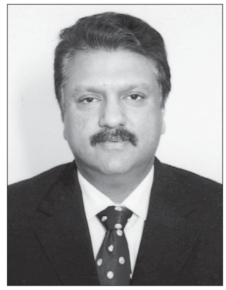
The Vision

To become the most admired Indian pharmaceutical company with leadership in market share, research and profits by:

- Building distinctive sales & marketing capabilities
- Evolving from licensing to globally launching our patented products
- Inculcating a high performance culture
- Being the partner of choice for global pharmaceutical companies

Always adhering to our values, based on our obligations as the trustees of our customers, employees, shareholders and society

Chairman's Letter



Dear Shareholders,

The financial year 2004-05 was a challenging year for our Company.

Consolidated Net Sales from continuing businesses grew 5.4% to Rs. 12.7 billion. However, aggregate consolidated Net Sales for the year were lower by 6.0% at Rs. 13.1 billion, compared to Rs. 13.9 billion in FY2004. Consolidated Operating Profit (OPBIDTA), decreased 35.0% in FY2005 to Rs. 2.0 billion from Rs. 3.0 billion in FY2004. Consolidated Profit After Tax declined by 17.9% in FY2005 to Rs. 1.6 billion from Rs. 2.0 billion in FY2004. Earnings per share (after exceptional items) were Rs.8.5 per share in FY2005, compared with Rs.10.4 in FY2004. Earnings per share (before exceptional items) were Rs.5.2 per share vs. Rs.11.7 per share in FY2004.

We faced three major developments during the year that adversely impacted our domestic formulations sales and profitability :

1. MRP – based Excise introduced by Government of India w.e.f. 08 January 2005.
2. Retail Chemists' boycott of Psychotropic and Narcotic drug sales in Q4FY2005.
3. Severe down stocking by Distributors/Chemists in Q4FY2005 because of Value Added Tax (VAT) regime introduced by Government of India w.e.f. 01 April 2005.

While MRP–based Excise increased the cost of our formulations in the short-term, the latter two events resulted in a Rs. 1.1 billion YoY decrease in Q4FY2005 domestic formulations sales.

During FY2005, our Company also discontinued the following three revenue streams:

1. Return of the Rs. 728.3 million (FY2004) diagnostics business by NPIL to Roche Diagnostics for a consideration of US$ 22 million.
2. Return of the Rs. 452.0 million (FY2004) Biotech formulations business by NPIL to F. Hoffmann-La Roche.
3. Loss of Sales due to spin-off of Glass business, of which Rs. 660.0 million were included as Net Sales in Consolidated Financials for first quarter of FY2004.

We believe the loss of Net Sales of Rs. 1.1 billion (YoY) that we witnessed in Q4FY2005 is temporary, and does not adversely affect the basics of our domestic formulations strategy. We expect continued organic increase of our market share in this business.

In FY2005, Nicholas Piramal completed its first international M&A transaction. We acquired the Inhalation Anaesthetics business of Rhodia Organique Fine Limited for a consideration of Rs. 579.8 million. The business was acquired w.e.f. 11 January 2005, and we recorded Sales of Rs.93.3 million from this business in Q4FY2005. With this acquisition, we have become a dominant global player in Halothane and have gained a significant entry in the Isoflurane market, besides gaining access to the business' marketing and distribution network in over 90 countries.

Exports during the year grew 31.8% to Rs. 1.6 billion, and were 12.4% of FY2005 Consolidated Net Sales. We also have a portfolio of three long-term custom manufacturing agreements.

During FY2005, our Company completed the new Research & Development Center at Goregaon, Mumbai. This Center is one of the largest pharmaceuticals research facility in India, and offers state-of-the-art infrastructure/facilities to our operating team of 275 members. Revenue expenditure on Research & Development increased to Rs. 495.4 million in FY2005.

We remain committed to our three growth horizons of domestic formulations, custom manufacturing-led exports and original Research & Development. We believe our Company has the right initiatives in place to deliver significant value in the medium and long-term.

Our Company has painstakingly built a business model that aspires to generate high-growth with lower risk, while maintaining our ethos of IPR-compliance and partnering Innovator companies. The essence of our business model is to deliver sustainable, non-volatile growth.

To part-fund further growth plans, Nicholas Piramal has decided to raise equity funds upto Rs.3.5 billion through a Rights Equity Issue.

Thank you,

Ajay G. Piramal
Chairman
Date : 31st May, 2005

Management Discussion & Analysis

FY2005: (consolidated) at a glance

- **Summary:**
  - Net Sales : Rs. 13.1 billion
  - Operating Profit : Rs. 2.0 billion
  - Net Profit : Rs. 1.6 billion
  - Gross margins : From 57.8% to 58.1%
  - R&D spend : From 2.0% to 3.7%
  - OPM : From 21.3% to 14.6%
  - PAT : From 14.2% to 12.3%

- **Revenue and Profits:**
  - **Net Sales growth :**
    - Continuing businesses : 5.4%
    - Aggregate : (6.0%)
  - **Domestic branded formulations growth :**
    - Continuing businesses : 1.1%
    - Aggregate : (3.2%)
  - Exports growth : 31.8%
  - Operating Profit growth : (35.0%)
  - Net Profit growth : (17.9%)

- **Operations highlights:**
  - **Domestic branded formulations:**
    - Field force stabilises at 3,001; 12 Marketing Divisions, 8 Specialist-Divisions.
    - Three new in-licensing alliances secured.
    - Thirty six new products & line extensions launched.
  - **Exports & Custom manufacturing:**
    - Exports reach 12.4% of sales.
    - Three custom manufacturing contracts.
  - **Allied Businesses:**
    - Discontinuation of Roche Diagnostics' distribution for a consideration of $22 million.
    - Continued focus to reduce domestic low-value Vitamin A, API, Generic Sales.

NPIL financial highlights – consolidated

Particulars	9 Months	Quarter IV			Year		
	FY05 Rs. million	FY05 Rs. million	FY04 Rs. million	growth %	FY05 Rs. million	FY04 Rs. million	growth %
Net Sales	10,777.8	2,304.0	3,304.0	(30.3)	13,081.8	13,915.2	(6.0)
OPBIDTA	2,111.8	(157.9)	735.9	(121.5)	1,953.9	3,007.4	(35.0)
OPM %	19.4	(6.4)	21.6	—	14.6	21.3	—
EBIDTA	2,154.5	(126.0)	743.2	(117.0)	2,028.5	3,065.6	(33.8)
Interest (Net)	116.4	75.7	58.0	30.5	192.1	237.9	(19.3)
OPBT	1,648.6	(411.2)	554.5	(174.2)	1,237.4	2,240.8	(44.8)
PBT before exceptional items	1,691.3	(379.3)	561.8	(167.5)	1,312.0	2,299.0	(42.9)
PAT	1,776.8	(133.4)	809.5	(116.5)	1,643.4	2,002.4	(17.9)
EPS Rs. (not annualized)	9.2	(0.8)	4.2	(118.0)	8.5	10.4	(18.8)

Particulars	Full-Year FY05	Full-Year FY04
Debt / Equity ratio	0.8	1.0
ROCE %	26.4	33.2
RONW %	32.2	48.9
EVA (annualized) (Rs. million)	968.9	1,585.2
Net Sales / NFA ratio	1.8	2.5
Inventory (days*)	69	46
Receivables (days*)	36	42

Note: * Days gross sales

Review of the year ended 31 March 2005: (Consolidated)

FY2005, Consolidated Net Sales were Rs. 13.1 billion, compared with FY2004 Net Sales of Rs. 13.9 billion. However, Consolidated Net Sales from continuing businesses grew 5.4% to Rs. 12.7 billion, compared with FY2004 Net Sales of Rs. 12.1 billion.

The consolidated portfolio of continuing businesses grew during the two comparative periods as follows:

Rs. million

No.	Business	Consolidated Net Sales	
		FY2005	FY2004
	Net Sales aggregate	**13,081.8**	**13,915.2**
	Less :		
1	Biotech products return to FHLR* Net Sales (of the nine products)	28.7	452.0
2	Diagnostics portfolio return to RD** Net Sales	235.2	728.3
3	Gujarat Glass & its subsidiaries+ Net Sales	—	660.0
4	Inhalation Anaesthetics business of Rhodia#	93.3	0.0
5	Sales from continuing businesses	12,724.6	12,074.9
	Growth from continuing businesses	5.4%	

Notes :

1. * "FHLR" stands for F. Hoffman-La Roche.

2. ** "RD" stands for Roche Diagnostics Gmbh, Germany. The RD products - hitherto being exclusively distributed in India by the Diagnostics SBU of NPIL, have been fully returned to RD w.e.f. 01 January 2005 as per agreement between the companies.

3. + Gujarat Glass Private Limited and its subsidiaries were de-linked from NPIL w.e.f. 01 July 2004. NPIL's 53.8% ownership of Gujarat Glass was transferred to a new holding company – Kojam Fininvest Limited ("KOJAM"). Shares of KOJAM were allotted free-of-cost to shareholders of NPIL, in proportion to their ownership of NPIL (as on 12 January 2004). Allotment ratio was KOJAM share: NPIL share = 1:4. KOJAM has since been listed on the National Stock Exchange (NSE), Bombay Stock Exchange and Ahmedabad Stock Exchange in June 2004. Its market price on 31 March 2005 was Rs. 132 per share on BSE.

4. # Nicholas Piramal acquired the global inhalation anaesthetics business of Rhodia Organique Fine Limited w.e.f. 11 January 2005. Nicholas Piramal recorded Net Sales of Rs. 93.3 million from this business in Q4FY2005

For the year ended 31 March 2005, Operating Profit Before Interest, Depreciation and Tax (OPBIDTA) was Rs. 2.0 billion, a decrease of 35.0% over FY2004 OPBIDTA of Rs. 3.0 billion. The decrease was because of discontinued businesses, higher R&D spend at 3.7% of Net Sales (vs. 2.0% in FY2004), and loss of profit from lower formulations sales due to VAT in Q4FY05. Operating Margin was 14.6%, compared with 21.3% for FY2004.

Net Interest decreased by 19.3% to Rs. 192.1 million, compared with Rs. 237.9 million in the year ended FY2004. Total Debt (considering preference shares as Debt) as on 31 March 2005 was Rs. 4.2 billion, compared with Rs. 4.1 billion for FY2004. Debt/Equity ratio (considering preference shares as Debt) was 0.8 in FY2005, compared to 1.0 in FY2004.

Capital expenditure during the year was Rs. 1.8 billion. Depreciation for the year FY2005 was 524.4 million compared to 528.7 million in FY2004.

Income Tax (current+deferred) for FY2005 at Rs. 464.8 million, compared with Rs. 40.5 million during the year FY2004.

Exceptional items of Rs.796.2 million during the year ended 31 March 2005, mainly included a one time consideration of US$ 22 million from Roche Diagnostics following the discontinuance of exclusive distribution agreement for their Diagnostic products.

Profit After Tax & Exceptional Items therefore, stood at Rs. 1.6 billion for FY2005, a decline of 17.9% over the previous financial year.

The FY2004 Earnings per share after Exceptional Items were Rs. 8.5 per share, a decline of 18.8% over FY2004 Earnings of Rs. 10.4 per share. Earnings per share (before extraordinary items) were Rs.5.2 per share vs. Rs.11.7 per share in FY2004.

The operating results referred to above are as per Consolidated Financial Statements.

Net Sales analysis:

NPIL's domestic branded formulations business, which at Rs. 9,532.1 million, contribute to 72.9% of total consolidated Net Sales, decreased 3.2% over FY2004. However, on a like-for-like basis (i.e. excluding the returned FHLR Biotech products) the business grew by 1.1% over FY2004. Exports– growing to 12.4% of Net Sales– were Rs. 1,626.4 million. The break-up of aggregate Net Sales and growth is as under:

Rs. million

No.		Net Sales break-up	% sales	Year ended			9 Months
			FY05	31-Mar-05	31-Mar-04	% growth	FY05
I		Domestic:					
	1	Formulations	72.9	9,532.1	9,850.7	(3.2)	8,117.0
	2	APIs	0.6	73.3	113.4	(35.3)	64.9
	4	Vitamins	5.0	653.3	642.9	1.6	411.1
	5	Diagnostics	2.7	357.0	776.1	(54.0)	280.6
	6	Pathlabs	2.8	365.1	251.1	45.4	267.5
	7	Flaconnage (Glass)	—	—	512.8	(100.0)	—
	8	Others	3.6	474.6	534.3	(11.2)	421.6
		SUB-TOTAL	**87.6**	**11,445.4**	**12,681.3**	**(9.7)**	**9,562.7**
II		Exports:					
	1	Formulations	2.3	303.3	296.2	2.4	170.3
	2	APIs	6.8	889.6	621.5	43.1	712.2
	3	Vitamins	2.2	290.6	125.2	132.1	225.0
	4	Flaconnage (Glass)	—	—	147.2	(100.0)	—
	5	Others	1.1	143.0	43.8	226.4	107.4
		SUB-TOTAL	**12.4**	**1,626.4**	**1,233.9**	**31.8**	**1,215.0**
		TOTAL	**100.0**	**13,081.8**	**13,915.2**	**(6.0)**	**10,777.8**

Note : Exports Sales include Deemed Exports Sales.

Domestic Branded Formulations

Market commentary :

Domestic formulations market opened on a good note, with the initial months suggesting growth for the year at 8-10%. However, market growth was sluggish in the peak July-September quarter, dampening overall growth prospects.

The introduction of MRP-based Excise duty, Chemists boycott of Psychotropic and Narcotic drugs and lastly the introduction of Value Added Tax (VAT) w.e.f. 01 April 2005, resulted in severe Sales shrinkage in the January-March quarter. VAT rate effective 01 April 2005 was 4%, replacing Sales tax that averaged to about 9% across most States in India. This resulted in significant down stocking by trade channels to clear-out high tax bearing inventory before end of the financial year.

The domestic market recorded growth of 4.2% (ORG-IMS MAT Mar-05) for the financial year FY2005.

Nicholas Piramal consolidated performance:
While Nicholas Piramal's consolidated domestic branded formulations business outperformed industry growth for the first three quarters of FY2005, it experienced severe sales loss in the fourth quarter on account of the above-mentioned factors.

NPIL's consolidated domestic branded formulations business decreased 3.2% for the whole year in aggregate terms. In like-for-like terms, the business grew 1.1% over FY2004, compared with industry growth of 4.2% (ORG-IMS, MAT Mar-05) during the same period.

Formulations sales analysis: Consolidated portfolio

Therapy area analysis

(including FHLR Biotech products)

Rs. million

No.	Therapeutic area	Year ended				Market growth
		Sales wt. %	31-Mar-05 Rs. million	31-Mar-04 Rs. million	Growth %	+MAT-Mar-05 %
I	Nicholas Piramal					
1	Respiratory	22.2	2,117.2	2,039.2	3.8	1.7
2	Anti-Infective	12.3	1,168.5	1,274.5	(8.3)	(1.6)
3	CVS	10.7	1,015.2	895.6	13.4	11.2
4	CNS	10.4	987.2	981.9	0.5	5.8
5	Nutritionals	6.9	661.6	716.2	(7.6)	4.1
6	Biotek (aggregate)*	1.2	115.0	508.0	(77.4)	—
7	Anti-Diabetic	4.7	448.5	400.8	11.9	9.2
8	Gastro-intestinal	3.7	355.7	374.5	(5.0)	5.3
9	Dermatology	3.6	347.8	344.3	1.0	5.5
10	NSAIDs	6.1	585.5	653.0	(10.3)	4.7
	Others	10.2	969.4	869.4	11.5	—
II	Allergan India					
11	Opthalmology	4.6	441.3	420.1	5.1	(0.6)
III	Boots Piramal					
12	OTC Products	3.3	319.3	373.2	(14.5)	—
	Total Branded Formulations	**100.0**	**9,532.1**	**9,850.7**	**(3.2)**	**4.2**

Note: * including FHLR Biotech products returned during FY2004/05, +Market data source: ORG-IMS, no similar market data available for Biotek segment.

Portfolio performance : Joint Ventures

1. **Allergan India Limited ('AIL'):**
   AIL is a 51:49 Joint Venture between Allergan Inc., USA and Nicholas Piramal.

   During FY2005, AIL grew Net Sales at 5.1% to Rs. 900.7 million (FY2004 Net Sales: Rs. 857.4 million).

   PBIDT for FY2005 was Rs.188.6 million, compared with FY2004 Rs. 174.8 million, a growth of 7.9%. Profit after tax for FY2005 was Rs. 104.7 million, compared with FY2004 value of Rs. 96.7 million, a growth of 8.3%.

2. **Boots Piramal Healthcare Pvt. Ltd. ('BPHL'):**
   BPHL is a 51:49 Joint Venture between Boots Plc., UK and Nicholas Piramal.

   In FY2005, the Company Net Sales declined by 14.5% to Rs. 651.6 million.

   PBIDT during the review period was Rs. 175.7 million, a decrease of 14.1% compared with Rs.204.5 million in FY2004. Profit after tax decreased by 21.1% for FY2005 at Rs.91.7 million, compared with FY2004 value of Rs. 116.3 million.

Core Brands analysis (consolidated) :

Top–10 brands formed 31.1% of consolidated formulations sales portfolio of Rs.9,532.1 million. They de-grew by 2.6% in the year, mainly on account of the low sales in Q4FY2005.

Rs. million

No.	Top-10 Brands	Therapeutic Area	FY2005	FY2004	% Growth
1	Phensedyl	Cough & cold	1,428.4	1,379.6	3.5
2	Stemetil	Anti-emetic	228.5	214.8	6.4
3	Saridon	Analgesic	194.4	229.1	(15.1)
4	Phenergan	Anti-allergic	182.7	171.0	6.9
5	Gardenal	Anti-epileptic	171.4	165.5	3.5
6	Sorbitrate	CVS	155.9	106.4	46.5
7	Paraxin	Anti-infective	155.2	187.8	(17.4)
8	Strepsils	Cough & cold	154.8	214.6	(27.8)
9	Haemaccel	Plasma volume expander	148.6	216.1	(31.2)
10	Tixylix	Cough & cold	142.0	154.7	(8.2)
	Total Sales from Top-10 Brands		2,961.8	3,039.5	(2.6)
	Domestic Branded Formulations Sales – total		9,532.1	9,850.7	(3.2)
	Top-10 as %age to Total Domestic Formulations		**31.1**	**30.9**	—

Brands portfolio expansion:

New Products launch:
Nicholas Piramal launched a total of 36 new products (including extensions) during FY2005.

In-licensing agreements:
Nicholas Piramal's in-licensing efforts gained momentum during FY2005. We entered into the following in-licensing alliances during the year.

No.	Company	In-licensing particulars
1	Laboratories Pierre Fabre, France	Dermo-cosmetics, Dermatology products
2	Genzyme Corporation, USA	Synvisc Viscous supplementation
3	Ethypharm, France	Paracetamol Flash Tabs technology

The strategic alliance with Laboratories Pierre Fabre is for marketing of Dukray & Aderma range of products such as *Exomega* and *Kertyol-S*. These products add to the Dermatology products of Nicholas Piramal's Glotek Division.

On the other hand, *Synvisc* from Genzyme is a therapy for the local treatment of pain associated with Osteoarthritis of the knee. It offers superior relief due to higher molecular weight of 6 million Daltons. *Synvisc* is marketed by two large divisions of NPIL that also address the Ortho segment; namely, the Multi-Specialty and Specialty Divisions.

The in-licensing agreement with Ethypharm provides NPIL technology for producing dispersible, flash Paracetamol tablets for paediatric pain and fever indications.

DPCO:
Products under the Drug Price Control Order (DPCO) contributed 11.6% of domestic branded formulations sales in FY2005, against 14.9% in FY2004.

Field Force (standalone) :

Nicholas' Formulations field force of 3,001 personnel is one of the largest in the Indian Pharmaceutical industry. We believe our investment in field force is one of our key strengths. Our vast yet specialized field presence also adds to our in-licensing attractiveness. Nicholas Piramal now has a total of 12 Divisions, out of which 8 focus on specific therapies.

The sharper therapy-wise focus has enabled us to attain high coverage in specialty doctor segments. Our Multi-specialty Divisions, meanwhile, focus on General Practitioners and build mass consumption brands and primary care products.

No.	Formulations Divisions	TA Focus	FY2005	FY2004
I.	**Multi-specialty & Institutional**			
1	Multi-Specialty	General Medicine/Orthopaedic	567	613
2	Actis	Respiratory/Paediatrics	601	611
3	Ethical (from SPPL)	General Medicine	383	397
4	Specialty (from SPPL)	General Medicine/Pain management	278	298
	SUB-TOTAL		**1,829**	**1,919**
II.	**Dedicated**			
5	Cardex	Cardiovascular	214	386
6	Cadence	Cardiovascular	178	—
7	Extra Care	Diabetology	232	516
8	Cognex	Neuro-Psychiatry	265	—
9	Zeeta	Neutraceuticals	37	—
10	Glotek	Dermatology/Gynaecology	138	148
11	Biotek	Nephrology/Oncology	24	36
12	Carex	Critical Care/Anaesthesiology	84	69
	SUB-TOTAL		**1,172**	**1,155**
	TOTAL		**3,001**	**3,074**

Note : The above field force numbers are standalone Nicholas Piramal. Cadence is created out of Cardex w.e.f. 01 April 2004. Cognex is created out of Extra Care w.e.f. 01 April 2004. CNS Division of Sarabhai Piramal was merged with Cognex w.e.f. 01 April 2004.

NPIL has a tertiary field layer of three Franchisee Divisions: Zivon (335 persons), Akshay (99 persons), which market older brands to General Practitioners in semi-urban and rural areas; and Vistaar (22 persons) that does retail order booking for big brands. The combined strength of the three Divisions is 456 persons.

Custom Manufacturing Business Group and Exports

In the Exports market, Nicholas Piramal has taken a conscious decision not to be present in early-to-market generics. We plan to grow our Exports by entering into long-term custom manufacturing agreements with innovator companies. We believe this business is poised to become the key growth driver of our Company.

Nicholas Piramal is the only company among major Indian Pharmaceuticals companies that does not operate in the early-to-market generics market. Our Company has a track record of respecting and protecting intellectual property of global innovator companies. Within custom manufacturing-focused companies, we differentiate ourselves with our bench strength, ability to make significant project investments, and an end-to-end product offering:

Custom chemical synthesis → **Intermediates** → **Bulk/APIs** → **Finished Dosage**

New Custom Manufacturing agreements:
Nicholas Piramal secured two additional custom manufacturing agreements during the year.

Agreement with a Fortune-500 Company:
The first agreement is for the manufacture and supply from India of various pharmaceutical products for sale in the US market; to a leading pharmaceuticals company ranking among the Fortune 500 companies.

The agreement is for an initial period of 5 years renewable thereafter for an additional period of 3 years. On expiry of the renewed period of 3 years, the agreement may be renewed on a year-to-year basis.

Under the terms of the Custom Manufacturing Agreement, Nicholas Piramal will initially supply a select group of pharmaceutical products, which is expected to expand over the length of the agreement.

The pharmaceutical products will be manufactured at the Company's existing facilities at Pithampur, Madhya Pradesh, India.

Agreement with Allergan Inc., USA

The second agreement is with Allergan, Inc., USA for the manufacture of two high-value, Anti-Glaucoma APIs. NPIL will cater to Allergan's worldwide requirements of Levobunolol (used in *Betagan* formulations) and Brimonidine (used in *Alphagan* and *Alphagan-P* formulations). Allergan's Sales from the mentioned formulations are about US$ 300 million/year. This agreement is till October 2011.

Facilities are ready and Nicholas Piramal has received USFDA approval for both Levobunolol and Brimonidine.

NPIL has bought-out this contract from Alpex International Private Limited including all fixed assets, agreement rights, and process IPR for a consideration of Rs 133 million, based on the valuation reports of KPMG and Dalal Mott McDonald.

These agreements are consistent with Nicholas Piramal's investment and profitability benchmarks for its custom manufacturing business.

With these agreements, Nicholas Piramal now has three Custom Manufacturing agreements, including the agreement with Advanced Medical Optics, Inc., USA ("AMO"). NPIL's 100% subsidiary in the USA – NPIL Pharma Inc., has commenced operations and now serves as the front-end in the custom manufacturing business development process.

Consolidated Exports : current operations

Exports Sales do not yet include any Custom Manufacturing turnover.

Current Export Sales consist of niche late-to-market generic API sales to European regulated markets, and to some unregulated markets. Consolidated API business registered FY2005 Net Sales of Rs. 962.9 million, of which Exports were Rs. 889.6 million.

The current API portfolio consists of Diltiazem, Ketoconazole and Verapamil Hydrochloride.

NPIL also exports select formulations such as Halothane and blood plasma expanders. Consolidated formulations exports were Rs. 303.3 million in FY2005, as compared with Sales of Rs. 296.2 million in FY2004. The FY2005 consolidated formulations exports include Rs. 93.3 million from inhalation anaesthetics business of Rhodia acquired in January 2005.

Total Consolidated Exports were Rs. 1,626.4 million, which was a growth of 31.8% over FY2004 Exports of Rs. 1,233.9 million.

Vitamins and Fine Chemicals

The Vitamins and Fine Chemicals Division (VFCD) has been focusing on selling more in the Exports market and in Human Nutrition & Health segment in the domestic market. These segments demand higher quality, and therefore, are not adversely affected by cheap, lower-quality supplies. Today, nearly a third of VFCD sales come from Exports.

During the review period, Net Sales were Rs. 943.9 million, as compared with FY2004 Sales of Rs. 768.1 million, representing a growth in sales of 22.9%.

Domestic market Net Sales were Rs. 653.3 million, compared with Rs. 642.9 million in FY2004. This represented a growth of 1.6%. However, Exports during FY2005 jumped to Rs. 290.6 million, compared with Rs. 125.2 million in FY2004, a growth of 132.1%. VFCD's global marketing team has 5 members.

Diagnostics business

A majority of our Diagnostics business turnover has, up till now, come from exclusive distribution of certain Roche Diagnostics products. These rights were got when our Company acquired the Indian operations of Boehringer Mannheim in India, in 1997. The exclusive distribution rights were for an initial period of 10 years up till 2007, and were renewable thereafter.

The Net Sales generated from distribution of Roche Diagnostics products in FY2004 were Rs. 728.3 million, out of the total Diagnostics business Net Sales of Rs. 776.1 million. The remaining Net Sales of Rs. 47.8 million in FY2004 were from non-Roche Diagnostics products.

The Diagnostics business has performed well over the years, and has given NPIL leadership status in marketing and distribution of Diagnostics products in the country. However, this business is different than the core domestic formulations business. Diagnostics distribution meant that NPIL was not growing its own franchise for a continuing revenue stream. Also, by the nature of the activity, this business was less profitable than the domestic formulations business.

In keeping with its aim of focusing on core operations and higher-profitability revenue-mix, Nicholas Piramal agreed with Roche Diagnostics Gmbh, Germany - in October 2004 - to return the distribution business of these products in India back to Roche Diagnostics for a consideration of US$ 22 million.

Operations review:

Due to the mentioned material development, Diagnostics Net Sales were lower in FY2005 at Rs. 357.0 million compared to Rs. 776.1 million in FY2004. Of this, Rs.235.2 million were from Roche Diagnostics products (FY2004: Rs. 728.3 million).

Research & Development program

During the year, Nicholas Piramal commissioned its new 200,000 sq. ft. R&D center at Goregaon, Mumbai, which is one of the largest, single-site Pharmaceuticals R&D Center in the country. The Center was inaugurated by His Excellency The President of India, Dr. A. P. J. Abdul Kalam.

The new R&D Center has a capacity to house 400 scientists and is equipped with state-of-the-art instrumentation, laboratories and pilot plants to carry out new drug discovery, novel drug delivery technology, formulation activities and API process development.

Our R&D division currently employs 275 people and is engaged in long-term exploratory and basic research programs in chemistry, biology and natural product chemistry dedicated to product development.

The current R&D pipeline is related to medical needs in cancer, diabetes and inflammation. Our lead oncology molecule, P276-00, has recently moved to Phase-I clinical trials. The back up compound, P664-02, is in pre-clinical stage.

In diabetes, early-stage non-PPAR compounds have been identified. In Inflammation research, we are working on small molecular weight inhibitors to block the secretion of TNFα, a protein implicated in the destruction of joints of patients suffering from rheumatoid arthritis.

Nicholas Piramal plans to augment its research portfolio with an in-licensing strategy and collaboration with academic institutions in India and abroad. We have alliances with Indian Institute of Science, Bangalore, RRL, Jammu, and Anna University in Chennai for discovering new targets to treat fungal diseases, novel immunomodulators, and new drugs to treat cancer and diabetes.

NPIL has also initiated a program in New Drug Delivery Systems (NDDS). Here, we are exploring the possibility of developing a proprietary technology to deliver drugs.

Human Resources

Nicholas Piramal aims to recruit and retain quality professionals and provide them with a high performance environment. The Company follows a detailed performance management system. Employees are rewarded with performance-linked variable pay and stock options.

During the period under review, total manpower marginally increased to 5,989 from 5,880 in FY2004, while aggregate field force (formulations + other businesses) decreased to 3,165 from 3,279. R&D team size increased to 275 from 255.

No.	Function	FY2005	FY2004	+/(–)
Total manpower		5,989	5,880	109
a.	Field staff	3,165	3,279	(114)
b.	R&D staff	275	255	20
c.	Others	2,549	2,346	203