The Neuland Way all the way

Internalize. Believe. Practice.

27th

Annual Report 2011

Neuland Laboratories Limited

Contents

27th
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2011

Neuland is about …

People working together with values that are best highlighted by their customer centricity, reliability, accountability, ownership, openness and transparency.

People striving hard to make the Company the first choice of customers in the pharmaceutical industry across the world.

People who translate complex chemistry into effective products.

People who make things happen the ethical, quality conscious way, to make Neuland a value based company.

People doing their best to make a difference to the lives of consumers.

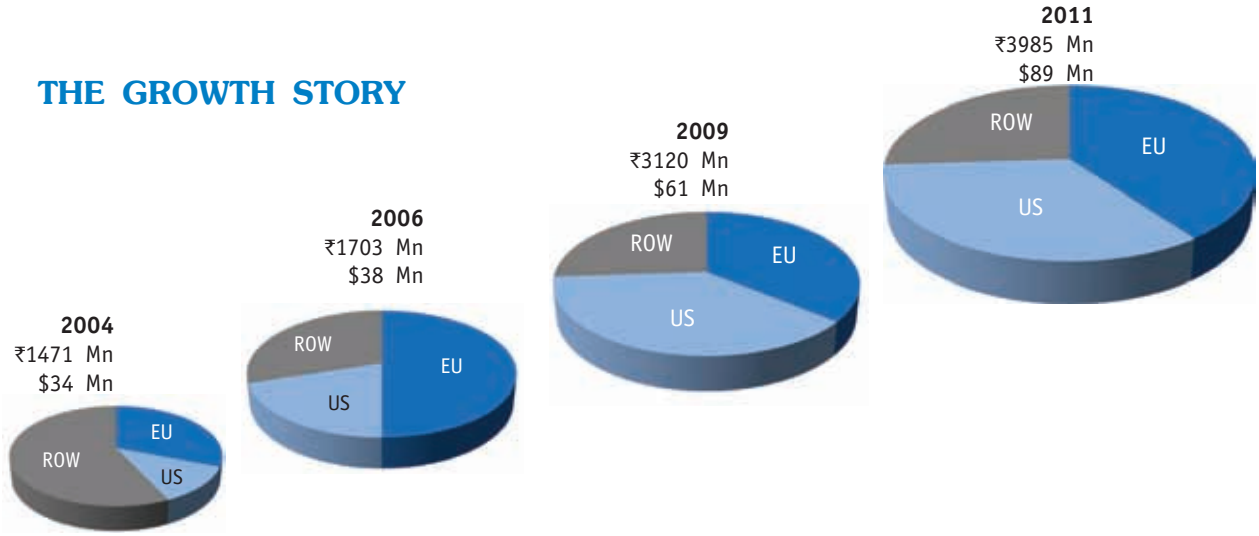
This is the Neuland Way. All the way.

Our DNA

The spirit of research and professionalism pervades Neuland's corporate culture. From inception, Neuland has strived to offer the best in quality to customers in the pharmaceutical industry backed by its manufacturing capabilities and competence to deal with complex chemistry. Neuland will continue to differentiate itself by offering products and services that are not only superior in quality but also reliable.

Neuland today supports some of the successful companies in the pharmaceutical industry, both in research and manufacturing. The core strategy of Neuland is never to compete with its customers. In doing so, the Company focuses purely on a service provider model, whether in manufacture of active pharmaceutical ingredients (APIs), contract research or contract manufacturing services. As a result of this strategy, the Company's customers are never in a situation where they find themselves competing with Neuland, either in the drug development space or in the generics space.

THE GROWTH STORY



1984	1986	1994	1997	1999	2003
Neuland Laboratories incorporated in Hyderabad	Made first sale of salbutamol sulphate/ albuterol sulfate	Went public with an IPO; Raised capital for construction of second production facility (Unit-2 at Pashamylaram)	Received first US FDA approval	Both manufacturing facilities inspected by US FDA. Received Certificate of Suitability for Ranitidine	US and EU markets contribute over 40% of Neuland's sales

KEY PRODUCTS

Top ten products of the Company are

Ciprofloxacin

Ranitidine

Mirtazapine

Enalapril Maleate

Ramipril

Sotalol HCI

Olanzapine

Levetiracetam

Levofloxacin Hemihydrate

Salmeterol xinafoate

THERAPEUTIC SEGMENTS

Neuland operates in the following therapeutic segments:

Anti-Asthmatic

Anti-Infective

Cardiovascular

Central Nervous System

- Anti-Depressants
- Anti-Parkinsons
- Anti-Alzheimer's

Anti-Ulcerants

Anti-Fungals

Fluoroquinolones

Anti-Diabetic

CUSTOMER PROFILE

The key customers include some of the largest pharmaceutical manufacturers in the world, from countries such as the USA, Canada France, Israel and India. Over 81% of the sales of the company are to export markets, with a majority to American & European markets.

North America accounts for 34% and Europe accounts for 40% of the overall sales. Top 7 customer groups account for 58% of sales and average relationship of these customers is over 15 years.

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.

2004	2006	2007	2008	2009	2010
Established North American operations	Nine products with Certificate of Suitability; US office started operations from California	Established Japanese subsidiary in Tokyo; Unit-2 inspected by German Health Authority	Certified in ISMS. SAP enabled Business Processes; Unit-1 inspected by US FDA; Unit-1 Certified for ISO 14001 and OHSAS 18001	Units 1 & 2 receive approval from PMDA, Japan	Unit-2 certified for ISO 14001:2004 & OHSAS 18001:2007; Exclusive peptide collaboration with Genzyme Corporation

CORPORATE FACT SHEET

- ✓ 27 years of successful presence in the pharmaceutical industry.
- ✓ Focused on manufacture of APIs, contract research and contract manufacturing.
- ✓ US FDA, TGA, EDQM, PMDA, German Health Authority, ISO 14001, ISO 27001 and OHSAS 18001 Certified.
- ✓ Over 400 DMFs worldwide; with a presence in over 85 countries.
- ✓ 40,000 sq. ft. state-of-the-art R&D facility at Hyderabad.
- ✓ Over the past three years Neuland invested ₹1,464 million in capital expenditure, of which ₹338 million in R&D and ₹1,126 million in manufacturing facilities.
- ✓ As at March 31, 2011 on roll 977 employees.
- ✓ 176 scientists working in R&D including 22 PhDs.
- ✓ Shares listed on the Bombay Stock Exchange and National Stock Exchange.

MANUFACTURING FACILITIES

Unit 1

- Inspected by US FDA in 1997, 2004, 2008 and 2010.
- Inspected by EDQM in 2005.
- TGA-GMP and WHO GMP Certification.
- ISO 9001:2000, ISO 14001 and OSHAS 18001 certified.
- Unit-I is a versatile high value production facility and consists of reaction vessels that range between 20 litres through 5,000 litres.
- Capable of handling broad spectrum of reactions and wide range of process parameters.
- Six production blocks covering 3,600 Sq. Mts.
- Total reactor volume 151,000 litres.
- Product line includes anti-asthmatics, cardiovasculars, anti-bacterial, CNS, fluoroquinolones, corticosteroids, anti-diabetic, anti-parkinsons, anti-alzheimers and anti-fungal.
- Robust EHS policy in place with regular drills for fire fighting and training for use of personal protective equipment (PPE). Use of HAZOP (Hazards and Operability), regular internal audits, EHS impact study as part of change control forms the core of the EHS system.

Unit 2

- Inspected by US FDA in 1999, 2002 and 2005.
- Inspected by ANVISA (Brazil)
- TGA-GMP and WHO GMP Certification.
- Received GMP certificate from German Health Authority in June 2007.
- High volume facility with dedicated production blocks for range of products.
- Product line includes fluoroquinolones, anti-parkinsons and anti-ulcerants.
- Three production blocks covering 2,810 Sq. Mts.
- Total reactor volume of 310,200 Litres.
- Large reactor size of 5,000 Litres (MSGLR).
- New state-of-the-art pilot plant in compliance with GMP with two production lines.
- Robust EHS policy in place with regular drills for fire fighting and training for use of personal protective equipment (PPE). Use of HAZOP (Hazards and Operability), regular internal audits, EHS impact study as part of change control, forms the core of the EHS System.

Towards sustained growth

From the Desk of the Chairman & Managing Director

We had a very robust year in terms of overall increase in revenues as well as volumes and number of products introduced into the market. However, the bottom line could not keep up with the other performance parameters. Volume produced was stepped up to 1290.9 MT, an increase of 43.3% over 900.8 MT achieved in the previous year. Significantly, the operating profit margin was increased during the year to 12.5% from 10% earned in the previous year. Revenues rose by 41.7% at ₹3985.41 million from ₹2812.53 million and we achieved profit after tax of ₹50.69 million as against loss of ₹70.45 million in the earlier year.

This performance reflects the benefit of being agile and adapting our plans to better utilize our facilities, the ability to scale up volumes of our key products and more important, the strength of our relationship with our customers.

There was significant increase in the volumes and market share of two of our key products. We have become global leaders for both these active pharmaceutical ingredients. We have also launched two niche products that are making an impact on our bottom line. Today, we have 60 products on offer to our customers, with several either gaining volumes or are high value products contributing to our margin expansion.

Consequent to the stress witnessed in 2009-10, we revisited our business plan as well as systems and processes in a bid to derisk the Company from the pressures of the market. While a few lessons were learnt, we are now more than assured that our time tested strategies are working well. We are convinced that for achieving above average industry growth, we need to stay centered on three key priorities:

- ✓ Strengthen our pipeline of new active pharmaceutical ingredients from our state-of-the-art research facility;
- ✓ Explore the global market for delivering the full potential of our scaled up product basket through rigorous quality control and excellent customer support;
- ✓ Challenge our cost structure at the research center, in sourcing of materials, as well as in the production process.

Each of these priorities was tested successfully. Impetus was given to these priorities by focusing on three core drivers of success: products, people and processes. We managed to increase volumes with existing customers, sought new customers and geographies for existing products, while ensuring that we have a continuous pipeline of in-demand products. We have energized our research function with motivated leadership, enhanced R&D productivity and are confident of commercializing larger number of new products in 2011-12.

We have also invested in the continued commitment and energy of our people and we shall provide the leadership and encouragement they need to deliver to their potential. We did a detailed study of the demonstrated values within the organization such as customer centricity, reliability, accountability, ownership openness and transparency. These were identified as fundamental facets of the Neuland Way and have now become a way of life across the organization. The employees are conscious of these values and have internalized them to bring a difference to the way Neuland operates in a crowded market.

Performance standards were enhanced especially by reducing raw material costs, adding newer sources of supplies, optimizing process efficiencies, raising productivity on the shop floor and carefully trimming overheads. We had to make the improvements and hit the ground running.

Looking ahead, our active pharmaceutical ingredients business will be stepped up year after year with newer products, rising volumes and increasing margins. Our entry into contract manufacture will accelerate our growth and supplement value addition. We are working towards significant contribution in both revenues and bottom line and with our known strengths are looking forward to rapid strides in this business.

In the past year, we did considerable development work on our foray into synthesis of peptides. We commercialized new products and have launched generic peptides. We see potential for value addition and a steady growth in the foreseeable future. In fact, we are giving it the necessary impetus to make the business a powerful engine for our future growth.

I am confident that with capable stewardship, clear direction and a sense of urgency in our operations, we at Neuland will have a sound platform to maintain momentum. We are working towards sustained, profitable and responsibly managed growth. Our stakeholders, in particular our customers and investors, will stand protected as the Company climbs the staircase of growth.

Warm regards

Interview with CEO

Getting ahead of the curve

Q. *How did Neuland overcome the challenges of the previous year?*

A. We did well in the year as a whole, despite pressures in the first quarter. You will recall, we had reported a loss in the previous financial year since the capacity expansion could not be fully utilized. This was compounded by margin pressures due to headwinds in a stressed global market. This trend continued into the first quarter of the financial year 2010-11. As a result, we also had to cope with working capital pressures.

In the first quarter of 2010-11, we experienced raw material price escalation which added to our challenges. As far as possible, we were keen that we did not pass on the increased costs to our customers, since we believe that temporary pressures need to be held by us and we must make it easier for our customers to compete in their markets. All these impacted our first quarter results and we reported a loss of ₹47.65 million.

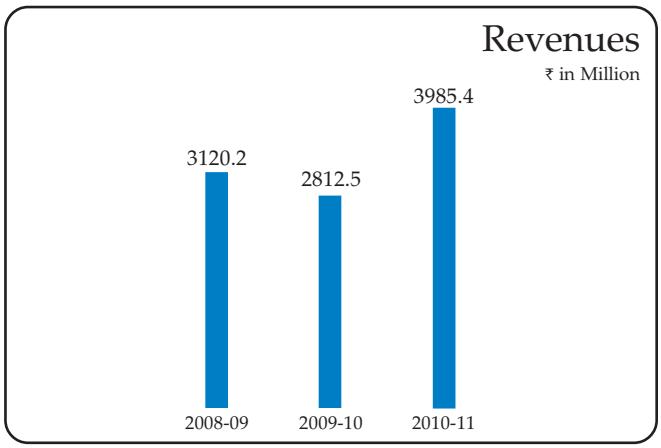
Team Neuland responded with a sense of urgency to the situation and the additional capacity created was marketed with considerable success. Capacity utilization has improved and with higher deliveries, we have become global leaders in two of our key products.

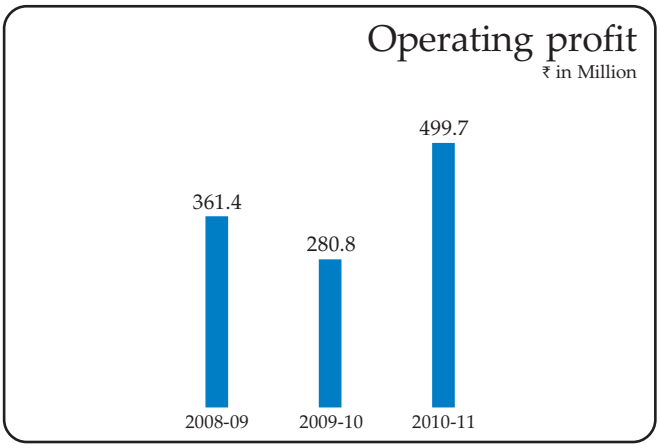
We also stepped up marketing of high value products and expanded into newer territories. Almost immediately, in second quarter itself, we witnessed good order flow and reported profits in each of the three successive quarters from July 2010 to March 2011. The cumulative profits in the three successive quarters totaled ₹98.34 million.

Q. *What was the learning for the future?*

A. Stay focused on cash flow. We minimized operational costs and maximized cash flow through effective working capital management and reduced capital expenditure. We have seized available opportunities to improve our processes and lean out our cost structure. We sharpened our manufacturing efficiencies and have cutting edge operational excellence.

We stopped what we thought was not really critical almost immediately. We became more selective, and focused on investing only where we saw sustainable





long-term returns. Some areas of our organization were tasked with cutting their spending while others were asked to cut almost nothing at all, because we see them as central to our future. I believe our results for 2010-11 show that these were the right actions at the right time.

Q. *How will these impact your operations?*

A. The cost structure is clearly lower. We have taken significant costs out of the system. As a result, the increase in operational costs were only 7% while the revenues increased by 41%.

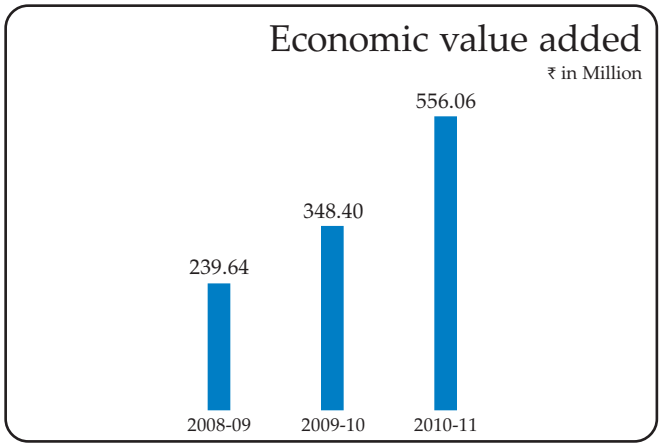
As an organization, Neuland became even more customer centric and our systems, processes and SOPs more consistent and fault free. We have become cost conscious and would strive to become the lowest cost producer of top-quality active pharmaceutical ingredients. The gains will be both to our customers and to Neuland's stakeholders.

We have also derisked the business by increasing the size of the R&D pipeline and also reducing over dependance on certain products and markets. We have experienced volume growth across all our key products, during the year. We ensured that global leadership is maintained for our key products which would increase the certainty of revenues and newer niche high-value products will supplement our marketing thrust in a less crowded market.

We are better equipped now to building our future even in a tough operating environment.

Q. *Were there any other gains?*

A. It was a stress test of Neuland and our people have shown resilience and fortitude. They have been willing to go through tough times, more so than I had ever expected. Our people are further improving

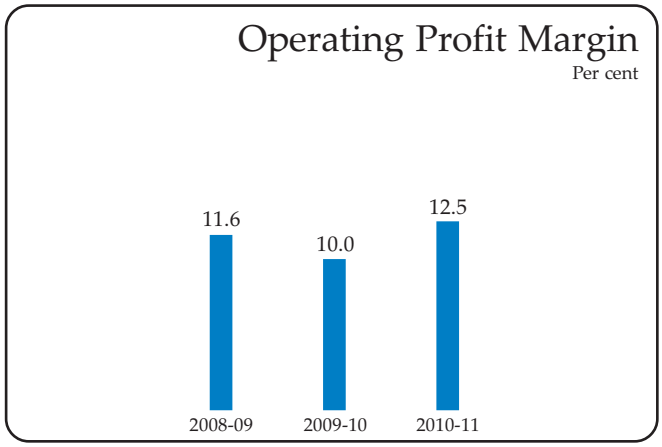


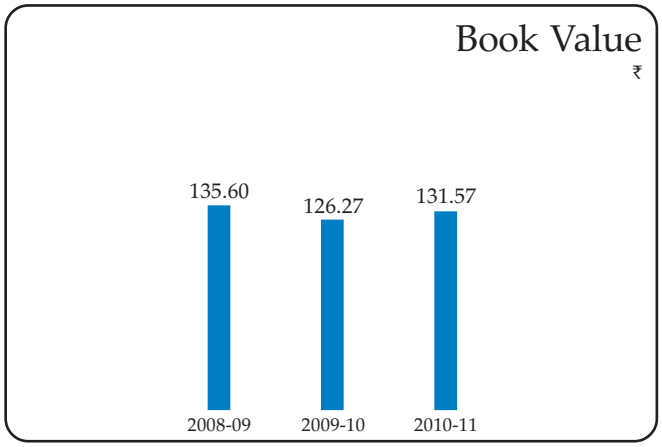
productivity, quality, cost and customer service. Our speed in responding to challenges and execution is one of our competitive strengths, and I want us to maintain and even increase that pace. We have to stay ahead of the curve.

We have brought more accountability and our response level to market and customers is sharper. The priority of our people is to serve the customers better than the competition. We believe that we are working for a better future, even if we do not see the full impact as yet. It's a team that is building a sustainable long-term future.

Q. *What impact will you make in the future?*

A. We are looking forward to business year 2011-12 with confidence. The decisions taken in the past two years laid the groundwork for Neuland to continue to maintain the traction. For us growth is not only about volume sold and higher revenues, it is also about quality and sustainability. It is also about better customer service, intensive research and development and expansion of our product pipeline. We not only want to benchmark ourselves with the best in our industry, but to develop ourselves further, as well.





R&D setting a new benchmark for reliability

Neuland's R&D Centre with its state-of-the-art facilities has metamorphosed into a vital component of our business strategy by providing a sustainable and competitive advantage to the Company. With dedicated scientific teams spearheading the development of active pharmaceutical ingredients (APIs), pharmaceutical intermediates and other technology intensive projects, our R&D Center continues to cater to a wide range of customer needs from early stages of drug discovery to the product launch.

The Company specifically aligns its R&D with market requirements. Emphasis is placed on enhancing existing applications and optimizing manufacturing methods and processes. During the past one year, R&D was focused not only on the development of non-infringing, patentable processes for APIs across various drug classes, but also improving the existing processes by exploring novel chemistry to reduce the process costs and cycle times. The emphasis was on setting a new benchmark for quality and reliability.

Scientists in discussion at R&D Centre

Our expertise in conducting pioneering research and handling complex chemistry in accordance with regulatory guidelines has led to the creation of intellectual property (5 Indian patents) and commercialization of a number of products including development of new processes. During the year, we scaled up 7 new products. In addition, our in-house R&D developed scalable and economically viable processes which facilitated smooth transition of 11 APIs from lab to various stages of process validation at the plant level.

Our strategy to work continuously towards process improvement is paying off by sustaining the price erosions in the generic markets and also in customer retention. Our R&D team successfully completed over 30 contract research projects ranging from exploration of complex chemistry, synthesis of milligram quantities, cGMP campaigns and scaling-up to multi-kilogram levels. These services also included collaboration with top pharma companies and providing technical support to innovator companies for addressing regulatory queries.

Neuland invests significant resources in developing a robust pipeline of products. During the year, the R&D team identified 10 new products for development, across various therapeutic categories and drug classes including Iron chelators, Kinase inhibitors and anti-rheumatic agents.

Our policy of effective quality management through regular reviews and continual improvement has resulted in the successful completion of inspections/ audits by regulatory agencies (US FDA, TGA, EDQM, German Health Authority, BfArM, PMDA, KFDA, ANVISA) as well as innovator companies. Indeed, over the years, the R&D Center has built enormous strengths and capabilities which can be briefly iterated as follows:

- ✓ Expertise in conducting pioneering research for the development of novel, non-infringing, cost-effective and environment friendly processes to manufacture APIs;
- ✓ Experience in handling complex chemistry involved in the development of chiral compounds and polymorphs;
- ✓ Capability in providing complete analytical support in terms of analytical validations, determination of polymorphs, stability studies etc.;
- ✓ Proficiency in handling asymmetric reduction, organo-metallic reactions, optical resolution, catalytic hydrogenation, and very low temperature reactions (-40^{0}C);
- ✓ Periodic up gradation to meet the quality needs of the customers and strict adherence to regulatory guidelines and compliance;
- ✓ Competence in undertaking customer specific and exclusive contract research and process development for manufacture of active ingredients for innovator companies;
- ✓ Know-how in scaling up from gram-scale to multi-ton scale;
- ✓ Ability to sustain the price erosions in the generic markets by continuous process improvements and cost reduction in the manufacturing of APIs;
- ✓ Creation of intellectual property;
- ✓ Possession of necessary skill sets and infrastructure to create a niche in the growing peptide segment.

R&D Spend

₹ in Million

Capital	Revenue	
16.31	102.45	2010-11
17.61	100.27	2009-10
120.24	86.48	2008-09

Peptides adding to competitive strength

Neuland's foray into peptides has presented one more opportunity to build relationship with the customers. Our teams are lead by scientists educated and trained at premier universities and pharmaceutical companies in USA, Europe and India and their expertise includes process development and cGMP production of peptides using solid phase, solution phase, and hybrid segment condensation strategies. Our services include production of peptides from grams to multi-kilograms by standard chemical peptide syntheses.

The experienced and knowledgeable scientists of the peptides team have been working closely and with a full understanding of the customer's needs, have been executing the custom peptide synthesis services. Our value-for-money synthetic peptides are finding increasing use as therapeutics, diagnostics, antibody production, and as tools for unraveling biological processes.

Neuland's foray in to synthetic peptide realm has been distinguished by several milestones, a few of which are described below:

a. Neuland's Peptide Group successfully developed and produced 28 Fluorenylmethyloxycarbonyl (Fmoc)-pseudoproline dipeptide building blocks in kilogram quantities. These building blocks are known to make complex peptide syntheses facile because of their disruptive influence on the intramolecular hydrogen bonds of the growing peptide chain. The best in class high purity (>99%) was one of the drivers in forging a collaboration with Corden Pharma (previously known as Genzyme Pharmaceuticals, Switzerland) that resulted in a revenue to Neuland of about ₹15 million.

Working on peptides

b. This achievement (ability to produce pseudoproline building blocks on commercial scale) also helped in the procurement of funding from Department of Scientific and Industrial Research, Government of India (DSIR) of ₹25 million for scale up of technology for generic peptide APIs.

c. Neuland has produced, using its proprietary technology, a laboratory sample of generic peptide APIs for the treatment of prostate cancer that conforms to USP and EP pharmacopeia standards. Pilot plant validation batches are expected to be completed in the second half 2011-12.

d. The in-house team currently produces about 90 high value building blocks encompassing 28 pseudoprolines, 32 isoacyl dipeptides, several dimethoxybenzyl (Dmb)-amino acids and dipeptides, Fmoc-(Fmoc-Hmb)-amino acids (Hmb is an abbreviation for hydroxymethylbenzyl), and side chain modified Fmoc-Lysine derivatives. The plans are to increase this offering to include 20-Fmoc-N-Methyl amino acids during this year.

e. Sales of USP and EP grade generic peptide APIs are expected to be made in the second half of 2011-12, to both the domestic and international customers.

Minimizing environmental impact

We value our employees and the environment. They are precious and are non-negotiable aspects of our business. Both our API manufacturing facilities are certified for ISO 14001:2004 as well as for OHSAS 18001:2007 standards. These certifications demonstrate our commitment and care towards safety, health and environment.

On a day-to-day basis, we are committed to providing high quality, cost-effective support services to internal and external customers in industrial hygiene and safety. Services are designed to assist managers in providing a safe and healthy working environment for employees.

One major factor that guides our strategy is the rational use of natural resources and investments in state-of-the-art technology in order to minimize environmental impact from our manufacturing activities. Priorities in our sustainability model include biodiversity preservation, reduced use of water resources, and the reuse and recycling of inherent elements in our manufacturing process.

We at Neuland recognize that water management is important in our efforts to conserve natural resources. We are committed to managing water in an environmentally sound and socially responsible manner. We assess, measure and monitor our fresh water usage and manage our consumption and strive to reduce any potential impact to the environment from waste water disposal. In effect, the more careful we are in fresh water use, the fewer loads we have for disposal of effluents.

We continue to invest heavily in effluent treatment facilities and spend in excess of 4% of our revenues on waste reduction and treatment. We are striving to achieve zero discharge of effluents. Suspended particulate matter is well within the statutory requirements as well as our own tight norms. Both these are being accomplished with conscious reduction in waste and by training the people handling materials and hazardous wastes.

We use a multi effect evaporator that treats effluents by utilizing steam and vacuum generated in our units.

Most of our actions are preventive in nature. For instance, safety release valves, rupture discs and automated systems form part of the systemic improvements incorporated to minimize the possibility of accidents. Training of employees and contract workers to elevate their awareness is a major cause of continual improvement in securing injury free operations, better health and safety standards.

We had our systems reviewed by a reputed consultant for industrial hygiene. Their report has helped us to further fine-tune the procedures, adopt appropriate corrective action and supplement our efforts in preventing ill health of employees. Our efforts are to help protect human health within our boundaries and in the surrounding communities by conducting Hazards and Operability (HAZOP) studies, risk assessment, identifying unacceptable risks and bringing them within acceptable norms.

Going forward, we shall stay focused on further reduction in emission, both in effluents and in the ambience, maintain zero injury and accident record and with proper monitoring, help maintain employee health and ecological footprint.

Manufacturing in a green environment

Being effective and value based

Customer Centricity, Reliability, Accountability, Ownership, Openness & Transparency are the values that the Neuland employees demonstrate. These were the findings of a companywide culture audit undertaken to identify the core values of all employees. The values were compiled, collated and distilled out by discussing with the employees across all levels and with the senior management team. In order to have a comprehensive 360^0 view, the values and their awareness were shared across all the employees.

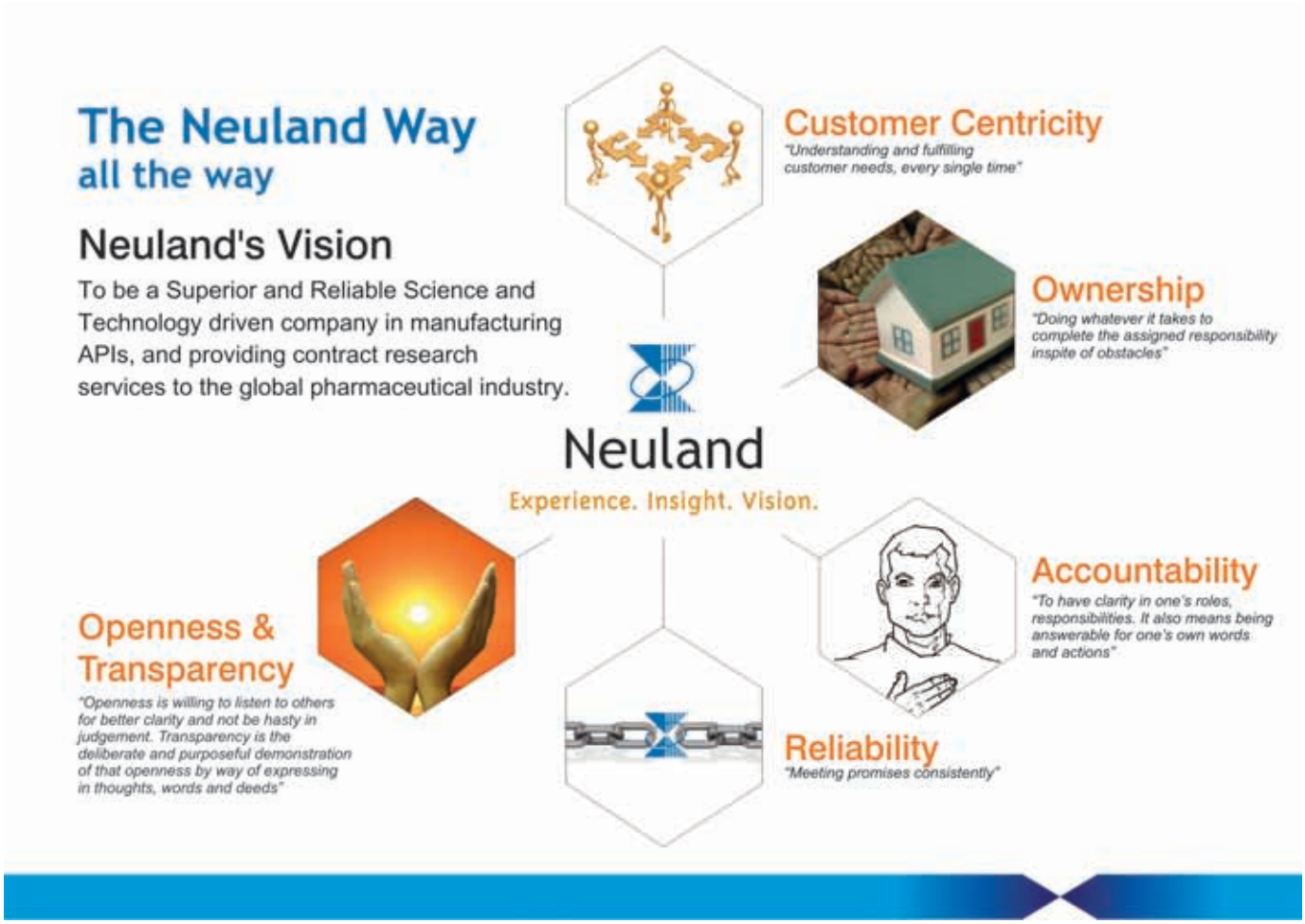
The values were defined in an effort to make these a way of life and an expression of Neuland's approach to business with all stakeholders. Each of the value was defined to ensure clarity and a common understanding across all employees. A brief description of the values in practice within the Company is given below:

CUSTOMER CENTRICITY has been defined by the employees as '***Understanding and fulfilling customer needs, every single time.***' Seen in perspective, the Neuland team strives to understand the needs of the customer; be clear on what actions need to be taken to satisfy the customer; be willing to take the extra step to satisfy the customer; and, be certain that the actions taken create a win-win situation for the customers, Neuland and its employees.

CMD addressing a working group on the Neuland way

RELIABILITY was also defined. It stands for '***Meeting promises consistently.***' The employees at Neuland ensure that they are truthful; are willing to go into the depths of issues and resolve them and move forward as fast as possible; meet promises and commitments that are made; and, adhere to all applicable compliance guidelines without compromise.

ACCOUNTABILITY within Neuland is to '***have clarity in one's roles and responsibilities. It also means being answerable for one's own words and actions.***' Our people know that they are accountable when there is clarity on what others expect from them and also know what they expect from others. In effect, they have clarity on how they affect the environment and similarly how the environment affects them. Therefore, they take action in tune with expectations.



OWNERSHIP is recognized as '***doing whatever it takes to complete the assigned responsibility in spite of obstacles.***' Our employees demonstrate ownership by not losing any time in taking initiative; are willing to seek and give timely support to resolve issues; and, are willing to go beyond their roles and responsibilities to do what is best for Neuland without a compromise.

OPENNESS & TRANSPARENCY was clearly spelt out. '***Openness is willing to listen to others for better clarity and not be hasty in judgement. Transparency is the deliberate and purposeful demonstration of that openness by expressing them in thoughts, words and deeds.***' It is accomplished when the employees share their thoughts, ideas and assumptions; attentively listen to others when they are communicating and fearlessly reciprocate their own thoughts and ideas in an effective and constructive manner.

The values have been commonly understood and have brought about heightened effectiveness and clarity. The findings also highlighted that Neuland is strong, ethical, quality conscious, a value based company and sensitive to the environment.

In such a backdrop, we are engaging our work force in continuous process initiatives, fine tuning our procurement and information technology functions, optimizing production, reducing costs and minimizing waste in our endeavor to become faster, leaner and more efficient across the Company. We are therefore increasingly confident that we are on track to deliver the kind of overall performance that our customers want.

Abridged Financials in US$

BALANCE SHEET AS AT MARCH 31, 2011

Conversion rate 1 US$ = ₹44.70

US$ Million

	March 31, 2011	March 31, 2010
SOURCES OF FUNDS		
SHAREHOLDERS' FUNDS		
Share Capital	**1.22**	1.22
Reserves & Surplus	**15.14**	14.02
	16.36	15.24
LOAN FUNDS		
Secured Loans	**51.36**	52.17
Unsecured Loans	**0.93**	–
	52.29	52.17
TOTAL FUNDS	**68.65**	67.41
APPLICATION OF FUNDS		
FIXED ASSETS		
Gross Block	**55.08**	52.68
Less: Depreciation	**19.67**	16.27
Net Block	**35.41**	36.41
Capital Works-in-Progress	**6.10**	6.76
	41.51	43.17
INVESTMENTS	**1.72**	1.72
CURRENT ASSETS, LOANS & ADVANCES		
Inventories	**17.87**	16.09
Sundry Debtors	**22.28**	16.29
Cash and Bank Balances	**3.24**	2.86
Loans & Advances	**8.55**	8.83
	51.94	44.07
LESS: CURRENT LIABILITIES AND PROVISIONS		
Current Liabilities	**25.54**	19.09
Provisions	**0.98**	2.46
	26.52	21.55
NET CURRENT ASSETS	**25.42**	22.52
TOTAL ASSETS (Net)	**68.65**	67.41

Employees from the Corporate Office at a get-together

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

Conversion rate 1 US$ = ₹44.70

US$ Million

	Year ended March 31, 2011	Year ended March 31, 2010
INCOME		
Sales and Export Incentives	**89.16**	62.92
Less: Exicse Duty	**11.11**	0.63
	88.05	62.29
Other Income	**1.28**	0.94
TOTAL	**89.33**	63.23
EXPENDITURE		
Consumption of Rawmaterials, WIP and Finished Goods	**55.91**	36.24
Manufacturing Expenses	**13.29**	11.89
Administration, Selling & Other Expenses	**8.95**	8.82
Interest and other charges	**6.67**	5.74
Depreciation/Amortisation	**3.47**	3.06
Less: Adjusted against Revaluation Reserve	**0.02**	0.02
	3.45	3.04
TOTAL	**88.27**	65.73
PROFIT/(LOSS) BEFORE TAXATION/PRIOR PERIOD ITEMS	**1.06**	(2.50)
Prior Period Adjustment	**–**	0.27
PROFIT/(LOSS) BEFORE TAXATION	**1.06**	(2.23)
Provision for Current Tax	**(0.21)**	–
Provision for Deferred Tax	**–**	0.92
MAT credit entitlement	**0.21**	(0.27)
PROFIT/(LOSS) BEFORE PRIOR PERIOD & EXCEPTIONAL ITEMS		
Excess Provision of Income Tax no longer required	**0.08**	–
PROFIT AFTER TAX	**1.13**	(1.58)
Balance brought forward from Previous Year	**0.25**	1.83
AMOUNT AVAILABLE FOR APPROPRIATION	**1.38**	0.25
BALANCE CARRIED TO BALANCE SHEET	**1.38**	0.25

*Deferred taxes adujstments to be provided for

Employees celebrating 27 years of Neuland

Board of Directors

Dr. D. R. RAO

Chairman & Managing Director, is the Chief Promoter of Neuland. He has a Masters in Science from Andhra University, Post Graduate Diploma in Technology from IIT Kharagpur, and a Ph.D., in Organic Chemistry from the University of Notre Dame, U.S.A. Prior to promoting Neuland in 1984, Dr. Rao has held senior positions in R&D, production, and quality assurance at Glaxo India for about ten years. He is a member of Royal Society of Chemistry.

Mr. D. SUCHETH RAO

Whole-time Director and Chief Executive Officer, is a Mechanical Engineer by profession and has an MBA in Corporate Finance from University of Notre Dame, USA. He was Production Group Leader in Cummins Inc. USA and later went on to become Green belt in Six Sigma. His background primarily consists of exposure to various fields of business such as marketing, finance, manufacturing, operations and information technology.

Mr. D. SAHARSH RAO

Whole-time Director and President-Contract Research, is an Engineering Graduate and obtained his Masters in MIS from Weatherhhead School of Management, Cleveland, OH. He also secured Master of Business Administration from University of North Carolina, USA. He had worked with Sify Limited for a period close to 3 years.

Mr. G. V. K. RAMA RAO

one of the promoters, is a Non-Executive Director.

He is a practicing advocate.

Mr. Nadeem Panjetan

Director, represents the Export-Import Bank of India.

He is presently the General Manager of EXIM Bank.

Mr. HUMAYUN DHANRAJGIR

a Non-Executive Director, is one of the most respected personalities in the pharmaceutical industry. He has held several senior positions in Glaxo India, including Managing Director and Executive Vice-Chairman. He is a past President of Organization of Pharmaceutical Producers of India.

Mr. P. V. MAIYA

a Non-Executive Director, is an eminent banker. He had a long career of 32 years with the State Bank of India where he was a General Manager; he was deputed as the Executive Director of SCICI between 1991 and 1993, which position he relinquished to join first as Managing Director to set up the ICICI Bank in 1994. He retired as Chairman & CEO of the bank in 1998. After retiring from the bank, he was appointed as the Managing Director of Central Depository Services (India) Limited which he set up and relinquished the post in December 1999. He is now a director of four companies including a large nationalized bank.

Mr. S. B. BUDHIRAJA

a Non-Executive Director, was the Managing Director (Marketing) of Indian Oil Corporation, the largest corporate in India and a past President of the Institute of Management Consultants of India. He brings with him considerable industrial experience.

Dr. CHRISTOPHER M. CIMARUSTI

a Non-Executive Director, did his PhD in Organic Chemistry from Purdue University and his Postdoctoral Research from Columbia University. He has close to 40 years of experience in the field of drug discovery, development and manufacturing. He was awarded more than 60 patents and published more than 40 papers in referred journals. Dr. Cimarusti held executive leadership positions at Squibb Corporation and Bristol-Myers Squibb (BMS) in discovery and development. His last position with BMS was as Sr. Vice President, Pharmaceutical Development Center of Excellence.

Dr. WILL MITCHELL

a Non-Executive Director, is presently J. Rex Fuqua Professor of International Management, Fuqua School of Business, Duke University, Durham, NC, USA. Prior to joining Duke University, he was Professor of Corporate Strategy and International Business at University of Michigan. He is on the editorial board of several management journals. His teaching and research interests include corporate strategy, alliance strategy and dynamics of the health care industry.

STATUTORY AUDITORS

M/s. K.S. Aiyar & Co.,
Chartered Accountants
F-7 Laxmi Mills,
Shakti Mills Lane,
(Off Dr. E. Moses Road),
Mahalaxmi,
Mumbai - 400 011

BANKERS

TERM LOAN LENDERS

Export Import Bank of India,
Khairatabad, Hyderabad

State Bank of India, Overseas Branch,
Jubilee Hills, Hyderabad

Bank of India,
Mid Corporate Branch, Hyderabad

WORKING CAPITAL BANKERS

State Bank of India,
Overseas Branch,
Jubilee Hills, Hyderabad

Bank of India,
Mid Corporate Branch, Hyderabad

Indian Overseas Bank,
Basheerbagh Branch, Hyderabad

Prepared for tomorrow

The actions taken in the last two financial years are now paying off. We have debottlenecked the production process; derisked the business by spreading the product basket, and in some cases with significant increase in volumes; development work done for contract manufacturing and for the peptide business are maturing as orders on hand; and productivity improvements are translating to lowering the cost of production. At Neuland, our efforts of yesterday is making us better prepared for tomorrow.

In our addressable markets, we continue to see encouraging levels of demand across our product lines. We see traction in all three windows to reach our customers: active pharmaceutical ingredients, contract manufacturing projects and synthesis of peptides.

The fundamentals of our marketplace remain strong and we have now established a sustainable and profitable competitive position with further upside potential. We will maintain our position of market leaders for two of our key products. We will also market aggressively two niche products that have succeeded in 2010-11. The level of existing orders on hand will ensure that capacities are fully utilized throughout the financial year 2011-12.

During the last financial year, intensive work in raising R&D productivity was under way. The resulting synergies mean that cost savings will be realized at an early stage, in the lab, in procurement and in manufacturing. Work has already begun on harmonizing a few other products on the basis of fully coordinated R&D programs.

We are working on tight quality standards, significant cost advantage and fine-tuning service levels to further improve due date deliveries as part of our competitive strategy. We will continue to reduce our costs through streamlining and consolidating production to enhance profitability. Efforts are being made to reduce overheads and finance costs.

We are leveraging the strength of our existing products, newly introduced product lines, technical skills, production scale and exceptional people to step up volumes and market share. A high visibility of short and medium term revenues enables us to remain confident that the operating results in 2011-12 will represent an advance over the previous year.

Open house discussion with the CEO

DIRECTORS' REPORT

Your Directors are pleased to present their Twenty Seventh Annual Report of your Company and the audited statement of accounts for the year ended March 31, 2011.

FINANCIAL RESULTS

₹ in Million

	2010-11	2009-10
Profit before Depreciation and Tax	**201.28**	24.03
Less: Depreciation	**154.12**	135.60
Profit/(Loss) before Tax	**47.16**	(111.57)
Prior period adjustments	**–**	11.97
Provision for current tax and deferred Tax	**(3.53)**	29.15
Profit/(Loss) after Tax	**50.69**	(70.45)
Add: Balance brought forward from the previous year	**11.15**	81.60
Profit available for appropriation	**61.84**	11.15
Appropriation		
Balance carried forward to Balance Sheet	**61.84**	11.15

BUSINESS REVIEW

Your Company achieved satisfactory results with growth in volumes, revenues and improved market share and reach for its major products. Investments made in earlier years to increase capacities paid off with elevated sales of high-value and niche products and by stepping up the market share in volume led markets. However the Company had a tight liquidity situation due to the burden of the repayment of loans taken for increased capacities.

During the year under review, your Company intensely focused on ramping up sales volumes for its top six products by effectively employing several initiatives including competitive bidding, volume-price optimization, emphasis on quality enhancement and aggressively helping customers to launch their generics. Simultaneously, successful efforts were made to enhance operational economies by optimizing processes and improving manufacturing efficiencies.

Raw material cost pressures continued throughout the year. Your Company managed the raw material and sourcing challenges and met production schedules with stringent quality inputs and cost advantage. The efforts to contain costs, minimize inventory, improve efficiencies together with higher capacity utilization led to favorable material variances.

The strong performance in the market translated in robust financials with highest ever revenues of ₹3985.41 million, an improvement of 41.7% over ₹2812.53 million in the previous year. Better customer relationships, strong demand for products and operational efficiencies enabled your Company to report profit after tax of ₹50.69 million. Members would recall the Company had incurred a loss of ₹70.45 million in 2009-10. The earnings per share for the year under review is ₹9.38.

As Members are aware, your Company's foray into synthetic peptide realm has been distinguished by successfully developing technologies that meet the highest standards of multinational companies. The strategic alliance with a global pharmaceutical company has improved visibility of earnings and your Company responded during the year by producing 28 Fluorenylmethyloxycarbonyl (Fmoc)-pseudoproline dipeptide building blocks in kilogram quantities.

It is gratifying to report that the ability to produce pseudoproline building blocks helped in the procurement of DSIR (Department of Scientific and Industrial Research, Government of India) funding of ₹25 million for scale up of technology for generic peptide APIs. Your Company has also initiated steps to build a suitable peptide plant to meet the future needs of the business.

DIVIDEND

Members will appreciate that given the liquidity situation, your Company needs to conserve resources and hence your Board of Directors recommend that no dividend be declared for the year under review.

OUTLOOK

Your Company continues to see traction for its existing products with the momentum built over the past few years. There are eleven more products that are expected to be scaled up commercially in 2011-12, supplementing your Company's offers to the market. With Neuland being perceived as a preferred & reliable source by its customers, the order flow remains encouraging and is being met with scaling up of production volume and manufacturing efficiencies of both intermediates and active pharmaceutical ingredients.

There is immense potential for your Company as a contract manufacturing organization. The development work done in earlier years has helped Neuland understand the needs of the customers and in recent times your Company has made breakthrough to secure projects for commercial compounds and late phase execution.

The peptide business has its platform ready for non-linear growth, currently this business contributes to less than 1% of total revenues. Your Company currently produces about 70 high value building blocks encompassing 28 pseudoprolines, 32 isoacyl dipeptides, several dimethoxybenzyl-amino acids and dipeptides, Fmoc-amino acids, and side chain modified Fmoc-Lysine derivatives. Neuland intends to increase this offering to include 20-Fmoc-N-Methyl amino acids during 2011-12. Sales of USP and EP grade generic peptide APIs are expected to commence in the second half of 2011-12 both to the domestic and international customers.

CONSOLIDATED FINANCIAL STATEMENTS

The Ministry of Corporate Affairs (MCA) vide Circular No.2/2011 dated February 8, 2011 has granted general exemption under Section 212(8) of the Companies Act, 1956 to companies from attaching the accounts of their subsidiaries in their annual reports subject to fulfillment of certain conditions prescribed.

Accordingly the reports and accounts of the subsidiary companies are not annexed to this Report. The Board of Directors of your Company has approved and passed a resolution in this regard. The Consolidated Financial Statements for the year ended March 31, 2011 form part of the Annual Report. A summary of key financials of the Company's subsidiaries is also annexed.

Annual accounts of the subsidiary companies are kept for inspection by any investor at the Registered Office of the Company as well as at the Registered Office of the respective subsidiary companies. Any investor interested in a copy of the accounts of the subsidiaries may write to the Company Secretary at the Registered Office of the Company.

SUBSIDIARIES

Your Company's subsidiaries, Neuland Laboratories K.K., Japan and Neuland Laboratories Inc. USA, continue the market development efforts in respective geographies, and being close to customers has enabled to improve the customer responsiveness and given significant thrust for the contract manufacturing business.

JOINT VENTURE

Cato Research Neuland India Private Limited formed in collaboration with Cato Research Israel Limited, a wholly owned subsidiary of Cato Research Limited, a global contract research and development organization based in USA. The joint venture company has recruited its initial team and is now working on creating business in collaboration with the JV Partner.

RESEARCH & DEVELOPMENT

Your Company has a proactive and result oriented research and development team to ensure that there is a continuous flow of products that are in demand amongst Neuland's customers. The team has been able to bring complex molecules with efficient processes to market in anticipation of emerging opportunities as well as in improving processes for existing products and customer needs.

The in-house R&D team has identified 11 new products for development in 2011-12 based on Neuland Product Development Funnel. Development of cost effective processes for existing products is another area which would favorably impact productivity and yield.

The team ensures that the processes so developed meet customer needs, stringent regulatory requirements and environmental challenges.

Custom synthesis is one area where Neuland has been focusing and is undertaking several projects. Your Company has been working in close association with clients, under strict confidentiality conditions to bring products early to markets. The R&D team offers services, know-how, and technology comparable with industry standards.

ENVIRONMENT, HEALTH & SAFETY

The Pashamylaram facility (Unit-II) has been successfully audited and is certified in 2010 for ISO 14001:2004 and OHSAS 18001:2007. As Members are already aware, the Bonthapally facility (Unit-I) already stands certified. The certifications demonstrate Neuland's commitment and care towards environment protection and health and safety management systems.

As in earlier years, both facilities maintained their zero accident record and in April 2011, the Department of Factories, Government of Andhra Pradesh conferred the Zero Accident Special Category award on Neuland in recognition of its achievement.

Safety release valves and automated systems form part of the systemic improvements incorporated to minimize the possibility of accidents. Training of employees and contract workers to elevate their awareness levels is a major cause of continuous improvement in securing better health and safety standards.

Your Company continues to maintain zero effluent discharge and has kept the particulate matter emissions within prescribed norms. A firm of reputed consultants was employed to study the industrial hygiene in both units during the year. Their report is being acted upon and corrective and preventive actions have been initiated.

INFORMATION MANAGEMENT SYSTEMS

Neuland's information technology platform is a key component in offering customers transparency, accountability and reliability while executing their orders. The system design and architecture is kept updated and customers are encouraged to track the progress in execution of their orders.

All employees are aware and have been sensitized that all assets of the Company generate confidential information and therefore information security is viewed with great importance. Neuland appreciates the importance of intellectual property rights and has put in place procedures to protect strictly intellectual properties.

Your Company has successfully completed ISO 27001:2005 second surveillance audit (ISMS Audit).

REPORT ON CORPORATE GOVERNANCE AND MANAGEMENT DISCUSSION AND ANALYSIS

The report on Corporate Governance and Management Discussion and Analysis as required under the Listing Agreement with the stock exchange forms part of the Annual Report.

LISTING AT STOCK EXCHANGES

The equity shares of your Company continue to be listed and traded on the Bombay Stock Exchange Limited and National Stock Exchange of India Limited. The annual listing fees for the year 2011-12 have been paid for the both exchanges.

DIRECTORS

Dr. Will Mitchel and Mr. S. B. Budhiraja retire as Directors by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

The EXIM Bank has appointed Mr. Nadeem Panjetan as Nominee Director in the place of Mrs. Daya Chandrahas effective from April 29, 2011. The Board places on record its appreciation for the services rendered by Mrs. Daya Chandrahas during her tenure as Director of the Company.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217 (2AA) of the Companies (Amendment) Act, 2000 your Directors confirm that to the best of their knowledge and belief and according to the information and explanation obtained by them,

a. in preparation of the annual accounts for the year ended March 31, 2011 the applicable accounting standards have been followed;

b. such accounting policies as mentioned in Schedule M of the Notes to the financial statement have been selected and applied consistently and judgments and estimates that are reasonable and prudent made so as to give a true and fair view of the state of the affairs of the Company for the year ended March 31, 2011 and of the profit of your Company for the year;

c. proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

d. the annual accounts for the year ended March 31, 2011 has been prepared on a going concern basis.

EMPLOYEE STOCK OPTION

As per the resolution passed by Annual General meeting on July 20, 2007, your Company has granted 34,500 stock options to its employees under the Employee Stock Options Scheme. Of the above, 6,000 (Previous year 5,500) options have lapsed on account of resignation of the employees from the Company which has been noted by the Remuneration Committee. Details of the options and other disclosures as required under Clause 12 of the Securities and Exchange Board of India (Employee Stock Options Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 are set out in the annexure to this report.

AUDITORS

The financial statements have been audited by M/s. K.S. Aiyar & Co., Chartered Accountants, the statutory auditors.

The Audit Committee of your Company meets periodically with the Statutory Auditors M/s. K.S. Aiyar & Co. and Internal Auditors, M/s. Grant Thornton & Co., to review the performance of internal audit, to discuss the nature and scope of the statutory auditor's functions, and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the statutory auditor and the internal auditor have full and free access to the Members of the Audit Committee to discuss any matter of substance.

Cost audit under Section 233B of the Companies Act, 1956, is a regular annual audit. The cost audit for the current financial year is under progress.

The Auditors M/s. K. S. Aiyar & Co, Chartered Accountants, retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office for the financial year ended March 31, 2012.

The Statutory Auditors have in the Annexure to the Auditors' Report arising out of the requirements of the Companies (Auditor's Report) Order, 2003 (CARO) have recommended further strengthening of controls in the ERP system and also to adhere to the planned audit program. The company has initiated appropriate steps to comply with the same.

Further the auditors have stated that an amount of Rs.0.07 Million are amounts payable against unclaimed matured fixed deposits which are to be deposited to Investor Education and Protection Fund (IEPF) related to and due on various dates. The steps initiated by the Company to further strengthen the control mechanism are intended to enhance the effectiveness of compliance management and avoid any unintended and inadvertent omissions. The Company has made necessary arrangements to transfer the said amount to IEPF forthwith.

The delays in repayments of certain installments of loans could not be avoided on account of liquidity issues due to rapid growth of business. Your Company is making arrangements to make good these installments at the earliest.

INSURANCE

Your Company has taken reasonable steps to prevent risks and the Board is kept appraised of the risk assessment and minimization procedures.

The assets of the Company have been adequately covered under insurance. The policy values have been enhanced taking into consideration the expanded and upgraded facilities of the Company.

FIXED DEPOSITS

There are no fixed deposits outstanding as on March 31, 2011.The provisions of Section 58A of the Companies Act, 1956 have been complied with.

The matured but unclaimed fixed deposits relating to eight deposit holders amounting to Rs.0.07 million have become due for transfer to the Investor Education and Protection Fund (IEPF) established by the central government. This amount having remained unclaimed for a period of over seven years from the date they became due for payment is being transferred to the IEPF.

DISCLOSURE PARTICULARS

As required by your Company (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the relevant information and data are given in Form - A & B to this report.

INDUSTRIAL RELATIONS

Your Company's relations with its employees continue to be cordial. Dedicated work by the workmen, supervisors and executives of your Company made it possible to achieve success under trying and difficult circumstances.

PARTICULARS OF EMPLOYEES

During the year under review, there were no employees drawing salary in excess of the prescribed limit and whose particulars is required to be given under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of employees) Rules 1975 as amended.

ACKNOWLEDGEMENT

Your Company acknowledges the significant contribution made by the employees. The trust reposed in your Company by its esteemed customers helped stabilize growth during the year under review. Your Company also acknowledges the support and guidance received from State Bank of India, Bank of India, Indian Overseas Bank, Export Import Bank of India, SBI Global Factors Limited and all government agencies and looks forward to their continuing support.

For and on behalf of the board

Dr. D. R. Rao

Hyderabad, May 20, 2011 Chairman & Managing Director

Neulanders celebrating their victory on the playing fields

FORM - A

Disclosure of particulars with respect to conservation of energy (to the extent applicable)

A. POWER & FUEL CONSUMPTION

₹ in Million

	Current Year	Previous Year
1. Electricity		
a. Purchased		
Unit in Million (kWh)	**18.77**	15.89
Total Amount (₹ in Million)	**70.70**	44.70
Rate/Unit (₹/kWh)	**3.77**	2.81
b. Own generation (Unit in Million) kWh	**1.49**	2.76
(Through Diesel Generator)		
Units per litre of Diesel Oil	**3.16**	3.26
Cost/Unit (₹/kWh)	**12.89**	11.18
2. Coal		
Quality "C" Grade used in Steam Boiler		
Quantity (Tonnes)	**13,916**	12,686
Total cost (₹ in Million)	**60.60**	45.00
Average rate (₹/Tonne)	**4,353**	3,544

B. CONSUMPTION PER UNIT OF PRODUCTION ELECTRICITY (Units) & COAL (in Tonnes)

Since the Company manufactures different types of bulk drugs and its intermediates, it is not practicable to give consumption per unit of production.

FORM - B

RESEARCH AND DEVELOPMENT

A. Specific areas in which R&D is carried out by your Company:

1. Development of non-infringing patentable processes for active pharmaceutical ingredients in the therapeutic categories of anti-glaucoma, anti-fungal, anti-hyperlipoproteinemic, anti-hypertensive, anti-asthmatic, anti-psychotic, anti-emetic, anti-parkinson, anti-depressant, benign prostatic hyperplasia, antibacterial, anti-alzheimers.
2. Development of efficient and cost effective processes to reduce total variable cost and cycle time for existing products.
3. Customer specific and exclusive contract research and process development for manufacture of active pharmaceutical ingredients.
4. Contract research and services for the innovator companies for their research activities.
5. Custom synthesis and contract manufacturing.
6. Development of analytical methods, quality improvement and cost optimization studies.
7. Creation of intellectual property and international regulatory filings.
8. Study of impurity profiles, synthesis and sale of impurities metabolites standards.
9. Development of scalable processes for the production of Fmoc building blocks amino acids and dipeptides.
10. Development of scalable processes for the production of protected peptide segments useful in the synthesis of oxytocin and other generic peptide APIs.

B. Benefits derived as a result of the above:

The above research has resulted in commercializing/scaling up of a number of products including,

1. Voricanazole (new process)
2. Montelukast (new process)
3. Posaconazole
4. Linezolid Form-II
5. Pemetrexed
6. Developed scalable processes for the production of 28 pseudoprolines, 36 Isoacyl dipeptides, and 5 high value Dmb-amino acids and dipeptides.

The Company has developed processes for the following active pharmaceutical ingredients and is ready for the scale up activity:

1. Deferasirox
2. Bosentan
3. Moxonidine
3. Rufibnamide
5. Pentason
6. Sugammadex
7. Paliperidone
8. Paliperidone palmitate
9. Propofol
10. Armodafinil
11. Nateglinidine Form-B

C. Modification of the existing manufacturing processes for APIs (anti-hypertensive, anti bacterial, anti-ulcer) resulted in lower production costs, reduced cycle times, and in customer retention.

D. In the past one year, ten Indian patents applications were made.

E. Drug Master Files (DMF) were filed during the year for

a. Paricalcitol
b. Mirtazapine (anhydrous)
c. Linezolid
d. Voricanazole

F. Future plan of action

To develop processes for new bulk drugs of various therapeutic categories identified after an extensive analysis of the market.

Development of cost effective processes for the existing products.

Undertake more of contract research and custom manufacturing projects.

Expand R&D activities in the newly created facility.

Improvements in quality and productivity

The Company has identified 10 new products for development in 2011-12. These are:

1. Febuxostat
2. Lurasidone
3. Vilazadone
4. Regadenoson
5. Indacaterol
6. Alcaftadine
7. Asenapine maleate
8. Dapoxetine
9. Iloperidone
10. Silodosin

G. Expenditure on R&D

₹ in Million

	Current Year	Previous Year
Capital	**16.31**	17.61
Recurring	**102.45**	100.27
Total	**118.76**	117.88

R&D Expenditure was 2.97% of total revenue, as against 4.19% in the previous year.

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. The technologies developed by R&D division of the Company towards the quality and yield improvement of existing products and also development of technology for new bulk drugs have been commercialized and adopted by the manufacturing facility of the Company.

2. In case of improved technology (imported during the last 5 years reckoned from the beginning of the financial year), the following information may be furnished.

   a. Technology imported:

   b. Year of import:

   c. Has technology fully been absorbed:

   d. If not fully absorbed, areas where this has not taken place, reasons therefore and future plans of actions:

   } NIL

FOREIGN EXCHANGE EARNINGS AND OUTGO

a. Activities relating to exports, initiative taken to increase exports, developments of new exports markets for products and services and export plans:

   i. Your Company has had a strong export focus in the past, and expects thrust to continue in the future. In fiscal 2010-11, 80.79% of revenues were derived from exports.

   ii. Your Company's total exports on FOB basis was ₹2869.53 million against previous year export turnover of ₹1966.63 million.

   iii. Your Company expects considerable export revenue during 2011-12.

b. Foreign exchange earned and used for the year ended March 31, 2011:

   Total foreign exchange earnings used and earned is given in Note 17D of the Notes to Accounts.

For and on behalf of the board

Dr. D. R. Rao
Chairman & Managing Director

Hyderabad, May 20, 2011

ANNEXURE TO THE DIRECTORS REPORT

Disclosure pursuant to the provisions of the Securities and Exchange Board of India (Employee Stock Option Scheme) Guidelines, 1999

Numbers

Description	Particulars
1. No. of shares available under Neuland ESOS	34,500
2. Total No. of Options granted during the year (i.e. on March 31, 2011)	Nil
3. Pricing formula	The price was decided by the Board which is not less than the face value per share per option.
4. Options vested during financial year 2010-11	Nil
5. Options exercised during financial year 2010-11	Nil
6. Options lapsed during financial year 2010-11	11,500
7. Variation of terms of Options	Nil
8. Money realized by exercise of Options	Nil
9. Grant Price Plan (on November 20, 2008)	₹104
10. Total No. of Options in force as on March 31, 2011	23,000
11. i. Grant details to members of senior management team:	

Name	No. of Shares	Dr. Sanjay Bhawsar	1,000	Mr. G. Chandra Sekhar	500
Mr. Tom Speace	2,500	Mr. A. Venkataswamy	1,000	Mr. G. Suri Patrudu	500
Mr. A Raghavendracharyulu	1,500	Mr. D.S. Krishna Mohan	1,000	Mr. Srinivas Nagalla	500
Mr. S. Ganapathi Rao	1,500	Mr. G. Rama Krishna Rao	1,000	Mr. T.K. Mathew	500
Mr. Y. Sudheer	1,500	Mr. V. Himesh	500	Mr. T.V. Bangaram	500
Dr. Mike Anwer	1,500	Mr. B. Mallikarjun	500	Mr. A.V.L. Narayana	500
Dr. R. Arul	1,500	Mr. P. Srinivasulu	500	Mr. G. Kalyan Chakravarthy	500
Mr. T. M. Talaulikar	1,500	Mr. S.D.P.L. Narayana	500	Mr. P. Arun Kumar	500
Dr. Ch. Tirupataiah	1,500	Mr. M. Venkatramayya	500	Mr. D. Janardhan Rao	500
Mr. N. Sundar	1,500	Mr. Ravikant Tadinada	500	Mrs. H.S. Tulasi	500
Mr. G.S.N. Murthy	1,500	Mr. Gali Uday Sreekanth	500	Mr. A. Narayana Murthy	500
Mr. Shaik Meera Sharif	1,000	Dr. Sujit Das Adhikari	500	Mr. Quaisar Anwar	500
Mr. D. Srinivasa Chary	1,000	Mr. Nelson E. Lawrence B.	500	Mr. K. Ganga Rao	500
Mr. B. Ashok Kumar Reddy	1,000	Mr. T.V.V.S. Rayudu	500		

ii. Any other employee who received a grant in any one year of option amounting to 5% or more of options granted during the year	Nil
iii. Employees who were granted option during any one year equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversations) of the Company at the time of grant	Nil
12. Diluted EPS as per Accounting Standard 20	Before Adjustment ₹9.38 Adjusted ₹9.43
13. i. Methods of calculation of employees compensation cost	The Company has calculated the employee compensation cost using the intrinsic value of the stock options. The grant price is the market price prevailing on the grant date. Therefore, there will be no compensation cost as per intrinsic value basis.
ii. Difference between the employee compensation cost so computed at (i) above and the employee compensation cost that shall have been recognized if it had used the fair value of the Options	₹(0.28) million

Disclosure pursuant to the provisions of the Securities and Exchange Board of India (Employee Stock Option Scheme) Guidelines, 1999 (Contd.)

Description		Particulars	
iii. The impact of this difference on profits and on EPS of the Company		Profit after Tax (PAT) Less: Additional employee compensation cost based on fair value Adjusted PAT Adjusted EPS	₹50.69 million ₹(0.28) million ₹50.97 million ₹9.45
iv. Weighted average exercise price and fair value of stock options granted		Nil	₹143.06
Stock options granted on	Weighted average exercise price (in ₹)	Weighted average Fair value (₹)	Closing market price at BSE on the date of grant (₹)
November 20, 2008	104	143.06	104.70
v. Description on the methods and significant assumptions used during the year to estimate the fair value of the options, including the following weighted average information		The Black-Scholes option-pricing model was developed for estimating fair value of traded options that have no vesting restrictions and are fully transferable. Since option-pricing models require use of substantive assumptions, changes therein can materially affect fair value of options. The option pricing models do not necessarily provide a reliable measure of fair value of options.	
vi. The main assumptions used in the Black-Scholes option-pricing model during the year were as follows:			
Risk free interest rate (%)		7	
Expected life of options from the date(s) of grant		7 years	
Expected Volatility (%)		1.21	
Dividend Yield		0.58	

Statement pursuant to Section 212 (8) of the Companies Act, 1956 relating to subsidiary companies

₹ in Million

Particulars	Reporting Currency	Exchange Rate	Capital	Reserves	Total Assets	Total Liabilities	Turnover	Profit before Taxation	Profit after Taxation	Invest-ments Made	Country
Neuland Laboratories K.K.	¥	0.512	1.54	1.56	3.10	3.10	16..14	1.00	0.77	–	Japan
Neuland Laboratories Inc.	US$	44.669	0.04	4.30	4.35	4.35	40.73	1.92	1.92	–	USA
CATO Research Neuland India Private Limited	₹	–	5.11	(1.34)	5.11	5.11	1.42	(0.70)	(0.70)	–	India

For and on behalf of the board

Dr. D. R. Rao
Chairman & Managing Director

Hyderabad, May 20, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY PERSPECTIVE

India's pharmaceutical market size has nearly doubled since 2005 and is considered to be one of the fastest-growing amongst the global markets. It constitutes third-largest market in the world in terms of volume and fourteenth in terms of value.

Manufacturers in India produce about 60,000 generic brands across 60 therapeutic segments. Equally noteworthy, Indian firms manufacture approximately 500 different active pharmaceutical ingredients (APIs). Manufacturing costs in India are approximately 35% of those in the US due to low installation and manufacturing costs. About 8% of global pharmaceutical production is made in India.

The Indian pharmaceutical market is expected to reach US$ 20 billion by 2015, growing at a compound annual growth rate (CAGR) of 11.7% during 2005-2015 and establish its presence among the world's leading 10 markets.

Increasing population of the higher-income group in the country is likely to open a potential US$ 8 billion market for multinational companies selling costly drugs by 2015. IMS Health India, which tracks drug sales in the country through a network of nationwide drug distributors, estimates the health care market in India to reach US$ 31.59 billion by 2020.

The Indian retail pharmaceutical market was valued at US$ 10.2 billion in 2010 growing at 16.5% over 2009. The pharmaceutical market showed a strong double digit growth for the second successive year.

The Ministry of Commerce, Government of India estimates investments of about US$ 6.3 billion will be made in the Indian pharmaceutical industry by 2015. In addition, the Indian pharmaceutical off-shoring industry is estimated to be a US$ 2.5 billion opportunity by 2012, due to the low cost of research & development in India.

ACTIVE PHARMACEUTICAL INGREDIENTS

Global pharmaceutical industry sees huge advantage in outsourcing their production needs. Pure play API companies are the best choice, as branded formulation companies in India have a conflict of Interest. With patent expiry pressures mounting on pharmaceutical companies, they are expected to step up their demands on cost effective and quality conscious countries such as India.

Several multinational companies have aggressively started looking out for API manufacturers in India to outsource their needs. With increasing credibility of Indian manufacturers, innovators are shifting production from Europe and US to India.

The forthcoming patent cliff provides enormous opportunities for R&D focused pure play API companies. Increasing penetration of generics in the regulated markets (especially EU and Japan) will drive API demand from cost effective destinations.

Recent announcement of free trade pact with Japan is expected to open doors for Indian pharmaceutical exports to Japan displacing China, which is presently a major pharmaceutical exporter to Japan. Increasing focus of Indian generic companies on New Drug Delivery System (NDDS) based drugs is more likely to influence multinational companies to outsource API production to non-competing pure play API companies.

Significantly, there is an underlying strong volume growth in domestic pharmaceutical sales. Growing domestic demand is likely to be a major driver for Indian quality conscious manufacturers.

COMPANY PERSPECTIVE

Neuland's core business and operational expertise for over 25 years, since inception, has been manufacturing of APIs and has earned the identity of 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 2 US FDA and EU cGMP compliant manufacturing facilities with collective capacity of 600 KL to produce more than 40 APIs across 10 diverse therapeutic areas.

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

Neuland has made a successful foray into contract manufacturing services building on its known strengths:

- proven expertise in manufacturing at varied scales,
- a deep understanding of complex chemistry, and
- state-of-the-art manufacturing facilities that are compliant with the guidelines of the leading regulatory authorities.

For more than twenty-five years, Neuland has been at the forefront of aiding and accelerating the drug substance development and manufacturing process. The Company offers integrated and versatile GMP manufacturing facilities capable of handling complex reactions tuned to ensure seamless transfer of processes from small-scale through validation to commercial manufacturing. Neuland thereby helps its customers expedite the discovery -to-market timelines.

During the financial year 2010-11, the Company started benefiting from the investments made in market development, manufacturing facilities, internal processes and human resources. The order intake was higher for several products, with Neuland gaining global leadership in two products. Entry in the niche and high value segments also paid off with favorable impact on earnings. Overall, there was significant ramping up in volumes with consequential economies in productivity and production costs.

Training and development was focused on skill upgradation as well as on ensuring understanding of the value systems. As a result, qualitative benefits and improvement in internal processes were visible in communication, accountability, response levels and customer relationship.

Increased volumes and service levels translated to better earnings and enabled the Company to report Profit after Tax (consolidated) of ₹52.89 million for the year under review, as compared to loss of ₹69.05 million in the previous year. The Earnings per Share for the year was ₹9.75 as against ₹(12.80) in 2009-10.

OUTLOOK

The future looks encouraging with rising volumes and larger product offerings to meet customer requirements. The Company has established mutually beneficial contacts with some of the best names in the pharmaceutical industry in USA, Europe, Japan and India. With a strong order book and prospects of improved ability to execute the orders, Neuland sees significant traction in revenues and elevated earnings.

Both the new verticals, i.e. contract manufacturing and synthesis of peptides, have set strong base for consistent and energetic growth. Investments made in people and market development have established the Company as a credible partner aligned to customer needs in both the new businesses.

Emphasis on managing costs and improving margins are adding to certainty of improved profitability and long term sustainable growth.

RISK MANAGEMENT

The initial steps of identifying, assessing and prioritizing the risks along with allocating champions to the priority risks are being undertaken. The mitigation plans are also being worked upon for each of these prioritized risks. Once this process is completed, the next way forward will be to incorporate the risk management process in its entirety into the organizational structure.

INTERNAL CONTROL

The Company has a sturdy internal control system and is supervised on a day-to-day basis by competent professional managers. Periodically, the systems are reviewed and aligned to the needs of a fast growing organization. This is an ongoing exercise.

Implementation of ERP on the SAP platform has improved controls, created analytical tools and enhanced the decision making process. Internal Audit is conducted by an independent firm of Chartered Accountants who report to the Audit Committee.

HUMAN RESOURCES

Neuland is actively becoming a superior and reliable science and technology driven company in manufacturing APIs and providing contract research services to the global pharmaceutical industry. Care is therefore taken in recruiting, retaining and training the employees at all levels.

In 2010, a culture audit was conducted across the Company to get a view of an inside snapshot of Neuland's culture and values. A sample group of 136 employees were met individually and interviewed across all locations. The results were compiled and distilled by the management. The findings highlighted the following:

- ✓ Neuland has a lot of potential;
- ✓ Neuland is strong, ethical, quality conscious and a value based company;
- ✓ Neuland makes a difference to peoples' lives; and
- ✓ Neuland is sensitive to its environment.

The survey underlined certain values demonstrated by Neuland which included:

- Customer centricity
- Reliability
- Accountability
- Ownership
- Openness & transparency

These values were shared with all employees and have become a way of life across the organization.

During 2010-11, training inputs constituted a key managerial process and covered areas as diverse as quality management systems, laboratory accreditation based on ISO/IEC 17025:2005, TLC & HPTLC & new technology HPLC columns, fundamentals of industrial hygiene, latest technology in the field of fire and safety, trends in labor laws, fundamentals of scale-up, cGMP and ICHQ7 guidelines, EU & US regulations, energy conservation in major process utilities of industries (Electrical & Thermal), managing process and powder handling hazards, validation master plans, global quality standards for biologics and chemical drugs, Good Laboratory Practices (GLP) and several others.

At year end, the Company had 977 employees.

REPORT ON CORPORATE GOVERNANCE

A. MANDATORY REQUIREMENTS

1. Company's Philosophy on Code of Corporate Governance

To adhere to the highest standards of quality in its products, processes and dealings with its stakeholders and to generate consistent returns to shareholders on a sustainable and long term basis and to ensure accuracy and transparency in financial reporting.

2. Board of Directors

As of March 31, 2011 the Board of the Company consists of ten Directors. The Board has an optimum combination of Executive and Non-Executive Directors and comprises of three Executive and seven Non-Executive Directors.

The table below provides the information on the Board of Directors required under Clause 49 of the Listing Agreement with the stock exchanges:

Name of the Director	Category	No. of directorships held in other companies#	Number of board/ committee membership held in other companies*	Among the committee memberships held in other companies, number of chairmanships held	No. of Board Meetings attended	Attendance at the last AGM
Dr. D. R. Rao[1] (Promoter)	Chairman & Managing Director	1	–	–	4	Yes
Mr. D. Sucheth Rao[1]	Whole-time Director & CEO	2	–	–	4	Yes
Mr. D. Saharsh Rao[1]	Whole-time Director & President-Contract Research	2	–	–	4	Yes
Mr. G. V. K. Rama Rao (Promoter)	Non-Executive Director	–	–	–	4	Yes
Mr. S. B. Budhiraja	Non-Executive Independent Director	4	4	2	2	No
Mr. H. Dhanrajgir	- do -	8	6	1	3	Yes
Mr. P. V. Maiya	- do -	4	4	1	4	Yes
Dr. Will Mitchell	- do -	–	–	–	2	Yes
Dr. Christopher M. Cimarusti	- do -	–	–	–	4	Yes
Mrs. Daya Chandrahas[2]	Nominee (EXIM Bank)	–	–	–	4	No

[1] Dr. D. R. Rao, Mr. D. Sucheth Rao and Mr. D. Saharsh Rao are related to each other.

[2] EXIM Bank has appointed Mr. Nadeem Panjetan as its Nominee Director in the place of Mrs. Daya Chandrahas with effect from April 29, 2011.

Does not include directorship in foreign companies.

* Only membership/chairmanship in audit and shareholders' grievance committees are considered.

Number of Board Meetings and the dates of Board Meeting

Four Board Meetings were held during the financial year ended March 31, 2011 on the following dates:

May 29, 2010 July 29, 2010 October 29, 2010 February 2, 2011

3. Committees of the Board

a. Audit Committee

The terms of reference stipulated by the Board of Directors to the Audit Committee as contained in Clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956, are as follows:

a. Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient & credible;

b. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of statutory auditors, fixation of audit fees and also approval for payment for any other services;

c. Reviewing with management, the annual financial statements before submission to the Board, focusing primarily on:

   i. matters required to be included in the Directors Responsibility Statement to be included in the Directors Report in terms of clause (2AA) of Section 217 of the Companies Act, 1956;

   ii. changes, if any, in accounting policies and practices and reasons for the same;

   iii. major accounting entries involving estimates based on the exercise of judgement by management;

   iv. qualifications in draft audit report;

   v. significant adjustments made in the financial statements arising out of audit findings;

   vi. the going concern assumption;

   vii. compliance with accounting standards;

   viii. compliance with stock exchange and legal requirements concerning financial statements; and,

   ix. disclosure of any related party transactions i.e. transactions of the Company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the Company at large.

d. Reviewing with the management, the quarterly financial statements before submission to the Board for approval;

e. Reviewing with the management, performance of statutory and internal auditors, the adequacy and compliance of internal control systems;

f. Reviewing the adequacy of internal audit function, if any including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;

g. Discussion with internal auditors any significant findings and follow up thereon;

h. Reviewing the findings of internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board;

i. Discussion with statutory auditors before the audit commences about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;

j. Reviewing the Company's financial and risk management policies;

k. Review of information by Audit Committee:

   i. Management Discussion & Analysis of financial condition and results of operations;

   ii. Statement of significant related party transactions submitted by the management;

   iii. Management letters/letters of internal control weaknesses issued by the statutory auditors;

   iv. Internal audit reports relating to internal control weaknesses;

   v. The appointment, removal and terms of remuneration of the chief internal auditor.

l. Examine the reasons for substantial defaults in the payment to the depositors, Members (in case of non-payment of declared dividends) and creditors.

m. Reviewing the functioning of whistle blower mechanism, in case the same exists.

n. Approval of appointment of CFO (i.e. the whole-time Finance Director or any other person heading the finance function or discharging that function) after assessing the qualifications, experience and background, etc of the candidate.

o. Reviewing with the management, the statement of uses/application of funds raised through an issue (public issue, rights issue, preferential issue, etc), the statement of funds utilized for purpose other than those stated in the offer document/prospectus/notice and the report submitted by the monitoring agency monitoring the utilization of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter.

Composition, Names of Members and Chairman

The Audit Committee consists of four Independent Directors

Name of Member of Audit Committee	Position
Mr. H. Dhanrajgir[1]	Chairman
Mr. S. B. Budhiraja	Member
Mrs. Daya Chandrahas[2]	Member
Mr. P.V. Maiya[1]	Member

[1] Effective from April 25, 2011 Mr. P.V. Maiya was appointed as Chairman of the Audit Committee. Mr. H. Dhanrajgir continues as Member.

[2] Effective from April 29, 2011 Mr. Nadeem Panjetan was appointed as Member of the Audit Committee in the place of Mrs. Daya Chandrahas who ceased to be a director of the Company.

Meetings and attendance

During the year, the Committee met four times on the following dates:

May 28, 2010 July 28, 2010 October 28, 2010 February 1, 2011

Attendance record at Audit Committee Meetings

Name of Member of Audit Committee	Meetings attended
Mr. H. Dhanrajgir, Chairman	2
Mr. S. B. Budhiraja	2
Mrs. Daya Chandrahas	4
Mr. P.V. Maiya	4

The Company Secretary acts as the Secretary of the Audit Committee. The Chairman & Managing Director, Whole-time Directors, the statutory auditor, the internal auditor and Vice President (Finance) of the Company were also invited to attend the Audit Committee Meetings.

b. Remuneration Committee

The Remuneration Committee consists of the following Non-Executive Directors:

Mr. P. V. Maiya, Chairman

Mr. S. B. Budhiraja

Mr. G. V. K. Rama Rao

During the year, the Committee met once on May 28, 2010 which was attended by all the members.

Remuneration Policy

The remuneration policy of the Company for managerial personnel is primarily based on the following:

- Performance of the Company, its divisions and units
- Performance and potential of individual managers, and,
- External competitive environment.

Remuneration of Directors

The remuneration of the Directors is decided by the Board of Directors as per the remuneration policy of the Company within the ceiling fixed by the Members.

Whole-time Directors

In view of the of inadequacy of profits for the financial year ended March 31, 2011, the remuneration to each Whole-time Director for the financial year has been restricted to the ceiling limit provided in sub-paragraph (B) of paragraph (1) of Section II of Part II of Schedule XIII to Companies Act, 1956 which was duly approved by the Members at the 26th Annual General Meeting held on July 29, 2010.

The disclosure on managerial remuneration as per paragraph (1) (B) IV (2) of Section II of Part II of Schedule XIII to Companies Act, 1956 is mentioned below:

Particulars	Dr. D. R. Rao	Mr. D. Sucheth Rao	Mr. D. Saharsh Rao
Salary (₹)	350,000 p.m.	350,000 p.m.	300,000 p.m.
Perquisites (₹)	50,000 p.m.	50,000 p.m.	50,000 p.m.
Contract period	3 years	3 years	3 years
Notice period	12 months	12 months	12 months
Fixed component and performance linked incentives along with performance criteria	Nil	Nil	Nil
Stock option with details, if any, and whether issued at discount as well as the period over which accrued and over which exercisable	Nil	Nil	Nil
Severance fees	Nil	Nil	Nil

Non-Executive Directors

All the fees paid to the Non-Executive Directors with effect from January 1, 2006 was prior approved by Members at the General Meeting.

During the year, Non-Executive Directors were paid sitting fees of ₹10,000 for attending each meeting of the Board, Audit Committee and Remuneration Committee. Sitting fees for Shareholders/Investors' Grievance Committee meeting was paid at ₹5,000 for each meeting.

The following is the schedule of sitting fees paid:

	₹
Mr. H. Dhanrajgir	50,000
Mr. S. B. Budhiraja	50,000
Mr. P.V. Maiya	100,000
Mr. G. V. K. Rama Rao	50,000
Mrs. Daya Chandrahas	80,000
Dr. Will Mitchell	20,000
Dr. Christopher M. Cimarusti	40,000

Shareholding of Non-Executive Directors as on March 31, 2011

	No. of Shares
Mr. H. Dhanrajgir	2,000
Mr. S. B. Budhiraja	6,840
Mr. P.V. Maiya	1,000
Mr. G. V. K. Rama Rao	17,600

c. Share Transfer and Investors'/Shareholders' Grievance Committee

Composition and Attendance

Mr. P.V. Maiya is the Chairman of the Share Transfer and Investors' Grievance Committee. During the financial year 2010-11, the Committee met twice on May 28, 2010 and October 28, 2010 and was attended by Mr. P.V. Maiya and Dr. D.R. Rao.

The Company attends to the investors' grievances/correspondence expeditiously and usually reply is sent within a period of 15 days of receipt.

The Company received 2 complaints from the shareholders which *interalia* included non-receipt of dividend warrants and annual report. The complaints were gathered by the Company from Registrars

and Transfer Agents and from its own sources, which were duly attended to and the Company has furnished necessary documents/information to the Members. Out of the complaints received during the year, none of the complaints were pending as on March 31, 2011. All have been disposed off to the satisfaction of the Members.

The Share Transfer and Investors'/Shareholders Grievance Committee reviews the following:

- Transfer/transmission of shares/debentures;
- Issue of duplicate share certificate;
- Review of shares dematerialised and all other related matters;
- Monitors expeditious redressal of investors' grievances;
- Non-receipt of annual report and declared dividend; and,
- All other matters related to shares/debentures.

The Registrars & Transfer Agents are completing share transfers once in every 15 days.

Requests for share transfer are not pending.

Ms. Mary Monica Braganza, Company Secretary is the Compliance Officer of the Company from April 18, 2011.

4. General Body Meetings

The last three Annual General Meetings details are given herein below:

Year	Date	Day	Time	Venue
2008	July 24, 2008	Thursday	2.30 p.m.	Anjuman, Taj Banjara, Hyderabad
2009	July 18, 2009	Saturday	2.30 p.m.	Emerald, Taj Krishna, Hyderabad
2010	July 29, 2010	Thursday	2.30 p.m.	Anjuman, Taj Banjara, Hyderabad

Special Resolutions passed at the last three AGMs

Year	2007 - 08	2008 - 09	2009 - 10
Item	Re-appointment of Mr. D. Sucheth Rao as Whole-time Director of the Company for a period of 5 years with effect from August 1, 2008 and fixation of his remuneration.	To appoint Mr. D. Saharsh Rao as Whole time Director of the Company designated as President-Contract Research for the period of three years with effect from June 1, 2009 and fixation of his remuneration.	a. Approval for payment of minimum remuneration under Schedule XIII of the Companies Act in case of inadequacy of profits to D.R. Rao, Chairman and Managing Director. b. Approval for payment of minimum remuneration under Schedule XIII of the Companies Act in case of inadequacy of profits to Mr. D. Sucheth Rao, and Whole-time Director and Chief Executive Officer. c. Approval for payment of minimum remuneration under Schedule XIII of the Companies Act in case of inadequacy of profits to Mr. D. Saharsh Rao Whole-time Director and President - Contract Research.

No Extraordinary meeting of the Members was held during the year.

No Postal Ballot was conducted during the year.

5. Information in respect of Directors seeking appointment/re-appointment as required under Clause 49 IV(G) of the Listing Agreement

The particulars of Directors seeking appointment/re-appointment at the forthcoming Annual General Meeting are given in the Annexure to the Notice of the AGM to be held on August 5, 2011.

6. Disclosures

a. Related Party Transactions

The particulars of transactions between the Company and its related parties as per the accounting standard (AS-18), "Related Party Disclosures issued by ICAI" are set out at Notes to Accounts. However these transactions are not likely to have any conflict with the Company's interest.

b. Code of Conduct

The Board of Directors has adopted the Code of Business Conduct and Ethics for Directors and senior management. The said Code has been communicated to the Directors and the senior management. The Code has also been posted on the Company's website www.neulandlabs.com

c. Compliances by the Company

The Company has complied with the requirements of the stock exchanges, SEBI and other statutory authorities on all matters related to capital markets during the last three years; no penalties or strictures have been imposed on the Company by the stock exchanges or SEBI or by any other statutory authorities relating to the above.

d. There is no specific Whistle Blower policy in the Company. We further affirm that during the year 2010-11, no personnel have been denied access to the Audit Committee.

7. Means of Communication

a. In compliance with the requirements of Listing Agreement, the Company regularly intimates unaudited as well as audited financial results to the stock exchanges immediately after they are taken on record by the Board. These financial results are normally published in the Economic Times or the Business Standard & Andhra Jyothi or Eenadu. The results are also displayed on the Company's website: www.neulandlabs.com

b. Management Discussion and Analysis Report forms part of the Report of the Directors.

8. General Shareholders Information

Annual General Meeting

Date, Time and Venue

Friday, August 5, 2011 at 2:30 p.m.
at Grand Ball Room, Taj Krishna, Road No. 1,
Banjara Hills, Hyderabad - 500 034

Date of Book Closure

August 2, 2011 to August 5, 2011

Financial Calendar

Adoption of Quarterly Results for the quarter ending	Tentative Dates
June 30, 2011	August 5, 2011
September 30, 2011	November 3, 2011
December 31, 2011	February 3, 2012
March 31, 2012	April 27, 2012

Listing on Stock Exchanges

The Equity Shares of the Company are presently listed on the following stock exchanges:

Bombay Stock Exchange Limited (BSE)

Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400 001

National Stock Exchange of India Limited (NSE)

Exchange Plaza, Bandra Kurla Complex,
Bandra (E), Mumbai 400 051

The Company confirms that it has paid the annual listing fees due to the Bombay Stock Exchange and National Stock Exchange for 2011-12.

The Company has not issued any GDRs/ADRs/warrants or any other convertible instruments.

Stock Code

524558 on Bombay Stock Exchange Limited, Mumbai

NEULANDLAB on National Stock Exchange of India Limited

ISIN No. for NSDL & CDSL

INE794A01010

Registrar and Transfer Agents

Sathguru Management Consultants Private Limited
Plot No.15, Hindi Nagar,
Punjagutta, Hyderabad – 500 034
Ph : + 91 40 3016 0333
Fax : + 91 40 4004 0554
Email : sta@sathguru.com

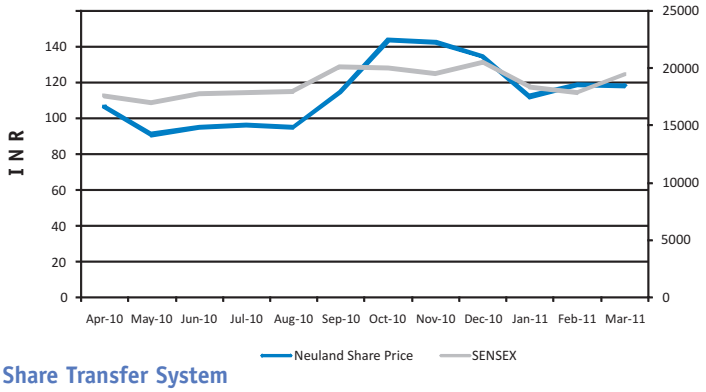
Share price movements 2010-11

Market Price Data: High, low, & closing prices during each month in last financial year

₹

		Bombay Stock Exchange Limited			National Stock Exchange of India Limited		
	Month	High	Low	Closing	High	Low	Closing
2010	April	113.90	97.30	106.50	114.00	96.15	107.15
	May	108.95	85.00	90.70	109.70	85.00	90.60
	June	107.00	86.00	95.05	103.90	85.30	95.15
	July	111.50	94.10	96.10	111.80	92.20	96.55
	August	104.00	92.05	95.00	104.85	92.60	94.90
	September	115.50	94.15	114.15	115.00	94.55	114.15
	October	152.80	111.00	143.60	153.45	113.15	144.35
	November	151.75	111.10	142.15	151.00	112.05	140.40
	December	164.40	117.25	134.55	164.90	116.10	135.70
2011	January	139.50	111.60	111.60	139.90	110.15	110.35
	February	127.00	103.90	118.60	130.00	105.50	117.80
	March	133.70	112.00	117.85	129.50	111.40	117.00

Neuland Share Price and Sensex Movement



Share Transfer System

Share transfers are processed by the Share Transfer Agents and are approved by the Share Transfer Committee.

Dematerialisation of shares

The shares of the Company are in compulsory demat segment. The Company's shares are available for trading in the depository system, of both the National Securities Depository Limited and the Central Depository Services (India) Limited. As on March 31, 2011, the total shares dematerialized were 4,080,487 in both depositories accounting for 75.61% of the share capital of the Company.

Rematerialisation of shares

The Company has not received any requests for rematerialisation of shares during the year.

Shareholding pattern as on March 31, 2011

Category	No. of shareholders	% to total	No. of shares held	% of share holding
Promoters and Promoter Group	75	1.50	1,951,738	36.17
FIs/Banks/MFs/Others	4	0.08	98,900	1.83
Bodies Corporate	191	3.83	385,254	7.14
Resident Individuals	4,682	93.75	1,613,734	29.90
NRIs/OCBs	41	0.82	1,346,429	24.95
Trust	1	0.02	400	0.01
Total	**4,994**	**100.00**	**5,396,455**	**100.00**

Distribution pattern as at March 31, 2011

No. of shares	No. of shareholders	% to Total shareholders	No. of shares	% to Total number of shares held
1 - 500	4,469	89.49	539,768	10.00
501 - 1000	254	5.09	206,590	3.83
1001 - 2000	96	1.92	148,598	2.75
2001 - 3000	53	1.06	134,866	2.50
3001 - 4000	25	0.50	87,787	1.63
4001 - 5000	19	0.38	90,797	1.68
5001 - 10000	30	0.60	215,092	3.99
10001 & above	48	0.96	3,972,957	73.62
Total	**4,994**	**100.00**	**5,396,455**	**100.00**

Plant Locations of the Company

Unit 1: Bonthapally Mandal Jinnaram Medak, Andhra Pradesh	Unit 2: Plot No. 92-94, 257-259 Industrial Development Area Pashamylaram Mandal Patancheru Medak, Andhra Pradesh

Address for Correspondence

Neuland Laboratories Limited
204, Meridian Plaza,
6-3-853/1 Ameerpet, Hyderabad - 500 016
Phone : +91 40 2341 2934/2936/2937/2956
+91 40 6651 8682/8683/8684
+91 40 3021 1600
Fax : +91 40 2341 2957
Designated e-mail for investor services: ir@neulandlabs.com
website : www.neulandlabs.com

Code of Conduct for insider trading

The Company has adopted the code of conduct for insider trading as prescribed under Schedule I and II of the SEBI (Prohibition of Insider Trading) Regulations.

B. NON-MANDATORY REQUIREMENTS

a. The Company has complied with the mandatory requirements of corporate governance Clause 49 of the Listing Agreements with the stock exchanges.

b. The non-mandatory requirements have not been adopted as a formal policy except for constitution of Remuneration Committee.

CMD/CFO CERTIFICATION

We, D. R. Rao, Chairman and Managing Director and N. S. Viswanathan, Vice-President (Finance) of Neuland Laboratories Limited, to the best of our knowledge and belief, certify that:

a. We have reviewed the financial statements including the cash flow statement (standalone and consolidated) for the year ended March 31, 2011.

b. To the best of our knowledge and belief,

   i. these statements do not contain any untrue statement or omit any material fact or contain statements that might be misleading;

   ii. the financial statements and other financial information included in this report present a true and fair view of the Company's affairs and are in compliance with existing accounting standards and applicable laws and regulations.

c. To the best of our knowledge and belief, there are no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company's code of conduct.

d. We accept responsibility for establishing and maintaining internal controls for financial reporting. We have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and have disclosed to the Auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and steps taken or proposed to be taken for rectifying these deficiencies.

e. We have indicated to the Company's Auditors and the Audit Committee of the Company's Board of Directors that during the year :

   i. all significant changes in internal control over financial reporting;

   ii. there are no significant changes in accounting policies; and

   iii. there are no frauds, whether or not material that involves management or other employees who have significant role in the Company's internal control system over financial reporting.

For **Neuland Laboratories Limited**

Dr. D. R. Rao
Chairman & Managing Director
Hyderabad, May 20, 2011.

For **Neuland Laboratories Limited**

N. S. Viswanathan
Vice-President (Finance)

DECLARATION

As provided under Clause 49 of the Listing Agreement with the stock exchanges, the Board Members and the senior management personnel have confirmed compliance with the Code of Conduct and Ethics for the year ended March 31, 2011.

For **Neuland Laboratories Limited**

Dr. D. R. Rao
Chairman & Managing Director

Hyderabad, May 20, 2011.

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

The Members of
Neuland Laboratories Limited

We have examined the compliance of conditions of Corporate Governance by Neuland Laboratories Limited, for the year ended March 31, 2011, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchange(s). The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us and the representations made by the Directors and the management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **K. S. Aiyar & Co.**
Chartered Accountants
Registration No. 100186W

Raghuvir M. Aiyar
Partner
Membership No.: 38128

Mumbai, May 20, 2011.

AUDITORS' REPORT

To the Members of
Neuland Laboratories Limited

Report on the accounts for the year ended on March 31, 2011 in compliance with Section 227(2) of the Companies Act, 1956.

We have audited the attached Balance Sheet of Neuland Laboratories Limited, as at March 31, 2011 and also the Profit and Loss Account for the year ended on that date annexed thereto and the Cash Flow Statement for the year ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1. As required by the Companies (Auditor's Report) Order, 2003 as amended by Companies (Auditor's Report)(Amendment) Order, 2004, issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

2. Further to our comments in the Annexure referred to above, we report that:

   a. We have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purposes of our audit;

   b. In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;

   c. The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

   d. In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 to the extent applicable;

   e. On the basis of written representations received from the Directors/companies, as on March 31, 2011, and taken on record by the Board of Directors we report that none of the Directors is disqualified as on March 31, 2011 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.

   f. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

      i. In the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2011;

      ii. In the case of the Profit and Loss Account, of the profit for the year ended on that date; and

      iii. In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For **K. S. Aiyar & Co.**
Chartered Accountants
Registration No. 100186W

Raghuvir M. Aiyar
Partner
Membership No.: 38128

Mumbai, May 20, 2011.

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 1 of our Report of even date on the accounts for the year ended on March 31, 2011 of Neuland Laboratories Limited)

i. a. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

b. The fixed assets have been physically verified by the management in accordance with regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and nature of its assets. Discrepancies noticed on such verification have been appropriately dealt with in the books of account.

c. Fixed assets disposed off during the year were not substantial. According to the information and explanations given to us, we are of the opinion that the disposal of fixed assets has not affected the going concern status of the Company.

ii. a. The inventories have been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.

b. The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

c. In our opinion and according to the information and explanation given to us, the Company is maintaining proper records of inventory. The discrepancies noticed on verification between physical stocks and the book records were not material and have been properly dealt with in the books of account.

iii. a. The Company has not granted loans, secured or unsecured to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, sub-clause (b), (c), (d), are not applicable.

e. The Company has taken unsecured loan from parties listed in the register maintained under Section 301 of the Companies Act, 1956 wherein the balance payable as at the year end is ₹225 lakhs (Maximum balance outstanding during the year ₹225 lakhs).

f. In our opinion and according to the explanations given to us, the rate of interest and other terms and conditions of the aforesaid loan are not, prima facie prejudicial to the interest of the Company.

g. In our opinion and according to the explanations given to us, the Company is regular in paying the principal and interest as stipulated.

iv. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchases of inventory and fixed assets and for the sale of goods and services, *however, further strengthening of these controls is recommended in the environment of ERP*. During the course of our audit, no other major weakness has been noticed in the internal control system in respect of these areas.

v. a. As per information and explanation and on basis of records maintained by the company we are of the opinion that particulars of contracts or arrangements referred to in Section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that section.

b. In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the registers maintained under Section 301 of the Companies Act, 1956 have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.

vi. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A, 58AA or any other relevant provisions of the Act and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. As informed to us, no order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal.

vii. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business; *however certain areas planned for in the annual audit programme were not completed*.

viii. We have broadly reviewed the books of account relating to materials, labour and other items of cost maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 and we are of the opinion that prima facie the prescribed accounts and records have been made and maintained.

ix. a. According to the records of the Company, provident fund, investor education and protection fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues applicable to it have generally been regularly deposited during the year with the appropriate authorities though there has been a small delay in a few cases.

According to the information and explanations given to us, no undisputed amounts payable in respect of above which were outstanding, as at March 31, 2011 for a period of more than six months from the date on which they became payable except for unclaimed fixed deposits of ₹0.71 lakhs to be deposited to Investor Education and Protection Fund related to and due on various dates.

b. According to the records of the Company, the dues outstanding of income tax, sales tax, wealth tax, service tax, custom duty, excise duty and cess which have not been deposited on account of dispute as on March 31, 2011 are as follows:

Name of the statute	Nature of the dues	₹ in lakhs	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Income tax	318.35	2003-04	Commissioner of Tax (Appeals)

x. The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.

xi. In our opinion and according to the information and explanations given to us, the Company has defaulted in repayment of dues to banks as detailed below:

Name of Bank	Principal amount of default	Due on	Paid on
Exim Bank	₹48.87 lakhs	March 31, 2011	Not paid
Bank of India	₹158.00 lakhs	March 31, 2011	Not paid

The above information relates to defaults existing at the balance sheet date

xii. Based on our examination of the records and the information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

xiii. In our opinion, the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

xiv. In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other securities. Accordingly, the provisions of clause 4 (xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

xv. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.

xvi. In our opinion, the term loans have been applied for the purpose for which they were raised.

xvii. According to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, we report that funds raised on short-term basis aggregating to ₹1807.19 lakhs have been utilized for the repayment of long term loans which were taken for creation of long-term investments in fixed assets and capital work in progress.

xviii. The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956

xix. The Company has not issued any debentures.

xx. The Company has not raised any money through public issue during the year.

xxi. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For **K. S. Aiyar & Co.**
Chartered Accountants
Registration No. 100186W

Raghuvir M. Aiyar
Partner
Membership No.: 38128

Mumbai, May 20, 2011.

BALANCE SHEET AS AT MARCH 31, 2011

₹ in Million

	Schedule	March 31, 2011	March 31, 2010
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	A	54.67	54.67
Reserves & Surplus	B	676.61	626.73
		731.28	681.40
LOAN FUNDS			
Secured Loans	C	2295.92	2331.82
Unsecured Loans	D	41.48	–
		2337.40	2331.82
TOTAL FUNDS		3068.68	3013.22
APPLICATION OF FUNDS			
FIXED ASSETS	E		
Gross Block		2462.19	2354.68
Less: Depreciation		879.19	727.32
Net Block		1583.00	1627.36
Capital Work-in-Progress		272.57	302.48
		1855.57	1929.84
INVESTMENTS	F	76.67	76.67
CURRENT ASSETS, LOANS & ADVANCES			
Inventories	G	799.16	719.27
Sundry Debtors	H	995.72	728.26
Cash and Bank Balances	I	144.87	127.67
Loans & Advances	J	382.26	394.84
		2322.01	1970.04
LESS: CURRENT LIABILITIES AND PROVISIONS			
Current Liabilities	K	1141.79	853.24
Provisions	L	43.78	110.09
		1185.57	963.33
NET CURRENT ASSETS		1136.44	1006.71
TOTAL ASSETS (Net)		3068.68	3013.22
NOTES TO ACCOUNTS	M		

The schedules referred to above and notes to accounts form an integral part of the Balance Sheet.

Per our report attached

For **K. S. Aiyar & Co.**
Chartered Accountants

RAGHUVIR M. AIYAR
Partner
M.No. 38128

Hyderabad, May 20, 2011.

For and on behalf of the Board

Dr. D.R. Rao
Chairman & Managing Director

D. Sucheth Rao
Whole-time Director

D. Saharsh Rao
Whole-time Director

S.B. Budhiraja
Director

N.S. Viswanathan
Vice President (Finance)

Humayun Dhanrajgir
Director

G.V.K. Rama Rao
Director

Mary Monica Braganza
Company Secretary

P.V. Maiya
Director

Nadeem Panjetan
Director

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

₹ in Million

	Schedule	March 31, 2011	March 31, 2010
INCOME			
Sales and Export Incentives		3985.41	2812.53
Less: Excise duty		49.69	28.32
		3935.72	2784.21
Other Income	1	56.99	42.34
TOTAL		3992.71	2826.55
EXPENDITURE			
Consumption of Raw Materials, WIP and Finished Goods	2	2499.09	1620.00
Manufacturing Expenses	3	594.11	531.36
Administration, Selling & Other Expenses	4	399.87	394.43
Interest and other Charges	5	298.37	256.73
Depreciation/Amortization	E	154.92	136.64
Less: Adjusted against revaluation reserve		0.81	1.04
		154.11	135.60
TOTAL		3945.55	2938.12
PROFIT/(LOSS) BEFORE TAXATION/PRIOR PERIOD ITEMS		47.16	(111.57)
Prior Period Adjustment		–	11.97
PROFIT/(LOSS) BEFORE TAXATION		47.16	(99.60)
Provision for Current tax (See Note I)		(9.40)	–
Provision for Wealth Tax		(0.21)	(0.15)
Provision for Deferred tax		–	41.38
MAT credit entitlement		9.40	(12.08)
Excess Provision of Income Tax no longer required		3.74	–
PROFIT/(LOSS) AFTER TAX		50.69	(70.45)
Balance brought forward from previous year		11.15	81.60
AMOUNT AVAILABLE FOR APPROPRIATION		61.84	11.15
APPROPRIATIONS			
Transfer to General Reserve		–	–
Proposed Dividend		–	–
Tax on distributed profits		–	–
BALANCE CARRIED TO BALANCE SHEET		61.84	11.15
EARNINGS PER SHARE			
Basic Earnings per Share (₹)		9.39	(13.05)
Diluted Earnings per Share (₹)		9.38	(13.03)
Face Value per Share (₹)		10.00	10.00
NOTES TO ACCOUNTS	M		

The schedules referred to above and notes to accounts form an integral part of the Profit and Loss Account.

Per our report attached

For **K. S. Aiyar & Co.**
Chartered Accountants

RAGHUVIR M. AIYAR
Partner
M.No. 38128

Hyderabad, May 20, 2011.

For and on behalf of the Board

Dr. D.R. Rao
Chairman & Managing Director

D. Sucheth Rao
Whole-time Director

D. Saharsh Rao
Whole-time Director

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Director

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Vice President (Finance)

Humayun Dhanrajgir
Director

G.V.K. Rama Rao
Director

Mary Monica Braganza
Company Secretary

P.V. Maiya
Director

Nadeem Panjetan
Director

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2011

₹ in Million

	March 31, 2011	March 31, 2010
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before tax and exceptional items	47.16	(99.60)
Adjusments for:		
Depreciation/Amortization	154.11	135.60
Interest Expenses	240.93	208.87
Unrealised Foreign Exchange	0.22	8.81
Loss on sale of fixed assets	0.09	0.15
Provision for gratuity & leave encashment	13.04	8.95
Provision for doubtful debts	9.19	7.26
Operating Profit before Working Capital Changes	464.74	270.04
Add/Less Working Capital Changes		
Trade Receivables	(285.57)	(38.04)
Inventories	(79.91)	(14.60)
Loans & Advances	(55.91)	(85.85)
Trade Payables	301.08	40.38
Cash flow from operating activities	344.43	171.93
Less Income Tax Paid	(3.95)	(20.17)
Net cash from operating activities (A)	340.48	151.76
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets including Work-in-Progress	(81.88)	(233.85)
Proceeds from sale of fixed assets	1.14	0.45
Net cash used in investing activities (B)	(80.74)	(233.40)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Inter-Corporate Deposits	22.50	348.29
Increase in bank borrowings	224.85	336.64
Repayments of long term borrowings	(259.70)	(356.27)
Increase in unsecured loans	17.94	–
Interest paid	(248.13)	(202.53)
Dividend Paid	–	(22.10)
Investments in Subsidiaries	–	(0.92)
Net cash used in financing activities (C)	(242.54)	103.11
Net increase in cash & cash equivalents (A+B+C)	17.20	21.47
Opening Balance	127.67	106.20
Closing Balance	144.87	127.67

Per our report attached

For **K. S. Aiyar & Co.**
Chartered Accountants

RAGHUVIR M. AIYAR
Partner
M.No. 38128

Hyderabad, May 20, 2011.

For and on behalf of the Board

Dr. D.R. Rao
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Director

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Director

Mary Monica Braganza
Company Secretary

P.V. Maiya
Director

Nadeem Panjetan
Director

SCHEDULES FORMING PART OF THE BALANCE SHEET

₹ in Million

		As at March 31, 2011	As at March 31, 2010
SCHEDULE - A			
SHARE CAPITAL			
AUTHORISED			
10,000,000	Equity Shares of ₹10 each	100.00	100.00
300,000	Cumulative Redeemable Preference Shares of ₹100 each	30.00	30.00
300,000	Preference Shares of ₹100 each either cumulative or non-cumulative and redeemable or otherwise	30.00	30.00
		160.00	160.00
ISSUED			
5,590,000	Equity Shares of ₹10 each, fully paid	55.90	55.90
	(Previous Year - 5,590,000 Equity Shares of ₹10 each)		
SUBSCRIBED CAPITAL			
5,499,731	Equity Shares of ₹10 each	55.00	55.00
	(Previous Year - 5,499,731 Equity Shares of ₹10 each)		
PAID UP CAPITAL			
5,396,455	Equity Shares of ₹10 each fully paid up	53.96	53.96
	(Previous Year - 5,396,455 Equity Shares of ₹10 each)		
	Add: 103,276 Forfeited Equity Shares of ₹10 each	0.71	0.71
	[(Previous Year - 103,276) (amount originally paid up)]		
	a. Of the above shares, 715,040 Equity Shares of ₹10 each are allotted as fully paid up by way of bonus shares.		
	b. 11,080 Equity Shares of ₹10 each for consideration other than in cash to erstwhile shareholders of Neuland Drugs and Pharmaceuticals Private Limited.		
		54.67	54.67
SCHEDULE - B			
RESERVES & SURPLUS			
Capital Reserve		0.33	0.33
Share Premium		360.54	360.54
Revaluation Reserve		12.80	13.84
Less: Depreciation on revalued assets		0.81	1.04
		11.99	12.80
General Reserve		241.91	241.91
Profit and Loss Account		61.84	11.15
		676.61	626.73

₹ in Million

	As at March 31, 2011	As at March 31, 2010
SCHEDULE - C		
SECURED LOANS		
TERM LOANS		
a. Foreign Currency Loans	234.35	349.17
b. Rupee Loans	752.70	890.06
	987.05	1239.23
The above loans are secured by a pari-passu first charge on the immovable properties and pari-passu charge on moveable properties (subject to the prior charge in favour of the Company's bankers on specified moveables, created/to be created for securing borrowings for working capital requirements) and further guaranteed by the Chairman & Managing Director and corporate guarantee by M/s. Sucheth & Saharsh Holdings Private Limited. As per covenant of the foreign currency loan agreement with the Export Import Bank of India, included in (a) above the bank has an option to convert the loan into a Rupee loan in case the Company defaults in repayment. [Due within one year ₹273.34 (Previous Year - ₹263.01)]		
Working Capital Finance from Bank Working capital loans from bank is secured by hypothecation of raw materials, stocks in process, finished goods, book debts, stores & spares and export receivables and is further secured by second charge on all fixed assets and movable machinery of the Company, first charge being held by financial institution and guaranteed by the Chairman & Managing Director and one of the Directors in their personal capacities and pledge of one lac shares owned by Dr. D.R. Rao.	1108.60	1074.38
Loans from Non-banking Financial Company Working capital loan is secured by hypothecation of book debts factored with SBI Global Factors Limited, pari-passu second charge on fixed assets and pledge of one lac shares owned by Dr. D.R. Rao and post dated cheques worth ₹150 million.	188.61	–
Interest accured and due on above	0.97	–
OTHER LOANS		
Hire Purchase Loans	10.69	18.21
The above loan is against the hypothecation of vehicles.		
	2295.92	2331.82
SCHEDULE - D		
UNSECURED LOANS		
Inter-Corporate Deposit	22.50	–
Short Term Loans		
From Banks	1.04	–
From Others	17.94	–
	18.98	–
	41.48	–

SCHEDULE - E

FIXED ASSETS

₹ in Million

Particulars	GROSS BLOCK					DEPRECIATION/AMORTIZATION					NET BLOCK	
	Cost as on 01.04.2010	Additions for the year	Deductions	Adjustments	Cost as on 31.03.2011	Upto 31.03.2010	Deductions	For the year	Adjustments	Total upto 31.03.2011	As on 31.03.2011	As on 31.03.2010
Land	27.99	–	–	–	27.99	–	–	–	–	–	27.99	27.99
Buildings	546.62	33.32	–	(0.83)	579.11	85.81	–	18.86	(0.03)	104.64	474.47	460.81
Plant and Machinery	1501.91	72.30	–	(0.86)	1573.35	550.41	–	111.55	(0.09)	661.87	911.48	951.50
R&D Equipment	137.15	0.32	–	(3.03)	134.44	28.25	–	12.80	(0.31)	40.74	93.70	108.90
Data Processing Machines	27.77	3.13	–	–	30.90	15.64	–	3.11	–	18.75	12.15	12.13
Furniture & Fittings	34.10	0.77	(0.12)	(0.02)	34.73	7.36	(0.03)	2.16	–	9.49	25.24	26.74
Vehicles	53.37	4.21	(4.15)	–	53.43	17.19	(3.02)	4.49	–	18.66	34.77	36.18
Intangible Assets (Process Development Cost)	16.87	–	–	–	16.87	16.87	–	–	–	16.87	–	–
Intangible Assets – SAP	8.90	2.47	–	–	11.37	5.79	–	2.38	–	8.17	3.20	3.11
TOTAL	2354.68	116.52	(4.27)	(4.74)	2462.19	727.32	(3.05)	155.35	(0.43)	879.19	1583.00	1627.36
Previous Year	2056.49	350.09	(1.20)	(50.70)	2354.68	591.29	(0.59)	141.19	(4.57)	727.32	1627.36	
Capital Work--in-Progress (Including advances on capital goods)											272.57	302.48

Note: Adjustment to gross block and depreciation carried out on account of foreign exchange gain relating to the financial year 2010-11 pursuant to notification dated March 31,2009 issued by the Ministry of Corporate Affairs (See Note 5 on Schedule M).

	As at March 31, 2011	As at March 31, 2010
SCHEDULE - F		
INVESTMENTS - Long Term (at Cost)		
Investment in Government Securities	0.15	0.15
Investments in Shares Debentures & Bonds (Unquoted)		
Jeedimetla Effluent Treatment Limited	0.22	0.22
2,200 Equity Shares of ₹100 each fully paid up		
(2,200 Equity Shares of ₹100 each fully paid up)		
Pantancheru Enviro-Tech Ltd	2.09	2.09
209,136 Equity Shares of ₹10 each fully paid up		
(209,136 Equity Shares of ₹10 each fully paid up)		
Andhra Pradesh Gas Power Corporation Limited	70.40	70.40
402,000 Equity Shares of ₹10 each fully paid up		
(402,000 Equity Shares of ₹10 each fully paid up)		
Investment in Subsidaries - Unquoted		
Neuland Laboratories K.K., Japan	1.54	1.54
300,000 Equity Shares of Yen 10 each fully paid up		
(300,000 Equity Shares of Yen 10 each fully paid up)		
Neuland Laboratories Inc., USA	0.05	0.05
1,000 Equity shares of USD 1 each fully paid up		
(1,000 Equity Shares of USD 1 each fully paid up)		
CATO Research Neuland India Private Limited	1.22	1.22
35,000 Equity shares of ₹10 each fully paid and 872,193		
Equity Shares of ₹10 each, ₹1 paid up		
(35,000 Equity Shares of ₹10 each fully paid and 872,193		
Equity shares of ₹10 each, ₹1 paid up)		
SBI Mutual fund	1.00	1.00
100,000 units of ₹10 each		
(100,000 units of ₹10 each)		
	76.67	76.67
Market Value ₹0.9 (Previous Year - ₹1.03)		

₹ in Million

	As at March 31, 2011	As at March 31, 2010
SCHEDULE - G		
INVENTORIES - As certified by the management		
Stores and Consumables	38.70	30.88
Stock-in-Trade		
Raw Materials	250.89	210.24
Finished Goods	424.19	402.58
Goods-in-Transit	2.94	3.23
Work-in-Process	82.44	72.34
	799.16	719.27
SCHEDULE - H		
SUNDRY DEBTORS (Unsecured, Considered Good)		
Sundry Debtors outsanding for a period exceeding six months		
Considered good	31.52	35.51
Considered doubtful	24.81	23.93
	56.33	59.44
Less: Provision for doubtful debts	24.81	23.93
	31.52	35.51
Others	964.20	692.75
	995.72	728.26
SCHEDULE - I		
CASH & BANK BALANCES		
Cash on hand	0.21	0.17
Bank Balance earmarked for statutory liability	0.67	–
Bank Balances with Scheduled Banks		
Current Accounts	11.11	12.59
Fixed Deposit Accounts (against margin money)	100.38	82.41
Fixed Deposit Accounts	32.50	32.50
	144.87	127.67
SCHEDULE - J		
LOANS & ADVANCES (Unsecured, Considered Good)		
Advances recoverable in cash or in kind or for value to be received		
Balances with Central Excise	57.55	53.52
Sundry Advances		
Advance to Suppliers	7.59	20.66
Other Advances	8.41	23.40
Deposits	21.81	20.98
Export Benefits Receivable	128.64	80.49
Other Claims Receivable	123.32	94.02
	289.77	239.55
Advances to Subsidaries	3.37	1.96
Advance receivable in cash or in kind or for value to be received		
Prepaid Expenses	9.23	9.04
Advance Payment against Taxes - Income Tax	12.55	81.04
	21.78	90.08
Interest accrued on Bank Deposits	9.79	9.73
	382.26	394.84

₹ in Million

	As at March 31, 2011	As at March 31, 2010
SCHEDULE - K		
CURRENT LIABILITIES		
Sundry Creditors		
For Goods Supplied		
Due to Micro, Small and Medium Enterprises	–	–
Other than Micro, Small and Medium Enterprises	859.67	591.20
For Expenses	118.86	113.70
For Capital Expenditure	8.38	15.56
Advance from Customers	45.91	60.49
Due to Subsidaries	4.50	2.81
Other Liabilities	102.60	68.54
	1139.92	852.30
Export Incentive Obligation	1.11	0.87
Due to Shareholders		
Unclaimed Dividends	0.69	0.00
Investor Education and Protection Fund		
(Appropriate amount shall be transferred to Investor Education and		
Protection Fund if, and when, due)		
Unpaid amount due to Investor Education and Protection Fund		
Fixed deposits matured but not claimed including interest thereon	0.07	0.07
However, no amounts other than mentioned above are due to be transferred to		
Investor Eduction and Protection Fund as on March 31, 2011.		
	1141.79	853.24
SCHEDULE - L		
PROVISIONS		
Provision for Taxation		
Income Tax	5.18	81.22
Wealth Tax	0.21	0.15
	5.39	81.37
Gratuity	27.14	17.01
Leave Encashment	11.25	11.71
	43.78	110.09

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT

₹ in Million

		Year ended March 31, 2011	Year ended March 31, 2010
SCHEDULE - 1			
OTHER INCOME			
Interest received [Includes TDS of ₹0.9 (Previous Year - ₹1.06)]		9.03	8.27
Miscellaneous Income		1.16	1.34
Foreign Exchange Gain (Net)		14.57	0.00
Product Development Charges received		32.23	32.73
		56.99	42.34
SCHEDULE - 2			
CONSUMPTION OF RAW MATERIALS, WIP & FINISHED GOODS			
Opening Stock of Raw Materials		210.24	229.69
Add: Purchases		2571.45	1636.10
		2781.69	1865.79
Less: Closing Stock of Raw Materials		250.89	210.24
Consumption of Raw Materials	(i)	2530.80	1655.55
Opening Stock			
Finished Goods		402.58	360.73
Work-in-Process		72.34	78.64
		474.92	439.37
Closing Stock			
Finished Goods		424.19	402.58
Work-in-Process		82.44	72.34
		506.63	474.92
Consumption of Work-in-Process/Finished Goods	(ii)	(31.71)	(35.55)
Total Consumption of Raw Materials, Work-in-Process and Finished Goods	(i) + (ii)	2499.09	1620.00
SCHEDULE - 3			
MANUFACTURING EXPENSES			
Stores and Consumables		47.26	44.53
Power and Fuel		136.22	106.04
Carriage Inwards		8.62	6.37
Repairs and Maintenace			
Repairs to Buildings		6.25	2.38
Repairs to Machinery		6.21	19.91
Others		81.43	68.75
		93.89	91.04
Payments & Provisions to Employees			
Salaries and Wages		224.89	206.70
Employers contribution to EPF, FPF, ESI & EDLIS		26.01	17.49
Staff Welfare Expenses		9.70	7.96
		260.60	232.15
Effluent Treatment & Transport charges		26.00	33.38
Packing Material		18.70	15.36
Testing Charges		2.93	2.68
Decrease in provision for Excise duty on Finished Goods		(0.11)	(0.19)
		594.11	531.36

₹ in Million

	Year ended March 31, 2011	Year ended March 31, 2010
SCHEDULE - 4		
ADMINISTRATION, SELLING & OTHER EXPENSES		
Rent, Rates & Taxes	13.65	11.13
Travelling Expenses	46.17	51.13
Professional Charges	16.74	15.12
Remuneration to Auditors		
Statutory Audit	0.76	0.66
Tax Audit	0.20	0.20
Limited Reviews	0.60	0.60
Other Services	0.14	0.14
Out-of-pocket Expenses	0.18	0.07
	1.88	1.67
Insurance	21.71	21.63
Advertisement	0.91	0.93
Sales Commission	14.48	12.82
Selling and Distribution Expenses	72.37	55.43
Freight and Forwarding Charges	72.84	56.62
Provision for Doubtful Debts & Advances	13.11	9.09
Less: Amount written back on collection	3.93	1.83
	9.18	7.26
Other Expenses	27.10	37.66
Foreign Exchange Loss (Net)	–	22.34
Sitting Fees	0.39	0.42
R&D Charges (See Note 10)	102.45	100.27
	399.87	394.43
SCHEDULE - 5		
INTEREST & OTHER CHARGES		
Interest on Working Capital	116.61	95.25
Interest on Term Loan (Gross)	124.31	139.81
Less: Interest captilized	–	26.19
	124.31	113.62
Discounting & Negotiation Charges	18.84	13.45
Others	38.61	34.41
	298.37	256.73

SCHEDULE – M
NOTES TO ACCOUNTS

SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING AND USE OF ESTIMATES

i. Financial statements are prepared under the historical cost convention, on accrual basis of accounting in accordance with the accounting principles generally accepted in India and in compliance with the provisions of Companies Act 1956, and comply with the mandatory accounting standards specified in Companies (Accounting Standard) Rules 2006, prescribed by the Central Government.

ii. The preparation of financial statements, in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

B. REVENUE RECOGNITION

i. Sales are recognized on dispatch of products. Sales are inclusive of insurance, freight and exclusive of sales tax.

ii. The export incentive are accrued and accounted on the basis of the actual exports made during the year.

iii. Income from product development services are recognized when services are rendered or related costs are incurred in accordance with the terms of specific contracts.

C. EXCISE DUTY

Excise Duty recovered is reduced from sale of products. Excise Duty in respect of finished goods is Accounted for, as and when goods are cleared from the factory and stocks of finished goods are valued inclusive of excise duty where applicable.

D. FIXED ASSETS

i. Fixed assets are stated at cost of acquisition or construction less accumulated depreciation and impairment losses. Cost of acquisition or construction is inclusive of freight, duties (net of CENVAT and VAT), taxes, incidental expenses relating to acquisition, cost of installation/erection, attributable interest and financial cost till such time assets are ready for its intended use.

ii. Foreign exchange gain/loss on borrowings for acquisition/construction of fixed assets have been reduced from/added to the related costs of assets with effect from April 1, 2007 as per the Ministry of Corporate Affairs notification dated March 31, 2009 in amendment of accounting standards.

iii. Certain land, buildings, plant & machinery and fixed assets are shown at revalued values. Other fixed assets are shown at cost.

iv. Depreciation on fixed assets is provided on Straight Line Method at the rates prescribed by Schedule XIV of the Companies Act, 1956 as amended, and is calculated on a pro-rata basis. Depreciation is charged on pro rata basis for assets purchased/sold during the year. Depreciation on value written up on revalued assets is calculated on SLM basis with reference to the remaining useful life of the asset and the Revaluation Reserve is charged with the difference between the depreciation calculated on such revalued costs and the historical cost.

v. Borrowing costs that are attributable to the acquisition or construction of fixed assets are capitalized as part of such assets for the period up to the date of put to use. All other borrowing costs are charged to revenue.

vi. Expenses on Research & Development equipment are capitalized.

vii. Intangibles being cost of SAP ERP and software is amortized over a period of three years.

E. IMPAIRMENT OF ASSETS

In accordance with Accounting Standard 28 (AS 28) on 'Impairment of Assets,' where there is an indication of impairment of the Company's assets, the carrying amounts of the Company's assets are reviewed at each

balance sheet date to determine whether there is any impairment based on internal/external factors. An impairment loss, if any, is recognized in the Profit and Loss Account, wherever the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of the assets is estimated at the higher of its net selling price and its value in use. In assessing the value in use, the estimated future cash flows are discounted to the present value at the weighted average cost of capital. After impairment, depreciation is provided on the revised carrying amount of the assets over its remaining useful life. Previously recognized impairment loss is further provided or reversed depending on changes in circumstances.

F. INVESTMENTS

Long term investments are carried at cost. However, provision for diminution in value if any is made to recognize a decline other than temporary in the value of investments.

G. FOREIGN CURRENCY TRANSACTIONS

a. Transactions in foreign exchange are accounted for at the average exchange rate for the month of transaction. Gains and losses arising thereon are recognized in the Profit and Loss Account. In respect of items covered by forward exchange contract, the premium or discount arising at the inception of such a forward exchange contract is amortised as an expense or income over the life of the contract;

b. Foreign currency monetary items are reported using exchange rates prevailing at the close of the year and exchange difference arising there from is charged/credited to Profit and Loss Account. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction;

c. In case of fixed assets, refer D (ii) above.

H. INVENTORIES

Inventories are valued at lower of cost and estimated net realizable value, after providing for cost of obsolescence and other anticipated loss whenever considered necessary. Work-in-progress is valued at estimated cost on the basis of stage wise completion of the production. Finished goods and work in process include cost of conversion and other costs incurred in bringing the inventories to their present level of location and condition. Cost is determined by using the weighted average basis. Cost of finished goods includes excise duty, wherever applicable.

I. TAXATION

Provision for current tax is made after taking into consideration benefits admissible under the provisions of Income Tax Act, 1961. Deferred tax resulting from 'timing differences' between book and taxable profit is accounted for using the tax rates and laws that have been enacted or substantively enacted as on the balance sheet date. The deferred tax assets pertaining to carried forward losses and unabsorbed depreciation are recognized only to the extent that there is a virtual certainty that these assets are realized. The deferred tax assets pertaining to other items are recognized to the extent that there is a reasonable certainty that the same can be realized.

J. EMPLOYEE STOCK OPTION SCHEMES (ESOP)

The Company accounts for compensation expense under the Employee Stock Option Schemes using the intrinsic value method as permitted by the Guidance Note on 'Accounting for Employee Share-based Payments' issued by the Institute of Chartered Accountants of India. The difference between the market price and the exercise price as at the date of the grant is treated as compensation expense and charged over the vesting period.

K. EMPLOYEE BENEFITS

a. Defined Contribution Plan

The Company's Employee's Provident Fund administered through Government Provident Fund, Employee State Insurance Scheme and Labour Welfare Fund are considered as Defined Contribution Plans. The Company's contributions paid/payable towards these defined contributions plan are recognised as expense in the Profit and Loss Account during the period in which the employee renders the related service. The interest rate payable by the said funds to the beneficiaries every year is being notified by the government. The Company has no obligation to make good the shortfall, if any between the return from the investment and the interest rate.

b. Defined Benefit Plan

Company's liabilities towards gratuity, long term compensated absences are considered as Defined Benefit Plans. The present value of the obligations under such Defined Benefit Plans are determined based on actuarial valuation using the projected unit credit method, which recognises each period of service as giving rise to an additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation. Actuarial gains and losses are recognized immediately in the statement of profit and loss.The obligation is measured at the present value of estimated future cash flows using a discount rate that is determined by reference to market yields at the balance sheet date on government securities.

L. CONTINGENCIES AND PROVISIONS

A provision is recognized when the Company has a present obligation as a result of past events. Provisions are not discounted to present value and are determined based on the best estimate of the expenditure required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Contingent liabilities are disclosed after careful examination of the facts and legal aspects of the matter involved.

1. SEGMENT REPORTING

a. Company's operations are predominantly related to the manufacture of bulk drugs, as such there is only one primary reportable segment. Secondary reportable segments are identified taking into account the geographical markets available to the products, the differing risks and returns and internal reporting system.

b. As part of secondary reporting, in the view of the management, the Indian and export markets represent geographical segments.

Sales by market - The following are the distribution of the Company's sale by geographical market:

₹ in Million

Particulars	2010 - 2011		2009 - 2010	
	Revenue	%	Revenue	%
India	756.05	19.21	533.02	19.14
Other than India	3179.67	80.79	2251.19	80.86
Total	3935.72	100.00	2784.21	100.00

c. The Company does not track its assets and liabilities by geographical area.

2. RELATED PARTY TRANSACTIONS

Disclosures as required by the Accounting Standard - 18

a. Name of the related parties and descriptions of relationships

Name	Nature of Relationship
M/s. Sucheth & Saharsh Holdings Private Limited	Other Related Party

b. Key Management Personnel

Name	Nature of Relationship
Dr. D. R. Rao	Chairman & Managing Director
Mr. D. Sucheth Rao	Whole-time Director & Chief Executive Officer & Son of Chairman & Managing Director
Mr. D. Saharsh Rao	Whole-time Director & President - Contract Research & Son of Chairman & Managing Director

c. Relatives of Key Managerial Personnel

Name	Nature of Relationship
Mrs. D. Vijaya Rao	Wife of Chairman & Managing Director
Mrs. D. Rohini Niveditha Rao	Wife of Whole-time Director & Chief Executive Officer
Mrs. K. Deepthi Rao	Wife of Whole-time Director & President - Contract Research

d. Subsidiary Companies

i. Neuland Laboratories K.K., Japan	Wholly owned subsidiary
ii. Neuland Laboratories Inc., USA	Wholly owned subsidiary
iii. Cato Research Neuland India Private Limited	Partly owned subsidiary

e. Transactions during the year and balances outstanding as at the year end with the Related Parties are as follows:

₹ in Million

Nature of transactions	Other related party	Key Management Personnel	Relative of Key Management Personnel	Subsidiary Companies
Rent paid	0.75	–	–	–
	(0.68)	–	–	–
Office maintenance		0.42		
		(0.42)		
Remuneration paid to Chairman & Managing Director		4.98		
		(5.27)		
Remuneration paid to Whole-time Director &				
Chief Executive Officer		5.30		
		(5.30)		
Remuneration paid to Whole-time Director &				
President - Contract Research		4.63		
		(3.77)		
Services Received				57.36
				(46.83)
Inter-Corporate Deposit taken	22.50			
	-			
Balance of Inter-Corporate Deposit	22.50			
	-			
Outstanding at the year end - due to	0.21	7.34	0.03	4.50
	–	(6.53)	(5.11)	(2.81)
Outstanding at the year end - due from	–			3.37
	(15.33)			(1.96)
Outstanding deposit at the year end - due from	2.21			
	(2.21)			
Investment in Share Capital				
- Neuland Laboratories K.K., Japan				1.54
				(1.54)
- Neuland Laboratories Inc. USA				0.05
				(0.05)
- Cato Research Neuland India Private Limited				1.22
				(1.22)

Figures in brackets relate to previous year.

3. EARNINGS PER SHARE

₹ in Million

Computation for Basic & Diluted Earnings per Share		March 31, 2011	March 31, 2010
I.	Net Profit/(Loss)		
	Before prior period & exceptional items as per Profit and Loss Account available for Equity Shareholders	50.69	(82.42)
	After prior period adjustments	50.69	(70.45)
II.	Weighted average number of equity shares for computation of basic and diluted Earnings per Share	5,396,455	5,396,455
III.	Earnings per Share (Weighted Average)		
	Before prior period adjustment		
	Basic (₹)	9.39	(15.27)
	Diluted (₹)	9.38	(15.25)
	After prior period adjustment		
	Basic (₹)	9.39	(13.05)
	Diluted (₹)	9.38	(13.03)

4. MANAGERIAL REMUNERATION

a. Managerial Remuneration (excluding the contributions to provident fund, provision for gratuity and leave encashment paid or payable to Directors)

		March 31, 2011	March 31, 2010
A.	Minimum Remuneration of		
	Chairman & Managing Director		
	Salary	4.20	4.20
	Perquisites	0.28	0.56
	Commission	–	–
	Total (A)	4.48	4.76
B.	Remuneration of Whole-time Director & Chief Executive Officer		
	Salary	4.20	4.20
	Perquisites	0.60	0.60
	Commission	–	–
	Total (B)	4.80	4.80
C.	Remuneration of Whole-time Director &		
	President Contract Research		
	Salary	3.60	3.00
	Perquisites	0.60	0.50
	Commission	–	–
	Total (C)	4.20	3.50
D.	Non-Executive Directors		
	Commission	–	–
	Total (D)	–	–
	Total Remuneration (A+B+C+D)	13.48	13.06

b. The computation of profit under Section 349 of the Companies Act, 1956 is not considered necessary as the managerial remuneration that is paid is minimum remuneration based on effective capital of the Company as prescribed under Schedule XIII of the said Act.

5. During the year 2008-09, the Company had opted to adopt the amendment to the Companies (Accounting Standards) Rules, 2006 effected by a notification dated March 31, 2009 issued by the Ministry of Corporate Affairs, Government of India. Pursuant to this adoption, an amount of ₹55.43 million being foreign exchange fluctuations gain till date pertaining to foreign currency loan availed for acquisition of depreciable capital assets is adjusted to the cost of such assets.

6. EMPLOYEE BENEFITS

₹ in Million

	Gratuity (Funded)	Leave Encashment (Unfunded)
I. Expense recognized in the statement of Profit and Loss for the year ended March 31, 2011		
Current Service Cost	**6.43**	(0.12)
	3.67	*2.26*
Interest Cost	**2.07**	0.89
	1.78	*0.70*
Expected return on plan assets	**(0.55)**	–
	(0.54)	–
Net Actuarial (Gains)/Losses	**2.26**	1.99
	(0.20)	*0.64*
Total Expense	**10.21**	2.76
	4.70	*3.60*
II. Net Assets/(Liability) recognized in the Balance Sheet as at March 31, 2011		
Present Value of Defined Obligation as at March 31, 2011	**32.17**	10.96
	25.88	*11.08*
Fair Value of plan assets as at March 31, 2011	**4.95**	–
	9.12	–
Funded status [Surplus/(Deficit)] difference	**(27.22)**	(10.96)
	(16.76)	*(11.08)*
Net Assets/(Liability) as at March 31, 2011	**(27.22)**	(10.96)
	(16.76)	(11.08)
III. Change in Obligation during the year ended March 31, 2011		
Present value of defined Benefit Obligation at the beginning of the year	**25.88**	11.08
	22.22	*8.82*
Current Service Cost	**6.43**	(0.12)
	3.67	*2.26*
Interest Cost	**2.07**	0.89
	1.78	*0.71*
Actuarial (Gains)/Losses	**2.26**	1.99
	(0.25)	*0.64*
Benefits Payments	**(4.47)**	(2.88)
	(1.53)	*(1.35)*
Present value of Defined Benefit Obligation at the end of the year	**32.17**	10.96
	25.88	*11.08*

₹ in Million

		Gratuity (Funded)	Leave Encashment (Unfunded)
IV.	**Change in the Assets during the year ended March 31, 2011**		
	Fair Value of plan assets at the beginning of the year	**9.12**	–
		5.06	–
	Expected return on plan assets	**0.55**	–
		0.54	–
	Contribution by Employer	**–**	–
		5.00	–
	Actual benefits paid	**(4.47)**	–
		(1.53)	–
	Actuarial Gains/(Losses) on plan assets	**0.25**	–
		0.04	–
	Fair Value of plan assets at the end of the year	**4.95**	–
		9.12	–
		March 31, 2011	March 31, 2010
V.	**Actuarial Assumptions**		
	Discount rate (%)	**8.00**	8.00
	Rate of return on plan assets (%)	**8.00**	8.00
	Salary escalation rate (Management Staff) (%)	**4.00**	4.00
	Attrition rate (%)	**4.00**	4.00
	Mortality	Standard Table LIC (1994-96) ultimate	Standard Table LIC (1994-96) ultimate
	Disability	No explicit allowance	No explicit allowance

Figures in italics relate to previous year.

The amount of ₹10.28 million being the provision for gratuity and ₹2.76 million being provision for leave encashment is included in payments and provisions to employees under Schedule 3 of the financials.

The estimates of future salary increases considered in actuarial valuation takes into account the inflation rate on long term basis.

7. DISCLOSURE REQUIRED BY MICRO, SMALL AND MEDIUM ENTERPRISES (DEVELOPMENT) ACT, 2006

As per requirement of Section 22 of Micro, Small and Medium Enterprises Development Act, 2006 following information is disclosed:

₹ in Million

Particulars	March 31, 2011	March 31, 2010
Principal amount remaining unpaid to any supplier as at the end of each accounting year	0.44	Nil
Interest due on (i) above remaining unpaid	Nil	Nil
Amounts paid beyond the appointed day during the accounting year	Nil	Nil
Interest paid on (iii) above	Nil	Nil
Interest due and payable on (iii) above	Nil	Nil
Interest accrued and remaining unpaid at the end of the accounting year.	Nil	Nil
Interest remaining unpaid of the previous years for the purpose of disallowance under the Income Tax Act, 1961	Nil	Nil

The above information regarding micro, small and medium enterprises has been determined to the extent such parties have been identified on the basis of information available with the Company. This has been relied upon by the auditors.

8. DEFERRED TAX

As a result of carried forward losses the deferred tax calculations result into a Deferred Tax Asset (DTA) as given below: The Company has not recognized the DTA as a matter of prudence.

₹ in Million

	March 31, 2011	March 31, 2010
Deferred Tax Liabilities		
Depreciation difference	60.13	66.00
Capital expenditure	172.87	167.45
Total	233.00	233.45
Deferred Tax Assets		
Unabsorbed Depreciation & Loss	214.77	206.78
Provisions	14.64	12.99
Inventory	18.95	17.62
Total	248.36	237.39
Net Deferred Tax Assets	15.36	3.94

9. COST OF POWER AND FUEL CONSUMED INCLUDED UNDER VARIOUS HEADS IS AS FOLLOWS:

₹ in Million

	2010-11	2009-10
Production	136.22	106.04
Effluent Treatment & Transport Charges	3.00	3.00
Research & Development Expenses	11.26	11.55
Total	150.48	120.59

10. R&D EXPENDITURE DEBITED TO THE PROFIT AND LOSS ACCOUNT CONSISTS OF THE FOLLOWING:

₹ in Million

	2007-08	2008-09	2009-10	2010-11
Material Consumed	3.89	8.19	10.64	**7.94**
Power and Fuel	7.72	11.66	11.55	**11.26**
Staff Cost	24.09	36.34	65.00	**71.70**
Professional Charges	15.75	12.99	0.36	**–**
Others	8.24	17.3	12.72	**11.55**
Total	59.69	86.48	100.27	**102.45**

10A. R&D EXPENDITURE AS PER SECTION 35(2AB)

₹ in Million

	2007-08	2008-09	2009-10	2010-11
R&D Expenditure	44.31	71.99	98.14	**102.45**

11. EMPLOYEE STOCK OPTION SCHEME - 2008

Pursuant to the resolution passed by the Board of Directors on July 20, 2007 and Members of the Company at the Annual General Meeting held on July 20, 2007, the Company had introduced Employee Stock Option Scheme ('the scheme') for permanent employees and Directors of the Company and of its subsidiaries, as may be decided by the Compensation Committee/Board. The scheme provides that the total number of options granted there under will be not more than 3% of the paid up capital. Each option, on exercise, is convertible into one equity share of the Company having face value of ₹10. Pursuant to a resolution passed by the Remuneration & Compensation Committee vide Circular Resolution dated November 17, 2008, 34,500 options have been granted at an exercise price of ₹104, which is the market price as on the date of the grant. Accordingly, the Company has not recognized any expense on account of grant of stock options.

Stock options activity under the scheme is as follows:

Particulars	2010-11	2009-10
Option Outstanding at the beginning of the year	**29,000**	34,500
Options Granted during the year	**Nil**	Nil
Options Exercised during the year	**Nil**	Nil
Options Lapsed during the year	**6,000**	5,500
Options Outstanding at the year end	**23,000**	29,000

12. Revenue of ₹35.51 million (including ₹5.39 million for earlier periods) has been accounted under export incentives receivable under Focus Market Scheme as per notification dated August 27, 2009 by Director General of Foreign Trade.

13. CONTINGENT LIABILITY

a. Claims against the Company not acknowledged as debts:

i. Customs duty demand of ₹2.29 million including interest (Previous Year - ₹2.29 million). The same was adjusted against the pre-deposit of ₹4.00 million made by the Company. The Company has filed an appeal against the demand before the Appellate Tribunal, Chennai, which is yet to be decided. Simultaneously the Company also filed an appeal before Hon'ble High Court of Madras for refund of balance of pre-deposit together with interest. As the export obligations against the material imported under DEEC Scheme have been completed, the Company expects the outcome in its favour.

ii. Andhra Pradesh Gas Power Corporation Limited and its shareholders (including Neuland) have filed writ petition before the Division Bench of the Hon'ble High Court of Andhra Pradesh, which has been admitted and favourable interim orders have been granted. The Company has been advised that it has a strong case to succeed in the pending appeal.

iii. Certain disputes, for unascertained amounts, are pending in the Labour Courts, Andhra Pradesh. As the chances of appellants succeeding in their claims being remote, the Company expects no liability on this account.

b. Unexpired Letters of Credit opened on behalf of the Company by bank for the raw material amounting to ₹537.79 million (Previous year - ₹438.25 million).

c. Estimated amounts of contracts on capital account to be executed and not provided for, net of advance ₹1.28 million (Previous Year - ₹11.48 million).

d. Bank guarantees given by the Company to Central Excise and Customs and other Government authorities amounting to ₹13.59 million (Previous year - ₹9.35 million).

e. A demand of ₹31.84 million was raised by the Income Tax Department for the Assessment Year 2004-05, by the Assessing Officer by reopening the assessment under Section 148 of the Income Tax Act 1961. The Hon'ble CIT (Appeals) vide his order dated May 3, 2011 has upheld the Company's plea and adjudicated in favor of the Company stating the re-opening of the assessment as bad in law, and the reopened proceedings void *ab initio*.

14. Neuland Laboratories Limited in collaboration with Cato Research Israel Limited, (a wholly owned subsidiary of Cato Research Inc., a global contract research and development organization based in USA) formed a joint venture in India styled as Cato Research Neuland India Private Limited on May 14, 2008.

    The joint venture company has received all permissions/approvals from authorities to begin its operations. Neuland's share in the joint venture is 70%. The commitment towards initial share capital contribution is US $ 350,000 - approximately ₹14.07 million.

15. Fixed assets include vehicles and machinery acquired under Hire Purchase Agreement amounting to ₹52.52 million as on March 31, 2011 (Previous year - ₹32.97 million). The hire purchase charges have been charged to Profit and Loss Account. The hire purchase installment due within one year is ₹12.62 million (Previous Year - ₹10.36 million).

16. The Ministry of Corporate Affairs, Government of India vide its General Notification No. S.O.301(E) dated February 8, 2011 issued under Section 211(3) of the Companies Act, 1956 has exempted certain classes of companies from disclosing certain information in their Profit and Loss Account. The Company being an 'export oriented company' is entitled to the exemption. Accordingly, disclosures mandated by paragraphs 3(i)(a), 3(ii)(a), 3(ii)(b) and 3(ii)(d) of Part II, Schedule VI to the Companies Act,1956 have not been provided.

17. ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PARAGRAPH 4 OF PART II OF SCHEDULE VI TO THE COMPANIES ACT 1956

A. Production Data

Installed capacity[1], actual production

Kgs.

Products	Installed Capacity		Actual Production	
	2010-2011	2009-2010	2010-2011	2009-2010
(Actual Capacities Kgs.)[1]				
Bulk Drugs[2]	–	–	1,223,181	839,441
Intermediates	–	–	67,735	61,370

[1]As certified by the management, being technical matter accepted by the auditors as correct.

[2]Note a. Including contract manufacturing.

b. Installed capacity is flexible as the plant is versatile, enabling the Company to produce in different capacities and therefore it varies depending on the product programme.

B. Value of imported and indigenous raw materials consumed and percentage of each to total consumption

	2010-2011		2009-2010	
	₹ in Million	%	₹ in Million	%
Imported	1690.13	67	1025.49	62
Local	840.67	33	630.06	38
Total	2530.80	100	1655.55	100

C. Value of imports on CIF value basis

₹ in Million

	2010-11	2009-10
Raw Materials	1403.23	913.70
Capital Goods	23.75	33.06

D. Expenditure in foreign currency

₹ in Million

	2010-11	2009-10
Foreign Travel	3.04	4.14
Foreign Agent's Commission	4.05	9.81
Professional charges	8.13	12.56
US/Japan Branch office expenditure	57.36	47.89
Others	3.23	3.88

E. Earnings in foreign currency

i. Export of goods on FOB basis ₹2869.53 million (Previous year - ₹1966.63 million).

ii. Product Development Charges ₹32.23 million (Previous year - ₹32.73 million).

F. Amount remitted during the year in foreign currency on account of dividend to Non-Resident shareholders

Particulars	2010-11	2009-10
No. of Shares (₹10 each)	–	1,291,450
No. of share holders	–	26
Amount of Dividend (Net of Taxes in ₹Million)	–	4.52
Year to which dividend related	–	2008-09

18. PARTICULARS OF UNHEDGED FOREIGN CURRENCY EXPOSURE AS AT BALANCE SHEET DATE

Foreign currency loan	₹224.26 million (US $ 5.02 million @ average closing rate of 1 US $ = ₹44.70) [Previous year - ₹319.02 million (US $ 6.99 million @ average closing rate of 1 US $ = ₹45.67)]
Export Debtors	₹785.79 million (US $ 17.58 million @ average closing rate of 1 US $ = ₹44.69 [Previous year - ₹545.07 million (US$ 12.21 million @ average closing rate of 1 US $ = ₹44.64)]
Import Creditors	₹261.15 millions (US $ 5.84 million @ average closing rate of 1 US $ = ₹44.70) [Previous year ₹35.77 million (US $ 0.78 million @ average closing rate of 1 US $ = ₹45.67)] ₹6.85 millions (EUR 0.11 millions @ average closing rate of EUR = ₹63.17) [Previous year ₹6.18 million (EUR 0.10 million @ average closing rate of EUR = ₹61.43)]

19. Previous year figures have been regrouped and/or rearranged wherever necessary.

Per our report attached

For **K. S. Aiyar & Co.**
Chartered Accountants

RAGHUVIR M. AIYAR
Partner
M.No. 38128

Hyderabad, May 20, 2011.

For and on behalf of the Board

Dr. D.R. Rao
Chairman & Managing Director

D. Sucheth Rao
Whole-time Director

D. Saharsh Rao
Whole-time Director

S.B. Budhiraja
Director

N.S. Viswanathan
Vice President (Finance)

Humayun Dhanrajgir
Director

G.V.K. Rama Rao
Director

Mary Monica Braganza
Company Secretary

P.V. Maiya
Director

Nadeem Panjetan
Director

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

(As per Schedule VI, Part IV of the Companies Act, 1956)

I. Registration details

State code 01

Corporate Identification No. L85195APL1984PLC004393

Balance Sheet Date: March 31, 2011

II. Capital raised during the year: NIL

III. Position of mobilisation and deployment of funds (₹in '000s)

Total Liabilities	3068677	Total Assets	3068677
Sources of Funds		**Application of Funds**	
Paid Up Capital - Equity	54671	Net Fixed Assets (Including Capital Work-in-Progress)	1855564
Reserves & Surplus	676602		
Secured Loans	2295921	Investments	76669
Unsecured Loans	41483	Net Current Assets	1136444
Deferred Tax Liability	NIL	Miscellaneous Expenditure	NIL

IV. Performance of the Company (₹in '000s)

Turnover & Other Income	3992722	Earnings Per Share	9.38
Total Expenditure	3945560	Dividend Rate (%)	NIL
Profit before Tax	47162		
Profit after Tax	50690		

V. Generic name of three principal products

	Item Code No. (ITC Code)	Product Description
a.	30049071	Enalapril Maleate
b.	29419030	Ciprofloxacin
c.	29420014	Ranitidine

AUDITORS' REPORT

AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF NEULAND LABORATORIES LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF NEULAND LABORATORIES LIMITED

1. We have audited the attached Consolidated Balance Sheet of Neuland Laboratories Limited and its subsidiaries (the Neuland Group) as at March 31, 2011 and also the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of Neuland Laboratories Limited's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. We did not audit the financial statements of two subsidiaries, whose financial statements reflect total assets (net) of ₹62.03 lakhs as at March 31, 2011, the total revenue of ₹Nil and cash inflows of ₹20.84 lakhs for the year then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us, and our opinion is based solely on the report of other auditors.

4. We report that the Consolidated Financial Statements have been prepared by Neuland Laboratories Limited's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited/unaudited financial statements of the Neuland Group included in the Consolidated Financial Statements.

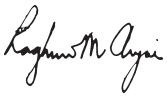
5. On the basis of the information and explanation given to us and on the consideration of the separate audit reports on the individual financial statements of the Neuland Group wherever audited and its aforesaid subsidiaries, we are of the opinion that, the attached Consolidated Financial Statements give a true and fair view in conformity with the accounting principles generally accepted in India:

   i. The Consolidated Balance Sheet gives a true and fair view of the state of affairs of the Neuland Group as at March 31, 2011;

   ii. The Consolidated Profit and Loss Account gives a true and fair view of the consolidated results of operations of the Neuland Group for the year then ended; and

   iii. The Consolidated Cash Flow Statement gives a true and fair view of the cash flows of the Neuland Group for the year then ended.

For **K. S. Aiyar & Co.**
Chartered Accountants
Registration No. 100186W



Raghuvir M. Aiyar
Partner
Membership No.: 38128

Mumbai, May 20, 2011.

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2011

₹ in Million

	Schedule	March 31, 2011	March 31, 2010
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	A	54.67	54.67
Reserves & Surplus	B	681.54	629.46
		736.21	684.13
LOAN FUNDS			
Secured Loans	C	2295.92	2331.82
Unsecured Loans	D	41.48	–
		2337.40	–
Minority Interst		3.49	3.70
TOTAL FUNDS		3077.10	3019.65
APPLICATION OF FUNDS			
FIXED ASSETS	E		
Gross Block		2462.19	2354.68
Less: Depreciation		879.19	727.32
Net Block		1583.00	1627.36
Capital Work-in-Process		272.57	302.48
		1855.57	1929.84
INVESTMENTS	F	73.86	73.86
CURRENT ASSETS, LOANS & ADVANCES			
Inventories	G	799.16	719.27
Sundry Debtors	H	997.03	728.39
Cash and Bank Balances	I	152.70	134.21
Loans & Advances	J	381.75	395.72
		2330.64	1977.59
LESS: CURRENT LIABILITIES AND PROVISIONS			
Current Liabilities	K	1138.71	851.48
Provisions	L	44.26	110.16
		1182.97	961.64
NET CURRENT ASSETS		1147.67	1015.95
TOTAL ASSETS (Net)		3077.10	3019.65
NOTES TO ACCOUNTS	M		

The schedules referred to above and notes to accounts form an integral part of the Consolidated Balance Sheet.

Per our report attached

For **K. S. Aiyar & Co.**
Chartered Accountants

RAGHUVIR M. AIYAR
Partner
M.No. 38128

Hyderabad, May 20, 2011.

For and on behalf of the Board

Dr. D.R. Rao
Chairman & Managing Director

D. Sucheth Rao
Whole-time Director

D. Saharsh Rao
Whole-time Director

S.B. Budhiraja
Director

N.S. Viswanathan
Vice President (Finance)

Humayun Dhanrajgir
Director

G.V.K. Rama Rao
Director

Mary Monica Braganza
Company Secretary

P.V. Maiya
Director

Nadeem Panjetan
Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

₹ in Million

	Schedule	March 31, 2011	March 31, 2010
INCOME			
Sales and Export Incentives		3986.59	2812.53
Less: Excise duty		49.69	28.32
		3936.90	2784.21
Other Income	1	57.24	42.49
TOTAL		3994.14	2826.70
EXPENDITURE			
Consumption of Raw materials, Work-in-Progress and Finished Goods	2	2499.09	1620.00
Manufacturing Expenses	3	630.82	557.45
Administration, Selling & Other Expenses	4	362.37	367.03
Interest and other Charges	5	298.37	256.73
Depreciation/Amortization	E	154.92	136.64
Less: Adjusted against revaluation reserve		0.81	1.04
		154.11	135.60
TOTAL		3944.76	2936.81
PROFIT/(LOSS) BEFORE TAXATION/PRIOR PERIOD ITEMS		49.38	(110.11)
Prior Period Adjustment		–	11.97
PROFIT/(LOSS) BEFORE TAXATION		49.38	(98.14)
Provision for Current Tax (See Note I)*		(9.63)	(0.22)
Provision for Wealth Tax		(0.21)	(0.15)
Provision for Deferred Tax		–	41.38
MAT credit entitlement		9.40	(12.08)
Excess provision for Income Tax no longer required		3.74	–
PROFIT/(LOSS) AFTER TAX		52.68	(69.21)
Minority Interest		(0.21)	(0.16)
PROFIT/(LOSS) AFTER MINORITY INTEREST		52.89	(69.05)
Balance brought forward from previous year		13.88	82.93
AMOUNT AVAILABLE FOR APPROPRIATION		66.77	13.88
BALANCE CARRIED TO BALANCE SHEET		66.77	13.88
EARNINGS PER SHARE			
Basic Earnings per Share (₹)		9.76	(12.83)
Diluted Earnings per Share (₹)		9.75	(12.80)
Face Value per Share (₹)		10.00	10.00
NOTES TO ACCOUNTS	M		
*Deferred taxes adjustments to be provided for			

The schedules referred to above and notes to accounts form an integral part of the Consolidated Profit and Loss Account.

Per our report attached

For **K. S. Aiyar & Co.**
Chartered Accountants

RAGHUVIR M. AIYAR
Partner
M.No. 38128

Hyderabad, May 20, 2011.

For and on behalf of the Board

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Director

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2011

₹ in Million

	March 31, 2011	March 31, 2010
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before tax and exceptional items	49.38	(98.14)
Adjusments for:		
Depreciation/Amortization	154.11	135.59
Interest Expenses	240.93	208.87
Minority Interest	0.21	(0.16)
Unrealised foreign exchange	0.22	8.81
Loss on sale of fixed assets	0.09	0.15
Provision for gratuity & leave encashment	13.04	8.95
Provision for doubtful debts	9.19	7.26
Operating Profit before Working Capital Changes	467.17	271.33
Add/Less Working Capital Changes		
Trade Receivables	(286.74)	(38.17)
Inventories	(79.91)	(14.60)
Loans & Advances	(54.47)	(85.23)
Trade Payables	299.76	40.20
Cash flow from operating activities	345.81	173.53
Less Income Tax Paid	(3.83)	(21.22)
Net Cash from operating activities (A)	341.98	152.31
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets including Work-in-Progress	(81.88)	(233.85)
Proceeds from sale of fixed assets	1.14	0.45
Net cash used in investing activities (B)	(80.74)	(233.40)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Inter-Corporate Deposits	22.50	348.29
Increase in bank borrowings	224.85	336.64
Repayments of long term borrowings	(259.70)	(356.27)
Increase in unsecured loans	17.94	0.00
Interest Paid	(248.13)	(202.53)
Dividend Paid	–	(22.10)
Share application money repaid	–	(3.58)
Share Capital proceeds from minority	–	3.74
Change in Minority Interest	(0.21)	0.00
Net Cash used in financing activities (C)	(242.75)	104.19
Net Increase in cash & cash equivalents (A+B+C)	18.49	23.10
Opening Balance	134.21	111.11
Closing Balance	152.70	134.21

Per our report attached

For **K. S. Aiyar & Co.**
Chartered Accountants

RAGHUVIR M. AIYAR
Partner
M.No. 38128

Hyderabad, May 20, 2011.

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Nadeem Panjetan
Director

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET

₹ in Million

		As at March 31, 2011	As at March 31, 2010
SCHEDULE - A			
SHARE CAPITAL			
AUTHORISED			
10,000,000	Equity Shares of ₹10 each	100.00	100.00
300,000	Cumulative Redeemable Preference Shares of ₹100 each	30.00	30.00
300,000	Preference Shares of ₹100 each either cumulative or non-cumulative and redeemable or otherwise	30.00	30.00
		160.00	160.00
ISSUED			
5,590,000	Equity Shares of ₹10 each, fully paid	55.90	55.90
	(Previous Year - 5,590,000 Equity Shares of ₹10 each)		
SUBSCRIBED CAPITAL			
5,499,731	Equity Shares of ₹10 each	55.00	55.00
	(Previous Year - 5,499,731 Equity Shares of ₹10 each)		
PAID UP CAPITAL			
5,396,455	Equity Shares of ₹10 each fully paid up	53.96	53.96
	(Previous Year - 5,396,455 Equity Shares of ₹10 each)		
	Add: 103,276 Forfeited Equity Shares of ₹10 each	0.71	0.71
	[(Previous Year - 103,276) (amount originally paid up)]		
	a. Of the above shares, 715,040 Equity Shares of ₹10 each are allotted as fully paid up by way of bonus shares.		
	b. 11,080 Equity Shares of ₹10 each for consideration other than in cash to erstwhile shareholders of Neuland Drugs and Pharmaceuticals Private Limited.		
		54.67	54.67
SCHEDULE - B			
RESERVES & SURPLUS			
Capital Reserve		0.33	0.33
Share Premium		360.54	360.54
General Reserve		241.91	241.91
Revaluation Reserve		12.80	13.84
Less: Depreciation on revalued assets		0.81	1.04
		11.99	12.80
Profit and Loss Account		66.77	13.88
		681.54	629.46

₹ in Million

	As at March 31, 2011	As at March 31, 2010
SCHEDULE - C		
SECURED LOANS		
TERM LOANS		
a. Foreign Currency Loans	234.35	349.17
b. Rupee Loans	752.70	890.06
	987.05	1239.23
The above loans are secured by a *pari-passu* first charge on the immovable properties and *pari-passu* charge on moveable properties (subject to the prior charge in favour of the Company's bankers on specified moveables, created/to be created for securing borrowings for working capital requirements) and further guaranteed by the Chairman & Managing Director and corporate guarantee by M/s. Sucheth & Saharsh Holdings Private Limited. As per covenant of the Foreign currency loan agreement with the Export Import Bank of India, included in (a) above the bank has an option to convert the loan into a rupee loan in case the Company defaults in repayment [Due within one year ₹273.34 (Previous Year - ₹263.01)].		
Working Capital Finance from Bank Working Capital loans from Bank is secured by hypothecation of raw materials, stocks-in-process, finished goods, book debts, stores & spares and export receivables and is further secured by second charge on all fixed assets and movable machinery of the Company first charge being held by financial institution and guaranteed by the Chairman & Managing Director and one of the Directors in their personal capacities and pledge of one lac shares owned by Dr. D.R. Rao.	1108.60	1074.38
Loans from Non-banking Financial Company (Working capital loan is secured by hypothecation of book debts factored with SBI Global Factors Limited *pari-passu* second charge on fixed assets and pledge of one lac shares owned by Dr. D.R. Rao and post dated cheques worth ₹150 Million)	188.61	–
Interest accured and due on above	0.97	–
OTHER LOANS		
Hire Purchase Loans	10.69	18.21
The above loan is against the hypothecation of vehicles.		
	2295.92	2331.82
SCHEDULE - D		
UNSECURED LOANS		
Inter-Corporate Deposit	22.50	–
Short Term Loans		
From Banks	1.04	–
From Others	17.94	–
	18.98	–
	41.48	–

SCHEDULE - E

FIXED ASSETS

₹ in Million

Particulars	GROSS BLOCK					DEPRECIATION/AMORTIZATION					NET BLOCK	
	Cost as on 01.04.2010	Additions for the year	Deductions	Adjustments	Cost as on 31.03.2011	Upto 31.03.2010	Deductions	For the year	Adjustments	Total upto 31.03.2011	As on 31.03.2011	As on 31.03.2010
Land	27.99	–	–	–	27.99	–	–	–	–	–	27.99	27.99
Buildings	546.62	33.32	–	(0.83)	579.11	85.81	–	18.86	(0.03)	104.64	474.47	460.81
Plant and Machinery	1501.91	72.30	–	(0.86)	1573.35	550.41	–	111.55	(0.09)	661.87	911.48	951.50
R&D Equipment	137.15	0.32	–	(3.03)	134.44	28.25	–	12.80	(0.31)	40.75	93.70	108.90
Data Processing Machines	27.77	3.13	–	–	30.90	15.64	–	3.11	–	18.76	12.15	12.13
Furniture & Fittings	34.10	0.77	(0.12)	(0.02)	34.73	7.36	(0.03)	2.16	–	9.49	25.24	26.74
Vehicles	53.37	4.21	(4.15)	–	53.43	17.19	(3.02)	4.49	–	18.66	34.77	36.18
Intangible Assets (Process Development Cost)	16.87	–	–	–	16.87	16.87	–	–	–	16.87	–	–
Intangible Assets – SAP	8.90	2.47	–	–	11.37	5.79	–	2.38	–	8.17	3.20	3.11
TOTAL	2354.68	116.52	(4.27)	(4.74)	2462.19	727.32	(3.05)	155.35	(0.43)	879.19	1583.00	1627.36
Previous Year		350.09	(1.20)	(50.70)	2354.68	591.29	(0.59)	141.19	(4.57)	727.32	1627.36	
Capital Work–in–Progress (Including advances on capital goods)											272.57	302.48

Note: Adjustment to gross block and depreciation carried out on account of foreign exchange gain relating to the financial year 2010-11 pursuant to notification dated March 31,2009 issued by the Ministry of Corporate Affairs (See Note 7 on Schedule M).

	As at March 31, 2011	As at March 31, 2010
SCHEDULE - F		
INVESTMENTS - Long Term (at Cost)		
Investment in Government Securities	0.15	0.15
Investment in Shares, Debentures & Bonds (Unquoted)		
Jeedimetla Effluent Treatment Limited	0.22	0.22
2,200 Equity Shares of ₹100 each fully paid up		
(2,200 Equity Shares of ₹100 each fully paid up)		
Pantancheru Enviro-Tech Limited	2.09	2.09
209,136 Equity Shares of ₹10 each fully paid up		
(209,136 Equity Shares of ₹10 each fully paid up)		
Andhra Pradesh Gas Power Corporation Limited	70.40	70.40
402,000 Equity Shares of ₹10 each fully paid up		
(402,000 Equity Shares of ₹10 each fully paid up)		
SBI Mutual Fund	1.00	1.00
100,000 units of ₹10 each		
(100,000 units of ₹10 each)		
	73.86	73.86
Market Value ₹0.94 (Previous Year - ₹1.03)		

₹ in Million

	As at March 31, 2011	As at March 31, 2010
SCHEDULE - G		
INVENTORIES - As certified by the management		
Stores & Consumables	38.70	210.24
Stock in Trade		
Raw Materials	250.89	72.34
Finished Goods	424.19	402.58
Goods-in-Transit	2.94	30.88
Work-in-Process	82.44	3.23
	799.16	719.27
SCHEDULE - H		
SUNDRY DEBTORS (Unsecured, Considered Good)		
Sundry Debtors outsanding for a period exceeding six months		
Considered good	32.70	35.51
Considered doubtful	24.81	23.93
	57.51	59.44
Less: Provision for doubtful debts	24.81	23.93
	32.70	35.51
Other Debts	964.33	692.88
	997.03	728.39
SCHEDULE - I		
CASH & BANK BALANCES		
Cash on hand	0.21	0.17
Bank Balances earmarked for statutory liability	0.67	–
Bank Balances with Scheduled Banks		
Current Accounts	14.94	15.13
Fixed Deposit Accounts (against margin money)	100.38	82.41
Fixed Deposit Accounts	36.50	36.50
	152.70	134.21
SCHEDULE - J		
LOANS & ADVANCES (Unsecured, Considered Good)		
Advances recoverable in cash or in kind or for value to be received		
Balances with Central Excise	57.55	53.52
Sundry Advances		
Advance to Suppliers	7.59	20.66
Other Advances	8.44	24.32
Deposits	23.35	22.38
Export Benefits Receivable	128.64	80.49
Other Claims Receivable	123.32	94.02
	291.34	241.87
Advance Reeceivable in cash or in kind or for values to be received		
Prepaid Expenses	10.03	9.31
Advance Payment against Taxes - Income Tax	12.79	81.23
	22.82	90.54
Interest accrued on Bank Deposits	10.04	9.79
	381.75	395.72

₹ in Million

	As at March 31, 2011	As at March 31, 2010
SCHEDULE - K		
CURRENT LIABILITIES		
Sundry Creditors		
For Goods Supplied		
Due to Micro, Small and Medium Enterprises	–	–
Other than Micro, Small and Medium Enterprises	859.67	591.79
For Expenses	120.21	113.78
For Capital Expenditure	8.38	15.56
Advance from Customers	45.91	60.49
Other Liabilities	102.67	68.92
	1136.84	850.54
Export Incentive Obligation	1.11	0.87
Due to Shareholders		
Unclaimed Dividends	0.69	0.00
Investor Education and Protection Fund		
(Appropriate amount shall be transferred to Investor Education and Protection Fund if, and when, due)		
Unpaid amount due to Investors Education and Protection Fund		
Fixed deposits matured but not claimed including interest thereon	0.07	0.07
However, no amounts other than mentioned above are due to be transferred to Investor Eduction and Protection Fund as on March 31, 2011.		
	1138.71	851.48
SCHEDULE - L		
PROVISIONS		
Provision for Taxation		
Income Tax	5.66	17.01
Wealth Tax	0.21	11.71
	5.87	28.72
Gratuity	27.14	81.29
Leave Encashment	11.25	0.15
	44.26	110.16

SCHEDULES FORMING PART OF THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

₹ in Million

		Year ended March 31, 2011	Year ended March 31, 2010
SCHEDULE - 1			
OTHER INCOME			
Interest received [Includes TDS of ₹0.9 (Previous Year - ₹1.06)]		9.27	8.32
Miscellaneous Income		1.16	1.43
Net Foreign Exchange Gain		14.58	0.01
Product Development Charges received		32.23	32.73
		57.24	42.49
SCHEDULE - 2			
CONSUMPTION OF RAW MATERIALS, WIP & FINISHED GOODS			
Opening Stock of Raw Materials		210.24	229.69
Add: Purchases		2571.45	1636.10
		2781.69	1865.79
Less: Closing Stock of Raw Materials		250.89	210.24
Value of Material Consumption	(i)	2530.80	1655.55
Opening Stock			
Finished Goods		402.58	360.73
Work-in-Process		72.34	78.64
		474.92	439.37
Closing Stock			
Finished Goods		424.19	402.58
Work-in-Process		82.44	72.34
		506.63	474.92
Increase in Stocks	(ii)	(31.71)	(35.55)
Total Consumption of Raw Materials, Work-in-Process and Finished Goods	(i) + (ii)	2499.09	1620.00
SCHEDULE - 3			
MANUFACTURING EXPENSES			
Stores and Consumables		47.26	44.53
Power and Fuel		136.22	106.04
Carriage Inwards		8.62	6.37
Repairs and Maintenace			
Repairs to Buildings		6.25	2.38
Repairs to Machinery		6.21	19.91
Others		81.43	68.75
		93.89	91.04
Payments & Provisions to Employees			
Salaries and Wages		261.49	232.79
Employers contribution to EPF, FPF, ESI & EDLIS		26.01	17.49
Staff Welfare Expenses		9.81	7.96
		297.31	258.24
Effluent Treatment & Transport charges		26.00	33.38
Packing Material		18.70	15.36
Testing Charges		2.93	2.68
Decrease in provision for Excise duty on Finished Goods		(0.11)	(0.19)
		630.82	557.45

₹ in Million

	Year ended March 31, 2011	Year ended March 31, 2010
SCHEDULE - 4		
ADMINISTRATION, SELLING & OTHER EXPENSES		
Rent, Rates & Taxes	16.38	13.38
Travelling Expenses	52.47	56.81
Professional Charges	18.16	17.07
Remuneration to Auditors		
Statutory Audit	0.79	0.66
Tax Audit	0.20	0.20
Limited Reviews	0.60	0.60
Other Services	0.14	0.14
Out-of-pocket Expenses	0.18	0.07
	1.91	1.67
Insurance	22.86	22.69
Advertisement	4.98	2.65
Sales Commission	14.53	12.87
Selling and Distribution Expenses	15.65	8.60
Freight and Forwarding Charges	72.84	56.65
Provision for Doubtful Debts & Advances	13.11	9.09
Less: Amount written back on collection	3.93	1.83
	9.18	7.26
Other Expenses	30.79	44.36
Foreign Exchange Loss (Net)	(0.22)	22.33
Sitting Fees	0.39	0.42
R&D Charges	102.45	100.27
	362.37	367.03
SCHEDULE - 5		
INTEREST & OTHER CHARGES		
Interest on Working Capital	116.61	95.25
Interest on Term Loan (Gross)	124.31	139.81
Less: Interest captilised	–	26.19
	124.31	113.62
Discounting & Negotiation Charges	18.84	13.45
Others	38.61	34.41
	298.37	256.73

SCHEDULE – M

NOTES TO CONSOLIDATED ACCOUNTS

SIGNIFICANT ACCOUNTING POLICIES

1. BASIS OF ACCOUNTING AND USE OF ESTIMATES

i. Financial statements are prepared under the historical cost convention, on accrual basis of accounting in accordance with the accounting principles generally accepted in India and in compliance with the provisions of Companies Act 1956, and comply with the mandatory accounting standards specified in Companies (Accounting Standard) Rules 2006, prescribed by the Central Government.

ii. The preparation of financial statements, in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

2. PRINCIPLES OF CONSOLIDATION

A. i. The Consolidated Financial Statements relate to Neuland Laboratories Limited ('the Company') and its wholly owned subsidiaries and the joint venture. The Consolidated Financial Statements have been prepared on the following basis:

The financial statements of the Company, its subsidiaries and the joint venture have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra-group balances and intra-group transactions resulting in unrealized profits or losses.

The Consolidated Financial Statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible, in the same manner as the Company's separate financial statements.

ii. The subsidiaries and joint venture considered in the Consolidated Financial Statements are:

Name of the Company	Country of Incorporation	% interest as at March 31, 2011	% interest as at March 31, 2010
Subsidiaries			
Neuland Laboratories K.K.	Japan	100	100
Neuland Laboratories Inc.	USA	100	100
Joint Venture			
Cato Research Neuland India Private Limited	India	70	70

B. REVENUE RECOGNITION

i. Sales are recognized on dispatch of products. Sales are inclusive of insurance, freight and exclusive of Sales Tax.

ii. The export incentives are accrued and accounted on the basis of the actual exports made during the year.

iii. Income from product development services are recognised when services are rendered or related costs are incurred in accordance with the terms of specific contracts.

C. EXCISE DUTY

Excise Duty recovered is reduced from sale of products. Excise in respect of finished goods is accounted for, as and when the goods are cleared from the factory and stocks of finished goods are valued inclusive of excise duty where applicable.

D. FIXED ASSETS

i. Fixed Assets are stated at cost of acquisition or construction less accumulated depreciation and impairment losses. Cost of acquisition or construction is inclusive of freight, duties (net of CENVAT and VAT), taxes, incidental expenses relating to acquisition, cost of installation/erection, attributable interest and financial cost till such time assets are ready for its intended use.

ii. Foreign Exchange gain/loss on borrowings for acquisition/construction of Fixed Assets have been reduced from/added to the related costs of assets with effect from April 1, 2007 as per ministry notification dated March 31, 2009 in amendment of accounting standards.

iii. Certain land, buildings, plant & machinery and fixed assets are shown at revalued values. Other fixed assets are shown at cost.

iv. Depreciation on fixed assets is provided on Straight Line Method at the rates prescribed by Schedule XIV of the Companies Act, 1956 as amended, and is calculated on a pro-rata basis. Depreciation is charged on pro rata basis for assets purchased/sold during the year. Depreciation on value written up on revalued assets is calculated on SLM basis with reference to the remaining useful life of the asset and the Revaluation Reserve is charged with the difference between the depreciation calculated on such revalued costs and the historical cost.

v. Borrowing costs that are attributable to the acquisition or construction of fixed assets are capitalized as part of such assets for the period up to the date of put to use. All other borrowing costs are charged to revenue.

vi. Expenses on Research & Development equipment are capitalized.

vii. Intangibles being cost of SAP ERP and software is amortized over a period of three years.

E. IMPAIRMENT OF ASSETS

In accordance with Accounting Standard 28 (AS 28) on 'Impairment of Assets,' where there is an Indication of impairment of the Company's assets, the carrying amounts of the Company's assets Are reviewed at each balance sheet date to determine whether there is any impairment based on internal/external factors. An impairment loss, if any, is recognized in the Profit and Loss Account, wherever the carrying amount of an asset exceeds its estimated recoverable amount. The Recoverable amount of the assets is estimated at the higher of its net selling price and its value in use. In assessing the value in use, the estimated future cash flows are discounted to the present value at the weighted average cost of capital. After impairment, depreciation is provided on the revised carrying amount of the assets over its remaining useful life. Previously recognized impairment loss is further provided or reversed depending on changes in circumstances.

F. INVESTMENTS

Long term investments are carried at cost. However, provision for diminution in value if any is made to recognize a decline other than temporary in the value of investments.

G. FOREIGN CURRENCY TRANSACTIONS

In accordance with the accounting principles as prescribed under Accounting Standard-11 (Revised) and based on the analysis of relevant criteria as explained below, the Company had designated the operations of its 100% subsidiaries viz. Neuland Laboratories K.K., Japan and Neuland Laboratories Inc, USA as integral foreign operations.

These foreign operations are:

i. Under the direct supervision and control of the parent companies management.

ii. Mainly financed by the parent company.

a. Transactions in foreign exchange are accounted for at the exchange rate prevailing on the date of transaction. Gains and losses arising thereon are recognized in the Profit and Loss Account. In respect of items covered by forward exchange contract, the premium or discount arising at the inception of such a forward exchange contract is amortized as an expense or income over the life of the contract;

b. Foreign currency monetary items are reported using exchange rates prevailing at the close of the year and exchange difference arising there from is charged/credited to Profit and Loss Account. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction;

c. In case of fixed assets, refer D (ii) above.

H. INVENTORIES

Inventories are valued at lower of cost and estimated net realizable value, after providing for cost of obsolescence and other anticipated loss whenever considered necessary. Work-in-progress is valued at estimated cost on the basis of stage wise completion of the production. Finished goods and work-in-process include cost of conversion and other costs incurred in bringing the inventories to their present level of location and condition. Cost is determined by using the weighted average basis. Cost of finished goods includes excise duty, wherever applicable.

I. TAXATION

Provision for current tax is made after taking into consideration benefits admissible under the provisions of Income Tax Act, 1961. Deferred tax resulting from "timing differences" between book and taxable profit is accounted for using the tax rates and laws that have been enacted or substantively enacted as on the balance sheet date. The deferred tax assets is recognized and carried forward only to the extent that there is a reasonable certainty that asset will be realized in future.

J. EMPLOYEE STOCK OPTION SCHEMES (ESOP)

The Company accounts for compensation expense under the Employee Stock Option Schemes using the intrinsic value method as permitted by the Guidance Note on Accounting for Employee Share-based Payments' issued by the Institute of Chartered Accountants of India. The difference between the market price and the exercise price as at the date of the grant is treated as compensation expense and charged over the vesting period.

K. EMPLOYEE BENEFITS

a. Defined Contribution Plan

The Company's Employee's Provident Fund administered through Government Provident Fund, Employee State Insurance Scheme and Labour Welfare Fund are considered as Defined Contribution Plans. The Company's contributions paid/payable towards these defined contributions plan are recognized as expense in the Profit and Loss Account during the period in which the employee renders the related service. The interest rate payable by the said funds to the beneficiaries every year is being notified by the government. The Company has no obligation to make good the shortfall, if any between the return from the investment and the interest rate.

b. Defined Benefit Plan:

Company's liabilities towards gratuity, long term compensated absences are considered as Defined Benefit Plans. The present value of the obligations under such Defined Benefit Plans are determined based on actuarial valuation using the projected unit credit method, which recognises each period of service as giving rise to an additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation. Actuarial gains and losses are recognized immediately in the statement of profit and loss. The obligation is measured at the present value of estimated future cash flows using a discount rate that is determined by reference to market yields at the balance sheet date on government securities.

L. CONTINGENT LIABILITIES

A provision is recognized when the Company has a present obligation as a result of past events. Provisions are not discounted to present value and are determined based on the best estimate of the expenditure required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Contingent liabilities are disclosed after careful examination of the facts and legal aspects of the matter involved.

3. SEGMENT REPORTING

a. Company's operations are predominantly related to the manufacture of Bulk drugs, as such there is only one primary reportable segment. Secondary reportable segments are identified taking into account the geographical markets available to the products, the differing risks and returns and internal reporting system.

b. As part of secondary reporting, in the view of the management, the Indian and export markets represent geographical segments.

Sales by market - The following is the distribution of the Company's sales by geographical market:

₹ in Million

Particulars	2010 - 2011		2009 - 2010	
	Revenue	%	Revenue	%
India	756.05	19.21	533.02	19.14
Other than India	3180.85	80.79	2251.19	80.86
Total	3936.90	100.00	2784.21	100.00

c. The Company does not track its assets and liabilities by geographical area.

4. RELATED PARTY TRANSACTIONS

Disclosures as required by the Accounting Standard - 18

a. Name of the related parties and descriptions of relationships

Name	Nature of Relationship
M/s. Sucheth & Saharsh Holdings Private Limited	Other Related Party (Associate)

b. Key Management Personnel

Name	Nature of Relationship
Dr. D. R. Rao	Chairman & Managing Director
Mr. D. Sucheth Rao	Whole-time Director & Chief Executive Officer & Son of Chairman & Managing Director
Mr. D. Saharsh Rao	Whole-time Director & President - Contract Research & Son of Chairman & Managing Director
Mr. Tom Speace	President - Neuland Laboratories Inc., USA
Mr. Y. Kizawa	President - Neuland Laboratories K.K. Japan

c. Relatives of Key Managerial Personnel

Name	Nature of Relationship
Mrs. D. Vijaya Rao	Wife of Chairman & Managing Director
Mrs. D. Rohini Niveditha Rao	Wife of Whole-time Director & Chief Executive Officer
Mrs. K. Deepthi Rao	Wife of Whole-time Director & President - Contract Research

d. Transactions during the year and balances outstanding as at the year end with the Related Parties are as follows:

₹ in Million

Nature of transactions	Other related party	Key Management Personnel	Relative of Key Management Personnel
Rent paid	0.75	–	–
	(0.68)	–	–
Office maintenance		0.42	
		(0.42)	
Remuneration paid to Chairman & Managing Director		4.98	
		(5.27)	
Remuneration paid to Whole-time Director & Chief Executive Officer		5.30	
		(5.30)	
Remuneration paid to Whole-time Director & President, Contract Research		4.63	
		(3.77)	
Remuneration to President - Neuland Laboratories Inc., USA	12.63		
	(11.60)		
Remuneration to President-Neuland Laboratories K.K., Japan	6.48		
	(5.89)		
Inter-Corporate Deposit taken	22.50		
	(–)		
Balance of Inter-Corporate Deposit	22.50		
	(–)		
Outstanding at the year end - due to	0.21	7.34	0.03
	(–)	(6.53)	(5.11)
Outstanding at the year end - due from	(–)		
	(15.34)		
Outstanding deposit at the year end - due from	2.21		
	(2.21)		

Figures in brackets relate to previous year.

5. EARNINGS PER SHARE

Computation for Basic & Diluted Earnings per Share		March 31, 2011	March 31, 2010
I.	Net Profit/(Loss)		
	Before prior period & exceptional items as per Profit and Loss Account available for Equity Shareholders	52.89	(81.19)
	After prior period adjustments	52.89	(69.22)
II.	Weighted average number of equity shares for computation of basic and diluted Earnings per Share	5,396,455	5,396,455
III.	Earnings per Share (Weighted Average)		
	Before prior period adjustment		
	Basic (₹)	9.76	(15.05)
	Diluted (₹)	9.75	(15.02)
	After prior period adjustment		
	Basic (₹)	9.76	(12.83)
	Diluted (₹)	9.75	(12.80)

6. During the previous year, pursuant to implementation of SAP ERP system, certain cost formulas for inventory valuation have been changed. The impact of these changes is not material.

7. During the year 2008-09, the Company had opted to adopt the amendment to the Companies (Accounting Standards) Rules, 2006 effected by a notification dated March 31, 2009 issued by the Ministry of Corporate affairs, Government of India. Pursuant to this adoption, an amount of ₹55.43 million being foreign exchange fluctuations gain till date pertaining to foreign currency loan availed for acquisition of depreciable capital assets is adjusted to the cost of such assets.

8. Employee Benefits

₹ in Million

	Gratuity (Funded)	Leave Encashment (Unfunded)
I. Expense recognized in the statement of Profit and Loss for the year ended March 31, 2011		
Current Service Cost	**6.43**	(0.12)
	3.67	*2.26*
Interest Cost	**2.07**	0.89
	1.78	*0.70*
Expected return on plan assets	**(0.55)**	–
	(0.54)	–
Net Actuarial (Gains)/Losses	**2.26**	1.99
	(0.20)	*0.64*
Total Expense	**10.21**	2.76
	4.70	*3.60*
II. Net Assets/(Liability) recognized in the Balance Sheet as at March 31, 2011		
Present Value of Defined Obligation as at March 31, 2011	**32.17**	10.96
	25.88	*11.08*
Fair Value of plan assets as at March 31, 2011	**4.95**	–
	9.12	–
Funded status [Surplus/(Deficit)] difference	**(27.22)**	(10.96)
	(16.76)	*(11.08)*
Net Assets/(Liability) as at March 31, 2011	**(27.22)**	(10.96)
	(16.76)	(11.08)
III. Change in Obligation during the year ended March 31, 2011		
Present value of defined Benefit Obligation at the beginning of the year	**25.88**	11.08
	22.22	*8.82*
Current Service Cost	**6.43**	(0.12)
	3.67	*2.26*
Interest Cost	**2.07**	0.89
	1.78	*0.71*
Actuarial (Gains)/Losses	**2.26**	1.99
	(0.25)	*0.64*
Benefits Payments	**(4.47)**	(2.88)
	(1.53)	*(1.35)*
Present value of Defined Benefit Obligation at the end of the year	**32.17**	10.96
	25.88	*11.08*

₹ in Million

		Gratuity (Funded)	Leave Encashment (Unfunded)
IV.	**Change in the Assets during the year ended March 31, 2011**		
	Fair Value of plan assets at the beginning of the year	**9.12**	–
		5.06	–
	Expected return on plan assets	**0.55**	–
		0.54	–
	Contribution by Employer	**–**	–
		5.00	–
	Actual benefits paid	**(4.47)**	–
		(1.53)	–
	Actuarial Gains/(Losses) on plan assets	**0.25**	–
		0.04	–
	Fair Value of plan assets at the end of the year	**4.95**	–
		9.12	–
		March 31, 2011	March 31, 2010
V.	**Actuarial Assumptions**		
	Discount rate (%)	**8.00**	8.00
	Rate of return on plan assets (%)	**8.00**	8.00
	Salary escalation rate (Management Staff) (%)	**4.00**	4.00
	Attrition rate (%)	**4.00**	4.00
	Mortality	Standard Table LIC (1994-96) ultimate	Standard Table LIC (1994-96) ultimate
	Disability	No explicit allowance	No explicit allowance

Figures in italics relate to previous year.

The amount of ₹10.28 million being the provision for gratuity and ₹2.76 million being provision for leave encashment is included in payments and provisions to employees under Schedule 3 of the financials.

The estimates of future salary increases considered in actuarial valuation takes into account the inflation rate on long term basis.

9. CONTINGENT LIABILITY

a. Claims against the Company not acknowledged as debts:

i. Customs duty demand of ₹2.29 million including interest (Previous Year - ₹2.29 million). The same was adjusted against the pre-deposit of ₹4.00 million made by the Company. The Company has filed an appeal against the demand before the Appellate Tribunal, Chennai, which is yet to be decided. Simultaneously the Company also filed an appeal before Hon'ble High Court of Madras for refund of balance of pre-deposit together with interest. As the export obligations against the material imported under DEEC Scheme have been completed, the Company expects the outcome in its favour.

ii. Andhra Pradesh Gas Power Corporation Limited and its shareholders (including Neuland) have filed writ petition before the Division Bench of the Hon'ble High Court of Andhra Pradesh, which has been admitted and favorable interim orders have been granted. The Company has been advised that it has a strong case to succeed in the pending appeal.

iii. Certain disputes, for unascertained amounts, are pending in the Labour Courts, Andhra Pradesh. As the chances of appellants succeeding in their claims being remote, the Company expects no liability on this account.

b. Unexpired Letters of Credit opened on behalf of the Company by bank for the raw material amounting to ₹537.79 million (Previous Year - ₹438.25 million).

c. Estimated amounts of contracts on capital account to be executed and not provided for, net of advance, ₹1.27 million (Previous Year - ₹11.48 million).

d. Bank guarantees given by the Company to Central Excise and Customs and other government authorities amounting to ₹13.59 million (Previous Year - ₹9.35 million).

e. A demand of ₹31.84 million was raised by the Income Tax Department for the Assessment Year 2004-05, by the Assessing Officer by reopening the assessment under Section 148 of the Income Tax Act, 1961. The Hon'ble CIT (Appeals) vide his order dated May 3, 2011 has upheld the Company's plea and adjudicated in favor of the Company stating the reopening of the assessment as bad in law, and the reopened proceedings void ab initio.

10. Fixed assets include vehicles and machinery acquired under Hire Purchase Agreement amounting to ₹52.52 million as on March 31, 2011 (Previous Year - ₹32.97 million). The hire purchase charges have been charged to the Profit and Loss Account. The hire purchase installment due within one year is ₹12.62 million (Previous Year - ₹10.36 million).

11. EMPLOYEE STOCK OPTION SCHEME - 2008

Pursuant to the resolution passed by the Board of directors on July 20, 2007 and members of the Company at the Annual General Meeting held on July 20, 2007, the Company had introduced Employee Stock Option Scheme ('the scheme') for permanent employees and Directors of the Company and of its subsidiaries, as may be decided by the Compensation Committee/Board. The scheme provides that the total number of options granted there under will be not more than 3% of the paid up capital. Each option, on exercise, is convertible into one equity share of the Company having face value of ₹10. Pursuant to a resolution passed by the Remuneration & Compensation Committee vide Circular Resolution dated November 17, 2008, 34,500 options have been granted at an exercise price of ₹104, which is the market price as on the date of the grant. Accordingly, the Company has not recognized any expense on account of grant of stock options.

Stock options activity under the scheme is as follows:

Numbers

Particulars	2010-11	2009-10
Option outstanding at the beginning of the year	29,000	34,500
Options granted during the year	Nil	Nil
Options exercised during the year	Nil	Nil
Options lapsed during the year	6,000	5,500
Options outstanding at the year end	23,000	29,000

12. PARTICULARS OF UNHEDGED FOREIGN CURRENCY EXPOSURE AS AT BALANCE SHEET DATE

Foreign currency loan	₹224.26 million (US $ 5.02 million @ average closing rate of 1 US $ = ₹44.70) [Previous year - ₹319.02 million (US $ 6.99 million @ average closing rate of 1 US $ = ₹45.67)]
Export Debtors	₹785.79 million (US $ 17.58 million @ average closing rate of 1 US $ = ₹44.69 [Previous year - ₹545.07 million (US$ 12.21 million @ average closing rate of 1 US $ = ₹44.64)]
Import Creditors	₹261.15 million (US $ 5.84 million @ average closing rate of 1 US $ = ₹44.70) [Previous year ₹35.77 million (US $ 0.78 million @ average closing rate of 1 US $ = ₹45.67)] ₹6.85 millions (EUR 0.11 million @ average closing rate of EUR = ₹63.17) [Previous year ₹6.18 million (EUR 0.10 million @ average closing rate of EUR = ₹61.43)]

13. Previous year figures have been regrouped and/or rearranged wherever necessary.

Per our report attached

For **K. S. Aiyar & Co.**
Chartered Accountants

RAGHUVIR M. AIYAR
Partner
M.No. 38128

Hyderabad, May 20, 2011.

For and on behalf of the Board

Dr. D.R. Rao
Chairman & Managing Director

D. Sucheth Rao
Whole-time Director

D. Saharsh Rao
Whole-time Director

S.B. Budhiraja
Director

N.S. Viswanathan
Vice President (Finance)

Humayun Dhanrajgir
Director

G.V.K. Rama Rao
Director

Mary Monica Braganza
Company Secretary

P.V. Maiya
Director

Nadeem Panjetan
Director

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.

Forward looking statements

Throughout this report to the share owners, we discuss some of our expectations regarding the Company's future performance. All of these forward looking statements are based on our current views and assumptions. Actual results could differ materially from these current expectations and from historical performance.

Our future results could also be affected by a variety of factors such as competitive dynamics in the market place, the impact of competitive products and pricing, product development, actions of competitors, changes in capital structure, changes in laws and regulations including changes in accounting standards, customer demand, effectiveness of marketing programs, consumer perception of health related issues, economic conditions including changes in interest rates, fluctuations in the cost and availability of supply-chain resources, and foreign economic conditions including currency rate fluctuations.

The Company undertakes no obligation to publicly revise any forward looking statements to reflect future events or circumstances.

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