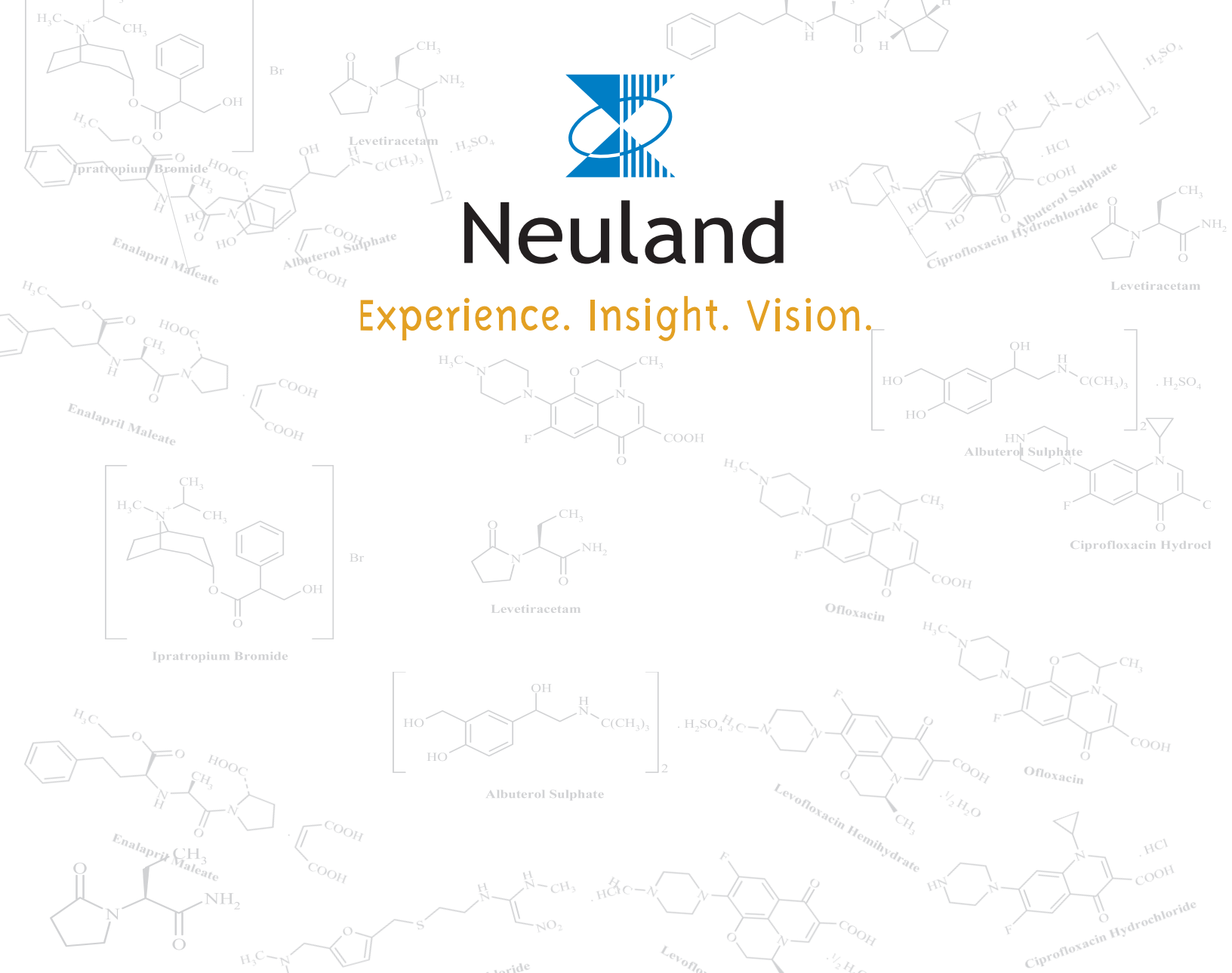




Neuland

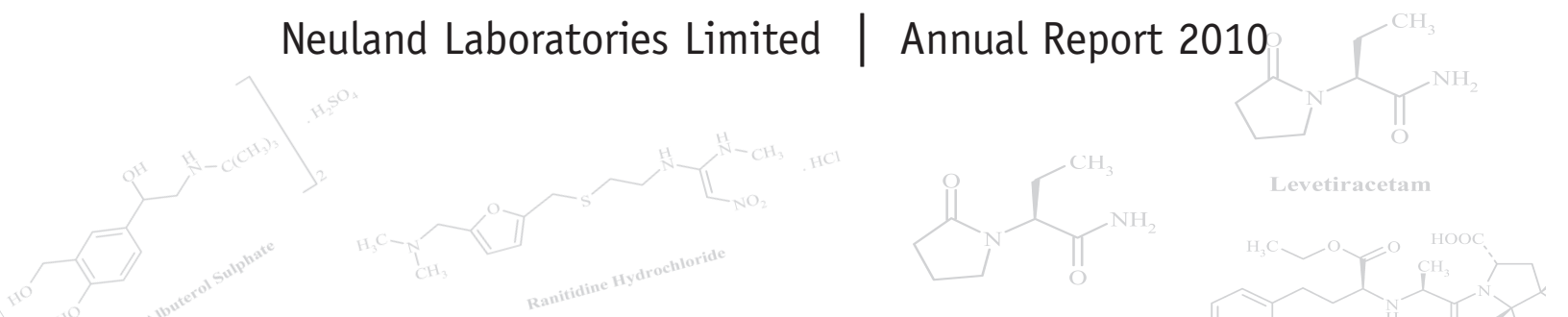
Experience. Insight. Vision.



GLOBAL PERSPECTIVE.

INDIVIDUALIZED FOCUS.

Neuland Laboratories Limited | Annual Report 2010



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

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

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

Neuland today

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

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

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



Active Pharmaceutical Ingredients

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

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

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

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

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

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

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

Contract Manufacture

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

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

Neuland's range of services includes,

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

A key business principle

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

Research & Development

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

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

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

Corporate Fact sheet



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



Market size for Neuland's top 10 products*

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

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

* Market size for organized markets of North America, Europe, Japan and a few other countries where Neuland has a significant footprint.

Conversion rate 1 US\$ = Rs.45.67.

Estimated from global trends.

Our markets

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

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

Vision

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

Mission

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

Our offices

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

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



Fr. Nieuwland was the inspiration.....

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

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

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

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

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

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



Neuland logo - what it represents

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

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

The oval ring moving across suggests two things:

Dynamism (true to Neuland's performance)

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

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

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

The Neuland Way

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

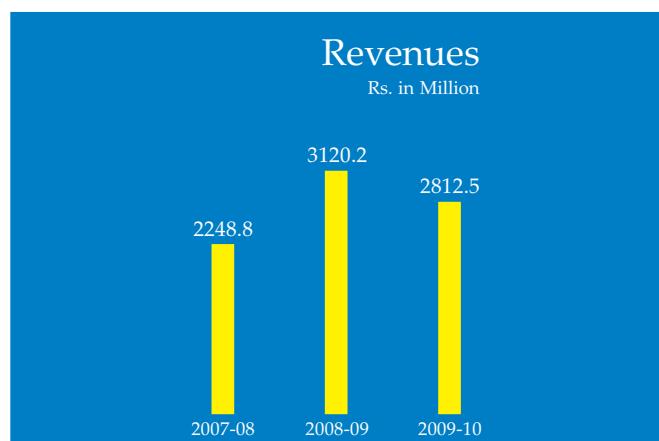


Ensuring sustainability of business

From the Desk of the Chairman & Managing Director



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



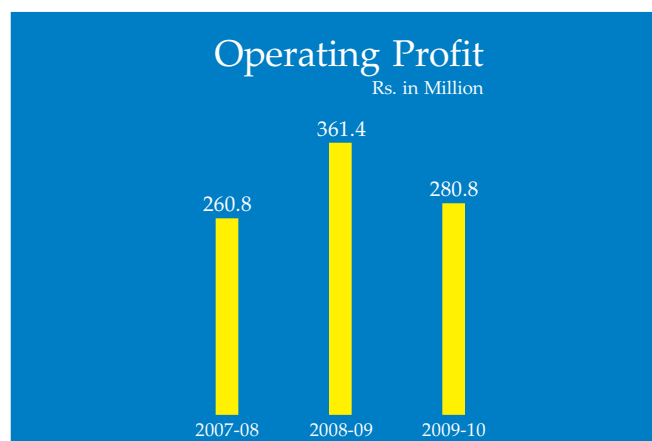
In 2009-10, Neuland's business, revenues, margins and bottom line were impacted by several factors including slowdown in the global markets, negative currency movements and loss of competitive opportunity to our customers due to regulatory constraint for one of our products. These had a cascading effect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

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

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

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

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



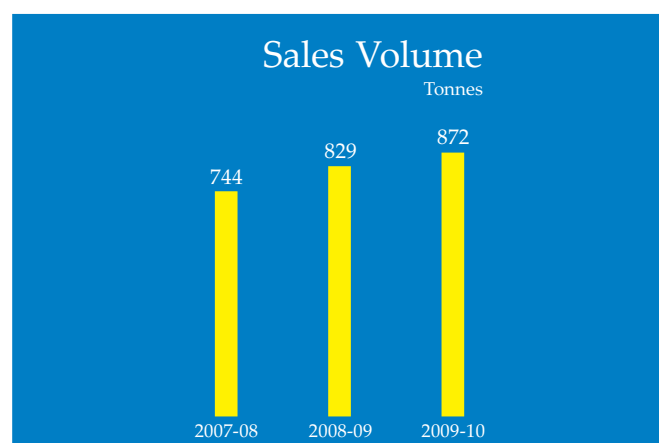
Members would be reassured to know that our dependence on products and markets are already spread more evenly. Our team and I have revisited our business plan and I am encouraged that we have a sound revenue model, a tested and robust product basket, good market position in Europe and North America, an enviable customer profile and more important, we have been prudent with our financial and risk management policies. In fact, we at Neuland have further strengthened our understanding of the market and improved the reach to our customers.

Presently, our order book is healthier than it was at the same time last year. We are planning to introduce large number of products and have two products ready for launch commercially, for our customers to take advantage of expiry of product patents.

We have reinforced our strategy of profitable growth based on our key strengths:

- ✓ Research led product launches that address the needs of customers;
- ✓ Development of products in new therapeutic areas;
- ✓ Wide range of regulatory approved products supported by service levels including reliability and due date performance; and
- ✓ Products offered at competitive prices.

We are examining the basics of our manufacturing, working to rationalize costs and improve operating matrix, and are keen that the benefits and savings are of a permanent nature. Our focus is not only on improving volumes, increasing revenues and margins, but also to offer the customers products at prices that help them compete better in their



markets. In order to succeed in our mission, we are taking decisive actions to streamline and further improve our cost structure. We have already started seeing positive results.

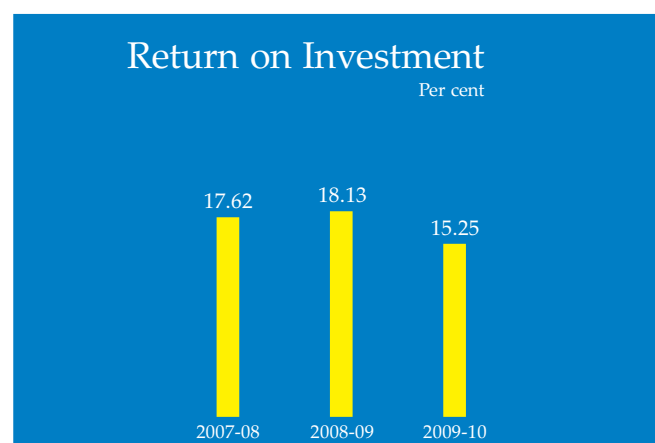
As part of our focused attempt at being an end-to-end resource, we had entered into contract manufacturing and contract research services for several global pharmaceutical companies. There is encouraging response from our customers, and we are confident of converting the emerging opportunities into a healthy income stream.

Neuland has developed technologies to manufacture pseudoprolines and entered into a strategic alliance with a US\$ 5 billion global pharmaceutical company, to market our products. This is an area of business that holds good potential.

We have prioritized our resources and are spending in areas that drive growth especially research and development of new products and demand creation for existing products. We are determined to return to our essential task to transform Neuland into an earnings-growth company and return value to our stakeholders.

At Neuland, we have high expectations of ourselves and are determined to deliver stable and positive results in the future. We believe the Company is well prepared with its strategies, has inherent strengths to manage challenges and are confident that we shall work together with our stakeholders for sustainable success.

Warm regards

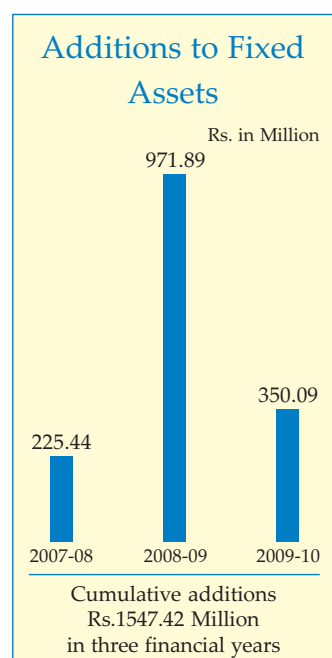


Doing what is best for customers

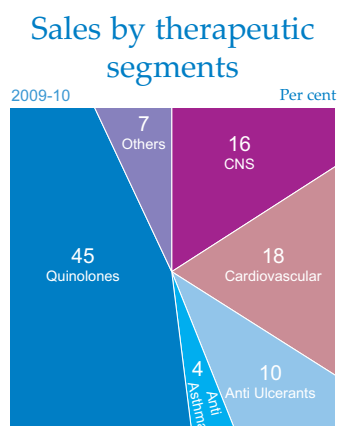
Interview with Chief Executive Officer

Q

Please comment on the business results of the financial year 2009-10.



How are you derisking the business?



A

The business results for the FY 2009-10 reflect the impact of the following factors:

- Forex losses amounting to Rs.22.34 million;
- Increased expenses due to investment in R&D as well as manufacturing;
- More than anticipated erosion in margins for three of our key products;
- Much lower than expected market penetration for one of our key launches in the year 2009.

On the positive side, we have consistently increased our market share for all the key products, thereby creating a very stable baseline for the future years from these specific products.

Apart from this we have also entered into some key long term contracts, which will mitigate the volatility of the API business in general.

As a result of our performance in 2009-10, our focus has now moved to more cost management initiatives, higher contributions from our existing baseline products and more focus on commercializing the R&D pipeline of new products, which we have significantly ramped up.

We expect to see the benefits of all the above, during the second half of FY 2010-11.

Please refer to the Directors' Report for more detailed discussion.

Over the past several years, we started to penetrate markets for Contract Manufacturing, Contract Research as well as Peptides. This was primarily done for the following reasons:

- Establish markets that were big enough for us to compete in; especially in light of generic APIs markets shrinking;
- To leverage our existing core competencies in these markets; and
- To mitigate ourselves from the declining margins of the API business.

The result of all the above is what we see today, in terms of an organization that has made inroads into the Contract Manufacturing, Contract Research and Peptides market thereby decreasing its overall dependency in the generic API business.

The above has been done not only by investing in infrastructure, but also creating robust processes that enable Neuland to align with its customers and thus creating an organization which will dominate the market place when its customers succeed.

Specifically with regard to the generic API business, we have scaled up 7 new products in 2009-10 and are in the process of commercializing them. 8 new products are in the

process of being scaled up and we have added 13 more products to our development pipeline. This enables us to develop close to about 25 new products in a 12 to 18 month window and we expect this to be replicated over the next several years.

Majority of the products that we have developed are products that have a specific competitive advantage either in terms of technology, intellectual property or belonging to a class of compounds already dominated by Neuland.

Hence presence in different markets, having the infrastructure to be able to dominate these markets and processes to bring in revenues quickly, significantly lower the risk for Neuland since we do not foresee any further investment and are now completely focused on sales & marketing of the products.

Neuland is one of the few companies, which has a much focused approach to its current customer base and specific markets.

People familiar with the Company know that the entire organization has been built based on a foundation of quality and is currently going through a process of realigning itself with its customers in order to deliver reliability not only to its customers but all other stakeholders including vendors and shareholders.

Neuland recognizes that it cannot offer everything there is to offer to its customers and still establish itself as a dominant player in its areas of expertise. Neuland's strategy is to focus on its core capabilities such as development of cost competitive chemical processes for complex molecules, process optimization for cost competitiveness, scale up and commercial manufacturing under cGMP, EHS and strong Information Security and Management System infrastructure. Based on the fundamental strengths mentioned above, Neuland's strategy is to dominate the APIs, Contract Manufacturing, Contract Research, and Peptides market place.

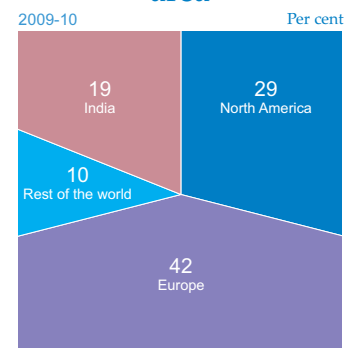
In conclusion, we do not operate in an environment which brings us in conflict with our customers thereby allowing us to focus on our core capabilities and deliver superior products and services to our customers.

- Having heavily invested into our future to be a Research & Development and strong manufacturing organization, our top priority is to shorten our sales cycles so that we can put our infrastructure to optimal use (both software and hardware - software being our people, processes, and hardware being the equipment) so that it starts generating revenues and profits for the organization.;
- Efficient use of our Project Management system to cut cycle times of products;
- Focus on our planning and execution processes in manufacturing to cut lead times;
- Ramping our new product development pipeline;
- Cost management, in terms of operating cost, process improvements and yield improvements;
- Better cash flow management by focusing on receivables, inventory, as well as our "cash to cash" cycle times.

How is Neuland positioned better than its competitors?

What are your top priorities?

Sales by geographic area



Enhancing R&D productivity

For over 15 years, we have been a research led and knowledge based organization and the products that we offer ensure regulatory compliance as well as meet customer expectations. Our investment in research and development provides traction to our marketing efforts and drives our growth.

Neuland has an industry-wide reputation for exceptional quality and consistency. That achievement stems, in part, from our investment in a vigorous program of R&D distinguished by our knowledge of complex chemistry and expertise in developing new processes for active pharmaceutical ingredients. Over the long term, we shall rely on this knowledge to differentiate ourselves in the pharmaceutical industry.

The R&D function has a long history of launching successful products that address the needs of customers. We are also responding to their increasing needs by managing our research productivity with greater resolve.

Our efforts are focused on the following objectives:

- ✓ Develop non-infringing patentable processes for new active ingredients of various therapeutic categories identified after an extensive analysis of the market;
- ✓ Develop efficient and cost effective processes to reduce total variable cost and cycle time for existing products;

R&D Spend Rs. in Million	
Capital	Revenue
17.61	100.27
2009-10	
120.24	86.49
2008-09	
200.06	59.68
2007-08	



- ✓ Undertake customer specific and exclusive contract research and process development for manufacture of active ingredients for innovator companies;
- ✓ Generate analytical methods, quality improvement and cost optimization studies; and
- ✓ Create intellectual property.

In order to strengthen R&D capabilities, we have brought in new leadership and shall further improve productivity as well as quickly launch new products.

Neuland has equipped itself technically and has the necessary skill sets to create a niche for itself in the growing peptide segment. Our Company and a leading global biotechnology company have entered into a commercial manufacturing agreement to develop processes for multi-kilogram production of pseudoproline dipeptides. We have commenced commercializing the products, and expect to make progress in calendar year 2011.

Committed to responsible business

The Bonthapally Unit (Unit I) has been successfully audited and is certified for ISO 14001:2004 and OHSAS 18001:2007. An integrated certification for ISO 14001:2004 & OHSAS 18001:2007 is underway at the Pashamylaram Unit (Unit-II). Stage-1 and Stage-2 audits have been successfully completed and formal certification is awaited.

None of the waste generated by Neuland's production operations is released into the environment without treatment. The Company sticks to the basics and ensures that it has the equipments, technology and skill sets to ensure that environmental standards are benchmarked to the best in the industry.

Experts have been taken on board to carry out environment audit at both the units to help identify inadequacies and undertake new initiatives for waste reduction at source.

Behavior based safety programs using external expertise are being initiated for improving safe work culture amongst the employees.

Consultants in the field of industrial hygiene and occupational health are providing technical expertise for corrective and preventive action to protect the health of the employees having potential exposure. Employee protection is being given primacy.

In the final analysis, there is no finish line in being a responsible corporate citizen. Neuland will stay dedicated to safety and good health of its employees, conserve resources and protect the environment.

MULTIPLE EFFECT EVAPORATOR

EHS Spend

Rs. in Million

Capital	Revenue
34.03	55.34
2009-10	
31.60	64.86
2008-09	
5.50	42.30
2007-08	

The team is customer focused

Favorable work environment, open culture, empowerment and transparency in dealings motivate Team Neuland to get things done. Its a high energy organization where individuals and groups are effective at the goal posts. The primary strength is the customer focused and result oriented professional team.

Neuland succeeds because of the intensity that the team brings to the task at hand; there is a faster decision making system; there is good infrastructure that is open to giving and receiving processes; the Team is customer focused and works with passion; there is determination to excel and raise Brand Neuland to new heights; and several other such qualitative intangibles.

It all starts at recruitment stage, where the filtering ensures that only the best join. The selection process has been enhanced and care is taken to get the appropriate person for his or her competency and role definition. In fact, its not easy to get into Neuland.

The systematic induction and training processes and competency learning workshops sensitize the managers. Every employee is provided with an atmosphere that is conducive to learning, building capabilities and encouraging goal setting to deliver results better than expected. Individuals take responsibility for the Company and look beyond their respective roles.

HR initiatives during the year included strengthening business processes and people capabilities to bridge current and future competency gaps, and in meeting customer needs. Neuland crossed 11,500 man-hours of training during the year and plans are to add qualitative inputs to strengthen competencies.

Organizational challenges in the future will continue to be transformational, to be a differentiator and inspire employees to think out-of-the-box. As at present, high motivation levels will be pursued to maintain the momentum. People management is a top-down process and will remain the corporate priority.

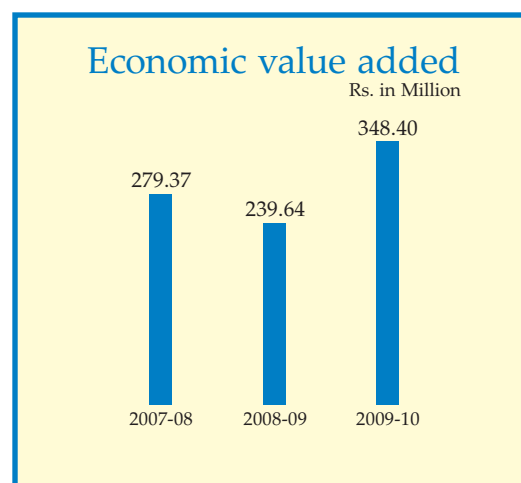
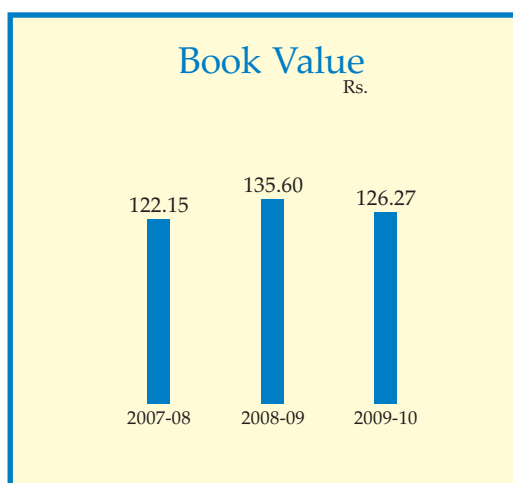


Abridged Financials in US\$

BALANCE SHEET AS AT MARCH 31, 2010

	US\$ Million	
	March 31, 2010	March 31, 2009
SOURCES OF FUNDS		
SHAREHOLDERS' FUNDS		
Share Capital	1.20	1.20
Reserves & Surplus	13.72	15.29
	14.92	16.49
LOAN FUNDS		
Secured Loans	51.06	43.86
DEFERRED TAX LIABILITY (Net)	–	0.90
TOTAL FUNDS	65.98	61.25
APPLICATION OF FUNDS		
FIXED ASSETS		
Gross Block	51.56	45.03
Less: Depreciation	15.92	12.95
Net Block	35.64	32.08
Capital Works In Progress	6.62	8.06
	42.26	40.14
INVESTMENTS	1.65	1.63
CURRENT ASSETS, LOANS & ADVANCES		
Inventories	15.75	15.43
Sundry Debtors	15.95	15.58
Cash and Bank Balances	2.80	2.33
Loans & Advances	8.64	6.59
	43.14	39.93
LESS: CURRENT LIABILITIES AND PROVISIONS		
Current Liabilities	18.66	17.56
Provisions	2.41	2.89
	21.07	20.45
NET CURRENT ASSETS	22.07	19.48
TOTAL ASSETS (Net)	65.98	61.25

Conversion rate 1 US\$ = Rs.45.67



Abridged Financials in US\$

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2010

US\$ Million

	Year ended March 31, 2010	Year ended March 31, 2009
INCOME		
Sales and Export Incentives	61.58	68.32
Less: Excise Duty	0.62	1.16
	60.96	67.16
Other Income	0.93	2.31
TOTAL	61.89	69.47
EXPENDITURE		
Raw Materials Consumed	35.47	41.41
Manufacturing Expenses	11.63	11.83
Administration, Selling & Other Expenses	8.64	8.32
Interest and other charges	5.62	3.14
Depreciation/Amortisation	2.99	1.63
Less: Adjusted against Revaluation Reserve	0.02	0.02
	2.97	1.61
TOTAL	64.33	66.31
PROFIT/(LOSS) BEFORE TAXATION/PRIOR PERIOD ITEMS	(2.44)	3.16
Prior Period Adjustment	0.26	-
PROFIT/(LOSS) BEFORE TAXATION	(2.18)	3.16
Provision for Current Tax	-	(0.36)
Provision for Fringe Benefit Tax	-	(0.06)
Provision for Deferred Tax	0.89	(0.30)
MAT credit entitlement	(0.26)	0.11
Excess Provision of Income Tax no longer required	-	0.03
PROFIT AFTER TAX	(1.55)	2.58
Balance brought forward from Previous Year	1.79	1.63
AMOUNT AVAILABLE FOR APPROPRIATION	0.24	4.21
APPROPRIATIONS		
Transfer to General Reserve	-	1.94
Proposed Dividend (Previous Year @ 35%)	-	0.41
Tax on Distributed Profits	-	0.07
BALANCE CARRIED TO BALANCE SHEET	0.24	1.79

Conversion rate 1 US\$ = Rs.45.67



CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2010

	Year ended March 31, 2010	Year ended March 31, 2009
US\$ Million		
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit/(Loss) before Tax and exceptional items	(2.18)	3.16
Adjustments for		
Depreciation/Amortization	2.97	1.61
Interest Expense	4.57	2.31
Un realized foreign exchange gain	0.19	–
Loss on sale of fixed assets	–	0.00
Provision for Gratuity and leave encashment	0.20	0.18
Provision for Doubtful Debts	0.16	0.17
Operating profit before Working Capital changes	5.91	7.43
Add/(Less) Working Capital changes		
Trade receivables	(0.83)	(4.49)
Inventories	(0.32)	(3.38)
Loans and advances	(1.88)	1.63
Trade payables	0.88	3.82
Cash flow from Operating Activities	3.76	5.00
Less Income Tax paid	(0.44)	(0.27)
Net cash from Operating Activities (A)	3.32	4.73
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets including Works-in-Process	(5.12)	(16.25)
Proceeds from sale of Fixed Assets	0.01	0.01
Net cash used in Investing Activities (B)	(5.11)	(16.25)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	7.62	11.81
Increase/(Decrease) in bank borrowings	7.37	4.50
Repayment of long-term borrowings	(7.80)	(1.81)
Interest Paid	(4.43)	(2.29)
Dividend Paid	(0.48)	(0.35)
Investments in Subsidiaries	(0.02)	(0.04)
Net cash used in Financing Activities (C)	2.26	11.82
Net Increases/(Decrease) in Cash & Cash Equivalents (A+B+C)	0.47	0.31
Opening Balance	2.33	2.02
Closing Balance	2.80	2.33

Conversion rate 1 US\$ = Rs.45.67



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. 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 three companies including a large nationalised 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.



Mr. G. V. K. RAMA RAO

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



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.



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.



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.



Mrs. DAYA CHANDRAHAS represents the Export-Import Bank of India, since July 2005.



Mr. D. SAHARSH RAO Whole-time Director and President-Contract Research, is an Engineering Graduate and obtained his Masters in MIS from Weatherhead 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.

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, Abids, Hyderabad

Bank of India,
Kukatpally Branch, Hyderabad

WORKING CAPITAL BANKERS

State Bank of India,
Overseas Branch,
Abids, Hyderabad

Bank of India,
Kukatpally Branch,
Hyderabad

Indian Overseas Bank,
Basheerbagh Branch,
Hyderabad

DIRECTORS' REPORT

Your Directors submit their Twenty Sixth Annual Report of your Company and the audited statement of accounts for the year ended March 31, 2010.

FINANCIAL RESULTS

Rs. in Million

	2009-2010	2008-2009
Profit before Depreciation and Tax	24.03	217.81
Less: Depreciation	135.60	73.70
Profit/(Loss) before Tax	(111.57)	144.11
Prior period adjustments	11.97	0.00
Provision for current tax and deferred Tax	29.15	26.21
Profit/(Loss) after Tax	(70.45)	117.89
Add: Balance brought forward from the previous year	81.60	74.22
Profit available for appropriation	11.15	192.11
Appropriation		
General Reserve	–	88.42
Dividend (including Tax on Dividend)	–	22.10
Balance carried forward to Balance Sheet	11.15	81.60

BUSINESS REVIEW

The financial year 2009-10 was a challenging year for the global economy and for several players in the pharmaceutical industry with drop in selling prices, reduced margins and liquidation of inventories. These had a cascading effect on several suppliers, including your Company. The circumstances in the market place coupled with your Company's recent investments in new assets created a situation where your Company has posted a net loss for the financial year.

There are three major factors that have contributed to the wide gap between expected performance and actual results. First, couple of product launches into the market fell significantly short of expectations. These products were developed for several of the leading players in the generic space and was expected to contribute significantly to the sales and profitability of your Company in the financial year 2009-10. A new production facility was commissioned in Q3 of 2008-09 to support the manufacture of the active ingredients. Members are aware, it is not possible to obtain alternative customers or substitute markets immediately since regulatory and customer approvals entail long lead times. However, your Company sees this as a temporary setback and has stepped up its marketing thrust to regain ground, modified its production facilities, established alternative products and created new revenue streams for the future. Also, the facilities that have been commissioned for this product were multi-product facilities and are being utilized for other current and future products.

Second, during the year under review, almost all products witnessed added and unanticipated price erosion, margin compression and competitive risks. The situation was compounded with a stiff mark up in costs of raw materials, especially from China. The product mix underwent a change with demand growth for low value products, while in the previous year, the sales mix had larger quantities of high value products. In the best interest of its customers, your Company worked at tighter margins and offered competitive prices, enabling them to compete better in their markets.

Third, the currency market remained volatile and the rupee tended to weaken intermittently throughout the year against the US\$. Rupee which was around Rs.51.50 in March 2009, closed the year ending March 2010 at approximately Rs.44.90. It was challenging to manage the forex transactions and in the year under review your Company reported a loss on foreign exchange of Rs.22.34 million (debited to Administrative, Selling & Other Expenses). In contrast, there was a net foreign exchange gain of Rs.60.65 million in the year ended March 2009.

Overall, your Company reported lower revenues at Rs.2812.53 million which was a 9.8% decline over Rs.3120.26 million achieved in the previous year. Neuland attempted to improve productivity and yield in a bid to contain the costs. Despite cost optimization steps initiated throughout the value chain, better sourcing of materials and effective risk management, your Company recorded lower Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) of Rs.280.76 million in 2009-10 as compared to Rs.361.41 million in 2008-09.

Members would recall, your Company has been steadily investing for its future growth. In the past three years, your Company has added to its gross block with fresh investment of Rs.1547 million, which is approximately twice the total investment made in the first 23 years. Your Company has invested in products, product pipeline, R&D, regulatory and compliance standards, manufacturing capabilities and environmental systems and is now better equipped to offer higher volume of a larger number of products and services.

In the pharmaceutical industry, additional capacities, regulatory and customer approvals are the primary steps in commercializing products, and invoicing takes 18 to 24 months. In the initial period, the Return on Investment takes time and effort, with skewed cash flows.

During the year, with additional borrowing for capital expenditure as well as working capital, your Company incurred interest costs of Rs.256.73 million. Depreciation accounted for another Rs.135.60 million. In the previous year, interest cost was Rs.143.59 million, while depreciation amounted to Rs.73.70 million. Neuland ended the financial year 2009-10 with a loss of Rs.70.45 million as compared to profit after tax of

Rs.117.90 million in the previous year. The loss per share in 2009-10 was Rs.13.03.

DIVIDEND

Considering the need to conserve resources, your Board has recommended skipping of dividend for the financial year under review.

OUTLOOK

Investments made in capacities are now paying off, with your Company better placed to offer high-value and niche products as well as service volume led markets. While several initiatives taken in 2009-10 are likely to positively impact revenues and net income, incremental gains are more likely to be visible from around the quarter ending September, 2010. The newly created manufacturing facilities are now being utilized for APIs with higher demands as well as for executing contract manufacturing projects.

Your Company has started ramping up selling volumes for its active pharmaceutical ingredients, especially its top six products. Simultaneously, seven new active ingredients are being scaled up and commercialized during 2010-11. Another eight active pharmaceutical ingredients are ready for scale up activity. The order book is robust and the endeavor is to achieve 30% incremental growth in revenues.

Your Company has also recently made a foray into the area of peptides. As a first step, your Company has been able to develop economical manufacturing processes for multi-kilogram production of high value peptide building blocks called pseudoproline dipeptides. Your Company's high quality standards together with competitive prices have been recognized and would be leveraged to offer these high quality peptide building blocks to other pharmaceutical companies that are active in the area of peptides. In order to fully exploit the market opportunity in this area, Neuland has entered into a commercial manufacturing agreement with one of the leading global biotechnology companies, a pioneer in developing and making available high-value building blocks, to be their exclusive producer of pharmaceutical grade pseudoproline dipeptides. This is a high-value high-growth segment and your Company is technically equipped and has the skill sets to create a niche for itself in a growing market. Neuland has commenced commercializing its products, and expects to ramp up volumes in calendar year 2011. Success in commercializing the peptide building blocks will lead to expansion of your Company's interests into other area in peptides such as generic peptide APIs, etc.

Today your Company offers contract manufacturing services to innovator companies and presently executes projects for pharmaceutical companies in Europe, North America and Japan.

Neuland's execution capabilities have been recognized and this is a segment that is showing encouraging signs of growth.

Your Company has a robust platform for growth and perceives several opportunities to ramp up the business in each of its verticals. Aggressive efforts are being made to improve revenues, offer more products and leverage on customer relationships. At the same time, Neuland is working to improve manufacturing processes, optimize costs, reduce waste and operational expenses, increase cash flow, rationalize manpower, protect margins, report positive earnings, and derisk the business.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements for the year ended March 31, 2010 form part of the Annual Report.

The reports and accounts of the subsidiary companies and joint venture entity are not annexed to this Report. The Company has obtained in writing an exemption in this regard from the Ministry of Corporate Affairs vide its letter No. 47/478/2010-CL-III dated June 8, 2010. A statement pursuant to Section 212(8) of the Companies Act, 1956 is annexed. Annual accounts of the subsidiary companies and the joint venture entity are kept for inspection by any investor at the Registered Office of your Company as well as at the Registered Office of the respective companies. Any investor interested in a copy of the accounts of the subsidiaries or joint venture entity 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, have come into operation and started working aggressively on market development. The efforts have been to build Neuland's business by being close to the customers and market the products as well as respond immediately to their needs. In 2009-10, contract manufacturing business was given an additional thrust, with encouraging response in Japan as well as at North America. Your Company sees long term sustainable opportunities in these regions and is further strengthening the organizational resources.

JOINT VENTURE

The outlook is positive for the 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. As already known to Members, your Company's share in the joint venture is 70% as per the Share Subscription and Shareholder Agreement.

The joint venture company commenced operation and your Company is excited with the prospects for the business, primarily in clinical research in India. Global health care companies have

been reaching out to competent research-led companies to bring innovative drugs to the market in the shortest possible time span, using high quality and cost-effective resources available in India. Neuland is confident for the long term since it has the best available partner in Cato Research.

RESEARCH & DEVELOPMENT

Your Company has made organizational changes and strengthened its research and development team during the year under review. The in-house R&D team has identified 13 new products for development in 2010-11 and focused efforts are being made 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 is another area which would favorably impact productivity and yield.

ENVIRONMENT, HEALTH & SAFETY

Effluent treatment capacities have been enhanced during the year, considering the larger volume of business being undertaken. Multiple effect evaporator has been installed and all regulatory norms are being met. The effort now is to go beyond compliant standards and actively reduce consumption of resources.

The Bonthapally Unit (Unit I) has been successfully audited and is certified for ISO 14001:2004 and OHSAS 18001:2007. As Members are aware, ISO 14001 is a series of International Standards on environment management system and OHSAS 18001 is an Occupational Health & Safety Assessment Series for health & safety management system. These certifications are a testimony to Neuland's commitment towards environment protection and health and safety management along with the quality of products.

At the Pashamylaram Unit (Unit-II), Stage-1 and Stage-2 audits have been successfully completed and formal certification is awaited.

INFORMATION MANAGEMENT SYSTEMS

Information technology is a critical component in data management and decision making at Neuland. Your Company offers a uniquely transparent facility to its customers to update themselves on the progress of their orders. The system is updated on an on-going basis, and a few of the initiatives taken up during the year under review are as follows:

- a. Both hardware and applications were upgraded to enhance the performance of the SAP platform, create robust back-up solutions, and augment connectivity across Neuland's locations;

- b. Users dealing with various projects from across the locations can submit their analytical related tests or tasks, using AR&D scheduling application. These tasks/requests are automatically scheduled as per the load and assigned to the analyzer of A R&D Department. Upon completion of the task/request, the end results are generated through the system for the benefit of the end user;
- c. In order to monitor contract research projects, a new version of software has been launched with facilities such as customer reviews, category based analysis, category monitoring services, customer interaction process and analysis dash board;
- d. Given the expansion of operational resources at the production facilities, a new logic for due date calculation has been implemented taking both the locations, alternative and consequent resources into consideration. By implementing this new logic, the due date derived is realistic and helps improve production control;
- e. Based on the estimated quarterly/half yearly sales plan, reports are generated to estimate the load on the reactors to help the production team in scheduling/execution of plans;
- f. The vendor/customer outstanding report provides information about the payables and receivables with aging. This report helps the finance team to plan for funds and helps to follow up with customers for release of payments due to Neuland;
- g. In order to support supply chain and logistics team, daily/conditional mail alerts have been enabled for quotation approval beyond 48 hours, procurement of top 20 raw materials and month closing alerts.

Every process is focused towards providing updated information to the operations team, to significantly add to transparency in operations and improve delivery mechanisms. The customer has been at the core of the initiatives and has been a beneficiary with improved due date performance.

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis as required under the Listing Agreement with the stock exchanges 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 financial year 2010-11 have been paid to both the exchanges.

CORPORATE GOVERNANCE

Your Company has an eminent Board which insists on following the highest standards of Corporate Governance in its deliberations. There is clear accountability at various management levels and care is taken to ensure compliance with statutory requirements and to adhere to the highest standard of business ethics.

Your Company has engaged a professional team to assess its corporate governance practices. The assignment is in progress.

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:

S. No.	Particulars	Managerial Persons		
		Dr. D. R. Rao	Mr. D. Sucheth Rao	Mr. D. Saharsh Rao
1	Salary (Rs.)	3,50,000 p.m.	3,50,000 p.m.	3,00,000 p.m.
2	Perquisites (Rs.)	50,000 p.m.	50,000 p.m.	50,000 p.m.
3	Contract period	3 years	3 years	3 years
4	Notice Period	12 months	12 months	12 months
5	Fixed component and performance linked incentives along with the performance criteria	Nil	Nil	Nil
6	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
7	Severance fees	Nil	Nil	Nil

Including of the above, each managerial person is entitled for remuneration not exceeding the overall limit of 5% of the net profits of the Company for each financial year, payable by way of salary, dearness allowance, bonus, commission, perquisites or any other allowances subject to overall ceiling of 10% of the net profit of the Company for all of them together.

DIRECTORS

Dr. Russell E. Kaufman resigned on January 25, 2010 from the directorship of the Company. The Board placed on record its appreciation of the valuable services rendered by Dr. Russell E. Kaufman during his tenure as Director of the Company.

Mr. H. Dhanrajgir and Mr. P. V. Maiya retire as Directors by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

Dr. Christopher M. Cimarusti was co-opted as a member of the Board at their meeting held on October 20, 2009. Your Company has received a notice under Section 257 of the Companies Act, 1956 from a Member proposing to appoint Dr. Christopher M. Cimarusti as a Director retiring by rotation, subject to the approval of Members. Appropriate resolutions are being placed before the Members at the ensuing Annual General Meeting.

The profiles of the Directors are included in the Report on Corporate Governance annexed.

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,

- in preparation of the annual accounts for the year ended March 31, 2010 the applicable accounting standards have been followed;
- such accounting policies as mentioned in Schedule N of the notes of 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, 2010 and of the loss of your Company for the year;
- 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;
- the annual accounts for the year ended March 31, 2010 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. However 5,500 unvested options have been terminated by the Compensation Committee on account of resignation of the employees from the Company. The fair value as on March 31, 2010 worked out to Rs.44.67 per share.

Details of the options granted and terminated are set out in the annexure to this report as required under Clause 12 of the Securities and Exchange Board of India (Employee Stock Options Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

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, 2011.

The Statutory Auditors in their report on the accounts for the year ended March 31, 2010 stated that although internal control system is commensurate with the size of the Company and nature of business, further strengthening is recommended in the environment of E R P with reference to all the key areas of control. The Company has implemented E R P package of S A P in September 2007. We are now revisiting the areas of control where ever required so that the system becomes robust and further strengthened.

Further, they stated that the Company has defaulted in repayments of dues to the banks and fund raised on short-term basis aggregating to Rs.66.52 million have been utilized for financing long term investments including repayments of loans taken for fixed assets and capital work in progress. In order to honor the repayment of term loans apart from providing the margin money for expansion of facilities, the Company had to utilize short term funds due to insufficient internal accruals. The Company has expanded its facilities to avail the market

opportunities for Ciprofloxacin and to comply with certain statutory requirements.

INSURANCE

Your company has taken reasonable steps to prevent risks and the Board is kept apprised 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, 2010. There are matured but unclaimed fixed deposits amounting to Rs.0.07 million being the deposit amount, which may come up for repayments. The provisions of Section 58A of the Companies Act, 1956 have been complied with.

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

As required under the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of employees) Rules 1975 as amended, the names and other particulars of employees are set out in Annexure to this report.

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 and all government agencies and looks forward to their continuing support.

For and on behalf of the board



Dr. D. R. Rao

Hyderabad, May 29, 2010

Chairman & Managing Director

PARTICULARS OF EMPLOYEES

Information as per Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 (as amended) and forming part of the Director's Report for the year ended March 31, 2010.

Name	Age	Qualifications	Designation	Month of joining	Experience in years	Remuneration Rs. in Million	Last Employment
Dr. D. R. Rao	66	M.Sc.DIIT PhD (Notre Dame), C Chem MRSC (London)	Chairman & Managing Director	January 1984	41	4.80	M/s. Unique Chemicals, Mumbai, Director R&D and QA
Mr. D. Sucheth Rao ¹	34	B.E., MBA (Notre Dame University, USA)	Chief Executive Officer & Whole-time Director	August 2003	10	4.80	M/s. Cummins, USA
Mr. D. Saharsh Rao ¹	30	B.E., M.S. (MIS), MBA (University of North Carolina, USA)	President Contract Research & Whole-time Director	March 2005	6	4.20	M/s. Sify Limited

¹Mr. D. Sucheth Rao & Mr. D. Saharsh Rao are relatives of Dr. D. R. Rao and to each other.

FORM - A

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

A. POWER & FUEL CONSUMPTION

Rs. in Million

	Current Year	Previous Year
1. Electricity		
a. Purchased		
Unit in Million (kWh)	15.89	16.39
Total Amount (Rs. in Million)	44.70	48.10
Rate/Unit (Rs./kWh)	2.81	2.94
b. Own generation (Unit in Million) kWh	2.76	2.36
(Through Diesel Generator)		
Units per litre of Diesel Oil	3.26	3.21
Cost/Unit (Rs./kWh)	11.18	11.66
2. Coal		
Quality "C" Grade used in Steam Boiler		
Quantity (Tonnes)	12,686	12,013
Total cost (Rs. in Million)	45.00	47.10
Average rate (Rs./Tonne)	3,544	3,917

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, leuprolide, and other 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. Nateglinide Form-H
2. Darifenacin Hydrobromide
3. Linezolid
4. Bilastin
5. Brinzolamide
6. Paricalcitol
7. Hydralazine
8. Developed scalable processes for the production of 28 pseudoprolines, 36 Isoacyl dipeptides, and 5 high value Dmb- amino acids and dipeptides.
9. Your Company entered in to a commercial manufacturing agreement with Genzyme Pharmaceuticals (an MNC company based in USA and Switzerland) to be their exclusive producer of pseudoproline dipeptides.

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

1. Voriconazole (new process)
2. Montelukast-Sodium (New process)
3. Posaconazole
4. Sugammadex
5. Linezolid - Form III
6. Rosuvastatin Calcium
7. Pemetrexed
8. Nateglinide - 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 and seven PCT applications were made.

- E. Drug Master Files (DMF) were filed for Aripiprazole, Ezetimibe, and Salmeterol Xinafoate. Currently in the process of filing DMFs for Nateglinide, Darifenacin hydrobromide, Linezolid, Voriconazole, Eprosartan Mesylate, Hydralazine, Brinzolamide, Paricalcitol, Nebivolol, and Palonosetron.

F. Future plan of action

1. Develop processes for new bulk drugs of various therapeutic categories identified after an extensive analysis of the market;
2. Development of cost effective processes for the existing products;
3. Undertake more of contract research and custom manufacturing projects;
4. Expand R&D activities in the newly created facility;
5. Improvements in quality and productivity;
6. We have identified 13 new products for development in this year. These are:
Rufinamide, Pentosan polysulphate sodium, Lubiprostone, Dexmedetomidine, Deferasirox, Bupivacaine, Solifenacin, Armodafinil, Silodosin, Rasagiline, Propofol, Bosentan and Aliskiren.
7. Develop manufacturing processes for Oxytocin, Eptifibatide, and Leuprolide.

G. Expenditure on R&D

Rs. in Million

	Current Year	Previous Year
Capital	17.61	120.24
Recurring	100.27	86.49
Total	117.88	206.73

R&D expenditure was 4.19% of total revenue, as against 6.63% 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 financial year 2009-10, 81% of revenues were derived from exports.
 - ii. Your Company's total exports on FOB basis was Rs.1966.63 million against previous year export turnover of Rs.2534.35 million.
 - iii. Your Company expects considerable export revenue during 2010-11.
- b. Foreign exchange earned and used for the year ended March 31, 2010:
Total foreign exchange earnings used and earned is given in Note 17G, H, I of the Notes to Accounts.

For and on behalf of the board


Dr. D. R. Rao

Chairman & Managing Director

Hyderabad, May 29, 2010

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, 2010)			34,500			
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 2009-10			Nil			
5. Options exercised during financial year 2009-10			Nil			
6. Options lapsed during financial year 2009-10			Nil			
7. Variation of terms of Options			Nil			
8. Money realized by exercise of Options			Nil			
9. Grant Price Plan (on November 20, 2008)			Rs.104			
10. Total No. of Options in force as on March 31, 2010			34,500			
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 Anwar	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. Taluikar	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		Rs.(13.05)	
			Adjusted		Rs.(13.03)	
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.			
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			Rs.1.54 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)	Rs.(70.45) million
		Less: Additional employee compensation cost based on fair value	Rs.(1.54) million
		Adjusted PAT	Rs.(71.99) million
		Adjusted EPS	Rs.(13.32)
iv. Weighted average exercise price and fair value of stock options granted		Nil	Rs.138.65
Stock options granted on	Weighted average exercise price (in Rs.)	Weighted average Fair value (Rs.)	Closing market price at BSE on the date of grant (Rs.)
November 20, 2008	104	138.65	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 (%)		1.46	
Dividend Yield		Nil	

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

Rs. in Million

Particulars	Reporting Currency	Exchange Rate	Capital	Reserves	Total Assets	Total Liabilities	Turnover	Profit before Taxation	Provision for Taxation	Profit after Taxation	Investments Made	Country
Neuland Laboratories K.K.	¥	0.491	1.54	0.79	2.33	2.33	15.53	0.64	0.22	0.42	–	Japan
Neuland Laboratories Inc.	US\$	44.67	0.0447	2.38	2.42	2.42	31.29	1.34	–	1.34	–	U.S.A.
CATO Research Neuland India Private Limited	Rs.	–	5.11	(0.64)	5.11	5.11	0.06	(0.53)	–	(0.53)	–	India

Note: The statement provides Indian rupee equivalents of the figures given in foreign currencies in the accounts of the subsidiary companies as required under para (iii) of the approval Letter No. 47/478/2010-CL-III dated June 8, 2010, issued by the Ministry of Company Affairs,

For and on behalf of the board



Dr. D. R. Rao

Chairman & Managing Director

Hyderabad, May 29, 2010

MANAGEMENT DISCUSSION AND ANALYSIS

GLOBAL PERSPECTIVE

In 2009, the global pharmaceutical market grew by 7% to \$837 billion, compared with a 4.8% growth rate in 2008. The U.S. market remained the largest single market and witnessed 5.1% growth in 2009 with sales of ethical pharmaceuticals and insulins through retail and non-retail channels reaching \$300.3 billion, compared with growth of 1.8% in 2008.

In 2009, demand for pharmaceuticals proved stronger than in the prior two years. Use of generic products, including branded generics, continued to rise in 2009 and now represents 75% of all dispensed prescriptions in the U.S., up from 57% in 2004. The total number of generic prescriptions dispensed increased 5.9% in 2009, while the number of branded prescriptions dispensed declined 7.6%.

Looking ahead

Global pharmaceutical sales growth of 4 to 6% is expected in 2010. Looking ahead, the global market for pharmaceuticals is expected to grow nearly \$300 billion over the next five years, reaching \$1.1 trillion in 2014. The 5 to 8% compounded annual growth rate during this period reflects the impact of leading products losing patent protection in developed markets, as well as strong overall growth in the world's emerging countries.

Patient demand for pharmaceuticals is estimated to remain robust, despite the ongoing effects of the economic downturn being felt in many parts of the world. Net growth over the next five years is expected to be strong - even as the industry faces the peak years of patent expiries for innovative medicines introduced 10 - 15 years ago and subsequent entry of lower-cost generic alternatives.

Changing dynamics

Market analysts perceive a few key market dynamics:

- a. Geographic balance of the pharmaceutical market continues to shift toward emerging countries.
- b. Therapy area growth dynamics driven by innovation cycle and areas of unmet need.
- c. Broad cuts in spending applied by public payers to reduce growth in healthcare budgets.
- d. Peak years of patent expiries shift major therapies to generic dominance.
- e. Closer scrutiny of new products contributes to lower initial spending by payers.
- f. Leading up to 2020, there will be a continuing shift toward biopharmaceuticals, specialty-driven products, and changes in the mix of disease areas of interest.

ACTIVE PHARMACEUTICAL INGREDIENTS

Active pharmaceutical ingredients (APIs) are any substance or mixture of substances intended to be used in the manufacture of a medicinal product and that, when used in its production becomes an active ingredient of the product.

Sourcing APIs from low-cost suppliers is a key strategy for pharmaceutical companies pressured by the competitive forces. The trends in active pharmaceutical ingredient outsourcing are getting clear, and can be iterated as follows:

- ✓ China is the largest API-producing country in the world. India is predicted to be the second largest market, growing from 6.5% of the global API market to around 10.5% by 2011.

- ✓ The manufacturing industry is growing faster in India closely followed by China. India has already achieved a level of sophistication in chemicals and now offers biologics as well.
- ✓ Outsourcing the production of APIs, or if already outsourced, finding a cheaper supplier, is key to saving money at the API manufacturing stage, whether it is for APIs for preclinical or clinical trials, or for the production of finished dosages.
- ✓ Growth in the overall pharmaceutical market has slowed, as a result of patent expiries, generic encroachment, and price erosion, but growth is expected to revive from 2010, driven by increased demand for healthcare. Growth in the pharmaceutical market in-turn will drive expansion in the API market.

Forward view

Going forward, an overall growth rate of around 7.3% is projected for the global APIs market, which is higher than the growth rate expected in the overall pharmaceutical market. The upcoming peak years of patent expiries for innovative medicines is resulting in a surge in sales for generic APIs, which should comfortably outpace growth for innovator APIs over the next five years.

India in particular is well positioned, thanks to low labour and environmental costs, the size and dynamism of its economy, and incentives provided by the Indian government. Indian API manufacturers expect their sales to foreign countries, and especially regulated markets, will increase faster than sales to the domestic market. In the area of intellectual property rights, India appears to fare better in terms of the confidence it inspires in foreign investors. Indian companies have perfected their scientific, technical and manufacturing skills to match the requirements of global players that are increasingly seeking to offshore many manufacturing activities previously performed in-house.

Today, India has barely 4% of the global CRAMs market, and it is estimated that there would be an explosive growth in the area for the capable players in the country.

Neuland has become a one stop provider from research to commercial production of Active Pharmaceutical Ingredients (APIs). For over two decades, Neuland has strived to be the best value for money without compromising on quality and time. Strong chemistry, regulatory support and reliability are bundled with the APIs.

COMPANY
PERSPECTIVE &
OPPORTUNITIES

The Company's product portfolio spans an impressive mix of APIs across 10 major therapeutic categories, including anti-asthmatics, anti-infectives, cardiovascular diseases, CNS (including anti-depressants, anti-parkinsons and anti-alzheimers), anti-ulcerants and anti-fungals. The Company has over 35 active U.S. Drug Master Files and 330 Drug Master Files worldwide and Certificate of Suitability (CoS).

Neuland's product portfolio combined with robust systems, global standards, strong customer focus geographically spread covering more than 80 countries makes Brand Neuland, a preferred source worldwide. For over two decades, the Company has built up some of the best client list and markets over 90% of its production in the developed markets of Europe and North America. Japan offers huge opportunities for quality conscious manufacturers and Neuland has both its manufacturing sites, processes and quality management system inspected by Pharmaceuticals and Medical Devices Agency (PMDA), Japan.

OUTLOOK

We are introducing new products and reducing cost of operations. The Company is conscious that the operating environment will be challenging in 2010-11 and hence would maintain high level of customer service and save on costs. Neuland is stepping up its operations, making proactive moves in the market and is improving cost competitiveness.

Neuland has planned to increase the importance of rapidly growing and high value-adding businesses and find ways to exploit new opportunities. Cost discipline and cash preservation are measures being taken to cope with the business needs.

RISK MANAGEMENT

Grant Thornton India had reviewed the enterprise wide risks and submitted their report and the management is identifying significant threats and risks and institutionalizing a framework of risk management procedures. Individual departments are reviewing the report to take corrective actions and mitigate threats.

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

Considerable investment is made by the Company in training the employees to add to their competence and skill levels. During the year 3,956 participants were trained covering 11,537 man-hours in areas as diverse as efficient operation and maintenance of boilers, environmental management systems, EU regulation on APIs, GMP awareness, impurities in drug substances, organization culture, patent drafting & writing skills, process safety workshop, six sigma green belt certification workshop, validation techniques, titration techniques, quality of an API, safety & health in chemical laboratories, energy management workshop, PMLI and QMS program, and so on. The participation profile and training inputs are tabulated below:

Category	Number of participants	Total man-hours
Senior management	48	278
Middle management	315	1,406
Junior management	3,210	8,711
Operators	383	1,142
Total	3,956	11,537

There were 899 employees at the beginning of the year. New recruitments were made primarily in the areas of peptides synthesis group, technology transfer, sales & marketing support, developmental quality assurance, project management, SHE, analytical development, R&D and production. At the year end, the Company had 946 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

Composition:

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 (Promoter)	Chairman & Managing Director	1	–	–	4	Yes
Mr. D. Sucheth Rao	Whole-time Director & CEO	2	–	–	4	Yes
Mr. D. Saharsh Rao ¹	Whole-time Director & President-Contract Research	1	–	–	2	N.A.
Mr. G. V. K. Rama Rao (Promoter)	Non-Executive Director	–	–	–	4	Yes
Mr. S. B. Budhiraja	Non-Executive Independent Director	4	4	2	4	Yes
Mr. H. Dhanrajgir	- do -	8	6	3	4	Yes
Mr. P. V. Maiya	- do -	3	3	1	4	Yes
Dr. Will Mitchell	- do -	–	–	–	3	No
Dr. Christopher M. Cimarusti ²	- do -	–	–	–	1	N.A.
Dr. Russell E. Kaufman ³	- do -	–	–	–	1	Yes
Mrs. Daya Chandras	Nominee (EXIM Bank)	–	–	–	3	No

¹ Appointed at the Annual General Meeting held on July 18, 2009.

² Appointed at the Board meeting held on October 20, 2009.

³ Resigned with effect from January 25, 2010.

Number of Board Meetings and the dates of Board Meeting

Four Board Meetings were held during the financial year ended March 31, 2010. The dates on which the said meetings were held are as follows:

May 21, 2009 July 18, 2009 October 20, 2009 January 28, 2010

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:

- 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;
- Recommending 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;
- Reviewing with management, the quarterly and annual financial statements before submission to the Board, focusing primarily on:
 - 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.

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.

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

May 20, 2009

July 17, 2009

October 19, 2009

January 27, 2010

Attendance record at Audit Committee Meetings

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

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 20, 2009.

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

Whole-time Directors	All elements of remuneration package i.e. salary benefits, commission, pension, etc. (Rs. in Million)	Fixed component and performance linked incentives along with the performance criteria	Service contracts/ Notice Period/ Severance fees	Stock option with details if any and whether issued at discount as well as the period over which accrued and over which exercisable
Dr. D.R. Rao	4.80	Nil	5 years ¹	Nil
Mr. D. Sucheth Rao	4.80	Nil	5 Years ¹	Nil
Mr. D. Saharsh Rao	4.20	Nil	3 years ¹	Nil

¹ Notice period - 12 Months, Severance fees - 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 Rs.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 Rs.5,000 for each meeting.

The following is the schedule of sitting fees paid:

	Rs.
Mr. H. Dhanrajgir	80,000
Mr. S.B. Budhiraja	90,000
Mr. P.V. Maiya	90,000
Mr. G. V. K. Rama Rao	50,000
Mrs. Daya Chandrahas	70,000
Dr. Russel E. Kaufman	10,000
Dr. Will Mitchell	30,000
Dr. Christopher M. Cimarusti	10,000

Shareholding of Non-Executive Directors as on March 31, 2010

	No. of Shares
Mr. H. Dhanrajgir	2,000
Mr. S.B. Budhiraja	2,400
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**

During the financial year 2009-10, the Committee met once on July 17, 2009 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 five complaints from the share holders/Stock Exchange/SEBI/Department of Company Affairs/Registrar of Companies which interalia included non-receipt of dividend warrants, annual report, transfer of shares. 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, 2010. 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. Deepika Gupta, Company Secretary is the Compliance Officer of the Company from May 13, 2009.

4. General Body Meetings

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

Year	Date	Day	Time	Venue
2007	July 20, 2007	Friday	10.00 a.m.	Anjuman, Taj Banjara, Hyderabad
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

Special Resolutions passed at the last three AGMs

Year	2006 - 07	2007 - 08	2008 - 09
Item	<p>a. Appointment of Dr. Russell E. Kaufman to an office or place of profit for a period of 5 years and fixation of his remuneration</p> <p>b. Appointment of Mr. D. Saharsh Rao as Vice President - Corporate Planning & Development & fixation of his remuneration</p> <p>c. Consent of the shareholders to create, offer, issue and allot stock options to the employees & Directors of the Company.</p> <p>d. Consent of the shareholders to create, offer, issue and allot stock options to the employees & Directors of the present or future wholly owned subsidiaries of the Company.</p> <p>e. Amendment to the Articles of Association for inserting clause to hold Board & Committee meetings through video or teleconferencing.</p>	<p>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.</p>	<p>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.</p>

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

Mr. H. Dhanrajgir

Mr. Humayun Dhanrajgir is one of the most respected personalities in the pharmaceutical industry in India. He has held several senior positions, including that of the Managing Director & Executive Vice Chairman of Glaxo India Limited. He was the President of Organization of Pharmaceutical Producers of India (OPPI) (1990-92). He also served on the General Committee of the Bombay Chamber of Commerce and Industry and was the Chairman of its Indo-British Business Committee for two years. He was also the Managing Director of Lupin Laboratories Limited for one year from Oct 1994 to assist in the Company's globalization plans. He thereafter was appointed by Eastman Kodak Company as Managing Director of Kodak India Limited for a five-year term and retired in October 2000.

Mr. Dhanrajgir serves on the boards of a few public companies notably HDFC Asset Management Company Limited, Cadila Healthcare Limited, Zydus Wellness Limited, Themis Medicare Limited. He is the Non-Executive Chairman of Emcure Pharmaceuticals Limited and Next Gen Publishing Limited. He is a Trustee of the Breach Candy Hospital Trust, Lintas Employees Welfare Trusts and Dr. P.V. Cherian Artificial Kidney Trust. He is a Member of the Advisory Board of U.S. Pharmacopeia, India and an Associate of Pappas Ventures Inc., USA.

Mr. P. V. Maiya

Mr. P.V. Maiya is an eminent banker. He had a long career of 32 years with the State Bank of India where he rose to the rank of General Manager, and was deputed by SBI as the Executive Director of SCICI, which he served for a period of about two years. He then joined ICICI group in 1994 to become the first Chairman and Managing Director of ICICI Bank, a position, which he held till retirement in May 1998. After retiring from the Bank, he joined in October 1998 as the first Managing Director & CEO of Central Depository Services (India) Limited (CDSL), which he served up to November 1999.

Post retirement from full time jobs, he was nominated by the Government of India to serve as a Director for three years (2001-04) on the Board of Indian Bank.

Currently, he is an independent director on the board of Canara Bank, Brigade Enterprises Limited and Ocean Sparkle Limited.

Dr. Christopher M. Cimarusti

Dr. Christopher M. Cimarusti 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. He personally synthesized the antihypertensive nadolol (Corgard®) and the antibiotic aztreonam (Azactam®) for the first time and designed the commercial processes for both.

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.

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. Risk Management

Business risk evaluation and management is an ongoing process within the organization. During the period under review, a detailed exercise on Business Risk Management (BRM) was initiated covering the entire gamut of business operations. The project is under progress.

d. 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.

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 Economics Times, Business Standard & Eenadu.
- 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

Thursday, July 29, 2010 at 2:30 p.m.
at Anjuman, Taj Banjara,
Banjara Hills, Hyderabad

Date of Book Closure

July 26, 2010 to July 29, 2010

Financial Calendar

Adoption of Quarterly Results for the quarter ending	Tentative Dates
June 30, 2010	July 29, 2010
September 30, 2010	October 29, 2010
December 31, 2010	February 2, 2011
March 31, 2011	May 27, 2011

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

Exchange Plaza, Bandra Kurla Complex,
Bandra (E), Mumbai 400 001

The Company confirms that it has paid the Annual Listing fees due to the Bombay Stock Exchange and National Stock for the year 2010-11.

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

Stock Code - Physical

524558 on Bombay Stock Exchange Limited, Mumbai

NEULANLAB 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
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Fax : + 91 40 2335 4042
Email : sta@sathguru.com

Share price movements 2009-10**Market Price Data: High, low, & closing prices during each month in last financial year**

		Bombay Stock Exchange Limited Rs.			National Stock Exchange of India Limited Rs.		
	Month	High	Low	Closing	High	Low	Closing
2009	April	130.00	88.70	121.00	136.00	95.00	117.20
	May	160.00	111.60	144.80	169.80	110.10	141.35
	June	147.80	130.25	140.00	160.00	121.70	141.25
	July	153.00	126.15	130.20	166.10	121.30	127.50
	August	140.00	111.00	135.20	147.90	120.00	135.75
	September	155.15	129.10	143.95	155.40	122.20	140.75
	October	145.00	108.60	110.85	145.00	102.50	111.05
	November	123.00	103.35	115.10	123.00	103.00	115.60
	December	139.90	114.30	126.25	139.90	111.25	127.20
2010	January	130.75	99.05	100.40	130.00	99.10	100.95
	February	106.95	94.10	98.05	114.70	96.50	98.55
	March	108.85	96.50	100.85	110.00	97.40	100.55

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 31st March 2010, the total shares dematerialized were 4,074,394 in both depositories accounting for 75.50% 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, 2010

Category	No. of Members	% to total	No. of Shares held	% of Share holding
Resident Individuals	4,924	93.15	1,468,121	27.21
NRIs/FIIs/OCBs	47	0.89	1,242,875	23.03
Bodies Corporate	236	4.46	522,117	9.67
Promoters/Directors and their relatives	75	1.42	2,049,372	37.98
FIs/Banks/MFs/Others	4	0.08	113,970	2.11
Total	5,286	100.00	5,396,455	100.00

Distribution pattern as at March 31, 2010

Category	No. of Shares held	% to Capital	No. of Members
Promoters/Directors/Associates	2,049,372	37.98	75
Mutual Funds, Banks & FIs	113,970	2.11	4
Bodies Corporate	522,117	9.67	236
NRIs/FIIs/OCBs	1,242,875	23.03	47
Individual Shareholders	1,468,121	27.21	4,924
Total	5,396,455	100.00	5,286

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

- i. Investor Correspondence:** For transfer/dematerialisation of shares, payment of dividend on shares, interest and any other query relating to the shares of the Company.

For Shares held in Physical form	For Shares held in Demat Form
Registrar and Transfer Agents Sathguru Management Consultants Private Limited Plot No.15, Hindi Nagar Panjagutta, Hyderabad – 500 034	To the Depository Participant

ii. Any query on Annual Report

Ms. Deepika Gupta
The Company Secretary,
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
Fax : +91 40 2341 2957
e-mail : gdeepika@neulandlabs.com

iii. For investor grievances

e-mail : ir@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. Chairman of the Board**

The Company has an executive Chairman and Managing Director, who is entitled to maintain a Chairman's office at the Company's expense.

b. Shareholders Rights

As the Company's half yearly results are published in English newspapers having wide circulation and in Telugu newspaper (vernacular language newspaper, having circulation in Hyderabad where the Registered Office of the Company is situated), the same are not sent to the Members.

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, 2010, 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 abovementioned 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 29, 2010.

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, 2010.

For **Neuland Laboratories Limited**


Dr. D. R. Rao

Chairman & Managing Director

Hyderabad, May 29, 2010.

CMD/CFO CERTIFICATION

As required by sub clause V of Clause 49 of the Listing Agreement with the stock exchanges, we have certified to the Board that for the financial year ended March 31, 2010 the Company has complied with the requirements of the said sub-clause.

For **Neuland Laboratories Limited**


Dr. D. R. Rao

Chairman & Managing Director
Hyderabad, May 29, 2010.

For **Neuland Laboratories Limited**


A. Raghavendracharyulu
Vice-President (Finance)

AUDITORS' REPORT

To the Members of
Neuland Laboratories Limited

Report on the accounts for the year ended on March 31, 2010 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, 2010 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 and Profit and Loss Account dealt with by this report are in agreement with the books of account;
 - d. In our opinion, the Balance Sheet and Profit and Loss Account 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, 2010, and taken on record by the Board of Directors we report that none of the directors is disqualified as on March 31, 2010 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, 2010;
 - ii. In the case of the Profit and Loss Account, of the loss 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 29, 2010.

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, 2010 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. The Company has not granted or taken loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, sub-clause (b), (c), (d), (f) & (g) are not applicable.
- 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 Act 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.
- 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 were in arrears, as at March 31, 2010 for a period of more than six months from the date on which they became payable.


- b. According to the records of the Company, there are no dues of Income tax, Sales tax, Wealth tax, Service tax, Custom duty, Excise duty and Cess which have not been deposited on account of any dispute.
- 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:

Principal Amount default	Due on	Paid on
Rs.1.88 Lakhs	February 29, 2010	April 16, 2010
Rs.150.00 Lakhs	March 20, 2010	May 24, 2010

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 Rs.665.22 lakhs have been utilised for financing long-term investments including the repayment of loans taken for 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 29, 2010.

BALANCE SHEET AS AT MARCH 31, 2010

Rs. in Million

	Schedule	March 31, 2010	March 31, 2009
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	A	54.67	54.67
Reserves & Surplus	B	626.73	698.22
		681.40	752.89
LOAN FUNDS			
Secured Loans	C	2331.82	2003.16
DEFERRED TAX LIABILITY (Net)		—	41.38
TOTAL FUNDS		3013.22	2797.43
APPLICATION OF FUNDS			
FIXED ASSETS			
Gross Block	D	2354.68	2056.49
Less: Depreciation		727.32	591.29
Net Block		1627.36	1465.20
Capital Work-in-Progress		302.48	368.02
		1929.84	1833.22
INVESTMENTS	E	75.51	74.60
CURRENT ASSETS, LOANS & ADVANCES			
Inventories	F	719.27	704.66
Sundry Debtors	G	728.26	711.50
Cash and Bank Balances	H	127.67	106.20
Loans & Advances	I	394.89	301.14
		1970.09	1823.50
LESS: CURRENT LIABILITIES AND PROVISIONS			
Current Liabilities	J	852.13	801.87
Provisions	K	110.09	132.02
		962.22	933.89
NET CURRENT ASSETS		1007.87	889.61
TOTAL ASSETS (Net)		3013.22	2797.43
NOTES TO ACCOUNTS	L		

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

Per our report attached

For and on behalf of the Board

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




RAGHUVIR M. AIYAR
Partner
M.No. 38128


Hyderabad, May 29, 2010.


A. Raghavendracharyulu
Vice President (Finance)


Deepika Gupta
Company Secretary


Dr. D.R. Rao
Chairman & Managing Director



D. Saharsh Rao
Whole-time Director


Humayun Dhanrajgir
Director


P.V. Maiya
Director


D. Sucheth Rao
Whole-time Director


S.B. Budhiraja
Director


G.V.K. Rama Rao
Director


Daya Chandras
Director

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2010

Rs. in Million

	Schedule	March 31, 2010	March 31, 2009
INCOME			
Sales and Export incentives		2812.53	3120.26
Less: Excise duty		28.32	53.04
		2784.21	3067.22
Other Income	1	42.34	105.34
TOTAL		2826.55	3172.56
EXPENDITURE			
Raw Materials Consumed	2	1620.00	1891.17
Manufacturing Expenses	3	531.36	540.13
Administration, Selling & Other Expenses	4	394.43	379.86
Interest and other Charges	5	256.73	143.59
Depreciation/Amortisation	D	136.64	74.80
Less: Adjusted against revaluation reserve		1.04	1.10
		135.60	73.70
TOTAL		2938.12	3028.45
PROFIT/(LOSS) BEFORE TAXATION/PRIOR PERIOD ITEMS		(111.57)	144.11
Prior Period Adjustment (See Note 15)		11.97	-
PROFIT/(LOSS) BEFORE TAXATION		(99.60)	144.11
Provision for Current tax		-	16.33
Provision for Wealth Tax		(0.15)	-
Provision for Fringe Benefit Tax		-	2.79
Provision for Deferred tax		41.38	13.60
MAT credit entitlement		(12.08)	(5.13)
Excess Provision of Income Tax no longer required		-	(1.38)
PROFIT/(LOSS) AFTER TAX		(70.45)	117.90
Balance brought forward from previous year		81.60	74.22
AMOUNT AVAILABLE FOR APPROPRIATION		11.15	192.12
APPROPRIATIONS			
Transfer to General Reserve		-	88.42
Proposed Dividend (Previous Year @ 35%)		-	18.89
Tax on distributed profits		-	3.21
BALANCE CARRIED TO BALANCE SHEET		11.15	81.60
NOTES TO ACCOUNTS	L		
EARNINGS PER SHARE			
Basic Earnings per Share (Rs.)		(13.05)	21.85
Diluted Earnings per Share (Rs.)		(13.03)	21.81
Face Value per Share (Rs.)		10.00	10.00

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

Per our report attached

For and on behalf of the Board

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



RAGHUVIR M. AIYAR

Partner


M.No. 38128

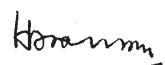
Hyderabad, May 29, 2010.


A. Raghavendracharyulu
Vice President (Finance)


Deepika Gupta
Company Secretary



Dr. D.R. Rao
Chairman & Managing Director



D. Saharsh Rao
Whole-time Director


Humayun Dhanrajgir
Director


P.V. Maiya
Director


D. Sucheth Rao
Whole-time Director


S.B. Budhiraja
Director


G.V.K. Rama Rao
Director


Daya Chandras
Director

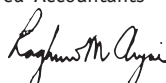
CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2010

Rs. in Million

	March 31, 2010	March 31, 2009
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit/(Loss) before tax and exceptional items	(99.60)	144.11
Adjustment for		
Depreciation/Amortisation	135.60	73.70
Interest Expense	208.87	105.32
Unrealised foreign Exchange (Gain)	8.81	-
Loss on sale of fixed assets	0.15	0.16
Provision for gratuity and leave encashment	8.95	8.02
Provision for Doubtful Debts	7.26	7.94
Operating Profit before Working Capital changes	270.04	339.25
Add/(Less) Working Capital changes		
Trade Receivables	(38.04)	(205.16)
Inventories	(14.60)	(154.53)
Loans and Advances	(85.85)	74.42
Trade Payables	40.38	174.58
Cash flow from investing activities	171.93	228.56
Less Income Tax paid	(20.17)	(12.45)
Net cash from operating activities (A)	151.76	216.11
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets including Work-in-Process	(233.85)	(742.34)
Proceeds from Sale of Fixed Assets	0.45	0.37
Net Cash used in investing activities (B)	(233.40)	(741.97)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	348.29	539.30
Increase/(Decrease) in bank borrowings	336.64	205.56
Repayments of long-term borrowings	(356.27)	(82.55)
Interest Paid	(202.53)	(104.71)
Dividend Paid	(22.10)	(15.78)
Investments in Subsidiaries	(0.92)	(1.89)
Net Cash used in financing activities (C)	103.11	539.93
Net increase/(decrease) in Cash & Cash Equivalents (A+B+C)	21.47	14.07
Opening Balance	106.20	92.13
Closing Balance	127.67	106.20
Notes: 1. All figures in brackets are outflows. 2. Previous year's figures have been regrouped wherever necessary. 3. Direct taxes paid are treated as arriving from operating activities and are not bifurcated between investing & financing activities. 4. Cash & cash equivalent is cash & bank balances as per Balance Sheet.		

Per our report attached

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

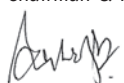

RAGHUVIR M. AIYAR
Partner
M.No. 38128
Hyderabad, May 29, 2010.

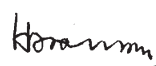

A. Raghavendracharyulu
Vice President (Finance)


Deepika Gupta
Company Secretary

For and on behalf of the Board

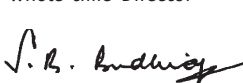

Dr. D.R. Rao
Chairman & Managing Director

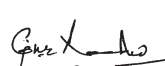

D. Saharsh Rao
Whole-time Director


Humayun Dhanrajgir
Director


P.V. Maiya
Director


D. Sucheth Rao
Whole-time Director


S.B. Budhiraja
Director


G.V.K. Rama Rao
Director


Daya Chandras
Director

SCHEDULES FORMING PART OF THE BALANCE SHEET

Rs. in Million

	As at March 31, 2010	As at March 31, 2009
SCHEDULE - A		
SHARE CAPITAL		
AUTHORISED		
10,000,000 Equity Shares of Rs.10 each	100.00	100.00
300,000 Cumulative Redeemable Preference Shares of Rs.100 each	30.00	30.00
300,000 Preference Shares of Rs.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 Rs.10 each, fully paid (Previous Year - 5,590,000 Equity Shares of Rs.10 each)	55.90	55.90
SUBSCRIBED CAPITAL		
5,499,731 Equity Shares of Rs.10 each (Previous Year - 5,499,731 Equity Shares of Rs.10 each)	55.00	55.00
PAID UP CAPITAL		
5,396,455 Equity Shares of Rs.10 each fully paid up (Previous Year - 5,396,455 Equity Shares of Rs.10 each)	53.96	53.96
Add: 103,276 Forfeited Equity Shares of Rs.10 each [(Previous Year - 103,276) (amount originally paid up)]	0.71	0.71
a. Of the above shares, 715,040 Equity Shares of Rs.10 each are allotted as fully paid up by way of bonus shares.		
b. 11,080 Equity Shares of Rs.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		
Opening Balance	241.91	182.06
Less: Adjustment of foreign exchange gain (Net of depreciation)	-	28.57
Add: Transfer from Profit and Loss Account	-	88.42
	241.91	241.91
Revaluation Reserve	13.84	14.94
Less: Depreciation on revalued assets	1.04	1.10
	12.80	13.84
Profit and Loss Account	11.15	81.60
	626.73	698.22

Rs. in Million

	As at March 31, 2010	As at March 31, 2009
SCHEDULE - C		
SECURED LOANS		
TERM LOANS		
a. Foreign Currency Loans	349.17	523.99
b. Rupee Loans	890.06	726.86
	1239.23	1250.85
<p>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.</p> <p>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.</p>		
<p>Technology Development Assistance from TIFAC</p> <p>The above loan is secured by movable property of the Company at Bonthapally manufacturing unit including its movable plant and machinery, machinery spares, tools and accessories and other movables both present and future (save and except book debts) whether installed or not are acquired for the purpose of the project at the cost of or from the money advanced by TIFAC under Technology Development Assistance agreement.</p>	—	1.50
<p>Working Capital Finance from Bank</p> <p>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.</p>	1074.38	737.74
OTHER LOANS		
Hire Purchase Loans	18.21	13.07
The above loan is against the hypothecation of vehicles.		
	2331.82	2003.16

SCHEDULE - D**FIXED ASSETS**

Rs. in Million

GROSS BLOCK Name of Assets	DEPRECIATION/AMORTISATION				NET BLOCK							
	Cost as on 01.04.2009	Additions For the Year	Deductions	Adjustments	Cost as on 31.03.2010	Upto 31.03.2009	Deductions	For the Year	Adjustments	Total upto 31.03.2010	As on 31.03.2010	As on 31.03.2009
Land	9.05	18.94	-	-	27.99	-	-	-	-	-	27.99	9.05
Buildings	471.07	84.99	-	(9.44)	546.62	69.00	-	17.13	(0.32)	85.81	460.81	402.07
Plant and Machinery	1294.09	219.48	-	(11.66)	1501.91	453.42	-	98.19	(1.20)	550.41	951.50	840.67
R&D Equipment	165.09	1.44	-	(29.38)	137.15	18.60	-	12.69	(3.04)	28.25	108.90	146.49
Data Processing Machines	22.87	4.90	-	-	27.77	13.11	-	2.53	0	15.64	12.13	9.76
Furniture & Fittings	33.86	0.46	-	(0.22)	34.10	5.25	-	2.12	(0.01)	7.36	26.74	28.61
Vehicles	36.06	18.51	(1.20)	-	53.37	13.19	(0.59)	4.59	-	17.19	36.18	22.87
Intangible Assets (Process Development Cost)	16.87	0	-	-	16.87	15.22	-	1.65	-	16.87	0.00	1.65
Intangible Assets - SAP	7.53	1.37	-	-	8.90	3.50	-	2.29	-	5.79	3.11	4.03
TOTAL	2056.49	350.09	(1.20)	(50.70)	2354.68	591.29	(0.59)	141.19	(4.57)	727.32	1627.36	1465.20
Previous Year		971.89	(0.84)	(29.37)	2056.49	517.60	(0.31)	74.80	(0.81)	591.29	1465.20	
Capital Work- -in-Process (Including advances on capital goods)											302.48	368.02

Note: Adjustment carried out on account of foreign exchange gain relating to the financial year 2009-10 pursuant to notification dated March 31,2009 issued by the Ministry of Corporate Affairs (See Note 6 on Schedule L)

	As at March 31, 2010	As at March 31, 2009
SCHEDULE - E		
INVESTMENTS - Long Term (at Cost)		
(Other Investments - Unquoted and Non-traded)		
Jeedimetla Effluent Treatment Limited	0.22	0.22
2,200 equity shares of Rs.100 each fully paid up (2,200 equity shares of Rs.100 each)		
Pantancheru Enviro-Tech Limited	2.09	2.09
209,136 equity shares of Rs.10 each fully paid up (209,136 equity shares of Rs.10 each)		
Andhra Pradesh Gas Power Corporation Limited	70.40	70.40
402,000 equity shares of Rs.100 each fully paid (402,000 equity shares of Rs.100 each fully paid)		
Neuland Laboratories K.K., Japan	1.54	1.54
300,000 equity shares of Yen 100 each fully paid (300,000 equity shares of Yen 100 each fully paid)		
Neuland Laboratories Inc., (USA)	0.04	0.00
1,000 equity shares of \$ 1 each fully paid (1,000 equity shares of \$ 0.001 each fully paid)		
CATO Research Neuland India Private Limited	1.22	0.35
35000 equity shares of Rs.10 each fully paid and 872,193 equity shares of Rs.10 each, Re.1 paid up (35,000 equity shares of Rs.10 each fully paid)		
	75.51	74.60

Rs. in Million

	As at March 31, 2010	As at March 31, 2009
SCHEDULE - F		
INVENTORIES - As certified by the management		
Raw Materials	210.24	229.69
Work-in-Process	72.34	78.64
Finished Goods	402.58	360.73
Stores and Consumables	30.88	24.21
Goods in Transit	3.23	11.39
	<u>719.27</u>	<u>704.66</u>
SCHEDULE - G		
SUNDRY DEBTORS		
Unsecured, Considered good		
Sundry Debtors outstanding for a period exceeding six months		
Considered good	35.51	18.20
Considered doubtful	23.93	25.42
	<u>59.44</u>	<u>43.62</u>
Less: Provision for doubtful debts	23.93	25.42
	<u>35.51</u>	<u>18.20</u>
Others	692.75	693.30
	<u>728.26</u>	<u>711.50</u>
SCHEDULE - H		
CASH & BANK BALANCES		
Cash on hand	0.17	0.24
Bank Balances with Scheduled Banks		
Current Accounts	12.59	7.46
Fixed Deposit Accounts (against margin money)	82.41	66.00
Fixed Deposit Accounts	32.50	32.50
	<u>127.67</u>	<u>106.20</u>
SCHEDULE - I		
LOANS & ADVANCES (Unsecured, Considered Good)		
Advances recoverable in cash or in kind or for value to be received		
Advance to Suppliers	20.66	17.09
Other Advances	23.40	44.89
Advances to Subsidiaries	1.96	0.26
Advance Payment against Taxes - Income Tax	81.04	73.16
Deposits	21.02	20.71
Prepaid Expenses	9.05	6.76
Balances with Central Excise	53.52	27.80
Other Receivables		
Interest accrued on Bank Deposits	9.73	6.15
Other Claims Receivable	94.02	28.33
Export Benefits receivable	80.49	75.99
	<u>394.89</u>	<u>301.14</u>

Rs. in Million

	As at March 31, 2010	As at March 31, 2009
SCHEDULE - J		
CURRENT LIABILITIES		
For Goods Supplied		
Goods Supplied	591.21	441.32
Expenses	112.58	120.24
Capital Expenditure	15.56	78.51
Advance from Customers	60.49	12.11
Due to subsidiaries	2.81	3.69
Other Liabilities	68.54	140.45
	851.19	796.32
Export Incentive Obligation	0.87	5.33
Due to Shareholders		
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	–	0.15
Fixed deposits matured but not claimed including interest thereon	0.07	0.07
However no amounts mentioned above were due to be transferred to Investor Education and Protection Fund as on March 31, 2009.		
	852.13	801.87
SCHEDULE - K		
PROVISIONS		
Gratuity	17.01	19.04
Leave Encashment	11.71	9.45
Proposed Dividend & Tax	–	22.10
Income Tax	81.22	78.64
Wealth Tax	0.15	0.00
Provision for Fringe Benefit Tax	–	2.79
	110.09	132.02

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT

Rs. in Million

	Year ended March 31, 2010	Year ended March 31, 2009
SCHEDULE - 1		
OTHER INCOME		
Interest received [(Includes TDS of Rs.1.06 (Previous Year - Rs.1.59)]	8.27	7.03
Miscellaneous Income	1.34	8.29
Net Foreign Exchange Gain	—	60.65
Product Development Charges received	32.73	29.37
	<u>42.34</u>	<u>105.34</u>
SCHEDULE - 2		
RAW MATERIALS CONSUMED		
Opening Stock of Raw Materials	229.69	206.01
Add: Purchases	1636.10	2053.41
	1865.79	2259.42
Less: Closing Stock of Raw Materials	210.24	229.69
Value of Material Consumption (i)	1655.55	2029.73
Opening Stock		
Finished Goods	360.73	228.84
Work-in-Process	78.64	71.97
	439.37	300.81
Closing Stock		
Finished Goods	402.58	360.73
Work-in-Process	72.34	78.64
	474.92	439.37
(Increase)/Decrease in Stocks (ii)	(35.55)	(138.56)
Total Consumption of Raw Materials and Finished Goods (i) + (ii)	<u>1620.00</u>	<u>1891.17</u>
SCHEDULE - 3		
MANUFACTURING EXPENSES		
Stores and Consumables	44.53	47.67
Power and Fuel	106.04	108.07
Carriage Inwards	6.37	7.92
Payments & Provisions to Employees		
Salaries and Wages	206.70	197.65
Staff Welfare Expenses	7.96	9.03
Employer's contribution to EPF, FPF, ESI & EDLIS	17.49	17.63
	232.15	224.31
Repairs and Maintenance		
Repairs to Buildings	2.38	5.54
Repairs to Machinery	19.91	14.57
Others	68.75	62.76
	91.04	82.87
Effluent Treatment & Transport charges	33.38	49.93
Packing Material	15.36	17.61
Testing Charges	2.68	1.86
Increase/(Decrease) in provision for Excise Duty on Finished Goods	(0.19)	(0.11)
	<u>531.36</u>	<u>540.13</u>

Rs. in Million

	Year ended March 31, 2010	Year ended March 31, 2009
SCHEDULE - 4		
ADMINISTRATION, SELLING & OTHER EXPENSES		
Rent, Rates & Taxes	11.13	10.35
Travelling Expenses	51.13	50.53
Professional Charges	15.12	38.90
Remuneration to Auditors		
Statutory Audit	0.66	0.66
Tax Audit	0.20	0.20
Limited Reviews	0.60	0.60
Other Services	0.14	0.16
Out-of-pocket Expenses	0.07	0.05
	1.67	1.67
Insurance	21.63	15.07
Advertisement	0.93	1.24
Sales Commission	12.82	18.24
Selling and Distribution Expenses	55.43	65.88
Freight and Forwarding Charges	56.62	47.17
Provision for Doubtful Debts & Advances	9.09	13.71
Less: Amount written back on collection	1.83	5.77
	7.26	7.94
Other Expenses	37.66	35.95
Net Foreign Exchange Loss	22.34	-
Sitting Fees	0.42	0.43
R&D Charges (See Note 11)	100.27	86.49
	<u>394.43</u>	<u>379.86</u>
SCHEDULE - 5		
INTEREST & OTHER CHARGES		
Interest on Working Capital	95.25	67.22
Interest on Term Loan (Gross)	139.81	84.96
Less: Interest capitalised	26.19	46.86
	113.62	38.10
Discounting & Negotiation Charges	13.45	14.79
Others	34.41	23.48
	<u>256.73</u>	<u>143.59</u>

SCHEDULE – L

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 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 re-valued 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 & 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 & 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 & 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 recognizes 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 is the distribution of the Company's sales by geographical market:

Particulars	2009 - 2010		2008 - 2009	
	Revenue	%	Revenue	%
India	533.02	19.14	495.47	16.15
Other than India	2251.19	80.86	2571.75	83.85
Total	2784.21	100.00	3067.22	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
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	Chief Executive Officer & Whole-time Director & Son of Chairman & Managing Director
Mr. D. Saharsh Rao	President - Contract Research & Whole-time Director & 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:

				Rs. in Million
Nature of transactions	Other related party	Key Management Personnel	Relative of Key Management Personnel	Subsidiary Companies
Rent paid	0.68	–	–	–
	(0.62)	–	–	(0.96)
Office maintenance		0.42		
		(0.42)		
Remuneration paid to Chairman & Managing Director		5.27		
		(4.23)		
Remuneration paid to Whole-time Director & Chief Executive Officer		5.30		
		(4.41)		
Remuneration paid to Whole-time Director & President Contract Research		3.77		
		(3.71)		
Commission paid to Chairman & Managing Director		–		
		(3.10)		
Dividend paid to Chairman & Managing Director		–		
		(2.84)		
Commission paid to Whole-time Director & Chief Executive Officer		–		
		(2.90)		
Dividend paid to Whole-time Director & Chief Executive Officer		–		
		(0.39)		
Dividend paid to Whole-time Director & President - Contract Research		–		
		(0.23)		
Services Received				46.83
				(42.74)
Outstanding at the year end - due to		6.53	5.11	2.81
		(0.43)	(0.06)	(3.69)
Outstanding at the year end - due from	15.34			1.96
	(15.42)			(0.26)
Outstanding deposit at the year end - due from	–			
	(2.00)			
Investment in Share Capital				
- Neuland Laboratories K.K., Japan				1.54
				(1.54)
- Neuland Laboratories Inc. USA (Rs.)				0.05
				(44)
- Cato Research Neuland India Private Limited				1.22
				(0.35)

Figures in brackets relate to previous year.

3. EARNINGS PER SHARE

Rs. in Million

Computation for Basic & Diluted Earnings per Share		March 31, 2010	March 31, 2009
I.	Net Profit/(Loss)		
	Before prior period & exceptional items as per Profit and Loss Account available for Equity Shareholders	(82.42)	117.90
	After prior period adjustments	(70.45)	117.90
II.	Weighted average number of equity shares for Earnings per Share computation for basic and diluted Earnings per Share	5,396,455	5,396,455
III.	Earnings per Share (Weighted Average)		
	Before prior period adjustment		
	Basic (Rs.)	(15.27)	21.85
	Diluted (Rs.)	(15.25)	21.81
	After prior period adjustment		
	Basic (Rs.)	(13.05)	21.85
	Diluted (Rs.)	(13.03)	21.81

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, 2010	March 31, 2009
A. Minimum Remuneration of Chairman & Managing Director		
Salary	4.20	3.60
Perquisites	0.56	0.20
Commission	—	3.10
Total (A)	4.76	6.90
B. Remuneration of Whole-time Director & Chief Executive Officer		
Salary	4.20	3.40
Perquisites	0.60	0.60
Commission	—	2.90
Total (B)	4.80	6.90
C. Remuneration of Whole-time Director & President Contract Research		
Salary	3.00	—
Perquisites	0.50	—
Commission	—	—
Total (C)	3.50	—
D. Non-Executive Directors		
Commission	—	1.00
Total (D)	—	1.00
Total Remuneration (A+B+C+D)	13.06	14.80

b. Computation under Section 349 of the Companies Act, 1956

Rs. in Million

	March 31, 2010	March 31, 2009
Profit/(Loss) before tax	(111.57)	144.11
Add: Provision for depreciation as per Profit and Loss Account	135.60	73.70
Remuneration to Directors	13.06	14.80
Provision for doubtful debts	7.26	7.94
Sub-total	44.35	240.55
Less: Depreciation under Section 350 of the Companies Act	135.60	73.70
Profit as per Section 349 of the Companies Act	(91.25)	166.85
Overall remuneration as per Sections 198 and 309 of the Companies Act	13.06	14.80
Less: Remuneration paid to Whole-time Directors	13.06	7.80
Commission payable as per Sections 198 and 309 of the Companies Act	–	7.00

5. 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.
6. During the previous year, 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 Ministry of Corporate Affairs, Government of India. Pursuant to this adoption, amount of Rs.50.70 Million being foreign exchange fluctuations gain pertaining to foreign currency loan availed for acquisition of depreciable capital assets is adjusted to the cost of such assets.

7. Employee Benefits

	Gratuity (Funded)	Leave Encashment (Unfunded)
I. Expense recognized in the statement of Profit and Loss for the year ended March 31, 2010		
Current Service Cost	3.67	2.26
	2.90	3.03
Interest Cost	1.78	0.71
	1.33	0.50
Expected return on Plan Assets	(0.54)	–
	(0.43)	–
Net Actuarial (Gains)/Losses	(0.20)	0.64
	1.40	0.09
Total Expense	4.70	3.60
	5.19	2.98
II. Net Assets/(Liability) recognized in the Balance Sheet as at 31st March 2010		
Present Value of Defined Obligation as at March 31, 2010	25.88	11.08
	22.22	9.45
Fair Value of Plan Assets as at March 31, 2010	9.12	–
	5.06	–
Funded status [Surplus/(Deficit)] difference	(16.76)	(11.08)
	(17.15)	–
Net Assets/(Liability) as at March 31, 2010	(16.76)	(11.08)
	(17.15)	9.45

	Rs. in Million	
	Gratuity (Funded)	Leave Encashment (Unfunded)
III. Change in Obligation during the year ended March 31, 2010		
Present value of defined Benefit Obligation at the beginning of the year	22.22	8.82
	<i>17.12</i>	<i>6.42</i>
Current Service Cost	3.67	2.26
	<i>2.90</i>	<i>3.03</i>
Interest Cost	1.78	0.71
	<i>1.33</i>	<i>0.50</i>
Actuarial (Gains)/Losses	(0.25)	0.64
	<i>1.40</i>	<i>0.09</i>
Benefits Payments	(1.53)	(1.35)
	<i>(0.52)</i>	<i>(0.59)</i>
Present value of Defined Benefit Obligation at the end of the year	25.88	11.08
	<i>22.22</i>	<i>9.45</i>
IV. Change in the Assets during the year ended March 31, 2010		
Fair Value of Plan Assets at the beginning of the year	5.06	–
	<i>5.44</i>	–
Expected return on Plan Assets	0.54	–
	<i>0.43</i>	–
Contribution by Employer	5.00	–
	–	–
Actual benefits paid	(1.53)	–
	<i>(0.52)</i>	–
Actuarial Gains/(Losses) on Plan Assets	0.04	–
	<i>(0.29)</i>	–
Fair Value of Plan Assets at the end of the year	9.12	–
	<i>5.06</i>	–
	March 31, 2010	March 31, 2009
V. Actuarial Assumptions		
Discount rate (%)	8.00	7.76
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 Rs.4.70 Million being the provision for gratuity and Rs.3.60 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.

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

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

Rs. in Million

Particulars	March 31, 2010	March 31, 2009
Principal amount remaining unpaid to any supplier as at the end of each accounting year	Nil	0.26
Interest due on above remaining unpaid	Nil	Nil
Amounts paid beyond the appointed day during the accounting year	Nil	Nil
Interest paid on above	Nil	Nil
Interest due and payable on 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.

9. DEFERRED TAX

The Company has been recognising in the financial statements the deferred tax assets/ liabilities, in accordance with Accounting Standard 22 'Accounting for Taxes on Income' issued by the Institute of Chartered Accountants of India. The position of Deferred Tax Assets and Liabilities is as follows:

Rs. in Million

	March 31, 2010	March 31, 2009
Deferred Tax Liabilities		
Depreciation difference	66.00	53.03
Capital expenditure	167.45	165.47
Total	233.45	218.50
Deferred Tax Assets		
Unabsorbed Depreciation & Loss	206.78	147.77
Provisions	9.05	14.49
Inventory	17.62	14.86
Total	233.45	177.12
Net Deferred Tax Assets/Liabilities	-	41.38

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

Rs. in Million

	2009-10	2008-09
Production	106.04	108.07
Effluent Treatment & Transport Charges	3.00	3.00
Research & Development Expenses	11.55	11.66
Total	120.59	122.73

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

	Rs. in Million	
	2009-10	2008-09
Material consumed	10.64	8.19
Power and fuel	11.55	11.66
Staff cost	65.00	36.34
Professional charges	0.36	12.99
Others	12.72	17.30
Total	100.27	86.48

12. 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 Rs.10. Pursuant to a resolution passed by the Remuneration & Compensation Committee vide Circular Resolution dated November 17, 2008, 34500 options have been granted at an exercise price of Rs.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	2009-10	2008-09
Option Outstanding at the beginning of the year	34,500	Nil
Options Granted during the year	Nil	34,500
Options Exercised during the year	Nil	Nil
Options Lapsed during the year	Nil	Nil
Options Outstanding at the year end	34,500	34,500

13. CONTINGENT LIABILITY

- a. Claims against the Company not acknowledged as debts.
 - i. Customs duty demand of Rs.2.29 Million including interest (Previous Year - Rs.2.29 Million). The same was adjusted against the pre-deposit of Rs.4 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 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. Bills discounted amounting Rs. Nil (Previous Year - Rs.37.82 Million).

- c. Unexpired Letters of Credit opened on behalf of the Company by Bank for the raw material amounting to Rs.438.25 Million (Previous year - Rs.256.69 Million).
 - d. Estimated amounts of contracts on capital account to be executed and not provided for net of advance Rs.11.48 Million (Previous Year - Rs.95.00 Million).
 - e. Bank guarantees given by the Company to Central Excise and Customs and other government authorities amounting to Rs.9.35 Million (Previous Year - Rs.10.33 Million).
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 Rs.14.07 Million.

15. Prior period items Rs.11.97 Million (net) include -

- a. Rs.29.48 Million being credit for Cenvat Clearing Account amounts which would have been credited to raw materials consumption.
 - b. Consequential MAT tax liability for earlier years of Rs.3.34 Million, and,
 - c. Foreign exchange losses of Rs.14.17 Million arising from mark to market valuation on derivatives contracts which materialized during the year.
16. Fixed Assets include vehicles acquired under Hire Purchase Agreement amounting to Rs.32.97 Million as on March 31, 2010. (Previous year - Rs.19.33 Million). The hire purchase charges have been charged to Profit and Loss Account. The hire purchase installment due within one year is Rs.10.36 Million. (Previous year - Rs.5.40 Million).

17. ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PARAGRAPHS 3 AND 4 OF PART II OF SCHEDULE VI TO THE COMPANIES ACT 1956.

A. Production Data

Installed capacity¹, actual production

Products	Installed Capacity		Actual Production	
	2009-2010	2008-2009	2009-2010	2008-2009
Bulk Drugs ²	—	—	839,441	694,590
Intermediates	—	—	61,370	116,846

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

²Note 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. Sales

	2009-2010		2008-2009	
	Kgs.	Rs. in Million	Kgs.	Rs. in Million
Bulk Drugs	815,181	2543.61	713,541	2671.20
Intermediates	56,699	185.43	115,427	339.01
Others		55.17		57.01
Total		2784.21		3067.22

	2009-2010		2008-2009	
	Kgs.	Rs. in Million	Kgs.	Rs. in Million
C. Details of Finished Goods Stocks				
Bulk Drugs & Intermediates				
Opening stock				
Bulk Drugs	16,716	127.42	35,668	88.05
Intermediates	45,073	233.31	43,654	140.79
Closing Stock				
Bulk Drugs	40,977	145.34	16,716	127.42
Intermediates	49,745	257.24	45,073	233.31
D. Details of Raw Materials				
1,2,4 D C 5 F A P	29,986	10.26	341,388	144.67
Cyclopropylamine	12,481	8.93	86,527	82.69
Piperazine Anhydrous	506,636	132.08	302,553	82.88
N Ethyl Piperazine	10,979	5.01	27,473	11.75
ECPPA	28,851	80.23	19,418	68.46
1M-1M-2 Nitro Ethane	118,845	88.92	118,760	86.36
Cipro Q Acid	615,216	531.07		1296.64
Benzl Ester HCL	3,800	33.41	10,952	131.09
(s)+2-Aminobutyramide-Hcl	6,000	21.49	26,603	125.19
Others		744.15		
TOTAL		1655.55		2029.73

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

	2009-2010		2008-2009	
	Rs. in Million	%	Rs. in Million	%
Imported	1025.49	62	1001.67	49
Local	630.06	38	1028.06	51
Total	1655.55	100	2029.73	100
F. Value of imports on CIF value basis				
Raw Materials	913.70		1036.40	
Capital Goods	33.06		8.03	
G. Expenditure in foreign currency				
Foreign Travel	4.14		6.15	
Foreign agent's Commission	9.81		8.49	
Professional Charges	12.56		40.37	
US/Japan branch office Expenditure	47.89		37.91	
Others	3.88		17.46	

H. Earnings in foreign currency

- i. Export of Goods on FOB basis Rs.1966.63 Million (Previous year Rs.2534.35 Million).
- ii. Product Development Charges Rs.32.73 Million (Previous year Rs.29.37 Million).

I. Amount remitted during the year in foreign currency on account of Final Dividend of 2008-09 to Non-resident shareholders

Particulars	2009-10	2008-09
No. of Shares (of Rs.10 each)	1,291,450	1,291,450
No. of shareholders	26	26
Amount of Dividend (Net of Taxes Rs. in Million)	4.52	3.23
Year to which dividend related	2008-2009	2007-2008

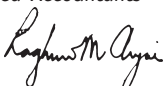
18. PARTICULARS OF UNHEDGED FOREIGN CURRENCY EXPOSURE AS AT BALANCE SHEET DATE

Foreign currency loan	Rs.31902 Million (US \$ 6.99 Million @ average closing rate of 1 US \$ = Rs.45.67) [Previous Year - Rs.475.93 Million (US \$ 9.23 Million @ average closing rate of 1 US \$ = Rs.51.55)]
Export Debtors	Rs. 545.07 Million (US\$ 12.21 Million @ average closing rate of 1 US \$ = Rs.44.64) [Previous Year - Rs.499.33 Million (US \$ 9.89 Million @ average closing rate of 1 US \$ = Rs.50.49)]
Import Creditors	Rs.35.77 Million (US \$ 0.78 Million @ average closing rate of 1 US \$ = Rs.45.67) [Previous Year - Rs.76.10 Million (US \$ 1.48 Million @ average closing rate of 1 US \$ = Rs.51.55)]; Rs.6.18 Million (Eur 0.10 Million @ average closing rate of Eur = Rs.61.43 [Previous Year - Rs.5.16 Million (Eur 0.07 Million @ Rs.68.56)]

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

Per our report attached

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

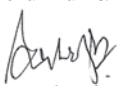

RAGHUVIR M. AIYAR
Partner
M.No. 38128
Hyderabad, May 29, 2010.

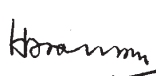

A. Raghavendracharyulu
Vice President (Finance)


Deepika Gupta
Company Secretary

For and on behalf of the Board

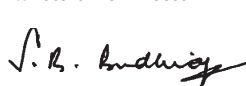

Dr. D.R. Rao
Chairman & Managing Director

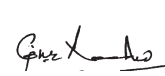

D. Saharsh Rao
Whole-time Director


Humayun Dhanrajgir
Director


P.V. Maiya
Director


D. Sucheth Rao
Whole-time Director


S.B. Budhiraja
Director


G.V.K. Rama Rao
Director


Daya Chandras
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.: L85195AP1984PLC004393

Balance Sheet Date: March 31, 2010

II. Capital Raised during the year:

NIL

III. Position of Mobilisation and Deployment of Funds (Rs.in '000s)

Total Liabilities : 3013216

Total Assets : 3013216

Sources of Funds

Paid Up Capital - Equity : 54671

Reserves & Surplus : 626727

Secured Loans : 2331818

Unsecured Loans : NIL

Deferred Tax Liability : NIL

Application of Funds

Net Fixed Assets : 1929844
(Including Capital Work-in-Progress)

Investments : 75519

Net Current Assets : 1007853

Misc. Expenditure : NIL

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

Turnover & Other Income : 2826551

Diluted Earnings Per Share: (13.03)

Total Expenditure : 2938118

Dividend Rate (%) : NIL

Profit before Tax : (99597)

Profit after Tax : (70450)

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 examined the attached Consolidated Balance Sheet of Neuland Laboratories Limited and its subsidiaries (the Neuland Group), as at March 31, 2010 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 certain subsidiaries, whose financial statements reflect total assets of Rs.20.30 lakhs, Company's share in Revenue of Rs.Nil, Company's share in profit of Rs.Nil, and cash outflows of Rs.5.10 lakhs. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us by the management of the Group, and our opinion is based solely on the reports of the other auditors. The financial statements of certain subsidiaries whose financial statements reflect total assets of Rs.21.79 lakhs, Company's share in Revenue of Rs.Nil, Company's share in profit of Rs.Nil and Cash inflows of Rs.12.57 lakhs are unaudited and we have relied upon the unaudited financial statements as provided by the Company's management for the purpose of our examination of the consolidated financial statements of the Group.
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, 2010;
 - 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 29, 2010.

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2010

Rs. in Million

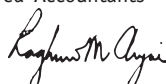
	Schedule	March 31, 2010	March 31, 2009
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	A	54.67	54.67
Share Application money		–	3.74
Reserves & Surplus	B	629.46	699.55
		684.13	757.96
LOAN FUNDS			
Secured Loans	C	2331.82	2003.16
DEFERRED TAX LIABILITY (Net)		–	41.38
Minority Interest		3.70	0.12
TOTAL FUNDS		3019.65	2802.62
APPLICATION OF FUNDS			
FIXED ASSETS			
Gross Block	D	2354.68	2056.49
Less: Depreciation		727.32	591.29
Net Block		1627.36	1465.20
Capital Work-in-Process		302.48	368.02
		1929.84	1833.22
INVESTMENTS	E	72.71	72.71
CURRENT ASSETS, LOANS & ADVANCES			
Inventories	F	719.27	704.66
Sundry Debtors	G	728.39	711.50
Cash and Bank Balances	H	134.21	111.12
Loans & Advances	I	395.75	302.45
		1977.62	1829.73
LESS: CURRENT LIABILITIES AND PROVISIONS			
Current Liabilities	J	850.36	800.30
Provisions	K	110.16	132.74
		960.52	933.04
NET CURRENT ASSETS		1017.10	896.69
TOTAL ASSETS (Net)		3019.65	2802.62
NOTES TO ACCOUNTS	L		

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

Per our report attached

For and on behalf of the Board

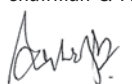
For **K. S. Aiyar & Co.**
Chartered Accountants

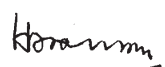

RAGHUVIR M. AIYAR
Partner
M.No. 38128
Hyderabad, May 29, 2010.


A. Raghavendracharyulu
Vice President (Finance)


Deepika Gupta
Company Secretary


Dr. D.R. Rao
Chairman & Managing Director



D. Saharsh Rao
Whole-time Director


Humayun Dhanrajgir
Director


P.V. Maiya
Director


D. Sucheth Rao
Whole-time Director


S.B. Budhiraja
Director


G.V.K. Rama Rao
Director


Daya Chandras
Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2010

Rs. in Million

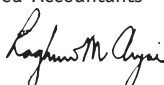
	Schedule	March 31, 2010	March 31, 2009
INCOME			
Sales and Export incentives		2812.53	3120.26
Less: Excise duty		28.32	53.04
		2784.21	3067.22
Other Income	1	42.49	105.34
TOTAL		2826.70	3172.56
EXPENDITURE			
Raw Materials Consumed	2	1620.00	1891.17
Manufacturing Expenses	3	557.45	568.98
Administration, Selling & Other Expenses	4	367.03	348.95
Interest and other Charges	5	256.73	143.63
Depreciation/Amortisation	D	136.64	74.80
Less: Adjusted against revaluation reserve		1.04	1.10
		135.60	73.70
TOTAL		2936.81	3026.43
PROFIT/(LOSS) BEFORE TAXATION/PRIOR PERIOD ITEMS		(110.11)	146.13
Prior Period Adjustment		11.97	-
PROFIT/(LOSS) BEFORE TAXATION		(98.14)	146.13
Provision for Current Tax		(0.22)	(17.05)
Provision for Wealth Tax		(0.15)	-
Provision for Fringe Benefit Tax		-	(2.79)
Provision for Deferred Tax		41.38	(13.60)
MAT credit entitlement		(12.08)	5.13
Excess Provision of Income Tax no longer required		-	1.38
PROFIT/(LOSS) AFTER TAX		(69.21)	119.20
Minority Interest		(0.16)	0.03
PROFIT/(LOSS) AFTER MINORITY INTEREST		(69.05)	119.23
Balance brought forward from previous year		82.93	74.22
AMOUNT AVAILABLE FOR APPROPRIATION		13.88	193.45
APPROPRIATIONS			
Transfer to General Reserve		-	88.42
Proposed Dividend (Previous Year @ 35%)		-	18.89
Tax on distributed profits		-	3.21
BALANCE CARRIED TO BALANCE SHEET		13.88	82.93
NOTES TO ACCOUNTS	L		
EARNINGS PER SHARE			
Basic Earnings per Share (Rs.)		(12.83)	22.09
Diluted Earnings per Share (Rs.)		(12.80)	22.05
Face Value per Share (Rs.)		10.00	10.00

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 and on behalf of the Board

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



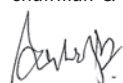
RAGHUVIR M. AIYAR
Partner
M.No. 38128

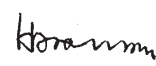
Hyderabad, May 29, 2010.


A. Raghavendracharyulu
Vice President (Finance)


Deepika Gupta
Company Secretary

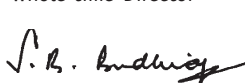

Dr. D.R. Rao
Chairman & Managing Director

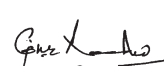

D. Saharsh Rao
Whole-time Director


Humayun Dhanrajgir
Director


P.V. Maiya
Director


D. Sucheth Rao
Whole-time Director


S.B. Budhiraja
Director


G.V.K. Rama Rao
Director


Daya Chandras
Director

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2010

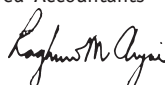
Rs. in Million

	March 31, 2010	March 31, 2009
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit/(Loss) before tax and exceptional items	(98.14)	146.14
Adjustment for		
Depreciation/Amortisation	135.59	73.70
Interest Expense	208.87	105.32
Minority Interest	(0.16)	0.03
Un realized foreign exchange gain	8.81	-
Loss on sale of fixed assets	0.15	0.16
Provision for gratuity and leave encashment	8.95	8.02
Provision for Doubtful Debts	7.26	7.94
Operating Profit before Working Capital changes	271.33	341.31
Add/(Less) Working Capital changes		
Trade Receivables	(38.17)	(205.17)
Inventories	(14.60)	(154.53)
Loans and Advances	(85.23)	72.85
Trade Payables	40.20	173.27
Cash flow from investing activities	173.53	227.73
Less Income Tax paid	(21.22)	(12.45)
Net cash from operating activities (A)	152.31	215.28
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets including Work-in-Process	(233.85)	(742.34)
Proceeds from Sale of Fixed Assets	0.45	0.37
Net cash used in investing activities (B)	(233.40)	(741.97)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	348.29	539.30
Increase/(Decrease) in bank borrowings	336.64	205.56
Repayments of long-term borrowings	(356.27)	(82.55)
Interest Paid	(202.53)	(104.71)
Dividend Paid	(22.10)	(15.78)
Share application money received	-	3.86
Share application money repaid	(3.58)	
Share capital proceeds from minority	3.74	
Net cash used in financing activities (C)	104.19	545.68
Net increase/(decrease) in Cash & Cash Equivalents (A+B+C)	23.10	18.99
Opening Balance	111.12	92.13
Closing Balance	134.22	111.12
Notes: 1. All figures in brackets are outflows. 2. Previous year's figures have been regrouped wherever necessary. 3. Direct taxes paid are treated as arriving from operating activities and are not bifurcated between investing & financing activities. 4. Cash & cash equivalent is cash & bank balances as per Consolidated Balance Sheet.		

Per our report attached

For and on behalf of the Board

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



RAGHUVIR M. AIYAR
Partner
M.No. 38128
Hyderabad, May 29, 2010.



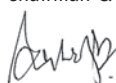
A. Raghavendracharyulu
Vice President (Finance)



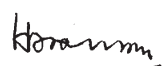
Deepika Gupta
Company Secretary



Dr. D.R. Rao
Chairman & Managing Director



D. Saharsh Rao
Whole-time Director




Humayun Dhanrajgir
Director



P.V. Maiya
Director



D. Sucheth Rao
Whole-time Director



S.B. Budhiraja
Director



G.V.K. Rama Rao
Director



Daya Chandras
Director

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET

Rs. in Million

	As at March 31, 2010	As at March 31, 2009
SCHEDULE - A		
SHARE CAPITAL		
AUTHORISED		
10,000,000 Equity Shares of Rs.10 each	100.00	100.00
300,000 Cumulative Redeemable Preference Shares of Rs.100 each	30.00	30.00
300,000 Preference Shares of Rs.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 Rs.10 each, fully paid (Previous Year - 5,590,000 Equity Shares of Rs.10 each)	55.90	55.90
SUBSCRIBED CAPITAL		
5,499,731 Equity Shares of Rs.10 each (Previous Year - 5,499,731 Equity Shares of Rs.10 each)	55.90	55.90
PAID UP CAPITAL		
5,396,455 Equity Shares of Rs.10 each fully paid up (Previous Year - 5,396,455 Equity Shares of Rs.10 each)	55.00	55.00
Add: 103,276 Forfeited Equity Shares of Rs.10 each [(Previous Year - 103,276) (amount originally paid up)]	53.96	53.96
a. Of the above shares, 715,040 Equity Shares of Rs.10 each are allotted as fully paid up by way of bonus shares.	0.71	0.71
b. 11,080 Equity Shares of Rs.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		
Opening Balance	241.91	182.06
Less: Adjustment of foreign exchange gain (Net of depreciation)	-	28.57
Add: Transfer from Profit and Loss Account	-	88.42
	241.91	241.91
Revaluation Reserve	13.84	14.94
Less: Depreciation on revalued assets	1.04	1.10
	12.80	13.84
Profit and Loss Account	13.88	82.93
	629.46	699.55

Rs. in Million

	As at March 31, 2010	As at March 31, 2009
SCHEDULE - C		
SECURED LOANS		
TERM LOANS		
a. Foreign Currency Loans	349.17	523.99
b. Rupee Loans	890.06	726.86
	1239.23	1250.85
<p>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 one of the Directors in their personal capacities.</p> <p>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.</p>		
<p>Technology Development Assistance from TIFAC</p> <p>The above loan is secured by movable property of the company at Bonthapally manufacturing unit including its movable plant and Machinery, machinery spares, tools and accessories and other movables both present and future (save and except book debts) whether installed or not are acquired for the purpose of the project at the cost of or from the money advanced by TIFAC under Technology Development Assistance Agreement.</p>	—	1.50
<p>Working Capital Finance from Bank</p> <p>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.</p>	1074.38	737.74
OTHER LOANS		
Hire Purchase Loans	18.21	13.07
The above loan is against the hypothecation of vehicles.		
	2331.82	2003.16

SCHEDULE - D**FIXED ASSETS**

Rs. in Million

GROSS BLOCK Name of Assets	DEPRECIATION/AMORTISATION				NET BLOCK							
	Cost as on 01.04.2009	Additions For the Year	Deductions	Adjustments	Cost as on 31.03.2010	Upto 31.03.2009	Deductions	For the Year	Adjustments	Total upto 31.03.2010	As on 31.03.2010	As on 31.03.2009
Land	9.05	18.94	-	-	27.99	-	-	-	-	-	27.99	9.05
Buildings	471.07	84.99	-	(9.44)	546.62	69.00	-	17.13	(0.32)	85.81	460.81	402.07
Plant and Machinery	1294.09	219.48	-	(11.66)	1501.91	453.42	-	98.19	(1.20)	550.41	951.50	840.67
R&D Equipment	165.09	1.44	-	(29.38)	137.15	18.60	-	12.69	(3.04)	28.25	108.90	146.49
Data Processing Machines	22.87	4.90	-	-	27.77	13.11	-	2.53	0	15.64	12.13	9.76
Furniture & Fittings	33.86	0.46	-	(0.22)	34.10	5.25	-	2.12	(0.01)	7.36	26.74	28.61
Vehicles	36.06	18.51	(1.20)	-	53.37	13.19	(0.59)	4.59	-	17.19	36.18	22.87
Intangible Assets (Process Development Cost)	16.87	0	-	-	16.87	15.22	-	1.65	-	16.87	0.00	1.65
Intangible Assets - SAP	7.53	1.37	-	-	8.90	3.50	-	2.29	-	5.79	3.11	4.03
TOTAL	2056.49	350.09	(1.20)	(50.70)	2354.68	591.29	(0.59)	141.19	(4.57)	727.32	1627.36	1465.20
Previous Year		971.89	(0.84)	(29.37)	2056.49	517.60	(0.31)	74.80	(0.81)	591.29	1465.20	
Capital Work- -in-Process (Including advances on capital goods)											302.48	368.02

Note: Adjustment carried out on account of foreign exchange gain relating to the financial year 2009-10 pursuant to notification dated March 31, 2009 issued by the Ministry of Corporate Affairs (See Note 6 on Schedule L)

	As at March 31, 2010	As at March 31, 2009
SCHEDULE - E		
INVESTMENTS - Long Term (at Cost)		
Jeedimetla Effluent Treatment Limited	0.22	0.22
2200 equity shares of Rs.100 each fully paid up (2200 equity shares of Rs.100 each)		
Pantancheru Enviro-Tech Limited	2.09	2.09
209136 equity shares of Rs.10 each fully paid up (209136 equity shares of Rs.10 each)		
Andhra Pradesh Gas Power Corporation Limited	70.40	70.40
402000 equity shares of Rs.100 each fully paid (402000 equity shares of Rs.100 each fully paid)		
	72.71	72.71

Rs. in Million

	As at March 31, 2010	As at March 31, 2009
SCHEDULE - F		
INVENTORIES - As certified by the management		
Raw Materials	210.24	229.69
Work-in-Process	72.34	78.64
Finished Goods	402.58	360.73
Stores and Consumables	30.88	24.21
Goods in Transit	3.23	11.39
	<u>719.27</u>	<u>704.66</u>
SCHEDULE - G		
SUNDRY DEBTORS		
Unsecured, Considered good		
Sundry Debtors outstanding for a period exceeding six months		
Considered good	35.51	18.20
Considered doubtful	23.93	25.42
	<u>59.44</u>	<u>43.62</u>
Less: Provision for doubtful debts	23.93	25.42
	<u>35.51</u>	<u>18.20</u>
Others	692.88	693.30
	<u>728.39</u>	<u>711.50</u>
SCHEDULE - H		
CASH & BANK BALANCES		
Cash on hand	0.17	0.24
Bank Balances with Scheduled Banks		
Current Accounts	15.13	12.38
Fixed Deposit Accounts (against margin money)	82.41	66.00
Fixed Deposit Accounts	36.50	32.50
	<u>134.21</u>	<u>111.12</u>
SCHEDULE - I		
LOANS & ADVANCES (Unsecured, Considered Good)		
Advance to Suppliers	20.66	17.09
Other Advances	24.32	46.46
Advance Payment against Taxes - Income Tax	81.23	73.16
Deposits	22.41	20.71
Prepaid Expenses	9.31	6.76
Balances with Central Excise	53.52	27.80
Interest accrued	9.79	6.15
Central Excise Claim Receivable & other Receivables	94.02	28.33
Export Benefits & Other claims receivable	80.49	75.99
	<u>395.75</u>	<u>302.45</u>

Rs. in Million

	As at March 31, 2010	As at March 31, 2009
SCHEDULE - J		
CURRENT LIABILITIES		
For Goods Supplied		
Goods Supplied	591.80	441.32
Expenses	112.65	122.36
Capital Expenditure	15.56	78.51
Advance from Customers	60.49	12.11
Other Liabilities	68.92	140.45
	849.42	794.75
Export Incentive Obligation	0.87	5.33
Due to Shareholders		
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	–	0.15
Fixed deposits matured but not claimed including interest thereon	0.07	0.07
However, no amounts mentioned above were due to be transferred to Investor Education and Protection Fund as on March 31, 2009.		
	850.36	800.30
SCHEDULE - K		
PROVISIONS		
Gratuity/Pensions	17.01	19.04
Leave Encashment	11.71	9.45
Proposed Dividend & Tax	–	22.10
Income Tax	81.29	79.36
Wealth Tax	0.15	–
Provision for Fringe Benefit Tax	–	2.79
	110.16	132.74

SCHEDULES FORMING PART OF THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

Rs. in Million

	Year ended March 31, 2010	Year ended March 31, 2009
SCHEDULE - 1		
OTHER INCOME		
Interest received	8.32	7.03
Miscellaneous Income	1.43	8.29
Net Foreign Exchange Gain/(Loss)	0.01	60.65
Product Development Charges received	32.73	29.37
	<u>42.49</u>	<u>105.34</u>
SCHEDULE - 2		
RAW MATERIALS CONSUMED		
Opening Stock of Raw Materials	229.69	206.01
Add: Purchases	1636.10	2053.41
	1865.79	2259.42
Less: Closing Stock of Raw Materials	210.24	229.69
Value of Material Consumption (i)	1655.55	2029.73
Opening Stock		
Finished Goods	360.73	228.84
Work-in-Process	78.64	71.97
	439.37	300.81
Closing Stock		
Finished Goods	402.58	360.73
Work-in-Process	72.34	78.64
	474.92	439.37
(Increase)/Decrease in Stocks (ii)	(35.55)	(138.56)
Total Consumption of Raw Materials and Finished Goods (i) + (ii)	<u>1620.00</u>	<u>1891.17</u>
SCHEDULE - 3		
MANUFACTURING EXPENSES		
Stores and Consumables	44.53	47.67
Power and Fuel	106.04	108.07
Carriage Inwards	6.37	7.92
Payments & Provisions to Employees		
Salaries and Wages	232.79	223.93
Staff Welfare Expenses	7.96	11.60
Employer's contribution to EPF, FPF, ESI & EDLIS	17.49	17.63
	258.24	253.16
Repairs and Maintenance		
Repairs to Buildings	2.38	5.54
Repairs to Machinery	19.91	14.57
Others	68.75	62.76
	91.04	82.87
Processing charges		
Effluent Treatment & Transport charges	33.38	49.93
Packing Material	15.36	17.61
Testing Charges	2.68	1.86
Increase/(Decrease) in provision for Excise Duty on Finished Goods	(0.19)	(0.11)
	<u>557.45</u>	<u>568.98</u>

Rs. in Million

	Year ended March 31, 2010	Year ended March 31, 2009
SCHEDULE - 4		
ADMINISTRATION, SELLING & OTHER EXPENSES		
Rent, Rates & Taxes	13.38	11.83
Travelling Expenses	56.81	54.03
Professional Charges	17.07	39.13
Remuneration to Auditors		
Statutory Audit	0.66	0.69
Tax Audit	0.20	0.20
Limited Reviews	0.60	0.60
Other Services	0.14	0.16
Out-of-pocket Expenses	0.07	0.05
	1.67	1.70
Insurance	22.69	15.76
Advertisement	2.65	1.44
Sales Commission	12.87	18.24
Selling and Distribution Expenses	8.60	23.11
Freight and Forwarding Charges	56.65	47.17
Provision for Doubtful Debts & Advances	9.09	13.71
Less: Amount written back on collection	1.83	5.77
	7.26	7.94
Other Expenses	44.36	41.68
Net Foreign Exchange Loss	22.33	-
Sitting Fees	0.42	0.43
R&D Charges	100.27	86.49
	<u>367.03</u>	<u>348.95</u>
SCHEDULE - 5		
INTEREST & OTHER CHARGES		
Interest on Working Capital	95.25	67.22
Interest on Term Loan (Gross)	139.81	84.96
Less: Interest capitalised	26.19	46.86
	113.62	38.10
Discounting & Negotiation Charges	13.45	14.79
Others	34.41	23.52
	<u>256.73</u>	<u>143.63</u>

SCHEDULE – L

NOTES TO ACCOUNTS

SIGNIFICANT ACCOUNTING POLICIES

1. BASIS OF ACCOUNTING

- 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 unrealised 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, 2010	% interest as at March 31, 2009
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 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 re-valued 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 & 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 & 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 & 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 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. 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:

Particulars	2009 - 2010		2008 - 2009	
	Revenue	%	Revenue	%
India	533.02	19.14	495.47	16.16
Other than India	2251.19	80.86	2571.75	83.84
Total	2784.21	100.00	3067.22	100.00

Rs. in Million

- 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	Chief Executive Officer & Whole-time Director & Son of Chairman & Managing Director
Mr. D. Saharsh Rao	President - Contract Research & Whole-time Director & 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:

Rs. in Million			
Nature of transactions	Other related party	Key Management Personnel	Relative of Key Management Personnel
Rent paid	0.68	-	-
	(0.62)	-	-
Office maintenance		0.42	
		(0.42)	
Remuneration paid to Chairman & Managing Director		5.27	
		(4.59)	
Remuneration paid to Whole-time Director & Chief Executive Officer		5.30	
		(4.41)	
Remuneration paid to Whole-time Director & President, Contract Research		3.77	
		(3.71)	
Commission paid to Chairman & Managing Director		-	
		(3.10)	
Dividend paid to Chairman & Managing Director		-	
		(2.84)	
Commission paid to Whole-time Director & Chief Executive Officer		-	
		(2.90)	
Dividend paid to Whole-time Director & Chief Executive Officer		-	
		(0.39)	
Dividend paid to Whole-time Director & President, Contract Research		-	
		(0.23)	
Remuneration to President - Neuland Laboratories Inc., USA	11.60		
	(12.37)		
Remuneration to President-Neuland Laboratories K.K. Japan	5.89		
	(6.33)		
Advance paid			
Outstanding at the year end - due to		6.53	5.11
		(0.43)	(0.06)
Outstanding at the year end - due from	15.34		
	(15.42)		
Outstanding deposit at the year end - due from	-		
	(2.00)		

Figures in brackets relate to previous year.

5. EARNINGS PER SHARE

Computation for Basic & Diluted Earnings per Share		March 31, 2010	March 31, 2009
I.	Net Profit/(Loss)		
	Before prior period & exceptional items as per Profit and Loss Account available for Equity Shareholders	(81.19)	119.23
	After prior period adjustments	(69.05)	119.23
II.	Weighted average number of equity shares for Earnings per Share computation for basic and diluted Earnings per Share	5,396,455	5,396,455
III.	Earnings per Share (Weighted Average)		
	Before prior period adjustment		
	Basic (Rs.)	(15.05)	22.09
	Diluted (Rs.)	(15.02)	22.05
	After prior period adjustment		
	Basic (Rs.)	(12.83)	22.09
	Diluted (Rs.)	(12.80)	22.05

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 are not material.
7. During the previous year, the Company has opted to adopt the amendment to the Companies (Accounting Standards) Rules, 2006 effected by a notification dated March 31, 2009 issued by Ministry of Corporate Affairs, Government of India. Pursuant to this adoption, amount of Rs.50.67 Million being foreign exchange fluctuations gain pertaining to foreign currency loan availed acquisition of depreciable capital assets is adjusted to the cost of such assets.

8. Employee Benefits

Rs. in Million

	Gratuity (Funded)	Leave Encashment (Unfunded)
I. Expense recognized in the statement of Profit and Loss for the year ended March 31, 2010		
Current Service Cost	3.67	2.26
	2.90	3.03
Interest Cost	1.78	0.71
	1.33	0.50
Expected return on Plan Assets	(0.54)	–
	(0.43)	–
Net Actuarial (Gains)/Losses	(0.20)	0.64
	1.40	0.09
Total Expense	4.70	3.60
	5.19	2.98
II. Net Assets/(Liability) recognized in the Balance Sheet as at 31st March 2010		
Present Value of Defined Obligation as at March 31, 2010	25.88	11.08
	22.22	9.45
Fair Value of Plan Assets as at March 31, 2010	9.12	–
	5.06	–
Funded status [Surplus/(Deficit)] difference	(16.76)	(11.08)
	(17.15)	–
Net Assets/(Liability) as at March 31, 2010	(16.76)	(11.08)
	(17.15)	9.45
III. Change in Obligation during the year ended March 31, 2010		
Present value of defined Benefit Obligation at the beginning of the year	22.22	8.82
	17.12	6.42
Current Service Cost	3.67	2.26
	2.90	3.03
Interest Cost	1.78	0.71
	1.33	0.50
Actuarial (Gains)/Losses	(0.25)	0.64
	1.40	0.09
Benefits Payments	(1.53)	(1.35)
	(0.52)	(0.59)
Present value of Defined Benefit Obligation at the end of the year	25.88	11.08
	22.22	9.45

		Rs. in Million
	Gratuity (Funded)	Leave Encashment (Unfunded)
IV. Change in the Assets during the year ended March 31, 2010		
Fair Value of Plan Assets at the beginning of the year	5.06	–
	<i>5.44</i>	–
Expected return on Plan Assets	0.54	–
	<i>0.43</i>	–
Contribution by Employer	5.00	–
	–	–
Actual benefits paid	(1.53)	–
	<i>(0.52)</i>	–
Actuarial Gains/(Losses) on Plan Assets	0.04	–
	<i>(0.29)</i>	–
Fair Value of Plan Assets at the end of the year	9.12	–
	<i>5.06</i>	–
	March 31, 2010	March 31, 2009
V. Actuarial Assumptions		
Discount rate (%)	8.00	7.76
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 Rs.4.70 Million being the provision for gratuity and Rs.3.60 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 Rs.2.29 Million including interest (Previous Year Rs.2.29 Million). The same was adjusted against the pre-deposit of Rs.4 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 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, A.P. As the chances of appellants succeeding in their claims being remote, the Company expects no liability on this account.

- b. Bills discounted amounting Rs.Nil (Previous Year Rs.37.82 Million).
 - c. Unexpired Letters of Credit opened on behalf of the Company by Bank for the raw material amounting to Rs.438.25 Million (Previous Year - Rs.256.69 Million).
 - d. Estimated amounts of contracts on capital account to be executed and not provided for Net of advance Rs.11.48 Million (Previous Year Rs.95.00 Million).
 - e. Bank Guarantees given by the Company to Central Excise and Customs and other Government authorities amounting to Rs. 9.35 Million (Previous Year - Rs.10.36 Million).
10. Fixed Assets include vehicles acquired under Hire Purchase Agreement amounting to Rs.32.97 Million as on March 31, 2010. (Previous Year - Rs.19.33 Million). The hire purchase charges have been charged to Profit and Loss Account. The hire purchase installment due with in one year is Rs 10.36 Million (Previous Year - Rs.5.40 Million).

11. PRIOR PERIOD ITEMS RS.11.97 MILLION (NET) INCLUDE

- a. Rs.29.48 Million being credit for Cenvat Clearing Account amounts which would have been credited to raw materials consumption.
- b. Consequential, MAT tax liability for earlier years of Rs.3.34 Million, and,
- c. Foreign exchange losses of Rs.1.4 Million arising from mark to market valuation on derivatives contracts which materialized during the year.

12. 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 Rs.10. Pursuant to a resolution passed by the Remuneration & Compensation Committee vide Circular Resolution dated November 17, 2008, 34500 options have been granted at an exercise price of Rs.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	2009-10	2008-09
Option Outstanding at the beginning of the year	34,500	Nil
Options Granted during the year	Nil	34,500
Options Exercised during the year	Nil	Nil
Options Lapsed during the year	Nil	Nil
Options Outstanding at the year end	34,500	34,500

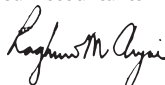
13. PARTICULARS OF UNHEDGED FOREIGN CURRENCY EXPOSURE AS AT BALANCE SHEET DATE

Foreign currency loan	Rs.31902 Million (US \$ 6.99 Million @ average closing rate of 1 US \$ = Rs.45.67) [Previous Year - Rs.475.93 Million (US \$ 9.23 Million @ average closing rate of 1 US \$ = Rs.51.55)]
Export Debtors	Rs. 545.07 Million (US\$ 12.21 Million @ average closing rate of 1 US \$ = Rs.44.64) [Previous Year - Rs.499.33 Million (US \$ 9.89 Million @ average closing rate of 1 US \$ = Rs.50.49)]
Import Creditors	Rs.35.77 Million (US \$ 0.78 Million @ average closing rate of 1 US \$ = Rs.45.67) [Previous Year - Rs.76.10 Million (US \$ 1.48 Million @ average closing rate of 1 US \$ = Rs.51.55)]; Rs.6.18 Million (Eur 0.10 Million @ average closing rate of Eur = Rs.61.43 [Previous Year - Rs.5.16 Million (Eur 0.07 Million @ Rs.68.56)]

14. 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 29, 2010.



A. Raghavendracharyulu
Vice President (Finance)



Deepika Gupta
Company Secretary

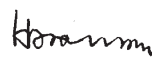
For and on behalf of the Board



Dr. D.R. Rao
Chairman & Managing Director



D. Saharsh Rao
Whole-time Director



Humayun Dhanrajgir
Director



P.V. Maiya
Director



D. Sucheth Rao
Whole-time Director



S.B. Budhiraja
Director



G.V.K. Rama Rao
Director



Daya Chandras
Director

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.

