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BOARD OF DIRECTORS

Sri V.C. Nannapaneni	Chairman & Managing Director
Sri Mukul Sarkar	Director - Nominee of EXIM Bank of India (Upto 09.09.2009)
Sri C.P. Ravindranath	Director - Nominee of EXIM Bank of India (w.e.f. 09.09.2009)
Sri G.S. Murthy	Director
Dr B.S. Bajaj	Director
Dr Jasti Samba Siva Rao	Director
Smt Durga Devi N	Whole Time Director (Upto 30.06.2009)
Sri Rajeev Nannapaneni	Director & Chief Operating Officer
Dr. P. Bhaskara Narayana	Director & Chief Financial Officer
Dr. A.K.S. Bhujanga Rao	President (R&D and Technical) (w.e.f. 30.07.2009)

Mr. M. Adinarayana
Company Secretary &
G.M. (Corporate Affairs)

Bankers

Allahabad Bank
State Bank of India
Corporation Bank
Oriental Bank of Commerce
Export-Import Bank of India

Auditors

M/s. Walker, Chandio & Co.
Chartered Accountants,
3rd Floor, Uptown Banjara
Road No. 3, Banjara Hills,
Hyderabad - 500 034.

Registered Office

NATCO House,
Road No.2, Banjara Hills,
Hyderabad 500 033.

NOTICE

Notice is hereby given that the Twenty Seventh Annual General Meeting of the Members of the Company will be held on Thursday, the 30th day of September, 2010 at 10.00 a.m. at Jubilee Hills International Centre, Road No.14, Jubilee Hills, Hyderabad - 500 033 to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Profit & Loss account for the year ended 31st March 2010 and the Balance Sheet as at 31st March 2010 together with the Report of Directors and the Auditors thereon.
2. To confirm the already paid Interim Dividend as a Final Dividend on equity shares for the year 2009-2010.

"RESOLVED THAT the Interim Dividend of Rs. 2 per share declared by the Board of Directors of the Company at their meeting held on 27th January, 2010 on 2,81,47,952 Equity shares of Rs. 10/- each absolving a sum of Rs. 5,62,95,904 be and is hereby approved as the Final Dividend for the year ended 31st March, 2010."

3. To appoint a Director in place of Mr.G.S.Murthy.

"RESOLVED THAT Shri G.S. Murthy, be and is hereby re-appointed as a Director of the Company, who shall be liable for retirement by rotation".

4. To appoint a Director in place of Dr.B.S.Bajaj.

"RESOLVED THAT Shri Dr.B.S.Bajaj, be and is hereby re-appointed as a Director of the Company, who shall be liable for retirement by rotation".

5. To appoint a Director in place of Dr.J.Sambasiva Rao.

"RESOLVED THAT Dr.J.Sambasiva Rao, be and is hereby re-appointed as a Director of the Company, who shall be liable for retirement by rotation".

6. To appoint Auditors for the financial year 2010-2011 and fix their remuneration.

"RESOLVED THAT M/s.Walker, Chandio & Co., Chartered Accountants, the Auditors of the Company, who retires at the conclusion of this meeting, being eligible, be and are hereby re-appointed as auditors of the Company to hold office from the conclusion of this meeting to the conclusion of the next Annual General Meeting and that the Board of Directors be and are hereby authorised to fix their remuneration."

SPECIAL BUSINESS:

7. To consider and if thought fit to pass with or without modification(s) the following resolution as an Ordinary Resolution:

"RESOLVED THAT in supersession of the resolution passed by the members at their AGM held on 29th September, 2009 and subject to the provisions of Sections 198, 269, 309, 314 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to the approval of Government of India and other necessary permissions, if any, approval be and is hereby accorded to the appointment of Mr.Rajeev Nannapaneni as Director & COO of the Company for a period of 2 years with effect from 1-4-2010 to 31-03-2012 and be paid remuneration by way of Salary and perquisites as detailed below:



(a) SALARY:

Not exceeding Rs.48,00,000/- (Rupees forty eight lakhs only) per annum including dearness and all other allowances.

(b) PERQUISITES

- i) Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.
- ii) Gratuity payable at a rate not exceeding half month's salary for each completed year of service, and
- iii) Encashment of leave at the end of the tenure.

RESOLVED FURTHER THAT, the Board be and is hereby authorised to do all such acts, deeds, matters and things as it may deem fit, necessary and delegate to any Director(s) or any other Officer(s) of the Company for obtaining necessary permissions and approvals, if any, in this connection.

FURTHER RESOLVED THAT the same remuneration be treated as minimum remuneration payable in case of absence of profits or inadequacy of profits."

8. To consider and if thought fit to pass with or without modification(s) the following resolution as an Ordinary Resolution:

"RESOLVED THAT in supersession of the resolution passed by the members at their AGM held on 29th September, 2009 and subject to the provisions of Sections 198, 269, 309 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to the approval of Government of India and other necessary permissions, if any, approval be and is hereby accorded to the appointment of Dr.Bhaskara Narayana P. as Director & CFO of the Company for a period of 2 years with effect from 1-4-2010 to 31-03-2012 and be paid remuneration by way of Salary and perquisites as detailed below:

(a) SALARY:

Not exceeding Rs.32,00,000/- (Rupees thirty two lakhs only) per annum including dearness and all other allowances.

(b) PERQUISITES

- i) Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961
- ii) Gratuity payable at a rate not exceeding half month's salary for each completed year of service, and
- iii) Encashment of leave at the end of the tenure.

RESOLVED FURTHER THAT, the Board be and is hereby authorised to do all such acts, deeds, matters and things as it may deem fit, necessary and delegate to any Director(s) or any other Officer(s) of the Company for obtaining necessary permissions and approvals, if any, in this connection.

FURTHER RESOLVED THAT the same remuneration be treated as minimum remuneration payable in case of absence of profits or inadequacy of profits."

9. To consider and if thought fit to pass with or without modification(s) the following resolution as an Ordinary Resolution:

"RESOLVED THAT in supersession of the resolution passed by the members at their AGM held on 29th September, 2009 and subject to the provisions of Sections 198, 269, 309 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to the approval of Government of India and other necessary permissions, if any, approval be and is hereby accorded to the appointment of Dr.A.K.S.Bhujanga Rao as President (R & D and Technical) of the Company for a period of 2 years with effect from 1-4-2010 to 31-03-2012 and be paid remuneration by way of Salary and perquisites as detailed below:

(a) SALARY:

Not exceeding Rs.32,00,000/- (Rupees thirty two lakhs only) per annum including dearness and all other allowances.

(b) PERQUISITES

- i) Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961
- ii) Gratuity payable at a rate not exceeding half month's salary for each completed year of service, and
- iii) Encashment of leave at the end of the tenure.

RESOLVED FURTHER THAT, the Board be and is hereby authorised to do all such acts, deeds, matters and things as it may deem fit, necessary and delegate to any Director(s) or any other Officer(s) of the Company for obtaining necessary permissions and approvals, if any, in this connection.

FURTHER RESOLVED THAT the same remuneration be treated as minimum remuneration payable in case of absence of profits or inadequacy of profits."

10. To consider and if thought fit, to pass with or without modification(s) the following resolution as a Special Resolution:

"RESOLVED THAT in terms of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("SEBI Guidelines") issued by the Securities and Exchange Board of India ("SEBI") and pursuant to the provisions of Section 81 (1A) and all other applicable provisions of the Companies Act, 1956 ("the Act") [including any statutory modification(s) or re-enactment of the Act or the SEBI Guidelines for the time being in force] and subject to the provisions contained in the Articles of Association of the Company and subject to such other consents, permissions, sanctions, and approvals as may be required from the appropriate authorities and bodies and subject to such conditions and modifications as may be prescribed or imposed while granting such consents, permissions, sanctions and approvals which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include the Compensation / Remuneration Committee or any Committee of the Board constituted by the Board to exercise its powers conferred on the Board by this resolution), consent of the Company be and is hereby accorded to the Board to create, issue, offer and allot at any time or from time to time to the present and future employees of the Company selected on the basis of criteria prescribed by the Board in accordance with the SEBI guidelines, hereinafter referred to as "the Eligible Employees" (which expression shall, unless repugnant to the context, mean and include the Permanent Employees of the Company in India or abroad, including Directors of the Company, whether whole time or not, whether working in India or out of India under a Scheme titled such number of options



as the Board may decide which could give rise to the issue of equity shares of nominal face value not exceeding Rs.60,00,000/- (Rupees Sixty lakhs) divided into 6,00,000 (six lakhs only) equity shares of the face value of Rs.10/- each on such terms and conditions described below :

The offer shall be in accordance with the terms and conditions as regards price, payment, application, allotment, entitlement to dividend and other rights, transferability and all other matters as stipulated by the SEBI Guidelines and in accordance with any other guidelines, rules, regulations and laws to the extent applicable and subject also to the Memorandum and Articles of Association of the Company provided that :

- i) the equity shares issued upon exercise of the Options shall rank pari passu in all respects with the existing equity shares of the Company.
- ii) Each Option granted to eligible employees shall be convertible into one equity share of nominal value of Rs.10/- each on payment of a price of Rs.10/- per option and subject to any regulation or guidelines of the SEBI in regard to the pricing of the Options, as applicable from time to time.
- iii) Each option shall be vested in the Optionee after a minimum of 12 months from the date of grant of the Option and a maximum period of four years from the date of the grant of options.
- iv) The Options shall be valid and exercisable for five years from the date of vesting.
- v) The consideration for the shares to be issued upon exercise of an Option, may as determined by the Board at the time of granting the Options, consist of cash, cheque or consideration received by the Company under a cashless exercise program implemented by the Company or any combination of the foregoing methods of payment.
- vi) No employee shall, during any fiscal year of the Company, be granted Options exceeding the limit fixed by the SEBI or any other relevant regulation as is applicable to such options.
- vii) The Company shall conform to the accounting policies mandated by applicable law or regulations of the SEBI or any other relevant regulation as is applicable to the account of such options.
- viii) Subject to the approval of the stock exchanges, the relevant equity shares on exercise of the Options shall be listed on the stock exchanges.
- ix) The Board shall have the power to make reasonable adjustments to the number of options to be exercised and the exercise price in case of rights issues, bonus issues and other corporate actions.
- x) The Board shall have absolute discretion from time to time to modify, delete or substitute any such terms or, if it thinks fit, not to undertake or proceed with the implementation of this Resolution in whole or in part.

RESOLVED FURTHER THAT in this resolution the expression "Employee" or "Eligible Employee" shall include Whole Time Director(s) of the Company and the provisions of this resolution shall apply to Whole Time Director(s) as they apply to other eligible employees other than the Promoter Directors.

RESOLVED FURTHER THAT without prejudice to the generality of the above, but subject to the terms as approved by the members, the Board / Remuneration / Compensation Committee or any Committee of the Board, be and is hereby authorised to implement the NATCO Stock Option Plan 2010 ("Plan"), (with or without modifications and variations) in such manner as the Board / Remuneration / Compensation Committee / any Committee of the Board may determine.

RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution, the Board/Remuneration/ Compensation Committee or any Committee of the Board be and is hereby authorised to do all such acts, deeds, matters and things and execute all such deeds, documents, instruments and writings as it may in its absolute discretion deem necessary or desirable and pay fees and commission and incur expenses in relation thereto.

RESOLVED FURTHER THAT the said equity shares may be allotted in accordance with the Plan framed in that behalf, directly to such employees or through a Trust which may be set up in any permissible manner or to the Trust to be held on behalf of such employees and that the Plan may also envisage for providing any financial assistance to the employees or the Trust to enable the employees / Trust to acquire, purchase or subscribe to the said equity shares of the Company.

RESOLVED FURTHER THAT the Board / Remuneration / Compensation Committee or any Committee of the Board be and is hereby authorised to settle all questions, difficulties or doubts that may arise in relation to the implementation of the Plan and to the shares (including to amend, modify, delete or substitute any of the terms thereof) issued herein without being required to seek any further consent or approval of the members or otherwise to the end and intent that the members shall be deemed to have given their approval thereto expressly by authority of this resolution."

RESOLVED FURTHER THAT in case the Company's Equity Share capital or its valuation is effected due to any corporate action like issue of Bonus / Rights shares, stock split, consolidation, merger, restructuring or any such event happening subsequent to the grant of options, the Board/Compensation/ Remuneration or any other committee of the Board shall have the discretion to make appropriate amendments to the scheme including change in number of options, the exercise price or floating a new scheme / extend the application of the existing scheme or any other fair and just mechanism including acceleration of options, in accordance with Law, if deemed necessary, while striving to ensure that the rights of employees are not affected.

By order of the Board
For **NATCO PHARMA LIMITED**

M. ADINARAYANA
COMPANY SECRETARY &
G.M (CORP. AFFAIRS)

Place : Hyderabad
Date : 31-07-2010



NOTES

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself/ herself on a poll and a proxy need not be a member of the Company. The instrument of proxy in order to be valid must be deposited at the Registered Office of the Company duly completed and signed, at least 48 hours before the commencement of the meeting.
2. Members holding shares in physical form are requested to notify any change in their address immediately to the Registered Office of the Company, Hyderabad or to our Registrar and Share Transfer Agents and in case of Members holding shares in electronic form are requested to notify any change in their mailing address to their respective Depository Participants.
3. The Members / Proxies are requested to bring the copy of the Annual Report to the Annual General Meeting and hand over the attendance slip at the entrance of the meeting venue along with their Registered Folio No./Client ID and DP ID Numbers for easy identification.
4. Nomination facility is available as per the guidelines. Share transfers and related matters will be undertaken at the Company's Transfer Agents M/s.Venture Capital and Corporate Investments Limited. Members as per their convenience can correspond with the Share Transfer Agents of the Company or the Legal & Secretarial Dept. of the Company at the Registered Office of the Company.
5. The Register of Members and Share Transfer Books will remain closed for four days i.e. from 27th September, 2010 to 30th September, 2010 (both days inclusive).
6. Members who wish to claim Dividends, which remain unclaimed, are requested to either correspond with the Legal & Secretarial Department at the Company's registered office or the Company's Registrars and Share Transfer Agents (Venture Capital and Corporate Investments Private Limited). Members are requested to note that dividends not encashed or claimed within seven years and 30 days from the date of declaration of the Dividend, will, as per Section 205 A(5) read with Section 205 C of the Companies Act, 1956, be transferred to the Investor Education and Protection Fund of Government of India. In View of this, members are advised to send all the unencashed dividend warrants to the Company or our Registrars as above for revalidation and encash them before the due date(s).

Information as of 31st March, 2010 in respect of such unclaimed Dividend amount since 2005 and when due for transfer to the Investor Education and Protection Fund of Government of India are given below:

Financial year	Date of Declaration of Dividend	Unclaimed Amount in Rs.	Due date for transfer to Investor Education and Protection Fund
2005 - 2006	24-10-2005	5,86,185	23-11-2012
2006 - 2007	26-10-2006	5,65,576	25-11-2013
2007 - 2008	25-10-2007	4,85,570	24-11-2014
2008 - 2009	25-05-2009	6,43,253	24-06-2016
2009 - 2010	27-01-2010	14,52,910	26-02-2017

7. Information relating to the Directors seeking re-appointment in Annual General Meeting scheduled to be held on 30th September, 2010.

Name of Director	Sri G S Murthy	Dr B S Bajaj	Dr.Jasti Samba Siva Rao
Date of Birth	04-05-1937	19-09-1927	15-05-1952
Date of Appointment	30-01-2000	30-03-2002	20-04-2006
Relationship with other Director	None	None	None
Experience	<p>He practised as Advocate in Andhra Pradesh and then worked in Reserve Bank of India (RBI) and IDBI for nearly three decades at Mumbai including in the capacity of Executive Director (Legal) of IDBI.</p> <p>He was the first Managing Director of Investor Services of India Ltd., Mumbai, promoted by IDBI, LIC, UTI, SBI CAPS etc. He was on the Board of several Companies as IDBI Nominee. After retirement, he provided services as Legal Consultant for ESSAR Group of Companies, Mumbai for about 3 years and as Senior Advisor for Govt. of AP for about 9 years for implementation of public enterprise reforms.</p> <p>He has vast experience specially in Legal, Corporate and General Management Disciplines.</p>	<p>He engaged in R&D from 1952 to 1974 in the field of Antibiotics, Physiology of Fungi and Microbial Genetics and has published more than 75 scientific papers. He has a total experience of more than 55 years in the field of Bio technology, Drugs and Pharmaceuticals.</p> <p>He was Chief Executive Anti Biotech production plant of IDPL and worked for Torrent Gujarat Biotech Ltd.</p> <p>He was on the Board of several companies and member of Scientific Advisory Committee of CSIR Laboratories. He is the Chairman of All India Biotech Association, Southern Chapter and Vice Chairman of Export Promotion Forum for Biotechnology, Govt. of India. He is also member of Biotech Advisory Committee of AP Govt. and Member of the Project Management Committee (PMC) of the Biotechnology Incubation Centre Project.</p>	<p>He has got rich and varied experience in Pharmaceutical Research and teaching and held various positions in USA in a career span of over 25 years.</p> <p>Presently he is the Senior Association Dean for Research and Head Cancer Biology and Pharmacology, University of Illinois College of Medicine at Peoria (UICOM-P) Peoria, IL, USA.</p> <p>He has to his credit 199 publications, 13 book chapters and 248 abstracts.</p>



Information relating to the Directors seeking re-appointment in Annual General Meeting scheduled to be held on __ September, 2010. (Contd.)

Name of Director	Sri G S Murthy	Dr B S Bajaj	Dr. Jasti Samba Siva Rao
Experience		He is the Secretary General of Federation of Asian Biotech Association. He was awarded by the Maryland India Business Round Table Inc., USA for the global leadership. He is the Convener of Bio Asia since 2004.	
Qualification	LL.M., F.C.S., C.A.I.I.B	M.Sc, Ph.D, FPSI	M.Sc, Ph.D.
Board membership of other Companies	None	<ol style="list-style-type: none"> 1 Otira Pharmaceuticals Private Ltd. 2. Pacific Hospitals Private Ltd. 3. Tran-Scell Biologics Private Limited 	None
Chairman/ Member of the Committee of Directors of other Companies	None	None	None

**EXPLANATORY STATEMENT
AS REQUIRED UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956**

Item No.7

The Members at their 26th Annual General Meeting which was held on 29th September 2009 have reappointed Mr. Rajeev Nannapaneni as a Director & COO of the Company for a period of Two years i.e. from 01st April 2009 to 31st March 2011.

Mr. Rajeev Nannapaneni who was initially appointed as a Vice President (Business Development) of the Company was later on made a Director of the Company in the year 2005 due to his steadfastness and vision. Mr. Rajeev is related with the company for over 10 years taking care of functional operations of the Company including but not limited to Production, Finance, Legal & Secretarial, Marketing Domestic as well as Exports, Quality Control etc.

In view of the manifold increase in the job responsibilities and on the recommendation of the Remuneration Committee, the Board of Directors at their meeting held on 31-07-2010 approved an increase in the ceiling limits of remuneration payable to Mr. Rajeev Nannapaneni from Rs.24,00,000/- to Rs.48,00,000/- per annum for a period of 2 years from 01-04-2010 to 31-03-2012, subject to the approval of the members.

Approval of members is now being sought for the said increase in the ceiling on the total remuneration per annum w.e.f 01-04-2010 to 31-03-2012.

None of the Directors except Mr.Rajeev Nannapaneni and Mr.V.C.Nannapaneni are concerned or interested in the resolution.

Your Directors recommend the resolution for your approval.

Item No.8

The Members at their 26th Annual General Meeting which was held on 29th September 2009 have reappointed Dr. P. Bhaskara Narayana as a Director & CFO of the Company for a period of Two years i.e. from 01st April 2009 to 31st March 2011. Dr. P. Bhaskara Narayana is associated with the Company for over a decade and looking after all the financial activities of the entire Company.

To retain the services of the Company's Key Management Executives and in view of the highly competitive employment market which currently prevails in the industry, your Directors felt it desirable that the Remuneration paid to Dr. P. Bhaskara Narayana revised w.e.f 01-04-2010, in line with the industry standards.

In view of the same, on the recommendation of the Remuneration Committee, the Board of Directors at their meeting held on 31-07-2010 approved an increase in the ceiling limits of remuneration payable to Dr. P. Bhaskara Narayana from Rs.21,00,000/- to Rs.32,00,000/- per annum, subject to the approval of the members.

Approval of members is now being sought for the said increase in the ceiling on the total remuneration per annum w.e.f 01-04-2010 to 31-03-2012.

Except Dr.P.Bhaskara Narayana, none of the Directors of the Company are concerned or interested in the said item of the business.

Your Directors recommend the resolution for your approval.

**Item No.9**

The Members at their 26th Annual General Meeting which was held on 29th September 2009 have appointed Dr. A.K.S. Bhujanga Rao as a Whole Time Director of the Company. Dr. A.K.S. Bhujanga Rao is associated with the Company for over a decade and looking after all the Research & Development activities of the Company.

Dr. Bhujanga Rao has done M. Sc. in Chemistry with specialization in Organic Chemistry, from Andhra University and also holds a Ph.D. degree from Indian Institute of Science, Bangalore. He has got good knowledge in Bulk pharmaceuticals especially on Anti Asthmatic /Drugs, Beta Blockers and Cox-inhibitors and he has well acquaintance with Technology Transfer to commercial scale, quality control and regulatory affairs and also looking after the Patent related issues of the company. He has 30 publications to his credit and applied for 40 international patents. All the major new drugs, which the company has launched have been developed under his guidance.

To retain the services of the Company's Key Technical Person of the Company and in view of the highly competitive employment market which currently prevails in the pharmaceutical industry, your Directors felt it desirable that the Remuneration paid to Dr. Bhujanga Rao revised w.e.f 01-04-2010.

In view of the same, on the recommendation of the Remuneration Committee, the Board of Directors at their meeting held on 31-07-2010 approved an increase in the ceiling limits of remuneration payable to Dr. Bhujanga Rao from Rs.30,00,000/- to Rs.32,00,000/- per annum, subject to the approval of the members.

Approval of members is now being sought for the said increase in the ceiling on the total remuneration per annum w.e.f 01-04-2010.

Except Dr. Bhujanga Rao, none of the Directors of the Company are concerned or interested in the said item of the business.

Your Directors recommend the resolution for your approval.

Item No.10

In order to reward and motivate employees as also to attract the talent as well as to retain the key managerial employees, the Board of Directors at its meeting held on 31st July, 2010 have approved and proposed for the approval of the shareholders for issue of Stock Options as per which employees, who comply with certain eligibility criteria would be given / granted stock options to subscribe a specified number of equity shares of the Company offered to them at a price to be determined.

The NATCO Stock Option Plan 2010 (Plan) would be subject to and in conformity with the Securities and Exchange Board of India (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("Guidelines") issued by the Securities and Exchange Board of India (SEBI).

The object of the Plan is to attract, encourage and retain the talent in the management cadre and to enable such employees to participate in the long term growth of the Company and seek convergence of interest of shareholders and eligible employees such that eligible employees consciously work towards value creation for the shareholders.

However, future remuneration revisions will bear in mind and take due note of the fact that the employees in the management cadre have coverage of this plan. The plan would therefore, reduce dependence on cash compensation as a tool for retaining and rewarding talent.

The existing Authorised Capital of the Company which is Rs.35 Crores has adequate provision for allotment of 6,00,000 equity shares of Rs.10/- each pursuant to the Plan given the fact that the present Issued, Subscribed and Paid Up capital of the Company is Rs.28,14,79,520/-comprising of 2,81,47,952 equity shares of Rs.10/- each, which will marginally go up by Rs. 28,74,79,520/- consisting of 2,87,47,952 equity shares of Rs.10/- each over a period of four years.

Instead of increasing the Capital base of the Company by issuing of additional shares for the purpose of Employee Stock options, a trust may acquire the shares in the open market in one or more tranches, and issue the same to the Employee at the time of exercise of options granted to them. The Company may provide Financial assistance to the said trust to enable it to acquire, purchase or subscribe to the equity shares of the Company, as the case may be.

Two types of options - Growth options and Loyalty options - are proposed to be granted under this Plan. The broad terms and conditions of the Plan are as under :

Total number of options/shares to be issued under the Plan :

It is proposed to grant options exercisable into not more than 6,00,000 equity shares of the face value of Rs. 10/- each. This is an estimated requirement over the next four/five years. It is only an enabling resolution and actual number of options to be granted over the next four/five years will depend upon the eligibility criteria including performance of eligible employees, share price of the Company, etc. and will be decided by the Board / Remuneration / Compensation Committee / any Committee of the Board. As and when this limit gets exhausted in future, if required the Company will seek fresh approval from the members.

Identification of classes of employees entitled to participate in the Plan:

The present as well as future employees of the Company, whether in India or outside India, will be entitled to participate in the Plan subject to the applicable regulatory requirements and guidelines issued by SEBI. Whole Time Director(s) and Working Directors being management employees of the Company are also proposed to be covered by the Plan except promoter directors.

Requirement of vesting and period of vesting:

In the event of the stock option being offered to employees, the employee should continue to remain in the employment of the Company from the date of granting till the date of vesting of the stock options.

Loyalty options would vest at the end of one year from the date of grant. Growth options would vest equally (25% at the end of each year) over a period of four years from the date of grant.

Maximum period within which the options shall be vested:

All the options granted under this Plan shall vest at the end of not more four years from the date of grant.

Exercise price/pricing formula :

The options would be granted at an exercise price of Rs. 10 per option, each option being exercisable into one equity share of the Company.

Exercise period and the process of exercise :

The options would be exercisable within a period of five years from the date on which they vest.

The options would be exercisable by the said employees by payment of the exercise price and submitting the requisite application form after which the shares would be allotted. Options not exercised within the exercise period will lapse at the end of the exercise period.

**Maximum number of options to be granted per employee**

The maximum number of Options granted per employee will not exceed 1% of the paid-up shares of the Company.

Appraisal Process for determining the eligibility of employees to the Plan:

Before granting the options to the employees under Plan, the Board /Remuneration Committee / Compensation Committee / any Committee of the Board would, apart from examining and evaluating overall corporate performance, inter alia, take into consideration the length of service, grade, performance, merit, future potential contribution and conduct of the employee and such other factors as may be deemed appropriate by it.

Disclosure and Accounting Policies:

The company shall comply with the disclosure and accounting policies prescribed by SEBI and any other appropriate authority.

Approval of the members is sought in terms of Section 81(1A) of the Companies Act, 1956 for the issue of Equity shares of the Company to the persons mentioned above under Plan. The Board / Committee shall have the absolute authority to delete, substitute, vary, or modify the terms hereinabove in accordance with and subject to all applicable guidelines which may be stipulated by SEBI or otherwise.

None of the Directors of the Company are interested or concerned in the passing of the Resolutions except to the extent of any options, which may be granted to them pursuant to this plan. The Board of Directors recommend the resolution for approval of the Members.

By order of the Board
For **NATCO PHARMA LIMITED**

M. ADINARAYANA
COMPANY SECRETARY &
G.M (CORP. AFFAIRS)

Place : Hyderabad
Date : 31-07-2010

DIRECTORS' REPORT AND MANAGEMENT DISCUSSION & ANALYSIS

To the Members

Your Directors have pleasure in presenting the 27th Annual Report together with the audited accounts of the Company for the year ended on 31st March, 2010.

Operating Results:

The domestic oncology (finished dosage pharmaceutical formulations) business has exhibited robust growth during the year under review. Buoyed by this growth, the company has been able to achieve a growth in revenues as well as profits. The other business segments (other than the active pharmaceutical ingredients - API - segment) had also contributed to the growth. The API segment had exhibited a de-growth of around five percent, as compared to fiscal 2009, essentially owing to reduced sales in the domestic market.

The following is a summary of the company's performance during the financial year 2009-2010 :

Rs. in lakhs

Particulars of Revenues*	2009-2010	2008-2009
API Division	8,894	9,362
Finished Dosage Formulations Division	35,134	34,380
Job Work	1,032	1,041
Other Income	2,703	1,635
TOTAL	47,763	46,418

* consolidated revenues.

The company's operations for the year resulted in a surplus of Rs. 6,238 lakhs as compared to Rs. 5,526 lakhs for the financial year 2008-2009. Your Directors have decided to make the following adjustments from out of the surplus

Rs. in lakhs

Particulars of write offs etc.	2009-2010	2008-2009
Surplus after operational expenditure	6,238	5,526
Provision for taxes	1,092	759
Provision for deferred tax	274	370
Net surplus carried to Balance Sheet	4,872	4,397
Interim Dividend declared / paid	563	351
Tax on distribution of income	96	60
Transfer to General Reserves	400	300
Surplus carried to Balance Sheet	3,813	3,686

**Dividend:**

Your Directors had recommended and paid an interim dividend of Rs. 2.00 per equity share (last year – Rs. 1.25 per equity share) during February, 2010. Your Directors recommend that this may be treated as the final dividend and the recommendation/payment ratified.

Review of 2010 performance:**API Division:**

The API business witnessed continued pressure on realizations as well margins. While some amount of volatility in the exchange rate of US \$ vis-à-vis Indian Rupee (Rs.) continued during the year 2010, sales in the domestic market from this segment were below expectations. This segment could record a revenue base of Rs. 8894 lakhs as against Rs. 9362 lakhs recorded last year, thus representing a de-growth of 5%. Exports from this division amounted to Rs. 7537 lakhs as against Rs. 6896 lakhs last year. Revenues from domestic sale of APIs were at significantly lower at Rs. 1356 lakhs against Rs. 2467 lakhs during fiscal 2009.

Your Directors do not expect any significant improvement in this business segment during the fiscal 2010-11 as well.

The business strategy for this segment aims at concentrating on high value, low value specialty drugs. It is significant to note that this division supplies the raw material for the finished dosage pharmaceutical formulation segment - for almost all oncology drugs that the company manufactures and markets. This results in substantial cost savings and value addition.

The manufacturing facilities of the Division continue to enjoy US FDA, Australian TGA and ISO:14001 certification. Efforts continue to develop niche products and capture niche markets.

The Company continues to record satisfactory progress in the matter of regulatory filings. The table given in Annexure A to this report indicates the updated status relating to filing of Drug Master Files.

Projects :

Substantial investments - of the order of 90 Crores - spread over fiscal 2011 and 2012 are being made in API manufacturing facilities. A new production block is being planned in the Mekaguda facility exclusively dedicated for the manufacture of APIs for the treatment of stomach ailments. Another block is being established to exclusively produce Glatiramer Acetate for possible supplies to Mylan Inc.

Finished Dosage Formulations Division :

The revenues from this division exhibited continuous growth. The domestic oncology business has been the major growth driver.

The company continues to maintain its dominant position in the domestic oncology segment. This division, which has now crossed the Rs. 12 Crore a month mark in revenues, recorded revenues of Rs. 124 Crores during the year as against Rs. 97 Crores during the last year, recording a growth of 28%. Other segments in the division have turned out equally good performance.

During the year under review, the Company launched several new brands as detailed below, which have been well received in the market :

Brand Name	Usage
Bendit injection	Onco support therapy
Pegfil 6 mg (PFS)	Onco support therapy
Erlonat 150 mg tablets - 30s	Lung Cancer - 2nd line treatment
Erlonat 100 mg tablets - 30s	
Erlonat 25 mg tablets - 10s	
Natzold Infusion 100 ml	Osteoporosis
Natflu 75 mg 10s capsules	Swine flu

Careful evaluation is made before launching a brand as to its utility and market opportunity.

Supply & Distribution Agreements :

The supply and distribution agreements entered into with Mylan, Inc., Dr. Reddys' Laboratories Limited and Lupin Limited present substantial and significant market opportunities for the Company. This is the best way the company can explore and encash its technical abilities while using the vast marketing net work available to the partners. What is more important is that the company is insulated from any kind of litigation, mitigating the legal risks.

Realizing this is the best form suitable for un-locking the hidden value, the company is pursuing more of such opportunities. The existing arrangements are being pursued to their logical conclusion. However, benefits in terms of revenue growth or earnings could be expected only during fiscal 2012.

Up-gradation of Kothur Facility :

A new manufacturing block for liquids and pellets is being planned at Kothur. The cyto-toxic orals manufacturing facility has been commissioned.

During the year, the company's application for abbreviated new drug application (ANDA) in respect of Anastrozole 1 mg. and Granisetron 1 mg. tablets has been approved by the US FDA authorities.

The company has launched both these products in the USA through its marketing partners.

US Pharmacy business:

The operations of the company's pharmacy retail stores in the US are stable. While the new US Health Bill is expected to bring in business for these stores in general, the monetary resources of the States and budgetary restrictions on the state governments are likely to result in a dampening effect.

Owing to the loss incurred on account of sale of one of the drug stores in the USA, K & C Pharmacy - the US based partnership firm in which the Company is a major partner - has reported a loss during the year. The company's share of loss for the year ended on 31st March, 2010 amounted to Rs. 231 lakhs (against Rs. 209 lakhs profit last year), after considering impairment of a part of good-will, in view of the economic down turn in the USA. However, the cumulative profits from this firm (Company's share) amounted to 1019 lakhs till fiscal 2010, recording a return on investment of a little over 12%.

SaveMart Pharmacy, Lancaster, Pennsylvania, USA, which was acquired through the company's wholly owned subsidiary, NATCO Pharma Inc. also continues to do well and for the year ended on 31st March, 2010, the subsidiary has recorded a net profit, after tax, of Rs. 111 lakhs (against 123 lakhs previous year) after accounting for interest of Rs. 129 lakhs



(previous year Rs. 188 lakhs) payable to the Company on the loans advanced by the parent company. The subsidiary has also repaid Rs. 496 lakhs (Rs. 375 lakhs previous year) out of the loan advanced by the Company.

Branded Generics & Institutional Sales :

In spite of lower margins and severe competition, business from these segments is quite satisfactory. The company has made in-roads into new markets in Sri Lanka, Myanmar, Nepal and Bangladesh. The Company has made an offer to the Government of India to set up generic medicine outlets in select government-run hospitals under the Jan Aushadi scheme.

Manufacturing facilities :

The second unit set-up in Dehradun has since been commissioned. Finished dosage orals are being manufactured at this facility and this unit would be eligible for income-tax and excise duty concessions.

Sales from the existing manufacturing facility at Dehradun, Uttarakhand, for the year ended on 31st March, 2010 amounted to Rs. 11,621 lakhs against Rs. 8,082 lakhs last year.

During the year, the Company has taken up modernization and up-gradation of the parenterals facility at Nagarjuna Sagar to meet the US FDA standards. Estimated to cost over Rs. 200 Million, the up-gradation would reflect in the company's ability to attract remunerative contract manufacturing activities, in addition to shoring up its own manufacturing capabilities.

Abbreviated New Drug Applications (ANDAs) :

Annexure B to this report details the latest status on the abbreviated new drug applications filed by your Company.

The Company continues to sell Ondansetron 4 mg and 8 mg tablets in USA and Canada and has been receiving royalties from its constituents as per the agreements in force. Granisetron and Anastrozole tablets have been launched in the United States markets, through the company's marketing partners.

Research Efforts and Intellectual Property

Annexure C to this report details the latest status on the various patent applications filed by the Company.

The division continuously evaluates several compounds for their efficacy in disease management and control. Multiple teams would be working on several compounds simultaneously. These teams are typically engaged in the development of molecules, processes and products.

In respect of one molecule - NRC 19 - Phase I clinical trials are in their final stage and Phase II clinical trials are expected to commence shortly. Another compound - NRC 2694 - is being evaluated for commissioning of Phase I clinical trials.

Other molecules are continuously being evaluated for their efficacy. Various analogues useful in the field of anti-cancer, anti-depressant and anti-ulcer therapies, and new drug delivery systems are continuously evaluated for taking up for further development.

Contract Manufacturing:

The revenues from contract manufacturing activity continue to be stable around Rs. 1000 lakhs. The company has an impressive list of clients in this category.

Corporate Social Responsibilities (CSR):

The company is proud to be associated with NATCO Trust, which continues to actively pursue its social welfare activities. The Trust has expanded its activities to cover new geographical locations, situated near the company's manufacturing locations.

The Company's in-house quarterly magazine "Spandana" continues to receive appreciation from all quarters - both from within and outside the Company.

Financial Matters :

The Company has no derivative contracts outstanding as at 31st March, 2010.

Employees Stock Option Scheme :

No further options have been exercised as at 31st March, 2010 and no fresh options have been granted during the year under review.

NATCO Organics Limited :

NATCO Organics Limited has commenced the trial runs of its cyto-toxic API manufacturing facility near Chennai. Under an arrangement with NATCO Organics Limited, the company would procure these APIs from NATCO Organics Limited and would convert them into finished dosage pharmaceutical formulations for sale in the open markets.

In line with its commitment to this project, the company has opted to convert the advances made by it to NATCO Organics into equity shares of NATCO Organics Limited.

Directors :

Dr. B.S. Bajaj, Dr. Jasti Sambasiva Rao and Mr. G.S. Murthy would be retiring at the ensuing Annual General Meeting and are eligible for re-appointment. Notices have been received from members proposing the names of Dr. B.S. Bajaj, Dr. Jasti Sambasiva Rao and Mr. G.S. Murthy to the office of Directors.

Directors' Responsibility Statement :

In compliance with the provisions of Section 217(2A) of the Companies Act, 1956, the Directors confirm that :

- a) in the preparation of annual accounts, the applicable accounting standards have been followed;
- b) the Directors have selected such accounting policies as mentioned in Schedule 23 of the Annual Accounts and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss of the Company for that year;
- c) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the aforesaid Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- d) the annual accounts have been prepared on a going concern basis.

Item # 5 and 6 of Notes to the Accounts would adequately clarify the observations made by the Statutory Auditors in their report dated 25th June, 2010, pertaining to recognition of income from another company and non-availability of MAT credit available.

Statutory Auditors :

During the month of April, 2010 M/s. Brahmayya & Co., Chartered Accountants, Hyderabad, have resigned. Upon the recommendation of the Audit Committee and the Board of Directors, the shareholders have, at their extraordinary general meeting held on 18th May, 2010, appointed M/s. Walker, Chandio & Company, Chartered Accountants, Hyderabad as the statutory auditors of the Company, to conduct the audit of accounts of the Company for the financial year ended on 31st March, 2010. They hold the office till the end of the ensuing Annual General Meeting and are eligible for re-appointment. The Board recommends their re-appointment.

**Internal Auditors :**

M/s. Seshachalam & Co., Chartered Accountants, Hyderabad, who have been appointed by your Board to carry-out internal audit of the Company last year will be continuing as internal auditors for this year as well.

Cost Audit :

The Government of India had prescribed maintenance of cost accounting records and ordered cost audit under the provisions of Section 233B of the Companies Act, 1956. in respect of your Company's operations. Your Company is following the prescribed guidelines in maintaining the requisite records.

Particulars of Employees :

The statement of particulars required pursuant to Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) (Amendment) Rules, 2002, forms a part of this Report. However, as permitted by the Companies Act, 1956, the Report and Accounts are being sent to all Members and other entitled persons excluding the above statement. Those interested in obtaining a copy of the said statement may write to the Company Secretary at the Registered Office and the same will be sent by post. The statement is also available for inspection at the Registered Office, during working hours upto the date of the Annual General Meeting.

Particulars regarding Energy conservation, etc.

Information on conservation of energy, technology absorption, foreign exchange earnings and outgo as required to be disclosed under the provisions of Section 217(1)(e) of the Companies Act, 1956 is enclosed and forms part of this report.

Listing Information :

The securities of the Company are listed with and are traded in, dematerialized form on the Bombay Stock Exchange and the National Stock Exchange. The annual listing fees were paid to each of these exchanges for the year 2009-2010. Facilities for dematerialization have become fully operational. The ISIN No. of the Company is INE987B01018.

Fixed Deposits :

There are no outstanding and overdue deposits as at 31st March, 2009. The Company had not accepted any deposits during the year.

Acknowledgements :

Your Directors place on record their deep sense of gratitude for the support, cooperation and guidance received by the Company from various departments / agencies of the Central and State Governments, the consortium of banks led by Allahabad Bank as also to Export-Import Bank of India, Yes Bank Limited, and Axis Bank Limited. The Directors also thank the shareholders, officers and staff of the Company for their excellent cooperation and dedicated work.

for and on behalf of the Board
NATCO PHARMA LIMITED

Place : HYDERABAD
Date : 25th June, 2010

V.C. NANNAPANENI
Chairman & Managing Director

ANNEXURE A

ACTIVE PHARMACEUTICALS INGREDIENTS

Status of DMFs filed - March 2010

Therapeutic segment	No. of Products		European Countries		USA		Rest of World		Total No. of DMF(s) Submitted	
	Filed	Under Preparation	Filed	Under Preparation	Filed	Under Preparation	Filed	Under Preparation	Filed	Under Preparation
Anti Emetic	4	2	83	1	4	1	4	0	91	2
Anti Migraine	5	2	85	2	6	2	2	1	93	5
Anti Depressants	5	0	159	0	2	0	14	0	175	0
Anti Ulcer	3	0	95	0	4	0	2	2	101	2
Anti Fungal	1	1	45	1	0	1	1	0	46	2
Anti Neoplastic	1	4	2	5	0	5	0	0	2	10
Anti Cancer	3	8	86	8	4	8	0	1	90	17
Benign Prostatic Hyper Trophy	1	0	0	0	1	0	0	0	1	0
Bronchodilator	1	0	35	0	1	0	0	0	36	0
For the treatment urinary incontinence	1	0	11	0	1	0	0	1	12	1
Anxiolytic	0	1	0	1	0	1	0	1	0	3
Bone resorption inhibitor	2	0	26	0	2	0	0	0	28	0
Hyperphosphataemia	1	0	0	0	1	0	0	0	1	0
Antiparkinsonian	1	0	0	1	1	0	0	0	1	1
Total	29	18	627	19	27	18	23	6	677	43



ANNEXURE B

Status of Regulatory Filings (Finished Products - Formulations)

Therapeutic category	No. of Products	Filed filing	Under ANDAs	No. of
Anti-Depressants	1	1	0	1
Anti Emetic	2	1	0	1
		1	0	1
Benign Prostrate Hyper Trophy	1	0	1	0
Anti-Cancer	7	1	1	0
		1	0	1
		1	0	1
		0	1	0
		1	0	1
		0	1	0
		0	1	0
Anti-Malarial	1	2	0	2
Vitamin	1	1	0	1
Anti Ulcer	3	0	1	0
		0	1	1
		0	1	0
Anxiolytics	1	1	0	1
Anti cholinergic	3	1	0	1
		0	1	0
		1	0	1
Muscle Relexant	1	1	0	1
Anti hypercholestrolemia	1	1	0	1
Anti Migrane	2	0	1	0
		1	0	1
Hyperphosphataemia	1	1	0	1
Immunomodulator	1	1	0	1
Eugeroics	1	0	1	0
Parkinson's disease	1	0	1	0
Antiviral	1	0	1	0
TOTAL	29	18	13	18

ANNEXURE C**Status of Patents granted, and patent applications pending UPDATED ON 31st March 2010**

A. Granted	Indian	International
New Chemical Entities	1	4
API - Process	47	1
Finished Dosage Products	14	2
Natural products	3	0
Design	1	3
TOTAL	66	10

B. Applied

	Indian	International
New Chemical Entities	6	33
API - Process	113	31
Finished Dosage Products	17	17
Natural Products	3	0
Design	2	4
TOTAL	141	85



Information under Section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules 1988, and forming part of Directors' Report.

FORM - A

Form for disclosure of particulars with respect to conservation of energy.

A. POWER & FUEL CONSUMPTION

	For the Year ended 31st Mar'10	For the Year ended 31st Mar'09
1 Electricity		
a. Purchased Units	18431339	18111752
Total Amount (Rs.)	68818146	67939915
Rate / Unit (Rs.)	3.73	3.75
b. Own Generation:		
i) Through Diesel		
Generator Units	2644595	2298953
Units/ltr.of Diesel Oil	3.28	3.12
Cost/Unit (Rs.)	10.92	11.49
2 Coal D/C Grade		
Quantity (tonnes)	4263	6027
Total Amount (Rs.)	20182023	29635629
Average rate per tonne(Rs.)	4734	4917
3 Furnace Oil		
Quantity (LTS)	353301	225836
Total Amount (Rs.)	9339826	6718840
Average rate per Ltr. (Rs.)	26.44	29.75

FORM - B

Form for disclosure of particulars with respect to absorption

RESEARCH AND DEVELOPMENT (R & D)

- | | |
|---|--|
| 1. Specific areas in which R & D Carried out by the Company | Phase 1 clinical trials in respect of a new chemical entity are nearing completion. Evaluation of other molecules for their efficacy is continuing. In addition, regular research is carried out for new process as well. |
| 2. Benefits derived as a result of the above R & D | Successful completion of the clinical trials and subsequent commercialization would result in immense value addition to the company and would provide relief to suffering masses. |
| 3. Future plan of action | R & D efforts, in collaboration with multinational companies and established research organizations and universities towards development of new molecules and improvements in process along with new delivery systems will continue. |

NATCO Pharma Limited

		AMOUNT (Rs.in lakhs)	
		For the Year ended 31st Mar'10	For the Year ended 31st Mar'09
4	Expenditure on R & D		
a)	R & D Expenditure	868.52	1693.21
b)	Total R & D expenditure as Percentage of total Turnover (Including capital expenditure)	3.09	5.94

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

- | | | |
|---|---|--|
| 1 | Efforts in brief, made towards technology absorption, adaptation | Technologies developed in in-house R & D for the manufacture of various bulk drugs Intermediates & Formulations were stabilized and scaled up for commercial production. |
| 2 | Benefits derived as a result of the above efforts | a) Stabilization of process resulted in cost savings and increased productivity.
b) Market presence in the formulations segment to cover all branches of medicines. |
| 3 | In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year) | Not Applicable |

FORM - C

FOREIGN EXCHANGE EARNINGS AND OUTGO

		(Rs.in thousands)	
		For the Year ended 31st Mar'10	For the Year ended 31st Mar'09
A)	Earnings in Foreign Exchange Export of goods calculated on F.O.B basis	964396	1032622
B)	CIF value of Imports		
	Raw Materials	77889	104442
	Capital Goods & Consumable stores	109480	124301
C)	Expenditure in Foreign Currency towards		
	Travelling	3819	4982
	Commission	1873	3899
	Others	14424	22616

for and on behalf of the Board
NATCO PHARMA LIMITED

Place : HYDERABAD
Date : 25th June, 2010

V.C. NANNAPANENI
Chairman & Managing Director



Management of Risks at NATCO

The Company has identified the following as the main risks that can affect its operations :

- a) Risks relating to property;
- b) Risks relating to operations;
- c) Risks relating to environment;
- d) Risks relating to policies; and
- e) Other risks.

The company has a policy of continuously evaluating various risks that the Company is prone to from time to time. Wherever feasible, remedial measures are initiated and suitable follow-up action is taken.

The following gives a gist of the various risks involved in the conduct of the affairs of the Company, and how the Company proposes to deal with these risks :

Property and resource related risks:

All the fixed assets of the Company, including stocks of finished goods, raw materials, packing materials and work-in-process are adequately insured, and in most of the cases, at replacement values. All the employees of the Company are also insured against accidents and in some case, against ill-health. All incoming and outgoing raw material, packing material and finished products are adequately insured against various possible perils.

Human Resources

Retaining and nurturing talented human resources has always been a challenge. Added to this, the employee costs are increasing every year. Yet, the Company believes in its human capital as one of the important assets and therefore, has taken steps to retain talent by providing reasonably appreciable avenues of growth, along with suitable compensation structures. Talent within the company is continuously identified and nurtured to ensure that the employees get opportunities to excel themselves and efforts are made to create and preserve a habitable working environment. In this direction, the remuneration structure is suitably designed, including a component in the form of employee stock options.

Products / Markets :

While it is economically prudent to operate in a segment which is most profitable, thereby resulting in dependence on a single market, product or customer in certain circumstances, efforts are made by the Company to reduce such dependence to the minimum. Constant efforts are made to widen the business horizon and to enter niche markets and introduce niche products.

The company prides itself in being numero uno in oncology segment, while at the same time, making efforts to diversify and introduce new products in new therapeutic areas.

Competition :

Competition is the hall mark of any growing economy and India in general and pharmaceutical industry in particular are no exception. The company has devised several strategies to ward off or minimize the effect of competition, which include, among others, increasing its rapport with the medical profession and generally spreading the knowledge about

the company's products by organizing continuous knowledge programs for the medical profession. The company has thus created for itself a niche position among the companies operating in this segment.

In line with this policy, the company continues to pursue a very aggressive pricing policy for some of its products, and continues its drug donation program.

The company has always stood for quality in every aspect of its operations. Standards of manufacture and quality play a vital role in managing competition and retaining and developing customer base. By maintaining its facilities at world standards, and continuously upgrading them to suit international standards and US FDA requirements, NATCO is able to not only retain but widen its international customer base. Regular audits are undertaken by customers and the observations made in these audits are duly attended to.

Price Controls :

The pharmaceutical industry in India is subject to price controls and the prices of some products are determined by the Government. Though only some products manufactured by NATCO are likely to be a subject matter of price control mechanism under the Indian law, nevertheless, governmental compulsions for reduction in the prevailing prices remains a risk. Being a pharma company with a human touch, NATCO would abide by the legislative or governmental compulsions, if any. In this direction, attempts are made to offset such losses by more effective and efficient management of its resources, controlling costs and launching of superior and new products.

Litigations :

The company has made ambitious plans to enter the US and European markets and has, in this direction, initiated filing of several abbreviated new drug applications. However, this strategy has fraught with high legal risks and continuous litigation. The company aims to minimize or neutralize these risks by a unique system of tie-ups where the litigation risks are taken-up by the marketing partner rather than the Company itself. In addition, suitable and adequate product liability insurance is also obtained.

Regulatory Observations:

Regulatory approvals form the basic strength of the Company and utmost care is taken to ensure that these approvals are valid, in full force and are renewed from time to time. To this end, all observations made by the Regulatory Auditors and Customer Auditors are taken seriously and immediate action is initiated to rectify the lapses, if any.

Global and Environmental Risks :

The company is not immune to changes that the world is undergoing - be it economic, political or otherwise. Owing to global economic melt-down, the company could not achieve the targeted growth levels. As far as practicable and possible, the Company aims to keep itself insulated from these risks by entering into strategic alliances with partners in other countries. In case of such tie-ups, generally speaking, the cost of litigation and the cost of regulatory filings, wherever applicable, would be to the account of the partner.

Owing to the global slowdown, the Company has been cautious in its plans for expansion and growth and is carefully evaluating the various business opportunities available to it.

Foreign Currency transactions and associated Risks :

The company continues its policy of not hedging any of its import / export transactions. It has been the company's experience that such a policy will, over a period of time, neutralizes the risks associated with foreign currency transactions.

**Economic and Financial Risks :**

The company is operating in an environment where, as of now, financial costs are rising. The company is attempting to reduce the financial costs by contracting new loans at cheaper rates. Wherever possible, attempts are made to enhance the product pricing to cover rising costs.

The company has a system of re-cycling the various solvents that it uses to ensure improved productivity and yields, and at the same, cutting costs.

The company's API plant is a zero discharge facility (which does not cause any pollution). Adequate and suitable insurance cover is available to cover public liability and general commercial liability risks.

Energy and associated risks :

Power shortages and unscheduled power cuts continue to plague the State of Andhra Pradesh, in which the company's major manufacturing facilities are situated. As a result, the company has been forced to go in for its own generation of power, albeit, at a high cost. This has impacted the overheads adversely, further shrinking the already thin margins. This is a risk that the company cannot avoid unless it goes in for its own captive generating stations. At this point of time, this measure seems to be unviable.

Other Risks :

In addition, the Company faces distribution, storage, contamination, counterfeit and risks associated with patents and intellectual property rights. The company is in the process of evolving a strategic mechanism which will enable it to deal with these risks in course of time.

CORPORATE SOCIAL RESPONSIBILITY



natcotrust

*To learn to live
To live and learn*

About NATCO Trust

NATCO TRUST is the corporate social responsibility division of NATCO Pharma Limited. It is based at Hyderabad, and deals with the issues of Health, Education, Sanitation, Water, Livelihoods, and Need Based Community Infrastructure. It works in and around Hyderabad, and in several areas of the Mahaboobnagar, Nalgonda, Warangal and Guntur Districts.

Activity wise intervention details

Health: -

Natco Trust is committed to enhancing good health and the well being of the target communities. It attempts to improve the health seeking behavior of the communities regarding nutritious food, mother and child health, communicable diseases, preventive mechanisms through community based health services, and health education.

Nutrition centers at Yerra cheruvu thanda, Nayakuni thanda, Thimmaiah palyam and Peddamunigala in Nalgonda Dist., Andhra Pradesh.

Objective: - Prevention of disability and malnutrition, healthy motherhood with healthy baby and institutional delivery.

The Nutrition center has catered to 197 mothers; out of which 93 mothers completed the 12-month term and currently 104 mothers are utilising our services. According to NIN (National Institute for Nutrition, Hyderabad), Indian women have a deficiency of about 430 calories. So to fill this gap, the center provides nutritional supplementary food (430 calories) consisting of egg, milk, dates, chikki, biscuits for a period of 1 year. All the mothers have to undergo a diagnosis and accordingly, health services are provided. Apart from the nutritious food, health education on breast-feeding, personal hygiene, institutional deliveries, family planning etc., are also provided.

School health checkups (General and dental): - Anganawadi centers, Primary and high school at Borabanda and Nagarjuna Sagar cluster.

Objective: - Basic general medical and dental health services are provided to all school going children, with specific attention also given to awareness, and health education.

Periodic school health checkups have been conducted at Hyderabad and a cluster of villages at Nagarjuna Sagar, Nalgonda Dist., A.P. Free medical health checkups with free medicines have been provided to 2188 students at Nagarjuna Sagar (477 general health and 52 dental health services) and at Hyderabad (1045 general health and 614 dental health services) 38 students identified with specific problems/ailments like cardio, hair, skin, eye etc., have been referred to government hospital at Nagarjuna sagar and Gandhi hospital at Hyderabad, where our patient counselors facilitate their treatment and follow ups.



Community health camps: - specialized community health camps have been conducted on a need basis at Peddamunigala, Kambalapally Grama panchayats of Chandhampet mandal and at Panagal and gudimalakapuram villages, Nalgonda Dist., A.P. (in convergence with AP pollution control board). Around 5223 persons benefited from the camp and free medicines were distributed.

Community Eye camp: - a cluster of villages at Nallikal and Chinthalapalyam grama panchayat in Nalgonda Dist., A.P. :- Apart from the School health camp and NMHC specialized health camps being conducted on need base, one such specialized eye camp have been conducted in convergence with Lions Club of Hyderabad at Nallikal and Chinthalapalyam grama (community from 8 nearby habitations got benefited) panchayats. Around 750 persons from different thandas got eye checkups, got free medicines, spectacles and cataract surgery, 595 persons got spectacles and 41 persons got cataract surgery.

Natco Mobile Health Clinic (NMHC):

Objective: - To provide health services at the doorstep of the community.

The Natco Mobile Health Clinic (NMHC) serves more than 5000 households with a population of more than 32000 in 17 villages of Peddavura and Chandampet Mandals in Nalgonda Dist., A.P. on a rotation basis with a weekly schedule. It has all the basic equipment and free medicines are provided by it. It catered 32498 persons in the said villages and distributed free medicines. Along with the health service, health education too, is provided to the community. The age and village wise details are as follows.

Age wise

Months	0-5 yrs	6-10yrs	11-15 yrs	16-35 yr	36-50 yr	51+yrs	Total
Apr 09	207	183	72	560	393	334	1749
May 09	230	246	135	829	522	497	2459
June 09	298	212	164	934	659	575	2842
July 09	411	294	211	1120	742	610	3388
Aug 09	425	375	264	1043	596	591	3294
Sep 09	346	333	138	731	353	524	2425
Oct 09	466	458	456	1619	1031	653	4683
Nov 09	214	243	209	596	363	298	1923
Dec 09	353	247	175	777	479	455	2483
Jan 10	319	348	215	763	624	523	2792
Feb 10	232	175	327	608	481	356	2179
Mar 10	237	171	479	592	388	414	2281
Total	3738	3285	2845	10172	6628	5830	32498

Village wise

Sl. No	Name of the Village	Apr. -09	May -09	Jun. -09	Jul. -09	Aug. -09	Sep. -09	Oct. -09	Nov. -09	Dec. -09	Jan. 10	Feb. 10	Mar. -10	Total
1	Yerra Cheruvu Thanda	106	139	216	250	241	111	60	68	175	127	135	78	1706
2	Chenchu Vani Thanda	103	87	176	161	233	35	44	71	84	113	108	122	1337
3	Nellikai	34	211	299	229	376	324	160	224	364	207	171	127	2726
4	Pilli Guntla Thanda	28	95	123	144	183	120	44	137	155	88	107	68	1292
5	Jammana Kota	52	71	54	101	78	104	49	66	59	52	57	54	797
6	Nagarjuna Peta	138	236	235	235	240	277	122	122	150	149	200	91	2195
7	Sapavath Thanda	37	0	0	0	0	0	0	0	0	0	0	0	37
8	BVB Thanda	0	20	0	0	0	0	0	0	0	0	0	0	20
9	Palthi Thanda	170	192	125	205	113	131	80	38	64	44	110	84	1356
10	Thangilla Thanda	32	60	69	76	54	57	104	32	57	50	74	54	719
11	Poolya Thanda	157	45	49	119	110	48	0	0	0	0	0	0	528
12	Chintala Palem	247	301	295	357	301	214	157	222	164	296	186	207	2947
13	Jai Thanda	172	95	156	75	132	133	55	62	112	133	99	125	1349
14	Nayakuni Thanda	176	278	167	360	362	310	241	171	177	253	134	142	2771
15	Thimmai Palem	95	200	256	260	274	203	126	87	221	157	84	127	2090
16	Pedda Munagala	202	119	221	413	279	108	128	135	119	228	189	189	2330
17	Kambala Pally	0	310	401	321	170	144	306	157	192	288	97	0	2386
18	AP Residential School	0	0	0	0	0	0	88	243	136	116	248	457	1288
19	NATCO Employees		0	0	82	148	106	164	88	254	152	180	188	1362
20	MBNR Flood Relief Camp (Rajasri garla Padu, Duwasi Palli, Kapakula, Nasanoor)							894						894
21	Kurnool Flood Relief Camp(Kotta Kota, R K Dudyala, R Kuntala Padu, Nidjuru, Sunkesula, Mudamala, Gundrevula)							1861						1861
22	Panagal (Pollution Control Board assistance)										339			339
23	Chintala Palem (Gudi Malka Puram) of Melva Cheruvu Mandal (Pollution Control Board assistance)												168	168
Total	no of beneficiaries	1749	2459	2842	3388	3294	2425	4683	1923	2483	2792	2179	2281	32498

Responding to natural disastrous

Flood Relief Health Camp: The NMHC has responded very quickly and provided timely medical health services to the flood victims at Mahaboobnagar and Kurnool districts, in which 2749 patients got benefitted in 11 villages of these Districts. Apart from the medical health services it has provided counseling to the flood affected families.

An amount of Rs 20 lakhs was donated to the Chief Minister's relief fund, and the employees of Natco Pharma generously contributed one days' salary towards the relief fund.

Hospital settings: - Patient counselors at Gandhi and MNJ hospitals at Hyderabad.



Objective: - To facilitate the poor, mostly illiterate patients to have proper access to the available healthcare services.

The patient counselors extend services to the poor and the needy patients who come from different parts of the state to avail health services in the government hospitals. They facilitated/guided 237773 patients (at MNJ 68593 general patients, 1486 pediatric palliative care patients and at Gandhi 167694 patients) at different levels to go different departments (more than 45 departments) for various services, provides wheel chairs, trolleys, facilitate to get different certificates for DAPs, Mental illness, Mental retardness, old age etc., Counseling provided to the patients in the departments of Gynecology, Orthopedics, Burns, Family Planning and HIV positive Patients. They serve as a link between the patients and various social institutions like blood banks, Hospices, old age homes, rehabilitation centers etc.

Water: -

Objective: - Providing safe drinking water to communities where the ground water has high levels of impurities and no other water sources are available.

Most of the villages in Nalgonda districts are fluorosis affected (both dental and skeletal). This has a considerable impact on the quality of their life, hampering their everyday activities. Natco Trust has provided RO purified drinking water plants in 4 grama panchayats, namely Haliya (4000 LPH), Peddavura (2000 LPH), Peddamunigal (3000 LPH) and at Kambalapally 1000 LPH). 1268 households with a population of 8643 are catered to.

The plant is managed by the community and supervised by a committee consisting of village youth, panchayat raj institution and key person and the Trust extends the technical support for the maintenance. The left over revenue after paying honorarium, electricity bill, maintenance charges etc. would be used for the development of village level government institutions like schools, hospitals etc., Government schools, anganawadi centers get free drinking water services. The RO purified water plant has provided employment for 10 youth directly and another 15 youth indirectly.

Education: -

We are committed to create enabling environment for children through education initiatives, and emphasis is laid on access, equity and quality of education by extending the need based support for appropriate infrastructure, skilled teachers, innovative teaching methodology and curriculum. We provide basic teaching learning materials for improving the learning competence of the children, in addition to these adapted innovative methods to make learning more interactive and participatory.

Natco School - Kothur Mahaboobnagar District

NATCO HIGH SCHOOL was established in 1995 with an objective of providing education to the children of the Natco employees in Kothur and as well as children of a few tribal villages/thandas around Kothur Today the School features activity oriented education with a holistic view mainly focused on imparting best education, which is a boon for the children of NATCO Employees as well as other people. The school strength soared up to 1167 and the number of staff has steadily been increased to 52 from 33 during the academic year.2009 - 10.

In Academics:

With the introduction of XSEED and the new methods of teaching, we have witnessed remarkable improvement amongst the children in their communication, drawing, and interpretation skills. The revision system introduced in the form of Block tests have fetched 100% results in Grade 10, with 46 out of 47 passing in 1st division.

The staff has as well been equipped with various training and workshops such as X-seed, science workshops conducted by Cambridge University London, spoken English training (in-house), etc helped them improve their teaching methods. Besides quite a few Guest lectures have been conducted in subjects like Sports, Crafts, Biology and personality development. A year end program on communication skills and personality development was held for the Grade 10 students.

Co-curricular activities:

These activities have been made the part of learning by organizing various competitions on essays, debates, elocutions, poem recitations, etc as weekend activities. A number of field trips were also organized to places like, Golconda fort, Zoo, Nagarjuna Sagar, and Shilparamam etc as part of their learning process. They were in addition exposed to newer activities like role-plays, thematic advertising, thematic singing etc.

Extra-curricular activities:

The major Event of the academic year "Natco Utsav" was organized, eliciting the best of the skills and capacity of the students in preparing the skits, dances etc along with the preparation of props and backdrops by themselves to a major extent.

Sports:

The indoor game sets have been included in the stock of sports material and a range of sets of volleyball; Handball games materials have been bought during the year. Our students have won first prize in Volleyball at the regional level and 2nd prize in Shot ball at the state level, in addition to other achievements

INFRASTRUCTURE:

About 200 sets of bench and desk sets have been bought apart from 10 cupboards, tables and chairs for the teachers. The Science Laboratory is fully equipped with about Rs.90,000 worth of science equipment, library with 1100 books, computer lab with 20 computers with Local Area Network (LAN) connection and Internet facility. New T.V of 50'inches has been provided in the Audio Visual (AV room). Two activity rooms have been set up.

Support to Government schools

Objective: - To strengthen the government schools in terms of infrastructure, libraries, science labs etc. to retain all the eligible school going children in the school and impart qualitative education.

Natco Government High School at Borabanda, Hyderabad

The Trust has entered a public private partnership (MoU) with the district administration of Hyderabad to partner in the construction of a government primary and high school at Borabanda slum of Hyderabad Dist.

The Trust contributed 37% of the cost of construction and facilitated to get all necessary infrastructures like electricity, water, bore well, benches, desks, fans, lighting facility etc., as an outcome the school has become home for 1230 students starting from primary (450 students) to high school in Telugu and English mediums (780 students). It is the only Government high school for entire Borabanda slum (more than 3 lakhs population) with basic facilities like 30 classrooms, separate sanitations for female, male students and as well for teaching staff, science lab and library, public addressing system etc., In this academic year the School name has changed as Natco Government high school as per the GO No. Ms. 162, and the Trust has entered another agreement to support 10 more additional class rooms with a contribution of 20% of the total construction cost to meet the increasing demand for admissions

Libraries -Science and social labs

The Trust supported science lab equipments, social sciences and library materials to primary school at Nayanavani kunta thanda and government high school at Malakpet. It has been useful for more than 400 students, wherein the students were exposed to practical experience that facilitates them to understand and remember the subject thoroughly.

Sampoorna Akshara Abhysam program

The state government has celebrated a weeklong "Sampoorna Akshara Abhysam" program for 1st class enrolment; the Natco Trust has actively involved and supported 11 schools in and around Borabanda, Hyderabad and provided school bags, notebooks, slates, pencil boxes etc., for the newly admitted 250 students of 1st standard.



Uniforms- An initiative by the employees of Natco Group - Uniforms and other teaching materials support to 17 government primary schools and 12 Anganawadi centers. Natco Trust with the support of the Natco group employees has distributed uniforms, school bags; notebooks, slates, slate pencils, pencil boxes etc., to 1561 students of Anganawadi and primary schools in 17 villages of Peddavura and Haliya mandals of Nalgonda district

After school tuitions

The objective: to inculcate the activity based learning process amongst the students

Introduction: It has been observed that dropping out of government schools, is rampant among children in the communities with which the Trust works. In most of the cases, children studies till the 2nd standard and drop out due to various reasons. This is because, in the absence of proper tutoring and coaching, children, who are mostly first-generation learners, find it difficult to cope with their syllabus and school environment. The Natco trust initiated the after school tuitions to the government schools students in the targeted villages where in the emphasis has been put on inculcating activity based learning process in addition to the class room learning. The child has the freedom to explore and learn in joyful way. Accordingly the learning process has been designed that is Multi grade and multi level methodology has been adopted. Where in the 89 students in 4 villages are getting benefited.

10th CLASS TUTIONS:-They have been tutored in the evenings by framing revision schedules, also encouraging the NATCO staff at Nagarjuna Sagar, Nalgonda District to take guest lectures. The school has also been supported with Furniture and sports materials.

CHILDREN'S CLUBS: This has been motivated in Government schools, defining the purposes, forming groups and initiating activities in language clubs, cultural clubs, art clubs etc. They planned Independence Day, Republic Day activities wonderfully and started involving language club activities and actively involved in children's day program.

Basic infra Support to Anganawadi, Primary and High schools

The Trust has supported teaching learning materials, play material, mid day meal plates, block boards, sports materials, dual desks etc., to 158 anganawadi students and 821 primary and high school students, thus it creating a congenial environment for the students to learn to explore.

Pre -primary school - Thangalli thanda:-

The early childhood years are essential for the proper mental, physical, emotional and social development of the child. This lays the foundation for the child's future. Thus, it is very essential to provide children with quality pre-school education. It is with this objective that the Natco Trust has initiated supporting pre primary school.

Thangalli thanda in Nalgonda Dist., A.P. is a rehabilitated village, consisting of 87 households belonging to Schedule tribal community. It has been earlier (palthi thanda) situated on the banks of Krishna River and very often inundated by the backwaters of river Krishna. The Trust has started a pre-primary school for the benefit of the children. The center has 25 students in the age group of 3 to 5 years and they have been imparting activity based play way method learning. The Trust provided all teaching learning materials, play equipments, slates, and books; the center was taken care by a teacher and an ayah. A nutritious snack is provided daily to the children. In addition, efforts are made to develop the innate abilities of the children through activities like songs, games etc. The concerted efforts with this age group has helped in school-preparedness while also engaging parents in their ward's learning process

Adult Literacy center (non-formal education) at Nagarjuna Sagar, Nalgonda Dist.

The objective: - Let every woman be educated and be self-respected

The Trust facilitates in mobilizing women to a common place and inculcates the habit of learning and discuss social issues through which they should be made literate, currently 6 adult literacy centers (Yerra cheruvu thanda with 15 beneficiaries), Chenchvani thanda with 23 beneficiaries) Nayakuni thanda with 20 beneficiaries) Nagarjuna pet with 35 beneficiaries)

Thimmaiah palyam with 15 beneficiaries and Jammanakota with 17 beneficiaries) with a strength of 125 beneficiaries (40 women and 85 adolescent girls) are getting benefit. The centers are used as platform to discuss on health education, social issues, sanitation, and children's education etc., The Multi grade and multilevel method of teaching has been adopted, it is an activity based learning methodology, that has different milestones and the trainer could facilitate the learning process according to the grasping capacity of each individual and emphasis has been laid on each individual learning process.

Environment

Community Kitchen Gardens (non pesticide management) :- The Trust has facilitated and supported 4 community kitchen gardens in 3 villages (Chenchuvani thanda, Nayakuni thanda and Thimmaiah palyam) to supplement the nutritious food to the beneficiaries of the nutrition center; it has been maintained by the beneficiaries. The community kitchen garden started yielding the crops, they have cultivated Brinjals and Snake guard, greens etc., they have earned an amount of Rs. 3000/- by selling the vegetables and used it for procuring the inputs

Sanitation: - The pride of women has been enhanced and women started enjoying the privacy, the trust has taken up sanitation issue as a priority core area and motivated the community to construct the individual sanitation latrines (ISL), with the active participation of the community, 21 families constructed and using the ISL, the trust as a back end support extended Rs. 5000/- to each family and the rest has been contributed by the respective families

Youth Group

The Trust recognizes the significant role that youth have in achieving desirable social changes. Any community development programmes may be implemented effectively if the local youth are provided an opportunity to actively participate in various phases of programme management. The important prerequisite to ensure youth participation is that the youth are organized. Today there are three youth clubs, on an average, each club has around 20 members. With the supervision and motivation of the Trust, youth clubs not only organize various community activities like cleanliness drives, plantation drives etc., but also assist in planning and organizing various events and celebrations for the community members. Efforts made by these groups have also resulted in increased participation of adult community members in various Trust programmes.

Livelihoods: - Skill up gradation for Wage employment, self-employment/value addition income generation for the youth and women

Vocational training centers: -

The Trust has started 4 channels of vocational training centers at Hyderabad and Nagarjuna Sagar that is on Fashion designing (one at Hyderabad and the other one at Nagarjuna Sagar), Beauty parlor and computer course. 304 women got trained in different courses (Fashion designing 138, Beauty parlor 92, Computer course 73 and Driving course 1). Most of them are self employed and facilitated for 45 candidates to get wage employment in different organizations the average salary is Rs. 3500 per month. 7 beautician trainees are started their own beauty parlors in different locations and earning Rs. 5000 to 7000/- per month.

Outsourcing

The Trust has sponsored to 26 candidates (25 male and 1 female) to undergo driving course, all the candidates succeeded in getting the 4 wheeler driving licenses and 6 candidates are working as drivers in the cabs

Institutional and individual support

The Trust extends medicine support to different government hospitals, NGOs, Schools and need-based infrastructure to government hospitals. It also extended support to poorest of the poor individuals on life saving medical health services.

REPORT ON CORPORATE GOVERNANCE

The Directors present the Company's Report on Corporate Governance.

Corporate Governance essentially is the system by which companies are directed and controlled by the management in the best interest of the stakeholders and others. Corporate Governance ensures fairness, transparency and integrity of the management. Corporate Governance is a way of life, rather than a mere legal compulsion. It further inspires and strengthens investor's confidence and commitment to the Company.

1. Company's Policy on Code of Corporate Governance

Your Company continues its endeavour to enhance its stakeholder's value by protecting their interest by ensuring performance at all levels, and maximising returns with minimal use of resources in its pursuit of excellence in corporate life. Your company complies not only with the statutory requirements, but also with the voluntary provisions and adheres to a set of strong Corporate Governance practices. The company provides detailed information on various issues concerning the company's business and financial performance. The company respects the right of its shareholders to information on the performance of the company and considers itself as trustee of its shareholders.

2. Board of Directors - Composition

Presently, the Board comprises four Whole Time Directors, including the Chairman & Managing Director (CMD) and four non-executive directors. All the four non-executive directors are independent and professional directors. The number of Independent Directors is one-half of the total strength, complying with the Clause 49 of the Listing Agreement.

Every year one third of the Directors (except Nominee Director) retire by rotation. Brief resume of Directors seeking appointment/ reappointment is given in the Notice of the AGM. The Board functions either as a full board or through committees constituted by it. A table showing the present composition of the Board is given below:

Name of the Director	Type of Directors	No. of Directorships in other Companies	No. of Committees		Relationship interse Directors
			Member	Chairman	
Mr. V.C. Nannapaneni	Promoter	4	3	Nil	Husband of Mrs. Durga Devi Nannapaneni & Father of Mr. Rajeev Nannapaneni
*Mr. Mukul Sarkar	Independent Director - Nominee Exim Bank	Nil	1	Nil	
**Mr. C.P.Ravindranath	Independent Director - Nominee Exim Bank	2	Nil	Nil	
Mr. G.S. Murthy	Independent	Nil	Nil	4	
Dr. B.S. Bajaj	Independent	3	3	Nil	
Dr. Jasti Samba Siva Rao	Independent	Nil	Nil	Nil	
***Mrs. Durgadevi Nannapaneni	Promoter	4	Nil	Nil	Wife of Mr. V.C.Nannapaneni & Mother of Mr. Rajeev Nannapaneni
Mr. Rajeev Nannapaneni	Whole time Director	3	Nil	Nil	Son of Mr. V.C. Nannapaneni & Mrs. Durga Devi Nannapaneni
Dr. P. Bhaskara Narayana	Whole time Director	2	1	Nil	
****Dr. A.K.S. Bhujanga Rao	Whole time Director	Nil	Nil	Nil	

*Exim Bank had withdrawn Mr. Mukul Sarkar as its Nominee Director w.e.f 09-09-2009.

**Exim Bank had appointed Mr. C.P.Ravindranath as its Nominee Director w.e.f 09-09-2009.

***Mrs. Durga Devi Nannapaneni had resigned as a Director w.e.f 01-07-2009.

****Dr. A.K.S. Bhujanga Rao was appointed as a Director w.e.f 30-07-2009.

None of the Directors on the Board are members of more than ten committees or Chairman of more than five committees across all the companies in which they are Directors as required under Clause 49. Necessary Disclosures regarding their committee position in other public companies as on 31st March, 2010 have been made by the Directors.

COMPOSITION & CATEGORY OF THE BOARD OF DIRECTORS:

Category	No. of Directors	% of Total No. of Directors
Functional Directors		
Promoter	2	50%
Non - Promoter	2	
Non Executive Independent Directors		
Independent Directors	3	50%
Nominee Director - Independent	1	
TOTAL	8	100%

Meetings and Attendance

The Board of Directors and its committees meet at regular intervals. The Board meetings are tentatively fixed at the beginning of each financial year. During the year under review, five meetings of the Board were held. Board and Audit Committee meetings were convened on the same day to obviate avoidable travel and recognizing time constraints of independent directors. The intervening period between two board meetings was not more than 4 months as stipulated under Clause 49 of the Listing Agreement as also Companies Act.

During the year, the Board met 5 times 25th May 2009, 30th June 2009, 30th July 2009, 29th October 2009 & 27th January 2010.

Board Agenda

Board Agenda containing comprehensive information and extensive details is circulated sufficiently in advance. Urgent issues and procedural matters are at times tabled at the meeting with prior approval of Chairman and consent of all the Directors present. The Board periodically reviews compliance reports of all laws applicable to the Company and takes proactive steps to avert slippages and take remedial measures as appropriate.

Details of attendance of Directors at Board Meetings held during the year 2009-2010

Sl. No.	Name	No of meetings held during the previous Financial Year	No of meetings attended	Whether the Director attended the last AGM
1.	Sri V.C.Nannapaneni	5	5	YES
2.	Sri G.S.Murthy	5	5	YES
3.	Dr. B.S.Bajaj	5	4	YES
4.	*Smt. Durgadevi Nannapaneni	5	2	YES
5.	Mr. Rajeev Nannapaneni	5	4	YES
6.	Dr. P. Bhaskara Narayana	5	5	YES
7.	Dr. Jasti Samba Siva Rao	5	4	Was Pre-occupied
8.	**Dr. A.K.S. Bhujanga Rao	5	3	YES
9.	***Mr. Mukul Sarkar	5	NIL	Not Applicable
10.	****Mr. C.P.Ravindranath	5	2	Was pre-occupied

* Mrs. Durga Devi Nannapaneni had resigned as a Director w.e.f 01-07-2009.

**Dr. A.K.S. Bhujanga Rao was appointed as a Director w.e.f 30-07-2009.

*** Exim Bank had withdrawn Mr. Mukul Sarkar as its Nominee Director w.e.f 09-09-2009.

****Exim Bank had appointed Mr. C.P.Ravindranath as its Nominee Director w.e.f 09-09-2009.

3. Audit Committee

The Board has constituted an Audit Committee comprising two-third Independent directors. The Chairman of Audit Committee is an independent professional director. The Audit Committee meets at regular intervals not exceeding 4 months between any two meetings and subject to a minimum of 4 meetings in a year. Statutory Auditors, Internal Auditors and Cost Auditor are also present in the meetings as special invitees, whenever required. The Company Secretary acts as the Secretary of the Audit Committee.

The composition of the Committee complied with the requirements of Clause 49 of listing agreement and Section 292A of the Companies Act, 1956 on all areas concerning its constitution, meetings, functioning, role and powers, mandatory review of required information, basis of related party transactions, disclosures of accounting treatment. It also fulfills the requirements as set out in the Companies Act, 1956. The Chairman of the Audit Committee attended the Annual General Meeting of the Company. The broad terms of reference of the Committee are to review and recommend the financial statements and to review the adequacy of internal control systems and internal audit function.

The Audit Committee constitutes Shri G.S.Murthy, Dr. B. S. Bajaj, Shri Mukul Sarkar and Shri V.C. Nannapaneni as its members. During the year, the Audit Committee met 5 times 25th May 2009, 30th June 2009, 30th July 2009, 29th October 2009 & 27th January 2010.

The members who attended the number of meetings are as follows:

Name of the Member	Meetings held during the year	Attendance at the meeting	
		Attended	% of presence
Shri G.S.Murthy	5	5	100
Dr. B. S. Bajaj	5	4	80
*Mr. Mukul Sarkar	5	0	0
Shri V.C.Nannapaneni	5	5	100

*Note: Exim Bank had withdrawn Mr. Mukul Sarkar as its Nominee Director w.e.f 09-09-2009.

4. Remuneration Committee

The Board of Directors has constituted a Remuneration Committee with 2 independent directors viz. (1) Shri G.S.Murthy and (2) Dr. B.S. Bajaj. Its principal scope/ role is to recommend remuneration package for whole time directors / senior management personnel as and when required.

The Committee accordingly meets as per needs. During the financial year 2009-10, the Remuneration Committee met 2 times i.e. on 30th June 2009 & 30th July 2009.

REMUNERATION OF DIRECTORS

Remuneration paid to Directors during 2009-10

a. Functional Directors:

S. No.	Name	Position	Total Remuneration (p.a.) (Rs.)
1.	Sri V.C.Nannapaneni	Chairman & MD	1,06,08,000
2.	Mr. Rajeev Nannapaneni	Director & COO	24,00,000
3.	Dr. P. Bhaskara Narayana	Director & CFO	13,72,800
4.	*Dr. A.K.S. Bhujanga Rao	President (R & D and Technical)	18,32,225

*Dr. A.K.S. Bhujanga Rao was appointed as a Director w.e.f 30-07-2009.

b. Non-Functional Directors

A sitting fee of Rs.5,000/- (Rupees Five Thousands only) is paid for attending the each Board / Committee meeting in addition to reimbursement of out of pocket expenses. The amount paid is well within the ceiling permissible under Act and the Articles of Association of the Company. The details of the sitting fee paid to the Non Functional Directors during the year 2009-2010 is given below:

Sl. No.	Name	Position	Sitting Fee paid for the meetings of				Total Rs.
			Board meeting Rs.	Audit Committee Rs.	Investors Grievance Committee Rs.	Remuneration Committee Rs.	
1.	Sri G.S.Murthy	Independent Director	25,000	25,000	10,000	10,000	70,000
2.	Dr. B.S.Bajaj	Independent Director	20,000	20,000	Not a Member	10,000	50,000
3.	Dr. J. S. Rao	Independent Director	20,000	Not a Member	Not a Member	Not a Member	20,000
4.	*Mr.Mukul Sarkar	Nominee Director - EXIM Bank	Nil	Nil	Not a Member	Not a member	Nil
5.	**Mr. C.P.Ravindranath	Nominee Director - EXIM Bank	10,000	Not a Member	Not a Member	Not a Member	10,000

* Exim Bank had withdrawn Mr. Mukul Sarkar as its Nominee Director w.e.f 09-09-2009

**Exim Bank had appointed Mr. C.P.Ravindranath as its Nominee Director w.e.f 09-09-2009

5. Investors Grievance Committee

The Board has constituted an Investors Grievance Committee. Its role and responsibility is to expeditiously process and approve transactions in securities, complying with SEBI regulations and listing requirements and redressal of investor grievances. The Committee oversees and monitors the performance of the Registrar & Transfer Agents and devises measures for overall improvement in the quality of investor services. The Committee met on 30-07-2009 & 27-01-2010.



Attendance of Members at the Meetings of the Investors Grievance Committee held during 2009-2010

Members	Meetings held during the year	Meetings attended
Mr. G.S.Murthy	2	2
Mr. P. Bhaskara Narayana	2	2
Mr. V.C. Nannapaneni	2	2

The Company had received 116 requests for various queries during the year 2009-10 and all of them were replied / resolved to the satisfaction of the investors.

6. Compensation Committee:

Your Company has also got a Compensation Committee (Though not mandatory) comprising of Shri V.C. Nannapaneni, Shri G.S. Murthy and Dr. B.S. Bajaj which reviews and grants share options to the eligible employees of the Company. There were no meetings of this committee in the year 2009-2010.

7. General Body Meetings

- a. The following were the details of the location and time of the last three Annual General Meetings (AGMs) of the Company:

Date of the Meeting	Venue	Time of meeting	No. of Special Resolutions/Business
29-09-2007 for 2006-2007	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad-500 033.	11.00 a.m.	Two
26-09-2008 for 2007-2008	Novotel Hotel Hyderabad International Convention Centre Complex, Near Hi-Tech City, Cyberabad, Hyderabad-500 081	11.30 a.m.	Nil
29-09-2009 for 2008-2009	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad - 500 033.	10.00 a.m.	Nil

- b. Information on Directors seeking re-appointment as required under Clause 49 of the Listing Agreement with Stock Exchanges is provided in the Notes to the Notice under the heading "Information on Directors seeking re-election at the ensuing Annual General Meeting".
- c. All the resolutions indicated above were passed by show of hands. The Company has not passed any shareholder resolution through postal ballot during the year under reference. During the current year no resolution is proposed to be passed through postal ballot.

8. Minutes

Minutes of the Board meetings and the General Body meetings are prepared, recorded and approved as per the statutory norms.

Minutes of all the Committee meetings of the Board are prepared by the Company Secretary and approved by the Chairman of the Meeting and are circulated to the Board.

9. Quarterly Secretarial Audit Report

A Secretarial Audit on the compliance of Corporate Laws and SEBI regulations was conducted by a Practicing Company Secretary for each of the four quarters during 2009-2010 and submitted to the stock exchanges in the prescribed format within 15 days from the close of each quarter.

10. Secretarial Standards

The Institute of Company Secretaries of India has issued Secretarial Standards on Board, General Meetings, Dividend and Registers and Records that are presently recommendatory. The company's practices and procedures mostly meet with these prescriptions, wherever applicable.

11. Disclosures

a. Legal Compliances

The Company follows a formal management policy and system of legal compliance and reporting to facilitate periodical review by the Board of compliance status of laws applicable to the Company and steps taken to rectify non-compliances, if any. There were no instances of material non-compliance and no strictures or penalties were imposed on the Company either by SEBI, Stock Exchanges or any statutory authorities on any matter related to capital markets during the last three years.

b. Code of Business Conduct

The Code of Business Conduct adopted by the Company has been posted on the web site of the Company. The members of the Board and senior management of the Company have submitted their affirmation on compliance with the Code of Business Conduct for the effective period. The declaration by the Chairman & Managing Director to that effect forms part of this report as Annexure 1.

c. Related Party Transactions

Transactions with related parties are disclosed in detail in the financial statements for the year. Adequate care was taken to ensure that the potential conflict of interest did not harm the interests of the Company at large

d. Mandatory & Non-Mandatory Clauses

The Company has complied with all mandatory requirements laid down by the Clause 49. The non-mandatory requirements complied with have been disclosed at the relevant places.

e. Environmental Policy

The Company strives to continually improve our environmental performance and prevention of pollution by compliance with applicable environmental legislations and regulations and other applicable requirements, by incorporating suitable techniques such as waste management, recovery of raw materials, isolating by products and distillations of solvents to control pollutions, by conserving raw materials, natural resources such as water, coal & electricity, by creating an environmental awareness among employees & suppliers and by providing a frame work for setting and reviewing of environmental objectives and targets. The Company's environmental policy is made available to public and concerned public offices.

12. Compliance with other Mandatory requirements

i) Management Discussion and Analysis

Management Discussion and Analysis Report, along with Management of Risks at Natco is made in conformity with the Listing Agreement and is attached to the Directors' Report forming part of the Annual Report of the Company.

ii) **Senior Management Declaration:**

Senior Management Personnel have declared to the Board that, no material, financial and commercial transactions were entered into by them during 2009-10 where they have personal interest that may have a potential conflict with the interest of the Company at large.

iii) **Subsidiary Companies**

The Company has a fully owned subsidiary named NATCO Pharma Inc. in USA.

iv) **Disclosure of Issue Proceeds**

The Company did not make any Public, Rights or Preferential Issue of securities during 2009-10.

v) **CFO Certification**

CFO Certification by Mr P. Bhaskara Narayana, Director & CFO as per the Listing Agreement was placed before the Board at its meeting on 25th June, 2010.

vi) **Review of Directors' Responsibility Statement**

The Board in its Report have confirmed that the annual accounts for the year ended 31st March 2010 have been prepared as per applicable accounting standards and policies and that sufficient care has been taken for maintaining adequate accounting records.

13. Compliance with non-mandatory requirements

- i. **Board:** The Chairman is executive but does not maintain an office at the Company's expenses.
- ii. **Remuneration Committee:** Remuneration Committee has been constituted vide details furnished supra.
- iii. **Mechanism for evaluating non-executive Board Members:** The Company is developing a suitable process for assessing the effectiveness of the Board and the Committees.
- iv. **Whistle Blower Policy:** The Company promotes ethical behaviour in all its business activities and has put in place mechanism of reporting illegal or unethical behaviour. Employees are free to report violations of laws, rules, regulations or unethical conduct to their immediate superior. The Directors and Senior Management are obliged to maintain confidentiality of such reporting and ensure that the whistle blowers are not subjected to any discriminatory practices.
- v. **Shareholders' Rights:** As per the Listing Agreement Quarterly / yearly Audited / un-audited Results on the company's financial performance with press note(s), if any, were sent to stock exchanges and published in newspapers. Such press notes, Results are also posted on the Company's Website.
- vi. SEBI by Circular dt.26/04/07 has directed Stock Exchanges to amend clause 32 of Listing Agreement. This is to facilitate circulation of Abridged Accounts in lieu of full-fledged Annual Report. The Company has however not exercised this option and continues to send Annual Report in full form to all shareholders.
- vii. **Audit Qualification:** The Company replied suitably for the qualifications of Auditors which were mentioned else where in this report.
- viii. **Others:** All the Directors are well versed in the business model of the Company. Detailed presentations are made by Senior Executives and Professionals followed by full-length discussions at Audit Committee/ Board Meetings. Considering the same, no formal training of Board members or peer review of the performance of non-executive Directors is arranged.

The Company has an informal work atmosphere where employees have direct access to top management including the Chairman and other Directors. Hence institution of a formal Whistle Blower Policy is not considered warranted.

14. Means of Communication

During the year, audited / unaudited quarterly, half-yearly and annual financial results on the standalone basis and on the consolidated basis of the Company were submitted to the stock exchanges soon after the Board meeting approved these and were accordingly published in the newspapers as per norms. These were also promptly put on the Company's website www.natcopharma.co.in. All official news release of relevance to the investors are also made available on the website. Quarterly Unaudited / audited Financial Results of the Company, Press Releases on significant developments in the Company such as product launches, new units / important events, approvals etc. were made available from time to time to the Stock Exchanges where your Company's shares are listed and also to the press and posted on the website of the company.

The Directors' Report including Management Discussion and Analysis along with Management of Risks at Natco has been included elsewhere in this report.

The Company did not send the half-yearly reports to each household of shareholders in the financial year 2009-10. However the Company displays its quarterly, half yearly and yearly results on its website www.natcopharma.co.in. The quarterly financial results of the Company are also published in a National daily and in a Regional vernacular daily and the details of publications are as under:

Quarter Ended	Name Of The English Daily	Name Of The Regional Daily	Date Of Publication
30th June, 2009	Financial Express	Eenadu & Andhra Prabha	31-07-2009
30th September, 2009	Financial Express	Andhra Prabha	30-10-2009
31st December, 2009	Financial Express	Andhra Prabha	28-01-2010
31st March, 2010 (audited)	Financial Express	Prajasakti	26-06-2010

Apart from the financial results, all official press releases of the Company are being placed on the Company's website at www.natcopharma.co.in

The Company also releases all price sensitive information simultaneously to NSE, BSE and also to the Press and Electronic Media.

15. General Information for Shareholders

AGM: Date, Time and Venue

Annual General Meeting Date & Time	30th September, 2010 at 10.00 a.m.
Venue	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad - 500 033.
Book Closure dates	27th September, 2010 to 30th September 2010 (Both days inclusive)

16. Financial calendar 2010-2011

The Company follows April - March as its financial year. The Unaudited / Audited Financial results for every quarter beginning from April will be declared as per the listing agreement.



17. Financial Reporting - Unaudited Results - Tentative Dates:

For the quarter ending June 30, 2010	15th August, , 2010
For the quarter ending Sep 30, 2010	15th November, , 2010
For the quarter ending Dec 31, 2010	15th February, , 2011
For the quarter ending Mar 31, 2011	May 2011
Annual General meeting for 2010-11	September, 2011

18. Listing of Equity Shares

The Company's shares are listed in the following Stock Exchanges.

Name of The Stock Exchange	Stock Code
Bombay Stock Exchange Limited	524816
National Stock Exchange of India Limited	NATCOPHARM

19. Listing fees to the Stock Exchanges

The Company has paid the annual listing fees for the year 2010-11 to both of the above stock exchanges.

20. Custodial fees to the Depositories:

The Company has paid Custodial Fee for the year 2010 - 2011 to both National Securities Depository Limited and the Central Depository Service (India) Limited.

21. Market Price Data

The monthly movement of equity share prices during the financial year 2009-10 at BSE & NSE are summarized as herein below:

Month & Year	Bombay Stock Exchange		National Stock Exchange	
	Rs. High	Rs. Low	Rs. High	Rs. Low
April, 2009	79.95	47.00	80.00	45.10
May, 2009	95.00	63.05	95.65	63.05
June, 2009	92.80	76.10	92.80	75.70
July, 2009	84.45	70.60	84.70	65.70
August, 2009	124.50	71.00	124.60	77.25
September, 2009	145.80	97.05	145.30	97.10
October, 2009	136.50	107.10	139.00	109.30
November, 2009	120.35	99.50	120.30	99.05
December, 2009	125.00	109.00	124.85	108.55
January, 2010	137.00	107.55	137.00	109.50
February, 2010	131.80	109.60	131.70	110.15
March, 2010	155.80	121.00	155.70	121.10

22. Share Transfer Work For Both Physical & Electronic Forms

M/s. Venture Capital and Corporate Investments Ltd.
12-10-167, BHARAT NAGAR
HYDERABAD 500 018
Tel No:040-23818475 & 23818476
Fax No:040-23868024
E-mail: info@vccilindia.com

23. Share Transfer System

The Board has delegated the powers of physical share transfers to a Share Transfer Committee, which attend to the share transfer related work at least once in a month. The Share Transfer Committee also considers transmission of shares, issue of duplicate certificates and issue of certificates on split/consolidation. The work done by the Share Transfer Committee will be reported to the Board.

Shares lodged for transfer either at Company's Registered Office or at the Registrar's office are normally processed within 15 days from the date of lodgment, if the documents are proper in all respects. All requests for dematerialisation of shares are processed and the confirmation(s) is given to the depositories within 15 days.

During the Financial Year the Company received 203 requests for transfer & transmission of 13005 equity shares and these have been processed and transfers duly effected. There were no pending valid requisitions for transfer of shares as on 31st March 2010.

24. Shareholding Pattern

Distribution of Shareholding as on 31st March 2010

S.No.	Category	No of Equity Shares	Percentage
1	Promoters holding	17617697	62.59
2	Individuals / Others	8177931	29.05
3	MutualFunds, Financial Institutions	834846	2.96
4	FII's, NRIs, OCBs	1517478	5.40

25. Dematerialization of shares

Nearly 97% of your Company shares were dematerialised as on 31st March 2010. As the trading is being conducted only in electronic form members are requested to go in for dematerialisation of shares at the earliest.

26. Shareholding details as on 31st March 2010

Your Company has a Shareholder base of 33927 members as on 31.03.2010 and the paid up capital is Rs.28,14,79,520/-.

27. Investor Grievances

The Company has an exclusive email id viz. investors@natcopharma.co.in to register shareholder complaints, if any. The Company strives to reply to the complaints within a period of 3 working days.

28. Report on corporate governance

This chapter, read together with the information given in the chapters titled Directors' Report which includes Management Discussion & Analysis along with Management of Risks at Natco and Shareholder Information, Corporate Social Responsibility constitute the compliance report on Corporate Governance during the year under review.



29. Insider trading guidelines

Comprehensive guidelines are in place in accordance with the SEBI Regulations in this regard, advising and cautioning the management, staff and other relevant business associates on the procedure to be followed while dealing with the securities of your Company. The code of conduct and corporate disclosure practices framed by the company helped in ensuring compliance with the requirements.

30. Compliance Certificate from the Practicing Company Secretary

Certificate from the Practicing Company Secretary confirming the compliance with the conditions of the Corporate Governance as stipulated under Clause 49 of the Listing Agreements, is annexed herewith forming part of the Annual Report

31. Plant Locations

Pharma Division Kothur Post & Mandal Mahaboobnagar Dist. Andhra Pradesh -509 228.	Pharma Division - Parenterals Vijayapuri North, Nagarjunasagar, Nalgonda Dist. Andhra Pradesh - 508 202.
Chemical Division Mekaguda, Kothur Mandal Mahaboobnagar Dist. Andhra Pradesh - 509 228.	R & D Division B-13, Industrial Estate Sanathnagar, Hyderabad. Andhra Pradesh - 500 018.
Formulations Division Plot No.19, Pharma City, Selaqui Industrial Area, Vikas Nagar, DEHARADUN 248 001. Uttarakhand.	Formulations Division Plot No.A3, UPSIDC, Selaqui Industrial DEHARADUN 248 001. Uttarakhand.

Regd. Office :

Natco House

Road No.2, Banjara Hills,
Hyderabad - 500 033.

Tel No. (040) 23547532 Fax No. 23548243

Email : investors@natcopharma.co.in

ANNEXURE 1 TO CORPORATE GOVERNANCE REPORT

To
The Shareholders,

Affirmation of Compliance with Code of Business Conduct

I, V.C. Nannapaneni, Chairman & Managing Director, declare that the Board of Directors of the Company has received affirmation on compliance with the Code of Business Conduct for the period from 1st April, 2009 or the date of their joining the Company, whichever is later, to 31st March, 2010 from all Board Members and also Senior Management staff immediately one level below the board members viz.all functional business heads, heads of finance, HR, legal, EDP Dept. etc.

Hyderabad
25th June, 2010

V. C. NANNAPANENI
Chairman & Managing Director

ANNEXURE 2 CFO CERTIFICATION TO THE BOARD

(Under Clause 49(V) of Listing Agreement)

I Certify that --

- a. I have reviewed the financial statements and the cash flow statement for the year ended 31st March 2010 and that to the best of my knowledge and belief:
 - These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - These statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations;
- b. There are, to the best of my knowledge and belief, no transactions entered into by the Company during the year ended 31st March 2010 that are fraudulent, illegal or violative of the Company's code of conduct;
- c. I accept responsibility for establishing and maintaining internal controls and that I have evaluated the effectiveness of the internal control systems of the Company and I have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of the internal control, if any, of which I am aware of and the steps I have taken or propose to take to rectify these deficiencies.
- d.
 - i) There has not been any significant change in internal control over financial reporting during the year under reference;
 - ii) There has not been any significant change in accounting policies during the year except as laid down in Accounting Standard (AS) 15 (revised 2005) on Employee Benefits, requiring disclosure in the notes to the financial statements;
 - iii) I am not aware of any instance during the year of significant fraud with involvement therein of the management or any employee having a significant role in the Company's internal control system over financial reporting.

Date : 25-06-2010
Place : Hyderabad

Sd/-
(Dr. P. BHASKARA NARAYANA)
DIRECTOR & CFO



Certificate on compliance of conditions of Corporate Governance per clause 49 of the Listing Agreement with the Stock Exchanges.

To
The Members of Natco Pharma Limited

I have examined the compliance of conditions of Corporate Governance by Natco Pharma Limited, for the year ended on March 31, 2010 as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. My examination has been limited to a review of the procedures and implementation thereof adopted by the Company for ensuring compliance with the conditions of the certificate of Corporate Governance as stipulated in the said clause. It is neither an audit nor an expression of opinion on the financial statements of the Company.

No investor grievance(s) are pending for a period exceeding one month against the Company as per the records maintained by the Company.

In my opinion and to the best of my information and according to the explanations given to me and the representations made by the Directors and the management, I certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above-mentioned Listing Agreement. The Company has submitted and published the Financial Results for all the quarters with the stipulated time, except for the quarter and year ended 31st March, 2010, wherein there was a delay of 25 days, which occurred due to the resignation of the then statutory auditors (on 15th April, 2010) and consequent approval of the shareholders' for the appointment of new statutory auditors (on 18th May, 2010). The Company had intimated, well in advance, about the same to the National Stock Exchange and Bombay Stock Exchange vide its letter dated 25th May, 2010. The Company has replied appropriately to the Show cause notice of National Stock Exchange vide their letter dated 9th June, 2010.

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

Place : Hyderabad
Date : 25th June, 2010

Y. Ramesh
Company Secretary in Practice
CP No.7929

AUDITORS' REPORT**To****The Members of NATCO Pharma Limited**

1. We have audited the attached Balance Sheet of NATCO Pharma Limited (the 'Company') as at 31 March 2010, and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto (collectively referred as the 'financial statements'). 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.
2. We conducted our audit in accordance with the 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.
3. The financial statements of the Company, as at and for the year ended 31 March 2009 was audited by M/s. Brahmayya & Co, Chartered Accountants vide their report dated 30 June 2009. The balances as at 31 March 2009 as per the audited financial statements, regrouped and/or reclassified wherever necessary, have been considered as opening balances for the purpose of these financial statements.
4. As required by the Companies (Auditor's Report) Order, 2003 (the 'Order') (as amended), issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 (the 'Act'), we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
5. *As discussed in note 5 on Schedule 23 to the financial statements, revenues for the year ended 31 March 2010 includes Rs. 50,000,000 received from a customer and recognized as revenues based on management's assessment of transfer of significant risk and rewards of ownership and completion of substantial obligations. However, pursuant to the terms of the arrangement, we believe that the transfer of risk and rewards is not completed as of 31 March 2010 and the Company will be subjected to future obligations / part repayment of amounts already received under the said arrangement, hence, in our opinion recognition of revenue under the said arrangement is contrary to revenue recognition principles as laid down under Accounting Standard (AS) 9 "Revenue Recognition" notified under the Companies (Accounting Standards) Rules, 2006. Had the Company accounted revenue in accordance with the recognition principles prescribed under AS 9, the profit for the year and the reserves and surplus as at 31 March 2010 would have been lower and the current liabilities would have been higher by the same amount.*
6. *As discussed in note 6 to Schedule 23 to the financial statements, we report that the Company has not recognized Minimum Alternative Tax (MAT) credit entitlement aggregating to Rs. 160,607,929 pertaining to the financial year ended 31 March 2009 and 2010. Had the Company accounted for such MAT credit, the net profit for the year ended 31 March 2010 and the balance in loans and advances and reserves and surplus as at 31 March 2010 would have been higher by Rs. 160,607,929.*
7. *Subject to our comments in paragraph 5 and 6 above and 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 financial statements dealt with by this report are in agreement with the books of account;
- d. On the basis of written representations received from the directors, as on 31 March 2010 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March 2010 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
- e. In our opinion and to the best of our information and according to the explanations given to us and *subject to the affect of adjustment on account of our observations in paragraph 5 and 6 above*, the financial statements dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act and the Rules framed there under and give the information required by the Act, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, in the case of:
 - i) the Balance Sheet, of the state of affairs of the Company as at 31 March 2010;
 - ii) the Profit and Loss Account, of the profit for the year ended on that date; and
 - iii) the Cash Flow Statement, of the cash flows for the year ended on that date.

For **Walker, Chandiok & Co**
Chartered Accountants
Firm Registration No: 001076N

per **Sanjay Kumar**
Partner
Membership No. 207660

Place : Hyderabad
Date : 25 June 2010

Annexure to the Auditors' Report of even date to the members of NATCO Pharma Limited, on the financial statements for the year ended 31 March 2010.

Based on the audit procedures performed for the purpose of reporting a true and fair view on the financial statements of the Company and taking into consideration the information and explanations given to us and the books of account and other records examined by us in the normal course of audit, we report that:

- i. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has a regular programme of physical verification of its fixed assets by which fixed assets are verified in a phased manner over a period of three years. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
- (c) In our opinion, a substantial part of fixed assets has not been disposed off during the year.
- ii. (a) The inventory has been physically verified during the year by management. In our opinion, the frequency of verification is reasonable.
- (b) The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.
- iii. (a) The Company has not granted any loan, secured or unsecured to companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clauses 4(iii)(b) to (d) of the Order are not applicable.
- (e) The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clauses 4(iii)(f) and 4(iii)(g) of the Order are not applicable.
- iv. In our opinion, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for purchase of inventory and for the sale of goods and services. *In our opinion, the internal control system for purchases of fixed assets needs to be strengthened to be commensurate with the size of the Company and the nature of its business.* Further, we have not come across any continuing failure to correct major weaknesses in the aforesaid internal control system.
- v. (a) In our opinion, the particulars of all contracts or arrangements that need to be entered into the register maintained under Section 301 of the Act have been so entered.
- (b) Owing to the unique and specialized nature of the items involved and in the absence of any comparable prices, we are unable to comment as to whether the transactions made in pursuance of such contracts or arrangements have been made at prevailing market prices at the relevant time.
- vi. The Company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the Companies (Acceptance of Deposits) Rules, 1975. Accordingly, the provisions of clause 4(vi) of the Order are not applicable.

- vii. In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.
- viii. We have broadly reviewed the books of account maintained by the Company pursuant to the Rules made by the Central Government under section 209 (1)(d) of the Act for the maintenance of cost records and are of the opinion that, *prima facie*, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the records with a view to determine whether they are accurate or complete.
- ix. (a) Undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service-tax, custom duty, excise duty, cess and other material statutory dues, as applicable, have generally been regularly deposited with the appropriate authorities, though there has been a delay in some cases in respect of payment of Value Added Tax.

Further, no undisputed amounts payable in respect thereof were outstanding at the year end for a period of more than six months from the date they become payable.

- (b) There are no amounts in respect of sales tax, income tax, customs duty, wealth tax, service tax, excise duty and cess that have not been deposited with the appropriate authorities on account of dispute, other than those referred below:

Name of the statute	Nature of dues	Amount (Rs)	Amount deposited under protest (Rs.)	Period to which the amount relates	Forum where dispute is pending
The Central Sales Tax Act	Central sales tax	8,690,000	2,500,000	Financial year 1997-98	Honorable High Court of Andhra Pradesh
The Income Tax Act, 1961	Income tax	6,245,659	–	Assessment year 2005-06	Income Tax Appellate tribunal, Hyderabad
		9,346,393	9,000,000	Assessment year 2006-07	
		27,601,138	–	Assessment year 2007-08	Commissioner of Income Tax (Appeals), Hyderabad

- x. In our opinion, the Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and the immediately preceding financial year.
- xi. The Company has no dues payable to debenture holders during the year. In our opinion, the Company has not defaulted in repayment of dues to a financial institution or a bank during the year.
- xii. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly, the provisions of clause 4(xii) of the Order are not applicable.
- xiii. In our opinion, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society. Accordingly, the provisions of clause 4(xiii) of the Order are not applicable.

- xiv. In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable.
- xv. In our opinion, the terms and conditions on which the Company has given guarantee for loans taken by others from banks or financial institutions are not, prima facie, prejudicial to the interest of the Company.
- xvi. In our opinion, the term loans were applied for the purpose for which the loans were obtained, though idle/surplus funds which were not required for immediate utilization have been invested in liquid investments, payable on demand.
- xvii. In our opinion, no funds raised on short-term basis have been used for long-term investment.
- xviii. The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clause 4(xviii) of the Order are not applicable.
- xix. The Company has neither issued nor had any outstanding debentures during the year. Accordingly, the provisions of clause 4(xix) of the Order are not applicable.
- xx. The Company has not raised any money by public issues during the year. Accordingly, the provisions of clause 4(xx) of the Order are not applicable.
- xxi. No fraud on or by the Company has been noticed or reported during the period covered by our audit.

For **Walker, Chandiok & Co**
Chartered Accountants
Firm Registration No: 001076N

per **Sanjay Kumar**
Partner
Membership No. 207660

Place : Hyderabad
Date : 25 June 2010



BALANCE SHEET AS AT 31ST MARCH, 2010

(All amounts in Indian Rupees, unless otherwise stated)

	Schedules	As at 31 March, 2010	As at 31 March, 2009
I SOURCES OF FUNDS			
Shareholders' funds			
(a) Capital	1	281,479,520	280,408,270
(b) Stock options outstanding	2	—	14,974,996
(c) Reserves and surplus	3	2,732,849,431	2,283,654,893
		<u>3,014,328,951</u>	<u>2,579,038,159</u>
Loan funds			
(a) Secured loans	4	1,138,102,909	1,206,682,132
(b) Unsecured loans	5	54,868,571	55,258,404
		<u>1,192,971,480</u>	<u>1,261,940,536</u>
Deferred tax liabilities (net)	23 [17]	268,344,325	240,886,071
TOTAL		<u>4,475,644,756</u>	<u>4,081,864,766</u>
II. APPLICATION OF FUNDS			
Fixed assets	6		
(a) Gross block		3,189,877,578	2,730,735,296
(b) Less: Depreciation and amortization		857,875,101	719,246,901
(c) Net block		<u>2,332,002,477</u>	<u>2,011,488,395</u>
(d) Capital works-in-progress (including capital advances)		396,015,749	469,632,792
		<u>2,728,018,226</u>	<u>2,481,121,187</u>
Investments	7	792,292,175	591,004,064
Current assets, loans and advances			
(a) Inventories	8	656,215,317	646,723,570
(b) Sundry debtors	9	546,278,475	571,640,768
(c) Cash and bank balances	10	35,032,129	200,949,748
(d) Other current assets	11	809,416	3,061,227
(e) Loans and advances	12	568,827,161	547,262,109
		<u>1,807,162,498</u>	<u>1,969,637,422</u>
Less: Current liabilities and provisions			
(a) Liabilities	13	795,767,680	855,426,996
(b) Provisions	14	56,060,463	104,470,911
		<u>851,828,143</u>	<u>959,897,907</u>
Net current assets		<u>955,334,355</u>	<u>1,009,739,515</u>
TOTAL		<u>4,475,644,756</u>	<u>4,081,864,766</u>
Notes to accounts	23		

The schedules referred to above form an integral part of the financial statements.

As per our report of even date

For and on behalf of the Board of Directors

For **Walker, Chandiok & Co.**
Chartered Accountants
per **Sanjay Kumar**
Partner

V.C. Nannapaneni
Rajeev Nannapaneni

Chairman & Managing Director
Director & Chief Operating Officer

Place : Hyderabad
Date : 25th June, 2010

Dr. P. Bhaskara Narayana
M. Adinarayana

Director & Chief Financial Officer
Company Secretary & G M (Corp. Affairs)

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2010

(All amounts in Indian Rupees, unless otherwise stated)

	Schedules	For the year ended 2009-10	For the year ended 2008-09
I. INCOME			
Sales (gross)		2,856,607,158	2,561,168,529
Less: Excise duty		41,731,904	41,026,142
Sales (net)		2,814,875,254	2,520,142,387
Service income		158,395,918	22,356,600
Job works charges		101,093,266	104,052,796
Other income	15	54,773,185	110,038,132
		3,129,137,623	2,756,589,915
II. EXPENDITURE			
Materials consumed	16	736,190,754	808,612,041
Decrease/(increase) in inventory	17	33,490,504	(70,957,543)
Purchase of traded goods		131,327,930	99,020,186
Manufacturing expenses	18	368,002,445	332,138,576
Staff costs	19	422,014,001	356,467,290
Operating and other expenses	20	542,631,804	433,326,247
Finance charges	21	146,924,868	150,475,360
Depreciation and amortization		124,453,840	103,498,620
		2,505,036,146	2,212,580,777
Profit before taxation and prior period items		624,101,477	544,009,138
Taxes			
- Current tax		107,596,388	65,000,000
- Deferred tax expenses		27,458,254	37,000,000
- Fringe benefit tax [Represents excess provision written back (2009: Nil)]		(3,043,368)	4,756,935
Profit after taxation and before prior period items		492,090,203	437,252,203
Prior period items	22	15,459,290	9,847,958
Net profit		476,630,913	427,404,245
Balance brought forward from last balance sheet		1,176,138,556	819,742,268
Profit available for appropriation		1,652,769,469	1,247,146,513
APPROPRIATION			
Transfer to general reserve		40,000,000	30,000,000
Interim dividend at Rs.2.00			
(2009: Rs.1.25) on equity shares of Rs.10 each		56,295,904	35,051,034
Tax on interim dividend		9,567,500	5,956,923
Surplus carried to Balance Sheet		1,546,906,065	1,176,138,556
Earnings per share	23 [7]		
- Basic		16.95	15.24
- Diluted		16.93	15.24
Notes to accounts	23		

The schedules referred to above form an integral part of the financial statements.

As per our report of even date

For and on behalf of the Board of Directors

For **Walker, Chandio & Co.**
Chartered Accountants
per **Sanjay Kumar**
Partner

V.C. Nannapaneni
Rajeev Nannapaneni

Chairman & Managing Director
Director & Chief Operating Officer

Place : Hyderabad
Date : 25th June, 2010

Dr. P. Bhaskara Narayana
M. Adinarayana

Director & Chief Financial Officer
Company Secretary & G M (Corp. Affairs)



SCHEDULES TO THE FINANCIAL STATEMENTS

(All amounts in Indian Rupees, unless otherwise stated)

	As at 31 March, 2010	As at 31 March, 2009
SCHEDULE 1: CAPITAL		
Authorised		
30,000,000 (2009: 30,000,000) equity shares of Rs.10 each	300,000,000	300,000,000
	<u>300,000,000</u>	<u>300,000,000</u>
Issued, subscribed and paid-up		
28,147,952 (2009: 28,040,827) equity shares of Rs.10 each fully paid-up [Of the above, 526,900 equity shares (2009: 419,775 shares) of Rs. 10 each, fully paid-up, were allotted to the employees of the Company under the employee stock option scheme] (Refer note 11 of schedule 23)	281,479,520	280,408,270
	<u>281,479,520</u>	<u>280,408,270</u>
SCHEDULE 2: STOCK OPTIONS OUTSTANDING		
(Refer note 11 on Schedule 23)		
Stock compensation outstanding at the beginning of the year	14,974,996	14,354,750
Add: Adjustment during the year	–	620,246
	<u>14,974,996</u>	<u>14,974,996</u>
Less: Transferred to share premium account on exercise of stock options	<u>14,974,996</u>	–
	–	<u>14,974,996</u>
SCHEDULE 3: RESERVES AND SURPLUS		
Capital reserve	197,015,954	197,015,954
As per last balance sheet	4,928,810	4,928,810
Additions during the year	–	–
Capital redemption reserve	4,928,810	4,928,810
Central subsidy [Refer note 10 on schedule 23]		
As per last balance sheet	4,056,808	4,056,808
Additions during the year	3,000,000	–
	<u>7,056,808</u>	<u>4,056,808</u>
Foreign currency translation reserve		
As per last balance sheet	–	–
Additions during the year	20,452,033	–
	<u>20,452,033</u>	–
General reserve		
As per last balance sheet	97,161,000	67,161,000
Additions during the year	40,000,000	30,000,000
	<u>137,161,000</u>	<u>97,161,000</u>
Share premium account		
As per last balance sheet	804,353,765	804,353,765
Additions during the year	14,974,996	–
	<u>819,328,761</u>	<u>804,353,765</u>
Balance in profit and loss account	<u>1,546,906,065</u>	<u>1,176,138,556</u>
	<u>2,732,849,431</u>	<u>2,283,654,893</u>

SCHEDULES TO THE FINANCIAL STATEMENTS

(All amounts in Indian Rupees, unless otherwise stated)

	As at 31 March, 2010	As at 31 March, 2009
SCHEDULE 4: SECURED LOANS		
[Refer note 8 on Schedule 23]		
Loans and advances from banks		
Term loans from banks	641,457,500	647,287,311
[Repayable within one year Rs.126,012,500 (2009: Rs.185,599,811)]		
Working capital loans from banks	496,645,409	559,394,821
[Payable within one year]		
	<u>1,138,102,909</u>	<u>1,206,682,132</u>
SCHEDULE 5: UNSECURED LOANS		
[Refer note 9 on Schedule 23]		
Short-term loans and advances		
From banks	50,000,000	49,998,457
[Payable within one year]		
Other loans and advances		
From others	4,868,571	5,259,947
[Repayable within one year Rs.764,637 (2009: Rs.391,376)]		
	<u>54,868,571</u>	<u>55,258,404</u>

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE 6: FIXED ASSETS

(All amounts in Indian Rupees, unless otherwise stated)

Particulars	Gross Block			Depreciation and Amortisation				Net Block		
	As at 1 April 2009	Additions during the year	Deletions/ Adjustments during the year	As at 31 March 2010	Up to 31 March 2009	Charge for the year*	Deletions/ Adjustments during the year	Up to 31 March 2010	As at 31 March 2010	As at 31 March 2009
Tangible assets										
Freehold land	220,902,629	10,663,905	-	231,566,534	-	-	-	-	231,566,534	220,902,629
Leasehold land **	16,725,782	-	-	16,725,782	-	942,678	-	942,678	15,783,104	16,725,782
Buildings#	772,280,794	243,588,214	-	1,015,869,008	147,529,994	29,217,429	-	176,747,423	839,121,585	624,750,800
Plant and machinery	1,577,670,463	177,762,843	-	1,755,433,306	475,620,817	94,154,509	-	569,775,326	1,185,657,980	1,102,049,646
Office equipment	16,459,171	5,340,211	-	21,799,382	6,331,022	882,465	-	7,213,487	14,585,895	10,128,149
Furniture and fittings	15,654,630	2,408,254	-	18,062,884	10,352,355	1,052,759	-	11,405,114	6,657,770	5,302,275
Vehicles	45,840,480	7,218,832	-	53,059,312	23,739,517	4,536,924	-	28,276,441	24,782,871	22,100,963
Computers	58,631,290	5,870,220	-	64,501,510	54,445,597	6,371,711	-	60,817,308	3,684,202	4,185,693
	2,724,165,239	452,852,479	-	3,177,017,718	718,019,302	137,158,475		855,177,777	2,321,839,941	2,006,145,937
Intangible assets										
Software	6,570,057	6,289,803	-	12,859,860	1,227,599	1,469,725	-	2,697,324	10,162,536	5,342,458
	2,730,735,296	459,142,282	-	3,189,877,578	719,246,901	138,628,200	-	857,875,101	2,332,002,477	2,011,488,395
Previous year	2,353,136,459	379,650,077	2,051,240	2,730,735,296	615,945,046	103,498,620	196,765	719,246,901	2,011,488,395	1,737,191,413

* Depreciation charge for the period includes Rs.14,174,360 (2009: Nil) relating to earlier years, the same is classified under prior period items.

** Lease hold land include lease of land for a period of 90 years from the State Industrial Development Corporation of Uttaranchal Limited, amounting to Rs.9,695,646 and lease from Uttar Pradesh State Industrial Development Corporation Limited for a period of 87 years, amounting to Rs.7,030,136.

includes borrowing costs capitalized of Rs.6,845,498 (2009: Nil).

SCHEDULES TO THE FINANCIAL STATEMENTS

(All amounts in Indian Rupees, unless otherwise stated)

	As at 31 March, 2010	As at 31 March, 2009
SCHEDULE 7: INVESTMENTS		
[Refer note 13 on Schedule 23]		
I. Long term, unquoted and at cost:		
750 (2009: 750) equity shares of Rs.100 each, fully paid-up, in Jeedimetla Effluent Treatment Limited	75,000	75,000
34,400 (2009: 34,400) equity shares of Rs.10 each, fully paid-up, in Pattancheru Enviro-Tech Limited	344,000	344,000
Share application money in NATCO Organics Limited	602,459,898	341,904,695
	602,878,898	342,323,695
In subsidiary:		
1,000 (2009: 1,000) fully paid-up, non-assessable shares of US\$1000 each in Natco Pharma Inc., Delaware, United States of America	41,849,274	41,849,274
In partnership firm:		
75% share in K & C Pharmacy [a partnership firm based in United States of America, wherein the Company and Mr. Krishnayya Bikkina shares profit/loss in the ratio of 75:25 respectively]	165,678,749	165,678,749
Add/less: Share of profit/(loss) in the firm	(21,190,095)	41,124,676
	144,488,654	206,803,425
	789,216,826	590,976,394
Non Trade:		
National savings certificates [pledged with government authorities]	3,910	3,910
	789,220,736	590,980,304
II. Long term, non trade, quoted and at cost		
27,000 (2009: 27,000) equity shares of Rs.10 each, fully paid-up in Jayalakshi Spinning Mills Limited	270,000	270,000
III. Current, non trade and unquoted		
Investment in mutual funds [268,189 units of ICICI Prudential mutal funds (2009: Nil)]	3,071,439	—
Total investments	792,562,175	591,250,304
Less: Provision for diminution in the value of investments	270,000	246,240
	792,292,175	591,004,064
Notes:		
Aggregate cost of quoted investments	270,000	270,000
Aggregate value of unquoted investments	792,292,175	590,980,304
Market value of quoted investments	—	23,760



SCHEDULES TO THE FINANCIAL STATEMENTS

(All amounts in Indian Rupees, unless otherwise stated)

	As at 31 March, 2010	As at 31 March, 2009
SCHEDULE 8: INVENTORIES		
[Refer note 18 (e) of Schedule 23]		
Stores and spares	66,251,608	56,015,782
Packing materials	35,928,516	33,845,150
Raw materials	176,378,850	146,954,128
Work-in-progress	265,955,090	288,962,566
Finished goods [including stock in transit of Rs.1,238,337 (2009: Nil)]	111,701,253	120,945,944
	<u>656,215,317</u>	<u>646,723,570</u>
SCHEDULE 9: SUNDRY DEBTORS		
(Unsecured, considered good)		
Outstanding for more than six months	20,095,983	27,085,427
Other debts	526,182,492	544,555,341
	<u>546,278,475</u>	<u>571,640,768</u>
(Unsecured, considered doubtful)		
Outstanding for more than six months	5,070,194	–
Other debts	–	–
	<u>551,348,669</u>	<u>571,640,768</u>
Less: Provision for doubtful debts	5,070,194	–
	<u>546,278,475</u>	<u>571,640,768</u>
SCHEDULE 10: CASH AND BANK BALANCES		
Cash balances on hand	2,921,018	4,615,387
Balances with Scheduled banks		
on current accounts	3,613,223	13,132,166
on deposit accounts*	24,774,286	181,564,864
on unpaid dividend accounts	3,723,602	1,637,331
	<u>35,032,129</u>	<u>200,949,748</u>
*Rs.11,774,286 (2009: Rs.17,064,864) represents margin money towards guarantees issued by banks		
SCHEDULE 11: OTHER CURRENT ASSETS		
(Unsecured, considered good)		
Interest accrued on fixed deposits	809,416	3,061,227
	<u>809,416</u>	<u>3,061,227</u>

SCHEDULES TO THE FINANCIAL STATEMENTS

(All amounts in Indian Rupees, unless otherwise stated)

	As at 31 March, 2010	As at 31 March, 2009
SCHEDULE 12: LOANS AND ADVANCES		
(Unsecured, considered good)		
Advance recoverable in cash or in kind or for value to be received		
- Prepaid expenses	3,888,587	4,619,655
- Advance for purchases and expenses	86,113,460	54,967,160
- Other advances	153,813,000	162,149,118
Advances to a subsidiary company	153,209,854	168,687,489
Deposits with others	14,628,287	116,373,450
Advance tax, net of provision	39,320,797	-
Balances with government authorities	117,853,176	40,465,237
	<u>568,827,161</u>	<u>547,262,109</u>
SCHEDULE 13: LIABILITIES		
[Refer note 13 and 20 on schedule 23]		
Sundry creditors		
- Total outstanding dues of micro enterprises and small enterprises	-	-
- Total outstanding dues of creditors other than micro enterprises and small enterprises	707,863,750	735,892,373
	<u>707,863,750</u>	<u>735,892,373</u>
Unpaid dividends	3,723,602	1,637,331
Interest accrued but not due on loans	510,125	1,455,452
Advance received from customers	55,970,300	96,610,386
Trade deposits	11,795,411	12,045,556
Other liabilities	15,904,492	7,785,898
	<u>795,767,680</u>	<u>855,426,996</u>
SCHEDULE 14: PROVISIONS		
- For taxation, net of advance tax	-	16,192,827
- For fringe benefit tax, net	-	3,043,368
- For dividends including dividend tax	-	42,645,288
- For gratuity	32,840,925	16,944,118
- For compensated absences	23,219,538	25,645,310
	<u>56,060,463</u>	<u>104,470,911</u>



SCHEDULES TO THE FINANCIAL STATEMENTS

(All amounts in Indian Rupees, unless otherwise stated)

	For the year ended 2009-10	For the year ended 2008-09
SCHEDULE 15: OTHER INCOME		
Interest on fixed deposits (gross)	6,712,103	8,520,383
[Tax deducted at source of Rs.753,615 (2009: Rs.1,667,474)]		
Interest on loans and advances	12,909,843	18,813,288
Export incentives	19,581,813	21,318,932
Foreign exchange fluctuations, net	—	3,653,187
Share of profit from partnership firm	—	41,380,240
Miscellaneous income	15,569,426	16,352,102
	<u>54,773,185</u>	<u>110,038,132</u>
SCHEDULE 16: MATERIALS CONSUMED		
Raw materials		
Opening stock	146,954,128	145,678,852
Add: Purchases	815,785,230	815,518,822
	<u>962,739,358</u>	<u>961,197,674</u>
Less: Written off	50,169,754	5,631,505
Less: Closing stock	176,378,850	146,954,128
	<u>736,190,754</u>	<u>808,612,041</u>
SCHEDULE 17: DECREASE / (INCREASE) IN INVENTORY		
Opening stocks		
Finished goods	120,945,944	92,069,744
Work in progress	288,962,566	246,881,223
	<u>409,908,510</u>	<u>338,950,967</u>
Closing stocks		
Finished goods	110,462,916	120,945,944
Work in progress	265,955,090	288,962,566
	<u>376,418,006</u>	<u>409,908,510</u>
Net decrease/(increase) in inventory	<u>33,490,504</u>	<u>(70,957,543)</u>
SCHEDULE 18: MANUFACTURING EXPENSES		
Consumption of packing materials	73,205,645	58,364,032
Power and fuel	144,513,060	152,437,146
Stores consumed	67,469,426	41,467,002
Factory maintenance expenses	54,763,757	45,969,657
Analysis charges	28,050,557	33,900,739
	<u>368,002,445</u>	<u>332,138,576</u>

SCHEDULES TO THE FINANCIAL STATEMENTS

(All amounts in Indian Rupees, unless otherwise stated)

	For the year ended 2009-10	For the year ended 2008-09
SCHEDULE 19: STAFF COST		
Salaries, wages and bonus	314,387,678	303,965,334
Contributions to provident and other funds	24,570,684	22,387,623
Staff welfare expenses	61,700,114	26,276,849
Gratuity	19,096,468	3,837,484
Leave encashment	2,259,057	—
	<u>422,014,001</u>	<u>356,467,290</u>
SCHEDULE 20: OPERATING AND OTHER EXPENSES		
Power and fuel	3,521,339	2,391,044
Rent	5,915,960	5,694,800
Repairs and maintenance		
Buildings	24,421,156	12,172,971
Plant and machinery	41,356,982	35,531,024
Others	18,330,682	5,073,911
Legal and professional fees	29,055,302	26,245,807
Insurance	8,070,672	9,975,279
Rates and taxes	16,660,034	13,814,753
Communication expenses	16,316,539	12,243,568
Office maintenance and other expenses	18,382,312	14,070,200
Travelling and conveyance	35,047,514	31,707,293
Printing and stationery	14,121,587	10,541,681
Research and development expenses	77,886,058	115,228,044
Sales promotion expenses including sales commssion	74,196,997	67,957,689
Donations	6,555,484	5,537,372
Advertisements	3,360,219	1,838,822
Carriage and frieght outwards	25,526,527	25,741,291
Directors remuneration	14,510,054	15,280,200
Directors sitting fee	150,000	175,000
Auditors' remuneration		
Audit fee	750,000	523,925
Certification fee	80,665	16,854
Other matters	100,000	59,326
Exchange fluctuation loss, net	2,091,824	—
Advances written off	10,135,436	3,182,396
Provision for doubtful debts	5,070,194	—
Share of loss in partnership firm	21,975,721	—
Diminution in the value of investments	23,759	32,940
Inventory written-off	56,811,487	5,631,505
Miscellaneous expenses	12,207,300	12,658,552
	<u>542,631,804</u>	<u>433,326,247</u>



SCHEDULES TO THE FINANCIAL STATEMENTS

(All amounts in Indian Rupees, unless otherwise stated)

	For the year ended 2009-10	For the year ended 2008-09
SCHEDULE 21: FINANCE CHARGES		
Interest on:		
Fixed period loans	72,338,782	73,854,451
Others	58,032,289	63,491,608
Bank charges	16,553,797	13,129,301
	<u>146,924,868</u>	<u>150,475,360</u>
SCHEDULE 22: PRIOR PERIOD ITEMS		
Operating and other expenses	3,811,169	9,847,958
Depreciation and amortization	14,174,360	–
Other income	(2,526,239)	–
	<u>15,459,290</u>	<u>9,847,958</u>

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE 23: NOTES TO ACCOUNTS

(All amounts in Indian Rupees, unless otherwise stated)

1. Company overview

NATCO Pharma Limited ("the Company" or "NATCO") incorporated on 19 September 1981 in accordance with the provisions of the Companies Act, 1956 of India ("the Act") is a limited liability company. The Company was originally incorporated as Natco Fine Pharmaceuticals Private Limited and on 30 December 1994 it has changed its name to NATCO Pharma Limited.

The Company is primarily engaged in manufacturing of active pharmaceuticals ingredients and finished dosage formulations.

2. Significant accounting policies

a. Basis of preparation of financial statements

The financial statements are prepared in accordance with accounting principles generally accepted in India ('GAAP') under the historical cost convention on the accrual basis. GAAP comprises accounting standards notified by the Central Government of India under Section 211(3C) of the Companies Act, 1956 ('the Act'), pronouncements of The Institute of Chartered Accountants of India ('ICAI'), other relevant provisions of the Act.

b. Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as at the date of the financial statements and reported amounts of income and expenses during the period. Examples of such estimates include provisions for doubtful debtors and other receivables, provision for inventories, future obligations under employee retirement benefit plans, income taxes, and the useful lives of fixed assets.

Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in the current and future periods.

c. Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Cost comprise of purchase price, freight, non-refundable duties, taxes and any other cost attributable to bringing the asset to its working condition for its intended use. Borrowing costs relating to acquisition of fixed assets which takes substantial period of time to get ready for its intended use are also included to the extent they relate to the period till such assets are ready for its intended use. Assets retired from active use and held for disposal are stated at their estimated net realisable values or net book values, whichever is lower. Advances paid towards the acquisition of fixed assets and outstanding at each balance sheet date and the cost of assets under construction are disclosed as capital work-in-progress.

d. Depreciation

Depreciation is provided on straight line method ('SLM') based on useful lives of the assets as estimated by management which coincides with rates prescribed under Schedule XIV to the Act.

Depreciation on sale/discarded from fixed assets is provided for up to the date of sale /discarded as the case may be. Individual assets acquired for Rs. 5,000 or less are entirely depreciated in the year of acquisition.

e. Intangible assets

Intangible assets are recorded at the consideration paid for acquisition. Intangible assets are amortized over a period of 6 years, on a straight line basis.

f. Impairment of assets

The carrying amounts of assets, both tangible and intangible, are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

g. Government grants

Government grants relating to specific fixed assets are adjusted against the cost of underlying fixed assets and revenue grants are credited to Profit and Loss Account on a systematic basis in the profit and loss account over the periods necessary to match them with the related costs which they are intended to compensate.

h. Investments

Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

i. Inventories

Raw material, packaging material, stores and spare parts are carried at lower of cost and net realizable value. Cost includes purchase price excluding taxes those are subsequently recoverable by the enterprise from the concerned revenue authorities, freight inwards and other expenditure incurred in bringing such inventories to their present location and condition. In determining the cost, weighted average cost method is used. The carrying cost of raw materials, packaging materials and stores and spare parts are appropriately written down when there is a decline in replacement cost of such materials and finished products in which they will be incorporated are expected to be sold below cost.

Work in progress, manufactured finished goods and traded goods are valued at the lower of cost and net realizable value. Cost of work in progress and manufactured finished goods is determined on weighted average basis and comprises cost of direct material, cost of conversion and other costs incurred in bringing these inventories to their present location and condition. Cost of traded goods is determined on weighted average basis. Excise duty liability is included in the valuation of closing inventory of finished goods.

j. Research and development

Revenue expenditure on research and development is expensed as incurred. Capital expenditure incurred on research and development is capitalized as fixed assets and depreciated in accordance with the depreciation policy of the Company.

k. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue measured and collectibility is reasonably assured.

- Revenue from sale of goods is recognised when significant risks and rewards in respect of ownership of products are transferred to customers. Revenue from domestic sales of formulation products is recognised on dispatch of products to stockiest by clearing and forwarding agents of the Company. Revenue from domestic sales of active pharmaceutical ingredients and intermediates is recognised on dispatch of products from the factories of the Company. Revenue from export sales is recognised on shipment of products.
- Revenue from product sales is stated exclusive of returns, sales tax and applicable trade discounts and allowances.
- Service income is recognised as per the terms of contracts with customers when the related services are performed, or the agreed milestones are achieved.
- Dividend income is recognised when the unconditional right to receive the income is established. Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method taking into account the amount outstanding and the rate applicable.
- Export entitlements are recognised as income when the right to receive credit as per the terms of the scheme is established in respect of the exports made and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.
- Revenue from licensing and long term supply arrangements is recognized in the period in which the Company completes all its performance obligations.

l. Taxes

Tax expense comprises of current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act, 1961. Deferred income taxes reflect the impact of timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier periods.

Deferred income taxes reflect the impact of timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier periods. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

In situations where the Company has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognised only if there is a virtual certainty supported by convincing evidence that they can be realised against future taxable profits.

Unrecognized deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain or virtually certain, as the case may be that future taxable income will be available against which such deferred tax assets can be realised. The carrying amount of deferred tax assets are reviewed at each balance sheet date.

The Company writes-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realised. Any such write-down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available.

Minimum Alternative tax (MAT) credit is recognised as an asset only when and to the extent there is convincing evidence that the Company will pay normal income tax during the specified period. In the year in which the MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in guidance note issued by the ICAI, the said asset is created by way of a credit to the profit and loss account and shown as MAT credit entitlement. The Company reviews the same at each balance sheet date and writes down the carrying amount of MAT credit entitlement to the extent there is no longer convincing evidence to the effect that Company will pay normal income tax during the specified period.

m. Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

n. Foreign currency transactions

Initial recognition

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

Conversion

Foreign currency monetary items are reported using the closing rate. 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; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

Exchange differences

Exchange differences arising on the settlement of monetary items or on reporting Group's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognized as income or as expenses in the year in which they arise, except in the case of exchange differences arising on a monetary item that, in substance, forms part of an enterprise's net investment in a non-integral foreign operation has been accumulated in a foreign currency translation reserve in the enterprise's financial statements until the disposal of the net investment, at which time they should be recognised as income or as expenses.

o. Employee benefits

Provident fund

The Company contributes to the provident fund maintained by the Regional Provident Fund Commissioner,

in accordance with Employees provident fund and Miscellaneous Provision Act, 1952. The provident fund plan is a defined contribution plan and contribution paid or payable is recognized as an expense in the period in which the employee renders services. There are no other obligations of the Company other than the contributions made to the fund.

Gratuity

Gratuity is a post employment defined benefit plan. An independent actuary, using the projected unit credit method calculates the defined benefit obligation annually. Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to the profit and loss account in the period in which such gains or losses arises.

Employee state insurance

The Company contributes to the Employees State Insurance Fund maintained by the state authorities, in accordance with Employees State Insurance Act, 1948. The plan is a defined contribution plan and contribution paid or payable is recognised as an expense in the period in which the employee renders services. There are no other obligations of the Company other than the contributions made to the funds.

Leave encashment

As per the Company's policy, eligible leaves can be accumulated by the employees and carried forward to future periods either to be utilized during the service, or encashed. Encashment can be made during service or on resignation, or retirement of the employee. The value of benefits is determined based on an independent actuarial valuation using the projected unit credit method as at the year end. Actuarial gains and losses are recognized immediately in the profit and loss account.

Employee share based payments:

Measurement and disclosure of the employee share-based payment plans is done in accordance with Securities Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the guidance note on 'Accounting for Employee Share Based Payments', issued by the Institute of Chartered Accountants of India (ICAI). The excess of market value of the stock on the date of grant over the exercise price of the option is recognised as deferred employee stock compensation and is charged to profit and loss account on straight-line method over the vesting period of the options. The unamortized portion of cost is shown under stock options outstanding.

p. Leases

Where the lessor effectively retains all risk and benefits of ownership of the leased items, such leases are classified as operating lease. Operating lease payments are recognized as an expense in the profit and loss account on a straight line basis.

q. Provisions and contingent liabilities

A provision is recognised when the Company has a present obligation as a result of past event i.e., it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate 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 estimates. A disclosure of the contingent liability is made when there is a possible or a present obligation that may, but probably will not, require an outflow of resources.



(All amounts in Indian Rupees, unless otherwise stated)

Notes to the accounts

3. Commitments and contingent liabilities

	As at 31 March, 2010	As at 31 March, 2009
Commitments		
Guarantees and letters of credit issued by banks	35,769,986	45,163,000
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	95,245,770	13,601,538
Contingent liabilities		
Disputed statutory liabilities	51,883,190	92,522,843
Claims against the Company not acknowledged as debts	157,052,546	157,052,546
Corporate guarantees	—	100,000,000

4. Transactions with related party

Corporate guarantee, covered by the provisions of the Section 295 of the Act, issued to one of the banks on behalf of NATCO Organics Limited a company in which directors are interested was withdrawn on 19 June 2009. The Company is in the process of obtaining requisite approvals as required in accordance with the applicable provisions of the Act.

- The Company has recognized a sum of Rs. 50,000,000 received from a customer as revenue, as it believes that a substantial portion of the deliverables against the payment have since been completed. In the opinion of the management, there is not likely to be any event or situation which would warrant repayment of this amount.
- As per the Management estimates, the company will not be in a position to avail all the MAT credit available to it. The Company would review the position at the end of the Financial year ending on 31st March, 2011. Hence, on a prudent basis, no MAT Credit is recognized in the books of accounts. Accordingly, the company has recognized the deferred tax asset / liability after considering the tax holiday impact.

7. Earnings per share

Reconciliation of basic and diluted shares used in computation of earnings per share

Particulars	Year ended 2009-10	Year ended 2008-09
Net profit as per profit and loss account	476,630,913	427,404,245
Weighted average number of shares considered for computation of basic earnings per share	28,124,473	28,040,827
Add: Effect of potential dilutive stock options	23,186	—
Weighted average number of shares considered for computation of diluted earnings per share	28,147,659	28,040,827
Nominal value per share	10	10

(All amounts in Indian Rupees, unless otherwise stated)

8. Secured loans

Loans availed from the financial institutions and banks are fully secured by way of hypothecation of fixed assets, capital work in progress and other assets of the Company. The term loans from banks are further guaranteed by Mr. V. C. Nannapaneni, Chairman and Managing Director in his personal capacity.

9. Unsecured loans

Unsecured loans represent loans taken from Citibank amounting to Rs.50,000,000 (2009: Rs.49,998,457) and interest free sales tax deferment availed from Andhra Pradesh State Government of Rs.4,868,571 (2009: Rs.5,259,947). The unsecured loan from Citibank is guaranteed by Mr. V. C. Nannapaneni, Chairman and Managing Director in his personal capacity.

10. Government grants

The Company has received Rs.3,000,000 (2009: Nil) towards the investment subsidy for the purpose of setting up and expansion of an industrial unit in the State of Uttaranchal.

11. Employee stock options

The Company had instituted Employee Stock Option Plan 2004 ("NATSOP 2004"). The scheme was formulated in accordance with the provisions of Section 81(1A) and other applicable provision of the Act, and was duly approved by way of a special resolution passed in the annual general meeting of the members held on 4 September 2004, authorizing the Board to issue employee stock options, that are exercisable into not more than 600,000 equity shares of the Company to employees, with each such option conferring a right upon the employee to apply for one equity share of Rs.10 each of the Company.

Based on the recommendations of Compensation Committee, 596,300 equity shares of Rs. 10 each, fully paid-up were granted at an exercise price of Rs.10 each to the eligible employees of the Company subject to the exercise period of five years from the date of vesting. These options were granted at an exercise price lower than the market value per share of Rs. 144 and using the intrinsic value method as prescribed under the Guidance Note, the Company has recognized the excess of market value per share over the exercise price as compensation expense over the progressive vesting period.

During the year ended 31 March 2010 the Company has amortized stock compensation expenses amounting to Rs.Nil (2009: Rs.620,246).

	For the year ended 2009-10		For the year ended 2008-09	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at the beginning of the year	107,125	10	128,375	10
Granted during the year	–	–	–	–
Forfeited during the year	–	–	21,250	10
Exercised during the year	107,125	10	–	–
Expired during the year	–	–	–	–
Outstanding at the end of the year	–	–	107,125	10
Exercisable at the end of the year	–	–	107,125	10

(All amounts in Indian Rupees, unless otherwise stated)

12. Employee benefits

Provident fund

During year ended 31 March 2010 the Company contributed Rs.21,818,451 (2009: 19,358,401) to the Provident Fund.

Employee state insurance

During year ended 31 March 2010 the Company contributed Rs.2,752,233 (2009: Rs.3,029,222) to the Employee's State Insurance Corporation.

Gratuity

The Company has obtained the actuarial valuation report in line with the requirements of Accounting Standard -15 'Employee Benefits', in respect of gratuity liability and the estimated liability as at 31 March 2010 is provided in the books of accounts. The details of present value of obligations, current service cost and actuarial assumptions are given hereunder:

The amounts recognized in the profit and loss account are as follows:

	Year ended 31 March, 2010
Current service cost	4,730,892
Interest cost	4,043,794
Expected return on plan assets	(1,790,826)
Recognised net actuarial loss	12,112,608
Total included in 'employee benefit expenses'	19,096,468

Details of provision recognised in the balance sheet

	As at 31 March, 2010
Defined benefit obligation	55,081,820
Fair value of plan assets	22,240,895
Net provision for gratuity	32,840,925

Changes in present value of defined benefit obligation representing reconciliation of opening and closing balance thereof are as follows:

	As at 31 March, 2010
Defined benefit obligation at beginning of the year	35,405,852
Current service cost	4,730,892
Interest cost	4,043,794
Benefits paid	(1,211,326)
Actuarial loss	12,112,608
Defined benefit obligation at the end of the year	55,081,820

(All amounts in Indian Rupees, unless otherwise stated)

Changes in the fair value of plan assets representing reconciliation of opening and closing balances thereof are as follows:

	As at 31 March, 2010
Fair value of plan assets at beginning of the year	18,461,734
Actual return on plan assets	1,476,939
Actuarial gains	328,656
Contribution by employer	3,184,892
Benefits paid	(1,211,326)
Fair value of plan assets at the end of the year	22,240,895

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	As at 31 March, 2010
Investments with insurer	100%

The assumptions used in accounting for the gratuity plan are set out as below:

	Year ended 31 March, 2010
Discount rate	7.5%
Expected return on plan assets	7.5%
Attrition rate	
- up to 35 years	3%
- above 35 and up to 45 years	2%
- 45 and above	1%
Salary escalation	4%

The estimates of future salary increase, considered in actuarial valuation, take account of inflation, seniority, promotions and other relevant factors such as supply and demand in the employment market. The Company evaluates these assumptions annually based on its long term plans of growth and industry standards.

Information relating to amounts recognised in the profit and loss account, change in fair value of plan assets was not disclosed in the report issued by the Life Insurance Corporation of India, hence the comparative information could not be disclosed.

- The Company has pledged the share certificates of NATCO Pharma Inc. and the interest in K & C Pharmacy, in favor of Aceto Corporation, Germany towards the supply advance received by the Company amounting to \$ 2,000,000. The relevant documents are deposited in an escrow account, as per the agreed arrangement. Advance outstanding in the books of accounts as of 31 March 2010 is Rs.52,638,740 (2009: Rs.94,860,000).



(All amounts in Indian Rupees, unless otherwise stated)

14. Related party disclosures

i. Names of related parties and nature of relationship

Names	Nature of relationship
NATCO Pharma Inc., United States of America	Subsidiary Company
K & C Pharmacy, United States of America	Partnership firm in which the Company is a partner
NATCO Organics Limited, Chennai	Entity in which directors are interested
Time Cap Pharma Labs Limited, Hyderabad	Entity in which directors are interested
NATCO Trust, Hyderabad	Entity in which directors are interested
NDL Infratech Private Limited, Hyderabad	Entity in which directors are interested
V C Nannapaneni, Chairman and Managing Director	Key management personnel
Rajeev Nannapaneni, Director and Chief Operating Officer	Key management personnel
Durga Devi Nannapaneni	Relatives of a key management personnel
A K S Bhujanga Rao (from 30 July 2009)	Key management personnel
P Bhaskara Narayana, Director and Chief Financial Officer	Key management personnel

ii. Nature of transactions

Particulars	Year ended 2009-10	Year ended 2008-09
Transactions with subsidiary company		
<i>NATCO Pharma Inc</i>		
- Interest received on loans and advances	12,909,843	18,813,288
Transactions with the partnership firm in which the Company is a partner		
<i>K & C Pharmacy</i>		
- Share of profit /(loss) from the firm	(21,975,721)	41,380,240
Transactions with entities in which directors Are interested		
<i>NATCO Organics Limited</i>		
- Share application money	260,555,202	—
<i>Time Cap Pharma Labs Limited</i>		
- Income from Job work charges and sales	4,570,897	101,360,000
- Income from rent	120,000	120,000
- Commission and expenses reimbursement	5,102,535	5,634,828
- Purchases	2,775,760	107,266,420
- Rental expense	1,800,000	1,800,000

(All amounts in Indian Rupees, unless otherwise stated)

ii. Nature of transactions (Contd.)

Particulars	Year ended 2009-10	Year ended 2008-09
<i>NATCO Trust</i>		
- Donations given	2,202,611	923,639
<i>NDL Infratech Private Limited</i>		
- Rent paid/payable	960,000	960,000
Transactions with key management personnel		
- <i>Managerial remuneration</i>		
V C Nannapaneni	10,608,000	10,608,000
Rajeev Nannapaneni	2,400,000	2,400,000
P Bhaskara Narayana	1,372,800	1,372,800
A K S Bhujanga Rao	1,832,225	–
Durga Devi Nannapaneni	–	2,688,000
- <i>Dividends paid</i>		
V C Nannapaneni	15,879,918	9,855,574
Rajeev Nannapaneni	1,813,220	1,133,263
P Bhaskara Narayana	15,000	6,250
A K S Bhujanga Rao	14,000	6,563

iii. Balance receivable/(payable)

	As at 31 March, 2010	As at 31 March, 2009
NATCO Pharma Inc., United States of America	153,209,854	168,687,489
Time Cap Pharma Labs Limited, Hyderabad	1,904,556	(8,859,410)
NDL Infratech Private Limited, Hyderabad	3,947,919	6,285,382
V C Nannapaneni	(254,899)	(536,596)
Rajeev Nannapaneni	(117,133)	(158,705)
P Bhaskara Narayana	(108,949)	(224,560)
A K S Bhujanga Rao	(224,482)	–
Durga Devi Nannapaneni	–	(119,957)

15. Disclosure in respect of interest in K & C Pharmacy, partnership firm

Name of the partnership firm	K & C Pharmacy
Proportion of ownership interest	75%
Country of residence	United States of America



(All amounts in Indian Rupees, unless otherwise stated)

16. Segment reporting

In accordance with AS 17 - Segment Reporting, segment information has been given in the consolidated financial statements of NATCO Pharma Limited and therefore no separate disclosure on segment information is given in these financial statements.

17. Deferred tax liability, net

Particulars	As at 31 March, 2010	As at 31 March, 2009
Deferred tax liability on account of depreciation	268,344,325	255,002,486
Deferred tax asset on account of gratuity and leave encashment	–	14,116,415
Net deferred tax liability	268,344,325	240,886,071

18. Additional information pursuant to the provisions of paragraph 3, 4C and 4D of Part II of Schedule VI to the Act, to the extent applicable.

(a) Managerial remuneration

Particulars	Year ended 2009-10	Year ended 2008-09
Salaries and other perquisites	14,510,054	15,280,200
Contribution to provident and other funds	1,475,136	1,788,600
Others	227,835	–
TOTAL	16,213,025	17,068,800

The above figures do not include provision for gratuity payable to the Directors as the same is actuarially determined for the Company as a whole.

(b) Expenditure incurred in foreign currency

Particulars	Year ended 2009-10	Year ended 2008-09
Travelling expenses	3,818,536	4,982,000
Commission	1,872,643	3,899,262
Others	14,424,391	22,616,000
TOTAL	20,115,570	31,497,262

(c) Amounts remitted during the year in foreign currency on account of dividends

Particulars	Year ended 2009-10	Year ended 2008-09
Amount remitted	1,098,036	695,098
Number of non-resident shareholders	11	37
Number of shares held by non-resident shareholders	549,018	556,078
The year to which the dividend relates	2009-2010	2008-2009

(All amounts in Indian Rupees, unless otherwise stated)

(d) Capacity and production

Capacity

Class of goods	Unit of measurement	Year ended 2009-10		Year ended 2008-09	
		Licensed capacity	Installed capacity	Licensed capacity	Installed capacity
Bulk drugs and drug intermediates	Kilolitres	352	384	352	352
Formulations	Million units	1,399	2,221	1,399	1,399

Note: Licensed and installed capacities are as certified by Management and have not been verified by the Auditors as this is a technical matter.

Production

Class of goods	Unit of measurement	Year ended 2009-10	Year ended 2008-09
Bulk drugs and drug intermediates	Kgs	32,382	38,093
Formulations	Million units	143	160

Note: Actual production of formulation products excludes 789 (previous year: 833) million units produced on loan licensing basis from outside parties.

(e) Particulars of opening stock, production, sale of finished goods and closing stock

Particulars	Unit of measurement	Year ended 2009-10		Year ended 2008-09	
		Quantity	Value	Quantity	Value
<i>Opening stock</i>					
Bulk drug and drug intermediaries	Kgs	2,223	49,234,710	933	18,441,057
Formulations	No in millions	21	44,030,413	20	58,984,262
Traded goods	No in millions	18	27,680,821	19	14,644,431
TOTAL			120,945,944		92,069,750
<i>Purchases</i>					
Trading formulations	No in millions	109	131,327,930	88	99,020,186
<i>Closing stock</i>					
Bulk drug and drug intermediaries	Kgs	1,253	28,260,551	2,223	49,234,710
Formulations	No in millions	14	50,138,353	21	44,030,413
Traded formulations	No in millions	23	32,064,012	18	27,680,821
TOTAL			110,462,916		120,945,944



(All amounts in Indian Rupees, unless otherwise stated)

Particulars	Unit of measurement	Year ended 2009-10		Year ended 2008-09	
		Quantity	Value	Quantity	Value
<i>Sales</i>					
Bulk drug and drug intermediates	Kgs	33,352	885,614,418	36,803	930,312,118
Formulations	No in millions	150	1,840,794,864	159	1,529,530,475
Traded formulations	No in millions	104	130,197,876	89	101,325,936
Job work charges			101,093,266		104,052,796
TOTAL			2,957,700,424		2,665,221,325

(f) Raw materials consumed

Particulars	Unit of measurement	During the year ended 2009-10		During the year ended 2008-09	
		Quantity	Value	Quantity	Value
Stannous Chloride	Kgs	45,861	29,021,341	40961	31,327,780
2-Chloro Methyl-3-Methyl-4-(2,2,2-Racemic Sertraline Hydrochloride (St-V)	Kgs	4,705	25,674,479	1200	6,482,988
5 Bromo Phthalide	Kgs	50,400	76,183,548	46901	72,160,497
1-Bromo-3-Chloro Propane	Kgs	9,200	16,859,231	14100	26,136,356
Chloroform	Kgs	43,750	10,355,138	44250	12,567,547
Ethyl Acetate	Kgs	596,770	18,559,650	612430	18,362,087
Isopropyl Alcohol	Kgs	302,417	16,990,015	214572	13,742,179
Iso Propyl Ether	Kgs	723,023	45,359,620	716529	49,353,880
Methanol	Kgs	97,809	9,835,392	184852	28,322,190
Methylene Chloride	Kgs	1,447,787	26,581,047	1378921	32,315,873
Tetra Hydro Furan	Kgs	385,019	16,101,684	376592	12,926,670
Toluene	Litres	106,531	13,438,507	147362	20,745,176
Phosphorous Pentoxide	Kgs	267,066	14,335,770	299946	18,480,123
Sterile Timentin Blend	Kgs	56,391	16,192,490	59961	20,145,224
Others*		473	15,732,381	335	9,752,024
TOTAL			384,970,461		435,791,447
TOTAL			736,190,754		808,612,041

* Others include no item which in value individually accounts for 10% or more of the total value of raw materials consumed

(All amounts in Indian Rupees, unless otherwise stated)

(g) Details of imported and indigenous items

Particulars	Unit of measurement	During the year ended 2009-10		During the year ended 2008-09	
		Value	% of total consumption	Value	% of total consumption
<i>Raw materials</i>					
- Imported	KG	73,865,605	10.03%	84,747,100	10.48%
- Indigenous	KG	662,325,149	89.97%	723,864,941	89.52%
		736,190,754	100%	808,612,041	100%
<i>Packing materials</i>					
- Imported	Nos	9,239,868	12.62%	11,502,557	19.71%
- Indigenous	Nos	63,965,777	87.38%	46,861,475	80.29%
		73,205,645	100%	58,364,032	100%
TOTAL		809,396,399		866,976,073	

(h) Value of imports calculated on CIF basis

Particulars	Year ended 2009-10	Year ended 2008-09
Raw materials	77,889,444	104,442,080
Capital equipments (including spares and components)	109,479,535	124,300,655
Total	187,368,979	228,742,735

(i) Earnings in foreign currency (on accrual basis)

Particulars	Year ended 2009-10	Year ended 2008-09
Exports on FOB basis	964,396,223	1,032,622,091
Interest on loans to a subsidiary company	12,909,843	18,813,288
Income from royalty	5,045,004	5,115,813
TOTAL	982,351,070	1,056,551,192

19. Unhedged foreign exchange exposure

	Year ended 2009-10	Year ended 2008-09
Sundry debtors	66,684,031	42,772,347
Due to vendors	14,612,693	45,226,134



20. Payable to micro enterprises and small enterprises

On the basis of the information and records available with management, there are no dues/ overdue principal amounts payable to micro and small enterprises as at 31 March 2010 and there is no interest is paid / payable for the year ended 31 March 2010.

21. Prior year comparatives

The previous year figures are regrouped /rearranged to confirm to current period presentation.

SIGNATURES TO SCHEDULE 1 TO 23

As per our report of even date

For and on behalf of the Board of Directors

For **Walker, Chandiok & Co.**
Chartered Accountants
per **Sanjay Kumar**
Partner

V.C. Nannapaneni
Rajeev Nannapaneni

Chairman & Managing Director
Director & Chief Operating Officer

Place : Hyderabad
Date : 25th June, 2010

Dr. P. Bhaskara Narayana
M. Adinarayana

Director & Chief Financial Officer
Company Secretary & G M (Corp. Affairs)

CASH FLOW STATEMENT FOR YEAR ENDED 31 MARCH 2010

(All amounts in Indian Rupees, unless otherwise stated)

	For the year ended 2009-10	For the year ended 2008-09
A. Cash flows from operating activities		
Profit before tax and after prior period items	608,642,187	534,161,180
Adjustments for		
Depreciation and amortization	138,628,200	103,498,620
Share in loss/ (profit) in partnership firm	21,975,721	(41,380,240)
Unrealised foreign exchange (gain)/loss	778,510	-
Interest income	(19,621,946)	(27,333,671)
Interest expenses	146,924,868	150,475,360
Loss/(Profit) on sales of fixed assets	-	(746,205)
Credit balances/excess provisions written back	-	(182,109)
Provision for doubtful debtors	5,070,194	-
Employee stock option expense	-	620,246
Provision for gratuity	15,896,807	1,199,098
Provision for compensated absences	-	7,640,894
Inventory written-off	56,811,487	5,631,505
Loss on sale of investments	-	15,234
Diminution in the value of investments	23,759	32,940
Advances written-off	10,135,436	3,182,396
Operating profit before working capital changes	985,265,223	736,815,248
Increase in inventories	(66,303,234)	(99,060,821)
Decrease/(increase) in sundry debtors	19,563,751	(119,565,558)
Decrease/(increase) in loans and advances	(7,857,326)	(67,678,412)
Increase in current liabilities	(63,226,032)	147,146,324
Cash from operating activities	867,442,382	597,656,781
Income taxes paid [including fringe benefit tax]	(163,110,012)	(100,234,557)
Net cash from operating activities	704,332,370	497,422,224
B. Cash flows from investing activities		
Purchase of fixed assets	(375,679,741)	(542,617,494)
Interest received	8,963,914	6,634,862
Share of profit received from partnership firm	40,339,050	35,148,112
Loans and advances recovered from subsidiaries	48,839,511	37,530,930
Proceeds from sale of fixed assets	-	2,585,446
Increase in restricted cash and cash equivalent	5,290,578	1,845,425
Investment in mutual fund	(3,071,439)	-
Increase in Share application money	(260,555,203)	(206,508,469)
Net cash used in investing activities	(535,873,330)	(665,381,188)



CASH FLOW STATEMENT (Contd.)

(All amounts in Indian Rupees, unless otherwise stated)

	For the year ended 2009-10	For the year ended 2008-09
C. Cash flows from financing activities		
Proceeds from long term borrowings	750,000,000	320,000,000
Proceeds from issue of shares	1,071,250	–
Finance charges	(154,715,692)	(150,263,306)
(Repayment) / Proceeds from short term borrowings, net	(62,749,412)	106,154,885
Repayment of long term borrowings	(756,219,645)	(104,310,844)
Dividends including tax on dividend	(106,422,421)	(80,331)
Net cash (used in)/from financing activities	(329,035,920)	171,500,404
Net change in cash and cash equivalents during the year (A+B+C)	(160,576,880)	3,541,440
Cash and cash equivalents at the beginning of the year	183,884,884	180,343,444
Cash and cash equivalents at the end of the year (Refer Note 1 below)	23,308,004	183,884,884
Notes 1:		
Cash and bank balances (as per Schedule 10)	35,032,129	200,949,748
Less: Margin money deposits	11,774,286	17,064,864
Add: Effect of exchange gain on cash and cash equivalents	50,161	–
Cash and cash equivalents considered for cash flow	23,308,004	183,884,884

As per our report of even date

For and on behalf of the Board of Directors

For **Walker, Chandio & Co.**
Chartered Accountants
per **Sanjay Kumar**
Partner

V.C. Nannapaneni
Rajeev Nannapaneni

Chairman & Managing Director
Director & Chief Operating Officer

Place : Hyderabad
Date : 25th June, 2010

Dr. P. Bhaskara Narayana
M. Adinarayana

Director & Chief Financial Officer
Company Secretary & G M (Corp. Affairs)

Statement pursuant to exemption received under Section 212(8) of the Companies Act, 1956 relating to subsidiary company

The Company has a wholly owned subsidiary - NATCO Pharma Inc - incorporated in the State of Delaware, USA. Pursuant to an application made, the Government of India had, vide its letter No.47/77/2010-CL-III dated 7th June, 2010 granted exemption to the Company (NATCO Pharma Limited) from the provisions of sub-section (1) of Section 212 of the Companies Act, 1956, in respect of attaching the financial statements of the said subsidiary - NATCO Pharma Inc. - in relation to the financial year ended on 31st March, 2010.

In accordance with the terms of the said exemption, the following information is being disclosed:

- a) The consolidated financial statements of the Company include the financial statements pertaining to the subsidiary, duly audited.
- b) The said financial statements have been prepared in strict compliance with the Accounting Standards and the Listing Agreement as prescribed by SEBI.
- c) While the reporting currency for the subsidiary is US Dollars, the relevant information pertaining to the subsidiary is given below, in terms of Indian Rupees based on the prevailing exchange rate (one US \$ = Indian Rs.45.14) as on 31st March, 2010:

1. Capital	:	Rs.	45,140,000
2. Reserves	:	Rs.	27,209,489
3. Total Assets	:	Rs.	273,791,298
4. Total Liabilities	:	Rs.	201,441,809
5. Details of Investment	:		Nil
6. Turnover	:	Rs.	792,778,337
7. Profit before taxation	:	Rs.	15,479,048
8. Provision for taxation	:	Rs.	4,379,483
9. Profit after taxation	:	Rs.	11,099,565
10. Proposed Dividend	:		Nil

The annual accounts of the subsidiary company and the related detailed information will be made available to the investors seeking such information at any point of time. The annual accounts of the subsidiary company will also be available for inspection by any investor at the Registered Office of the Company and that of NATCO Pharma, Inc., on all working days during business hours and is also available on the company's website www.natcopharma.co.in



AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To

The Board of Directors
NATCO Pharma Limited

1. We have audited the attached Consolidated Balance Sheet of NATCO Pharma Limited (the 'Company') and its subsidiaries (collectively referred as the 'Group'), as at 31 March 2010 and also the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year ended on that date annexed thereto (collectively referred as the 'consolidated financial statements'). These consolidated financial statements are the responsibility of the Company's management and have been prepared by management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. The consolidated financial statements of the Company, as at and for the year ended 31 March 2009 was audited by M/s. Brahmayya & Co, Chartered Accountants vide their report dated 30 June 2009. The balances as at 31 March 2009 as per the audited financial statements, regrouped and/or reclassified wherever necessary, have been considered as opening balances for the purpose of these consolidated financial statements.
4. We did not audit the financial statements of certain subsidiaries, whose financial statements reflect total assets of Rs. 521,199,847 as at 31 March 2010, the total revenue of Rs.1,497,022,608 and net cash outflows amounting to Rs.43,823,031 for the year then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us and our opinion is based solely on the report of other auditors.
5. We report that the consolidated financial statements have been prepared by management of the Company in accordance with the requirements of Accounting Standards (AS) 21, 'Consolidated Financial Statements' notified pursuant to the Companies (Accounting Standards) Rules, 2006.
6. *As discussed in note 6 on Schedule 24 to the financial statements, revenues for the year ended 31 March 2010 includes Rs. 50,000,000 received from a customer and recognized as revenues based on management's assessment of transfer of significant risk and rewards of ownership and completion of substantial obligations of the Company pursuant to the terms of the underlying arrangement. However, pursuant to the terms of the arrangement, we believe that the transfer of risk and rewards is not completed as of 31 March 2010 and the Company will be subjected to future obligations / part repayment of amounts already received under the said arrangement, hence, in our opinion recognition of revenue under the said arrangement is contrary to revenue recognition principles as laid down under Accounting Standard (AS) 9 "Revenue Recognition" notified under the Companies (Accounting Standards) Rules, 2006. Had the Company accounted revenue in accordance with the recognition principles prescribed under AS 9, the profit for the year and the reserves and surplus as at 31 March 2010 would have been lower and the current liabilities would have been higher by the same amount.*

7. *As discussed in note 7 on Schedule 24 to the financial statements, we report that the Company has not recognized Minimum Alternative Tax (MAT) credit entitlement aggregating to Rs. 160,607,929 pertaining to the financial year ended 31 March 2009 and 2010. Had the Company accounted for such MAT credit, the net profit for the year ended 31 March 2010 and the balance in loans and advances and reserves and surplus would have been higher by Rs. 160,607,929.*
8. Based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components and to the best of our information and according to the explanations given to us, *subject to our comments in paragraphs 6 and 7 above*, 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, in the case of:
- i) the consolidated balance sheet, of the state of affairs of the Group as at 31 March 2010;
 - ii) the consolidated profit and loss account, of the profit for the year ended on that date; and
 - iii) the consolidated cash flow statement, of the cash flows for the year ended on that date.

For **Walker, Chandiok & Co**
Chartered Accountants
Firm Registration No: 001076N

per **Sanjay Kumar**
Partner
Membership No. 207660

Place : Hyderabad
Date : 25 June 2010



CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2010

(All amounts in Indian Rupees, unless otherwise stated)

	Schedules	As at 31 March, 2010	As at 31 March, 2009
I SOURCES OF FUNDS			
Shareholders' funds			
(a) Capital	1	281,479,520	280,408,270
(b) Stock options outstanding	2	—	14,974,996
(c) Reserves and surplus	3	2,775,897,438	2,295,814,912
		3,057,376,958	2,591,198,178
Loan funds			
(a) Secured loans	4	1,140,161,970	1,206,682,132
(b) Unsecured loans	5	54,868,571	55,258,404
		1,195,030,541	1,261,940,536
Minority interest	6	49,401,682	69,510,417
Deferred tax liabilities, net	24 [18]	268,344,325	240,886,071
TOTAL		4,570,153,506	4,163,535,202
II. APPLICATION OF FUNDS			
Fixed assets	7		
(a) Gross block		3,568,613,011	3,105,692,540
(b) Less: Depreciation, amortization and impairment loss		950,584,943	762,489,729
(c) Net block		2,618,028,068	2,343,202,811
(d) Capital works-in-progress (including capital advances)		396,015,749	469,632,792
		3,014,043,817	2,812,835,603
Investments	8	605,954,247	342,351,365
Current assets, loans and advances			
(a) Inventories	9	774,356,131	802,942,945
(b) Sundry debtors	10	572,364,475	617,795,660
(c) Cash and bank balances	11	81,182,317	290,922,965
(d) Other current assets	12	809,416	3,061,227
(e) Loans and advances	13	460,414,559	390,290,009
		1,889,126,898	2,105,012,806
Less: Current liabilities and provisions			
(a) Liabilities	14	881,180,551	986,054,746
(b) Provisions	15	57,790,905	110,609,826
		938,971,456	1,096,664,572
Net current assets		950,155,442	1,008,348,234
TOTAL		4,570,153,506	4,163,535,202
Notes to consolidated accounts	24		

The schedules referred to above form an integral part of the Consolidated financial statements.

As per our report of even date

For and on behalf of the Board of Directors

For **Walker, Chandiok & Co.**
Chartered Accountants
per **Sanjay Kumar**
Partner

V.C. Nannapaneni
Rajeev Nannapaneni

Chairman & Managing Director
Director & Chief Operating Officer

Place : Hyderabad
Date : 25th June, 2010

Dr. P. Bhaskara Narayana Director & Chief Financial Officer
M. Adinarayana Company Secretary & G M (Corp. Affairs)

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

(All amounts in Indian Rupees, unless otherwise stated)

	Schedules	For the year ended 2009-10	For the year ended 2008-09
I. INCOME			
Sales (gross)		4,349,262,621	4,350,284,097
Less: Excise duty		41,731,904	41,026,142
Sales (net)		4,307,530,717	4,309,257,955
Service income		158,395,918	22,356,600
Job works charges		101,093,266	104,052,796
Other income	16	46,230,487	49,358,822
		4,613,250,388	4,485,026,173
II. EXPENDITURE			
Materials consumed	17	736,190,754	808,612,041
(Decrease)/increase in inventory	18	70,330,728	(96,980,838)
Purchase of finished goods		1,294,139,921	1,484,409,177
Manufacturing expenses	19	368,002,445	332,138,576
Staff costs	20	574,249,083	541,102,040
Operating and other expenses	21	594,526,621	547,830,611
Finance charges	22	146,924,868	151,082,123
Depreciation, amortization and impairment loss		197,328,824	140,576,210
		3,981,693,244	3,908,769,940
Profit before taxation		631,557,144	576,256,233
Provision for taxation			
- Current tax		112,197,076	71,138,915
- Deferred tax expenses		27,458,254	37,000,000
- Fringe benefit tax [Represents excess provision written back (2009: Nil)]		(3,043,368)	4,756,935
Profit after taxation		494,945,182	463,360,383
Prior period items	23	15,459,290	9,847,958
Net profit		479,485,892	453,512,425
Minority interest		(7,695,235)	13,793,413
Profit after minority interest		487,181,127	439,719,012
Balance brought forward from last balance sheet		1,193,057,323	824,346,268
Profit available for appropriation		1,680,238,450	1,264,065,280
APPROPRIATION			
Transfer to general reserve		40,000,000	30,000,000
Interim dividend at Rs.2 (2009: Rs.1.25) on equity shares of Rs.10 each		56,295,904	35,051,034
Dividend distribution tax		9,567,500	5,956,923
Surplus carried to Balance Sheet		1,574,375,046	1,193,057,323
Earnings per share	24 [8]		
- Basic		17.32	15.68
- Diluted		17.31	15.68
Notes to consolidated accounts	24		
The schedules referred to above form an integral part of the Consolidated financial statements.			

The schedules referred to above form an integral part of the Consolidated financial statements.

As per our report of even date

For and on behalf of the Board of Directors

For **Walker, Chandio & Co.**
Chartered Accountants
per **Sanjay Kumar**
Partner

V.C. Nannapaneni
Rajeev Nannapaneni

Chairman & Managing Director
Director & Chief Operating Officer

Place : Hyderabad
Date : 25th June, 2010

Dr. P. Bhaskara Narayana Director & Chief Financial Officer
M. Adinarayana Company Secretary & G M (Corp. Affairs)



SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Indian Rupees, unless otherwise stated)

	As at 31 March, 2010	As at 31 March, 2009
SCHEDULE 1: CAPITAL		
Authorised		
30,000,000 (2009: 30,000,000) equity shares of Rs.10 each	300,000,000	300,000,000
	<u>300,000,000</u>	<u>300,000,000</u>
Issued, subscribed and paid-up		
28,147,952 (2009: 28,040,827) equity shares of Rs.10 each fully paid-up [Of the above, 526,900 equity shares (2009: 419,775 shares) of Rs. 10 each, fully paid-up, were allotted to the employees of the Company under the employee stock option scheme] (Refer note 12 of schedule 24)	281,479,520	280,408,270
	<u>281,479,520</u>	<u>280,408,270</u>
SCHEDULE 2: STOCK OPTIONS OUTSTANDING (Refer note 12 on Schedule 24)		
Stock compensation outstanding at the beginning of the year	14,974,996	14,354,750
Add: Adjustment during the year	–	620,246
	<u>14,974,996</u>	<u>14,974,996</u>
Less: Transferred to share premium account on exercise of stock options	<u>14,974,996</u>	–
	<u>–</u>	<u>14,974,996</u>
SCHEDULE 3: RESERVES AND SURPLUS		
Capital reserve	197,015,954	197,015,954
Capital redemption reserve	4,928,810	4,928,810
Capital subsidy		
As per last balance sheet	4,056,808	4,056,808
Additions during the year	3,000,000	–
	<u>7,056,808</u>	<u>4,056,808</u>
Foreign currency translation reserve		
As per last balance sheet	(4,758,748)	(12,152,530)
Additions during the year	40,789,807	7,393,782
	<u>36,031,059</u>	<u>(4,758,748)</u>
General reserve		
As per last balance sheet	97,161,000	67,161,000
Additions during the year	40,000,000	30,000,000
	<u>137,161,000</u>	<u>97,161,000</u>
Share premium account		
As per last balance sheet	804,353,765	804,353,765
Additions during the year	14,974,996	–
	<u>819,328,761</u>	<u>804,353,765</u>
Balance in profit and loss account	<u>1,574,375,046</u>	<u>1,193,057,323</u>
	<u>2,775,897,438</u>	<u>2,295,814,912</u>

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Indian Rupees, unless otherwise stated)

	As at 31 March, 2010	As at 31 March, 2009
SCHEDULE 4: SECURED LOANS		
[Refer note 9 on Schedule 24]		
Term loans from banks	641,457,500	647,287,311
[Repayable within one year Rs.126,012,500 (2009: Rs.185,599,811)]		
Working capital loans from banks	496,645,409	559,394,821
[Payable within one year]		
Finance lease obligations	2,059,061	-
[Secured against the underlying assets]		
	<u>1,140,161,970</u>	<u>1,206,682,132</u>
SCHEDULE 5: UNSECURED LOANS		
[Refer note 10 on Schedule 24]		
Short-term loans and advances		
From banks	50,000,000	49,998,457
[Payable within one year]		
Other loans and advances		
From others	4,868,571	5,259,947
[Repayable within one year Rs.764,637 (2009 : Rs.391,376)]		
	<u>54,868,571</u>	<u>55,258,404</u>
SCHEDULE 6: MINORITY INTEREST		
As per last balance sheet	69,510,417	68,008,692
Add: (Loss)/ profit during the year	(7,695,235)	13,793,413
	61,815,182	81,802,105
Less: Partnership distribution	12,413,500	12,291,688
	<u>49,401,682</u>	<u>69,510,417</u>

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE 7: FIXED ASSETS

(All amounts in Indian Rupees, unless otherwise stated)

Particulars	Tangible assets							Intangible assets		Total	Previous year
	Freehold land	Leasehold land**	Buildings #	Plant and machinery	Office equipment	Furniture and fittings	Vehicles	Computers	Goodwill	software	
Gross block											
As at 1 April 2009	220,902,629	16,725,782	772,280,794	1,577,670,462	40,064,933	22,519,230	47,174,767	63,220,587	338,563,299	6,570,057	3,105,682,540
Additions during the year	10,663,905	-	243,588,214	177,762,843	5,973,119	2,529,004	7,218,832	6,354,798	-	6,289,803	460,380,518
Deletions/adjustments	-	-	-	-	445,848	8,079,823	-	-	45,140,000	-	53,665,671
Foreign exchange adjustments	-	-	-	-	(8,955,710)	8,212,238	100,533	257,475	56,591,087	-	56,205,624
As at 31 March 2010	231,566,534	16,725,782	1,015,869,008	1,755,433,305	36,636,494	25,180,649	54,494,132	69,832,860	350,014,386	12,859,860	3,568,613,011
Depreciation and amortization											
Up to 31 March 2009	-	-	147,529,994	475,620,817	11,855,007	14,822,579	24,416,650	57,706,516	29,310,567	1,227,599	762,489,729
Charge for the year *	-	942,678	29,217,429	94,154,509	4,420,230	3,275,696	4,882,430	7,597,161	23,412,674	1,469,725	189,372,532
On sales/ adjustments	-	-	-	-	91,008	7,575,823	-	-	3,009,348	-	10,676,179
Foreign exchange adjustments	-	-	-	-	(2,193,186)	6,362,469	(192,578)	(488,984)	(16,213,512)	-	(12,731,791)
As at 31 March 2010	-	942,678	176,747,423	569,775,326	13,985,043	16,884,921	29,106,502	64,814,693	33,500,381	2,697,324	908,454,291
Impairment											
Up to 31 March 2009	-	-	-	-	-	-	-	-	-	-	-
Charge for the year	-	-	-	-	-	-	-	-	42,130,652	-	42,130,652
As at 31 March 2010	-	-	-	-	-	-	-	-	42,130,652	-	42,130,652
Net block											
As at 31 March 2010	231,566,534	15,783,104	839,121,585	1,185,657,979	22,651,451	8,295,728	25,387,630	5,018,167	274,383,353	10,162,536	2,618,028,068
As at 31 March 2009	220,902,629	16,725,782	624,750,800	1,102,049,645	28,209,926	7,696,651	22,758,117	5,514,071	309,252,732	5,342,458	2,343,202,811

* Depreciation charge for the period includes Rs.14,174,360 (2009: Nil) relating to earlier years, the same is classified under prior period items

** Lease hold land include lease of land for a period of 90 years from the State Industrial Development Corporation of Uttaranchal Limited, amounting to Rs.9,695,646 and lease from Uttar Pradesh State Industrial Development Corporation Limited for a period of 87 years, amounting to Rs.7,030,136.

includes borrowing costs capitalized of Rs.6,845,498 (2009: Nil).

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Indian Rupees, unless otherwise stated)

	As at 31 March, 2010	As at 31 March, 2009
SCHEDULE 8: INVESTMENTS		
[Refer note 14 of Schedule 24]		
I. Long term, unquoted and at cost:		
750 (2009: 750) equity shares of Rs.100 each, fully paid-up, in Jeedimetla Effluent Treatment Limited	75,000	75,000
34,400 (2009: 34,400) equity shares of Rs.10 each, fully paid-up, in Pattancheru Enviro-Tech Limited	344,000	344,000
Share application money in NATCO Organics Limited	602,459,898	341,904,695
	<u>602,878,898</u>	<u>342,323,695</u>
<i>Non Trade:</i>		
National savings certificates [pledged with government authorities]	3,910	3,910
II. Long term, non trade, quoted and at cost		
27,000 (2009: 27,000) equity shares of Rs.10 each, fully paid-up in Jayalakshi Spinning Mills Limited	270,000	270,000
III. Current, non trade and unquoted		
Investment in mutual funds [268,189 units of ICICI Prudential mutal funds (2009: Nil)]	3,071,439	-
	<u>606,224,247</u>	<u>342,597,605</u>
Less: Provision for diminution in the value of investments	<u>270,000</u>	<u>246,240</u>
	<u>605,954,247</u>	<u>342,351,365</u>
Notes:		
Aggregate cost of quoted investments	270,000	270,000
Aggregate value of unquoted investments	605,954,247	342,327,605
Market value of quoted investments	-	23,760
SCHEDULE 9: INVENTORIES		
Stores and spares	66,251,608	56,015,782
Packing materials	35,928,516	33,845,150
Raw materials	176,378,850	146,954,128
Work-in-progress	265,955,090	288,962,566
Finished goods [including stock in transit of Rs.1,238,337 (2009: Nil)]	229,842,067	277,165,319
	<u>774,356,131</u>	<u>802,942,945</u>



SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Indian Rupees, unless otherwise stated)

	As at 31 March, 2010	As at 31 March, 2009
SCHEDULE 10: SUNDRY DEBTORS		
(Unsecured, considered good)		
Outstanding for more than six months	20,095,983	27,085,427
Other debts	<u>552,268,492</u>	<u>590,710,233</u>
	572,364,475	617,795,660
(Unsecured, considered doubtful)		
Outstanding for more than six months	5,070,194	–
Other debts	<u>–</u>	<u>–</u>
	577,434,669	617,795,660
Less: Provision for doubtful debts	<u>5,070,194</u>	<u>–</u>
	572,364,475	617,795,660
SCHEDULE 11: CASH AND BANK BALANCES		
Cash balances on hand	2,921,018	4,615,387
Balances with banks		
on current accounts	49,763,411	103,105,383
on deposit accounts*	<u>24,774,286</u>	<u>181,564,864</u>
on unpaid dividend accounts	<u>3,723,602</u>	<u>1,637,331</u>
	81,182,317	290,922,965
*Rs.11,774,286 (2009: Rs.17,064,864) represents margin money towards guarantees issued by banks		
SCHEDULE 12: OTHER CURRENT ASSETS		
(Unsecured, considered good)		
Interest accrued on fixed deposits	809,416	3,061,227
	<u>809,416</u>	<u>3,061,227</u>
SCHEDULE 13: LOANS AND ADVANCES		
(Unsecured, considered good)		
Advance recoverable in cash or in kind or for value to be received		
- Prepaid expenses	3,888,587	4,619,655
- Advance for purchases and expenses	86,113,460	54,967,160
- Other advances	<u>166,577,509</u>	<u>173,864,507</u>
Notes receivable	29,747,260	–
Deposits with others	16,913,770	116,373,450
Advance tax, net of provision	39,320,797	–
Balances with government authorities	<u>117,853,176</u>	<u>40,465,237</u>
	460,414,559	390,290,009

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Indian Rupees, unless otherwise stated)

	As at 31 March, 2010	As at 31 March, 2009
SCHEDULE 14: LIABILITIES		
[Refer note 14 and 20 of schedule 24]		
Sundry creditors		
- Total outstanding dues of micro enterprises and small enterprises	-	-
- Total outstanding dues of creditors other than micro enterprises and small enterprises	793,276,620	866,520,123
	<u>793,276,620</u>	<u>866,520,123</u>
Unpaid dividends	3,723,602	1,637,331
Interest accrued but not due on loans	510,125	1,455,452
Advance received from customers	55,970,300	96,610,386
Trade deposits	11,795,411	12,045,556
Other liabilities	15,904,493	7,785,898
	<u>881,180,551</u>	<u>986,054,746</u>
SCHEDULE 15: PROVISIONS		
- for taxation, net of advance tax	1,730,442	22,331,742
- for fringe benefit tax, net	-	3,043,368
- for dividends including dividend tax	-	42,645,288
- for gratuity	32,840,925	16,944,118
- for compensated absences	23,219,538	25,645,310
	<u>57,790,905</u>	<u>110,609,826</u>



SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Indian Rupees, unless otherwise stated)

	For the year ended 2009-10	For the year ended 2008-09
SCHEDULE 16: OTHER INCOME		
Interest on fixed deposits (gross)	8,438,950	9,286,620
[Tax deducted at source of Rs.753,615 (2009: Rs.1,667,474)]		
Export incentives	19,581,813	18,813,288
Foreign exchange fluctuations, net	—	3,653,187
Miscellaneous income	18,209,724	17,605,727
	<u>46,230,487</u>	<u>49,358,822</u>
SCHEDULE 17: MATERIALS CONSUMED		
Raw materials		
Opening stock	146,954,128	145,678,852
Add: Purchases	815,785,230	815,518,822
	<u>962,739,358</u>	<u>961,197,674</u>
Less: written off	50,169,754	5,631,505
Less: closing stock	176,378,850	146,954,128
	<u>736,190,754</u>	<u>808,612,041</u>
SCHEDULE 18: (DECREASE) / INCREASE IN INVENTORY		
Opening stocks		
- finished goods	277,165,319	222,265,824
- work in progress	288,962,566	246,881,223
	<u>566,127,885</u>	<u>469,147,047</u>
Closing stocks		
- finished goods	229,842,067	277,165,319
- work in progress	265,955,090	288,962,566
	<u>495,797,157</u>	<u>566,127,885</u>
Net decrease / (increase) in inventory	<u>70,330,728</u>	<u>(96,980,838)</u>
SCHEDULE 19: MANUFACTURING EXPENSES		
Consumption of packing materials	73,205,645	58,364,032
Power and fuel	144,513,060	152,437,146
Stores consumed	67,469,426	41,467,002
Factory maintenance expenses	54,763,757	45,969,657
Analysis charges	28,050,557	33,900,739
	<u>368,002,445</u>	<u>332,138,576</u>
SCHEDULE 20: STAFF COST		
Salaries, wages and bonus	465,525,888	488,600,084
Contributions to provident and other funds	25,667,556	21,435,517
Staff welfare expenses	61,700,114	27,228,955
Gratuity	19,096,468	3,837,484
Leave encashment	2,259,057	—
	<u>574,249,083</u>	<u>541,102,040</u>

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Indian Rupees, unless otherwise stated)

	For the year ended 2009-10	For the year ended 2008-09
SCHEDULE 21: OPERATING AND OTHER EXPENSES		
Power and fuel	6,756,189	5,955,353
Rent	26,174,685	32,785,170
Repairs and maintenance		
- buildings	26,888,561	12,172,971
- plant and machinery	41,356,982	35,531,024
- others	18,330,682	5,733,536
Legal and professional charges	35,355,713	39,716,376
Insurance	11,606,497	16,661,040
Rates and taxes	16,821,309	14,710,532
Communication expenses	17,955,185	14,066,253
Office maintenance and other expenses	20,378,267	17,336,089
Travelling and conveyance	36,376,554	30,221,970
Printing and stationery	14,121,587	15,157,089
Research and development expenses	77,886,058	115,228,044
Sales promotion expenses including sales commission	90,041,252	70,694,621
Donations	6,638,469	5,738,625
Advertisements	10,013,055	12,525,788
Carriage and freight outwards	25,526,527	25,741,291
Directors remuneration	14,510,054	15,280,200
Directors sitting fee	150,000	175,000
Auditors' remuneration		
- Audit fee	750,000	400,000
- Certification fee	80,665	16,854
- Other matters	100,000	183,251
Exchange fluctuation loss, net	3,419,551	35,765,648
Advances written off	10,135,436	2,090,682
Bad debts written off	4,148,017	3,239,001
Provision for doubtful debts	5,070,194	-
Diminution in the value of investments	23,759	32,940
Inventory written-off	56,811,487	5,631,505
Miscellaneous expenses	17,099,886	15,039,758
	<u>594,526,621</u>	<u>547,830,611</u>
SCHEDULE 22: FINANCE CHARGES		
Interest on:		
- fixed period loans	72,338,782	73,854,451
- others	58,032,289	64,098,371
Bank charges	16,553,797	13,129,301
	<u>146,924,868</u>	<u>151,082,123</u>
SCHEDULE 23: PRIOR PERIOD ITEMS		
Operating and other expenses	3,811,169	9,847,958
Depreciation and amortization	14,174,360	-
Other income	(2,526,239)	-
	<u>15,459,290</u>	<u>9,847,958</u>

SCHEDULE 24: NOTES TO CONSOLIDATED ACCOUNTS

(All amounts in Indian Rupees, unless otherwise stated)

1. Company overview

NATCO Pharma Limited ("the Company" or "NATCO") incorporated on 19 September 1981 in accordance with the provisions of the Companies Act, 1956 of India ("the Act") is a limited liability company. The Company was originally incorporated as Natco Fine Pharmaceuticals Private Limited and on 30 December 1994 it has changed its name to NATCO Pharma Limited.

The Company is primarily engaged in manufacturing of active pharmaceuticals ingredients and finished dosage formulations.

2. Significant accounting policies

a. Basis of consolidation

The consolidated financial statements of NATCO Pharma Limited together with its subsidiaries (collectively referred as the 'Group' or the 'consolidating entities') are prepared under historical cost convention on accrual basis to comply in all material respects with the notified accounting standard prescribed by the Companies (Accounting Standards) Rules, 2006 (the 'Rules'). 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.

Investments in subsidiaries, except where the investments are acquired exclusively with a view to its subsequent disposal in the near future, are accounted in accordance with accounting principles as defined in the Accounting Standard ('AS') 21 'Consolidated Financial Statements', as notified by the Rules.

The financial statements of the consolidating entities are added on a line-by-line basis and inter-company balances and transactions including unrealized gain/ loss from such transactions are eliminated upon consolidation.

The following subsidiaries have been considered for the purpose preparation of consolidated financial statements:

Names of the consolidating entities	Country of incorporation	Percentage holding /interest (%)	
		As at 31 March, 2010	As at 31 March, 2009
NATCO Pharma Inc.,	United States of America	100	100
K&C Pharmacy, Partnership Firm	United States of America	75	75

b. Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as at the date of the financial statements and reported amounts of income and expenses during the period. Examples of such estimates include provisions for doubtful debtors and other receivables, provision for inventories, future obligations under employee retirement benefit plans, income taxes, and the useful lives of fixed assets.

Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in the current and future periods.

c. Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Cost comprise of purchase price, freight, non-refundable duties, taxes and any other cost attributable to bringing the asset to its working condition for its intended use. Borrowing costs relating to acquisition of fixed assets which takes substantial period of time to get ready for its intended use are also included to the extent they relate to the period till such assets are ready for its intended use. Assets retired from active use and held for disposal are stated at their estimated net realisable values or net book values, whichever is lower. Advances paid towards the acquisition of fixed assets and outstanding at each balance sheet date and the cost of assets under construction are disclosed as capital work-in-progress.

d. Depreciation

Depreciation is provided on Straight Line Method ('SLM') based on useful lives of the assets as estimated by management which coincides with rates prescribed under Schedule XIV to the Act.

Depreciation on sale/discarded from fixed assets is provided for up to the date of sale /discarded as the case may be. Individual assets acquired for Rs. 5,000 or less are entirely depreciated in the year of acquisition.

e. Intangible assets

Intangible assets are recorded at the consideration paid for acquisition. Intangible assets are amortized over a period of 6 years, on a straight line basis.

f. Impairment of assets

The carrying amounts of assets, both tangible and intangible, are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

g. Investments

Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

h. Inventories

Raw material, packaging material, stores and spare parts are carried at lower of cost and net realizable value. Cost includes purchase price excluding taxes those are subsequently recoverable by the enterprise from the concerned revenue authorities, freight inwards and other expenditure incurred in bringing such inventories to their present location and condition. In determining the cost, weighted average cost method is used. The carrying cost of raw materials, packaging materials and stores and spare parts are appropriately written down when there is a decline in replacement cost of such materials and finished products in which they will be incorporated are expected to be sold below cost.

Work in progress, manufactured finished goods and traded goods are valued at the lower of cost and net realizable value. Cost of work in progress and manufactured finished goods is determined on weighted average basis and comprises cost of direct material, cost of conversion and other costs incurred in bringing these inventories to their present location and condition. Cost of traded goods is determined on weighted average basis. Excise duty liability is included in the valuation of closing inventory of finished goods.

Inventory of prescription medication are valued at the lower of cost and net realizable value.

i. Research and development

Revenue expenditure on research and development is expensed as incurred. Capital expenditure incurred on research and development is capitalized as fixed assets and depreciated in accordance with the depreciation policy of the Company.

j. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue measured and collectibility is reasonably assured.

- Revenue from sale of goods is recognised when significant risks and rewards in respect of ownership of products are transferred to customers. Revenue from domestic sales of formulation products is recognised on dispatch of products to stockiest by clearing and forwarding agents. Revenue from domestic sales of active pharmaceutical ingredients and intermediates and export sales are recognised on dispatch of products from the factories of the Company.
- Revenue from product sales is stated exclusive of returns, sales tax and applicable trade discounts and allowances.
- Service income is recognised as per the terms of contracts with customers when the related services are performed, or the agreed milestones are achieved.
- Dividend income is recognised when the unconditional right to receive the income is established. Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method taking into account the amount outstanding and the rate applicable.
- Export entitlements are recognised as income when the right to receive credit as per the terms of the scheme is established in respect of the exports made and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.
- Revenue from licensing and long term supply arrangements is recognized in the period in which the Company completes all its performance obligations.

k. Taxes

Tax expense comprises of current and deferred tax. The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the entities in the Group. Deferred income taxes reflect the impact of timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier periods.

Deferred income taxes reflect the impact of timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier periods. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

In situations where the Group has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognised only if there is a virtual certainty supported by convincing evidence that they can be realised against future taxable profits.

Unrecognized deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain or virtually certain, as the case may be, that future taxable income will be available against which such deferred tax assets can be realised. The carrying amount of deferred tax assets are reviewed at each balance sheet date.

The Group writes-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realised. Any such write-down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available.

The break-up of the major components of the deferred tax assets and liabilities as at the balance sheet date have been arrived at after setting off deferred tax assets and liabilities where the group has a legally enforceable right to set-off assets against liabilities, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

Minimum Alternative tax (MAT) credit is recognised as an asset only when and to the extent there is convincing evidence that the Company will pay normal income tax during the specified period. In the year in which the MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in guidance note issued by the ICAI, the said asset is created by way of a credit to the profit and loss account and shown as MAT credit entitlement. The Company reviews the same at each balance sheet date and writes down the carrying amount of MAT credit entitlement to the extent there is no longer convincing evidence to the effect that Company will pay normal income tax during the specified period.

I. Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

m. Foreign currency transactions

In accordance with the accounting principles prescribed under Accounting Standard 11 'The Effects of Changes in Foreign Exchange Rates' as notified by the Rules, the Group has designated all its foreign operations, as 'non-integral foreign operations'.

Initial recognition

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

Conversion

Foreign currency monetary items are reported using the closing rate. 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; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

Exchange differences

Exchange differences arising on the settlement of monetary items or on reporting Group's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognized as income or as expenses in the year in which they arise.

n. Employee benefits

Defined benefit contribution plan

In respect of the Company, retirement benefits in the form of contribution to provident fund scheme and employee state insurance scheme are charged to profit and loss account of the year when the contribution to the respective fund is due. There are no other obligations other than the contribution payable to the respective fund.

In respect of overseas subsidiaries, retirement benefits in the form of 401(k) plan for eligible employees are charged to profit and loss account of the year when the contribution to respective fund is due. Contributions by the consolidating entity are discretionary and there are no other obligations other than the contribution payable to the respective fund.

Defined benefit contribution plan

Gratuity is a post employment defined benefit plan. An independent actuary, using the projected unit credit method calculates the defined benefit obligation annually. Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to the Profit and Loss Account in the period in which such gains or losses arises.

Leave encashment

As per the Company policy, eligible leaves can be accumulated by the employees and carried forward to future periods either to be utilized during the service, or encashed. Encashment can be made during service or on resignation, or retirement of the employee. The value of benefits is determined based on an independent actuarial valuation using the projected unit credit method as at the year end. Actuarial gains and losses are recognized immediately in the Profit and Loss Account.

Employee share based payments:

Measurement and disclosure of the employee share-based payment plans is done in accordance with Securities Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the guidance note on 'Accounting for Employee Share Based Payments', issued by the Institute of Chartered Accountants of India (ICAI). The excess of market value of the stock on the date of grant over the exercise price of the option is recognised as deferred employee stock compensation and is charged to profit and loss account on straight-line method over the vesting period of the options. The unamortized portion of cost is shown under stock options outstanding.

(All amounts in Indian Rupees, unless otherwise stated)

o. Leases

Assets taken on lease where the Group acquires substantially the entire risks and rewards incidental to ownership are classified as finance leases. The amount recorded is the lesser of the present value of the minimum lease rental and other incidental expenses during the lease term or the asset's fair value. The rental obligations, net of interest charges, are reflected in secured loan. Leases that do not transfer substantially all of the risks and rewards of ownership are classified as operating leases and recorded as expenses as and when payments are made over the lease term.

p. Provisions and contingent liabilities

A provision is recognised when the Group has a present obligation as a result of past event i.e., it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate 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 estimates. A disclosure of the contingent liability is made when there is a possible or a present obligation that may, but probably will not, require an outflow of resources.

q. Cash flow statement

Cash flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments.

r. Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term investments.

s. Segment information

Inter segment transactions are generally accounted at fair values and the same have been eliminated in consolidation. The accounting policies of the segments are substantially the same as those described in the 'Summary of significant accounting policies' as above.

3. Commitments and contingent liabilities

	As at 31 March, 2010	As at 31 March, 2009
Commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	95,245,770	13,601,538
Contingent liabilities		
Disputed statutory liabilities	51,883,190	92,522,843
Claims against the Company not acknowledged as debts	157,052,546	157,052,546
Corporate guarantee	–	100,000,000

(All amounts in Indian Rupees, unless otherwise stated)

4. Transactions with related party

Corporate guarantee, covered by the provisions of the Section 295 of the Act, issued to one of the banks on behalf of NATCO Organics Limited a company in which directors are interested was withdrawn on 19 June 2009. The Company is in the process of obtaining requisite approvals as required in accordance with the applicable provisions of the Act.

5. The Company has recognized a sum of Rs. 50,000,000 received from a customer as revenue, as it believes that a substantial portion of the deliverables against the payment have since been completed. In the opinion of the management, there is not likely to be any event or situation which would warrant repayment of this amount.
6. As per the Management estimates, the company will not be in a position to avail all the MAT credit available to it. The Company would review the position at the end of the Financial year ending on 31st March, 2011. Hence, on a prudent basis, no MAT Credit is recognized in the books of accounts. Accordingly, the company has recognized the deferred tax asset / liability after considering the tax holiday impact.

7. Earnings per share

Reconciliation of basic and diluted shares used in computation of earnings per share

Particulars	Year ended 2009-10	Year ended 2008-09
Net profit as per profit and loss account	<u>487,181,127</u>	<u>439,719,012</u>
Weighted average number of shares considered for computation of basic earnings per share	<u>28,124,473</u>	<u>28,040,827</u>
Add: Effect of potential dilutive stock options	<u>23,186</u>	<u>–</u>
Weighted average number of shares considered for computation of diluted earnings per share	<u>28,147,659</u>	<u>28,040,827</u>
Nominal value per share	<u>10</u>	<u>10</u>

8. Secured loans

Loans availed from the financial institutions and banks are fully secured by way of hypothecation of fixed assets, capital work in progress and other assets of the Company. The term loans from banks are further guaranteed by Mr. V. C. Nannapaneni, Chairman and Managing Director in his personal capacity.

9. Unsecured loans

Unsecured loans represent loans taken from Citibank amounting to Rs. 50,000,000 (2009: Rs.49,998,457) and interest free sales tax deferment availed from Andhra Pradesh State Government of Rs. 4,868,571 (2009: Rs.5,259,947). The unsecured loan from Citibank is guaranteed by Mr. V. C. Nannapaneni, Chairman and Managing Director in his personal capacity.

10. Government Grants

The Company has received Rs.3,000,000 (2009: Nil) towards the investment subsidy for the purpose of setting up and expansion of an industrial unit in the State of Uttaranchal.

(All amounts in Indian Rupees, unless otherwise stated)

11. Employee stock options

The Company had instituted Employee Stock Option Plan 2004 ("NATSOP 2004"). The scheme was formulated in accordance with the provisions of Section 81(1A) and other applicable provision of the Act, and was duly approved by way of a special resolution passed in the annual general meeting of the members held on 4 September 2004, authorizing the Board to issue employee stock options, that are exercisable into not more than 600,000 equity shares of the Company to employees, with each such option conferring a right upon the employee to apply for one equity share of Rs.10 each of the Company.

Based on the recommendations of Compensation Committee, 596,300 equity shares of Rs. 10 each, fully paid-up were granted at an exercise price of Rs.10 each to the eligible employees of the Company subject to the exercise period of five years from the date of vesting. These options were granted at an exercise price lower than the market value per share of Rs. 144 and using the intrinsic value method as prescribed under the Guidance Note, the Company has recognized the excess of market value per share over the exercise price as compensation expense over the progressive vesting period.

During the year ended 31 March 2010 the Company has amortized stock compensation expenses amounting to Nil (2009: Rs.620,246).

	For the year ended 2009-10		For the year ended 2008-09	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at the beginning of the year	107,125	10	128,375	10
Granted during the year	—	—	—	—
Forfeited during the year	—	—	21,250	10
Exercised during the year	107,125	10	—	—
Expired during the year	—	—	—	—
Outstanding at the end of the year	—	—	107,125	10
Exercisable at the end of the year	—	—	107,125	10

12. Employee benefits

Provident fund

During year ended 31 March 2010 the Company contributed Rs.22,915,323 (2009: Rs.21,435,517) to the Provident Fund.

Employee state insurance

During year ended 31 March 2010 the Company contributed Rs.2,752,233 (2009: Rs.3,029,222) to the Employee's State Insurance Corporation.

Gratuity

The Company has obtained the actuarial valuation report in line with the requirements of Accounting Standard -15 'Employee Benefits', in respect of gratuity liability and the estimated liability as at 31 March 2010 is provided in the books of accounts. The details of present value of obligations, current service cost and actuarial assumptions are given hereunder:

(All amounts in Indian Rupees, unless otherwise stated)

The amounts recognized in the profit and loss account are as follows:

	Year ended 31 March, 2010
Current service cost	4,730,892
Interest cost	4,043,794
Expected return on plan assets	(1,790,826)
Recognised net actuarial loss	12,112,608
Total included in 'employee benefit expenses'	19,096,468

Details of provision recognised in the balance sheet

	As at 31 March, 2010
Defined benefit obligation	55,081,820
Fair value of plan assets	22,240,895
Net provision for gratuity	32,840,925

Changes in present value of defined benefit obligation representing reconciliation of opening and closing balance thereof are as follows:

	As at 31 March, 2010
Defined benefit obligation at beginning of the year	35,405,852
Current service cost	4,730,892
Interest cost	4,043,794
Benefits paid	(1,211,326)
Actuarial loss	12,112,608
Defined benefit obligation at the end of the year	55,081,820

Changes in the fair value of plan assets representing reconciliation of opening and closing balances thereof are as follows:

	As at 31 March, 2010
Fair value of plan assets at beginning of the year	18,461,734
Actual return on plan assets	1,476,939
Actuarial gains	328,656
Contribution by employer	3,184,892
Benefits paid	(1,211,326)
Fair value of plan assets at the end of the year	22,240,895

(All amounts in Indian Rupees, unless otherwise stated)

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	As at 31 March, 2010
Investments with insurer	100%

The assumptions used in accounting for the gratuity plan are set out as below:

	Year ended 31 March, 2010
Discount rate	7.5%
Expected return on plan assets	7.5%
Attrition rate	
- up to 35 years	3%
- above 35 and up to 45 years	2%
- 45 and above	1%
Salary escalation	4%

The estimates of future salary increase, considered in actuarial valuation, take account of inflation, seniority, promotions and other relevant factors such as supply and demand in the employment market. The Company evaluates these assumptions annually based on its long term plans of growth and industry standards.

The previous year amounts relating to amounts recognised in the profit and loss account, change in fair value of plan assets are not available and hence could not be disclosed, as required under Accounting Standard 15, 'Employee Benefits'.

13. The Company has pledged the share certificates of NATCO Pharma Inc. and the interest in K & C Pharmacy, in favor of Aceto Corporation, Germany towards the supply advance received by the Company amounting to \$ 2,000,000. The relevant documents are deposited in an escrow account, as per the agreed arrangement. Advance outstanding in the books of accounts as of 31 March 2010 is Rs.52,638,740 (2009: Rs.94,860,000).

14. Related party disclosures

i. Names of related parties and nature of relationship

Names	Nature of relationship
NATCO Organics Limited, Chennai	Entity in which directors are interested
Time Cap Pharma Labs Limited, Hyderabad	Entity in which directors are interested
NATCO Trust, Hyderabad	Entity in which directors are interested
NDL Infratech Private Limited, Hyderabad	Entity in which directors are interested
V C Nannapaneni, Chairman and Managing Director	Key management personnel
Rajeev Nannapaneni, Director and Chief Operating Officer	Key management personnel
Durga Devi Nannapaneni	Relatives of a key management personnel
Dr. A K S Bhujanga Rao (from 30 July 2009)	Key management personnel
Dr. P Bhaskara Narayana, Director and Chief Financial Officer	Key management personnel

(All amounts in Indian Rupees, unless otherwise stated)

ii. Nature of transactions

Particulars	Year ended 2009-10	Year ended 2008-09
Transactions with entities in which directors Are interested		
<i>NATCO Organics Limited</i>		
- Share application money	260,555,202	–
<i>Time Cap Pharma Labs Limited</i>		
- Income from Job work charges and sales	4,570,897	101,360,000
- Income from rent	120,000	120,000
- Commission and expenses reimbursement	5,102,535	5,634,828
- Purchases	2,775,760	107,266,420
- Rental expense	1,800,000	1,800,000
<i>NATCO Trust</i>		
- Donations given	2,202,611	923,639
<i>NDL Infratech Private Limited</i>		
- Rent paid/payable	960,000	960,000
Transactions with key management personnel		
- <i>Managerial remuneration</i>		
V C Nannapaneni	10,608,000	10,608,000
Rajeev Nannapaneni	2,400,000	2,400,000
P Bhaskara Narayana	1,372,800	1,372,800
A K S Bhujanga Rao	1,832,225	–
Durga Devi Nannapaneni	–	2,688,000
- <i>Dividends paid</i>		
V C Nannapaneni	15,879,918	9,855,574
Rajeev Nannapaneni	1,813,220	1,133,263
P Bhaskara Narayana	15,000	6,250
A K S Bhujanga Rao	14,000	6,563

iii. Balance receivable/(payable)

Particulars	As at 31 March, 2010	As at 31 March, 2009
Time Cap Pharma Labs Limited, Hyderabad	1,904,556	(8,859,410)
NDL Infratech Private Limited, Hyderabad	3,947,919	6,285,382
V C Nannapaneni	(254,899)	(536,596)
Rajeev Nannapaneni	(117,133)	(158,705)
Dr. P Bhaskara Narayana	(108,949)	(224,560)
Dr. A K S Bhujanga Rao	(224,482)	–
Durga Devi Nannapaneni	–	(119,957)

(All amounts in Indian Rupees, unless otherwise stated)

15. Operating Leases

The Group has entered into operating lease agreements for office premises at certain locations in USA. There are no restrictions imposed by lease arrangements. The maximum obligations on non-cancelable operating leases payable as per the rentals stated in the respective agreements are as follows:

	As at 31 March, 2010	As at 31 March, 2009
Lease expense for the year	8,737,989	8,207,671
Minimum lease payments:		
Not later than one year	13,682,521	7,229,060
Later than one year but not later than five years	23,487,290	37,941,553
Later than five years	–	737,187

16. Segment reporting

The primary and secondary reportable segments are business segments and geographical segments respectively.

The Group's principal segments of business are bulk chemicals, finished dosage formulations and job work charges. Segment's revenue, expense, assets and liabilities include amount of such items that can be allocated to the segment on a reasonable basis. Revenues, expenses, assets and liabilities which relate to the enterprise as a whole and are not allocable to segments on a reasonable basis have been included under 'common'.

The group's business is organized in two key geographical segments. Revenues are attributable to individual geographic segments based on the location of the customer.

For the year 2009-10:

A. Primary segment

Description	Bulk chemicals	Finished dosage formulations	Others	Elimination	Total
Revenue					
External sales	889,200,766	3,460,061,855	–	–	4,349,262,621
Inter-segment	163,043,879	–	–	163,043,879	–
Less: Excise duty	15,016,237	26,715,667	–	–	41,731,904
TOTAL	1,037,228,408	3,433,346,188	–	163,043,879	4,307,530,717
Service income	–	–	158,395,918	–	158,395,918
Job work charges	–	101,093,266	–	–	101,093,266
Other income	23,161,303	4,683,255	9,946,979	–	37,791,537
Segment Revenues	1,060,389,711	3,539,122,709	168,342,897	163,043,879	4,604,811,438



(All amounts in Indian Rupees, unless otherwise stated)

Description	Bulk chemicals	Finished dosage formulations	Others	Elimination	Total
Results					
Segment result	80,800,964	897,798,777	123,727,590	–	1,102,327,331
Interest					146,924,868
Other un-allocable expenditure					332,284,269
Interest income					(8,438,950)
Net profit before tax					631,557,144
Taxes					
- Current tax					112,197,076
- Deferred tax					27,458,254
- Fringe benefit tax					(3,043,368)
Net profit before prior period items					494,945,182
Prior period expenditure					15,459,290
Net profit before Minority interest					479,485,892
Minority interest					(7,695,235)
Net profit after minority interest					487,181,127

Other information

Description	Bulk chemicals	Finished dosage formulations	Others	Elimination	Total
Segment assets	1,173,674,092	3,437,860,192	897,590,678	–	5,509,124,962
Segment liabilities	435,939,990	1,696,331,565	319,476,449	–	2,451,748,004
Capital expenditure	147,305,344	217,922,502	21,535,629	–	386,763,475
Depreciation, amortization and impairment loss	67,758,155	130,567,755	13,177,274	–	211,503,184
Non cash expenses other than depreciation	50,169,754	10,789,750	31,904,705	–	92,864,209

(All amounts in Indian Rupees, unless otherwise stated)

For the year 2008-09:**A. Primary segment**

Description	Bulk chemicals	Finished dosage formulations	Others	Elimination	Total
Revenue					
External sales	1,065,884,578	3,284,399,519	-	-	4,350,284,097
Inter-segment	54,300,000	-		54,300,000	-
Less: Excise duty	18,700,433	22,325,709	-	-	41,026,142
Total	1,101,484,145	3,262,073,810	-	54,300,000	4,309,257,955
Service income	-	-	22,356,600	-	22,356,600
Job work charges	-	104,052,796	-	-	104,052,796
Other income	-	-	40,072,202	-	40,072,202
Segment Revenues	1,101,484,145	3,366,126,606	62,428,802	54,300,000	4,475,739,553
Results					
Segment result	125,600,000	729,951,736	199,400,000	-	1,054,951,736
Interest					151,082,123
Other un-allocable expenditure					336,900,000
Interest income					(9,286,620)
Net profit before tax					576,256,233
Taxes					
- Current tax					71,138,915
- Deferred tax					37,000,000
- Fringe benefit tax					4,756,935
Net profit before prior period items					463,360,383
Prior period expenditure					9,847,958
Net profit before Minority interest					453,512,425
Minority interest					13,793,413
Net profit after minority interest					439,719,012

Other information

Description	Bulk chemicals	Finished dosage formulations	Others	Elimination	Total
Segment assets	1,161,873,146	3,498,645,110	599,681,518	-	5,260,199,774
Segment liabilities	508,666,391	1,849,938,717	-	-	2,358,605,108
Capital expenditure	167,700,000	289,000,000	87,417,003	-	544,117,003
Depreciation and amortization	63,100,000	73,276,210	4,200,000	-	140,576,210
Non cash expenses other than depreciation	-	8,870,506	10,670,780	-	19,541,286

(All amounts in Indian Rupees, unless otherwise stated)

B. Secondary segment

Sales revenues by geographic markets (gross of excise duty)

Particulars	As at 31 March, 2010	As at 31 March, 2009
India	2,121,455,067	1,618,271,534
United States of America	1,538,525,146	1,857,341,483
Europe	944,831,225	1,000,126,536
TOTAL	4,604,811,438	4,475,739,553

17. Deferred tax liability, net

Particulars	As at 31 March, 2010	As at 31 March, 2009
Deferred tax liability on account of depreciation	268,344,325	255,002,486
Deferred tax asset on account of gratuity and leave encashment	—	14,116,415
Net deferred tax liability	268,344,325	240,886,071

18. In June 2009, K & C Pharmacy, partnership firm in which the Company is a partner, sold a component, 'Newark Drugs Stores' which was acquired in February 2008, owing to the difficulties the partnership firm faced in obtaining Medicaid reimbursements. Loss arising on account of such sale is accounted in the books of the firm and group's share of loss is duly accounted in consolidated financial statements.

19. Payable to micro enterprises and small enterprises

On the basis of the information and records available with management, there are no dues/ overdue principal amounts payable to micro and small enterprises as at 31 March 2010 and there is no interest is paid / payable for the year ended 31 March 2010.

20. Prior year comparatives

The previous year figures are regrouped /rearranged to confirm to current period presentation.

SIGNATURES TO SCHEDULE 1 TO 24

As per our report of even date

For and on behalf of the Board of Directors

For **Walker, Chandio & Co.**
Chartered Accountants
per **Sanjay Kumar**
Partner

V.C. Nannapaneni
Rajeev Nannapaneni

Chairman & Managing Director
Director & Chief Operating Officer

Place : Hyderabad
Date : 25th June, 2010

Dr. P. Bhaskara Narayana
M. Adinarayana

Director & Chief Financial Officer
Company Secretary & G M (Corp. Affairs)

CONSOLIDATED CASH FLOW STATEMENT FOR YEAR ENDED 31 MARCH 2010

(All amounts in Indian Rupees, unless otherwise stated)

	For the year ended 2009-10	For the year ended 2008-09
A. Cash flows from operating activities		
Profit before tax and after prior period items	616,097,854	566,408,275
Adjustments for		
Depreciation, amortization and impairment	211,503,184	140,576,210
Unrealised foreign exchange (gain) / loss	778,509	-
Interest income	(8,438,950)	(9,286,620)
Interest expense	146,924,868	151,082,123
Profit on sales of fixed assets	(764,621)	(746,205)
Credit balances / excess provisions written back	-	(182,109)
Provision for doubtful debtors	5,070,194	-
Bad debt written-off	4,148,017	3,239,001
Employee stock option expense	-	620,246
Provision for gratuity	15,896,807	1,199,098
Provision for compensated absences	-	7,640,894
Inventory written-off	56,811,487	5,631,505
Loss on sale of investments	-	15,234
Diminution in the value of investments	23,759	32,940
Advances written-off	10,135,436	2,090,682
Operating profit before working capital changes	1,058,186,544	868,321,274
Increase in inventories	(28,224,673)	(125,084,116)
Decrease/(increase) in sundry debtors	35,484,626	(146,387,633)
Decrease/(increase) in loans and advances	(45,147,897)	(71,223,564)
Increase/(decrease) in current liabilities	(74,484,943)	180,391,326
Cash from operating activities	945,813,657	706,017,287
Income taxes paid [including fringe benefit tax]	(172,119,173)	(100,234,557)
Net cash from operating activities	773,694,484	605,782,730
B. Cash flows from investing activities		
Purchase of fixed assets	(374,858,916)	(544,117,003)
Interest received	10,690,760	7,516,339
Proceeds from sale of fixed assets	14,006,853	2,585,446
Increase in restricted cash and cash equivalent	5,290,578	1,845,425
Investment in mutual fund	(3,071,439)	-
Increase in Share application money	(260,555,203)	(206,508,469)
Net cash used in investing activities	(608,497,367)	(738,678,262)



CASH FLOW STATEMENT (Contd.)

(All amounts in Indian Rupees, unless otherwise stated)

	For the year ended 2009-10	For the year ended 2008-09
C. Cash flows from financing activities		
Proceeds from long term borrowings	750,000,000	320,000,000
Proceeds from issue of shares	1,071,250	—
Finance charges	(154,715,692)	(150,870,070)
(Repayment) / Proceeds from short term borrowings, net	(62,749,412)	106,154,885
Repayment of long term borrowings	(756,219,645)	(104,310,844)
Share of distribution of minority interest	(12,413,500)	(12,291,688)
Dividends including tax on dividend	(106,422,421)	(80,331)
Net cash (used in)/from financing activities	(341,449,420)	158,601,952
Effect of currency translation adjustment (D)	(28,147,606)	7,393,782
Net change in cash and cash equivalents during the year (A+B+C+D)	(204,399,909)	33,100,202
Cash and cash equivalents at the beginning of the year	273,858,101	240,757,899
Cash and cash equivalents at the end of the year (Refer Note 1 below)	69,458,192	273,858,101
Notes 1:		
Cash and bank balances (as per Schedule 11)	81,182,317	290,922,965
Less: Margin money deposits	11,774,286	17,064,864
Add: Effect of exchange gain on cash and cash equivalents	50,161	—
Cash and cash equivalents considered for cash flow	69,458,192	273,858,101

As per our report of even date

For and on behalf of the Board of Directors

For **Walker, Chandiok & Co.**
Chartered Accountants
per **Sanjay Kumar**
Partner

V.C. Nannapaneni
Rajeev Nannapaneni

Chairman & Managing Director
Director & Chief Operating Officer

Place: Hyderabad
Date: 25th June, 2010

Dr. P. Bhaskara Narayana
M. Adinarayana

Director & Chief Financial Officer
Company Secretary & G M (Corp. Affairs)

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**1. REGISTRATION DETAILS**Registration No. State Code Balance Sheet
Date Month Year**2. CAPITAL RAISED DURING THE YEAR (Amount in Rs. Thousands)**Public Issue Rights Issue Bonus Issue ESOP's **3. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (Amount in Rs. Thousands)**Total Liabilities Total Assets **SOURCES OF FUNDS**Paid-up Capital Reserves & Surplus Secured Loans Unsecured Loans Deferred Tax Liability Profit & Loss Account **APPLICATION OF FUNDS**Net Fixed Assets Investments Net Current Assets Misc. Expenditure **4. PERFORMANCE OF THE COMPANY (Amount in Rs. Thousands)**Turnover Total Expenditure
(Gross Revenue)Profit before Tax Profit after Tax
Inclusive of Deferred TaxEPS Basic Dividend Rate %
Diluted **5. GENERIC NAMES OF PRINCIPAL PRODUCTS/SERVICES OF THE COMPANY (As per Monetary Items)**Item Code No. (ITC Code) Product Description Item Code No. (ITC Code) Product Description Item Code No. (ITC Code) Product Description



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ATTENDANCE SLIP



NATCO PHARMA LIMITED

Registered Office: NATCO House, Road No.2, Banjara Hills, Hyderabad 500 033

Please fill Attendance Slip and hand it over at the entrance of the Meeting Hall

DPID* :
Client ID* :

Folio No. :

Name and address of the Shareholder
No. of Share(s) held :

I / We hereby record my / our presence at the 27th ANNUAL GENERAL MEETING of the Company held on Thursday, the 30th day of September, 2010 at 10:00 a.m. Jubilee Hills International Center, Jubilee Hills, Hyderabad - 500 033

Signature of the Shareholder or Proxy

* Applicable for investors holding shares in Electronic Form.

----- Tear Here -----

PROXY FORM



NATCO PHARMA LIMITED

Registered Office: NATCO House, Road No.2, Banjara Hills, Hyderabad 500 033

DPID* :
Client ID* :

Folio No. :

I/We -----
of ----- being a member/members of Natco Pharma
Limited hereby appoint -----
of ----- or failing
him/her ----- of
as my/our proxy to vote for me/us and on my/our behalf at the 27th ANNUAL GENERAL MEETING to be held on
Thursday, the 30th day of September, 2010 at 10:00 a.m. or at any adjournment thereof.

Signed this ----- day of ----- 2010.

* Applicable for investors holding shares in Electronic Form.

Affix
1 Rupee
Revenue
Stamp

- Note:
- The Proxy Form should be signed across the stamp as per specimen signature registered with the Company.
 - The Proxy Form must be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for holding the meeting.
 - The Proxy need not be a member of the Company.

NOTES:

[illegible]



NOTES:

[illegible]