BOARD'S REPORT

Dear Members,

Your Directors are pleased to present the 31st Annual Report of the Company together with the audited accounts for the financial year ended 31 March 2018.

FINANCIAL HIGHLIGHTS

Standalone financials ₹ Million

	2017-18	2016-17
Revenue from operations	103,031.5	97,812.1
EBITDA	26,700.0	23,740.0
Depreciation	3,548.3	2,861.7
Finance cost	528.9	451.6
Profit before Tax	23,429.4	21,785.7
Provision for Tax	5,301.7	4,718.1
Net Profit after tax	18,127.7	17,067.6
Other Comprehensive Income/ (expense)	-21.8	-56.1
Total Comprehensive income for the period	18,105.9	17,011.5

DIVIDEND

Your Company has paid first interim dividend of 150% i.e. ₹1.50 per equity share of ₹1/- and second interim dividend of 100% i.e ₹1/- per equity share of ₹1/-. The total dividend for the financial year 2017-18 comes to 250% i.e. ₹2.50 per equity share of ₹1/- against 250% i.e ₹2.50 per equity share of ₹1/- paid in the previous year.

Pursuant to Regulation 43A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, top five hundred listed entities based on market capitalization are required to formulate a Dividend Distribution Policy. The Board has approved and adopted the Dividend Distribution Policy and the same is available on the Company's website viz. www.aurobindo.com.

PERFORMANCE REVIEW

Your Company continued to strengthen its position across global markets during the year. It delivered yet another year of consistent and profitable growth; and fortified its manufacturing and research capabilities.

Your Company continued to build a robust pipeline of products for the future and invested in elevating operational efficiencies to improve the quality of products. The holistic wellbeing of employees also remained a priority. During the reporting period, there was a sustained focus to augment the strengths of your Company and sharpen competitive advantages with a view towards long term value creation.

On a standalone basis, your Company revenues registered a growth of 5.3% reaching ₹103,032 million in FY 2017-18, compared to ₹97,812 million. EBITDA stood at ₹26,700 million, an increase of 12.5% over FY2016-17. EBITDA margins increased by ~160 bps to 25.9% during the year and profit before tax for the year at standalone level was ₹23,429 million, a 7.5% growth over the preceding year. Your Company's net profit was at ₹18,128 million, a growth of 6.2% over ₹17,068 million reported in FY2016-17. The diluted earnings per share stood at ₹30.94 compared to ₹29.16 in FY2016-17.

On a consolidated basis the performance for the FY2017-18 is, revenues increased to ₹164,998 million from ₹150,899 million in the previous year, at 9.3% growth. The formulations business registered a revenue growth of 12.4% and improved to ₹135,332 million from ₹120,454 million in the previous year. The API business sales stood at ₹29,622 million from ₹30,421 million in the corresponding previous period. EBITDA margins expanded by ~20 bps to 23.0% vis-à-vis 22.8% in 2016-17. EBITDA was ₹37,885 million, witnessed a 10.3% growth over the corresponding previous period. Net profit grew by 5.3% to ₹24,232 million. The growth in net profit was impacted by a one-time expense related to a tax charge.

The diluted earnings per share stood at ₹41.36 compared to ₹39.33 in 2016-17. The healthy growth in revenues and profits were driven by new product launches across markets, improvement in market share of existing products, enhanced productivity and cost optimizations.

In the US, the Tax Cuts and Jobs Act of 2017 was approved and enacted into a law on December 22, 2017. This resulted in reduction of federal corporate tax from 35% to 21%. As a result, the Company re-evaluated its U.S. deferred tax assets and liabilities, and recognized a one-time charge of ₹664 million.

As on 31 March 2018, the Company filed 478 ANDAs on a cumulative basis. Of the total count, 327 have final approvals and 34 have tentative approvals, including 11 ANDAs which are tentatively approved under the US President's Emergency Plan for AIDS Relief (PEPFAR) and the balance 117 ANDAs are under review.

Your Company witnessed growth across the key geographies in the formulations segment. The US business reported 9% growth to ₹74,421 million and contributed 45% to total revenues. The growth in revenues was driven by new product launches, including complex products, coupled with an increase in the market share of existing products. Your Company witnessed growth, despite pricing pressures in the orals segment. The pricing pressure in orals segment was led by an increase in competition with the improved pace of USFDA approvals and customer consolidation.

Your Company registered a robust 32.9% growth in revenue from the Europe formulations business, reaching to ₹43,544 million in FY2017-18 over the previous year revenue of ₹32,771 million. Aurobindo continues to work towards improving synergies between the acquired businesses of Actavis and Generis, and the Company's existing ground presence in several markets. During the year under review, the EBITDA margins in the European region touched double digit.

The improvement in revenue and profitability happened on the back of transferring manufacturing base for products to India, continued streamlining of business structures, integrating and optimizing the information flow to improve decision-making and control; and new product launches, including Day-1 launches. As on 31 March 2018, the Company has transferred the manufacturing activities of 83 products from Europe to India.

Your Company's formulations sales in Growth Markets including Brazil, Canada, Columbia and South Africa grew by 18.7% to ₹8,971 million vis-à-vis ₹7,556 million reported in 2016-17. This segment remains a key market for Aurobindo and renewed efforts are made to position your Company's products as one of the preferred suppliers in the existing and new geographies.

The ARV formulations business was negatively impacted during the year and posted sales of ₹8,396 million vis-à-vis ₹11,854 million. The decline in sales was due to incremental pricing pressure in one of the key molecules and delay in some country specific tenders. During the year, the Company received tentative approval from USFDA for Dolutegravir triple combination product (Tenofovir, Lamivudine and Dolutegravir tablets) under the PEPFAR program, which enables your Company to launch the product in PEPFAR markets. Your Company is the second pharma enterprise to receive the USFDA approval for this drug.

OUTLOOK

Your Company will continue to invest in building a diversified product portfolio and improve its market share in the existing product basket. Quality and regulatory compliance will continue to be the cornerstone of your Company's overall operations. As the demand for critical therapies continue to rise, your Company continues to develop differentiated and new drug delivery systems in these therapies and contribute to improve the lives of patients globally.

In the coming years, the organization's key priorities will comprise: building a robust pipeline of complex molecules and setting up state-of-the art manufacturing facilities for select therapies that meet high compliance standards; minimizing wastage and maximizing the recycling of materials; reducing the risk in operations; enhancing community wellbeing and being a preferred partner to all stakeholders.

Despite shifting industry trends, your Company's strong balance sheet and robust operations have helped it stay on track of its growth plans. Your Company's product portfolio and pipeline has significant potential for sustainable volume growth. Research and Development (R&D) initiative has been undertaken on difficult-to-manufacture and differentiated products, with possible low competitive pressure. Work is currently in progress for development of differentiated molecules, both for oral and injectable products. FY2018-19 promises to be a year with many milestones across a differentiated product basket.

Aurobindo is optimistic of the sustained value that will be created through the planned new initiatives. In the last fiscal, your Company made considerable development across the upcoming product categories and the same is encapsulated in R&D section.

To manufacture a growing product pipeline, your Company initiated significant improvements in capacities to bolster volumes:

- Unit XVI: The Company has successfully commissioned Betalactum injectables manufacturing facility at Jadcherla, Telengana in FY2017-18, which will improve the injectable volumes for the US, EU and Growth Markets.
- Unit X: The Company is building an USFDA compliant oral manufacturing facility at Naidupet, Andhra Pradesh; and the facility will be commissioned during FY2018-19. It has been inspected by USFDA and EMA.
- Injectable facility in US: The Company is in the process of setting up a non-Betalactum injectable manufacturing facility in the US, which is in line with the diversification strategy.

For a sustainable future growth and to spread the geographical risk, Aurobindo has been steadily expanding its European footprint since 2006, via acquisitions across several key markets and organically building a diversified product basket. The acquisition of Generis, referred to earlier, builds upon an already successful growth strategy.

Your Company's products have the potential to improve the lives of millions of patients across the globe.

RESEARCH & DEVELOPMENT

Your Company's new product development initiatives ranges from conventional orals to injectable products to more complex and advanced dosage forms. In the last fiscal, the R&D efforts led to filing ANDAs of complex and niche products including oral and sterile drug products

Oncology and Hormones

Eugia's product portfolio comprises of 79 products that are prescribed for Oncology, Hormone & Immuno-suppressant indications. The Oncology product portfolio is diverse and are approved for treating cancers (involving 16 different indications), either in single or in combination with other drugs. The Hormonal products that are being developed by Eugia are approved prescribed for indications involving, Pre-term birth, birth control, Amenorrhea & Hypergonadism.

Oncology products are a highly specialized class of products and are difficult to produce due to their toxic characteristics and the need for specialized preparation and handling. Of the 71 oncology products which have been shortlisted, 55 products are already in the development phase. We have filed 7 ANDAs as on 31 March, 2018, in the Oncology Segment. In hormones segment, a total of eight products have been identified for development and the Company has already filed six ANDAs.

The Company has also planned to develop and manufacture the Oncology and Hormone products for distribution in Europe markets. With a plan to de-risk the portfolio and improve market share, the Company aims to file these products across Canada and other key emerging markets in future. The facility is designed to cater to ~20% of the global volume demand for the products that are part of Eugia's portfolio.

The manufacturing facility at Eugia comprises of the Oral solid dosage forms (Tablets & Capsules) and Injectables (Wet vials, dry vials & pre-filled syringes) and was inspected twice by the USFDA in FY2017-18. The facility has also been inspected by EMA in FY2017-18 and has been approved without any observations.

In FY2017-18, the Company filed 11 ANDAs with the USFDA and Exhibit batches for 25 products were completed.

In FY2018-19, it is estimated that Exhibit batches for 20-24 products will be completed and 15-18 ANDA's will be filed in US market.

The Company has received its first ANDA approval (product name: Capecitabine) in the first quarter of FY2018-19.

According to IQVIA, global spending on cancer therapies and supportive care drugs now exceeds $133 billion. The U.S. is the biggest contributor to this trend with spends accounting for 46% of global spending. The global market for oncology therapeutic medicines is estimated to reach $200 billion by 2022, averaging 10—13% growth over the next five years, with the U.S. market reaching as much as $100 billion by 2022, averaging 12–15% growth. The global market size of the products under development is $ 45 billion.

Biologics

The Company started working on biosimilars a couple of years ago. In February 2017, Aurobindo acquired five molecules from TL Biopharmaceuticals. Your Company is currently developing nine more products and the pipeline spans across oncology, rheumatology and ophthalmology. The global market size of these products is around $ 45 billion.

To build this segment into an important future growth driver, your Company has invested in a state-of-the-art manufacturing facility with 1,40,000 square feet comprising of mammalian cell culture, microbial fermentation, quality control, fill and finish sections. This facility has been commissioned and the exhibit batches will be completed in FY2018-19. With a total R&D employee strength of 75 people for biologics division, the Company will start Phase I clinical trials for its lead molecule i.e. Bevacizumab – a biosimilar to Avastin® in FY2018-19. Apart from Bevacizumab, the Company has also started doing animal toxic studies on an ophthalmic product which will be ready for Phase III trials in FY2019-20.

Peptides

Peptides are short chains of amino acid monomers linked by peptide (amide) bonds. The Company has invested in developing a state-of-the-art peptide development laboratory and four manufacturing suites for its commercial production. Till date, Auro Peptides have developed the process for manufacturing 14 peptides; and two more molecules are in the process of development.

The unit has already filed four DMFs with US regulatory authorities and is planning to file an additional 3 DMFs in FY2018-19. Presently, Auro Peptides is supplying material for formulation development and the execution of its validation batches. These peptide APIs are being utilized for the development of three liposomal injectable products and seven injectable products. The addressable market size of these products is about $ 12.2 billion

Biocatalysis

Aurobindo invents, identifies and produces biocatalysts through fermentation processes which are subsequently developed into scalable biocatalytic solutions. This reduces the usage of chemicals within the processes during pharmaceutical manufacturing, saving costs whilst benefiting from this green technology. The high technical base and core competence of Aurobindo has made it easier to initiate the entry in to enzyme production.

The Company has a highly qualified dedicated team of over 30 professionals, with an on-going technology development program which has built a library of over 7,000+ biocatalysts across 15 classes of enzymes. Supplementing the initial R&D molecular and microbiology facilities, your Company has invested in state-of-the-art fermentation development equipment which encompasses twelve 20 litre automated fermentation vessels, with associated downstream processing including: homogenization, tangential flow filtration and resin purification. A number of biocatalytic projects and processes have been identified utilizing internally developed technology, and these are now progressing through process validation. This development work is supported by the 1KL pilot facility leading to the 10KL enzyme production facility.

Penems

Penem products are manufactured at the Company's Auronext manufacturing facility at Bhiwadi, Rajasthan. The total capacity of the unit is ~ 1.0 million vials per month. The facility was re-inspected in February 2018 and received Establishment Inspection Report (EIR).

The Company has filed two ANDAs with USFDA and received approvals for both the products. The approval for Meropenem was received in March 2017 and the same was launched in US in April 2017. In the month of June 2018, an approval was received for Ertapenem injection and is in the process of launching in US. The market size of these products put together is around $ 480 million for the 12 months ending 31 March 2018. In Europe, the Company already launched Meropenem injection (with a market size which is over $ 200 million) and expects to launch Ertapenem in FY2018-19

Dermatology

Topicals

The Company has currently identified 38 products for development and started working on 23 products. The market size of these products is $ 5 billion.

The identified products have presence across various dosages including Ointment (7 nos), Cream (14 nos), Gel (12 nos) and Solution (5 nos) in the pipeline. Of the 38 products under development, around 24 products need clinical trials or BE studies which are planned to kick-start in Jan 2019.

In FY2017-18, the Company has produced exhibit batches for two products and is planning to execute exhibit batches for another 17 products in FY2018-19. APL, North Carolina site, is expected to be ready for manufacturing these products in August 2018. The Company filed the first ANDA in the first quarter of FY2018-19; and is planning to file another five ANDAs by the end of this fiscal.

Transdermal

Currently, the Company's pipeline includes five patches under development. The addressable global market size of these products is around $ 2.8 billion. The clinical studies for these products had started in June 2018 and the first ANDA for patches will be filed in November 2019. APL, North Carolina site is planned for manufacturing these products; and the capacity will be ready by October 2018.

Respiratory

Inhalers

Your Company has been working towards creating a diverse portfolio of products with different drug delivery systems. With the respiratory portfolio, the Company now has six inhaler products under development; of which four products are likely to come up for exhibit batches during FY2018-19. The market size of these products under development is $ 7.5 billion.

The pilot pharmacokinetics analysis will start during April 2019 for one of the key products; and the Company expects to file its first ANDA during the first quarter of 2020. These products will be manufactured from APL, North Carolina, which will be commissioned in October 2018 for exhibit batch production. This facility will be equipped with a capacity to handle 10 to 15 million units with eight head filling machines and a 500L vessel.

Nasals

The Company has a strong pipeline of nasals with five products under development, of which two products already had exhibit batches in FY 18; and another two products are expected to have exhibit batches during FY2018-19. The market size of these products is $ 0.5 billion. The Company expects to file two ANDAs in FY2018-19 and the remaining will be filed in FY2019-20. These products are manufactured in Unit X; and the unit has a current monthly capacity to produce 1.4 million units.

Depot Injections

Your Company is currently developing four depot injections, which have a combined addressable market size of $ 3.6 billion. These products are ready for scaling-up and waiting for manufacturing capabilities to be commissioned.

Vaccines

The need for improved public health and medicines to protect infants is fast becoming a global priority. In view of this reality, your Company was focused on development of the pneumococcal conjugate vaccine (PCV), and the development was completed in FY2017-18. The global market size of the product is $ 6 billion.

The Company has received the approval to conduct Phase I clinical trials from the Drug Controller General of India (DCGI) in April 2018; and has initiated the trials in May 2018 and completed the same in June 2018. The Company will be submitting the report to DGCI by August 2018 and Phase 2 clinical trials are expected to commence in the third quarter of FY2018-19.

All the clinical trials are expected to be completed by 2020; and the Company expects to be ready for taking part in the upcoming government tender during 2021. Your Company is setting up a manufacturing facility in Hyderabad with an annual capacity of 100 million doses.

ENVIRONMENT, HEALTH & SAFETY

Your Company's EHS imperatives are part of its broader sustainability journey. These initiatives focus on reducing the environment footprint, help enhance wellbeing of employees and set high safety standards for employees, contractors and visitors. While several steps have been taken to enhance these standards and raise awareness across the organization, Team Aurobindo believes that it is an area with no finish line; and more needs to be done to remain ahead of the curve in this dynamic industry.

Few initiatives taken during the year comprise of

Environment

In FY2017-18, the Company continued to ensure that environmental norms were abided by all its API and Formulation units. API manufacturing units in Telangana state demonstrated compliance to Zero Liquid Discharge norms.

The Formulations Units and other API units have conformed to the regulations for disposal of wastewater to Common Effluent Treatment Plants (CETPs) or marine discharge. New initiatives for treatment of wastewater using advanced technologies, viz., membrane bio-reactors, supplementing the infrastructure required in line with expansion projects have been started for some of the API manufacturing facilities.

Standardized practices for disposal of organic wastes to cement units for reuse as auxiliary fuel in cement kilns continues. While inorganic and miscellaneous solid wastes are being disposed to treatment, storage and disposal facilities (TSDF). New

initiatives for additional control measures on fugitive emissions at waste treatment facilities at some of the API initiatives like providing hoods on waste water storage tanks, arrangement of additional scrubbers, among others have been started. The API units are equipped with monitoring instruments for continuous assessments of fugitive emissions in the premises.

Vermi-composting of garden and kitchen waste was attempted in one of the API manufacturing units on a pilot basis that proved to be highly successful. This initiative will be taken forward to other units in the future.

The Company has installed, online continuous emissions monitoring systems across manufacturing units. These are connected to the Central and concerned State Pollution Control Boards as per norms. Public consultation process for expansion of Aurobindo Unit XI is completed and is gearing up for the submission of Environmental Impact Assessment (EIA) report to the Ministry of Environments and Forests & Climate Change (MoEF & CC). Environment assessments across API and DP formulations units by Aurobindo's customers in FY2017-18 concluded on a highly satisfactory note.

Safety

To maintain a safe working environment, safety pep-talks were initiated before every shift, on hazards in activities and necessary precautions to be taken in case of a mishap. As an important process inclusion, hazard and operability study (HAZOP) and risk analysis were conducted for all new products.

Historical events including injuries and other incidents were analysed and actions have been initiated to address the common root causes. The Company has created a training matrix for contract workers, based on their initiatives and special training modules have been implemented for production heads for managing and leading the safety agenda.

HUMAN RESOURCES

Your Company's ability to respond to new challenges and opportunities depends on effective leadership, knowledge, expertise and new ideas shared at all levels. Therefore, Aurobindo recognizes human capital as the most important element to drive its progress. Hence, your Company has devised initiatives that enable training and development of employees across levels and enables their professional and personal growth.

Your Company's human resources management framework is aligned to the business goals and drives key decisions on business processes and introduction of new technology. The HR interventions of the Company focuses on skilling the existing workforce and empowering them to step beyond their defined roles. Emphasis is laid on ensuring that every colleague is well informed with the Standard Operating Procedures on quality and compliance. Shop floor executives are continuously trained and groomed in the area of compliance, supported adequately to raise their competence, confidence and anytime readiness.

Employees at the shop floor undergo classroom training, on-the-job training and assessments. Over 8,000 person days of training was conducted for them during the year under review.

Nalanda, the online learning program, helps employees to choose from a range of strategic leadership courses in partnership with CROSS knowledge. Launched with a vision towards business excellence through leadership and functional competency development, 271 employees were trained under the program in FY2017-18. Nalanda training is exclusively for junior, middle and senior management.

Employees covered under Technical, Safety & Quality Trainings in addition to mandatory cGMP Trainings (FML + API) is above 1,000 during the year. Several employees underwent multiple, need-based programs. Aurobindo Training and Development Centre (ATDC) developed 464 talented professionals, who can be leaders of tomorrow. During the year, your company recruited 4,135 employees.

Established in 2014 with a vision to impart Technical and Application skills to the future workforce of Aurobindo, ATDC (Aurobindo Training & Development Centre) has since been making steadfast contribution in Talent space to compliment the steady yet rapid growth our APL has achieved. It is a great privilege to report our ATDC achieved major milestone with placement of 1004 trained candidates since inception and enculturated future ready workforce into Aurobindo ranks.

AWARDS

- Received "Pharmexcil Outstanding Exports Award 2016-17" in the category of highest Number of ANDAs filed in the calendar year 2016.
- Bagged two Awards in "Excellence in Skill Development" & "Excellence in Pharma Digital Innovation" for the 2nd time in row at the India Pharma Awards 2017 in South-Asia's largest pharmaceutical event- CPhI& PMEC India.
- Have won the "IDMA MARGI MEMORIAL BEST PROCESS PATENTS AWARD 2016-17" (for 2 Indian & 1 US Granted patents; supported by several other patent applications filed during the said year) awarded by Indian Drug Manufacturers' Association.
- Our HR team received certificate of appreciation from BML Munjal Awards 2018 for attaining Expert Panel evaluation level in the category of "Learning and Development".
- Received "2017 Business Award" from The East Windsor Township for best community enhancement contributions in East Windsor Township.
- Aurobindo won "Company of the Year, Asia Pacific" award at Global Generics and Biosimilars Awards 2017.
- Aurobindo's Unit 15 at Parawada - Vizag awarded by the State Government of Andhra Pradesh for best management award in manufacturing sector. (in Mid-Size Industries category)

SUBSIDIARIES/JOINT VENTURES

As per the provisions of Section 129 of the Companies Act, 2013 read with the Companies (Accounts) Rules 2014, a separate statement containing the salient features of the financial statement of subsidiary companies/associate companies/joint ventures is detailed in Form AOC-1 and is in **Annexure-1** to this Report.

During the year, the following are the changes in the subsidiaries of the Company:

Ceased as subsidiaries

Raidurgam Developers Limited (formerly known as Aurobindo Antibiotics Limited) now became a joint venture

Aurobindo Pharma USA LLC (Liquidated w.e.f. 31.03.2018)

Aurobindo Pharma (Portugal) Unipessoal Limitada (Merged with Generis Farmaceuita SA effective 1st April, 2018)

Aurovitas, Unipessoal LDA (Merged with Generis Farmaceuita SA effective 1st April, 2018)

Aurobindo Ilac Sanayi Ve Ticaret Limited Sirketi (Liquidated on 31st October, 2017)

Mer Medicamentos, Lda (Merged with Generis Farmaceuita SA effective 1st April, 2018)

Farma APS (Liquidated w.e.f 25.01.2018)

Generis Mozambique (Liquidated w.e.f 19.03.2018)

Incorporation of New subsidiaries

Aurobindo Pharma Saudi Arabia Limited, Saudi Arabia

AuroLogistics LLC, USA

Auro Pharma India Pvt.Ltd, India

Aurovitas Pharma Ceska Republica s.r.o, Check Slovakia

Acquisition

Agile Pharma BV, a step down subsidiary of the Company acquired Generis Farmacêutica SA and its 4 subsidiaries viz. Mer Medicamentos, Portugal, Generis Phar, Portugal, Pharma APS, Portugal and Generis Mozambique, Portugal. Post acquisition of Generis Farmacêutica SA, Portugal, as part of restructuring of operations in Portugal, Aurobindo Pharma (Portugal) Unipessoal Limitada and Aurovitas, Unipessoal LDA, Mer Medicamentos, Lda, Farma APS and Generis Mozambique have been either merged with Generis Farmacêutica SA or liquidated.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements have been prepared by the Company in accordance with the Indian Accounting Standards (Ind AS) 110 and 111 as specified in the Companies (Indian Accounting Standards) Rules, 2015 and as per the provisions of Companies Act, 2013. The Company has placed separately, the audited accounts of its subsidiaries on its website www.aurobindo.com, in compliance with the provisions of Section 136 of the Companies Act, 2013. Audited financial statements of the Company's subsidiaries will be provided to the Members, on request.

VIGIL MECHANISM

The Board of Directors has adopted the Whistle Blower Policy which is in compliance with Section 177(9) of the Companies Act, 2013 and Regulation 22 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The Whistle Blower Policy aims for conducting the affairs in a fair and transparent manner by adopting highest standards of professionalism, honesty, integrity and ethical behavior. All permanent employees and whole-time directors of the Company are covered under the Whistle Blower Policy.

A mechanism has been established for employees to report their concerns about unethical behavior, actual or suspected fraud or violation of Code of Conduct and Ethics. It also provides for adequate safeguards against the victimization of employees who avail of the mechanism and allows direct access to the Chairperson of the audit committee in exceptional cases. The Whistle Blower Policy is available on the Company's website: http://www.aurobindo.com/about-us/corporategovernance.

PREVENTION AND PROHIBITION OF SEXUAL HARASSMENT

Your Company has constituted an internal complaints committee in compliance with the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 and the Rules there under. The Company has a policy on prevention & prohibition of sexual harassment at workplace. The policy provides for protection against sexual harassment of women at workplace and for the prevention and redressal of such complaints. During the year, no complaints have been received.

RATING

India Ratings and Research (Ind-Ra) has affirmed Aurobindo's current long-term rating at 'IND AA+' with outlook positive.

MEETINGS OF THE BOARD

The Board and Committee meetings are prescheduled and a tentative calendar of the meetings is finalized in consultation with the Directors to facilitate them to plan their schedule. However, in case of special and urgent business needs, approval is taken by passing resolutions through circulation. During the year under review, five Board Meetings and six Audit Committee Meetings were convened and held. The details of the meetings including composition of Audit Committee are provided in the Corporate Governance Report. During the year, all the recommendations of the Audit Committee were accepted by the Board.

DIRECTORS

As per the provisions of the Companies Act, 2013, Mr. K.Nithyananda Reddy and Mr.Madan Mohan Reddy will retire at the ensuing annual general meeting and being eligible, seek reappointment. The Board of Directors recommends their re-appointment.

The re-appointment of Mr.K.Nithyananda Reddy, Dr.M.Sivakumaran and Mr.M. Madan Mohan Reddy as Whole-time Directors and Mr. N.Govindarajan as Managing Director with

effect from June 1, 2018 are being proposed at the ensuing Annual General Meeting. The Board of directors recommends their re-appointments.

The appointment of Mrs. Savita Mahajan as an Independent Director of the Company for a period of two years up to December 15, 2019 is being proposed at the ensuing Annual General Meeting. The Board of Directors recommends her appointment.

Mr.Rangaswamy Rathakrishnan Iyer resigned as Independent Director of the Company with effect from December 9, 2017. The Board has placed on record its sincere appreciation and gratitude for contributions made by him during his tenure as Independent Director of the Company.

DETAILS OF DIRECTORS & KEY MANAGERIAL PERSONNEL

Board of Directors appointed Mrs.Savita Mahajan as an Independent Director of the Company for a period of two years up to December 15, 2019.

Mr.Rangaswamy Rathakrishnan Iyer resigned as Independent Director of the Company with effect from December 9, 2017 due to pre-occupation and time constraints.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 134(3)(c) of the Companies Act, 2013 your Directors confirm that:

a. in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;

b. appropriate accounting policies have been selected and applied consistently. Judgement and estimates which are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of your Company as at the end of the financial year and of the profit of your Company for the year;

c. proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities;

d. the annual accounts have been prepared on a going concern basis;

e. proper internal financial controls have been laid down to be followed by your Company and such internal financial controls are adequate and are operating effectively; and

f. proper systems to ensure compliance with the provisions of all applicable laws have been devised, and such systems are adequate and are operating effectively.

DECLARATION FROM INDEPENDENT DIRECTORS

The Independent Directors have submitted the declaration of independence stating that they meet the criteria of independence as provided in sub-section (6) of Section 149 of the Companies Act, 2013.

BOARD DIVERSITY

The Company recognizes and embraces the importance of a diverse board in its success. The Board has adopted the Board Diversity Policy which sets out the approach to diversity of the Board of Directors. The Board Diversity Policy is available on the Company's website: http://www.aurobindo.com/about-us/corporategovernance.

BOARD EVALUATION

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 mandates that the Board shall monitor and review the Board evaluation framework. The Companies Act, 2013 states that a formal annual evaluation needs to be made by the Board of its own performance and that of its committees and individual directors. Schedule IV of the Companies Act, 2013 states that the performance evaluation of independent directors shall be done by the entire Board of Directors, excluding the director being evaluated. The evaluation of all the Directors and the Board as a whole was conducted against the parameters laid down by the Nomination and Remuneration / Compensation Committee including performance and working of its Committees.

POLICY ON DIRECTORS' APPOINTMENT AND REMUNERATION

The policy of the Company on directors' appointment and remuneration, including criteria for determining qualifications, positive attributes, independence of a director and other matters are adopted as per the provisions of the Companies Act, 2013. The remuneration paid to the Directors is as per the terms laid out in the nomination and remuneration policy of the Company. The nomination and remuneration policy as adopted by the Board is placed on the Company's website: http://www.aurobindo.com/about-us/corporategovernance.

TRANSFER TO RESERVE

The Company has not transferred any amount to general reserve out of the profits of the year.

LOANS, GUARANTEES OR INVESTMENTS

Loans, guarantees or investments covered under Section 186 of the Companies Act, 2013 form part of the Notes to the financial statements provided in this Annual Report.

CONTRACTS OR ARRANGEMENTS WITH RELATED PARTIES

The particulars of contracts or arrangements with related parties referred to in sub-section (1) of Section 188 of the Companies Act, 2013 is prepared in Form No. AOC-2 pursuant to clause (h) of sub-

section (3) of Section 134 of the Act and Rule 8(2) of the Companies (Accounts) Rules, 2014 and is in **Annexure-2** to this Report.

EXTRACT OF ANNUAL RETURN

As required under Section 92(3) of the Companies Act, 2013 and Rule 12(1) of the Companies (Management and Administration) Rules, 2014, the extract of Annual Return prepared in Form MGT-9 is in **Annexure-3** to this Report.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS & OUTGO

Information with respect to conservation of energy, technology absorption, foreign exchange earnings & outgo pursuant to Section 134(3)(m) of the Act read with Companies (Accounts) Rules, 2014 is in **Annexure-4** to this Report.

RISK MANAGEMENT COMMITTEE

Risk Management Committee of the Company consists of the following Directors viz. Mr. M. Sitarama Murty, Mr. N. Govindarajan and Mr. P. Sarath Chandra Reddy. Mr. M. Sitarama Murty is the Chairman of the Committee. The Company has established a separate department to monitor the enterprise risk and for its management. The Committee had formulated a risk management policy for dealing with different kinds of risks which the Company faces in its day-to-day operations. Risk management policy of the Company outlines different kinds of risks and risk mitigating measures to be adopted by the Board.

The Company has adequate internal financial control systems and procedures to combat the risk. The risk management procedure is reviewed by the Audit Committee and Board of Directors on regular basis at the time of review of quarterly financial results of the Company. A report on the risks and their management is enclosed as a separate section forming part of this report.

AUDITORS & AUDITORS' REPORT

The statutory auditors' report is annexed to this report. The notes on financial statements referred to in the Auditors' Report are self-explanatory and do not call for any further comments. There are no specifications, reservations, adverse remarks on disclosure by the statutory auditors in their report. They have not reported any incident of fraud to the Audit Committee of the Company during the year under review.

Pursuant to Section 139 (2) of the Companies Act, 2013, read with Companies (Audit and Auditors) Rules, 2014, the Company at its 30th Annual General Meeting (AGM) held on August 31, 2017, had appointed M/s. B S R & Associates LLP, Chartered Accountants as Statutory Auditors of the Company for a period of 5 years i.e. up to the conclusion of the 35th AGM to be held in the year 2022.

INTERNAL AUDITORS

The internal audit of the Company was conducted by in-house team of professionals up to December, 2017. Form January, 2018 Ernst & Young LLP has been appointed as internal auditors of the Company and they submit their report to the Audit Committee.

COST AUDIT

Pursuant to Section 148 of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014 and the Companies (Cost Records and Audit) Rules, 2014, the Company is maintaining the cost records as its business is covered under the regulated sector viz. drugs and pharmaceuticals. Audit of the Company's cost records is not applicable since the Company's revenues from exports, in foreign exchange, exceed 75% of its total revenues.

INTERNAL FINANCIAL CONTROLS

The internal financial controls (IFC) framework institutionalized in Aurobindo last year has been evaluated in-depth for its adequacy and operating effectiveness, wherein the Company has covered financial reporting controls, operational controls, compliance related controls and also Information Technology (IT) controls, comprising IT general controls (ITGC) and application level controls. The ITGC would include controls over IT environment, computer operations, access to programs and data, program development and program changes. The application controls would include transaction processing controls in ERP Oracle system which supports accurate data input, data processing and data output, workflows, reviews and approvals as per the defined authorization levels.

In order to further strengthen the existing IFC framework and to support the growing business, the Company has redefined all the process level controls at activity level which has brought in more clarity and transparency in day-to-day processing of transactions and in addressing any related risks. All the controls so redefined & identified have been properly documented and tested with the help of an independent auditor to ensure their adequacy and effectiveness.

The internal auditors conduct ' Process & control review' on a quarterly basis as per the defined scope and submit the audit findings along with management comments and action taken reports to Audit Committee for its review.

The IFC framework at Aurobindo ensures the following:

- Establishment of policies & procedures, assignment of responsibility, delegation of authority, segregation of duties to provide a basis for accountability and controls;
- Physical existence and ownership of assets at a specified date;
- Enabling proactive anti-fraud controls and a risk management framework to mitigate fraud risks to the Company;
- Recording of all transactions occurred during a specific period. Accounting of assets, liability, and revenue and expense components at appropriate amounts;

- Preparation of financial information as per the timelines defined by the relevant authorities.

SECRETARIAL AUDIT REPORT

Pursuant to the provisions of Section 204 of the Companies Act, 2013 and Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Company has appointed Mr.A.Mohan Rami Reddy, a Company Secretary in Practice to undertake the secretarial audit of the Company for the financial year 2017-18. The Secretarial Audit Report issued in form MR-3 is in **Annexure-5** to this Report.

There are no qualifications, reservations or adverse remarks in the Secretarial Audit Report.

CORPORATE SOCIAL RESPONSIBILITY

Your Company is striving to help create a healthy, improved life of people in its neighborhood. Broadly, the initiatives are to execute on the stated CSR policy of 'give back to the society' and make an impact on the lives of people.

The activities undertaken in FY2017-18 can be summarized under the following heads:

- Promoting education;
- Supporting preventive health care;
- Eradicating hunger, poverty & malnutrition;
- Making available safe drinking water;
- Encouraging environment sustainability;
- Sustaining ecological balance & conservation of natural resources;
- Developing rural sports; and
- Setting up old age homes, etc

A detailed account of the CSR activities forms part of the annual report on CSR placed on the Company's website at: http://www.aurobindo.com/social-responsibility/csr-activities. Report on Corporate Social Responsibility as per Rule 8 of the Companies (Corporate Social Responsibility Policy) Rules, 2014 is in **Annexure-6** to this Report.

STATEMENT OF PARTICULARS OF APPOINTMENT AND REMUNERATION OF MANAGERIAL PERSONNEL

The statement of particulars of appointment and remuneration of managerial personnel as per Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is in **Annexure-7** to this Report.

INSURANCE

All properties and insurable interests of the Company including building, plant and machinery and stocks have been fully insured.

MATERIAL CHANGES AND COMMITMENTS

There are no material changes and commitments in the business operations of the Company from the financial year ended March 31, 2018 to the date of signing of the Board's Report. There were no significant and material orders passed by the regulators or courts or tribunals impacting the going concern status and Company's operations in future. There is no change in the nature of the business of the Company during the year.

CORPORATE GOVERNANCE

A separate section on Corporate Governance standards followed by your Company, as stipulated under Schedule V (C) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 is enclosed as a separate section forming part of this report.

The certificate of the Practicing Company Secretary, Mr. S. Chidambaram with regard to compliance of conditions of corporate governance as stipulated under Schedule V (E) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 is annexed to the Corporate Governance Report.

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis Report for the year under review as stipulated under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 is presented in a separate section forming part of this report.

FIXED DEPOSITS

Your Company has not accepted any fixed deposits from the public within the purview of Chapter V of the Companies Act, 2013.

INDUSTRIAL RELATIONS

Industrial relations at all units of the Company have been harmonious and cordial. The employees are motivated and have shown initiative in improving the Company's performance.

TRANSFER OF UNPAID AND UNCLAIMED AMOUNT TO IEPF

The dividends which remain unpaid/unclaimed for a period of seven years, have been transferred on due dates by the Company to the Investor Education and Protection Fund (IEPF) established by the Central Government.

Further, Section 124 of the Companies Act, 2013 read with Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016 ('the Rules') mandates that companies shall apart from transfer of dividend that has remained unclaimed for a period of seven years from the unpaid dividend account to the Investor Education and Protection Fund (IEPF), also transfer the corresponding shares with respect to the dividend, which has not been paid or claimed for seven consecutive years or more to IEPF. Accordingly, the dividends that remain unclaimed for seven years and also the corresponding shares have been transferred to IEPF account on due dates.

SHARE CAPITAL

The paid up share capital of the Company increased by ₹25,200 during the year due to the allotment of 25,200 equity shares of ₹1 each on exercise of stock options under the Employee Stock Option Plan-2006 (ESOP 2006) of the Company. The paid up share capital of the Company as on March 31, 2018 was ₹585,907,609 divided into 585,907,609 equity shares of ₹1 each.

EMPLOYEE STOCK OPTION SCHEME

The Members at the Annual General Meeting of the Company held on September 18, 2006 approved formulation of Employee Stock Option Scheme- 2006 (ESOP 2006) for the eligible employees and Directors of the Company and its subsidiaries. Details of the stock options as on March 31, 2018 is provided on the Company's website: http://www.aurobindo.com/about-us/corporategovernance. The details of the employee stock options also form part of the notes to accounts of the financial statements in this Annual Report.

BUSINESS RESPONSIBILITY REPORT

A detailed Business Responsibility Report in terms of the provisions of Regulation 34 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 is available as a separate section in this Annual Report.

ACKNOWLEDGEMENTS

Your Directors are grateful to for the invaluable contribution made by the employees and are encouraged by the support of the customers, business associates, banks and government agencies. The Directors deeply appreciate their faith in the Company and are thankful to them. The Board shall always strive to meet the expectations of all the stakeholders.

For and on behalf of the Board

Place: Hyderabad
Date: 28 May 2018

K. Ragunathan
Chairman
DIN: 00523576