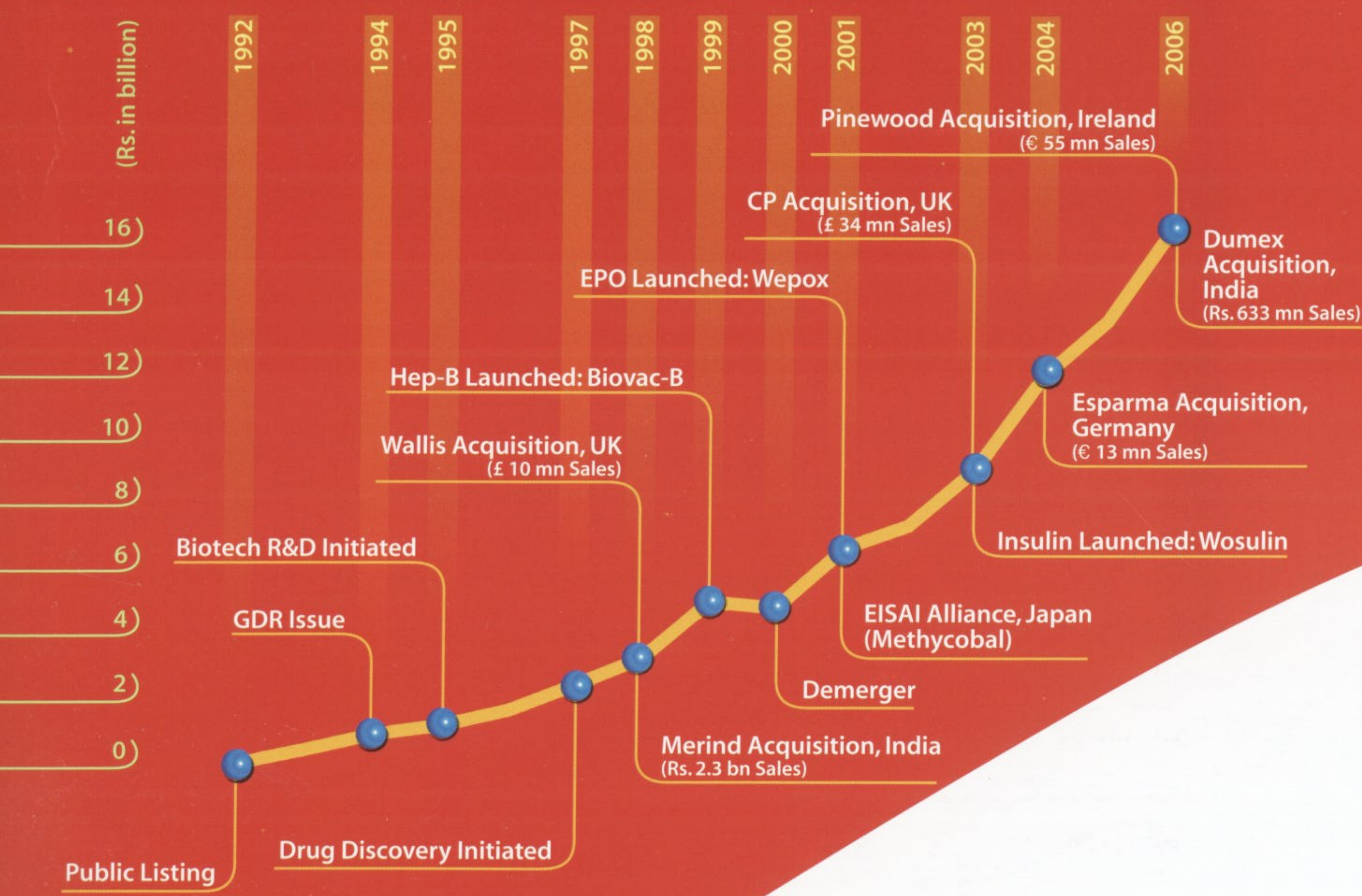
ANNUAL REPORT 2006

Formulating Investments
Fuelling Growth

WOCKHARDT

Wockhardt's odyssey towards growth



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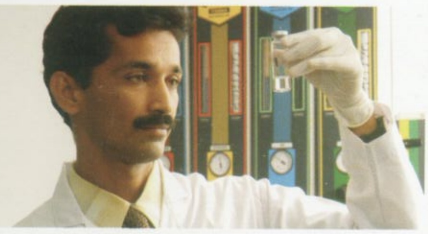


Investing in a future that will be present before long

Theodore Levitt, the late management guru and editor of Harvard Business Review, said:

"The future belongs to people who see possibilities before they become obvious."

Wockhardt's growth has been propelled largely by its ability to foresee trends and seize opportunities before they manifest themselves, inviting attention and investment.

Wockhardt invested in new markets, new therapies, brands, manufacturing technologies, capacities and intellectual property rights. We also invested in people whose dreams, thoughts and actions make everything happen.

Wockhardt is riding the twin forces that are sweeping the pharmaceutical industry–globalisation and consolidation. The prime focus is to gain critical size in key markets and invest in assets that will be springboards for future growth.

The group's smart acquisition moves catapulted it to the leadership position in Ireland's generics market and brought India's heritage nutrition brands under the Wockhardt banner. Fuelled by new product launches and growing alliances with US-based pharmaceutical companies, the European business climbed 32%. The US business, spearheaded by Wockhardt's three-year-old subsidiary, Wockhardt USA Inc., forged ahead with 10 new product launches. The group also made inroads into South America through its biopharmaceuticals. In India too, Wockhardt showed an impressive growth.

The surprise event of the year was a motion signed by 83 Members of Parliament in UK's House of Commons, congratulating Wockhardt for its commitment to supply insulin. This motion thanked Wockhardt for supplying insulin of animal origin to over 20,000 diabetics in the UK, whose lives depend on this product.

WOCKHARDT VISION

To be the most admired healthcare group from India

Performance highlights 2006

Acquisition of Pinewood, Ireland

- Largest acquisition by Wockhardt (US$ 150mn)
- Leadership position in the Irish generic market

Raised US$ 250 mn through ECB*

- Funds raised for financing acquisitions

R & D investment up by 33% to Rs. 1.38 bn

- 200 patents filed during the year

Acquisition of Dumex, India

- Acquired 2 heritage nutrition brands: Protinex and Farex
- Doubling of the nutrition business

In-licensing alliances with European firms

- With LSI, UK for marketing Vitix
- With Crawford Healthcare, UK for Viticolor

Ramp up of US ANDA programme

- ANDA approvals more than doubled compared to 2005 (8 approvals received)
- Day 1 launch of Ondansetron injection
- 5 products launched (including 3 steriles)
- First sterile product launched by the company
- A total of 8 approved facilities

Manufacturing capabilities installed

- Barotiwala: Liquid, Ointment, Cream
- Waluj: Sterile Ophthalmic

Global group connectivity through SAP

* *External Commercial Borrowing*

NET SALES

Rs. 17.3 bn

US$ 390.8 mn

WOCKHARDT

PROFIT BEFORE TAX

Rs. 2.9 bn

US$ 66.5 mn

PROFIT AFTER TAX

Rs. 2.4 bn

US$ 54.5 mn

EARNINGS PER SHARE

Rs. 22.05

US$ 0.50

Letter from the chairman

Dear Shareowners,

2006 was a year of unprecedented accomplishments and investment in the future.

Let me begin with numbers. Wockhardt has consistently grown at a compounded annual growth rate (CAGR) of over 20% for the last 15 years. In 2006, sales grew by 22% to Rs.17.29 billion. Operating profit climbed 22% and net profit, before exceptional items, rose by 17% to Rs.3.02 billion.

But these numbers will not give you an insight into Wockhardt's achievements during the year and, more importantly, the investments that will open up exciting growth opportunities in the near future.

OUR FOCUS MARKETS - EUROPE, INDIA, US

Europe continues to be Wockhardt's key market. Wockhardt UK has consolidated its business, improved profitability and is poised to scale new heights in the coming years. We strengthened our alliance with Amylin, winning accolades for going out of the way to fulfill demand for Byetta during times of crisis. Wockhardt UK launched new products and entered new growth areas like nicotine patch market in the UK.

The acquisition of Pinewood Laboratories is the most significant investment in 2006. It gives us entry into the fast genericising market of Ireland. Its strengths in liquids and creams complements Wockhardt UK's strengths in solid dosages and injections. This is a major boost to our UK business, as UK contributes to almost half of Pinewood's sales.

You will be happy to learn that Wockhardt has adopted a strategic plan that will see us more than doubling our sales to US$ 1 billion by 2009.

Our Indian branded business recorded strong growth across therapies, especially in nephrology and diabetology. The most exciting development was the acquisition of Dumex India with its brands Protinex and Farex, which have over four decades of brand equity in India. Wockhardt is the only pharmaceutical company in India with medical nutrition brands supported by a dedicated milk-based nutraceutical manufacturing plant. The acquisition has doubled our nutrition business and kicked off a new growth phase in this exciting field. We are also fortifying our Indian product portfolio with patented products in-licensed from companies in Europe and US.

US - the world's largest pharmaceutical market - is the third leg of our growth strategy. The US is not a major contributor to our global sales yet, but the picture will change in the coming years. We have created strong local capabilities and leadership and have a rich pipeline of products, most of them sterile injections, novel drug delivery system products and products involving patented technologies.

ROADMAP TO REACH US$ 1 BILLION SALES

You will be happy to learn that Wockhardt has adopted a strategic plan that will see us more than doubling our sales to US$ 1 billion by 2009. The roadmap has been worked out in great detail after brainstorming sessions by our top management with active participation and guidance from the renowned management guru Prof. C K Prahalad.

EMPOWERING WOCKHARDIANS

Wockhardians are the fundamental contributors to our success. About 850 of our people, representing 13 nationalities, work outside India, most of them in Europe. We have just launched WEVA - Wockhardt Economic Value Added - programme to reward and incentivise middle and senior management, covering more than 400 Wockhardians to begin with. It will introduce a sense of ownership and empowerment in the organisation, and will play an important part in realising the US$ 1 billion sales target.

FOSTERING EXCELLENCE IN HEALTHCARE

"We have not lost faith... but have transferred it from God to the medical profession," said George Bernard Shaw, speaking about the medical community. At the third biannual Wockhardt Medical Excellence Awards, India's Commerce and Industry Minister Kamal Nath handed over the prestigious awards to five of India's leading doctors representing neurology, cardiac surgery, orthopaedics, endocrinology and dermatology. The award winners were selected by a faculty from Harvard Medical International (HMI), the international arm of Harvard Medical School, Boston.

Chairman Habil Khorakiwala and Prof. C K Prahalad during Wockhardt Strategic Conference

WHARF, the not-for-profit organisation instituted by Wockhardt and HMI to train healthcare workers in HIV/AIDS, conducted an international conference on 'Worldwide Advances in Comprehensive Management of HIV/AIDS - Implications for India', in Mumbai, in November 2006. WHARF has so far trained 13,800 healthcare workers - doctors, paramedics, nurses and counsellors.

Wockhardt Group, consisting of Wockhardt Ltd and Wockhardt Hospitals Ltd, is exclusively focussed on excellence in healthcare management. As Paul Bragg said: "Those who do not have enough time for good health, will not have good health for enough time."

Habil Khorakiwala
Chairman

Seizing opportunities
Spreading wings in Europe

Acquisitions, international alliances and new products and businesses, marked Wockhardt's growth in the European Union, its largest market. Europe contributed to more than 40% of Wockhardt's global sales of US$ 391 million in 2006.

STRATEGIC FIT

The acquisition of Pinewood Laboratories gave Wockhardt an instant entry and leadership in the fast genericising market of Ireland. As half of Pinewood's sales come from the UK, the acquisition has reinforced Wockhardt's position in Britain, where it is already one of the top 10 generic companies and the second largest player in hospital sales. The acquisition is a strategic fit for our UK business, as Pinewood's liquids and creams business adds to Wockhardt UK's strengths in injectable and solid dosages. Wockhardt UK is the market leader in several injectables and solid dosage forms. A joint exercise is underway to unravel new growth opportunities by unlocking the value of the enlarged customer base and product range between the two neighbours.

SPECIAL RECOGNITION

Wockhardt UK received a special recognition from the top management of Amylin Pharmaceuticals of US, for its outstanding support in supplying Byetta (exenatide) cartridges. Wockhardt UK extended its alliance with Amylin to manufacture Symlin, a patented product for the management of diabetes. Wockhardt also entered into a distribution agreement for nicotine replacement therapy patches and gums in the UK. It also received approval from Health Canada to introduce its Hypurin natural insulins in Canada.

Esparma, Wockhardt's subsidiary in Germany, launched three new products and acquired distribution rights for Gluco Meter in Germany, Russia, Ukraine and India.

Europe continues to be Wockhardt's focus area for growth.

The acquisition of Pinewood Laboratories gave Wockhardt an instant entry and leadership in the fast genericising market of Ireland.

WOCKHARDT


Diamorphine
Hydrochloride
10mg
WOCKHARDT
Marie Owen
Sales
WOCKHARDT

Expanding reach
Improving market share in US

In its third year of operations, Wockhardt USA Inc., has evolved to become a significant supplier of select generic pharmaceuticals in the United States, marketing 15 products, 10 of them launched in 2006.

New product approvals in the US include sterile injections and products incorporating NDDS (novel drug delivery systems).

IMPROVED MARKET SHARE

Wockhardt has increased its market share for most of its products as reflected in the IMS data.

Q4-05	PRODUCT	Q4-06
7.8%	Bethanechol	40.9%
1.4%	Captopril	1.4%
1.0%	Cefuroxime axetil	13.7%
10.7%	Enalapril	19.4%
2.1%	Ranitidine	5.3%
-	Zonisamide	5.8%
-	Famotidine	10.8%
-	Ceftriaxone	0.8%
-	Cefotaxime	Launched
-	Ondansetron	Launched

Source: IMS

With 26 new ANDA (abbreviated new drug application) filings, Wockhardt USA is shifting gears to grow faster. Wockhardt's 350-strong R&D team in India is working on a wide range of injectable and extended release products for the US market. Steps have been initiated to expand the distribution network to handle higher volumes in the coming years on the back of increasing approvals from the US FDA.

With 26 new ANDA (abbreviated new drug application) filings, Wockhardt USA is shifting gears to grow faster.

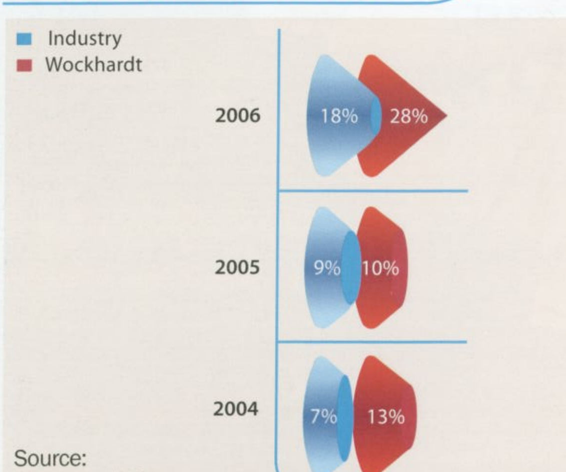
WOCKHARDT

Investing in India through own & in-licensed brands

India, one of the world's fastest growing economies, is a focus market for Wockhardt. Acquisition of a company with great brands and partnering for patented products were the flavour of the year for Wockhardt India business. The India business grew by 28% in 2006, outperforming the industry growth rate of 18%. The growth was driven by focussed initiatives to strengthen existing businesses as well as venturing into new areas.

Wockhardt acquired Dumex India from Royal Numico NV of The Netherlands in June 2006, bringing on board Protinex and Farex, two of India's best known brands with decades of brand equity. The acquisition doubled Wockhardt's nutrition portfolio.

WOCKHARDT INDIA BUSINESS OUTPERFORMING THE INDUSTRY



Source:
Industry - IMS
Wockhardt - Company data

TWO NEW DIVISIONS

A new division called NutriUno has been established to manage the acquired nutrition business. With its proven turnaround expertise, Wockhardt managed to achieve break-even for this division within six months of the acquisition. The products have been relaunched under the Wockhardt banner.

Two in-licensing agreements were signed, to cater to the Indian customer's unmet requirements. Agreements were signed with LSI of UK for Vitix, a patented medication for the management of vitiligo and another with Crawford Healthcare of UK for Viticolor, a camouflage gel for vitiligo-affected skins. A new division called SkinUno has been launched to market these products to dermatologists across the subcontinent.

A new division called SkinUno has been launched to market our products to dermatologists across the subcontinent.


WOCKHARDT
Farex
MILK CEREAL BASED WEANING FOOD
wheat
apple
IRON
ZINC
CALCIUM
IODINE
VITAMIN A
stage 1
AFTER 6 MONTHS
UPTO 24 MONTHS
IMPORTANT NOTICE: MOTHER'S MILK IS BEST FOR YOUR BABY.
महत्वपूर्ण सूचना: माँ का दूध आपके बच्चे के लिये सर्वोत्तम है.
Already contains milk. Just add to water.
New
WOCKHARDT
protinex
HIGH PROTEIN SUPPLEMENT
Vanilla
FORTIFIED WITH
CALCIUM
IRON
FOLIC ACID
For good health and growth

Enhancing capacities
Augmenting capabilities

Leading pharmaceutical companies in Europe and the US are partnering with Wockhardt to produce world-class medicines for international markets. Adopting cutting edge technology, we aim to constantly upgrade our world-class facilities to meet global regulatory standards.

Wockhardt now has eight manufacturing plants spread over India and Europe with US FDA certification, including three recent facilities - injectable and tablet at Waluj and cephalosporin at Chikalthana, both located in India. Wockhardt UK's sterile injectable plant, a leading supplier of patented products to US, saw a four-fold expansion in cartridge capacity at its Wrexham works in Wales.

TRIPLING INSULIN CAPACITY

The Wockhardt Biotech Park at Aurangabad in western India has undertaken a three-fold expansion in recombinant insulin capacity. The new process is automated and incorporates a series of equipment modifications that improves quality and yield.

SAFETY FIRST

Wockhardt's manufacturing plants in India and UK have been receiving accolades for their commitment to safety and environment. Wockhardt Group has adopted a Safety, Health and Environment (SHE) policy and embraced standardised universal practices, conforming to global practices across its facilities worldwide in 2006. All manufacturing plants underwent a hazard analysis and critical control point study and risk analysis. Based on this study, a response plan has been developed for each plant. Plant personnel have been trained and new equipment installed to enhance safety, health and environmental standards across the organisation.

The Wockhardt Biotech Park at Aurangabad in western India has undertaken a three-fold expansion in recombinant insulin capacity.

WOCKHARDT

Fostering innovation in generics & drug discovery

Wockhardt has integrated its intellectual property and global regulatory functions under one roof, to provide an innovation advantage to the entire organisation. A state-of-the-art Clinical Pharmacology and Biopharmaceuticals Department with world-class standards for bio-equivalence studies has been established in Mumbai to support its global requirements.

The 500-plus scientists at Wockhardt R&D Centre created research expertise in niche areas, such as ophthalmology, injectables, NDDS, peptides and oncology to enable the company to file ANDAs in these therapies in the US market.

In addition to 26 ANDAs, Wockhardt filed 10 DMFs in 2006. Our research scientists also filed 200 patents, the highest ever in the company's history in any given year. A knowledge enhancement database is being established to consolidate and utilise the enormous knowledge spread over various parts of the Wockhardt organisation.

The R&D infrastructure underwent a sea-change during the year with the installation of new software and databases for searching, storing and sharing huge amounts of scientific literature.

NEW DRUG DISCOVERY

Wockhardt's new drug discovery research continues to gather momentum. The research team completed pre-clinical development on WCK 2349, an oral pro-drug of WCK 771, the parenteral anti-MRSA formulation, which is now in advanced Phase-II clinical trials. Wockhardt expects to file an investigational new drug (IND) application in 2007 for the oral drug. The pro-drug has enhanced the value proposition of the new chemical entity, eliciting enquiries from scientists and medical fraternity worldwide. Two additional lead molecules are also in advanced pre-clinical stage.

GLOBAL PHARMACOVIGILANCE

Wockhardt established a Global Pharmacovigilance Cell (GPC) in 2006 to coordinate safety and other studies in India and company subsidiaries in Europe and the United States.

The clinical research team carried out clinical trials on Glargine, a long acting insulin analogue, and the Drug Controller General of India has approved the product for clinical use.

Our research scientists also filed 200 patents, the highest ever in the company's history in any given year.

WOCKHARDT

Building an organisation riveted on excellence

"The quality of an organisation, it is said, can never exceed the quality of the minds that make it up." To address the talent and organisational needs of the increasingly global corporate that Wockhardt is emerging to be, we have formed three functionally specialist HR focus areas. These include talent management, employee relations, and organisation development. We invest in nurturing talent even as we forge bonds and assimilate new family members from around the globe into the Wockhardt family.

EMPLOYEE ENGAGEMENT

A landmark Gallup Survey, from the international consultancy services, was conducted at Wockhardt. It identified major focus areas for enhancing employee engagement to transform the group's human resources into high-value asset and give it a competitive advantage.

A series of initiatives were taken up at each location to improve employee engagement. These included communications, team building and creation of cross-functional teams to enhance job content and work environment.

A new induction programme was institutionalised across locations to align new employees with Wockhardt's vision, culture and values. Special workshops are conducted to encourage creativity and innovation.

LEADERSHIP DEVELOPMENT

Leadership development programmes are being conducted at various levels. The first line programme is called Leadership for Business Excellence for junior and middle managers at the Centre for Organisational Development, Hyderabad. A programme called Aim for Competitive Excellence is being held regularly for middle-level managers at the prestigious Indian Institute of Management, Bangalore. A Regional Managers' Development Programme customised for field managers is also being conducted.

No wonder Wockhardt is perceived as an aspirational brand by bright graduates.

We have formed three functionally specialist HR focus areas: talent management, employee relations, and organisation development.

WOCKHARDT

Initiatives beyond Wockhardt

HONOURING MEDICAL BRILLIANCE

The biannual 'Wockhardt Medical Excellence Awards' salutes the outstanding contribution of doctors who heal and serve humanity by alleviating suffering. These awards were institutionalised by Wockhardt and Harvard Medical International, the international arm of Harvard Medical School of USA.

Five outstanding doctors whose accomplishments have led to major advances in understanding, diagnosis, prevention, treatment and cure of ailments in select medical specialities in India were handpicked this year by HMI. They were presented with the Wockhardt Medical Excellence Awards by the Hon'ble Union Minister for Commerce and Industry, Shri Kamal Nath, on February 11, 2007 at New Delhi.

Nobel Prize winner Dr. Joseph Murray, who performed the world's first organ transplant on identical twins in 1954, addressed the gathering through video.

Dr. Alan Jacobson, Professor of Psychiatry at the Harvard Medical School and Senior Vice-President of Joslin Diabetes Center, the world's foremost diabetes research centre in Boston, USA, addressed the gathering, showing the links between diabetes and psychological disorders.

EVERY SMILE COUNTS

"We make a living by what we get and make a life by what we give," goes a saying. Wockhardt has always been a socially responsible corporate citizen. Each of our welfare initiatives is an extension of the company's belief in making a difference to the society we live in.

TRAINING HEALTHCARE PROFESSIONALS

WHARF is a collaborative, non-profit organisation established by Wockhardt Group and Harvard Medical International. WHARF's core focus is to provide training to healthcare professionals and counsellors in India working in the area of HIV/AIDS.

WHARF organised a two-day International Conference in Mumbai on November 11 and 12, 2006. This was presided by His Excellency, Governor of Maharashtra, Shri S M Krishna.

WHARF has trained as many as 13,800 care providers in the last four years. 300 police personnel from the State Reserve Police Force (SRPF) and 5,500 people from slums have been sensitised and 5,800 students from colleges have been brought under the wings of WHARF to manage HIV/AIDS.

WOCKHARDT SOCIAL

Wockhardt Social, the Corporate Social Responsibility wing of Wockhardt, extends its help to the poor and the needy. It generously distributes food to 200 families every month, daily meals to needy families, provides sanitation facilities and organises free medical camps - 30 camps benefitting 16,000 people. Through the Wockhardt Social initiative, 550 wheelchairs were donated to poor crippled children of the 'Society of the Crippled,' a paraplegic foundation in Mumbai. This was a part of Wockhardt Social's alliance with an American NGO 'Free Wheelchair Mission', wherein for the first time a donation of such a large number of wheelchairs had taken place in India.

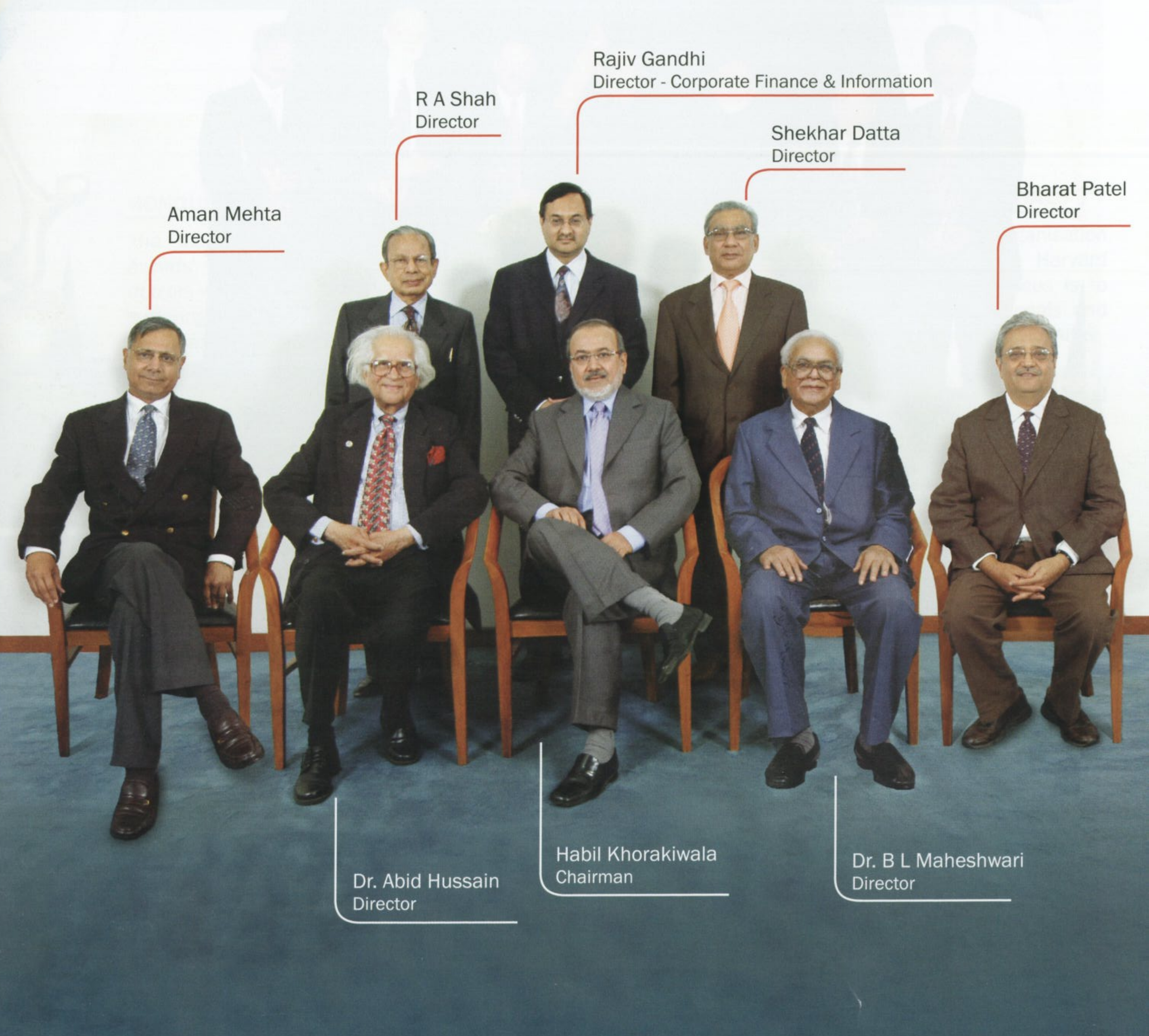
To Wockhardt Social...
truly every smile counts!

WOCKHARDT

All smiles after winning the coveted award: L-R: Dr. S Rajasekaran (orthopaedician), Dr. Hasmukh Shroff (dermatologist), Chairman, Wockhardt, Habil Khorakiwala, Union Minister for Commerce and Industry, Shri Kamal Nath, Prof. A Ramachandran (endocrinologist), Dr. Nadir Bharucha (neurologist) and Dr. Vivek Jawali (cardiac surgeon).

Meeting of the minds: L-R: Dr. Yusuf Hamied, Chairman, Cipla, Javed Ahmed, Inspector General of Police, Dr. Deepak Batura, WHARF faculty member, Celina Jaitley, Bollywood actor and WHARF patron, Nafisa Khorakiwala, Trustee & President, WHARF, Shri S M Krishna, Governor of Maharashtra, Habil Khorakiwala, Chairman, Wockhardt Group and Dr. Harvey Makadon, Director of faculty, WHARF & Associate Professor of Medicine, Harvard Medical School at the International Conference organised by WHARF.

Board of directors



COMPANY SECRETARY
Rajiv B Gandhi

AUDITORS
S R Batliboi & Co.

SOLICITORS
Crawford Bayley & Co.

BANKERS
State Bank of India
Punjab National Bank
ICICI Bank
HDFC Bank
ING Vysya Bank
Citibank, N.A.
HSBC
Calyon Bank
ABN AMRO Bank N.V.
Deutsche Bank

REGISTERED OFFICE
Wockhardt Towers
Bandra-Kurla Complex
Bandra (East)
Mumbai 400 051, India

Management team

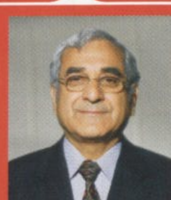
Habil Khorakiwala
Chairman

Rajiv B Gandhi
Director - Corporate Finance & Information

K A Narayan
President - Corporate Human Resources & Legal

Sanjeev V Mehta
President - Corporate Supply Chain

Dr. Yatendra Kumar
President - Pharma Research & Regulatory Affairs



Dr. M K Sahib
Director - Genomics & Biotechnology Research

Huzaifa H Khorakiwala
Executive Director

Abbas Master
President - Projects

Dr. Murtaza H Khorakiwala
Executive Director

Dr. Mahesh V Patel
Director - New Drug Discovery

Dr. Bharat Trivedi
Chief Scientific Officer - Medicinal Chemistry & Drug Discovery

HEADS OF WOCKHARDT'S INTERNATIONAL SUBSIDIARIES

Sirjiwan Singh
Managing Director - Wockhardt UK, Wales

Manish Gupta
Managing Director - Pinewood Laboratories, Ireland

George Cubuk
Managing Director - Esparma, Germany

Consolidated Balance Sheet

as at December 31, 2006

	Notes	As at 31.12.2006 Rs. in millions	As at 31.12.2006 USD in millions [see note 1(b)(d)]	As at 31.12.2005 Rs. in millions	As at 31.12.2005 USD in millions [see note 1(b)(d)] [Note 34]
SOURCES OF FUNDS					
SHAREHOLDERS' FUNDS					
Share capital	3	**547.18**	**12.37**	546.50	12.13
Reserves and surplus	4	**10,115.70**	**228.62**	7,614.54	169.01
		10,662.88	**240.99**	8,161.04	181.14
LOAN FUNDS					
Secured loans	5	**14,750.74**	**333.37**	4,124.37	91.54
Unsecured loans	6	**4,952.00**	**111.92**	4,940.76	109.66
		19,702.74	**445.29**	9,065.13	201.20
DEFERRED TAX LIABILITY (Net)	2(h) & 7	**921.06**	**20.81**	617.73	13.72
TOTAL		**31,286.68**	**707.09**	17,843.90	396.06
APPLICATION OF FUNDS					
FIXED ASSETS	2(a) & 8				
Gross block		**18,531.30**	**418.81**	8,383.97	186.08
Accumulated depreciation		**(4,549.49)**	**(102.82)**	(2,905.77)	(64.49)
Net block		**13,981.81**	**315.99**	5,478.20	121.59
Capital work-in-progress, including capital advances		**3,085.91**	**69.74**	2,402.56	53.32
		17,067.72	**385.73**	7,880.76	174.91
INVESTMENTS	2(c) & 9	**3.14**	**0.07**	3.14	0.07
CURRENT ASSETS, LOANS AND ADVANCES					
Inventories	2(d) & 10	**4,299.96**	**97.19**	2,746.54	60.96
Sundry debtors	11	**4,615.65**	**104.34**	2,809.52	62.36
Cash and bank balances	12	**9,731.78**	**219.93**	7,139.34	158.46
Loans and advances	13	**1,423.99**	**32.18**	909.83	20.20
	[A]	**20,071.38**	**453.64**	13,605.23	301.98
Less: CURRENT LIABILITIES AND PROVISIONS	14				
Current liabilities		**4,975.44**	**112.43**	2,561.17	56.84
Provisions		**880.12**	**19.92**	1,084.06	24.06
	[B]	**5,855.56**	**132.35**	3,645.23	80.90
NET CURRENT ASSETS	[A] – [B]	**14,215.82**	**321.29**	9,960.00	221.08
TOTAL		**31,286.68**	**707.09**	17,843.90	396.06

The Notes referred to above form an integral part of the Balance Sheet

As per our report of even date

For S. R. Batliboi & Co.
Chartered Accountants

per Vijay Bhatt
Partner
Membership No: 36647

Place : Mumbai
Date : March 8, 2007

R. B. Gandhi
Company Secretary

For and on behalf of the Board of Directors

H. F. Khorakiwala
Chairman and Managing Director

B. L. Maheshwari
Shekhar Datta
Aman Mehta
Bharat Patel
R. A. Shah
Abid Hussain
Directors

WOCKHARDT

Consolidated Statement of Profit and Loss
For the Year Ended December 31, 2006

	Notes	For the year ended 31.12.2006 Rs. in millions	For the year ended 31.12.2006 USD in millions [see note 1(b)(d)]	For the year ended 31.12.2005 Rs. in millions	For the year ended 31.12.2005 USD in millions [see note 1(b)(d)] [Note 34]
INCOME					
Sales and services	2(f)	**17,536.81**	**396.33**	14,591.45	323.86
Less: Excise duty		**(246.42)**	**(5.57)**	(461.10)	(10.23)
		17,290.39	**390.76**	14,130.35	313.63
Other income	15	**189.79**	**4.30**	179.97	3.99
TOTAL		**17,480.18**	**395.06**	14,310.32	317.62
EXPENDITURE					
Materials consumed and purchase of goods	16	**7,291.32**	**164.78**	6,087.44	135.11
(Increase)/decrease in inventories	2(d) & 17	**(612.83)**	**(13.84)**	(316.08)	(7.03)
Operating and other expenses	18	**6,609.25**	**149.36**	5,072.45	112.58
Depreciation/Amortisation	2(a) & 8	**620.61**	**14.03**	426.23	9.46
Financial expenses (net)	19	**26.39**	**0.59**	95.21	2.11
TOTAL		**13,934.74**	**314.92**	11,365.25	252.23
PROFIT BEFORE TAX AND BEFORE EXCEPTIONAL ITEMS		**3,545.44**	**80.14**	2,945.07	65.39
Less: Exceptional items	27	**603.72**	**13.64**	—	—
PROFIT BEFORE TAX AND AFTER EXCEPTIONAL ITEMS		**2,941.72**	**66.50**	2,945.07	65.39
Provision for tax					
— Current tax	2 (h)	**(435.13)**	**(9.83)**	(342.81)	(7.61)
— Minimum alternate tax credit entitlement		**199.16**	**4.50**	—	—
Net Current Tax		**(235.97)**	**(5.33)**	(342.81)	(7.61)
— Deferred tax	2 (h) & 7	**(260.49)**	**(5.89)**	(17.94)	(0.41)
— Fringe benefit tax		**(32.76)**	**(0.74)**	(13.31)	(0.30)
NET PROFIT AFTER TAX		**2,412.50**	**54.54**	2,571.01	57.07
Balance brought forward from previous year		**674.95**	**15.25**	427.85	9.50
PROFIT AVAILABLE FOR APPROPRIATION		**3,087.45**	**69.79**	2,998.86	66.57
APPROPRIATIONS					
Proposed dividend on equity shares		**—**	**—**	547.17	12.14
Tax on proposed dividend		**—**	**—**	76.74	1.70
Interim dividend on equity shares		**547.18**	**12.38**	—	—
Tax on interim dividend		**76.74**	**1.74**	—	—
Transfer to general reserve		**1,500.00**	**33.90**	1,700.00	37.74
Surplus carried to balance sheet		**963.53**	**21.77**	674.95	14.99
		3,087.45	**69.79**	2,998.86	66.57
Earnings per share (Rs.)	22				
— Basic		**22.05**	**0.50**	23.55	0.52
— Diluted		**22.04**	**0.50**	23.53	0.52
Nominal Value of shares Rs. 5 (Previous Year – Rs. 5)		**5.00**	**0.11**	5.00	0.11

The Notes referred to above form an integral part of the Profit & Loss Account

As per our report of even date

For S. R. Batliboi & Co.
Chartered Accountants

per Vijay Bhatt
Partner
Membership No: 36647

Place: Mumbai
Date : March 8, 2007

R. B. Gandhi
Company Secretary

For and on behalf of the Board of Directors

H. F. Khorakiwala
Chairman and Managing Director

B. L. Maheshwari
Shekhar Datta
Aman Mehta
Bharat Patel
R. A. Shah
Abid Hussain
Directors

Consolidated Statement of Cash Flow

for the Year Ended December 31, 2006

	For the year ended 31.12.2006 Rs. in millions	For the year ended 31.12.2006 USD in millions	For the year ended 31.12.2005 Rs. in millions	For the year ended 31.12.2005 USD in millions
A. CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES:				
Net Profit Before Tax	**2,941.72**	**66.50**	2,945.07	65.39
Adjustments for :				
Depreciation / Amortisation	**620.61**	**14.03**	426.23	9.46
Amortisation of expenses	**13.31**	**0.30**	4.50	0.10
Provision for doubtful debts	**22.97**	**0.52**	6.23	0.14
Bad debts/One time charge backs	**384.83**	**8.70**	31.34	0.70
Unrealised foreign exchange (gain)/loss, net	**31.22**	**0.71**	68.62	1.50
(Profit)/Loss on sale of fixed assets, net	**(0.67)**	**(0.02)**	(1.28)	(0.03)
Investments write off	**—**	**—**	0.31	0.01
Interest expense	**409.35**	**9.25**	261.26	5.80
Interest income	**(284.43)**	**(6.43)**	(248.73)	(5.52)
Dividend income	**(0.73)**	**(0.02)**	(1.42)	(0.03)
Operating profit before working capital changes	**4,138.18**	**93.54**	3,492.13	77.52
Movement in working capital				
(Increase)/Decrease in inventories	**(964.70)**	**(21.80)**	(583.01)	(12.94)
(Increase)/Decrease in sundry debtors	**(1,459.10)**	**(33.00)**	(450.06)	(9.99)
(Increase)/Decrease in loans and advances	**(263.75)**	**(5.96)**	(222.64)	(4.94)
Increase/(Decrease) in current liabilities and provisions	**991.97**	**22.42**	181.49	4.01
Cash generated from operations	**2,442.60**	**55.20**	2,417.91	53.66
Direct Taxes paid, including fringe benefit tax	**(557.20)**	**(12.59)**	(371.36)	(8.24)
Net cash provided by operating activities	**1,885.40**	**42.61**	2,046.55	45.42
B. CASH FLOWS PROVIDED BY/(USED IN) INVESTING ACTIVITIES:				
Purchase of fixed assets including capital work-in-progress	**(2,709.29)**	**(61.23)**	(1,741.10)	(38.64)
Proceeds from sale of fixed assets	**35.28**	**0.80**	27.80	0.62
Purchase of investments	**(350.00)**	**(7.91)**	(1,110.57)	(24.65)
Proceeds from sale of investments	**350.00**	**7.91**	1,110.00	24.64
Repayment by companies/(loan to companies)	**57.75**	**1.31**	4.13	0.09
Interest received	**404.84**	**9.15**	252.03	5.59
Dividend received	**0.73**	**0.02**	1.42	0.03
Acquisition of subsidiary companies during the year	**(6,552.13)**	**(148.08)**	—	—
Net cash provided by/(used in) investing activities	**(8,762.82)**	**(198.03)**	(1,456.29)	(32.32)

	For the year ended 31.12.2006 Rs. in millions	For the year ended 31.12.2006 USD in millions	For the year ended 31.12.2005 Rs. in millions	For the year ended 31.12.2005 USD in millions
C. CASH FLOWS PROVIDED BY/(USED IN) FINANCING ACTIVITIES:				
Proceeds from issuance of share capital	**0.45**	**0.01**	0.54	0.01
Premium on issue of shares	**9.62**	**0.22**	12.62	0.28
(Repayment)/proceeds from borrowings, net	**10,564.03**	**238.74**	36.51	0.81
Interest paid	**(414.25)**	**(9.36)**	(305.77)	(6.79)
Dividend paid (including tax on dividend)	**(621.28)**	**(14.04)**	(614.92)	(13.65)
Net cash from/(used in) financing activities	**9,538.57**	**215.57**	(871.02)	(19.34)
Translation/consolidation adjustment	**(9.07)**	**(0.20)**	(36.67)	(0.81)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	**2,652.08**	**59.95**	(317.43)	(7.05)
CASH AND CASH EQUIVALENTS, beginning of year	**7,139.34**	**161.32**	7,354.84	163.24
Cash acquired on acquisition of subsidiaries	**75.53**	**1.71**	—	—
Unrealised gain/(loss) on foreign currency cash and cash Equivalents	**(135.17)**	**(3.05)**	101.93	2.27
CASH & CASH EQUIVALENTS, at the end of year	**9,731.78**	**219.93**	7,139.34	158.46
COMPONENTS OF CASH AND CASH EQUIVALENTS, as at December 31, 2006				
Cash	**1.93**	**0.04**	59.33	1.32
With banks				
– on current accounts	**472.53**	**10.68**	190.76	4.23
– on margin money accounts	**24.53**	**0.55**	37.81	0.84
– on fixed deposit accounts	**9,232.79**	**208.66**	6,851.44	152.07
	9,731.78	**219.93**	7,139.34	158.46

As per our report of even date

For S. R. Batliboi & Co.
Chartered Accountants

per Vijay Bhatt
Partner
Membership No: 36647

Place : Mumbai
Date : March 8, 2007

R. B. Gandhi
Company Secretary

For and on behalf of the Board of Directors

H. F. Khorakiwala
Chairman and Managing Director

B. L. Maheshwari
Shekhar Datta
Aman Mehta
Bharat Patel
R. A. Shah
Abid Hussain
Directors

Notes to the Consolidated Financial Statements

for the year ended December 31, 2006

1. (a) Background

Wockhardt Limited ('WL' or 'Company') is a subsidiary of Khorakiwala Holdings and Investments Private Limited. The Company has controlling interest, directly or through subsidiaries, in the following entities during the year ended December 31, 2006:

Name of subsidiaries	Country of Incorporation	Name of Parent	Percentage of ownership
1. Wockhardt Biopharm Limited	India	Wockhardt Limited	100%
2. Vinton Healthcare Pvt. Limited	India	Wockhardt Limited	100%
3. Wockhardt Infrastructure Development Limited	India	Wockhardt Limited	100%
4. Wockhardt UK Holdings Limited (formerly, Wockhardt UK Limited)	England & Wales	Wockhardt Limited	100%
5. CP Pharmaceuticals Limited	England & Wales	Wockhardt UK Holdings Limited	100%
6. Wallis Group Limited	England & Wales	Wockhardt UK Holdings Limited	100%
7. Wallis Laboratory Limited	England & Wales	Wallis Group Limited	100%
8. Wallis Licensing Limited	England & Wales	Wallis Group Limited	100%
9. Wockhardt UK Limited	England & Wales	Wockhardt Switzerland Holding AG	100%
10. PWH Limited	England & Wales	Pinewood Laboratories Ltd.	100%
11. Wockpharma Ireland Limited	Ireland	Wockhardt USA Holdings (Swiss) AG	100%
12. Pinewood Laboratories Limited	Ireland	Wockpharma Ireland Limited	100%
13. Nonash Limited	Ireland	Pinewood Laboratories Limited	100%
14. Wockhardt Switzerland Holding AG	Switzerland	Wockhardt Limited	100%
15. Wockhardt EU Operations (Swiss) AG	Switzerland	Wockhardt Switzerland Holding AG	100%
16. Wockhardt IP AG	Switzerland	Wockhardt Switzerland Holding AG	100%
17. Wockhardt USA Holdings (Swiss) AG	Switzerland	Wockhardt Switzerland Holding AG	100%
18. CP Pharma (Schweiz) AG	Switzerland	CP Pharmaceuticals Limited	100%
19. Esparma GmbH	Germany	Wockhardt Limited	100%
20. Wockhardt Europe Limited	British Virgin Islands	Wockhardt Limited	100%
21. Wockhardt Nigeria Limited	Nigeria	Wockhardt Europe Limited	100%
22. Wockhardt Farmaceutica Do Brazil Ltda.	Brazil	Wallis Laboratory Limited	100%
23. Wockhardt USA Inc.	USA	Wockhardt Switzerland Holding AG	100%
24. Wockhardt Cyprus Limited	Cyprus	Wockhardt Switzerland Holding AG	100%

The Company together with its subsidiaries Wockhardt Europe Limited ('WEL'), Wockhardt Biopharm Limited ('WBL'), Wockhardt Infrastructure Development Limited (WIDL), Consolidated Wockhardt UK Holdings Limited ('WUK'), Esparma GmbH (EG), Vinton Healthcare Private Limited and Consolidated Wockhardt Switzerland Holding AG ('WS') (collectively, 'the Group') is primarily engaged in the business of manufacture and marketing of pharmaceutical products. The group has nine manufacturing locations and a research and development centre.

(b) Basis of consolidation

(a) The consolidated financial statements of the group have been prepared based on a line-by-line consolidation of the financial statements of Wockhardt Limited and its subsidiaries. All material inter-company balances and transactions are eliminated on consolidation.

(b) Assets and liabilities of subsidiaries are translated into Indian rupees at the rate of exchange prevailing as at the Balance Sheet date. Revenues and expenses are translated into Indian rupees at average of twelve months closing rates and the resulting net translation adjustment aggregating Rs. 9.07 million (USD 0.2 million) [2005 – Rs. 36.67 million (USD 0.81 million)] has been adjusted to Reserves.

(c) **During the year, WL along with its subsidiaries, have established following wholly owned subsidiaries:**

Name of subsidiaries	Country of Incorporation
1. Wockhardt Nigeria Limited	Nigeria
2. Vinton Healthcare Private Limited	India
3. Wockhardt Infrastructure Development Limited	India
4. Wockhardt IP AG	Switzerland
5. Wockhardt UK Limited	England & Wales
6. Wockhardt Cyprus Limited	Cyprus
7. Wockhardt USA Holdings (Swiss) AG	Switzerland
8. Wockpharma Ireland Limited	Ireland
9. Pinewood Laboratories Limited	Ireland
10. Nonash Limited	Ireland
11. PWH Limited	England & Wales

At the reporting date, this has resulted in an increase in net assets by Rs. 8,056.12 million (USD 182.06 Million) and change in Profit before tax by Rs. 279.54 million. (USD 6.31 million)

(d) **Convenience translation**

The accompanying financial statements have been prepared in Indian rupees, the national currency of India. Solely for the convenience of the reader, the financial statements as of and for the year ended December 31, 2006 have been translated into United States dollars at the closing rate as at December 31, 2006 [USD 1 = Rs. 44.25 (2005 – USD 1 = Rs. 45.05)]. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollars at such a rate or any other rate.

2. Summary of Group's Significant Accounting Policies

The consolidated financial statements are prepared under the historical cost convention, on the accrual basis of accounting, and in conformity with accounting principles generally accepted in India. These consolidated financial statements have been prepared to meet the requirements of clause 32 of the listing agreement with the stock exchanges. The significant accounting policies of the group are as follows:

(a) Fixed assets, depreciation and amortization

Fixed assets are stated at cost less accumulated depreciation/amortization and impairment loss if any. The Group capitalises all costs relating to the acquisition and installation of fixed assets.

The carrying amounts of fixed assets and intangible assets (including goodwill) are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts and where carrying values exceed the estimated recoverable amount, assets are written down to the recoverable amount. The recoverable amount is the greater of assets net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values at the weighted average cost of capital.

Depreciation is provided, using the straight-line method, pro rata to the period of use of assets, based on the estimated useful life of the assets.

Fixed assets whose aggregate cost is Rs. 5,000 or less are depreciated fully in the year of acquisition.

Intangible assets except goodwill are amortised over a period of 7 - 15 years, which are based on their useful lives.

(b) Foreign currency translations

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 transaction.

Foreign currency monetary items are reported using 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 transaction.

Exchange differences arising on the settlement of monetary items or on reporting Company'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. Exchange differences arising in respect of fixed assets acquired from outside India are capitalised as a part of fixed asset. Exchange differences on liability relating to fixed asset acquired on or before March 31, 2004 are added to the cost of such assets.

Profit/loss on derivative financial instruments such as forward exchange contracts and interest rate swaps to hedge risks associated with foreign currency fluctuations and interest rates are considered as revenue items.

Premium or discount on forward exchange contracts arising at the inception of forward exchange contracts is amortized as expense or income over the life of the contract. Exchange differences on such contracts are recognized in the statement of profit and loss in the year in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognized as income or as expense for the year.

(c) Investments

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

(d) Inventories

All inventories are valued at moving weighted average price other than finished goods, which are valued on quarterly moving average price. Finished goods and Work in progress is computed based on respective moving weighted average of procured materials and appropriate share of labour and other manufacturing overheads.

Finished goods are valued at cost or net realizable value, whichever is lower. Cost also includes all charges incurred for bringing the inventories to their present location and condition. Excise and customs duty accrued on production or import of goods, as applicable, is included in the valuation of inventories.

Inventories of samples and stores and spare parts are valued at cost.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and to make the sale.

(e) Employee benefits

Retirement benefits in the form of Provident Fund, Family Pension Fund, Super annuation Schemes and non-contributory money purchase scheme, which are defined contribution schemes, are charged to the Profit & Loss Account of the year when the contributions to the respective funds accrue.

WUK operates defined contribution pension scheme. Till February 2004, WUK operated defined benefit pension scheme. The assets of schemes are held separately from those of the WUK in an independently administered fund.

Gratuity liability, which is a defined benefit scheme, and provision for leave encashment is accrued and provided for on the basis of an actuarial valuation made at the end of each financial year.

In respect of stock options granted to employees during the year under the WL's Employee Stock Option Scheme ('ESOS'), the excess of the market price of the share at the date of grant of the option over its exercise price is treated as a form of employee compensation in the financial statements of the WL. This amount is amortised on a straight-line basis over the vesting period. The unamortised portion is carried forward as deferred employee compensation.

The Company maintains 401(k) retirement contribution plans that cover all regular employees on Wockhardt USA Inc's (WUSA) payroll. The Company makes a matching contribution on the first 6% and employee participation is allowable as per US Government laws. The assets of the plan are held separately from those of the Company in an independently administered fund.

Expenses on Voluntary Retirement Scheme incurred before April 1, 2003, are charged off over a period of 4 years.

(f) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Sale of Goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which coincides with dispatch of goods to customers. Revenues are recorded at invoice value, net of excise duty, sales tax, value added tax (VAT) returns and trade discounts.

Sale of Services

Revenues from services are recognised on completion of such services.

Export Incentive

Benefit on account of entitlement to import duty free materials under the "Duty Entitlement Pass Book Schemes" is recognized in the year of export.

(g) Research and development (R&D)

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised over the period of expected future sales from the related project, not exceeding ten years.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

(h) Income tax

Tax expense comprises of current, deferred and fringe benefit tax.

Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the provisions of local Income Tax rules as applicable to the financial year. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

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.

Minimum Alternative Tax (MAT) credit is recognized 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. MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in the Guidance Note issued by the Institute of Chartered Accountants of India, the said asset is created by way of 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.

Income tax charge is the simple aggregation of the tax charge appearing in the group companies.

(i) Leases

Operating leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the lease term are classified as operating lease. Operating lease payments are recognized as an expense in the Profit & Loss Account on a straight-line basis over the lease term.

Finance Lease

The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases and HP contracts. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

(j) Acquisitions and goodwill

On acquisition, the excess cost of acquisition over fair value of assets acquired, is treated as purchased goodwill.

(k) Financing/Borrowing cost

Financing/Borrowing costs attributable to acquisition and/or construction of qualifying asset are capitalised as a part of the cost of such assets, up to the date such assets are ready for their intended use. Other financing/borrowing costs are charged to Profit & Loss Account. Initial direct costs are recognised immediately as an expense.

Expenses incurred in connection with raising of funds are amortised over the tenure of the borrowing.

(l) Provisions

A provision is recognised when an enterprise has a present obligation as a result of past event, 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 the balance sheet date and adjusted to reflect the current best estimates.

(m) Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the period. The weighted average number of equity shares outstanding during the period are adjusted for events of bonus issue to existing shareholders and share split.

For the purpose of calculating diluted earnings per share, the net profit attributable to equity shareholders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential equity shares from the exercise of options on unissued share capital. The number of equity shares is the aggregate of the weighted average number of equity shares and the weighted average number of equity shares, which would be issued on the conversion of all the dilutive potential equity shares into equity shares. Options on unissued equity share capital are deemed to have been converted into equity shares.

(n) Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to the profit and loss account over the expected useful lives of the relevant assets. Grants of revenue nature are credited to income in the period to which they relate.

	As at 31.12.2006 Rs. in millions	As at 31.12.2006 USD in millions [see note 1(b)(d)]	As at 31.12.2005 Rs. in millions [Note 34]	As at 31.12.2005 USD in millions [see note 1(b)(d)]
3. SHARE CAPITAL				
AUTHORISED				
250,000,000 (2005 – 200,000,000) Equity shares of Rs. 5 each	1,250.00	28.25	1,000.00	22.20
	1,250.00	28.25	1,000.00	22.20
ISSUED, SUBSCRIBED AND PAID UP				
109,435,903 (2005 -109,299,601) Equity shares of Rs. 5 each fully paid up	547.18	12.37	546.50	12.13
	547.18	12.37	546.50	12.13

1. Of the above:
   (a) 70,123,304 (2005 – 70,123,304) fully paid up equity shares of Rs. 5/- each were allotted pursuant to scheme of arrangement to demerge pharmaceuticals business of Carol Info Services Limited ('CISL') (formerly Wockhardt Life Science Limited).
   (b) 2,400,000 (2005 – 2,400,000) fully paid up equity shares of Rs. 5/- each were allotted pursuant to amalgamation of Wockhardt Veterinary Limited ('WVL') with the Company.
   (c) 69,716,132 (2005 – 69,716,132) equity shares of Rs. 5/- fully paid up are held by Khorakiwala Holdings and Investments Pvt. Limited, the holding company.
2. 439,200 (2005 – 302,898) fully paid equity shares of Rs. 5/- each were allotted pursuant to exercise of stock options.
3. 45,000 (2005 – 126,434) employee stock options are outstanding as at the balance sheet date; each option represents three equity shares of Rs. 5/- each.
4. 36,431,502 (2005 – 36,386,068) equity shares of Rs. 5/- each are allotted as Bonus shares out of Capital Redemption Reserve.
5. Nil (2005 – 141,397) equity shares of Rs. 5/- each fully paid-up were allotted during the year on conversion of foreign currency convertible bonds.

4. RESERVES AND SURPLUS				
Capital redemption reserve				
Balance as per last accounts	**265.57**	**6.00**	265.84	5.90
Utilised for issue of bonus shares	**(0.23)**	**(0.01)**	(0.27)	(0.01)
	265.34	**5.99**	265.57	5.89
Securities premium account				
Balance as per last accounts	**117.07**	**2.65**	28.22	0.63
Received during the year	**17.07**	**0.39**	88.85	1.97
	134.14	**3.04**	117.07	2.60
Employee stock option outstanding	**3.68**	**0.08**	11.13	0.25
Less: Deferred employee compensation expenses	**—**	**—**	(1.22)	(0.03)
	3.68	**0.08**	9.91	0.22
Capital reserve on consolidation				
Balance as per last accounts	**—**	**—**	—	—
Additions : during the year	**720.26**	**16.28**	—	—
	720.26	**16.28**	—	—
Foreign currency translation reserve				
Balance as per last accounts	**81.28**	**1.84**	117.95	2.62
Deductions: during the year	**(9.07)**	**(0.20)**	(36.67)	(0.81)
Balance at the end of the year	**72.21**	**1.64**	81.28	1.80
General reserve				
Balance as per last accounts	**6,465.76**	**146.13**	4,765.76	105.78
Less: Adjustment for employee benefits provision (net of tax) [Note 29]	**(9.23)**	**(0.21)**	—	—
Transfer from profit and loss account	**1,500.00**	**33.90**	1,700.00	37.73
Balance at the end of the year	**7,956.53**	**179.82**	6,465.76	143.51
Profit and loss account	**963.53**	**21.77**	674.95	14.99
	10,115.70	**228.62**	7,614.54	169.01

	As at 31.12.2006 Rs. in millions	As at 31.12.2006 USD in millions [see note 1(b)(d)]	As at 31.12.2005 Rs. in millions	As at 31.12.2005 USD in millions [see note 1(b)(d) [Note 34]
5. SECURED LOANS				
(A) Term loans				
(i) From financial institutions	**164.01**	**3.71**	—	—
(ii) From banks	**14,326.68**	**323.78**	3,933.61	87.31
(B) Working Capital Loans from Banks	**260.05**	**5.88**	190.76	4.23
	14,750.74	**333.37**	4,124.37	91.54

(A) Term Loans are secured as under:

(i) (a) Foreign currency denominated loans (external commercial borrowings) are secured by mortgage and hypothecation of movable and immovable assets at Aurangabad, Ankleshwar, Daman, Biotech-Waluj, Cephal-Waluj (Plant & Machinery) and Research Centre, Aurangabad. The loans are repayable in July 2008, September 2008 and March 2009.

(b) Rupee denominated loans from banks and others amounting to Rs. 19.08 million (2005 – Rs. 37.91 million) are for purchase of vehicles and secured by hypothecation of vehicles purchased under the agreement.

(c) Loan amounting to Rs. 868.83 million (2005 – Rs. 777.36 million) is secured against the fixed assets and working capital of Wockhardt UK Holdings Ltd.

(B) Working capital loans from banks are secured by hypothecation of raw materials, work-in-progress, finished goods and debtors and specific charge on all tangible movable assets excluding plant and machinery tools, equipments, accessories, etc.

6. UNSECURED LOANS				
Long term				
(A) Sales tax deferral loan [out of the above Nil (2005 – Nil) is repayable within one year]	**52.29**	**1.18**	52.29	1.16
(B) Zero coupon foreign currency convertible bonds	**4,801.13**	**108.51**	4,888.47	108.50
(C) Short term Loans	**98.58**	**2.23**	—	—
	4,952.00	**111.92**	4,940.76	109.66

(A) 108,500 (2005 – 108,500) zero coupon foreign currency convertible bonds of USD 1000 each are:

(a) Convertible by the holders at any time on or after 24 November, 2004 but prior to close of business on 25 September, 2009. Each bond will be converted into 94.265 fully paid up equity share with par value of Rs. 5 per share at a fixed price of Rs. 486.075 per share.

(b) Redeemable, in whole but not in part, at the option of the Company at any time on or after 25 October 2007 but not less than seven business days prior to maturity date i.e. 25 October, 2009 as per the terms and conditions of the bonds mentioned in the offering circular.

(c) Redeemable on maturity date at 129.578 percent of its principal amount, if not redeemed or converted earlier.

7. DEFERRED TAX LIABILITY (Net)				
Deferred tax liabilities				
Difference between depreciation on block of assets (including CWIP)	**1,101.14**	**24.89**	687.94	15.27
Deferred expenses	**10.05**	**0.23**	15.60	0.35
Total (A)	**1,111.19**	**25.12**	703.54	15.62
Deferred tax assets				
Provision for gratuity	**31.71**	**0.72**	26.64	0.59
Provision for leave encashment	**21.37**	**0.49**	13.65	0.30
Provision for bonus	**1.42**	**0.03**	1.35	0.03
Provision for doubtful debts	**135.63**	**3.07**	44.17	0.98
Total (B)	**190.13**	**4.31**	85.81	1.90
Net Deferred tax liability (A – B)	**921.06**	**20.81**	617.73	13.72
Net deferred tax liability as of the year end	**921.06**	**20.81**	617.73	13.72

Note: Deferred tax gain of Rs. 2.63 million (USD 0.06 million) [2005 – Rs. 7.30 million (USD 0.14 million)] of Wockhardt UK Holdings Limited [formerly, Wockhardt UK Ltd.] on account of Pension liability grouped in Current liabilities.

8. Fixed Assets

PARTICULARS	GROSS BLOCK					DEPRECIATION					NET BLOCK			
	As At 01.01.2006	Additions	Deductions & Transfers	Exc. Gain/ Loss	**As at 31.12.2006**	As At 01.01.2006	Additions	Deductions & Transfers	Exc. Gain/ Loss	As at 31.12.2006	**As at 31.12.2006**		As at 31.12.2005	
											Rs. in millions	**USD in millions [see note 1(b)(d)]**	Rs. in millions	USD in millions [see note 1(b)(d)]
Intangibles														
Goodwill	631.28	5,181.43	192.01	5.36	**5,626.06**	79.37	31.00	110.37	6.72	6.72	**5,619.34**	**126.99**	551.91	12.25
Licenses & Dossiers	470.16	—	(198.78)	88.43	**757.37**	366.32	47.23	(110.37)	54.16	578.08	**179.29**	**4.05**	103.84	2.30
Trade Marks	271.40	932.07	0.61	18.14	**1,221.00**	35.34	319.45	0.07	2.69	357.41	**863.59**	**19.52**	236.06	5.24
Software	158.87	0.80	—	—	**159.67**	6.46	14.64	—	0.15	21.25	**138.42**	**3.13**	152.41	3.38
Total Intangibles A	**1,531.71**	**6,114.30**	**(6.16)**	**111.93**	**7,764.10**	**487.49**	**412.32**	**0.07**	**63.72**	**963.46**	**6,800.64**	**153.69**	**1,044.22**	**23.17**
Tangibles														
Freehold land	320.74	48.75	—	34.19	**403.68**	264.71	0.67	—	31.00	296.38	**107.30**	**2.43**	56.03	1.24
Leasehold land	58.05	25.36	—	—	**83.41**	3.98	0.78	—	—	4.76	**78.65**	**1.78**	54.07	1.20
Buildings	512.47	718.37	—	1.60	**1,232.44**	96.75	95.66	—	0.21	192.62	**1,039.82**	**23.50**	415.72	9.23
Electrical Fittings	1.11	—	—	—	**1.11**	0.28	0.05	—	—	0.33	**0.78**	**0.02**	0.83	0.02
Plant and Machinery	5,399.58	1,947.94	20.95	191.97	**7,518.54**	1,755.78	343.03	☆(13.29)	98.64	2,210.74	**5,307.80**	**119.96**	3,643.80	80.87
Furniture and fittings	171.58	28.73	2.34	4.81	**202.78**	62.69	11.81	1.34	4.22	77.38	**125.40**	**2.83**	108.89	2.41
Office Equipments	59.84	861.50	1.41	3.14	**923.07**	35.87	492.85	1.15	2.48	530.05	**393.02**	**8.88**	23.97	0.54
Information Technology Equipments	229.35	66.39	8.69	9.52	**296.57**	160.61	53.10	7.88	8.27	214.10	**82.47**	**1.86**	68.74	1.53
Vehicles	99.54	17.39	16.84	0.53	**100.62**	37.61	22.79	6.07	0.36	54.69	**45.93**	**1.04**	61.93	1.38
Assets on Finance Lease	—	5.19	0.21	—	**4.98**	—	5.19	0.21	—	4.98	**—**	**—**	—	—
Total Tangibles B	**6,852.26**	**3,719.62**	**50.44**	**245.76**	**10,767.20**	**2,418.28**	**1,025.93**	**3.36**	**145.18**	**3,586.03**	**7,181.17**	**162.30**	**4,433.98**	**98.42**
Capital Work-in-Progress C					**3,085.91**						**3,085.91**	**69.74**	2,402.56	53.32
Total A+B+C	**8,383.97**	**9,833.92**	**44.28**	**357.69**	**21,617.21**	**2,905.77**	**1,438.25**	**3.43**	**208.90**	**4,549.49**	**17,067.72**	**385.73**	**7,880.76**	**174.91**

The net block of tangible fixed assets includes an amount of Rs. 60.10 million (2005 – Rs. 101.90 million) in respect of assets held under Hire Purchase contracts and Rs. 144.23 million (2005 – Nil) in respect of assets under finance lease.

Capital expenditure that has been contracted but not provided for Rs. 1,091.22 million (2005 – Rs. 265.16 million).

☆ During the year the Company has capitalised depreciation as Intangibles Rs. 19.07 Mn. (2005 – Nil).

Capital Work-in-progress includes expenditure incurred during construction period pending allocation aggregating Rs. 590.15 million (2005 – 900.71 million). These expenses include Employee cost aggregating Rs. 118.93 million (2005 – Rs. 106.72 million), Interest expenses Rs. 0.37 million (2005 – Rs. 81.94 million), Exchange rate fluctuation Rs. Nil (2005 – Rs. 12.07 million) and Operating expenses aggregating Rs. 470.85 million (2005 – 699.98 million) [Stores & spares Rs. 4.92 million (2005 – Rs. 67.82 million), Power Rs. 10.66 million (2005 – Rs. 111.41 million), travelling Rs. 6.82 million (2005 – Rs. 20.74 million), repairs Rs. 3.70 million (2005 – Rs. 19.06 million), general expenses Rs. 444.75 million (2005 – Rs. 480.95 million)].

Additions during the period include exchange differences on account of changes in foreign exchange rates relating to acquisition of fixed assets Rs. 0.25 million (2005 – Rs. 19.68 million).

Addition to fixed assets and Depreciation for the year include the cost of the assets of subsidiaries acquired during the year of Rs. 2,769.15 million (2005 Nil) and accumulated depreciation thereon of Rs. 817.64 million (2005 – Nil) respectively.

	As at 31.12.2006 Rs. in millions	**As at 31.12.2006 USD in millions [see note 1(b)(d)]**	As at 31.12.2005 Rs. in millions	As at 31.12.2005 USD in millions [see note 1(b)(d)] [Note 34]
9. INVESTMENTS				
LONG TERM INVESTMENTS (at Cost)				
Other than trade (Unquoted)				
305,982 (2005 – 305,982) shares of Bharuch Eco-Aqua Infrastructure Ltd. of Rs. 10 each fully paid	**3.05**	**0.07**	3.05	0.07
6,300 (2005 – 6,300) shares of Bharuch Environmental Infrastructure Ltd. of Rs. 10 each fully paid	**0.06**	**—**	0.06	—
250 (2005 – 250) Shares of Kanishka Housing Development Co. Pvt. Ltd. of Rs. 100 each fully paid	**0.03**	**—**	0.03	—
	3.14	**0.07**	3.14	0.07

Units of Mutual Funds Purchased & Sold during the year Rs. 350 million (2005 – 1,110 million)

	As at 31.12.2006 Rs. in millions	As at 31.12.2006 USD in millions [see note 1(b)(d)]	As at 31.12.2005 Rs. in millions	As at 31.12.2005 USD in millions [see note 1(b)(d)] [Note 34]
10. INVENTORIES				
Raw materials	1,453.76	32.86	857.40	19.03
Packing materials	173.75	3.93	131.38	2.92
Work-in-progess	534.32	12.08	180.25	4.00
Finished goods	2,010.72	45.44	1,547.13	34.34
Samples	30.73	0.69	24.63	0.55
Stores and spare parts	96.68	2.19	5.75	0.12
	4,299.96	97.19	2,746.54	60.96
11. SUNDRY DEBTORS				
Sundry debtors considered good	4,615.65	104.34	2,809.52	62.36
Sundry debtors considered doubtful	480.99	10.87	135.35	3.00
	5,096.64	115.21	2,944.87	65.36
Less : Provision for doubtful debts	(480.99)	(10.87)	(135.35)	(3.00)
Sundry Debtors, net of provisions/charge back	4,615.65	104.34	2,809.52	62.36
12. CASH AND BANK BALANCES				
Cash on hand	1.93	0.04	59.33	1.32
Balances with Scheduled banks				
— on current accounts	472.53	10.68	190.76	4.23
— on margin accounts	24.53	0.55	37.81	0.84
— on deposit accounts [Includes unutilised amounts of FCCB Rs. 4,214.78 million (2005 – Rs. 5,445.97 million)]	9,232.79	208.66	6,851.44	152.07
	9,731.78	219.93	7,139.34	158.46
13. LOANS AND ADVANCES (Unsecured, considered good)				
Loans to employees	16.40	0.37	8.63	0.20
Loans to companies	0.10	—	0.01	—
Advances recoverable in cash or in kind or for value to be received	695.56	15.72	566.96	12.58
Accrued income	33.66	0.76	154.07	3.42
Balance with customs and excise authorities	128.01	2.89	116.78	2.59
Loans to others	0.15	—	—	—
Minimum alternate tax (MAT) credit entitlement	199.16	4.50	—	—
Advance tax (including tax deducted at source) – net of provision for tax	126.78	2.87	—	—
Other deposits	224.17	5.07	63.38	1.41
	1,423.99	32.18	909.83	20.20
14. CURRENT LIABILITIES AND PROVISIONS				
CURRENT LIABILITIES				
Sundry creditors	2,798.58	63.25	1,688.68	37.48
Lease finance	60.02	1.36	—	—
Security deposits	153.92	3.48	139.17	3.09
Investor education and protection fund shall be credited as & when due by the following amounts :				
Unclaimed dividends	9.04	0.20	6.41	0.14
Interest accrued but not due	21.75	0.49	20.86	0.46
Other liabilities	1,932.13	43.65	706.05	15.67
	4,975.44	112.43	2,561.17	56.84
PROVISIONS				
Provision for tax, net of advance tax paid	47.26	1.07	9.79	0.22
Proposed dividend	—	—	547.17	12.14
Interim dividend on equity shares payable	547.18	12.38	—	—
Tax on interim dividend payable	76.74	1.74	—	—
Tax on proposed dividend	—	—	76.74	1.70
Provision for retirement benefits	163.94	3.71	435.36	9.66
Other provision	45.00	1.02	15.00	0.34
	880.12	19.92	1,084.06	24.06
	5,855.56	132.35	3,645.23	80.90

	For the year ended 31.12.2006 Rs. in millions	For the year ended 31.12.2006 USD in millions [see note 1(b)(d)]	For the year ended 31.12.2005 Rs. in millions	For the year ended 31.12.2005 USD in millions [see note 1(b)(d)] [Note 34]
15. OTHER INCOME				
Dividends received on investments	0.73	0.02	1.42	0.03
Profit on sale of assets	0.67	0.02	1.28	0.03
Miscellaneous income	188.39	4.26	177.27	3.93
	189.79	4.30	179.97	3.99
16. MATERIALS CONSUMED AND PURCHASE OF GOODS				
Consumption of raw and packing materials	5,085.45	114.93	3,973.81	88.20
Purchase of finished goods	2,205.87	49.85	2,113.63	46.91
	7,291.32	164.78	6,087.44	135.11
17. (INCREASE)/DECREASE IN INVENTORIES				
Inventories as at December 31, 2005				
Finished goods	1,547.13	34.97	1,225.26	27.19
Samples	24.63	0.56	20.85	0.46
Work-in-process	180.25	4.07	159.24	3.53
Less: Excise duty on opening stock	(56.58)	(1.28)	(26.00)	(0.58)
	1,695.43	38.32	1,379.35	30.60
Stock acquired on acquisition of Subsidiary Companies				
Finished goods	235.28	5.32	—	—
Work-in-process	0.03	—	—	—
	235.31	5.32	—	—
Inventories as at December 31, 2006				
Finished goods	(2,010.72)	(45.44)	(1,547.13)	(34.34)
Samples	(30.73)	(0.69)	(24.63)	(0.55)
Work-in-process	(534.33)	(12.08)	(180.25)	(4.00)
Less: Excise duty on closing stock	32.21	0.73	56.58	1.26
	(2,543.57)	(57.48)	(1,695.43)	(37.63)
	(612.83)	(13.84)	(316.08)	(7.03)
18. OPERATING AND OTHER EXPENSES				
Employee costs	2,691.98	60.84	2,096.43	46.53
Travelling expenses	417.07	9.43	329.04	7.30
Freight and forwarding	363.37	8.21	328.24	7.29
Selling and distribution	641.35	14.49	457.33	10.15
Commission on sales	62.01	1.40	45.22	1.00
Power and fuel	439.54	9.93	270.32	6.00
Rent, Rates and taxes	160.24	3.62	139.98	3.11
Repairs and maintenance				
Machinery	113.01	2.55	52.01	1.15
Buildings	17.99	0.41	24.95	0.55
Others	119.90	2.71	98.71	2.19
Stores and spare parts consumed	316.30	7.15	249.27	5.53
Insurance	116.95	2.64	89.92	2.00
Provision for doubtful debts	22.97	0.52	6.23	0.14
Bad debts	8.84	0.20	31.34	0.70
Miscellaneous expenses	1,117.73	25.26	853.46	18.94
	6,609.25	149.36	5,072.45	112.58

	For the year ended 31.12.2006 Rs. in millions	For the year ended 31.12.2006 USD in millions [see note 1(b)(d)]	For the year ended 31.12.2005 Rs. in millions [Note 34]	For the year ended 31.12.2005 USD in millions [see note 1(b)(d)]
19. FINANCE EXPENSES (Net)				
Interest paid				
On term Loans	**224.02**	**5.06**	0.37	0.01
Others Loans	**185.33**	**4.19**	260.89	5.79
	409.35	**9.25**	261.26	5.80
Add: Exchange (gain)/loss on borrowings	**(98.53)**	**(2.23)**	82.68	1.83
Less: Interest received [TDS of Rs. 10.84 million (Previous Year – Rs. 8.56 million)]	**(284.43)**	**(6.43)**	(248.73)	(5.52)
	26.39	**0.59**	95.21	2.11
20. (a) Annual commitments under non-cancellable operating leases are:				
Less than 1 year	**21.38**	**0.48**	4.04	0.09
More than 1 year but less than five years	**59.09**	**1.34**	32.91	0.73
More than five years	**22.92**	**0.52**	20.52	0.46
	103.39	**2.34**	57.47	1.28
(b) Annual commitments under finance leases are:				
In one year or less	**50.69**	**1.15**	16.79	0.37
More than 1 year but more than 5 years	**44.80**	**1.01**	25.55	0.57
More than 5 years.	**—**	**—**	—	—
	95.49	**2.16**	42.34	0.94
Less: Finance charge	**6.23**	**0.14**	3.33	0.07
Present value of minimum lease payments	**89.26**	**2.02**	39.01	0.87
21. Expenditure on research and development				
Capital	**767.01**	**17.33**	240.15	5.33
Revenue	**610.41**	**13.80**	797.55	17.70
	1,377.42	**31.13**	1,037.70	23.04

22. EARNINGS PER SHARE

The calculations of earnings per share (basic and diluted) are based on the earnings and number of shares are computed as below:

Reconciliation of earnings	2006 Rs. in millions	2006 USD in millions	2005 Rs. in millions	2005 USD in millions
Profit after tax for the financial year	**2,412.50**	**54.54**	2,571.01	57.07
Net profit attributable to equity shareholders	**2,412.50**	**54.54**	2,571.01	57.07
Reconciliation of weighted average number of shares	**Shares**		Shares	
For basic earnings per share	**109,419,237**		109,158,742	
Add: Deemed exercise of options on unissued equity share capital	**22,161**		126,289	
For diluted earnings per share	**109,441,398**		109,285,031	
	Rs.	**USD**	Rs.	USD
Earnings per share (nominal value Rs. 5 each)				
Basic	**22.05**	**0.50**	23.55	0.52
Diluted	**22.04**	**0.50**	23.53	0.52

23. SEGMENT INFORMATION

(i) **Information about Primary Segments**

The Company is primarily engaged in pharmaceutical business which is considered the only reportable business segment as per Accounting Standard – AS 17 'Segment Reporting' issued by the Institute of Chartered Accountants of India.

(ii) **Information about Secondary Segments**

Sales by market — The following is the distribution of the Company's sale by geographical market regardless of where the goods were produced:

Geographical segment	**2006 Rs. in millions**	**2006 USD in millions**	2005 Rs. in millions	2005 USD in millions
India	**6,764.71**	**152.88**	5,274.05	117.06
USA/Western Europe	**8,808.31**	**199.07**	6,926.29	153.73
Rest of the World	**1,717.37**	**38.81**	1,930.01	42.84
Total	**17,290.39**	**390.76**	14,130.35	313.63

Assets and additions to fixed assets by geographical area — The following table shows the carrying amount of segment assets and liabilities to fixed assets by geographical area in which the assets are located:

	India Rs. in millions	**India USD in millions**	**Others Rs. in millions**	**Others USD in millions**
Carrying amount of segment assets	**16,404.38** (14,880.28)	**370.74** (330.27)	**20,737.86** (6,608.85)	**468.68** (146.68)
Additions to tangible and intangible assets	**2,266.40** 821.81	**51.22** 18.24	**6,749.87** 238.44	**152.55** 5.29

(iii) **Notes:**

Geographical segments: Secondary segmental reporting is performed on the basis of the geographical location of customers. The management views the Indian market and export markets as distinct geographical segments.

Segment assets: Segment assets include all operating assets used by a segment and consist principally of debtors, inventories, advances and fixed assets, net of allowances. Assets at the corporate level are not allocable to segments on a reasonable basis and thus the same have not been allocated.

Figures in brackets represent prior year comparatives

24. RELATED PARTY DISCLOSURES

(a) **Parties where control exists**

Holding company

Khorakiwala Holdings & Investments Private Limited

(b) **Related party relationships where transactions have taken place during the period**

Associates Enterprises (Entities in which Wockhardt Limited has significant influence or control)

Carol Info Services Limited (formerly Wockhardt Life Sciences Limited), Merind Limited & Khorakiwala Foundation

Key management personnel

H. F. Khorakiwala, Chairman and Managing Director

Lalit Kumar, Executive Director (Resigned with effect from November 20, 2006)

(c) **Transactions with related parties during the period**

	2006 Rs. in millions	**2006 USD in millions**	2005 Rs. in millions	2005 USD in millions
Holding company				
Dividend Paid	**348.58**	**7.88**	348.58	7.74
Other Enterprises				
Purchase of finished goods [Merind Ltd. Rs. Nil (2005 – Rs. 323.29 million), Carol Info Services Ltd. Rs. Nil (2005 – Rs. 33.76 million)]	—	—	357.05	7.92
Purchase of raw material [Merind Ltd. Rs. Nil (2005 – Rs. 80.35 million), Carol Info Services Ltd. Rs. Nil (2005 – Rs. 10.16 million)]	—	—	90.51	2.01
Consignment Agency Commission received [Merind Ltd. Rs. Nil (2005 – Rs. 0.06 million)]	—	—	0.06	—
Loan Licensee paid [Merind Ltd. Rs. 252.65 million (2005 – Rs. 80.90 million), Carol Info Services Ltd. Rs. 69.20 million (2005 – Rs. 61.28 million)]	**321.85**	**7.27**	142.18	3.16
Rent paid [Carol Info Services Ltd. Rs. 48.59 million (2005 – Rs. 48.59 million), Merind Ltd. Rs. 1.42 million (2005 – Rs. 1.42 million)]	**50.01**	**1.13**	50.01	1.11

(c) **Transactions with related parties during the period (Contd.)**

	2006 Rs. in millions	2006 USD in millions	2005 Rs. in millions	2005 USD in millions
Expenses recovered/(paid) [Carol Info Services Ltd. Rs. 10.80 million (2005 – Rs. 0.01 million) Merind Ltd. Rs. Nil (2005 – Rs. 94.36 million) Khorakiwala Foundation Rs. 2.59 million (2005 – Rs. 1.86 million)]	**13.39**	**0.30**	(92.37)	(2.05)
Donation given [Khorakiwala Foundations Rs. Nil (2005 – Rs. 1.10 million)]	**—**	**—**	1.10	0.02
Security deposit given [Merind Ltd. Rs. 280 million (2005 – Rs. 280 million), Carol Info Services Ltd. Rs. 250 million (2005 – Rs. 250 million)]	**530.00**	**11.98**	530.00	11.76
Security deposit recovered [Merind Ltd. Rs. 280 million (2005 – Rs. 280 million), Carol Info Services Ltd. Rs. 250 million (2005 – Rs. 250 million)]	**530.00**	**11.98**	530.00	11.76
Key management personnel				
Remuneration to Directors :				
Salary	**11.50**	**0.26**	10.06	0.22
Commission	**71.18**	**1.61**	68.45	1.52
Contribution to Provident Fund	**1.22**	**0.03**	0.98	0.02
Other Perquisites	**1.43**	**0.03**	2.97	0.07
	85.33	**1.93**	82.46	1.83
(d) **Related party balances**				
Payable to associate enterprises [Merind Ltd. Rs. 21.49 million (2005 – Rs. 88.18 million), Carol Info Services Ltd. Rs. 14.77 million (2005 – Rs. 59.44 million)]	**(36.26)**	**(0.82)**	(147.62)	(3.28)
Payable to Key management personnel	**(71.28)**	**(1.61)**	(68.45)	(1.52)

25. Turnover includes exchange rate gain, including gain on hedging activity, of Rs. 829.50 million (2005 – Rs. 817.87 million).

26. Provision for Sales Return, date expiry and chargebacks – Opening Balance Rs. 26.11 million (2005 – Rs. Nil), Additions during the year Rs. 156.30 million (2005 – Rs. 26.11 million), utilised during the year Rs. 64.16 million (2005 – Rs. Nil), Closing Balance Rs. 116.67 million [Net of exchange Rs. 1.58 million (2005 – Rs. Nil)] (2005 – Rs. 26.11 million).

27. EXCEPTIONAL ITEMS

Represents one time re-imbursement of chargeback for USA business amounting to Rs. 376 million (2005 – Rs. Nil) and merger and acquisition expenses amounting to Rs. 227.72 million (2005 – Rs. Nil) comprising of legal and professional expenses Rs. 207.28 million, travelling expenses Rs. 2.09 million and other expenses Rs. 18.35 million.

28. CONTINGENT LIABILITIES NOT PROVIDED FOR:

(a) Demands by central excise authorities in respect of classification disputes; stay orders have been obtained by the Company against these demands – Rs. 66.67 million (2005 – Rs. 26.22 million).

(b) Demand by income tax authorities Rs. 408.53 million (2005 – Rs. 133.76 million) disputed by the Company.

(c) Corporate guarantee given on behalf of various subsidiaries in respect of bank loans amounts to Rs. 13,218.52 million (2005 – Rs. 777.38 million).

(d) Corporate guarantees given by Wockhardt UK Holdings Limited on behalf of CP Pharmaceuticals Limited in respect of bank loans and overdrafts amounts to Rs. Nil (2005 – Rs. 204.98 million).

(e) A Government grant of 0.65 million GBP (Rs. 37.8 million) received by Pinewood Limited, which pertains to periods prior to acquisition, is repayable only if certain conditions are not fulfilled.

(f) 108,500 (2005 – 108,500) Zero coupon foreign currency convertible bonds of USD 1,000 each are:

(i) Convertible by the holders at any time on or after November 24, 2004 but prior to close of business on September 25, 2009. Each bond will be converted into 94.265 fully paid up equity share with par value of Rs. 5/- per share at a fixed price of Rs. 486.075 per share.

(ii) Redeemable, in whole but not in part, at the option of the Company at any time on or after October 25, 2007 but not less than seven business days prior to maturity date i.e. October 25, 2009 subject to the fulfillment of certain terms and obtaining requisite approvals.

(iii) redeemable on maturity date at 129.578 percent of its principal amount, if not redeemed or converted earlier.

The Bonds are considered as monetary liability. The bonds are redeemable only if there is no conversion of the bonds earlier. Hence the payment of premium on redemption is contingent in nature, the outcome of which is dependent on uncertain future events. Hence no provision is considered necessary nor has been made in the accounts in respect of such premium amounting to a maximum of Rs. 581.74 million. (2005 – Rs. 313 million).

(g) Wockhardt UK Holdings Limited has provided an unlimited cross guarantee for the hire purchase creditors of CP Pharmaceuticals Limited.

(h) Contingent liability in respect of VAT for Wockhardt UK Holdings Ltd. and its subsidiaries amounts Rs. 169.06 million (2005 Rs. 58.48 million).

29. In the current year, the Company has gone for earlier adoption of accounting standard 15 (Revised) which is mandatory from accounting periods starting from December 7, 2006. Accordingly, the Company has provided for gratuity and leave encashment on actuarial valuation done as per projected unit credit method. Further, in accordance with the transitional provision in the revised accounting standard, Rs. 9.23 million (net of tax liability Rs. 4.68 million) has been adjusted to the general reserves.

30. The Company has provided share based payment schemes to employees. Refer Note 27 of Wockhardt Limited accounts.

31. The details of employee benefits are as per note no 26 to Wockhardt Limited accounts. The subsidiary companies adhere to the local provisions of employee benefits and are suitably disclosed in their respective accounts.

32. DISCLOSURE REGARDING DERIVATIVE INSTRUMENTS AND UNHEDGED FOREIGN CURRENCY EXPOSURE

(a) The group enters into forward exchange contracts being derivative instruments, which are not intended for trading, or speculative purposes, but for hedge purposes, to establish the amount of reporting currency required or available at the settlement date.

(b) Outstanding currency swaps (other than forward exchange contracts stated above) to hedge against fluctuations in changes in exchange rate and interest rate changes:

	JPY in millions	Rs. in millions
No. of contracts		2
National principal	4,158.83	1,548.75

(c) The year end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below:

Particulars	Currency	Amt. in Foreign Currency (in Mn.)	Rs. in Mn.
Loan Availed	USD	50.26	2,223.82
	GBP	1.03	89.86
Interest Payable	USD	0.48	21.27
Sundry Debtors	ACU	0.03	1.12
	AUD	0.01	0.48
	USD	33.08	1,463.87
	EUR	0.57	33.48
	GBP	4.26	369.87
Loans and Advances	EUR	3.02	175.94
	USD	1.82	80.71
	GBP	5.22	452.88

Particulars	Currency	Amt. in Foreign Currency (in Mn.)	Rs. in Mn.
Sundry Creditors	AUD	0.004	0.15
	CHF	0.06	2.20
	EUR	0.21	12.51
	GBP	0.97	84.00
	JPY	48.48	18.05
	USD	8.02	355.00
Foreign Currency Convertible Bonds	USD	108.50	4,801.13
Time Deposit	USD	95.25	4,214.78

The above disclosure have been made consequent to an announcement by the Institute of Chartered Accountants of India in December 2005, which is applicable to the financial periods ending on or after 31st March, 2006. Therefore, figures for the previous year have not been disclosed.

33. The Board of Directors at its meeting held on February 22, 2007 approved the accounts and had submitted the same to the statutory auditors for their comments thereon. The Board at this meeting also recommended Dividend @ 100% i.e. Rs. 5/- per equity share for the year ended December 31, 2006. The payment of dividend was subject to the approval of the shareholders at the Annual General Meeting.

Subsequently, the Board of Directors at its meeting held on March 8, 2007, revoked the said dividend and declared an interim dividend @ 100% i.e. Rs. 5/- per equity share for the year ended December 31, 2006. The revised accounts with the above changes have been approved by the Board at the meeting held on March 8, 2007.

34. PREVIOUS YEAR COMPARATIVES

Previous year's figures have been regrouped where necessary to conform to this year's classification.

As per our report of even date

For S. R. Batliboi & Co.
Chartered Accountants

per Vijay Bhatt
Partner
Membership No: 36647

Place : Mumbai
Date : March 8, 2007

R. B. Gandhi
Company Secretary

For and on behalf of the Board of Directors

H. F. Khorakiwala
Chairman and Managing Director

B. L. Maheshwari
Shekhar Datta
Aman Mehta
Bharat Patel
R. A. Shah
Abid Hussain
Directors

Auditors' Report to the Board of Directors of Wockhardt Limited on the Consolidated Financial Statements

To the Board of Directors of
Wockhardt Limited

1. We have audited the attached Consolidated Balance Sheet of Wockhardt Limited ('Wockhardt') and its subsidiaries as at December 31, 2006 and also the consolidated Profit and Loss Account and the consolidated cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Wockhardt management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of certain subsidiaries, whose financial statements reflect total assets of Rs.23,791 million as at December 31, 2006 and the total revenues of Rs.9,797 million and the related cash flows for the year then ended. These financial statements have been audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of the subsidiaries, is based solely on the report of the other auditors.
4. We report that the consolidated financial statements have been prepared by the management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate financial statements of Wockhardt and its subsidiaries included in the consolidated financial statements, except that the standalone financial statements of Wockhardt Limited do not include amounts expressed in United States Dollars, as such disclosure is not warranted by Schedule VI to the Companies Act, 1956.
5. We have not reviewed the translation of the amounts mentioned in United States Dollars in the financial statements, and accordingly do not express an opinion on such amounts.
6. Without qualifying our opinion, we draw attention to Note 28(f) to the consolidated financial statements. The management is of the view that the liability to pay premium on redemption is contingent on the redemption happening and hence no provision for the premium is required. The ultimate outcome of the matter cannot be presently determined and no provision for any liability that may result in future has been made in the financial statements.
7. In our opinion and on the basis of the information and explanations given to us and on the consideration of the separate audit reports on individual audited financial statements of Wockhardt and its subsidiaries referred to above, and subject to the matter referred to in paragraphs 4 and 5 above, the said accounts give a true and fair view in conformity with accounting principles generally accepted in India in the case of;
   a. the consolidated balance sheet expressed in Indian Rupees of the consolidated state of affairs of Wockhardt and its subsidiaries as at December 31, 2006;
   b. the consolidated profit and loss account expressed in Indian Rupees of the consolidated profit of Wockhardt and its subsidiaries for the year then ended on that date; and
   c. the consolidated cash flow statement expressed in Indian Rupees of the consolidated cash flows of Wockhardt and its subsidiaries for the year then ended on that date.

For S. R. Batliboi & Co.
Chartered Accountants

per Vijay Bhatt
Partner
Membership No. 36647
Place : Mumbai
Date : March 8, 2007.

Notes

WOCKHARDT

Wockhardt Chairman receives the Lifetime Achievement Award

India's Commerce and Industry Minister, Shri Kamal Nath presents the Lifetime Achievement Award to Wockhardt Chairman, Mr Habil Khorakiwala at the Express Pharma Awards function in Mumbai. At the centre is Mr Shekhar Gupta, CEO & Editor-in-Chief, Indian Express.

The Wockhardt World

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WOCKHARDT
Healthcare is in our genes