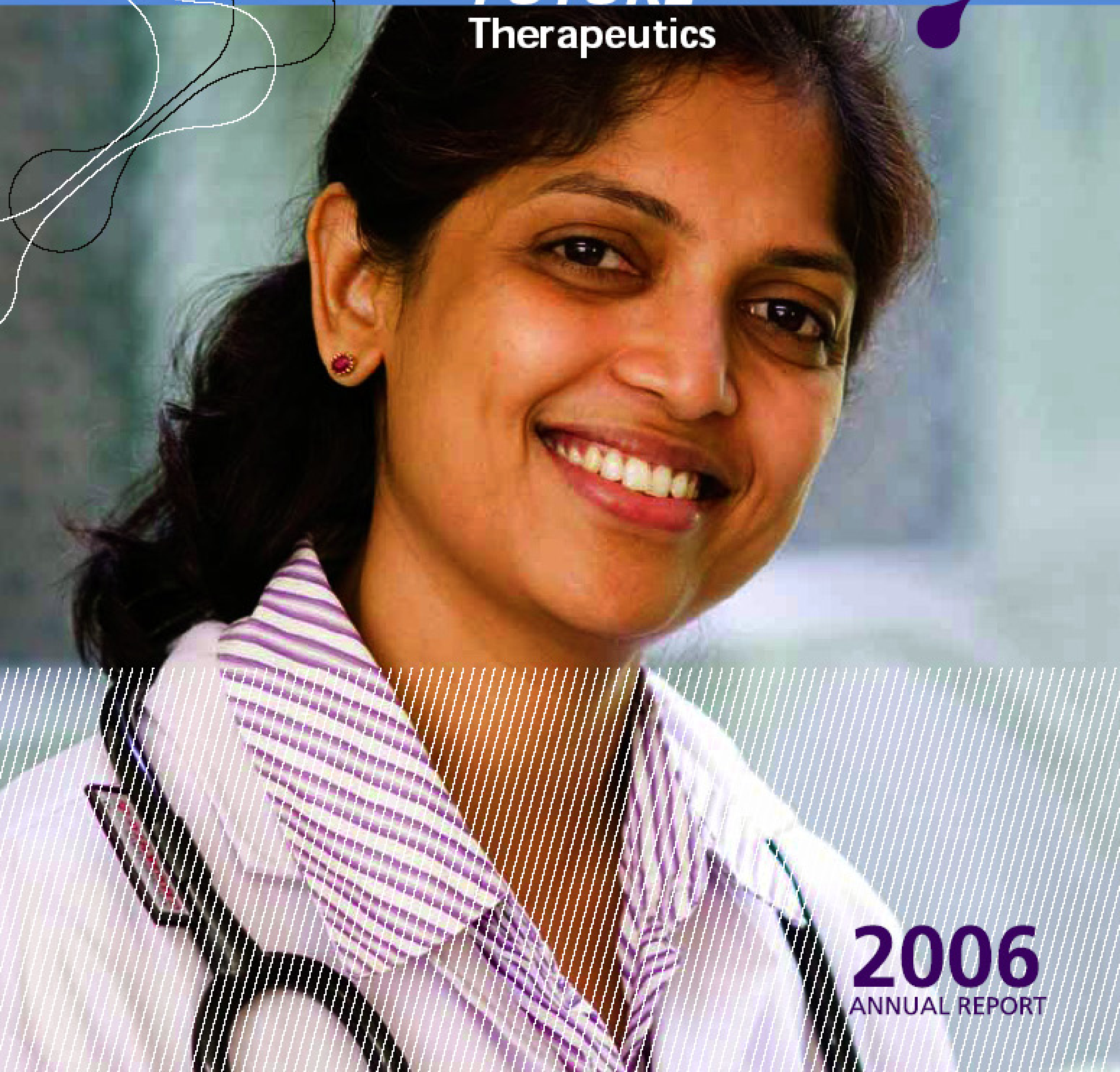
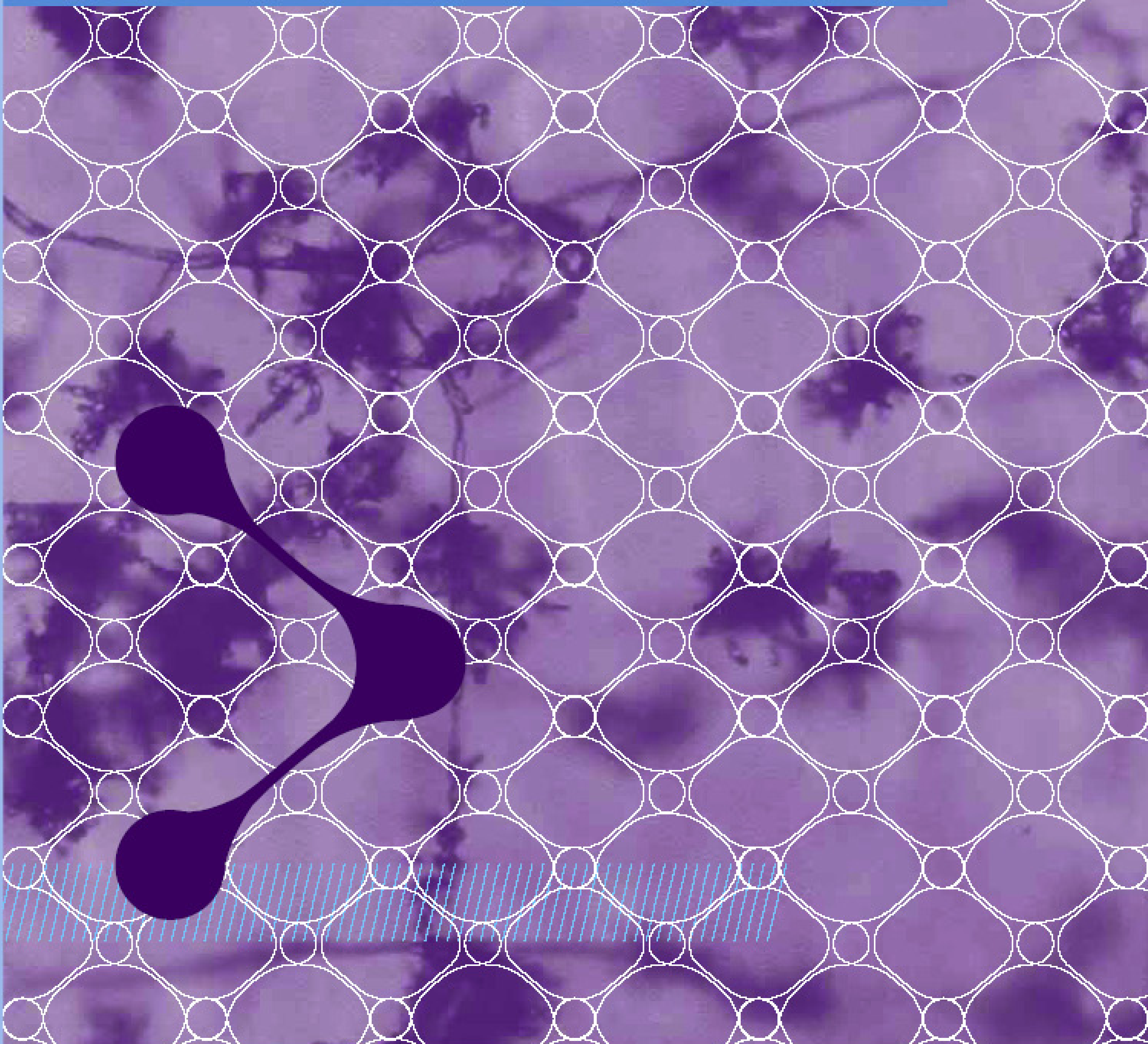
Biocon

The Promise of FUTURE Therapeutics



2006
ANNUAL REPORT

2006



The Promise of FUTURE THERAPEUTICS

Biotherapeutics are the medicines of the future. They hold the potential to redefine our approach to managing illness and health. Indeed, they promise a time when diagnosis and treatment will give way to prevention and cure.

Biocon is committed to realising the potential of biotherapeutics. We are confident that we have the defining science, world-class capabilities and a focused vision to deliver the promise of new medicine to a waiting world.

Nilima Rovshen
Breast Cancer Patient

You can either live with cancer or let it take over your life. I truly believe that when you are not well, you need celebration. I keep my spirits high, stay positive and bless the medicine I take. With new and advanced cancer therapy on my side, I know I can manage my cancer and not let it get the better of me.

Dr. Chetana Baswaraj
Deputy Manager, Clinical Lab

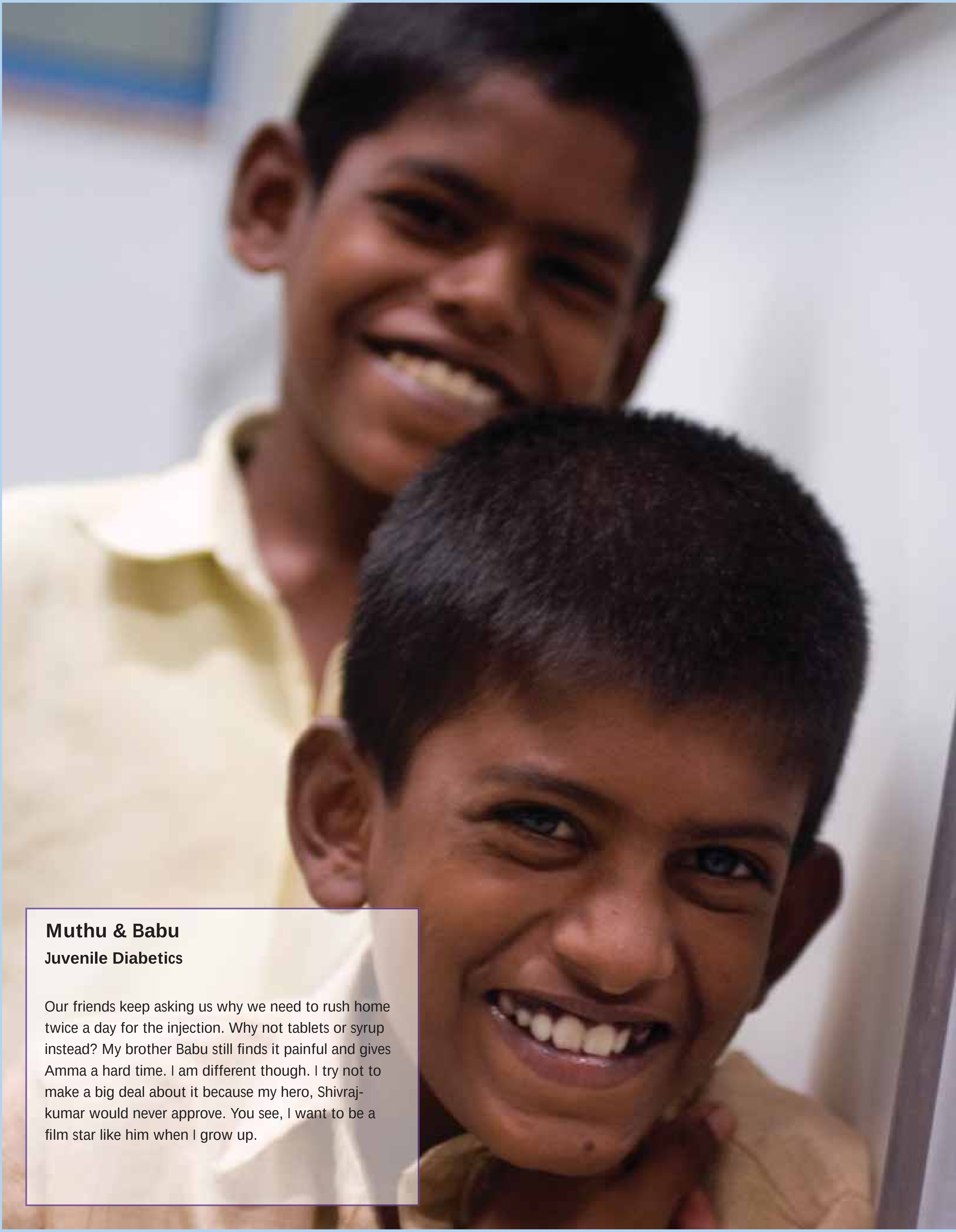
We have received very encouraging clinical data on our monoclonal antibody, BIOMAb EGFR™ in head and neck cancers and now plan to extend our research to metastatic breast cancer, non-small-cell lung cancer and other cancers that express EGFR. I am confident that antibodies will offer patients the hope for a better fight against cancer.

Jharna Roychoudhury
Living with Rheumatoid Arthritis

It is becoming harder to spend time in the garden. My condition does not allow me to lift pots and tend to the flower beds like I used to. It is sometimes painful to even grip the pruning sheers while trimming my bonsai. But I'll never give up the things I am passionate about, because I know a cure will come... It is just a matter of time.

Dr. Harish Iyer
Head, Discovery Development

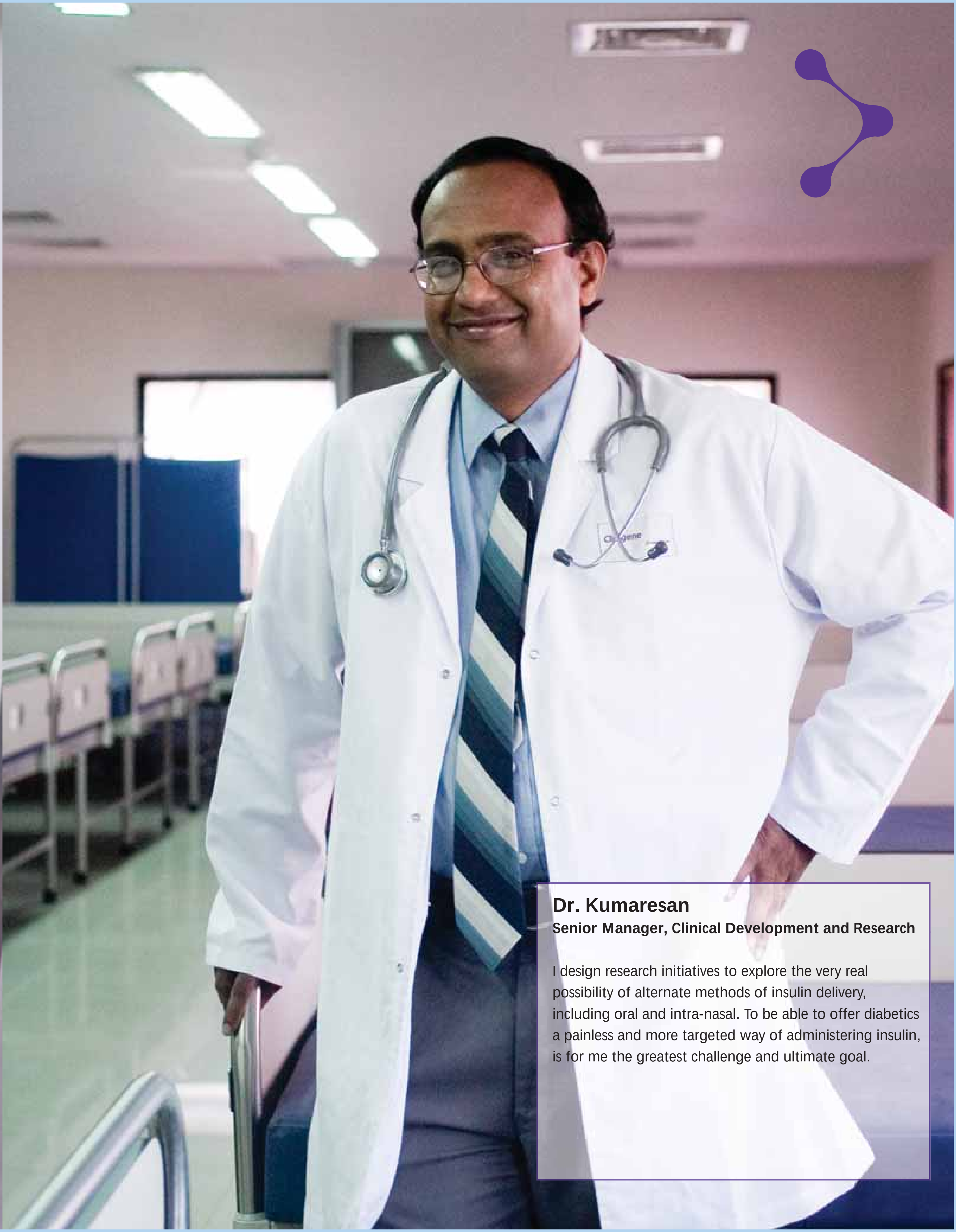
I believe rewards come to companies and people who are willing to look at new frontiers, challenge the status quo and take risks. Our rich discovery pipeline has the potential to create a paradigm shift in the way therapy can be administered for debilitating diseases like rheumatoid arthritis, cancer and other metabolic diseases. There are exciting times ahead!



Muthu & Babu

Juvenile Diabetics

Our friends keep asking us why we need to rush home twice a day for the injection. Why not tablets or syrup instead? My brother Babu still finds it painful and gives Amma a hard time. I am different though. I try not to make a big deal about it because my hero, Shivraj-kumar would never approve. You see, I want to be a film star like him when I grow up.



Dr. Kumaresan
Senior Manager, Clinical Development and Research

I design research initiatives to explore the very real possibility of alternate methods of insulin delivery, including oral and intra-nasal. To be able to offer diabetics a painless and more targeted way of administering insulin, is for me the greatest challenge and ultimate goal.

CHAIRMAN'S OUTLOOK

Biocon is rapidly transforming into an innovation-led organisation. We have developed a balance between all-round revenue growth and risk mitigation in order to build a strong and sustainable business for the long-term.

The year gone by has been an inflection point in Biocon's evolution. It represents the start of a global journey where our approach to growth and strategy is about combining innovation with scale. Biocon will leverage India's globally competitive cost base to deliver intellectual value. We have the capabilities to manage risk in order to build a strong and sustainable business for the long-term.

Over the years, Biocon has systematically grown its technical and scientific skills to build a de-risked business model that represents a unique approach to the business of science. Our multi-product, multi-business model provides an interesting balance between all-round revenue growth and risk mitigation. While generic biopharmaceuticals, research services and enzymes provide stable and predictable growth in the medium-term, our exciting innovation-led business initiatives have the potential to realise large, exponential growth in the long-term. This, we believe, will deliver superior shareholder value in the future.

Our discovery-led research programs in diabetes and oncology are making good progress. They are expected to develop into large global opportunities in the next 2-3 years. We are on track to seek regulatory approval in India for our monoclonal antibody, BIOMAb EGFR™ shortly. We have also received regulatory approval to commence Phase I human clinical trials for our oral insulin molecule, IN 105.

BUILDING INTELLECTUAL CAPITAL

In March, 2006, Biocon acquired the IP assets of Nobex Corporation for USD 5 million. This strategic acquisition provides the company with a valuable IP platform and complete ownership of the oral insulin and oral BNP programs. It also brings with it a novel platform technology that encompasses 300+ patents based on oral peptide delivery in the metabolic and cardiovascular segments. We plan to leverage these proprietary assets through a combination of licensing and co-development partnerships, which will play a key role in our innovation strategy for the future.

BIOCON PARK

Since its IPO, Biocon made the single largest capital investment in its history, the Rs. 6,500 million Biocon Park. Spread over 90 acres, this integrated biopharmaceutical hub meets international regulatory standards and represents a significant advancement in sophistication and automation. Besides multiple manufacturing blocks, laboratories and related infrastructure Biocon Park is where India's first and largest biologics facility is located. We believe this far-sighted

2006

Income from research services increased by 52% to Rs. 1,006 million in 2005-2006 from Rs. 662 million in 2004-2005

Total Income increased by 9% to Rs. 7,932 million

investment in infrastructure and capabilities will enable us to meet global demand and seize opportunities for future growth.

To meet tomorrow's environmental challenges today, Biocon Park has also established a zero-discharge effluent treatment facility that incorporates some of the most advanced automation and monitoring systems.

RESEARCH SERVICES

Mounting pressure on the global pharmaceutical sector to bring down the cost of drug development has opened up large global opportunities for Indian companies in R&D. Syngene, a front runner in custom research, continues to maintain its leadership position with a sustained annual growth rate of over 50%. Clinigene, a clinical development service provider, is now poised for large-scale growth in its business. Syngene and Biocon's current and growing customer base will enable Clinigene to garner a strong share of the emerging global CRO opportunity. Biocon's research services business has catalysed partnering opportunities across the board, adding value to the company's innovation strategy.

BIOCON'S FINANCIAL PERFORMANCE

Revenues from research services grew 52% to Rs. 1,006 million from Rs. 662 million, contributing 13% to operating revenues in FY 2006. Revenues from the biopharmaceuticals and enzymes business grew 6% to Rs. 6,875 million from Rs. 6,463 million, contributing 87% to operating revenues in FY 2006. I am pleased that total income increased by 9% to Rs. 7,932 million while sustaining a healthy 30% operating margin for FY 2005-06, despite a fiercely competitive environment. These reassuring numbers enable us to continue investing in our discovery-led research programs. Consistent with our long-term growth strategy, we remain committed to building our biotherapeutics franchise through our own R&D efforts. To further enhance our IP and technology platforms, we have made an investment of Rs. 764 million in R&D, which is a 76% increase over the previous fiscal.

DEVELOPING PROPRIETARY PRODUCTS FOR THE FUTURE

Biocon's pipeline of discovery-led research products is both extensive and exciting. Leading this effort is the collaborative program with CIMAB of Cuba for a monoclonal antibody, BIOMAb EGFR™, which has recently completed a two-year clinical trial for head and neck cancers. This product will herald Biocon's foray into the oncology market and furthermore, establish us as an innovator company. Other programs that are moving up the development path are oral

R&D spend increased 76% to Rs. 764 million

Dividend recommended at 50% (Rs. 2.5 per share)

Operating Margins sustained at a healthy 30% at Rs. 2,340 million

insulin, oral BNP, BVX 10, BVX 20 and Anti-CD6 monoclonal antibodies. The oral insulin IN 105, is entering into Phase I, first in human studies which will provide vital information to enable progress to the next phase. Such programs will profile Biocon's innovator status on an international platform. We strongly believe that these research initiatives have the potential to become billion dollar global opportunities that will sustain the company's research-led business aspirations.

OUTLOOK

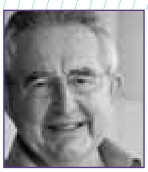
The year ahead will continue to be challenging due to uncertainties in market conditions and the impact of depreciation at our new facilities at Biocon Park. The new growth drivers: insulin, immunosuppressants and branded formulations are building our biopharmaceuticals business in a more robust manner, reducing dependence on statins. New research contracts, both at Syngene and Clinigene, will deliver additional growth. Increased capacities at Biocon Park will come fully on stream this fiscal, contributing considerably to overall growth.

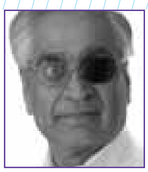
Finally, we thank our shareholders and business partners for the trust they have placed in us. We believe your faith is well-founded and that together, we will move forward to greater accomplishments. Investing in Biocon is about investing in India's scientific and technological future. Above all, it is about investing in innovation and the promise of new medicine.

Thank you
With best wishes

Kiran Mazumdar-Shaw
June 2006

Board of DIRECTORS








Dr. Neville Bain • Chairman, Institute of Directors, UK • Board Member, Scottish & Newcastle Plc., Provexis Ltd. • Former Group CEO, Coats Viyella Plc. • Former Deputy Group Chief Executive and Finance Director, Cadbury Schweppes Plc. • Author of several management books on corporate governance, strategy and people management

Prof. Charles L. Cooney • Professor, Chemical & Biochemical Engineering, MIT, USA • Director, Genzyme Inc. and Bio-Processors Inc. • Recipient of prestigious awards, including Gold Medal of the Institute of Biotechnology Studies and Distinguished Service Award from the American Chemical Society

Dr. Bala S. Manian • Chairman and Co-founder, Reametrix Inc. • Co-founder, Quantum Dot Corporation and Surromed Corporation, USA • Expert in the design of electro-optical systems • Authored several peer-reviewed scientific publications and holder of many patents • Recognised through several awards for contributions as educator, inventor and entrepreneur, including Technical Academy Award in Digital Cinematography by Academy of Motion Pictures, Arts and Sciences

Prof. Ravi Mazumdar • University Research Chair Professor, Department of Electrical and Computer Engineering, University of Waterloo, Canada • Fellow of the Institute of Electrical and Electronics Engineers (IEEE) and Fellow of the Royal Statistical Society

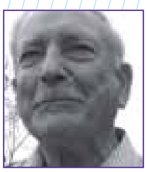
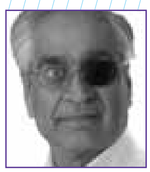
Dr. Kiran Mazumdar-Shaw • Chairman & Managing Director, Biocon • First generation entrepreneur with more than 28 years experience in biotechnology and industrial enzymes • Master Brewer, Ballarat University, Australia • Awarded the Padmabhushan, one of India's highest civilian awards, for her pioneering efforts in Biotechnology, 2005

Prof. Catherine Rosenberg • University Research Chair Professor and Chairman, Department of Electrical and Computer Engineering, University of Waterloo, Canada

Mr. John Shaw • Vice Chaiman, Biocon • Served in senior positions in various locations around the world • Chairman, Madura Coats Ltd. between 1991-1998

Mr. Suresh Talwar • Partner, Crawford Bayley & Co., an Indian law firm of repute. • Director, Cadbury India Ltd., Birla Sun Life Insurance Co. Ltd., L&T Ltd. • Area of professional specialisation includes corporate law and related fields • Legal counsel to numerous Indian companies, multinational corporations and Indian/foreign banks

Scientific
ADVISORY BOARD

Prof. Charles L. Cooney • Chairman • Head of Chemical & Biochemical Engineering, MIT, USA

Dr. Anthony Allison • Distinguished scientist, Surromed Corporation • Former Vice President, Research Syntex Corporation • Inventor of Mycophenolate Mofetil

Dr. Chaitanya R. Divgi • Chief, Nuclear Medicine & Molecular Imaging, University of Pennsylvania

Dr. Bala S. Manian • Chairman & Co-founder Reametrix Inc., Quantum Dot Corporation and Surromed Corporation, USA

Dr. Kiran Mazumdar-Shaw • Member of the Board, Science Foundation Ireland • Chairperson, Vision Group on Biotechnology, Government of Karnataka • Chairperson, National Task Force on Biotechnology, CII

Prof. Hans Wigzell • Head, Centre for Medical Innovations • Professor, Karolinska Institute, Sweden

Core
MANAGEMENT TEAM

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Chairman & Managing Director
Biocon

Mr. John Shaw
Vice Chairman
Biocon

Dr. Arun S. Chandavarkar
Chief Operating Officer
Biocon

Dr. Goutam Das
Chief Operating Officer
Syngene

Dr. Arvind Atignal
Chief Operating Officer
Clinigene

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President, Group Finance
Biocon

Mr. Rakesh Bamzai
President, Marketing
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Mr. Shrikumar S.
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Biocon

Dr. Sambasivam Ganesh
Chief Scientific Officer
Syngene

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Vice President, Group Finance
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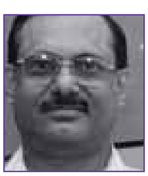
General Manager, Business Development
Biocon

Mr. Ravindra K. C.
General Manager, Production
Biocon

Dr. Harish V. Iyer
General Manager, Research & Development
Biocon

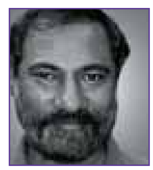
Dr. Tara Jayaram
General Manager, Quality Assurance
Biocon



Mr. Ramalingeswara Rao K.
General Manager, Marketing
Biocon

Mr. Akash S. Puranik
General Manager, Marketing
Biocon

Mr. Sandeep Rao
General Manager, Marketing
Biocon

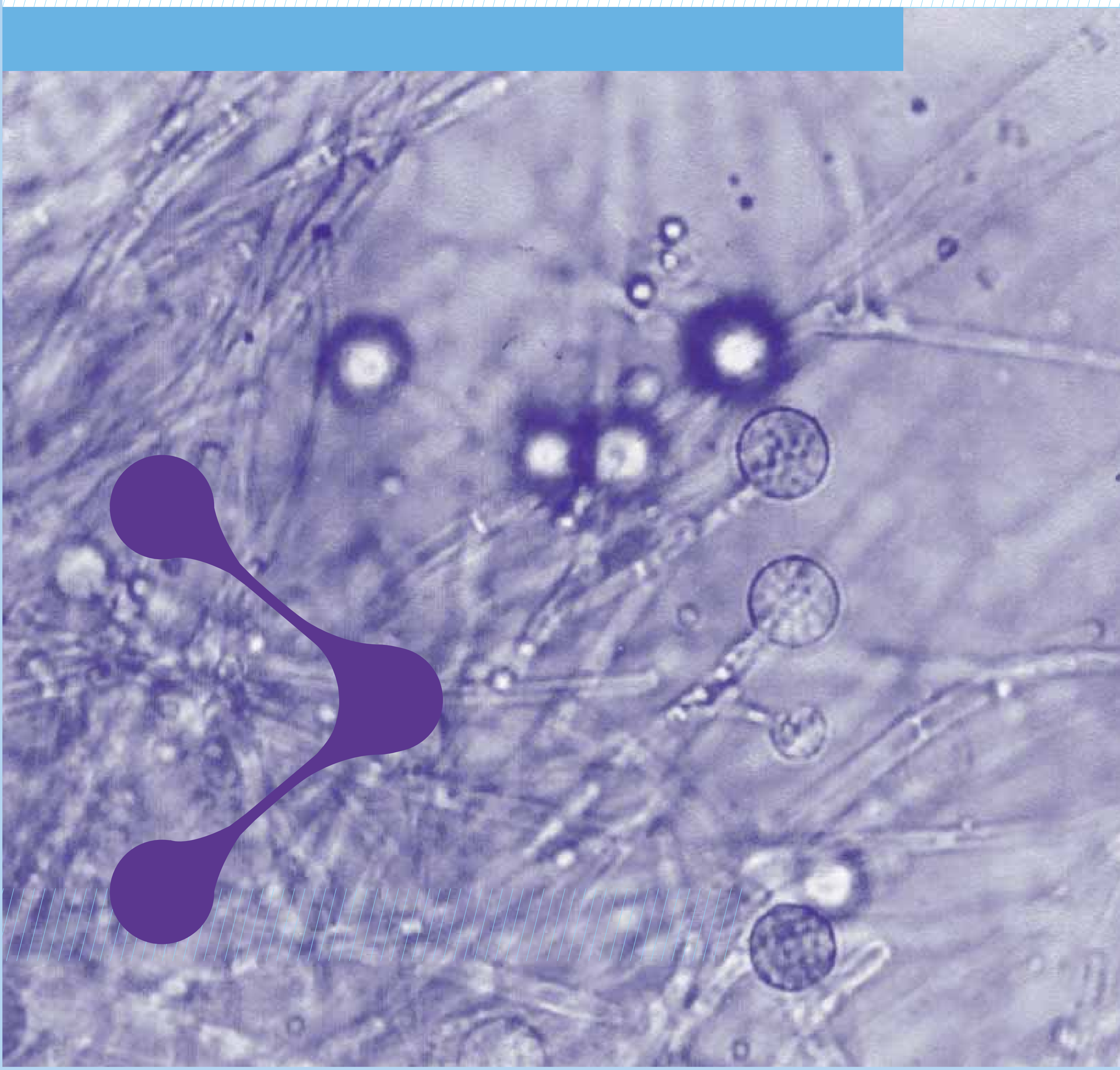


Mr. Gautam Reddy
General Manager, Group HR
Biocon

Mr. Sundaresh S. R.
General Manager, Commercial
Biocon

Dr. Anindya Sircar
General Manager, IPR
Biocon

Mr. Prasad B. S. V.
General Manager, Production
Biocon



Investing in
FUTURE THERAPEUTICS

Investing in
FUTURE THERAPEUTICS

Continuous investment in visionary science and technology, best-in-class infrastructure and innovation-driven people have enabled us to anticipate opportunities for medical breakthroughs.

Biocon recognised the potential of biotechnology when few others did. We entered the biotechnology space in the late 70's when the industry was still in its infancy. Continuous investment in visionary science and technology, best-in-class infrastructure and innovation-driven people have enabled us to anticipate opportunities for medical breakthroughs. Today, we are industry leaders because we leverage that investment to develop novel biotherapeutics for the future.

Biotherapeutics or novel diagnostics are the key to safer and more efficacious ways of disease management. Designed to simulate the body's way of combating a metabolic disorder or infectious disease, these powerful new medicines represent a futuristic approach to healthcare, where diagnosis and treatment will eventually give way to prevention and cure.

Monoclonal antibodies, an emerging subset of biotherapeutics, are proving to be highly efficacious in addressing unmet medical needs, especially in the areas of oncology and autoimmune diseases. Biocon's impressive pipeline of future therapeutics is led by monoclonal antibodies and several new/generic molecules at exciting stages in the drug value chain. BIOMAb EGFR™, a radically advanced and clinically superior humanised recombinant monoclonal antibody, spearheads Biocon's foray into proprietary products for cancer therapy.

Drug development is a long and winding road that requires skillful navigation to demonstrate the safety and efficacy of a drug. However, Biocon's far-sighted investment strategy enables us to sustain the extended journey of a drug, from the lab to advanced markets. We have expert discovery capabilities to expand the fundamental understanding of disease pathways and identify new targets for novel drug candidates. We are at the forefront of developmental work to test the safety and efficacy of new candidates, determining their metabolism and interaction with the body and other drugs. Indeed, we are amongst those few whose drug candidates proceed to clinical trials.

Biocon's substantial portfolio of brands, an extensive patent estate, world-class R&D and proprietary technologies, are testimony that we are equipped for the long-term. We realise that our investment in biotherapeutics will deliver more than a healthy bottomline. It promises to manage disease, restore health and save lives. Making possible that exciting vision of the future inspires our people and propels our untiring pursuit of new medicine.

What are biotherapeutics?

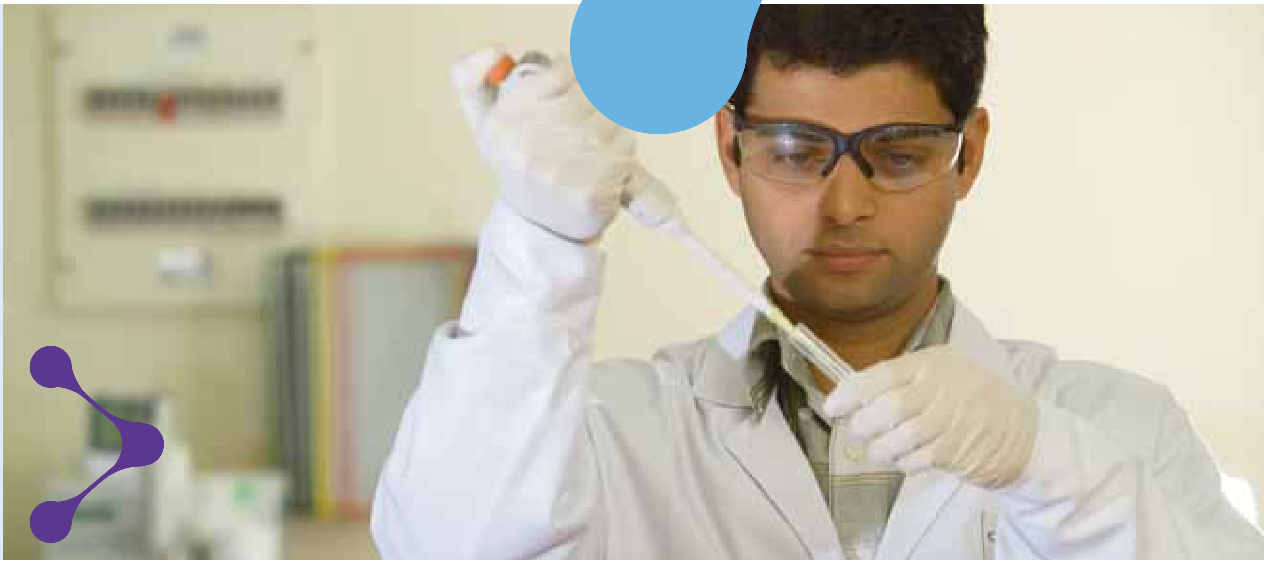
Biotherapeutics are a class of drugs manufactured by the use of biotechnology. Typically, large molecules such as proteins are produced by genetically engineering microbial or animal cells. Also known as biologics, they are very precise in their action, often interacting with very specific targets, at the cellular level, to help in the resolution of disease. Their unique biological specificity results in far fewer toxic side-effects as compared to their small molecule counterparts, which are often less targeted. Biotherapies represent a formidable addition to the treatment options available to clinicians and provide significant hope to patients with serious disease.

BIOCON'S DRUG DISCOVERY PIPELINE

Novel Generic

Drug	Preclinical	Phase I	Phase II	Phase III	Launch
IN 105		DIABETES			
BVX 10	INFLAMMATION				
BVX 20	ONCOLOGY				
BIOMAb EGFR™				ONCOLOGY	
TlhT		ONCOLOGY INFLAMMATION			
Oral BNP	CARDIOVASCULAR				
Streptokinase				CARDIOVASCULAR	
GCSF				ONCOLOGY	
Insulin					DIABETES

Drug development is a long and winding road that requires skillful navigation to demonstrate the safety and efficacy of a drug candidate, before it reaches a patient. When life is at stake, there can be no shortcuts.



DESPITE THE LONG PATH TO DISCOVERING NEW MEDICINE, BIOCON'S FAR-SIGHTED INVESTMENT STRATEGY ENABLES US TO SUSTAIN THE EXTENDED JOURNEY OF A DRUG & DRIVE THE BIO-REVOLUTION OF OUR TIMES.


BIOCON
ENZYMES
BIOCON IS POSITIONED TO BECOME A GLOBAL PLAYER WITHIN THE BIOPHARMACEUTICALS SPACE
HUMAN CLINICAL TRIALS
MARKETING & SALES

Investing in a DE-RISKED BUSINESS MODEL

Our multi-product, multi-business strategy provides numerous opportunities for revenue enhancement by balancing risk, encouraging innovation and developing new products.

Biocon has a strong, long-term vision. Our state-of-the-art infrastructure, scientific people-power and multiple technology platforms are the result of a clear and focused strategy realised over a long period of successful financial performance. Today, we are a key player in the biopharmaceutical space with significant investments across the drug value chain. Despite intense competition and the long path to new medicine, we are confident that our multi-product, multi-business strategy will sustain our growth and allow us to remain at the cutting edge of new medicine.

Biocon's innovation program is built on in-house capabilities, proprietary technologies and a broad spectrum of global alliances. Our strong emphasis on Intellectual Property (IP) and technology are strong differentiators. As we transition from generics to innovation, we believe we can generate cost and value arbitrage on a global basis. Our continued focus on R&D will enable us to develop new products, novel applications for existing products, enter new business segments and deepen our intellectual asset base.

A DE-RISKED BUSINESS MODEL

Biocon's de-risked model represents a unique approach to the business of science. Our multi-product, multi-business strategy is designed to balance all-round revenue growth with risk mitigation.

Multi-Business

Our business segments: **Biopharmaceuticals, Enzymes, Custom Research and Clinical Research** give the company a high degree of stability, while also providing it with avenues for accelerated growth. Each business unit has global responsibility, is structured by customer segment and oriented towards the specific needs of the research-based pharmaceutical industry and generics formulators. Together, they provide multiple opportunities for revenue enhancement by balancing risk, encouraging innovation and developing new products. We cater to a broad customer base and operate in different markets to diminish the risk of "market collapse" and dependence on a limited roster of clients. In line with this strategy, our flexible manufacturing infrastructure helps us alter our product mix in response to customer demand, with minimal new facility investment. Our significant process expertise in scaling-up from lab-scale quantities to large fermentation batches, at commercially viable levels, enables us to increase production quantities and productivity for our customers, thereby reducing time to market.

Multi-Product

Our biopharmaceuticals portfolio comprises small molecules, biologics and proprietary molecules which are Biocon's short, medium and long-term growth drivers. Our specialised knowledge in process development and the manufacture of biopharmaceutical active ingredients positions us as preferred co-development partners. We will also continue to focus on active pharmaceutical ingredients (APIs) that require advanced fermentation and synthetic chemistry skills and offer greater potential in the regulated markets, once they are off patent. We have also chosen to partner with generic companies through API supplies, enabling us to capture greater market share in the APIs segment.

R&D Services

In addition to their role as independent revenue generators, our custom and clinical research services have significantly increased Biocon's overall capabilities. Our expertise in these service areas will continue to offer important synergies as we increase the complexity and scope of our own R&D and manufacturing operations, especially in new product discovery and development.

As an experienced custom research provider in a low-cost environment, we are well-placed to work with innovator companies in developed markets that seek to bring out new proprietary products, while reducing research and development costs. Further, our clinical research services continue to provide faster results and affordable clinical "proof of concept" studies, making us "partners of choice" in global outsourced custom and clinical research initiatives.

COLLABORATIVE PARTNERSHIPS

Biocon's strong emphasis on R&D has enabled us to devise our own technologies, reduce costs and expand our scientific and manufacturing capabilities. We stand to gain through collaborative research programs with companies that seek in-licensing or product development by sharing or contributing to part of the clinical or process development costs. We shall continue to pursue strategic partnerships/acquisitions with global players for sales, marketing or joint discovery of new drug molecules.

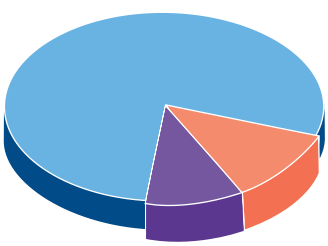
As a strategic business building initiative, Biocon is exploring EU, US and other markets to supply biogenerics (insulin, GCSF, etc.). We are in the process of commercialising our first human monoclonal antibody BIOMAb EGFR™ and will identify partnerships with biotechnology companies for scale-up and production of these novel antibodies. We are also exploring strategic collaborations to co-develop recombinant therapeutics, antibodies and a host of in-licensed products.

ENZYMES
- Specialty Food
- Industrial Enzymes

SMALL MOLECULES
- Statins
- Immunosuppressants

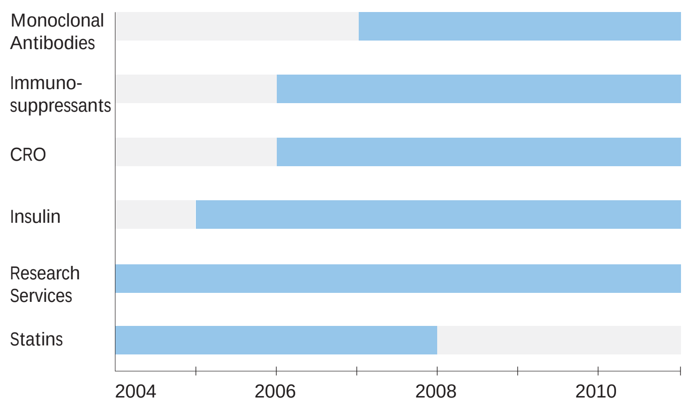
r-DNA PROTEINS
- r-Human Insulin
- GCSF

MONOCLONAL ANTIBODIES & ANIMAL CELL CULTURE
- Monoclonal Antibodies



BIOCON’S MULTI-BUSINESS REVENUE SHARE

- Biopharmaceuticals 75%
- Research Services 13%
- Enzymes 12%



GROWTH DRIVERS

In the competitive biopharmaceutical landscape, companies with differentiated models have a distinct edge. Biocon’s IP-led technology advantage, novel drug delivery and clinical development strategies empower us to explore novel targets for unmet medical needs.

Investing in R&D

Biocon is committed to investing in comprehensive scientific infrastructure to provide state-of-the-art support to all our R&D programs.

Each new day brings us closer to profoundly changing the course of a disease. It is this possibility that drives our commitment to medical innovation. In a knowledge-driven industry such as biotechnology, continual investment in R&D will sustain long-term growth and determine a company's success in the discovery and development of new medicine.

At Biocon, our focus on IP and technology is our key differentiator. We are committed to the development of comprehensive scientific infrastructure to provide state-of-the-art support to all our R&D programs. The increasing complexity of experimental and analytical techniques makes it more important than ever to create a research milieu with sufficient critical mass of both human expertise and technical resources. Biocon will continue to invest in R&D facilities to fund discovery-related programs for new molecule development.

In line with this strategy, we are setting up new laboratories to facilitate expansion of our combined research activities. We plan to bring in specialised scientific and regulatory skills and further invest in infrastructure for the biologics pilot plant to produce molecules for Phase I and Phase II clinical trials.

BIOCON-KAROLINSKA INSTITUTE

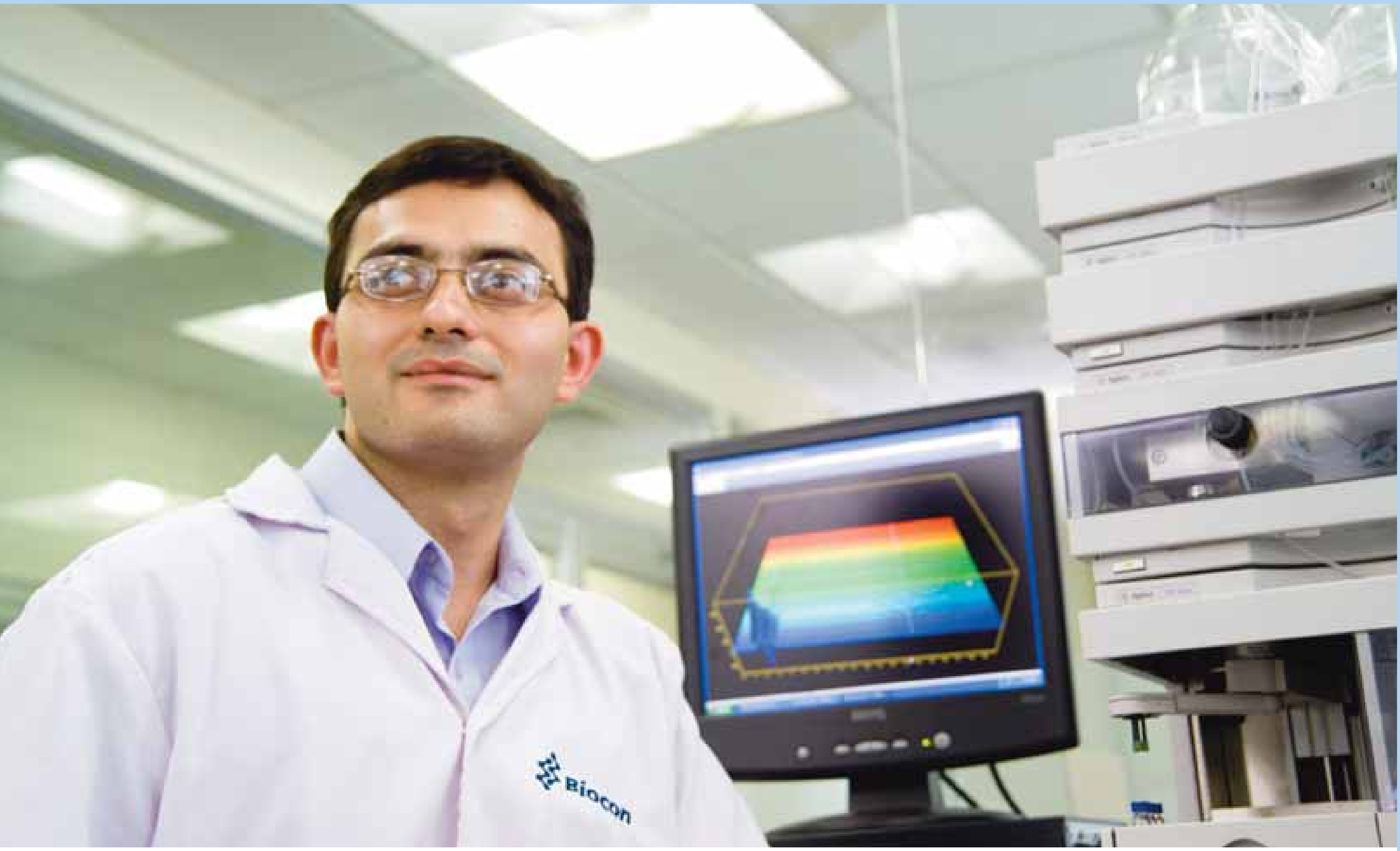
No single biopharmaceutical organisation has access to greater than 1% of the world's R&D talent. Given the industry's need for high levels of innovation and increased productivity, we frequently supplement our own efforts by working collaboratively with academic institutions and biotechnology companies across the world. Biocon's R&D strategy encourages a symbiotic environment that draws on collective resources and knowledge. We have forged an exciting alliance with Karolinska Institute – Sweden's leading medical university, reputed to be among Europe's best. The institute's reputation for visionary science has afforded it the exceptional honour and responsibility to nominate the Nobel Prize for Medicine and Physiology every year. This has given Karolinska Institute an enviable network within the scientific community, making its faculty an extremely valuable resource in the field of medicine.

Acknowledging Biocon's contribution to breakthrough medicine, our President, Research & Development, Shrikumar Suryanarayan, was appointed honorary visiting faculty at the department of molecular medicine, Karolinska Institute. Further strengthening our relations, Biocon welcomed Dr. Hans Wigzell, former President of the Karolinska Institute and past Chairman of the Nobel Assembly, onto its Scientific Advisory Board. Dr. Sanjeevi Carani, Associate Professor at Karolinska Institute, will also interact with Biocon as Scientific Advisor.

To formally initiate collaboration in research and research-education, a Memorandum of Understanding was signed between Biocon and Karolinska Institute. This partnership will provide valuable access to a world of medical knowledge and scientific training, together with opportunities for exchange of scientists to facilitate projects in areas of mutual interest.

Collaborative projects will include:

- **Partnering in product development with Vaccinex, USA**
- **Joint PhD studies at Karolinska Institute**
- **Joint research programs between Karolinska Institute and Biocon**
- **Partnering in product development with the Centre of Molecular Immunology (CIM), Havana**



INTELLECTUAL PROPERTY (IP)

A company's IP portfolio is its most critical asset, demonstrating its intellectual capability on a global platform. The total number of patent applications filed by Biocon stands at 266, of which 76 are international PCT applications. Till date, Biocon has been granted 37 patents, including 8 in the USA.

Recent acquisition of Nobex's IP assets has greatly enhanced Biocon's extensive scientific and technical resources. With an additional 300+ patents and patent applications, we now have one of the industry's leading IP portfolios in the area of structural transformation of naturally occurring peptides of therapeutic utility. This acquisition has allowed Biocon to wholly own the on-going oral insulin and oral BNP programs, and gain access to additional innovative technologies and therapeutic paradigms. Biocon will leverage these proprietary assets through a combination of licensing and co-development partnerships.

Biocon's monoclonal antibody, BIOMAb EGFR™ has completed Phase IIb clinical trials with promising results. Regulatory approval for India is expected during FY 2006-07. Simultaneously, our oral insulin, IN 105 is getting ready to enter Phase I for human clinical trials.

Investing in Research Services
SYNGENE + CLINIGENE

Syngene and Clinigene are pioneers of the Indian custom and clinical services industry. In a short span of time, the two companies have built an impressive reputation for collaborative, timely and cost-effective research provided to a global clientele.

SYNGENE

Syngene is today one of India's leading custom research service providers. Our state-of-the-art infrastructure and a broad set of service offerings, enable us to participate in the drug development process, from discovery to supply of development compounds. Syngene's annual compound growth rate of 50% over the last five years reflects our increased acceptance as a "research hub" for the biggest names in the global pharmaceutical industry. Having firmly established our reputation amongst leading European and American pharmaceutical companies, we now aggressively target newer markets like Japan, and a large number of small biotechnology and specialty pharmaceutical companies from around the world. To facilitate these opportunities for growth, Syngene is investing in additional laboratories located at Biocon Park.

DISCOVERY AND PROCESS RESEARCH

Syngene offers combinatorial library production and analog synthesis support to clients in the field of medicinal chemistry. We are working on expanding our offering in this area by providing additional services such as focused libraries, libraries based on biological targets frequently employed by discovery companies and delivering ready-to-use plates from different biological high throughput screening. In addition, Syngene has established a new kilo laboratory and process development facility to service clients with validated preclinical compounds, which require to be accelerated into clinical investigation. We also undertake risk estimation studies associated with process scale-up in the chemical industry.

CONTRACT BIOMANUFACTURING (CBM)

With an increasing number of biologically-derived molecules being approved, demand for CBM is expected to rapidly grow over the next few years. Syngene is setting up new GMP level pilot facilities for both mammalian and microbial production up to Phase I and early Phase II. This is in addition to the existing GMP grade chemical plant which supplies advanced intermediates and final products for preclinical use. The CBM plant will augment Syngene's ability to become a full-service provider to its clients.

Syngene is entering a new phase in drug discovery with the introduction of novel technologies and advanced, knowledge-driven service concepts.

A COLLABORATIVE MODEL FOR DRUG DISCOVERY

Syngene has initiated a program to develop novel molecules based on a collaborative business model. We have been actively working together with an European client to identify a novel drug candidate that will supplement the traditional antibiotic treatment for infectious diseases caused by Type III Secretion (TTS). During this joint effort, Syngene will play a major role in lead optimisation, preclinical studies and efficacy testing studies up to Phase III. The successful completion of this project will help us achieve an unmet medical need and provide relief to patients in developing nations that have high propensity of TTS-based infection.

CLINIGENE

The demand for outsourced clinical research continues to grow exponentially. Clinigene, our Clinical Research Organisation, will extend its operations to a 60,000 sq ft state-of-the-art facility by FY 2007. To augment our proven capabilities in conducting internationally benchmarked clinical trials for multinational pharmaceutical companies, the scaled-up establishment will have a new unit for Phase I trials and also offer world-class biometrics & data management services.

Clinigene's clinical lab continues to conduct dedicated clinical trials, research/cohort studies and offer comprehensive laboratory services. We are the first lab in India to be accredited by CAP (College of American Pathologists) and NABL (National Accreditation Board for Testing and Calibration Laboratories). Endorsing the capabilities of our services, a leading global generics company will now be using our lab as their central laboratory.

PK/PD and drug interaction studies are being successfully carried out at Clinigene's bioanalytical lab, while our human pharmacological unit is well-reputed for its bioavailability, bioequivalence and various pharmacokinetic investigations. All studies at Clinigene are completed in full compliance with international regulatory requirements and strictly monitored by our exclusive quality assurance department.

Clinigene's ability to attract exceptional scientific talent, institute world-class facilities and maintain global ethical and regulatory standards, has made it "a partner of choice" for global pharmaceutical and biotechnology companies.

Investing in INFRASTRUCTURE & TECHNOLOGY

Biocon's unique ability to develop and manufacture biologics is a key asset. Our monoclonal antibody technology and strategic investment in Biocon Park will enable us to focus on new therapy and capture opportunities for future growth.

Biocon is one of the few biopharmaceutical companies investing in end-to-end capabilities spanning the entire drug development value chain. We believe that our investments in multi-disciplinary science and technology, together with our expertise in the development of biotherapeutics, will provide quantum growth drivers for the future.

Monoclonal antibodies – a new class of drugs in the area of biotherapeutics – are effectively addressing unmet medical needs especially in oncology and autoimmune diseases. Through the dynamic science of monoclonal antibody technology, Biocon is focusing on novel therapies designed to profoundly improve the lives of patients.

BIOLOGICS FACILITY

Biocon, through its joint venture company Biocon Biopharmaceuticals, has established a new, large-scale, multi-product biologics facility at Biocon Park. This state-of-the-art facility will position us as a leading global player in the area of cell-culture fermentation, the core manufacturing technology for monoclonal antibodies. Benchmarked to the highest international standards, the 120,000 sq ft building spread over three floors with process, laboratory and technical support areas, comprises three distinct functional modules:

- Cell Culture Module for monoclonal antibodies and other therapeutic proteins
- Aseptic Formulation and Filling Module for liquid vials, cartridges, lyophilised vials and prefilled syringes
- Quality Control Module

BIOCON PARK

In a major step to meet global demand and capture future growth opportunities, Biocon made the single largest capital investment in its history – Biocon Park, a Rs. 6,500 million integrated biopharmaceutical manufacturing hub, spread over 90 acres. Biocon Park is efficiently laid out in accordance to a master plan with multiple manufacturing facilities, laboratories and associated infrastructure to handle a variety of operations including large-scale microbial fermentation, primary recovery, chemical conversion and purification. Facilities are GMP compliant, meet strict international regulatory requirements and represent a significant advancement in sophistication and automation. The biologics facility is one amongst an integrated cluster of biopharmaceutical manufacturing units established on the campus.

Biocon Park firmly establishes our presence in the challenging field of biopharmaceuticals. With a growing global market for high-quality, yet cost-effective manufacturing capabilities in protein and monoclonal antibody therapeutics, Biocon, through its strategic investments in infrastructure and technology, is well positioned to capture the opportunities this presents.

CO-DEVELOPMENT OPPORTUNITIES

Partnerships for the co-development of biotherapeutics continue to be the way forward. Our new biologics facility has an in-built, 4-fold expansion capacity to cater to Biocon Biopharmaceuticals' robust research pipeline and the development needs of potential partners. Additionally, the scalable infrastructure at Biocon Park will enable us to collaborate with like-minded innovator companies, thus driving future opportunities for growth and expansion.

BIOCON HAS MADE THE SINGLE LARGEST CAPITAL INVESTMENT IN ITS HISTORY TO ESTABLISH BIOCON PARK – AN INTEGRATED BIOPHARMACEUTICAL MANUFACTURING HUB, SPREAD ACROSS 90 ACRES.


SYNGENE CONTRACT RESEARCH & Mfg

Investing in

HUMAN RESOURCES

At Biocon, our pioneering spirit makes us unique. We have successfully harnessed the power of brilliant minds and challenged conventional thinking to push the boundaries of science.

The ability to transform goals into realities, create new models for success and sustain high levels of growth, lies with our people. The past twelve months have witnessed exciting progress across Biocon's multiple initiatives in drug discovery, development and commercialisation. Our outstanding young researchers supported by professional management and staff have been instrumental in bringing several projects closer to realisation.

Biocon recognises that nurturing and recruiting the best talent is as vital to the health of any biopharmaceutical company as the next breakthrough product. Through continuous improvement programs and an environment that encourages new thinking, we believe we can not only participate in the world of biotherapeutics but actively work towards transforming it.

Biocon, Syngene, Clinigene and Biocon Biopharmaceuticals together employ approximately 2,000 highly qualified scientists, medical practitioners, pharmacologists, engineers, financial, legal, marketing analysts and general administrators. 10% of our employees hold a PhD degree and nearly 50% are post graduates. Through our annual development review and regular development discussions, individual action plans are meticulously worked upon, outlining training requirements. We provide our people continuous opportunities for active learning and development which will be key drivers for personal growth as well as the company's success.

ATTRACTING NEW TALENT

Biocon's recruitment schemes have been highly successful in attracting the best talent from India and abroad. The need to grow our talent from within and maintain a nurturing environment for new skills remains a critical focus area. We want our people to be our brand ambassadors – their experience providing testimony to Biocon's strong and dynamic culture of scientific enquiry and teamwork.

LEADERSHIP DEVELOPMENT

We believe that leadership development is a major contributor to sustainable business growth. During the year, we have focused on robust succession planning processes. Our Internal Development Program and the Biocon Mentor Program have been successfully implemented to nurture and develop leaders across the enterprise.

RECOGNITION AND REWARD

At Biocon, our goal is not merely to motivate our employees to accomplish organisational objectives but to surpass them. We encourage our people to exceed expectations by offering them more than standard modes of compensation, like salary and benefits. Biocon has instituted an exciting and motivating program of recognition and reward to inspire the best performance among our people and more importantly, make them feel valued by peers and management alike. Initiatives implemented in FY 2005-06 include:

- Orientation beyond the work space
- Individual development plans
- Coaching and mentoring
- Accelerated advancement
- Performance management with REAL feedback and coaching

Investing in
ENVIRONMENT, HEALTH & SAFETY (EHS)

Biocon aims to balance business interests, safety and environmental considerations by investing in state-of-the-art technologies that have minimal environmental impact.

We respect the fact that our people must operate in a safe and hazard-free work place and our facilities adhere to eco-efficient production practices. Our commitment to EHS is demonstrated in the stringent, globally recognised standards we have adopted. Biocon is ISO 14001:2004 certified for environmental protection and OHSAS 18001:2000 approved for good practices vis-à-vis occupational health and safety at the workplace.

To ensure that our premises are zero-discharge, we have installed a world-class effluent treatment plant and state-of-the-art, multi-effect evaporators to handle all aqueous waste. We have also commissioned one of India's largest incineration complexes for pyrolytic disposal of our organic residues. Together, these measures offer the dual benefit of environmental protection and saving a precious resource, water.

Another critical component of our corporate EHS policy is testing the entire supply chain (from raw materials to finished products) against global EHS standards. To facilitate this task, we have set up a modern, GMP compliant quality control laboratory with the latest analytical equipment to ensure timely and accurate testing at every stage in the lifecycle of a drug.

Worker health and safety remains a key priority at Biocon. Our committed EHS department is continuously promoting safety awareness among employees and associates, at every level. We have conducted close to 7,500 man hours of specialised safety training to define policies, set standards, support their implementation and verify compliance.

Biocon is an ethical biopharmaceutical company. We aim to achieve operational excellence and environmental sustainability by continuously upgrading our EHS policies, ensuring strict compliance to international standards and proactively looking at new avenues for responsible development.

Investing in CORPORATE SOCIAL PROGRAMS

As a biopharmaceutical company located in a developing country, we believe our investment in better healthcare goes beyond developing new medicine.

Biocon has outlined an integrated outreach strategy that combines programs involving public health and sanitation in rural communities, with a strong commitment to promoting education, especially amongst underprivileged youth.

INITIATIVES IN HEALTH

Arogya Raksha Yojana Health Insurance Scheme

The Arogya Raksha Yojana Trust, (comprising of Biocon Foundation and Narayana Hrudayalaya Hospital), in collaboration with ICICI Lombard General Insurance Company launched the Arogya Raksha Yojana Health Insurance Scheme in February 2005. The aim of this program is to provide high-quality, yet affordable health-care to economically weaker urban and rural communities.

For an annual premium of as little as Rs. 120, the scheme offers medical insurance coverage through a network of 20 hospitals located in and around the target districts. Members are entitled to free surgery and outpatient consultation as well as medical hospitalisation, access to good quality diagnostic tests and generic drugs, at subsidised rates.

To support the Health Insurance Scheme, Biocon Foundation has set up two Arogya Raksha Yojana Clinics. We plan to establish five more in remote rural areas where access to hospitals is difficult. Each clinic will be equipped with a doctor's consultation room, a BIOCARE pharmacy and a diagnostic laboratory.

In Year 1 alone, close to 60,000 people enrolled with the scheme. To date, 17,000 patients have availed of our out-patient service and 200 undergone surgical procedures. In Year 2, we aim to swell our enrollment and offer the scheme to patients in neighbouring districts. We intend to extend our reach throughout Karnataka in the next few years.

Health Camps

Active health camps for underprivileged rural communities organised by the Biocon Foundation provide diabetes screening, ophthalmology and gynaecology checks. These ensure timely medical attention, while also spreading health and disease awareness.

Preventive Health and Hygiene Promotion Program

Education in health and sanitation is critical in the prevention and spread of communicable diseases. To this end, Biocon Foundation has initiated programs to educate village communities about the importance of basic hygiene in the home. Advocating "good hygiene leads to good health", we work closely with rural people to impress upon them the benefits of living in a cleaner, healthier environment.

Besides personal hygiene and environmental sanitation, we also focus on reducing infant mortality, promoting child health and nutrition, health and empowerment of women. We currently undertake these programs in 51 villages, 8 slums and 25 schools, through them reaching out to 7,000 children and nearly 3,000 women.

Pulse Polio and Hepatitis B

Our polio immunisation drive and hepatitis B camps have so far covered 45 villages. Since its inception in 2000, over 5,000 children have been immunised against polio and more than 35,000 vaccinated against hepatitis B. These annual programs are entirely conducted by volunteers from Biocon.

INITIATIVES IN EDUCATION

Fun with Math

We believe an excitement for math, if encouraged at an early age, will go a long way in helping students cope with the challenges of the subject in later years. In collaboration with Pratima Rao, a math teacher from Bangalore and the Macmillan Press, Biocon Foundation is developing a Math Self Help Book that aims to inculcate a love for the subject as well as foster a habit of self study. Initially, these books will be available in Kannada and distributed to 11,000 children, studying in Grade 1 and 2 of government primary schools. We hope to extend this facility to higher classes in the near future.

Research Grant – University of Calcutta

To encourage talent and support academia, Biocon Foundation has initiated a grant for talented and deserving students of the Guha Centre for Genetic Engineering and Biotechnology, University of Calcutta.

Indian Centre of Psycho-Oncology for Education & Research (ICOPER)

ICOPER is a novel, pioneering effort in the field of cancer care and treatment. Spearheaded by Dr. Brindha Sitaram, a leading psycho-oncologist, it is supported by several highly

regarded oncologists. Recognising a shared focus in developing new drugs for cancer, Dr. Mazumdar-Shaw has accepted the position of chairperson of the institute. ICOPER will train oncologists to become psycho-oncologists, undertake research, develop patient support groups, compile literature for cancer education, and undertake tobacco de-addiction programs – all efforts aimed at a holistic approach to the treatment of cancer.

Financial
REPORT

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Biocon Limited

DIRECTORS' REPORT

Dear Shareholders,

We are pleased to present the twenty-eighth Annual Report of Biocon Limited ('Biocon') together with the audited financial statements and the auditors' report for the financial year ended 31st March 2006. The financial highlights for the year under review are given below:

Corporate Results

Rs in Millions

Particulars for the year ended March 31,	2006	2005
Total Revenues	6,932	6,622
Total Expenditure	5,078	4,536
Profit before interest, depreciation and tax	1,854	2,086
Interest	17	20
Depreciation	228	181
Profit before Tax	1,609	1,885
Income Tax	274	141
Profit after Tax	1,335	1,744
Surplus b/f from previous year	2,385	1,044
Profit available for appropriation	3,720	2,788
Proposed dividend on equity shares	250	200
Tax on proposed divided	35	28
Transfer to General Reserve	133	174
Balance in Profit and Loss account	3,301	2,385

Consolidated results (Under Indian GAAP)

Rs in Millions

Particulars for the year ended March 31,	2006	2005
Total Revenues	7,932	7,282
Total Expenditure	5,592	4,888
Profit before Interest Depreciation and Tax	2,340	2,394
Interest	18	20
Depreciation	297	223
Profit before Tax	2,025	2,151
Income Tax	305	186
Profit after Tax	1,720	1,965
Minority Interest	20	10
Profit after Tax and Minority Interest	1,740	1,975

Results of Operations

During the year under review, consolidated revenues grew 9 percent while Operating Profits (EBITDA) and Profit after tax declined by 2 percent and 12 percent respectively. The lower profits were due to the challenging conditions in the European Statin markets with sharp price erosion adversely impacting margins. Operating profit margins were however sustained at a healthy 30% due to a very broad and attractive spread of our business and high efficiency of our manufacturing operations.

A detailed performance analysis is given in the Management Discussion and Analysis Report.

Appropriations

Dividend

The Board of Directors recommend a dividend of 50%, which is Rs 2.50 per equity share of the face value of Rs 5 each.

Transfer to Reserves

We propose to transfer Rs 133 Millions to the General Reserves. An amount of Rs 3,301 Million is proposed to be retained in the profit and loss account.

Consolidated financial statements

As stipulated in the listing agreement with the stock exchanges, the consolidated financial statements have been prepared by the Company in accordance with the relevant accounting standards issued by the Institute of Chartered Accountants of India. The audited consolidated financial statements together with Auditors' Report thereon form part of the Annual report. The consolidated net profits of the Group for the year ended 31st March 2006 amounted to Rs 1,739 Million as compared to Rs 1,965 Million in the previous financial year. This represents basic earnings per share of Rs 17.39 of the paid up capital.

Business Operations overview and Outlook

The Statin sales were affected during the year despite sharp volume growth and increased market share, due to significant pricing pressure in European Markets. Sales were also affected due to delayed launch of Pravastatin and Simvastatin in the United States consequent to the grant of 6 months exclusivity to the generic players who were the first to file ANDAs. However, the opening up of the US market in the later half of FY 2007 is likely to see a surge in sale of statins. To meet this increased demand, the Company is setting up a new facility at Biocon Park and is expected to commence commercial production later this year.

The Company has made significant progress in Insulin with increased sales in both the domestic and export markets. The product is under registration in over 25 countries in Asia and Latin America and in addition, the Company is in negotiations with various partners for registering the product in the EU markets. During the year the Company has also entered into a product licensing agreement with a speciality pharmaceutical Company in Europe, for developing and marketing an intranasal spray formulation for administering insulin in 85 countries across Asia, Africa, and the Middle East. The agreement also involves a long-term supply of bulk insulin by Biocon.

Immunosuppressants has also been a key contributor to the overall sales growth of 8% in bio-pharmaceuticals . This segment will offer significant growth opportunities during 2008 to 2010 consequent to product patent expiry of two key products in this segment.

Sales of Enzymes declined during the year due to capacity constraints. The increased capacity consequent to the setting up of the new facility at Biocon Park is expected to also contribute to the growth of Enzymes in the coming years.

Retail sales of Insulin and a range of cardio-diabetic drugs have made good progress in the Indian market and is expected to substantially build on this initial success.

Biocon continues to make good progress in its drug discovery initiatives. During the year, biocon acquired the intellectual property assets of its research collaboration partner Nobex Corporation, USA to gain full ownership of the on-going oral insulin and oral B-type natriuretic peptide (BNP) programmes. This acquisition of nearly 300 patents and patent applications focussed on oral peptide therapeutics in the metabolic and cardiovascular segment also provides Biocon with access to additional innovative technologies and new therapeutic paradigms.

During the year, Biocon Biopharmaceuticals Private Limited has completed clinical trials in head & neck cancer for a novel anti-EGFR monoclonal antibody. Other monoclonal antibodies that are moving up the development path are BVX 10, BVX 20 and anti-CD6. These programs are expected to transform Biocon into an innovator Company.

Subsidiaries and Joint Ventures

Syngene International Private Limited:

For the Financial Year 2005-06, Syngene registered strong growth of 49 % in revenues from Rs 661 Million to Rs 982 Million and 64% at the profit after tax level from Rs 275 Million to Rs 452 Million.

Syngene is today one of India's leading custom research service providers. Syngene's state-of-the-art infrastructure and a broad set of service offerings, enable it to participate in the drug development process, from discovery to supply of development compounds. Syngene's annual compound growth rate of 40% over the last five years, reflects its increased acceptance as a "research hub" for the biggest names in the pharma industry. Having firmly established its reputation amongst leading European and American pharma companies, Syngene plans to aggressively target newer markets like Japan and a large number of small biotech and specialty pharma companies from around the world. To facilitate these opportunities for growth, Syngene is investing in additional laboratories located at Biocon Park.

Syngene has a strong knowledge base, where out of the total strength of 528 employees (387 in the previous year) more than 90% employees are scientists. With the focused and collaborative efforts of its employees, Syngene has achieved greater heights during the year and has built a strong international reputation.

Clinigene International Private Limited

Clinigene International Private Limited is a wholly owned subsidiary of your Company focussed on Clinical Development.

For the current financial year, Clinigene incurred a loss of Rs 10.9 Million as against a loss of Rs 29.4 Million in the previous year. The Company registered a revenue of Rs 56.5 Million as against Rs 14.0 Million in the previous year.

Clinigene continues to build a very solid foundation. The demand for outsourced clinical research continues to grow exponentially. Clinigene will extend its operations to a 60,000 sq ft facility by the first quarter of FY 2007. To augment Clinigene's capabilities in conducting internationally benchmarked clinical trials for multinational pharma companies, the scaled-up establishment will have a new unit for Phase I trials and also offer world-class Biometrics & Data Management Services.

Biocon Biopharmaceuticals Private Limited

This is Biocon's 51:49 JV with a Cuban Company, to manufacture monoclonal antibodies and other Recombinant therapeutics. The most advanced therapeutic being developed is a monoclonal antibody, BIOMAB EGFR for the treatment of head and neck cancers and represents a significant initiative in the Company's foray into original molecules.

Construction of a state of the art Biologicals facility at 'Biocon Park' is complete. This facility is the first of its kind in India. The validation of the facility is underway and commercial production is expected to commence in 2006-07.

Report on subsidiary companies

The Company has obtained exemption from the Government of India, Ministry of Company affairs from attaching the financial accounts of the subsidiary companies to this Report pursuant to Section 212 of the Companies Act, 1956, as the Company discloses consolidated accounts under Indian GAAP as well as US GAAP. However, a statement showing the significant financial details of the Subsidiaries is set out as a part of the Annual Report. The members of Biocon Limited and the subsidiary companies can write to the Company for obtaining the annual accounts of the subsidiary companies and the copies of annual accounts of all subsidiary companies will be kept for inspection at the registered office of the Company.

Capital Structure

During the financial year under review, the share capital of your Company remained unaltered.

Employees Stock Option Plan (ESOP)

No new options were granted under this plan for the year under review.

Corporate Governance

We strive to attain high standards of corporate governance while interacting with all our stakeholders. The Company has complied with the corporate governance code as stipulated under the listing agreement with the stock exchanges. A separate section on corporate governance along with a certificate from the auditors confirming the level of compliance is annexed and forms a part of the Directors' report.

Directors

Mr. JMM Shaw and Prof. Ravi Mazumdar retire by rotation at the ensuing Annual General Meeting, and being eligible, offer themselves for re-appointment.

Auditors

The Statutory Auditors, M/s. S. R. Batliboi & Associates, Chartered Accountants, Bangalore, retire at the ensuing Annual General Meeting, and have confirmed their eligibility and willingness to accept office, if re-appointed.

The Auditors have reported that the Company is in process of updating the quantitative records for certain fixed assets and the same have been since updated. With regard to the report of Auditors on non-payment of entry tax, the Management is of the view, that the entry tax is not payable as the Company has been sanctioned exemption under Millennium Biotech Policy from payment of entry tax.

Management Discussion and Analysis Report

The report as required under the Listing agreements with the Stock Exchanges is annexed and forms part of the Directors' Report.

Cumulative disclosure under the stock option scheme as on 31st March 2006

Disclosure of the particulars of stock options schemes as on the above date, as per SEBI guidelines:

Particulars	First Grant	Second Grant	Third Grant
a. Options Granted (Net of options cancelled)	3,401,845	140,630	379,500
b. Exercise price (Post Equity Share split and bonus)	Rs 0.2	Rs 5 each	Rs 315 each
c. Options vested	3,401,845	68,355	177,375
d. Options exercised	2,512,273	66,885	11,375
e. Total number of Equity Shares to be transferred from the ESOP Trust as a result of exercise of options	2,512,273	66,885	-
f. Options lapsed	64,280	8,575	34,750
g. Variation in the terms of options	NA	NA	NA
h. Money realized by exercise of options	Rs 512,955	Rs 159,250	Rs 3,583,125
i. Option pending exercise	825,307	1,470	161,875
j. Total number of options in force	-	63,700	171,500
k. Person-wise details of options granted to:			
i. Directors and key managerial employees	Please see Table (1) below for details regarding options granted to Directors and key managerial employees	Nil	Nil
ii. any other employee who received a grant in any one year amounting to 5%or more of the options granted during that year	Nil	Nil	Nil
iii. Identified employees who have been granted options during any one year equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant	Nil	Nil	Nil
l. Diluted Earning Per Share (EPS) pursuant to issue of shares on exercise of options	Not applicable since shares will be transferred by the ESOP Trust upon exercise of the options and the Company will not be required to issue any new shares	Not applicable since shares will be transferred by the ESOP Trust upon exercise of the options and the Company will not be required to issue any new shares	Not applicable since shares will be transferred by the ESOP Trust upon exercise of the options and the Company will not be required to issue any new shares
m. Vesting schedule	25% each in April of 2003, 2004, 2005 and 2006.	25% each in January of 2005, 2006, 2007 and 2008.	25% each in April of 2005, 2006, 2007 and 2008.
n. Lock-in	No lock-in, subject to a minimum vesting period of 1 year.	No lock-in, subject to a minimum vesting period of 1 year.	No lock-in, subject to a minimum vesting period of 1 year.

Table (1) Details regarding options granted to Directors and key managerial employees are provided below:

Sl. No.	Name of Director or key managerial personnel	Number of Equity Shares of Rs 5 each issuable upon exercise of options
	Directors	
1	Dr. Neville Bain	195,902
2	Prof. Charles Cooney	195,902
	Key managerial employees	
3	Mr. Ajay Bhardwaj	195,902
4	Dr. Arun Chandavarkar	195,902
5	Mr. Shrikumar Suryanarayanan	195,902
6	Mr. Murali Krishnan K N	195,902
7	Dr. Goutam Das	195,902
8	Mr. Rakesh Bamzai	122,439
9	Mr. Chinappa M B	122,439

Scientific Advisory Board

The Scientific Advisory Board under the chairmanship of Prof. Charles Cooney met twice during the year under review. The Board has played an important role in evaluating and steering the Company's R&D programs in a pragmatic manner. During the year under review the term of the First Scientific Advisory Board had come an end and the Second Scientific Advisory Board was constituted under the Chairmanship of Prof. Charles Cooney.

Fixed Deposits

We have not accepted any fixed deposits during the financial year under review.

Directors' responsibility statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Board of Directors hereby confirm as under:

i) In preparation of annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;

ii) We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;

iii) We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities;

iv) We have prepared the annual accounts on a going concern basis.

Particulars of Research and Development, Conservation of energy, Technology absorption etc

Particulars required under Section 217 (1) (e) of the Companies Act, 1956 read with Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in the annexure to the Report.

Particulars of employees

The information required to be furnished under section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended, is annexed and is a part of this report.

Acknowledgements

Your Directors greatly appreciate the commitment and dedication of all the employees at all levels who have contributed to the growth and success of the Company. We would also thank all our clients, vendors, investors, bankers and other business associates for their continued support and encouragement during the year.

Your Directors thank the Government of India, Government of Karnataka, Ministry of Commerce and Industry, Ministry of Finance, Ministry of Information technology and Biotechnology, Customs and Excise Department, Income Tax Department, CSEZ and all other Government agencies for their support during the year and look forward to their continued support in the future.

For and on behalf of the Board

Kiran Mazumdar-Shaw
Chairman and Managing Director
April 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

(All amounts in Indian Rupees thousands, except share data including share price)

1. Industry Structure and Development

The global pharmaceutical sales continued to grow at 7 percent at constant exchange rates in 2005, to cross a record USD 600 billion. The top ten pharmaceutical markets continued to account for more than 80 percent of the total global pharmaceutical market, but emerging markets including China, Korea, Mexico, Russia and Turkey, all experienced double-digit growth, outpacing global performance and signaling important shifts in the marketplace. In terms of regional performance, North America, which accounts for 47 percent of global pharmaceutical sales, grew 5 percent, to USD 266 billion, while Europe experienced a higher growth of 7 percent, to USD 170 billion. Sales in Latin America grew 19 percent to USD 24 billion, while Asia Pacific (outside of Japan) and Africa grew 11 percent to USD 46 billion. Japan, the world's second largest market, grew 7 percent to USD 60 billion. The Indian market grew by 9% to USD 5 billion in 2005. The world-wide pharmaceutical market is expected to grow by 5-8 percent over the next five years. North America and Europe are each projected to grow at a 5-8 percent pace; Asia Pacific/Africa, 9-12 percent; Latin America, 7-10 percent; and Japan, 3-6 percent.

Treatments for hypercholesterolaemia remained the top selling therapy class in 2005, with sales of USD 33 billion, followed by anti-ulcerants. Overall, cardiovascular and central nervous system treatments continued to dominate, with antidepressants maintaining the third ranking in the face of lower growth (owing to generic competition).

Oncology projects accounted for almost 30 percent of the total industry R&D pipeline in 2005, and it is expected that the cancer market will be worth more than USD 40 billion by 2008, driven by an ageing population, better diagnostics, and the introduction of further innovative products that have many years of patent protection ahead of them.

The number of blockbuster products exceeding one billion dollar annual sales reached 94 in 2005 compared with 36 in 2000 and included 17 new members of the billion-dollar club. Atorvastatin remained the top selling drug with annual sales in excess of USD 12 billion in 2005.

The biopharmaceutical market has undergone rapid expansion since its emergence thirty years ago. The 2005 bio-pharma market is estimated at USD 71 billion, having grown 17 percent from 2004's revenues of USD 60.7 billion and the double-digit growth of the market is expected to continue to the end of the decade. The bio-pharma market by 2010 is expected to represent 17 percent of all prescriptions written compared with 2004's 12 percent.

Generic Pharmaceutical Industry

The generic drugs market refers to regulated markets for drugs whose patents have expired or been invalidated. The expiration or invalidation of product patents typically leads to the entry of generic, or non-branded, formulations in the regulated markets, resulting in increased competition and leading to a decline in price and margin of drugs.

Generics will assume a more central role as patients bear a greater percentage of their healthcare costs and payers seek to restrict the growth of healthcare expenditures. In 2005 sales of generics in the top eight markets (U.S., Canada, France, Germany, Italy, Spain, U.K. and Japan) exceeded USD 55 billion, and are expected to experience double-digit growth over the next five years with Patents on a number of significant pharmaceutical products expected to expire in the next several years. Low cost producers such as India and China are expected to play a key role in the development of the generics industry.

2. Outlook

The global pharmaceutical industry is forecasted to grow at 5-8% compounded annual growth rate through 2009. Growth will be mainly driven by the emergence of new markets including Asia, Easter Europe and Latin America, as well as ageing populations, innovative medicines and rising demand for higher quality of life. The generic industry is expected to grow significantly over the next few years with an estimated USD 100 billion worth of branded pharmaceutical products expected to go off patent by 2010 of which, an estimated USD 21 billion due to expire in 2006. Medicare reform and prescription drug benefit is also expected to have a favorable impact on the generic drug industry. In addition the EU has recently finalised its policy and legal framework for so-called bio-similars, opening the EU market for generic versions of biotechnology-derived drugs.

3. Opportunities

The surge in generics together with patent expiry of Simvastatin, and Pravastatin in USA provides Biocon with attractive opportunities in the near to medium term. Supply of Insulin to Innovator Companies, Patent expiry of key immunosuppressant drugs and the opening up of bio-similars is also seen as large opportunities. Success in Biocon's Research and Development initiatives into new drug discovery could also yield significant benefits.

4. Risks & Concern

The Generic Industry is subject to patent litigation and regulatory issues. Patent challenges or delay in receipt of regulatory approvals could delay our product launch in key markets. In addition significant additional competition in key products could erode our market shares and result in reduced prices and profitability. The consolidation of the generic industry could result in larger generic players acquiring manufacturing capabilities thereby reducing the market for third party manufacturers. The failure to obtain regulatory approval for new drugs under development could affect long term business opportunities. Other key risks related to our business include loss of key personnel, increase in input costs and strengthening of the Indian Rupee against key transactional currencies.

The Company carries out a detailed Risk Management exercise for purposes of identification of risks and putting in place processes and controls to mitigate these risks. The audit committee reviews the Company's risk management framework and approves risk management action plans.

5. Internal Controls

Biocon has well established internal control systems for operations of the Company and its subsidiaries. The Finance Department is well staffed with experienced and qualified personnel who play an important role in implementing and monitoring the internal control environment and compliance with statutory requirements.

The Internal Audit is conducted by an independent firm of Chartered Accountants.

The Audit committee addresses significant issues raised by the Internal & Statutory Auditors.

6. Human Resources

Biocon recognizes that nurturing and recruiting the best talent is vital to the long term success of the enterprise. Employees are provided with continuous opportunities for active learning and development which are viewed as key drivers of their personal growth and the success of Biocon. The remuneration structure links rewards directly with performance. This performance management system reinforces our work ethics. All employees also participate in the Employee Stock Option Plan and about 13% of the Company is owned by Employees and a Trust formed for the benefit of Employees.

The total employee strength of the Company and its subsidiaries at end of the financial year 2005-06 was 1,839 as against 1,378 at the end of the previous financial year.

7. Cautionary statement

The statements made in this report and those appearing elsewhere, may be "forward looking statements" that set forth anticipated results based on management plans and assumptions. These statements are likely to address the Company's growth strategy, financial results, product development, product approvals, product potential and development programs. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from past results and those anticipated, estimated or projected. Among the factors that could cause actual results to differ materially are:

a. success of our research and development initiatives ;
b. the impact of existing and future regulatory provisions on product exclusivity ;
c. competitive developments affecting our product portfolio ;
d. interest rate and foreign currency exchange rate fluctuations ;
e. statutory legislations and regulations affecting domestic and foreign operations, including tax obligations ; and other allied factors

8. Discussion on financial performance with respect of operational performance

Overview

The financial statements have been prepared in compliance with the requirements of the Companies Act, 1956 and Generally Accepted Accounting Principles (GAAP) in India.

BALANCE SHEET - MARCH 31, 2006

	2006	2005	%
SOURCES OF FUNDS			
Shareholder's Funds			
Share Capital	500,000	500,000	0%
Reserves and Surplus	7,530,435	6,459,384	16.6%
	8,030,435	6,959,384	15.4%
Loan Funds			
Secured loans	677,549	493,279	37.4%
Unsecured loans	372,927	270,136	38.1%
	1,050,476	763,415	37.6%
Deferred Tax Liability	279,738	219,597	27.4%
	9,360,649	**7,942,396**	**17.9%**
APPLICATION OF FUNDS			
Fixed Assets			
Cost	3,161,061	2,702,017	17.0%
Less: Accumulated depreciation	882,938	653,721	35.1%
Net book value	2,278,123	2,048,296	11.2%
Capital work-in-progress	4,564,301	3,100,026	47.2%
	6,842,424	5,148,322	32.9%
Investments	1,390,554	2,430,048	-42.8%
Current Assets, Loans and Advances			
Inventories	1,053,083	712,922	47.7%
Sundry debtors	2,060,369	1,728,842	19.2%
Cash and bank balances	20,035	34,201	-41.4%
Loans and advances	212,135	170,142	24.7%
	3,345,622	2,646,107	26.4%
Less : Current Liabilities and Provisions	2,217,951	2,282,081	-2.8%
Net Current Assets	1,127,671	364,026	209.8%
	9,360,649	**7,942,396**	**17.9%**

Share Capital	2006		2005	
	Nos.	**Amount**	**Nos.**	**Amount**
Balance at the beginning of the year	100,000,000	500,000	100,000,000	500,000
Share issued during the year	Nil	Nil	Nil	Nil
Balance at the end of the year	100,000,000	500,000	100,000,000	500,000

The Company has only one class of shares viz. equity shares of par value of Rs 5 each. The authorized share capital of the Company was raised from Rs 20,000 in 2002-03 to Rs 600,000 in 2003-04 represented by 120,000,000 equity shares of Rs 5 each.

The Company carried out a sub-division of equity shares of face value of Rs 10 each into 2 equity shares of Rs 5 each. Consequently, the issued, subscribed and paid -up capital of Rs 18,377 has been divided into 3,675,300 shares of Rs 5 each.

The Company in 2003-04 issued 86,324,700 equity shares of Rs 5 each as bonus shares in the ratio of 23.4877958 shares for every one share held to the shareholders existing as on November 11, 2003, which was the approved record date for this purpose, by capitalisation of the balance in the profit and loss account of Rs 431,624.

In March 2004, the Company made an IPO of 10,000,000 fresh equity shares of Rs 5 each at a price of Rs 315 per share.

Reserves and surplus

The total reserves and surplus has increased from Rs 6,459,384 in March 31, 2005 to Rs 7,530,435 in March 31, 2006. The increase has been on account of Rs 1,334,830 profits made during the year and adjusted for dividend payout of Rs 285,063 inclusive of Dividend distribution tax.

Loan funds

There has been an increase in the loans outstanding from Rs 763,415 in March 2005 to Rs 1,050,476 in March 2006. The borrowings from banks increased by Rs 184,270 for funding working capital requirements. The unsecured loans increased by Rs 102,791 on account of accumulation of interest free deferred sales tax liability in respect of sales made during the year. The sales tax liability is payable after a period of 1-6 years as per an order obtained from Karnataka Commercial Tax Authorities.

Fixed Assets	**2006**	**2005**	**%**
Cost	3,161,061	2,702,017	17.0%
Less : Accumulated depreciation	882,938	653,721	35.1%
Net Block	2,278,123	2,048,296	11.2%
Asset turnover ratio (net)	2.17	2.39	
Add : capital work in progress	7,530,435	3,100,026	142.9%
Net fixed assets	9,808,558	5,148,322	90.5%

During the year, the Company added Rs 459,044 to its gross block mainly on account of setting up a cell culture laboratory and an additional immunosuppressant facility. Additions include Research and Development equipment of Rs 197,241.

The capital work in progress as at March 31, 2006 represents advances paid towards acquisition of fixed assets and the cost of assets not put to use. It includes the cost of our new project to augment our capacities for submerged fermentation and chemical synthesis operations at our proposed site at 'Biocon Park', Plot No. 2 & 3, IV Phase, Bommasandra – Jigani Link Road, Bangalore.

The Company has a capital commitment of Rs 336,041 as at March 31, 2006 as compared to Rs 982,897 as of March 31, 2005. Capital commitment as at March 31, 2006 mainly pertains to the new project referred to above.

Investments

The Company as at March 31, 2006 held investments of Rs 1,390,554 as compared to Rs 2,430,048 as of March 31, 2005. The decrease in investments to the extent of 42.8% is mainly on account of utilization of short term investments in the ongoing capex program for the proposed submerged fermentation facility. Additional investments during the year include acquisition of 2,244,000 shares by the Company in BBPL, a joint venture Company with CIMAB SA, investment of Rs 182,308 in convertible promissory notes of Nobex Corporation, USA, Rs 87,195 in convertible promissory notes of Vaccinex Inc, USA. Investments also comprise Intercorporate deposits of Rs 261,625 with subsidiary Company Clinigene, and Rs 461,197 with BBPL, advance towards equity in BBPL of Rs 22,440 and Rs 66,627 advance made to Nobex Corporation USA.

The Company continues to hold investments in 2 wholly owned subsidiaries viz., Syngene and Clinigene of Rs 84,328 and Rs 500 respectively.

Current assets, loans and advances

The current assets, loans and advances have increased from Rs 2,646,107 to Rs 3,345,622 representing an increase of 26.4% over the previous year. This was mainly on account of increase in inventories from Rs 712,922 to Rs 1,053,083 represented by rawmaterials and semifinished goods which rose by Rs 121,585 and Rs 161,899 as compared to the previous year. These include trial run inventories of Rs 158,134 located at the proposed new facility. Sundry debtors stood at 2,060,369 (net of provision for doubtful debts of Rs 19,785) as at March 31, 2006 as compared to Rs 1,728,842 (net of provision for doubtful debts of Rs 17,207) as at March 31, 2005. These debtors are considered good and realisable. Provision for doubtful receivables as on March 31, 2006 has been made for debtors overdue for more than 180 days subject to review of collectibility of specific dues. Debtors represent an outstanding of 85 days and 73 days of gross sales revenue as at March 31, 2006 and March 31, 2005 respectively on a moving average of 3 months sales.

Provision for doubtful debts and bad debts written off represent 0.04% and 0.04% of gross sales for the year ended March 31, 2006 and March 31, 2005 respectively.

Loans and advances has increased from Rs 170,142 in March 31, 2005 to Rs 212,135 in March 31, 2006. This increase of 24.7% is mainly on account of increase in balances with customs, excise and sales tax authorities, which increased from Rs 72,973 as at March 31, 2005 to Rs 110,085 as at March 31, 2006.

Current liabilities and provisions

The current liabilities and provisions stood at Rs 2,217,951 as at March 31, 2006 as compared to Rs 2,282,081 as of March 31, 2005. Sundry creditor balances for capital expenditure reduced from Rs 987,126 as at March 31, 2005 to Rs 676,527 as of March 31, 2006. Credit terms for supply of raw materials increased from 89 days as at March 31, 2005 to 116 days as at March 31, 2006 based on a moving average of 4 month's purchases. Other liabilities including provision for expenses, increased from Rs 83,107 as at March 31, 2005 to Rs 134,434 as at March 31, 2006.

The Company has also proposed a dividend of Rs 250,000 (50%) for the year ended March 31, 2006 as against Rs 200,000 (40%) in the previous year.

Revenues

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2006

	2006	**2005**	**%**
INCOME			
Gross sales	7,246,713	6,842,047	5.9%
Less : Excise duty	371,789	378,423	-1.8%
Net sales	6,874,924	6,463,624	6.4%
Contract research fees	-	1,474	-100.0%
Other income	56,911	156,513	-63.6%
	6,931,835	**6,621,611**	**4.7%**
EXPENDITURE			
Material costs	3,790,109	3,441,546	10.1%
Employee costs	420,600	420,435	0%
Operating and other expenses	867,009	673,689	28.7%
Interest and finance charges	16,887	19,931	-15.3%
	5,094,605	**4,555,601**	**11.8%**
PROFIT BEFORE DEPRECIATION AND TAXES	1,837,230	2,066,010	-11.1%
Depreciation	230,102	182,521	26.1%
Less : Amount transferred from revaluation reserve	1,606	1,606	0%
	228,496	180,915	26.3%
PROFIT BEFORE TAXES	**1,608,734**	**1,885,095**	**-14.7%**
Provision for income-tax			
- Current tax	208,633	98,298	112.2%
- Deferred tax	60,141	42,917	40.1%
- Fringe benefit tax	5,130	-	
NET PROFIT FOR THE YEAR	**1,334,830**	**1,743,880**	**-23.5%**
Balance brought forward from the previous year	2,385,167	1,043,725	
PROFIT AVAILABLE FOR APPROPRIATION	3,719,997	2,787,605	
Proposed dividend on equity shares	250,000	200,000	
Tax on proposed dividend	35,063	28,050	
Transfer to general reserve	133,483	174,388	
BALANCE, END OF THE YEAR	3,301,451	2,385,167	

Biocon's total income has four components:
- Sales of Biopharmaceuticals products;
- Sales of Enzymes products;
- Research fees; and
- Other income.

The following table sets out the contribution of each of these components of Biocon's income expressed as a percentage of Biocon's total income for the years ended March 31, 2006 and March 31, 2005:

Sales	**2006**	**2005**
Sale of Products		
Biopharmaceuticals	86.9%	84.1%
Enzymes	12.3%	13.5%
Research fees	-	0.1%
Other Income	0.8%	2.3%
Total Income	**100.0%**	**100.0%**

Share of revenues from net sales between domestic and export markets are as follows:

Share of revenues	**2006**	**%**	**2005**	**%**
Domestic	3,297,693	48.0%	2,702,140	41.8%
Exports	3,577,231	52.0%	3,761,484	58.2%
Total	**6,874,924**	**100.0%**	**6,463,624**	**100.0%**

Biocon's net sales grew by 6.4% to Rs 6,874,924 in 2005-06 while the total income grew by 4.7% to Rs 6,931,835.
The Company's export revenues from product sales have reduced by 4.9% and domestic sales have increased by 22% mainly driven by revenues from sale of bio-pharmaceutical products.

Revenues from sale of biopharmaceuticals registered a growth of 8.2% in March 31, 2006 over March 31, 2005, while the enzymes segment registered a decline of 5.3% over the same period.

Segment and product-wise performance

The segmentation of Biocon's sales is as follows:

	2006	**%**	**2005**	**%**
Biopharmaceuticals	6,025,361	87.6%	5,566,810	86.1%
Enzymes	849,563	12.4%	896,814	13.9%
Total	**6,874,924**	**100.0%**	**6,463,624**	**100.0%**

Bio-pharmaceuticals

In pharma, we focus on the manufacture and marketing of APIs that require fermentation and other skills and that offer large market potential. Having begun sales in fiscal 1998, our biopharmaceuticals business has since grown to constitute 87.6% & 86.7% of our sales in 2005-06 and 2004-05 respectively.

(a) Statins

Statins are cholesterol-lowering agents used to treat and prevent coronary diseases and are amongst the largest selling drugs worldwide. The Company's statins portfolio presently comprises lovastatin, simvastatin, pravastatin and atorvastatin. Biocon is currently exporting simvastatin to Europe, Japan and Canada, lovastatin to the U.S. and pravastatin to the European markets. The Company has over the years been facing severe pricing pressure in this segment due to increased competitor penetration.

The US patent expiry for Simvastatin and Pravastatin in fiscal 2007 is expected to be a key growth driver in the next couple of years. Our existing facilities have been qualified by US FDA. In addition we have initiated a capacity expansion plan to significantly increase our lovastatin, simvastatin, pravastatin and atorvastatin production. We expect this capacity to be available in fiscal 2007.

(b) Immunosuppressants

Immunosuppressants prevent organ and tissue rejection in transplants and require high technology based manufacturing capabilities. Currently Biocon produces mycophenolate mofetil (MMF), sirolimus and tacrolimus. MMF and tacrolimus are sold largely in the domestic market and certain semi-regulated export markets. Biocon is positioning itself to enter new segments and address regulated exports markets aggressively in future. Biocon has filed a DMF for MMF and tacrolimus to address the US markets following patent expiry.

(c) Other biopharmaceutical products

Biocon also supplies a range of other Biopharmaceutical products. Biocon markets recombinant human insulin in India under its own brand name 'Insugen' and is also registering Insulin in several semi-regulated export markets to address a significant export opportunity. In addition Biocon has a supply arrangement with two pharmaceutical companies to supply recombinant human insulin for use in their novel formulation which is presently undergoing clinical trials.

Our other target products include Orlistat (anti obesity) and Everolimus (Immunosuppressant).

(d) Sale Of Formulations

Started in the second half of the last fiscal year, Biocon also has a dedicated marketing team for finished formulations. The segment, though in the nascent stage, has been growing rapidly in the last one year of operations. With a focus on the anti-diabetic and cardio-vascular market, Biocon's own insulin brand 'Insugen' is also marketed by the formulation team. The formulation segment currently has a team which comprises of field staff spread across the country, with sales registering an impressive growth in FY 2006 as compared to FY 2005.

Enzymes

Biocon develops and markets a mix of specialty and industrial enzymes for a broad range of industries including food and beverages, brewing and distilling, textiles and paper. The enzymes business registered a decline of 5.3% from Rs 896,814 to Rs 849,563 driven by lower sales of enzymes for the food, beverage and brewing and distilling industries owing to capacity constraints.

Other Income

Other income consists primarily of dividend income and interest income on surplus funds invested in short term money market instruments. Dividend income at Rs 21,508 in 2005-06 was lower than in 2004-05 due to the deployment of funds in the ongoing capital expenditure program at Biocon Park.

Material costs

Material costs includes Biocon's consumption of raw materials and traded goods and increases or decreases in stock. Raw materials costs with respect to the products have increased by 10.1% over the previous year largely on account of a 6.4% increase in sales. Raw material costs as a percentage of sales have increased by 1.9% mainly on account of reduction in selling prices of some key statins. Raw material costs are to a lesser extent dependent on global petrochemical prices, which in turn often track global oil prices. This is because our biopharmaceutical and enzyme production processes involve the use of many petrochemicals, especially solvents such as ethyl acetate, methyl iodide and acetone.

Employee costs

Staff cost comprises

- salaries, wages, allowances and bonuses;
- contributions to provident fund;
- contributions to superannuation, gratuity and leave encashment; and
- welfare expenses (including employee insurance schemes, school tuition program and other miscellaneous employee benefits)

Staff costs were Rs 420,435 and Rs 420,600 for the fiscal years ended 2005 and 2006 respectively. The total number of our full-time employees has grown from 945 at the beginning of fiscal 2006 to 1,225 at the end of fiscal 2006.

Operating and other expenses

Operating and other expenses comprise of rent; travelling and conveyance; communication; professional charges; power and fuel; patent fees; consumables; repairs and maintenance; general expenses; freight outwards; sales promotion; commissions; bad debts write off; provisions for bad and doubtful debts; printing and stationary; insurance; rates, taxes and fees; and losses on sales of assets. Operating and other expenses have increased by 28.7% from Rs 673,689 for the year ended March 31, 2005 to Rs 867,009 for the year ended March 31, 2006.

This is mainly on account of the following:

- Rs 61,857 increase in power and fuel costs on account of increase in production activity and increase in fuel tariff.
- Exchange loss of Rs 3,257 as against an exchange gain of Rs 29,960.
- Rs 430,018 increase in research and development expenses on account of increase in our ongoing research initiatives including the oral insulin project.
- Rs 38,910 increase in selling costs, mainly commission costs corresponds to the increase in sales. Commission as a percentage of sales has gone up from 0.82% in fiscal 2005 to 0.87% in fiscal 2006.

Interest and Finance Charges

Interest and finance charges have reduced from Rs 19,931 in fiscal 2005 to Rs 16,887 in fiscal 2006.

Depreciation

During the year depreciation has increased by Rs 47,581 amounting to an increase of 26.3% over fiscal 2005 on account of depreciation charge for full year on additions made to fixed assets in the previous year. This cost as a percentage of sales has also increased from 2.8 % in fiscal 2005 to 3.3% in fiscal 2006.

Provision for Taxes

Provision for current, fringe benefits and deferred taxes in the year ended March 31, 2006 was Rs 273,904, compared with Rs 141,215 in fiscal 2005. The increase in effective rate from 7.5 % of profit before tax in fiscal 2005 to 16.7% of profit before tax in fiscal 2006 is on account of lower income from 100% Export Oriented Units. During the year there was an additional impact of Rs 5,130 on account of fringe benefit tax.

Net Profit

Net profit, for fiscal year 2006 decreased by 23.5% to Rs 1,334,830 resulting in an EPS of Rs 13.97. Increased pricing pressures have impacted the net margins, which were lower by 708 basis points at 19.3%.

Liquidity

Our primary liquidity needs have been to finance our working capital requirements and our capital expenditures. These costs have been funded principally by cash flows from operations and short term borrowings. The Company has during the year, utilized the IPO funds deployed in short term money market instruments to fund its capital expenditure.

	2006	2005
Net cash generated from operating activities	403,884	1,409,575
Net cash used for investing activities	(483,034)	(4,536,536)
Net cash generated from / (Used) in financing activities	47,410	(18,410)
Net increase / (decrease) in cash and cash equivalents	(31,740)	(3,145,371)

As of March 31, 2006, cash and cash equivalents amounted to Rs 20,035. The principal source of cash and cash equivalents in fiscal 2006 from cash flows from operations amounting to Rs 403,884. Cash flows from operations were mainly used for purchase of fixed assets of Rs 1,570,824.

Operating activities

Net Cash flows from operating activities for fiscal 2006 decreased by 74.0% over fiscal 2005 due to lower operating income and increased investment in working capital.

Investing activities

The Company's net cash flows used for investing activities were used primarily to fund purchase of fixed assets for its new facility at Biocon Park.

Financing activities

The net cash flows from financing activities increased on account of proceeds from short term borrowings from banks to fund working capital requirements.

PERFORMANCE OF SUBSIDIARIES

Syngene International Private Limited

Syngene is a 99.99% owned subsidiary of Biocon Limited. Syngene was incorporated on November 18, 1993 and is involved in two main research areas: Synthetic chemistry and molecular biology. Syngene is also involved in custom chemical synthesis.

Syngene's total income consists of net sales from contract research services, with the remainder consisting largely of net sales of compounds. Substantially all of Syngene's contracts are based on time and material management. Revenue from these contracts are recognised as services are rendered, in accordance with the terms of the contract. Syngene's total revenue has increased from Rs 660,656 to Rs 981,730 representing an increase of 48.6%. This growth in revenue has been the result of growth in the number of clients. In addition, Syngene also earned Rs 14,003 from investment of its surplus funds in mutual fund units.

Most of Syngene's expenses are comprised of raw-material costs and staff costs. Raw material cost consists of lab consumables used for research. Material cost increased by 55.8% over fiscal 2005 on account of increase in business activities. As a percentage of sales, material costs have increased by 1.0% primarily due to higher costs associated with the custom synthesis business. Syngene's staff cost increased from fiscal 2005 on account of increase in number of employees. However, as a percentage of sales, this cost has declined by 2.2% due to higher realisation per scientist. Other costs grew by 45.5% mainly on account of power charges, which moved from Rs 8,909 in fiscal 2005 to Rs 28,247 in fiscal 2006.

Net profit for fiscal 2006 increased by 64.1% to Rs 452,107. Net margin has also improved from 41.7% in fiscal 2005 to 46.1% in fiscal 2005

Abbreviated profit and loss statement

	2006	2005
Total Income	981,730	660,656
Profit before tax	483,618	320,307
PBT Margin	49.3%	48.5%
Profit after tax	452,107	275,455
Net Margin	46.1%	41.7%

Syngene contributed 12.4% to the consolidated income and 26.0% to the consolidated profits of the group during fiscal 2006.

In the previous year, Syngene contributed 9.1% and 13.9% to the consolidated income and profits of the group respectively.

Clinigene International Private Limited

Clinigene is a 100% owned subsidiary of Biocon Limited. Clinigene was incorporated on August 4, 2000 with an authorised share capital of Rs 5,000. Clinigene was established to undertake clinical trials and studies for validation of drugs and to conduct research in the area of medical sciences for development of new and improve upon existing medical diagnostic, surgical and therapeutic techniques.

Clinigene's total income principally consists of income from clinical research fees and also Bio-analytical and Bio-equivalence studies. Clinigene enters either into time and material contracts and/or fixed price arrangements. Revenue from time and material contracts are recognised on a monthly basis as services are rendered in accordance with the terms of the applicable contracts. Revenue from fixed price contracts is recognised based on the percentage completion method. Total Income of Clinigene increased from Rs 14,095 in fiscal 2005 to Rs 56,580 in fiscal 2006, primarily driven by increase in clinical research fees.

Clinigene's expenses comprise of research material costs, staff cost, other operating expense, interest cost and depreciation. Clinigene's research material costs increased by 58.5%, whereas research material cost as a percentage of sales decreased to 12.7% from 32.3%. Clinigene's staff cost has increased by 47.8%. This is because Clinigene is in the process of developing its clinical research capabilities and is hiring employees. Clinigene may require additional funds to develop its capabilities and become profitable. Biocon Limited is supporting it in its funding. As at March 31, 2006, it has accumulated losses of Rs 62,758.

Loss for the year ended March 31, 2006 of Rs 11,109 has been consolidated with the profits of the group in the consolidated financial statements.

Biocon Biopharamaceuticals Private Limited

BBPL is a joint venture Company and currently 51% of its shares are held by Biocon and the balance 49% by CIMAB SA, Cuba. BBPL was incorporated on June 17, 2002 with an authorised share capital of Rs 500 and in the year 2004 increased to Rs.10,000 which has in the current year been increased to Rs 132,000. BBPL has been established to produce and sell certain biologicals. BBPL is yet to commence commercial operations and is in the process of setting up its facilities. Biocon holds 4,488,000 equity shares and CIMAB holds 4,312,000 equity shares of Rs.10 each respectively. In addition, Biocon has also made an advance towards issue of 2,244,000 shares.

As at March 31, 2006, BBPL has accumulated losses of Rs 66,373. Biocon's share in the accumulated losses of BBPL aggregates Rs 33,850.

Consolidated financial statements

Biocon has prepared consolidated financials in accordance with Indian GAAP and US GAAP by consolidating its subsidiaries - Syngene and Clinigene and Joint Venture Company BBPL. The abbreviated consolidated Indian GAAP and US GAAP profit and loss account is as under :

Abbreviated consolidated profit and loss statement - Indian GAAP

	2006	2005
Total Income	7,932,126	7,281,911
Profit before tax (PBT)	2,025,489	2,151,102
PBT margin	25.5%	29.5%
PAT after minority interest	1,739,523	1,975,449
Net margin	21.9%	27.1%

Abbreviated consolidated profit and loss statement - US GAAP

	2006	2005
Total Revenue	7,880,680	7,125,664
Gross profit	3,199,397	2,876,090
Gross profit margin	40.6%	40.4%
Income from operations	2,032,857	2,033,145
Income before income taxes (IBT)	2,028,710	2,166,259
IBT margin	25.7%	30.4%
Net Income	1,676,676	1,918,830
Net Income Margin	21.3%	26.9%

Reconciliation of Indian and US GAAP consolidated financial statements

	2006	2005
Net profit as per Indian GAAP	1,739,523	1,975,449
Depreciation	3,449	3,234
Deferred taxes	(52,233)	(61,347)
Leave encashment / Gratuity provision as per FAS 7	5,625	11,923
Additional losses of JV	(19,688)	(10,429)
Net Income as per US GAAP	1,676,676	1,918,830

ANNEXURE TO DIRECTORS' REPORT

Statement pursuant to Section 217 (2A) of the Companies Act, 1956 & Companies (Particulars of Employees) Rules, 1975

Details of Remuneration paid during the year ended March 31, 2006

Sl.No.	Name & Designation	Age	Remuneration Rs	Qualification & Experience	Date of Commencement of employment	Last employment
1	Mr. Ajay Bhardwaj President - Group Marketing	46	9,934,387	M.S (Chemical Engineering) 22 Years	1-Jan-86	Project Engineer Max India Ltd, New Delhi
2	Dr. Arun Chandavarkar President - Operations & Technology	45	9,820,557	Ph.D (Chemical Engineering) 15 Years	8-Nov-90	---
3	Mr. Chinappa M B Vice President - Finance	38	3,833,371	B.Com., ACA 13 years	12-Jul-99	Finance Manager ITC Limited, Calcutta
4	Mr. J M M Shaw Vice Chairman	57	9,383,800	M.A (Hons) 35 Years	1-Apr-99	President- Berghaus International Fashion Group, Holland
5	Dr. Kiran Mazumdar Shaw Chairman & Managing Director	53	10,338,800	B.Sc (Hons) PGD in Malting & Brewing 31 Years	1-Dec-78	Consultant Jupiter Breweries Ltd
6	Mr. Malay Jiban Barua Senior Manager - Marketing	38	2,658,200	M.Tech (Chemical technology) 11 Years	1-Jun-95	--
7	Mr. Murali Krishnan K N President - Group Finance	50	9,893,547	B.Com., (C.A) 24 Years	9-Nov-81	--
8	Mr. Rakesh Bamzai President - Marketing	45	7,312,856	B.Sc (Food & Fermentation Tech) 17 Years	19-Apr-95	Asst. G.M. - Marketing Advanced Biochemicals Ltd
9	Mr. Sandeep Rao Manager - Marketing	32	3,625,982	M.Sc, PGDM 7 Years	15-Jun-99	--
10	Mr. Shrikumar Suryanarayanan President - Research & Development	46	9,952,355	M.Tech(Chemical Engineering) 22 Years	2-May-84	--

Note:

1. Remuneration shown above includes Salary, Allowances, Bonus (based on receipt), Company's contribution to P.F and other perquisites valued as per Income Tax Rules, 1962.

2. Nature of employment in all cases is contractual. Other terms and conditions are as per Company rules.

3. Dr. Kiran Mazumdar & Mr. JMM Shaw are the Directors of the Company and are related to each other. No other employee mentioned above is related to any Director of the Company.

On behalf of Board of Directors

Kiran Mazumdar Shaw
Chairman & Managing Director

Bangalore
April 20, 2006

ANNEXURE TO THE DIRECTORS REPORT

Particulars under Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 for the year ended March 31, 2006

Conservation of Energy

During the year, the Company continued to undertake significant measures to reduce the energy consumption by using energy-efficient machines and equipment. The Company also undertakes evaluation of latest tehnology and invests in making its infrastructure more energy efficient.

FORM A

	For the year ended 31st March, 2006	For the year ended 31st March, 2005
A. Power and Fuel Consumption		
1. Electricity		
a. Electricity Purchased ('000 Units)	14,441.84	3,967.00
Total Amount (Rs in Lakhs)	683.10	184.00
Rate per Unit (Rs)	4.73	4.64
b. Own Generation from		
Diesel Generator ('000 Units)	27,064.61	27,959.27
Total Amount (Rs in Lakhs)	1,935.12	1,935.58
Rate per Unit (Rs)	7.15	6.92
2. Furnace Oil		
Unit (K.L)	2,563.92	2,416.43
Total Cost (Rs in Lakhs)	460.25	340.32
Average cost per K.L (Rs)	17,951.06	14,083.55

B. Consumption per unit of Production

The disclosure of consumption figures per unit of production is not meaningful as the operations of the Company involves multiple products.

FORM B

A. Specific areas in which R&D work has been carried out by the company

- Process and Clinical Development of Novel Biotherapeutics in Oncology, Diabetes and Cardiovascular segments.
- Process and Clinical Development of Biosimilars in Metabolic disorders, Diabetes and Cardiovascular segments.
- Development of Synthetic and Fermentation based Generic Small Molecules for Cardio-vascular and Transplantation segments.
- Generation of Intellectual Property Development – Process Patents for manufacture of key Generic Small Molecules and Biotherapeutics
- Development of globally competitive manufacturing processes
- Clinical Development of new drug combinations
- Novel Enzyme Formulations for Food and Industrial Applications

B. Benefits derived as a result of R&D activities.

- Scale-up of key Biosimilars with improved productivity and process efficiencies
- Strategic collaborations for development of new Biotherapeutics
- Global presence in supply of fermentation based Small Molecules to the Generic Industry in regulated markets
- Rich Pipeline of Generic Small Molecules catering to varied therapeutic areas
- Internationally competitive prices and product quality
- Generation of high quality data compliant with International Regulatory requirements
- Established intellectual property with 266 Patents/ PCT applications filed in Indian and International markets
- Safe and environment friendly processes
- Novel Enzyme Formulations marketed in the domestic and international markets

C. Future Plan of Action.

- Greater importance in the research areas of New Drug Discovery
- Clinical Development of existing pipeline of Biotherapeutics
- Strategic Collaborations for increased speed and cost competitiveness in Drug Discovery
- Continued emphasis on Monoclonal Antibodies and Biotherapeutics leveraging on Biocon's in-house fermentation skills
- Continue to strengthen R&D capabilities in the area of New Biotherapeutics – Monoclonal antibodies and Oral insulin

4. Expenditure on scientific Research & Development

		(Rs In Million)
	31.3.2006	**31.3.2005**
(a) Capital	215.6	103.4
(b) Recurring	185.2	137.5
(c) Total	400.7	240.9
(d) Total R& D expenditure as percentage of sales	5.8%	3.7%

In addtion, the Company has invested Rs 336.1 Million with its Research Collaboration Partners - Nobex Corporation, USA and Vaccinex Inc, USA

5. Technology Apsorption, Adaption and Innovation

No imported technology during the year

6. Foreign Exchange earnings and outgo :

Foreign exchange earned and used for the year ended 31st March, 2006,

		(Rs. in Million)
	31.3.2006	**31.3.2005**
Gross Earnings	3,589.5	3,780.4
Outflow*	2,885.3	2,849.3
Net foreign exchange earnings	**704.2**	**931.1**

*For details please refer to information given in the notes to accounts to the annual accounts of the Company in Schedule 22 Notes to accounts item no. iv to vi.

SECTION 212

Statement pursuant to Section 212 of the Companies Act, 1956 relating to Holding Company's interest in the Subsidiary Companies

	Syngene International Private Limited	Clinigene International Private Limited	Biocon Biopharmaceuticals Private Limited
Financial year of the subsidiary ended on	31st March 2006	31st March 2006	31st March 2006
2. (a) Number of shares held by Biocon Limited at the end of the above date	28,74,830 equity shares of Rs 10/- each	50,000 equity shares of RS. 10/- each	44,88,000 equity shares of Rs 10/- each
(b) Extent of interest on above date	99.99%	100%	51%
3. Net aggregate amount of the Subsidiary Company's Profit / (Loss) so far it concerns members of the Holding Company and			
(a) is not dealt in the Company's account :			
(i) for the financial year ended 31 March, 2006	452,080	(11,109)	(20,519)
(ii) for the previous financial years, since it became a subsidiary	435,937	(47,784)	(12,500)
(b) is dealt in the Company's account :			
(i) for the financial year ended 31 March, 2006	Nil	Nil	Nil
(ii) for the previous financial years, since it became a subsidiary	Nil	Nil	Nil

ANNEXURE TO DIRECTOR'S REPORT

Corporate Governance Report

The detailed report on Corporate Governance for the financial year from April 1, 2005 to March 31, 2006, as per the format prescribed by SEBI and incorporated in the revised Clause 49 of the Listing Agreement is set out below:

1. Company's Corporate Governance philosophy and compliance

Biocon is committed to doing business in an efficient, responsible, honest and ethical manner. Good Corporate Governance goes beyond compliance and involves a Company wide commitment. This commitment starts with the Board of Directors, which executes its corporate governance responsibilities by focusing on the Company's strategic and operational excellence and on the best interests of all our stakeholders, in particular shareholders, employees and our customers in a balanced fashion with long term benefits to all.

The core values of the Company's governance process include independence, integrity, accountability, transparency, responsibility and fairness. The Business policies are based on ethical conduct, health, safety and a commitment to building long term sustainable relationships.

Biocon is committed to continually evolving and adopting appropriate corporate governance best practices.

2. Board of Directors

Composition:

The Board of Directors comprises 7 members including two executive directors, five non- executive directors, of which four are independent directors. The Board believes that the current size is appropriate based on the Company size and circumstance and is appropriate mix of executive and independent directors to maintain the independency of the Board. Dr. Kiran Mazumdar-Shaw is the Chairman and Managing Director of the Company and Mr. JMM Shaw is the Vice-Chairman. Dr. Kiran Mazumdar-Shaw and Mr. JMM Shaw is responsible for the day to day management of the Company, subject to the supervision and control of the Board of Directors. The independent directors on the Board are scientists, professionals, technocrats who are senior, competent and highly respected persons from their respective fields. The brief profile of the Company's Board of Directors is as under:

Dr. Kiran Mazumdar-Shaw, 53 years, Chairman and Managing Director, is a first generation entrepreneur with more than 28 years' experience in the field of biotechnology. After graduating in B.Sc. (Zoology Hons.) from Bangalore University in 1973, she completed her post-graduate degree in malting and brewing from Ballarat College, Melbourne University in 1975. She has received an Honorary Doctorate of Science, University of Ballarat, 2004 in recognition of her pre-eminent contribution to the field of Biotechnology. She is also awarded an Honorary Doctorate from the Manipal Academy of Higher Education (MAHE), in recognition of outstanding achievements in biotechnology and industrial enzymes, 2005. She is a founder promoter and has led the Company since its inception in 1978. She is currently the Director of Syngene International private Ltd, Clinigene International Private Ltd and Biocon Biopharmaceutical Private Ltd. She was previously a consultant with Jupiter Breweries Limited. She is the recipient of several awards, the most noteworthy being the 'Padmabhushan' Award (one of the highest civilian awards in India) in 2005 conferred by the President of India, the Ernst & Young Entrepreneur of the Year Award in 2002 for the Healthcare & Life Sciences category and more recently in 2003 the BioSpectrum Person of the Year Award. She heads several biotechnology task forces including the Karnataka Vision Group on Biotechnology, an initiative by the Government of Karnataka and the National Taskforce on Biotechnology for the Confederation of Indian Industry (CII).

Mr. JMM Shaw, 57 years, Vice Chairman, is a promoter and a whole-time director of the Company. He is also a controlling shareholder and director of Glentec International. He completed his M.A. (Economic Hons.) in History and Political Economy from Glasgow University, U.K. in 1970. He had 27 years' experience with Coats Viyella plc. in various capacities including finance and general administration. He has served as Finance Director and Managing Director of Coats Viyella group companies in various locations around the world, before he came on the Board of Biocon Limited in 1999.

Dr. Neville Bain, 66 years, has vast experience in the field of finance, strategy and general management. He graduated from Otago University, New Zealand, with a Master of Commerce (Hons) degree and double Bachelor degrees in Accounting and Economics. He has also been awarded the degree of Doctor of Law, is a Fellow Chartered Accountant, a Fellow Cost and Management Accountant, a Fellow Chartered Secretary and a Fellow of the Institute of Directors. He spent 27 years with the Cadbury Schweppes group, having responsibility for the world-wide confectionery business and then as Deputy Chief Executive and Finance Director. This was followed by a six-year term as Chief Executive Officer of Coats Viyella plc, and then as Chairman and Director of various organisations. He is Chairman of the Institute of Directors, Director of Hogg Robinson plc, and also a board member of Scottish Newcastle plc. He has published books on Corporate Governance, Strategy, and the effective utilisation of people in organisations.

Prof. Charles L. Cooney, 61 years, is the Professor of Chemical & Biochemical Engineering, Faculty Director of the Deshpande Center for Technological Innovation and Co-Director of the Program on the Pharmaceutical Industry at the Massachusetts Institute of Technology (MIT), Cambridge, U.S.A. He obtained his Bachelor's degree in Chemical Engineering from the University of Pennsylvania in 1966, his Master's degree and his Ph.D in Biochemical Engineering from MIT in 1967 and 1970 respectively. His research interests span topics in biochemical engineering and pharmaceutical manufacturing. He is a recipient of several prestigious awards, including Gold Medal of the Institute of Biotechnology Studies (London), the Food, Pharmaceutical and Bioengineering Award from the American Institute of Chemical Engineers and the James Van Lanen Distinguished Service Award from the American Chemical Society. He serves as a consultant to and/or director of a number of biotech and pharmaceutical companies globally and is on the editorial boards of several professional journals.

Mr. Suresh Talwar, 67 years, is a partner of Crawford Bayley & Co., a reputed law firm in India. He completed his B.Com from the University of Bombay in 1959, his LL.B. from the Government Law College, Bombay in 1961 and a solicitor of the Incorporated Law Society, Mumbai in 1966. His area of professional specialisation is in corporate law and other related matters. He has been the legal counsel to numerous Indian companies, multinational corporations as well as Indian and foreign banks. He is also a director of several leading companies in India.

Prof. Ravi Mazumdar, 51 years, completed his Ph.D from the University of California, Los Angeles, USA in 1983. Prior to this, he obtained his B.Tech from the Indian Institute of Technology, Bombay in 1977 and his Masters in Science from the Imperial College of Science, London in 1978. He is a professor in University of Waterloo, Canada and has been profession in several prestigious universities including Purdue University, U.S.A Columbia University, U.S.A., University of Essex, U.K., Mc Gill University, Canada and the Indian Institute of Science, Bangalore. He has over 100 refereed publications in international journals in the area of applied probability and stochastic processes, non-linear dynamical systems, statistical signal processing, queuing theory and in the control and design of high-speed networks. He has been a member of several advisory committees and working groups, including the US Congress Sub-Committee on Science and Technology. He is a Fellow of the Royal Statistical Society and Fellow of the Institute of Electrical and Electronics Engineers, Inc. He is the younger brother of Dr. Kiran Mazumdar-Shaw.

Dr. Bala S. Manian, 61 years, has been a part of the Silicon Valley entrepreneurial community over the last three decades and is responsible for successfully starting several life science companies. Dr. Manian is a co-founder and director of Quantum Dot Corporation, and a co-founder of SurroMed Corporation. He was also chairman of Entigen Corporation, a Bioinformatics Company. He was the founder and Chairman of Biometric Imaging, Inc. Prior to founding Biometric Imaging, Inc., Dr. Manian founded Digital Optics Corporation an optical instrumentation and systems development Company in 1980 and two other Companies, Lumisys and Molecular Dynamics in June 1987. Dr Manian is presently the CEO of ReaMetrix Inc. An expert in the design of electro-optical systems, Dr. Manian holds more than 35 patents, many of which have resulted in successful commercial products. Additionally, Dr. Manian has authored more than 30 peer reviewed scientific publications. He has been recognized through several awards for his contributions as an educator, inventor and an entrepreneur. In February 1999 the Academy of Motion Picture Arts and Sciences awarded a Technical Academy Award to Dr. Manian for advances in digital cinematography. He has a B.S. in Physics from the University of Madras, a M.S. in Applied Optics from the University of Rochester, and a Ph.D. in mechanical engineering from Purdue University. He was a faculty member of the University of Rochester's Institute of Optics for four years, teaching courses in optical fabrication and testing, optical instrumentation and holography. At present he serves as a member of the Board of Trustees of University of Rochester.

In accordance with our Articles of Association, the Board can appoint an alternate Director pursuant to the provisions of the Companies Act. Prof. Catherine Rosenberg is presently the alternate Director to Prof. Ravi Mazumdar.

Status of Directors and other directorships:

Statement showing the status of Directors as executive/non-executive and independent/ non-independent during the year is set out below:

Name of the Director	Position/ Executive / Non executive	Independent/ Non independent	Relationship with other directors	No of other Directorships (*)
Dr. Kiran Mazumdar Shaw	Chairman & M D	Non independent	Yes	4
Mr. JMM Shaw	Vice Chairman	Non independent	Yes	4
Prof. Ravi Mazumdar	Non Executive	Non independent	Yes	2
Dr. Neville Bain	Non Executive	Independent	None	6
Prof. Charles Cooney	Non Executive	Independent	None	3
Mr. Suresh Talwar	Non Executive	Independent	None	50
Dr. Bala S Manian	Non Executive	Independent	None	3

* Includes private limited companies and foreign body corporate and alternate directorships.

More than 50% of the Board comprises of non-executive Directors and more than half of the Board comprises of Independent Directors. The Company has obtained the necessary information from all the directors of the Company and performed the necessary steps to arrive at this conclusion.

Details of Directorships in other Companies

The details of directorships of the Company's Directors in other companies as on March 31, 2006 are given below:

Name of Company/ Firm	Nature of Interest
Dr. Kiran Mazumdar-Shaw	
Syngene International Private Ltd	Director
Clinigene International private Ltd	Director
Biocon Biopharmaceuticals Private Ltd	Director
Export- Import Bank of India	Non-official Director
Mr. J M M Shaw	
Syngene International Private Ltd	Director
Clinigene International private Ltd	Director
Biocon Biopharmaceuticals Private Ltd	Director
Glentec international	Director
Prof. Ravi Mazumdar	
Syngene International Private Ltd	Alternate Director
Glentec International	Director
Dr. Neville C Bain	
Hogg Robinson.Plc	Director
Farnborough Holdings Plc	Director
Scottish & Newcastle Plc	Director
Syngene International Private Ltd	Director
Neville Bain Developments Ltd.	Director
Provexis Ltd.	Director
Prof. Charles Cooney	
Syngene International Private Ltd	Director
Genzyme Corporation	Director
Bio Processors Inc	Director
Mr. Suresh N Talwar	
PZ Cussons India Pvt Ltd	Chairman & Alterante Director
FCI OEN Connectors Ltd.	Chairman & Alterante Director
Trans Warranty Finance Limited	Chairman & Alterante Director
Armstrong World Industries (India) Ltd	Chairman
Moly Colloids Pvt Ltd	Chairman
Merck Ltd	Chairman
Romil Finance & Investments Pvt Ltd	Chairman
Sidham Finance and Investments Pvt Ltd	Chairman
20th Century Fox Corpn (I) Pvt Ltd	Chairman
Aon Global Insurance Services Pvt Ltd	Director
Birla Sun Life Insurance Co Ltd	Director
Birla Sun Life Trustee Co Ltd	Director
Blue Star Ltd	Director
Blue Star Infotech Ltd	Director
Cadbury India Limited	Director
Carborundum Universal Ltd	Director
Cholamandalam MS General Insurance Co. Ltd	Director
Chowgule and Company Ltd	Director
Decagon Investments Pvt Ltd	Director
Emerson Process Management (India) Pvt Ltd	Director
Epitome Global Serives	Director
Greaves Cotton Ltd	Director
India Value Fund Trustee Co Pvt Ltd	Director
IVF (Mauritius) PCC	Director
IVF(Mauritius) Ltd	Director
JM Morgan Stanley Financial Services Pvt Ltd	Director
JM Morgan Stanley Securities Pvt Ltd	Director
John Fowler (India) Pvt Ltd	Director

Mr. Suresh N Talwar (cont'd)	
Larsen & Tourbro Ltd	Director
Man Financial (India) Pvt. Ltd.	Director
Renfro Inda Pvt Ltd	Director
Refco (India) Pvt Limited	Director
Rediffusion – Dentsu, Young & Rubicam Pvt Ltd	Director
Sandvik Asia Ltd	Director
Shrenuj & Co Ltd	Director
Solvay Pharma India Ltd	Director
Snowcem Paints Pvt. Ltd	Director
Swiss Re Shared Sevices (India) Pvt Ltd	Director
Showdiff Worldwide Pvt Ltd	Director
Sonata Software Limited	Director
Warner Bros Pictures (India) Pvt Ltd	Director
Albright & Wilson Chemicals India Ltd	Alternate Director
Beck India Ltd	Alternate Director
Esab India Limited	Alternate Director
Garware-Wall Ropes Ltd	Alternate Director
Johnson & Johnson Ltd	Alternate Director
Schenectady (India) Holdings Pvt Ltd	Alternate Director
Schenectady Herdillia Ltd	Additional Director
Uhde India Ltd	Additional Director
Wyeth Limited	Additional Director

Dr. Bala S Manian	
ReaMetrix Inc., USA	Director
ReaMetrix India Pvt. Ltd.	Director
ICICI Knowledge Park	Director

Details of membership/Chairmanship of Directors in Board Committees

Following is the list of memberships/ Chairmanships of Directors in the committees* of the Indian public limited companies in which they are holding directorships:-

Name of the Director	Name of the Indian public Limited Company	Nature of the Committee	Member/ Chairman
Dr. Kiran Mazumdar- Shaw	Biocon Limited	Investor Grievance	Member
Mr. JMM Shaw	Biocon Limited	Investor Grievance	Member
Prof. Ravi Mazumdar	Biocon Limited	None	None
Dr. Neville Bain	Biocon Limited	Investor Grievance	Chairman
		Audit Committee	Chairman
Prof. Charles Cooney	Biocon Limited	Audit Committee	Member
Mr. Suresh Talwar	Blue Star Ltd.	Audit Committee	Chairman
	FCI OEN Connectors Ltd	Audit Committee	Chairman
	Merck Ltd.	Audit Committee	Chairman
	Sandvik Asia Ltd	Audit Committee	Chairman
	Biocon Limited	Audit Committee	Member
	Blue Star Infotech Ltd	Audit Committee	Member
	Beck India Ltd.	Audit Committee	Member
	Cadbury India Ltd.	Audit Committee	Member
	Solvay Pharma India Ltd	Audit Committee	Member
Dr. Bala S Manian	Biocon Limited	None	None

None of the Directors of the Company hold memberships of more than ten Committees nor any Director hold Chairmanship of more than five Committees of the Board of all companies where he holds Directorships.

*For this purpose, Memberships/Chairmanships in Audit Committee and Shareholders' Grievance Committee are reported and other Committees membership/chairmanship has not been included in the report.

Meetings and attendance record of directors

Dates for Board meeting in the ensuring year are decided in advance and published as part of the Annual Report. Board meetings are held at the registered office at Bangalore. The Company Secretary distributes the Agenda for each meeting along with the explanatory notes in advance to the directors. Every Board member is free to suggest item for inclusion on the agenda. The Board meets at least once a quarter to review the quarterly results and other items on the agenda. During the financial year ended 31st March 2006, Board of Directors met 4 times on 20th April, 2005, 20th July 2005, 19th October 2005 and 18th January 2006. The attendance of Directors at the Board meeting during the year and at the last Annual General Meeting is given below:

Name of the Director	No of Board meetings attended	Attendance at the last AGM
Dr. Kiran Mazumdar-Shaw	4	Yes
Mr. JMM Shaw	4	Yes
Prof. Ravi Mazumdar	2	Yes
Dr. Neville Bain	4	Yes
Prof. Charles Cooney	4	Yes
Mr. Suresh Talwar	4	Yes
Dr. Bala S Manian	4	Yes

Availability of information to the Members of the Board

The Information regularly supplied to the Board includes:

- Annual operating plans and budgets, Capital budgets and any updates.
- Quarterly results for our operating divisions or business segments.
- Minutes of meetings of audit committee, compensation committee, investors Grievance committee and Share transfer committees.
- The information on recruitment and remuneration of senior officers just below the board level, including the Company Secretary.
- General notice of interest.
- Dividend data.
- Show cause, demand, prosecution notices and penalty notices which are materially important.
- Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems.
- Any material default in financial obligations to and by the Company, or substantial nonpayment for goods sold by the Company.
- Any issue, which involves possible public or product liability claims of substantial nature
- Details of any joint venture, acquisition, technology or collaboration agreement.
- Transactions that involve substantial payment towards goodwill, brand equity, or Intellectual property.
- Significant development in Human Resources/ Industrial Relations front like signing of wage agreement, implementation of Voluntary Retirement Scheme etc.
- Sale of material nature, of investments, subsidiaries, assets, which is not in normal course of business.
- Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material.
- Non-compliance of any regulatory, statutory or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer etc.

Shareholding of Directors

Name of the Director	No. of shares held as on 31.3.2006	Stock Options Nos. (2000 plan)	Grant price (Rs)	Expiry date
Dr. Kiran Mazumdar-Shaw	39,643,782	-	-	-
Mr. JMM Shaw	703,779	-	-	-
Prof. Ravi Mazumdar*	649,357	-	-	-
Dr. Neville C Bain*	847,279	195,902	0.204	15.4.2006
Prof. Charles Cooney*	310,787	195,902	0.204	15.4.2006
Mr. Suresh N Talwar*	15,000	-	-	-
Dr. Bala S. Manian *	1,250	-	-	-

* Non- Executive Directors.

Re-appointment of Directors

The Directors, Mr. JMM Shaw and Prof. Ravi Mazumdar shall retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment. Their brief resumes and details of their other directorships and committee memberships, including their shareholding have already been provided in the Notice as well as in this report:

Code of Conduct

The Board has laid down a Code of Ethics and Business Conduct for all Board members, senior management and employees of the Company and is posted on the Website.

Certificate of Code of Conduct for the year 2005-06

Biocon Group is committed to conducting its business in accordance with the applicable laws, rules and regulations and with highest standards of business ethics. The Company has adopted a "Code of Ethics and Business Conduct" which is applicable to all director, officers and employees.

I hereby certify that all the Board Members and Senior Management have affirmed the compliance with the Code of Ethics and Business Conduct, under a certificate of Code of Conduct for the year 2005-06.

(Sd/-)
Dr. Kiran Mazumdar - Shaw
Chairman and Managing Director

Bangalore
March 31, 2006

Notice of interest by senior Management personnel

The Board has noted the notice by senior management disclosing all material financial and commercial transactions where they have personal interest.

3. Audit Committee:

Terms of Reference

The terms of reference of Audit Committee are as per the revised guidelines set out in the listing agreement with Stock Exchanges read with Section 292A of the Companies Act, 1956 and includes such other functions as may be assigned to it by Board from time to time. The Audit Committee has entrusted all required authority and powers to play an effective role as envisaged under revised clause 49 of the Listing Agreement.

Composition

The Board constituted the Audit Committee on 16th April 2001. The following directors are the current members of the Committee:

a) Dr. Neville Bain
b) Prof. Charles Cooney
c) Mr. Suresh Talwar (w.e.f. July 2003)

The members of the committee are non-executive and independent directors and possess sound knowledge of accounts, finance, audit and legal matters. Dr. Neville Bain is the Chairman of the Committee.

Meeting and attendance during the year

Name	No. of meetings held	No. of meetings attended
Dr. Neville Bain	4	4
Prof. Charles Cooney	4	4
Mr. Suresh Talwar	4	4

During the year 2005-06, the Committee met 4 times on 19th April, 05, 19th July, 05, 18th October, 05 and 17th Jan, 06. The Senior Management and Auditors were invited to attend the meeting of the Audit Committee and attended all meetings. The Company Secretary acts as the Secretary of the Audit Committee.

The Committee reviewed the financial results of the Company prepared in accordance with Indian GAAP (including consolidated results) and recommended the same to the Board of Directors for their adoption. The Committee also reviewed the consolidated financial results of the Company prepared in accordance with US GAAP as at and for the year ended March 31, 2006 and recommended the same to the Board of Directors for their adoption.

The Committee also recommended to the Board of Directors the re-appointment of M/s S.R.Batliboi & Associates Chartered Accountants, as Statutory Auditors of the Company from conclusion of 2006 Annual General Meeting to forthcoming Annual General Meeting.

The Committee also reviewed Internal Audit reports, Internal Control Systems, utilization of IPO proceeds, risk management policies, related party transaction, etc from time to time.

Subsidiary Companies

The Company has three subsidiary companies, Syngene International Pvt. Ltd, Clinigene International Pvt. Ltd and Biocon Biopharmaceuticals Pvt. Ltd, more so explained in the Directors Report. None of the Subsidiary companies represent more than 20% of turnover or net worth of Biocon Limited. However, two independent Directors of the Company are on the Board of Syngene International Pvt. Ltd.

The Audit committee of the Company also reviews the financial statements of the all the subsidiary companies. The minutes of the Board Meetings of subsidiary companies are placed at the Board Meetings of Biocon Limited and reviewed in detail.

CEO/CFO Certification

The Board has recognized Chairman and Managing Director of the Company as CEO and the President – Group Finance as the CFO for the limited purpose of Compliance under the Listing Agreement. The CEO and CFO have certified, in terms of revised clause 49 of the listing agreement, to the Board that the financial statements present a true and fair view of the company's affairs and are complaint with existing accounting standards, internal control and disclosures.

4. Remuneration Committee:

Terms of Reference

The terms of reference of the remuneration Committee, inter alia, include determination of compensation package of executive directors and senior management of the Company, determination and supervision the bonus scheme of the Company and to investigation of any activities within the terms of reference. The committee also oversees the employee stock option scheme and recommends the same for the approval of the Board/shareholders. The Committee is empowered to decide the eligibility of the category of employees and the terms and conditions of grants to be extended under the Employee Stock Option Plan schemes of the Company.

Constitution

The Board constituted the Remuneration Committee on 16th April 2001. The following directors are the current members of the Committee:

a) Prof. Charles Cooney
b) Dr. Neville Bain

The members of the committee are non-executive and independent directors. Prof. Charles Cooney is the Chairman of the Committee.

Meeting and Attendance during the year

During the year 2005-06, the Committee met 4 times on 19th April, 2005, 19th July, 2005, 18th October, 2005 and 17th January 2006 and all the members attended all the meetings.

Remuneration Policy

The remuneration policy of the Company is broadly based on the following criteria:

a) Job responsibilities
b) Key performance areas
c) Industry trend
d) Remuneration packages in other comparable companies for comparable positions.

Details of Remuneration

The details of remuneration and sitting fees paid or provided to each of the Directors during the year ended 31st March 2006 are given below:

Name of the Director	**Salary and perquisites Rs**					**Sitting Fees Rs**		
	Salary	**Perquisites**	**PF**	**Bonus**	**Total**	**Board Meeting**	**Audit Committee**	**Remuneration committee**
Dr. Kiran Mazumdar-Shaw	7,670,400	563,000	392,000	1,713,400	10,338,800			-
Mr. JMM Shaw	7,670,400	-	-	1,713,400	9,383,800			-
Prof. Ravi Mazumdar	-	-	-	-	-	40,000	-	
Dr. Neville Bain	-	-	-	-	-	80,000	80,000	20,000
Prof. Charles Cooney	-	-	-	-	-	80,000	80,000	20,000
Mr. Suresh Talwar	-	-	-	-	-	80,000	80,000	
Dr. Bala S. Manian	-	-	-	-	-	80,000		
Prof. Catherine Rosenberg (Alternate Director)	-	-	-	-	-	-	-	-

Of the Board Members, only Dr. Kiran Mazumdar Shaw and Mr. JMM Shaw are Executive Directors and others are Non- Executive Directors. In addition to the above the remuneration, Dr. Kiran Mazumdar Shaw and Mr. JMM Shaw are entitled to gratuity and leave encashment as per Company policy applicable to all employees.

Pecuniary relations or transactions of the Non-executive directors

There were no pecuniary relationship or transactions of non-executive directors vis- a-vis the Company which has potential conflict with the interests of the company at large. The Company has sought legal opinion from M/s Crawford Bayley & Co., on a need basis. Mr. Suresh Talwar, Director of the Company is partner in M/s Crawford Bayley & Co. Prof. Charles Cooney and Dr. Bala Manian are Chairman and member of the Scientific Advisory Board respectively. None of these transactions has any potential conflict of interest of the Company at large.

The transaction of Non- executive directors were disclosed to the Board and Board noted that all pecuniary relationship and transactions are non-material transactions and does not affect the independence of the Director.

The financial transactions with the Non-Executive Directors during the year were:

Name of the person	Designation	Nature of transaction	Amount (Rs)
Mr. Suresh Talwar	Director	Services availed from Crawford Bailey and Co. in which Mr. Suresh Talwar is a partner.	32,550/-
Prof. Charles Cooney	Director	Sitting fees for attending the two meetings of Scientific Advisory Board	20,000/-
Dr. Bala S Manian	Director	Sitting fees for attending two meetings of the Scientific Advisory Board	20,000/-

Compensation/Fees paid to Non Executive Directors

The Non-executive directors were paid sitting fees for attending the Board and Committee Meetings.

Dr. Neville Bain and Prof. Charles Cooney, who are non executive independent directors were granted stock options to purchase 195,902 shares each (adjusted for bonus issues and stock splits) in Biocon Limited, in the year 2002. Options for purchase of 48,976 shares each, had vested in 2003 and options for purchase of 97,952 shares each vested in 2005. The balance of 48,974 shares each were vested in the year 2006. All these options were exercised and the shares have been transferred.

Criteria for making payment to Non- Executive Directors

The role of non executive/independent Directors of the Company is not just restricted to corporate governance or outlook of the Company but to involve and contribute to the evolution of the Company. The non- executive and independent directors of the Company are eminent scientists, researchers, technocrats and professionals and some of the directors are members of Scientific Advisory Board of Company. The Company seeks their expert advice on various matters in science, technology, legal or IP. Hence the compensation to the non executive directors towards their professional services to the Company is recommended. Share holders' approval for payment of fees /compensation is sought in the ensuing Annual General Meeting.

5. Shareholders

Disclosure regarding appointment and re-appointment of directors

The details of resumes of all the directors who are retiring by rotation and being eligible, proposed to be re-appointed are provided in the Notice to the Annual General Meeting.

Investor Grievances Committee

Prior to the Initial Public offering of the Company, i.e. on 17th January 2004, the Board constituted this committee with the following members:

a) Dr. Neville Bain, Chairman
b) Dr. Kiran Mazumdar -Shaw
c) Mr. JMM Shaw

The Committee was formed to specifically redress the shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of dividends etc. Dr. Neville Bain, Chairman of the Committee is a non-executive and independent Director

During the year 2005-06, the Committee met 4 times on 19th April, 2005, 19th July, 2005, 18th October, 2005 and 17th January 2006 and all the members attended all the meetings.

The Board had also constituted a Share transfer Committee consisting of Dr. Kiran Mazumdar-Shaw, Chairman & Managing Director, Mr. JMM Shaw, Vice Chairman and Mr. K N Murali Krishnan, President Group - Finance of the Company to attend to the share transfer formalities, as and when required.

Compliance Officer

Ms. Usha T N, Company Secretary was designated as the Compliance Officer under SEBI (Disclosure and Investor Protection) Guidelines, 2000 for overseeing/ addressing the investor complaints.

Details of Shareholders Complaints

Details of the shareholders complaints received and redressed during the year:

No. Complaints Received	No. Complaints resolved	Pending
188	188	0

There have been no material grievances raised and all items referred have been dealt with. All the complaints were resolved to the satisfaction of shareholders. As on 31st March 2006, there were no pending complaints and no pending share transfers.

6. General Body Meetings

Location and Time of the General Body Meetings

Generally the Annual General Meetings of the Company are convened within four months of the close of the financial year. The details of the previous Annual General Meetings are as below:

Year	Date and Time	Venue	Special resolutions passed
2002-03	25th July 2003	Registered Office	Nil
2003-04	15th July 2004	Sathya Sai Samskruta Sadanam, No. 20, Hosur Road, Bangalore - 560 029	Nil
2004-05	20th July 2005	Sathya Sai Samskruta Sadanam, No. 20, Hosur Road, Bangalore - 560 029	Nil

There were no matters required to be dealt/ passed by the Company by special resolution or through postal ballot, as required under the provisions of Section 192A of the Companies Act, 1956.

Auditors' Certificate on Corporate Governance as required by revised Clause 49 of the Listing Agreement is given as an annexure to the Director's Report.

7. Disclosures

Related party transactions

There has been no materially significant related party transaction and pecuniary transactions that may have potential conflict with the interests of the Company at large. Audit Committee reviews periodically significant related party transactions i.e. transactions of the Company, which are of material nature, with it's subsidiaries, directors, or relatives or the management that may have potential conflict with the interests of the Company at large. Details are provided in Note 22 to the Notes forming part of the Accounts in accordance with provisions of Accounting Standard 18.

Details of non-compliance

There has been no non-compliance of any legal requirements nor have been any strictures imposed on the Company by Stock Exchanges or SEBI or any statutory authority on any matter related to capital markets during the last 3 years.

Whistle Blower policy

We have established a mechanism for employees to report concerns about unethical behavior, fraud or violation of code of conduct of the Company. The mechanism provided direct access to the Chairman of the Audit Committee for exceptional cases. All employees can also directly meet the Audit Committee members of the Company. The Whistle Blower Policy has been posted on the Intranet of the Company.

Compliance with non-mandatory requirements of clause 49 of the listing agreement

The Company has complied with the non –mandatory requirements to relating to remuneration committee and Whistle Blower policy to the extent detailed above and has not complied with other non-mandatory requirements.

Accounting Treatment

The Company's financial statements are prepared as per the guidelines of Accounting Standards and under both Indian GAAP and under US GAAP.

Risk Management

The Company has laid down procedures to inform Board Members about the risk assessment and minimization procedures. Audit Committee reviews the risk assessment and control process in the Company every quarter and is satisfied that the process is appropriate to the Company needs. The Board also periodically reviews the Risk assessment procedure and risk mitigation procedures laid down by the Company.

Utilization of Public Issue proceeds

The Company has raised Rs 315 crores through the Public issue for setting up new facilities to augment the submerged fermentation and chemical synthesis operation to support the growth objectives of the Company and consolidate the position in the market for these products. The Company has deployed the entire amount of money raised through the public issue for the purpose it has been raised.

Management Discussion and Analysis

This is given as a separate section in the Annual Report in accordance with both Indian GAAP and US GAAP financials.

8. Means of communication

The quarterly, half-yearly and yearly financial results will be sent to the Stock Exchanges immediately after the Board approves the same. These results will also be published in English and Kannada newspapers. In the year 2005-06 the results were published in Business Standards and Kannada Prabha.

The results along with presentations made by the Company to Analysts are also posted on the website of the Company viz. www.biocon.com and on the Electronic Data Information Filing and Retrieval (EDIFAR) website maintained by SEBI in association with the National Informatics Centre (NIC). The Company's website also displays all official news releases.

The Company organizes investor conference calls to discuss its financial results every quarter where investor queries are answered by the Executive Management of the Company. The transcripts of the conference calls are also posted on our website.

Management Discussion and Analysis has been done by the Directors and forms part of Directors Report.

9. General Shareholder' Information

i) Annual General Meeting:

Date and Time	:	19th July 2006 at 3.30 P.M.
Venue	:	Sathya Sai Samskruta Sadanam, No. 20, Hosur Road, Bangalore - 560 029

ii) Financial Calendar for 2006-07 : The following are tentative dates:

First Quarterly results	:	19th July 2006
Half-yearly Results	:	18th October 2006
Third Quarterly Results	:	18th January 2007
Annual results 2006-06	:	19th April 2007
AGM for the year 2006-07	:	18th July, 2007

iii) Dates of Book Closure	:	Saturday, 1st July 2006 to Wednesday, 19th July 2006 Both days inclusive
iv) Dividend payment date	:	On or after 19th July, 2006
v) Listing on Stock Exchanges	:	The National Stock Exchange of India Ltd Exchange Plaza, Bandra Kurla Complex Bandra (East), Mumbai - 400 051 and The Stock Exchange, Mumbai P J Towers, Dalal Street, Mumbai - 400 001 Listing is effective from 7th April 2004
vi) Stock Code/Symbol	:	NSE - BIOCON BSE – 532523

vii) International Securities Identification Number : INE 376G01013

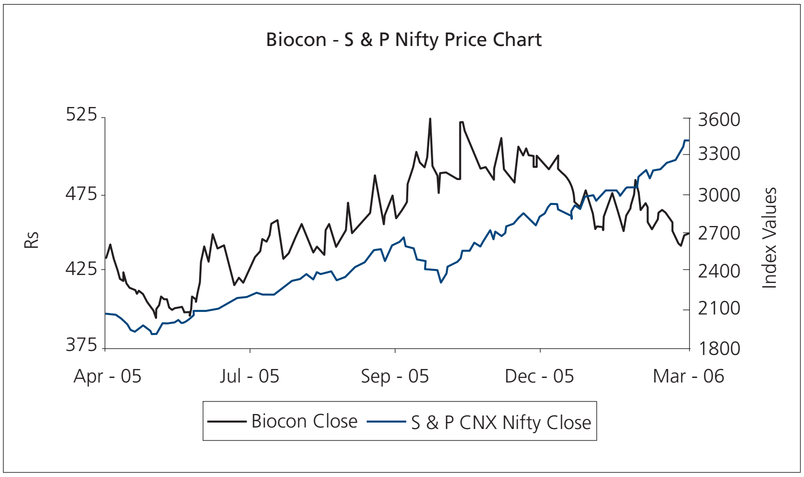
viii) Market Price data during 2005-06:

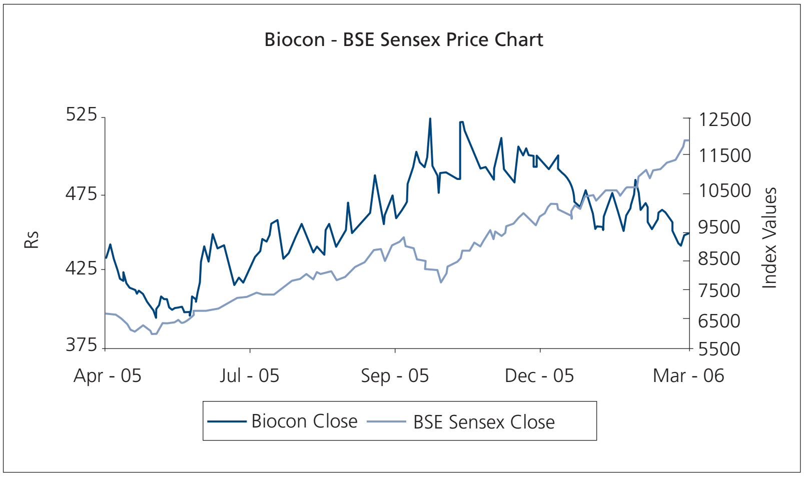
The monthly high/low prices of shares of the Company from April 1, 2005 to March 31, 2006 are given below:

Sl. No	Month	BSE			NSE		
		High(Rs)	Low(Rs)	Volume of Shares	High(Rs)	Low(Rs)	Volume of Shares
1	April-05	455.00	395.00	1268523	446.35	393.00	3,243,915
2	May-05	431.45	392.00	1143016	433.00	392.15	2,801,033
3	June-05	464.95	413.00	1025236	448.00	382.65	2,190,255
4	July-05	464.40	421.00	1090882	463.00	421.30	2,421,940
5	August-05	479.90	415.00	905600	479.00	432.50	1,970,603
6	September-05	503.50	441.05	996493	502.70	442.00	2,536,933
7	October-05	537.90	458.60	3669014	536.00	455.00	6,085,236
8	November-05	532.60	475.00	912437	525.90	460.00	1,834,788
9	December-05	517.90	450.90	2780977	518.00	477.00	2,505,402
10	January-06	505.00	450.00	3109520	504.90	456.50	1,698,552
11	February-06	488.70	440.10	678548	489.70	449.00	996,712
12	March-06	489.00	437.50	930174	497.95	435.00	1,519,402

ix) Relative movement chart

The chart below gives the relative movement of the closing price of the Company's share and the benchmark NSE Nifty/BSE Sensex relative to the closing price. The period covered is April 1, 2005 to March 31, 2006 The Biocon Management cautions that the stock price movement shown in the graph below should not be considered indicative of potential future stock price performance.





x) Registrar and Transfer Agents : Karvy Computershare Private Limited
Karvy House, 46, Avenue 4,
Street No. 1, Banjara Hills,
Hyderabad - 500 034

xi) Share Transfer System

The shares of the Company are traded in the Compulsory DEMAT mode for all investors. The Share Transfer Committee approves the transfer of shares in the physical form as per the time limits specified in the Listing Agreement.

xii) Distribution of the Shareholding

The distribution of shareholding as on 31st March 2006, pursuant to clause 35 of the listing agreement is as under:

A. Shareholding per category

Categories	No of Shares held	Percentage held
A) PROMOTERS' HOLDING		
1. Promoters		
- Indian Promoters	39,643,782	39.64
- Foreign Promoters	20,471,376	20.47
2. Persons acting in concert	780,415	0.78
Sub-total	**60,895,573**	**60.90**
B) NON PROMOTERS' HOLDING		
3. Institutional Investors		
- Mutual Funds and UTI	1,263,345	1.26
- Banks, FIs, Insurance Cos.	1,206,524	1.21
- Foreign Institutional Investors	11,511,364	13.98
Sub-total	**13,981,233**	**13.98**
4. Others		
a) Pvt. Corporate Bodies	1,123,419	1.12
b) Indian Public	15,114,337	15.11
c) NRIs	684,507	0.68
d) Any other		
i) Trusts	6,342,492	6.34
ii) HUF	193,884	0.19
iii) Clearing Members	69,494	0.07
iv) Directors(s)	1,174,316	1.17
v) Foreign Nationals	420,745	0.42
Sub-total	**25,123,194**	**25.12**
GRAND TOTAL	**100,000,000**	**100.00**

B. Distribution of shareholding by no. of shares

Distribution Schedule as on 31.3.2006

Shares of Nominal Value of	**No. of Shareholders**	**%**	**Total Shares**	**Share value (Rs)**	**% of Amount**
1 - 5,000	87,207	98.83%	6,594,822	32,974,110	6.59%
5,001 - 10,000	507	0.57%	751,099	3,755,495	0.75%
10,001 - 20,000	235	0.27%	664,634	3,323,170	0.66%
20,001 - 30000	71	0.08%	352,348	1,761,740	0.35%
30,001 - 40,000	30	0.03%	207,440	1,037,200	0.21%
40,001 - 50,000	21	0.02%	197,222	986,110	0.20%
50,001 - 100,000	55	0.06%	777,594	3,887,970	0.78%
100001 & Above	112	0.13%	90,454,841	452,274,205	90.45%
Total	88,238	100%	100,000,000	500,000,000	100%

xiii) Dematerialization of shares and liquidity
As on 31st March, 2006 294,224 shares (0.29%) of the shares of Company were in physical form.

Consequent to the IPO of 10% of the Company's paid-up capital, in March 2004, 20,000,000 shares held by the Promoters of Biocon, representing 20.00% of the total paid-up share capital, is locked in for 3 years from the date of allotment under the IPO, i.e. till 31st March 2007, as per the SEBI (DIP) Guidelines, 2000.

xiv) Outstanding GDRs/ ADRs/Warrants and convertible instruments, conversion date and likely impact on equity : Not applicable

xv) Plant locations
i) 20th KM, Hosur Road,
Electronic City P.O.
Bangalore - 560 100

ii) Plot No 113/C2,
Bommasandra Industrial Area,
Bommasandra, Bangalore - 560 09

iii) Biocon Park
Plot No 2, 3, 4 and 5
Bommasandra – Jigani Link Road
Bangalore – 560 099

xvi) Address for correspondence : Investor correspondence may be addressed to:
a) Usha T N, Company Secretary
(Compliance Officer)
Biocon Limited
20th KM, Hosur Road,
Electronic City,
Bangalore - 560 100

b) Karvy Computershare Private Limited
Karvy House, 46, Avenue 4,
Street No. 1, Banjara Hills,
Hyderabad - 500 034

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To
The Members of Biocon Limited

We have examined the compliance of conditions of corporate governance by Biocon Limited ('Company'), for the year ended on March 31, 2006, as stipulated in clause 49 of the Listing Agreement of the Company with stock exchanges.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

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

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

S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

Per Prashant Singhal
Partner
Membership No: 93283

Bangalore
April 20, 2006

AUDITORS' REPORT

To
The Members of Biocon Limited

1. We have audited the attached Balance Sheet of BIOCON LIMITED as at March 31, 2006 and also the Profit and Loss account and the Cash Flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

4. Without qualifying our opinion, we draw attention to Note 1(b) to the financial statements relating to the status and recoverability of the Company's investments in Nobex Inc., USA ('Nobex'). As more fully discussed in Note 1(b) to the financial statements, the Company had invested Rs 256 Million in the common stock and promissory notes of Nobex from October 2004 through December 31, 2005. As on December 1, 2005, Nobex had filed for bankruptcy under Chapter 11 of US Bankruptcy laws. The audit report for the three month period and nine-month period ended December 31, 2005 was modified as there was a uncertainty with respect to the Company's ability to recover its investments in Nobex from the monetization of intellectual properties.

Pursuant to the Company emerging as the winning bidder for the assets of Nobex at a bid value of US $ 5 Million the sale process for which is expected to be completed within April 2006, the Company is confidant that it would be able to commercialise the intellectual properties acquired and generate value in excess of its aggregate investments.

The ultimate realisability of the Nobex investments, including the current bid, is dependant on the Company's ability to successfully commercialise the Intellectual Properties and, accordingly, these financial statements do not include any adjustments from the outcome of this uncertainty.

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

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

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

iii. The Balance Sheet, Profit and Loss account and Cash Flow statement dealt with by this report are in agreement with the books of account.

iv. In our opinion, the Balance Sheet, Profit and Loss account and Cash Flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.

v. On the basis of the written representations received from the directors, as on March 31, 2006, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956

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

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2006;

(b) in the case of the Profit and Loss account, of the profit for the year ended on that date; and

(c) in the case of Cash Flow statement, of the cash flows for the year ended on that date.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No: 93283

Bangalore
April 20, 2006

ANNEXURE REFERRED TO IN PARAGRAPH 3 OF OUR REPORT OF EVEN DATE

Re: **Biocon Limited**

1. The Company has maintained proper records showing full particulars, including details and situation, of fixed assets, *however, is in the process of updating the quantitative records for certain fixed assets.* Fixed assets have been physically verified by the management during the year in accordance with a regular programme of verification, intended to cover all the fixed assets of the Company over a period of two years, which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. As informed, no material discrepancies were noticed on such verification. There was no substantial disposal of fixed assets during the year.

2. The management has conducted physical verification of inventory at reasonable intervals during the year. The procedures of physical verification of inventory (except for goods in bond and in transit) followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business. The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.

3. As informed, the Company has granted unsecured loans to two companies listed in the register maintained under section 301 of the Companies Act, 1956 ('the Act'). The maximum amount involved during the year was Rs 723 Million and the balance outstanding at March 31, 2006 was Rs 193 Million. In our opinion and according to the information and explanation given to us, the loan given to one of its subsidiary is interest free, the rate of interest for the other loan and other terms and conditions of the loans given by the Company during the year, are not prima facie prejudicial to the interest of the Company. Based on our audit procedures and the information and explanation made available to us, there is no overdue amount of the loan granted by the Company to the companies listed in the register maintained under section 301 of the Companies Act, 1956. The Company has not taken/granted any other loans from/to companies, firms or other parties listed in the register maintained under section 301 of the Act.

4. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas.

5. According to the information and explanations provided by the management, we are of the opinion that the particulars of contracts or arrangements referred to in section 301 of the Act, that need to be entered into the register maintained under section 301 have been so entered. In respect of transactions made in pursuance of such contracts or arrangements exceeding value Rupees five lakhs entered into during the financial year, because of the unique and specialized nature involved and absence of any comparable prices, we are unable to comment whether the transactions are made at prevailing market prices at the relevant time.

6. The Company has not accepted any deposits from the public.

7. In our opinion, the Company has an internal audit system, commensurate with the size of the Company and the nature of its business.

8. To the best of our knowledge and as explained, the Central Government has not prescribed the maintenance of cost records under clause (d) of section 209(1) of the Companies Act, 1956 for the products of the Company.

9. Undisputed statutory dues including provident fund, investor education and protection fund, or employees' state insurance, income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty, cess have generally been regularly deposited with the appropriate authorities *except for entry tax payable under Karnataka Tax on Entry of Goods Act, 1979.*

According to the information and explanations given to us, there were no undisputed dues in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other statutory dues which were outstanding, at the year end for a period of more than six months from the date they became payable *except for entry tax payable under Karnataka Tax on Entry of Goods Act, 1979 as follows :*

Name of the statute	Nature of dues	Amount (Rs)	Period to which the amount relates	Due Date	Date of Payment
Karnataka Tax on Entry of Goods Act, 1979	Entry tax on causing entry of notified goods in Karnataka	734,828	2004-2005	Due on 20th of following month	- -
Karnataka Tax on Entry of Goods Act, 1979	Entry tax on causing entry of notified goods in Karnataka	163,422	2005-2006	Due on 20th of the following month	- -

According to the records of the Company, the dues outstanding of income-tax , sales-tax, wealth-tax, service tax , custom duty, excise duty and cess on account of any dispute, are as follows:

Name of the statute	Nature of dues	Amount (Rs)	Period to which the amount relates	Forum where dispute is pending
The Central Excise Act, 1944	Dispute in classification of certain products	633,417*	1994-1995	Assistant Collector of Central Excise.
The Central Excise Act, 1944	Non-inclusion of freight in valuation of goods	3,986	2003-2004	Superintendent of Central Excise, Bangalore
The Central Excise Act, 1944	Non-inclusion of freight and insurance in valuation of goods	9,725	2003-2004	In process of application against demand notice
The Central Excise Act, 1944	Dispute regarding eligibility for notification benefit	1,491,438	2004-2005	Customs, Excise and Service Tax Appellate Tribunal Chennai
The Central Excise Act, 1944	Dispute regarding eligibility for notification benefit	1,513,846*	2004-2005	Customs, Excise and Service Tax Appellate Tribunal Chennai
Income-tax Act, 1961	Assessment year 1994-1995	2,076,607*	1993-1994	Order has been passed by the ITAT. The Company has filed an appeal before the High Court.
Income-tax Act, 1961	Assessment year 1995-1996	2,874,354*	1994-1995	Order has been passed by the ITAT. The Company has filed an appeal before the High Court.
Income-tax Act, 1961	Assessment year 1996-1997	2,951,633*	1995-1996	Order has been passed by the ITAT. The Company has filed an appeal before the High Court.
Income-tax Act, 1961	Assessment year 1997-1998	3,878,830*	1996-1997	Case referred by CIT (Appeals) to assessing officer for re-computing the tax payable. In addition, an order was passed by ITAT during the year and the Company is in the process of filing an appeal before the High Court.
Income-tax Act, 1961	Assessment year 1998-1999	4,040,002*	1997-1998	Case referred by CIT (Appeals) to assessing officer for re-computing the tax payable. In addition, an order was passed by ITAT during the year and the Company is in the process of filing an appeal before the High Court.

* These amounts were paid in protest.

10. The Company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in the current and immediately preceding financial year.

11. Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holders.

12. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

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

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

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

16. The Company did not have any term loans during the year.

17. According to the information and explanations given to us and on an overall examination of the balance sheet and cash flow statement of the Company, we report that no funds raised on short-term basis have been used for long-term investment.

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

19. The Company did not have any outstanding debentures during the year.

20. We have verified the end use of money raised by public issues is as disclosed in the notes to the financial statements.

21. Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No: 93283

Bangalore
April 20, 2006

BIOCON LIMITED

BALANCE SHEET - MARCH 31, 2006

(All amounts in Indian Rupees thousands)

	Notes	2006	2005 (Note 30)
SOURCES OF FUNDS			
Shareholders' Funds			
Share capital	3	500,000	500,000
Reserves and surplus	2(a), 2(m) & 4	7,530,435	6,459,384
		8,030,435	6,959,384
Loan Funds			
Secured loans	5	677,549	493,279
Unsecured loans	6	372,927	270,136
		1,050,476	763,415
Deferred Tax Liability	2(k) & 7	279,738	219,597
		9,360,649	**7,942,396**
APPLICATION OF FUNDS			
Fixed Assets	2(b), 2(c), 2(d), 2(j) 2(i), 8 & 17		
Cost		3,161,061	2,702,017
Less: Accumulated depreciation		882,938	653,721
Net book value		2,278,123	2,048,296
Capital work-in-progress [including capital advances of Rs 63,314 (March 31, 2005 -- Rs 47,417)]		4,564,301	3,100,026
		6,842,424	5,148,322
Investments	2(g) & 9	1,390,554	2,430,048
Current Assets, Loans And Advances			
Inventories	2(e) & 10	1,053,083	712,922
Sundry debtors	11	2,060,369	1,728,842
Cash and bank balances	12	20,035	34,201
Loans and advances	13	212,135	170,142
		3,345,622	2,646,107
Less: Current Liabilities And Provisions	2(h), 2(i),2(k), 2(g), 14 & 23	2,217,951	2,282,081
Net Current Assets		1,127,671	364,026
		9,360,649	**7,942,396**

The accompanying notes 1 to 30 form an integral part of this balance sheet

As per our report of even date
S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

For and on behalf of the Board of Directors

Prashant Singhal
Partner
Membership No: 93283

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Bangalore
April 20, 2006

Murali Krishnan K N
President - Group Finance

Usha T N
Company Secretary

BIOCON LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2006

(All amounts in Indian Rupees thousands, except share data including share price)

	Notes	2006	2005 (Note 30)
INCOME			
Gross sales		7,246,713	6,842,047
Less: Excise duty		371,789	378,423
Net sales	2(l) & 2(i)	6,874,924	6,463,624
Contract research fees	2(l) & 2(i)	-	1,474
Other income	15	56,911	156,513
		6,931,835	**6,621,611**
EXPENDITURE			
Manufacturing, contract research and other expenses	2(d), 2(h), 2(i), 2(j) 2(m), 2(o) & 16	5,077,718	4,535,670
Interest and finance charges	2(l) & 18	16,887	19,931
		5,094,605	**4,555,601**
PROFIT BEFORE DEPRECIATION AND TAXES		**1,837,230**	**2,066,010**
Depreciation	2(b) & 8	230,102	182,521
Less: Amount transferred from revaluation reserve	2(b) & 4	1,606	1,606
		228,496	180,915
PROFIT BEFORE TAXES		**1,608,734**	**1,885,095**
Provision for income-tax			
Current taxes	2(k) & 21	208,633	98,298
Deferred taxes	2(k) & 7	60,141	42,917
Fringe Benefits	21	5,130	-
NET PROFIT FOR THE YEAR		**1,334,830**	**1,743,880**
Balance brought forward from previous year		2,385,167	1,043,725
PROFIT AVAILABLE FOR APPROPRIATION		**3,719,997**	**2,787,605**
Proposed dividend on equity shares		250,000	200,000
Tax on proposed dividend		35,063	28,050
Transfer to general reserve		133,483	174,388
BALANCE, END OF THE YEAR		**3,301,451**	**2,385,167**
Earnings per share (equity shares, par value of Rs 5 each)			
Basic (in Rs)	2(m)	13.97	18.43
Diluted (in Rs)		13.79	18.00
Weighted average number of shares used in computing earnings per share			
Basic		95,567,448	94,597,811
Diluted		96,791,300	96,861,668

The accompanying notes 1 to 30 form an integral part of the profit and loss account.

As per our report of even date
S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

For and on behalf of the Board of Directors

Prashant Singhal
Partner
Membership No: 93283

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Managing Director

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April 20, 2006

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BIOCON LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2006

(All amounts in Indian Rupees thousands)

		2006	2005
I. CASH FLOWS FROM OPERATING ACTIVITIES :			
Net profit before tax		**1,608,733**	**1,885,095**
Adjustments for			
Add: Non cash item/items required to be disclosed separately:			
Depreciation	228,496		180,915
Unrealised exchange (gain)/loss	(9,198)		(2,802)
Amortisation of employee compensation cost	9,467		23,396
Provision for bad and doubtful debts	2,578		2,443
Interest expense	24,814		26,863
Interest income (gross)	(23,713)		(9,124)
Dividend earned (gross)	(22,076)		(112,811)
Gain on sale of investments	-		(250)
Gain on sale of investment in mutual funds	(1,835)		(1,612)
Gain on assets sold	(346)		-
Write back of provision	-		(13,185)
		208,187	93,833
Changes in working capital and other provisions			
Inventories	(340,162)		126,599
Sundry debtors	(329,854)		(573,973)
Loans and advances	(59,567)		44,900
Current liabilities and provisions (incl book overdraft)	(501,039)		75,817
		(1,230,622)	(326,657)
		(1,022,435)	(232,824)
Cash generated from operations		586,298	1,652,271
Tax paid (net of refunds)		(182,414)	(99,169)
Net cash provided by operating activities		403,884	1,553,102
II. CASH FLOWS FROM INVESTING ACTIVITIES :			
Fixed assets			
Purchase	(1,570,824)		(2,511,714)
Sale	500		-
Interest received	23,884		8,521
Dividend received	22,076		112,811
Loan to Subsidiary / Joint Venture Companies	(530,119)		(143,527)
Sale of investment	3,463,234		11,607,609
Purchase of investment			
Long term	(381,010)		(197,393)
Current	(1,510,775)		(13,556,370)
Net cash used for investing activities		(483,034)	(4,680,063)
III. CASH FLOWS FROM FINANCING ACTIVITIES :			
Short term borrowings from banks, net	183,500		20,384
Repayment of secured loans	-		(24)
Deferred sales tax credit	102,791		95,479
Dividend paid	(199,275)		(100,000)
Dividend tax paid	(28,050)		(12,813)
Interest paid	(24,979)		(26,886)
Movement in reserves of ESOP trust	13,423		5,450
Net cash used for financing activities		47,410	(18,410)
IV. NET CHANGE IN CASH AND CASH EQUIVALENTS (I+II+III)		(31,740)	(3,145,371)
V. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		34,201	3,175,114
VI. CASH AND CASH EQUIVALENTS OF THE ESOP TRUST ACQUIRED DURING THE YEAR		17,574	4,458
VII. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (IV + V + VI)		**20,035**	**34,201**

As per our report of even date

S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

For and on behalf of the Board of Directors

Prashant Singhal
Partner
Membership No: 93283

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Bangalore
April 20, 2006

Murali Krishnan K N
President - Group Finance

Usha T N
Company Secretary

BIOCON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2006

(All amounts in Indian Rupees and US Dollars in thousands, except share data including share price)

1. Background

a. Incorporation and history

Biocon Limited ('Biocon' or 'the Company'), promoted by Ms Kiran Mazumdar Shaw ('KMZ'), was incorporated at Bangalore in 1978 for manufacture of biotechnology products. On November 17, 2003, the name of the Company was changed from Biocon India Limited to Biocon Limited. The Company has its facilities at Hebbagodi and Bommasandra, Bangalore district, Karnataka and is engaged in manufacturing biotechnological products in the pharmaceutical and enzyme sectors through fermentation based technology and the Company has also made an entry into the formulations business.

In March 2002, the Company acquired 99.99 per cent of the share capital of Syngene International Private Limited ('Syngene'), a contract research Company. Syngene was also promoted and controlled by KMZ and the consideration for such acquisition was the issue of 202,780 equity shares of Biocon of Rs 10 each, determined on the basis of fair values as approved by the statutory authorities.

Also, the Company, on March 31, 2001, acquired 100 per cent equity of Clinigene International Private Limited ('Clinigene'), a Company that undertakes clinical research activities.

Biocon entered into an Agreement on February 22, 2002 to set up a Joint Venture Company, with CIMAB SA ('CIMAB'), a Company organised and existing under the laws of Cuba and engaged in research, development, manufacturing and marketing of Biopharmaceuticals, to manufacture and market products using technology and to carry out research activities. Accordingly, Biocon Biopharmaceuticals Private Limited ('BBPL') was incorporated on June 17, 2002 and, on April 18, 2003, Biocon acquired a 51 per cent shareholding in BBPL.

In March 2004, the Company completed an Initial Public Offering ('IPO') and made a fresh issue of 10,000,000 equity shares of Rs 5 each at a price of Rs 315 per share. Consequently, on April 7, 2004, the equity shares of the Company were listed on the National Stock Exchange of India and The Stock Exchange, Mumbai. The proceeds of the issue will be used for setting up the new facilities to augment the existing capacities for the submerged fermentation and chemical synthesis operations (collectively referred to as 'the Project').

The construction of the Project is almost complete, subject to the final commissioning and testing of the effluent treatment plant and certain pre-commissioning tests, which the Company expects to be completed during the quarter ending June 30, 2006. All direct costs related to such pre-commissioning tests are included in the Capital work-in-progress and would be capitalized with the Project. Further, proceeds, if any, from the sale of trial production resulting from such pre-commissioning tests; and/or profits, if any, from the transfer of the trial run production to the existing Biocon facility of these trial production have been reduced from Capital work in progress.

b. Investments in Nobex Inc., USA

The Company had entered into Research and Development Agreements and Investment Agreements with Nobex Inc., USA ('Nobex') [Refer Note 9(i)] to carry out joint research and development for Oral Insulin, Basil Insulin and Oral BNP on October 20, 2004 and April 25, 2005, respectively; and invested Rs 256 Million in the common stock and promissory notes from October 2004 through December 31, 2005. It has further paid Rs 13 Million towards licence fees for Oral Insulin and Rs 54 Million towards loan and security arrangement entered on December 1, 2005 to facilitate the orderly sale of asset. The investments of Rs 339 Million upto March 31, 2006 is reflected as investments (schedule 9).

As on December 1, 2005, Nobex had filed for bankruptcy under Chapter 11 of US Bankruptcy laws. Consequently, the audit report for the three month period and nine-month period ended December 31, 2005 was modified as there was uncertainty with respect to the Company's ability to recover its investments in Nobex from the monetization of intellectual properties.

Subsequently on March 20, 2006, the Company has emerged as the winning bidder for the assets of Nobex; including, without limitation, patents relating to certain technologies for Oral Insulin, Oral BNP and Basil Insulin, for a total consideration of US$ 5. Million. The Closing for the sale process is expected to be completed within April 2006; accordingly, the total commitment made by Biocon including investments already made aggregates to US$ 12 Million. Also, the Company has incurred Rs 21 Million of legal costs directly related to the acquisition of these patents upto March 31, 2006, and the same is included under capital work in progress.

Based on the joint product development programs carried on for the Oral Insulin and BNP since October 20, 2004 and April 25, 2005, respectively, the Company is confident that it would be able to commercialise the intellectual properties acquired from Nobex by the year 2012 and based on an expert independent opinion, believes the value of such monetized intellectual property over its economic life to be in excess of the total investments made by it/to be made in Nobex. The ultimate realisability of this investments cannot be presently determined and, accordingly, these financial statements do not include any adjustments.

2. Statement of significant accounting policies

a. Basis of preparation

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual basis. The accounting policies have been consistently applied by the Company are consistent with those used in the previous year. In accordance with the revised Employee Stock Option Scheme and Stock Purchase Guidelines 1999 ('SEBI guidelines') issued by SEBI, the Company has consolidated the Biocon India Limited Employee Welfare Trust ('ESOP Trust').

b. Fixed assets and depreciation

Fixed assets are stated at cost, except for revalued freehold land and buildings, which are shown at, estimated replacement cost as determined by valuers less impairment loss, if any, and accumulated depreciation. The Company capitalises all costs relating to the acquisition and installation of fixed assets.

Fixed assets, other than freehold land, but including revalued buildings, are depreciated pro rata to the period of use, on the straight line method at the annual rates based on the estimated useful lives.

	Per cent
Buildings	4.00
Plant and machinery	9.09 - 33.33
Research and development equipment	11.11
Furniture and fixtures	16.67
Vehicles	16.67

Leasehold land on a lease-cum-sale basis are capitalised at the allotment rates charged by the Municipal Authorities. Leasehold improvements are being depreciated over the lease term or useful time whichever lower.

The depreciation charge over and above the depreciation calculation on the original cost of the revalued assets is transferred from the revaluation reserve to the profit and loss account.

The above rates are higher than the rates prescribed under Schedule XIV of the Companies Act, 1956.

Assets individually costing less than Rs 5 are fully depreciated in the year of purchase.

c. Impairment of long-lived assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the income statement for items of fixed assets carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtained from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset, from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if not possible, for the cash generating unit. Impairment loss recognised for an asset in earlier accounting periods is reversed, to the extent of its recoverable amount, if there has been a change in the estimates of used to determine the asset's recoverable amount since the last impairment loss was recognised.

d. Intangibles

Goodwill

Goodwill is amortised over a period of 5 years and assessed for impairment at each balance sheet date.

Intellectual Property rights

Costs relating to intellectual property rights which are acquired are capitalized and amortized on a straight-line basis over their estimated useful lives or ten years whichever is lower.

Research and Development Costs

Research and development costs, including technical know-how fees, incurred for development of products are expensed as incurred, except for development costs which relate to the design and testing of new or improved materials, products or processes which are recognised as an intangible asset to the extent that it is expected that such assets will generate future economic benefits. Research and development expenditure of a capital nature is added to fixed assets. 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.

e. Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis and includes all applicable overheads in bringing the inventories to their present location and condition. Excise duty arising on finished goods and customs duty on imported raw materials in stock (excluding stocks in the bonded warehouse) are treated as part of the cost of inventories.

f. Revenue recognition

(i) Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and are recorded net of excise duty, sales tax and other levies. For the purposes of disclosure in these financial statements, sales are reflected gross and net of excise duty in the profit and loss account.

(ii) Contract research fees are recognized as services are rendered, in accordance with the terms of the contracts, in case of services performed on "time and material basis". Revenues relating to fixed price contracts are recognised based on the percentage of completion method.

g. Investments

Investments that are readily realisable and intended to be held for not more than 12 months are classified as current investments. All other investments are classified as long-term investments. Long term investments are stated at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments. Current investments are carried at lower of cost and fair value and determined on an individual investment basis.

h. Retirement benefits

The Company has schemes of retirement benefits for provident fund and gratuity in respect of which, the Company's contributions are charged to the profit and loss account. The contributions towards provident fund are made to statutory authorities. The gratuity and superannuation fund benefits of the Company are administered by a trust formed for this purpose through the group gratuity scheme with Birla Sun Life Insurance Company Limited ('Birla Sunlife'). In respect of gratuity, the liability is accrued based on an independent actuarial valuation at the year end. In respect of superannuation, the Company has accrued the liability, based on the schemes of the Company. The Company has discontinued the superannuation scheme during the period with effect from April 1, 2005.

i. Leave encashment

Liability for leave encashment is in accordance with the rules of the Company and is provided on the basis of an actuarial valuation performed by an independent actuary at the year end.

j. Foreign currency transactions

Initial Recognition

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

Conversion

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

Exchange Differences

Exchange differences arising on the settlement of monetary items or on the 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 recognised as income or as expenses in the year in which they arise except those arising from investments in non-integral operations.

Exchange differences arising on a monetary item that, in substance, form part of the Company's net investment in a non-integral foreign operation is accumulated in a foreign currency translation reserve in the financial statements until the disposal of the net investment, at which time they are recognised as income or as expenses.

Exchange differences relating to the acquisition of fixed assets are adjusted to the costs of the fixed assets.

Forward Exchange Contracts not intended for trading or speculation purposes

The premium or discount arising at the inception of forward exchange contracts is amortised as expense or income over the life of the contract. Exchange differences on such contracts are recognised 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 recognised as income or as expense for the year.

Foreign Currency Options Contracts not intended for trading or speculation purposes

The Company enters into foreign currency option contracts to hedge its risks with respect to realisation of future receivables. The costs of these contracts, if any, are expensed over the period of the contract.

The Company recognizes the loss/gain on the Expiry or Cancellation, whichever is earlier, of the Options Contracts.

k. Income tax

Tax expense comprises both current and deferred taxes. Current income- tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act. 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. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

l. Borrowing costs

Borrowing costs that are attributable to the acquisition and construction of a qualifying asset are capitalised as a part of the cost of the asset. Other borrowing costs are recognised as an expense in the year in which they are incurred.

m. Deferred employee stock compensation costs

Deferred employee stock compensation costs for stock options are recognised on the basis of generally accepted accounting principles and in accordance with the guidelines of Securities and Exchange Board of India, and, are measured as the excess of the fair value of the Company's stock on the stock options grant date over the amount an employee must pay to acquire the stock and recognised in a graded manner on the basis of weighted period of services over the vesting period of equity shares. The fair value of the options is measured on the basis of an independent valuation performed or the market price in respect of stock options granted.

n. Earnings per share

The earnings considered in ascertaining the Company's earnings per share comprise of the net profit after tax for the year. The number of shares used in computing the basic earnings per share is the weighted average number of shares outstanding during the year and are adjusted for bonus shares and sub-division of shares for all years presented in these financial statements. The number of shares used in computing diluted earnings per share comprises the weighted average share considered for deriving basic earnings per share, and also the weighted average number of shares, if any which would have been issued on the conversion of all dilutive potential equity shares.

The shares issued to the ESOP Trust have been considered as outstanding for basic earnings per share purposes, to the extent these shares have been allocated to the employees' pursuant to the ESOP scheme and are eligible for exercise. For dilutive EPS purpose, the shares, which are not yet eligible for exercise, have been considered as dilutive potential equity shares.

o. Operating lease

Where the Company is a Lessee:

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

Where the Company is a Lessor:

Assets subject to operating leases are included in fixed assets. Lease incomes are recognised on a straight line basis over the lease term. Costs, including depreciation are recognised as an expense. Initial direct costs such as legal costs, brokerage costs, etc are recognised immediately.

p. Segment reporting

Identification of segments:

The Company's operating businesses are organized and managed separately according to the nature of products manufactured/traded, with each segment representing a strategic business unit that offers different products to different markets. The analysis of geographical segments is based on the areas in which the Company's products are sold.

Intersegment Transfers:

The Company generally accounts for inter-segment sales and transfers at an agreed marked-up price.

Allocation of common costs:

Common allocable costs are allocated to each segment according to the relative contribution of each segment to the total common costs.

Unallocated items:

The Corporate and other segment includes general corporate income and expense items which are not allocated to any business segment.

q. 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 each balance sheet date and adjusted to reflect the current best estimates.

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3. Share capital	2006	2005
Authorised: 120,000,000 (March 31, 2005 -- 120,000,000) equity shares of Rs 5 each (March 31, 2005 -- Rs 5 each)	600,000	600,000
Issued, subscribed and paid-up: 100,000,000 (March 31, 2005 -- 100,000,000) equity shares of Rs 5 each (March 31, 2005 -- Rs 5 each), fully paid	**500,000**	**500,000**

(a) Of the above equity shares :

(i) 30,800 equity shares of Rs 100 each were allotted as fully paid bonus shares by capitalisation of general reserve in the year ended March 31, 1997.

(ii) 23,471 equity shares of Rs 100 each were allotted as fully paid-up shares in the year ended March 31, 2000 pursuant to a contract for consideration other than cash.

(iii) On October 8, 2001, the Company issued 12,153 equity shares of Rs 100 each to the ESOP Trust under an Employee Stock Option Plan ('ESOP Plan') and the ESOP Trust 350 equity shares of Rs 100 each from certain individuals.

(iv) On March 30, 2002, the Company acquired 99.9 per cent equity in Syngene through the issue of 202,780 equity shares of Rs 10 each. The consideration was determined on the basis of a fair valuation, as approved by the statutory authorities in India. The related share premium at Rs 403.8 per equity share has been credited to share premium account.

(v) On May 9, 2002, the Company has further issued 15,870 equity shares of Rs 10 each to the Trust under the ESOP Plan. The Trust on October 20, 2003 acquired 2,500 equity shares of Rs 10 each from certain individuals. The total shares issued to the Trust were 7,023,100 equity shares of Rs 5 each of which grants have been made for 3,822,039 equity shares of the Company under the ESOP Plan as at March 31, 2006. [Refer Note 19]

(vi) In March 2004, the Company made an IPO of 10,000,000 fresh equity shares of Rs 5 each at a price of Rs 315 per share.

(b) The shareholders at the Extraordinary General Meeting ('EGM') of the Company held on February 25, 2002, approved the sub-division of equity shares of face value of Rs 100 each into ten equity shares of face value of Rs 10 each. The Board of Directors in their meeting held on March 30, 2002 passed a resolution for effecting the sub-division. Subsequent to this sub-division, the authorised equity share capital of Rs 20,000 has been divided into 2,000,000 equity shares of Rs 10 each and the then issued, subscribed and paid-up capital of Rs 18,218 as at March 31, 2002 was divided into 1,821,780 equity shares of Rs 10 each.

(c) The shareholders at the EGM of the Company held on November 11, 2003, approved the sub-division of equity shares of face value of Rs 10 each into 2 equity shares of Rs 5 each and increase in authorised capital from Rs 20,000 to Rs 600,000. Subsequent to this sub-division, the authorised equity share capital of Rs 20,000 has been divided into 4,000,000 equity shares of Rs 5 each and the issued, subscribed and paid -up capital of Rs 18,377, has been divided into 3,675,300 shares of Rs 5 each.

(d) Further, the shareholders at the EGM of the Company held on November 11, 2003 approved the allotment of 86,324,700 equity shares of Rs 5 each as bonus shares in the ratio of 1 : 23.4877958 to the shareholders existing as on November 11, 2003, which was the approved record date for this purpose, by capitalisation of the balance in the profit and loss account of Rs 431,624.

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4. Reserves and surplus	2006	2005
Revaluation Reserve		
Balance, beginning of the year	14,302	15,908
Less: Transfer to profit and loss account	1,606	1,606
	12,696	14,302
Securities Premium		
Balance, beginning / end of the year	3,288,478	3,288,478
	3,288,478	3,288,478
ESOP trust		
Dividend and interest income, net	18,874	5,450
General Reserve		
Balance, beginning / end of the year	688,793	514,405
Add: Transfer from Profit and Loss Account	133,483	174,388
	822,276	688,793
Stock compensation adjustment (See note 2(k) & 19)		
Stock options outstanding	94,129	94,788
Deletions during the year	2,339	659
	91,790	94,129
Less: Deferred employee stock compensation expense	5,130	16,935
	86,660	77,194
Balance in profit and loss account	3,301,451	2,385,167
	7,530,435	**6,459,384**

(i) Share premium includes an amount of Rs 81,881 received on the allotment of 202,780 equity shares of Rs 10 each on March 30, 2002 at a premium of Rs 403.8 per equity share (See note 3(a) (iv) (vi) and Rs 3,100,000 received on the allotment of 10,000,000 equity shares pursuant to the Company's IPO in March 2004 [See Note 3 (a) (vi)].

(ii) Deferred employee stock compensation expense (see Note 19):	2006	2005
Stock compensation expense outstanding	16,935	40,990
Stock options cancelled/forfeited during the year	2,339	659
Stock compensation expense amortised during the year	(9,467)	(23,396)
Closing balance of deferred employee stock compensation expense	**9,808**	**18,253**

(iii) The Company on November 11, 2003, issued 86,324,700 bonus shares of Rs 5 each through capitalisation of the balance in the profit and loss account to the extent of Rs 431,624.[See note 3(d)]

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5. Secured loans	2006	2005
From banks		
Cash credit, packing credit, etc.	677,549	493,279
	677,549	**493,279**

(a) Cash credit, packing credit, etc

(i) On May 10, 2004, the Company renewed its total rupee and foreign currency denominated fund based working capital facilities with State Bank of India ('SBI') of Rs 200,000. These facilities are repayable on demand, secured by a pari-passu first charge on current assets and carry an interest rate of 2 to 6 per cent per annum for foreign currency denominated loans and 7 to 13 per cent per annum for rupee loans. The Company has utilised Rs 130,007 (March 31, 2005 -- Rs 41,567) as of March 31, 2006 inclusive of foreign currency loans of Rs 128,856 (US$ 2,897) (March 31, 2005 -- Rs 41,245) (US$946) as of March 31, 2006.

(ii) On August 23, 2004, the Company renewed its fund and non fund based working capital facilities with Hongkong and Shanghai Banking Corporation ('HSBC') for Rs 545,000. These facilities are repayable on demand, secured by pari-passu first charge on current assets of the Company and carry an interest rate of 2 to 6 percent per annum for foreign currency denominated loans and 5 to 15 per cent per annum for rupee loans. The Company has utilised fund based limits of Rs 239,405 (March 31,2005 -- Rs 305,340) inclusive of foreign currency denominated loans of Rs 218,419 (US$ 4,910) [March 31, 2005 -- Rs 305,340 (US$ 7,000)] as of March 31, 2006.

(iii) On August 26, 2004, the Company renewed its working capital facilities with Canara Bank ('CB') for Rs 200,000. These facilities are repayable on demand, secured by a pari-passu first charge on current assets of the Company and carry an interest rate of 2 to 6 per cent for foreign currency denominated loans and 7 to 12 per cent per annum for rupee loans. The Company has utilised Rs 114,586 (March 31, 2005 -- Rs 15,512) as of March 31, 2006 inclusive of foreign currency denominated loans of Rs 112,116 (US$ 2,521) [March 31, 2005 -- Rs 14,451 (US$ 331)].

(iv) On March 7, 2005, the Company renewed its working capital facility with Export Import Bank ('EXIM Bank') for Rs 310,000. These facilities are repayable on demand, secured by a pari-passu first charge on current assets of the Company and carry an interest rate of 2 to 4 per cent for foreign currency denominated loans and 7 to 12 per cent per annum for rupee loans. The Company has not drawn any amounts at March 31, 2006 and at March 31, 2005.

(v) On November 5, 2004, the Company renewed its fund and non fund based working capital facility with ABN Amro Bank for Rs 230,000. These facilities are repayable on demand, secured by a pari passu second charge on the fixed assets of the Company and carry an interest rate of 2 to 6 per cent for foreign currency denominated loans and 7 to 12 per cent per annum for rupee loans. The Company has utilised Rs 193,551 (March 31, 2005 - Rs 130,860) inclusive of foreign currency denominated loans of Rs192,262 (US$ 4,322) [March 31, 2005 -- Rs 130,860 (US$3,000)] as of March 31, 2006.

(vi) On August 10, 2005 all the above banks have entered into an inter-se agreement for operational convenience for the above working capital limits effecting the modification of the above charge and creation of a pari passu charge on the current assets of the Company in favour of all the above banks.

6. Unsecured loans	2006	2005
Deferred payment liability	371,517	270,136
NMITLI - CSIR Loan	1,410	-
	372,927	**270,136**

(i) Under the Industrial Policy of the Government of Karnataka, the Company on November 18, 2000 obtained an order from the Karnataka Sales Tax Authority for allowing deferment of sales tax (including turnover tax) for a period upto 8 years with respect to sales from its Bommasandra manufacturing facility for an amount not exceeding Rs 24,375. As at March 31,2006 the Company has utlised Rs 1,050 (March 31, 2005 -- Rs 929).

(ii) Under the Agro Food Processing Industrial Policy of the Government of Karnataka, the Company on November 18, 2000 obtained an order from the Karnataka Sales Tax Authority for allowing deferment of sales tax (including turnover tax) for a period upto 12 years with respect to sales from its Hebbagodi manufacturing facility for an amount not exceeding Rs 648,938. As at March 31, 2006, the Company has utilised Rs 370,467 (March 31, 2005 -- Rs 269,207).

(iii) On March 31, 2005, the Company entered into an agreement with the Council of Sceintific and Industrial Research ('CSIR'), for an unsecured loan of Rs 4,030 for carrying out part of the research and development project under the New Millenium Indian Technology Leadership Initiative ('NMITLI') Scheme. The first instalment of Rs 1,410 (March 31, 2005 - Rs Nil) was released on signing the agreement. The second and third instalment of Rs 1,410 and Rs 1,210 will be released after one year and two years respectively from the date of the agreement. The loans are repayable over 10 annual equal installments starting from October 1, 2008 and carry an interest rate of 3 percent per annum.

7. Deferred tax liability	Deferred tax (asset)liability as at April 1, 2005	Current year charge/ (credit)	Defferred tax (asset) liability as at March 31, 2006
Depreciation	237,756	65,642	303,398
Employee retirement benefits	(12,410)	(4,632)	(17,042)
Provisions for doubtful debts	(5,642)	(868)	(6,510)
Others	(107)	(1)	(108)
	219,597	**60,141**	**279,738**
Year ended March 31, 2005	176,680	42,917	219,597

(i) The Company effective August 26, 2003 received approval from the Cochin Special Economic Zone for the setting up of a 100 percent Export oriented Unit ('EOU') for the manufacture and export of all types of statins on which, the Company claims exemption under section 10B of the Income-tax Act, 1961 ('IT Act')

(ii) In accordance with the provisions of section 10B of the IT Act, effective August 26, 2003, the Company can avail of a tax deduction in respect of 100 per cent of all export income derived from the export sales arising out of its EOUs. Accordingly, the Company, has not recognised any additional deferred tax liability for this EOU as it expects the timing differences originating in this period to reverse out during the tax holiday period.

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8. Fixed assets

	Balance at the beginning of the year	Additions during the year	Deletions during the year	Balance at the end of the year
Cost/Valuation				
Land				
Freehold (revalued)	8,967	-	-	8,967
Freehold (others)	52,088	-	-	52,088
Leasehold	169,950	-	-	169,950
Buildings (revalued)	16,561	-	-	16,561
Buildings (others)	401,289	22,878	-	424,167
Leasehold improvements	-	3,191	-	3,191
Plant and machinery	1,697,659	227,879	-	1,925,538
Research and development equipment	311,228	197,241	-	508,469
Furniture and fixtures	34,567	6,399	-	40,966
Vehicles	9,708	2,494	1,038	11,164
	2,702,017	**460,082**	**1,038**	**3,161,061**
Year ended March 31, 2005	1,912,290	789,727	-	2,702,017
Accumulated depreciation				
Buildings (revalued)	11,226	2,409	-	13,635
Buildings (others)	61,535	15,482	-	77,017
Leasehold improvements	-	159	-	159
Plant and machinery	485,054	168,975	-	654,029
Research and development equipment	77,976	35,454	-	113,430
Furniture and fixtures	14,198	5,752	-	19,950
Vehicles	3,732	1,870	884	4,718
	653,721	**230,101**	**884**	**882,938**
Year ended March 31, 2005	471,200	182,521	-	653,721
Net book value				
Land				
Freehold (revalued)	8,967			8,967
Freehold (others)	52,088			52,088
Leasehold	169,950			169,950
Buildings (revalued)	5,335			2,926
Buildings (others)	339,754			347,150
Leasehold improvements	-			3,032
Plant and machinery	1,212,605			1,271,509
Research and development equipment	233,252			395,039
Furniture and fixtures	20,369			21,016
Vehicles	5,976			6,446
	2,048,296			**2,278,123**
Year ended March 31, 2005	1,441,090			2,048,296

Notes:
(a) Certain freehold land and buildings were revalued on November 1, 1994, based on the estimated replacement cost after considering depreciation upto that date, as per valuers reports and the resultant surplus of Rs 34,529 was credited to revaluation reserve. Of this reserve, Rs 21,833 (March 31, 2005 -- Rs 20,227) has been transferred to the profit and loss account for depreciation on these assets or adjustd on the sale of these assets.

(b) The Company has adjusted net foreign exchange losses of Rs 867 (March 31, 2005 -- Rs Nil) in capital work in progress / fixed assets capitalised during the year

(c) On December 5, 2002, Karnataka Industrial Areas Development Board ('KIADB') allotted land aggregating 26.75 acres to the Company for Rs 64,200 on a lease-cum sale basis for a period of 6 years. In addition, during the year ended March 31, 2005, the Company acquired an additional 41.25 acres of land for Rs 99,417 from KIADB. One of the key conditions include commencement of commercial operations by the Company within 24 months of taking possession, which the Company believes has been complied with by the commencement of operations by Syngene on this land on October 21, 2004. During the quarter ended June 30, 2005, the Company has paid an advance of Rs 56,320 towards allotment of additional 22 acres of land, offered to the Company by KIADB on December 20, 2003. The Company has received the possession certificate from KIADB in January 2006 and is in the process of getting the land registered.

(d) The Company has taken a house property on lease for a term of 10 years at a monthly rental of Rs 15. from P K Associates. The Company has incurred an amount of Rs 3,191 on the leasehold improvements on this house property (Refer Note 22)

9. Investments	2006	2005
Long term investments (At cost)		
A) Non trade:		
Unquoted		
National Savings Certificates	13	13
	13	13
B) Trade investment:		
In subsidiary companies:		
Unquoted and fully paid up		
50,000 (March 31, 2005 -- 50,000) equity shares of Rs 10 each of Clinigene	500	500
2,874,830 (March 31, 2005 -- 2,874,830) equity shares of Rs 10 each of Syngene	84,328	84,328
In Joint Venture Company:		
Unquoted and fully paid up		
4,488,000 (March 31, 2005 - 2,244,000) equity shares of Rs 10 each of BBPL	44,880	22,440
Advance towards share capital	22,440	-
Inter corporate deposits to Subsidiary / Joint Venture Companies	722,822	192,703
In Other Companies:		
Unquoted and fully paid up		
3% Convertible Promissory Note of US$ 5,150,000 (March 31, 2005 - US$ 1,000,000) in Nobex Corporation, USA [Refer Note 1(b) and (i) below]	226,274	43,966
3% Series B Convertible Promissory Note of US$ 3,000,000 (March 31, 2005 - US$ 1,000,000) in Vaccinex Inc., USA	131,930	44,735
2,000,000 (March 31, 2005 - 2,000,000) Common Stock at US$ 0.50 each, fully paid, par value US$ 0.001 each of Nobex Corporation, USA [Refer Note 1(b) and (i) below]	45,640	45,640
645,161 (March 31, 2005 - 645,161) Series B1 Preferred Stock at US$ 1.55 each, fully paid, par value US $0.01 each of Vaccinex Inc., USA	45,100	45,100
Advance to Nobex Corporation, USA [Refer Note 1(b) and (i) below]	66,627	-
	1,390,541	479,412

(i) (a) On December 1, 2005 Nobex has filed for bankruptcy under Chapter 11 of the US Brankruptcy laws, the status of the bankruptcy proceedings and the recoverability of the investments is more fully discussed in Note 1(b).

(b) The Company has entered into an 'Investment Agreement' with Nobex Corporation, USA ('Nobex') on October 20, 2004 to invest an amount of US$ 3.3 Million (US$ 1 Million in Common Stock and US$ 2.3 Million in Convertible Promissory Notes). Further, the Company has entered into a 'Oral Insulin Joint Product Development Agreement' for development and commercialization of the Oral Insulin Product. In addition, Biocon will get the warrants of US$ 4.4 Million convertible into US$ 3.3 Million worth of common stock.As on March 31, 2006, the Company has invested Rs 45,640 (US$ 1 Million) (March 31, 2005 - US$ 1 Million) towards purchase of common stock, an amount of Rs 87,698 (US$ 2.00 millon) (March 31, 2005 - US$ 1.0 Million) towards the convertible promissory note and has received the warrants entitling it to subscribe for 1.33 Million common stock at an exercise price of US$ 0.75 each.

(c) The Company has also entered into an 'Investment Agreement' with Nobex Corporation, USA on April 25, 2005 to invest an amount of US$ 3.15 Million in Convertible Promissory Notes. Further, the Company has entered into an 'BNP Joint Product Development Agreement' for development and commercialization of the Oral BNP Product. As on March 31, 2006 the Company has invested Rs 138,576 (US$ 3.15 Million) towards purchase of the convertible promissory notes. Further, the Company has paid Rs 12 Million towards license fee for distribution rights of Oral Insulin on its commercialization ; and consequent to the filing of the bankruptcy charge under Chapter 11 of the US Bankruptcy laws, the Company has agreed to be a debtor in possession to facilitate the orderly sale of assets of Nobex and committed to fund Nobex for a total sum of USD 1.4 Million under the Loan and Security Agreement ('the agreement') dated December 1, 2005. This amount shall be fully recovered on first priority basis against the sale of assets of Nobex. As on March 31, 2006, the Company has funded a sum of Rs 54 Million (Refer Schedule 13).

(ii) The Company has entered into a 'Securities Purchase Agreement' with Vaccinex Inc., USA ('Vaccinex') on November 3, 2004 to invest an amount of US$ 4 Million (US$ 1 Million in Series B1 Convertible Preferred Stock and US$ 3 Million in Series B Convertible Promissory Notes). Further, the Company has entered into a 'Research and Collaboration Agreement' to discover, develop, and commercialize human therapeutic monoclonal antibodies. As on March 31, 2006 the Company has invested Rs 45,100 (US$ 1 Million) in the convertible preferred stock and an amount of Rs 131,930 (US$ 3 Million) in the convertible promissory note.

Vaccinex has incurred a loss of US$ 5.5 Million for the year ended December 31, 2005. In addition, the networth of Vaccinex is fully eroded at the balance sheet date. Further, Vaccinex has budgeted its funding requirements over a period of next three years to commence its development plan As Vaccinex is a development stage enterprise and of strategic importance to the Company, it believes that there is no permanent dimunition in the value of this investment. In accordance with Accounting Standard - 9, considering the above, the Company has not recognised interest income accrued on the promissory notes.

(iii) Clinigene, incorporated on August 4, 2000, is engaged in undertaking clinical research activities and has entered into contracts with domestic and international companies to undertake research activities with respect to chronic diseases and a 100 per cent subsidiary of the Company. In the current period, Clinigene has incurred losses of Rs 11,109 (March 31, 2005 - Rs 29,453) resulting in a negative net worth of Rs 61,255 (March 31, 2005 - Rs 50,146) at March 31, 2006. In addition, the Company has granted a long term unsecured interest free loan of Rs 261,625 (March 31, 2005 - Rs 90,138) repayable within 6 years to Clinigene to fund its operations [(See Note 13 (i)]. The management of Clinigene is making aggressive marketing efforts to expand its clinical research activities. The Company believes that this dimunition in the value of its investment is only temporary and efforts for certain financial restructuring is in progress, accordingly, no provision is made in these financial statements.

(iv) BBPL is a 51% joint venture between the Company and CIMAB SA, engaged in research, development, manufacturing and marketing of Biopharmaceuticals. At March 31, 2006, the aggregate amount of Biocon's interest in the assets and liabilities of BBPL is Rs 354,881 (March 31, 2005 - Rs 70,901) and Rs 86,201 (March 31, 2005 - Rs 9,484) respectively. Further, the Company has granted a long term loan of Rs 461,197 (March 31, 2005 - Rs 102,565 to fund the operations of BBPL and charged interest on all such funding. [See Note 22 and 13(ii)]. On March 31,2006, the Company has made an advance of Rs 22,440 towards share application money and has subsequently, on April 1, 2006 been allotted equity shares against the said advance. As BBPL is in the development stage, the management believes that there is no permanent dimunition in the value of its investment.

Other Investments	**2006**	**2005**
C) Current and unquoted (at lower of cost and fair market value)		
Nil units (March 31, 2005-- 8,511,266) of Rs 10 each in HSBC Cash Fund [Market Value Rs Nil (March 31, 2005 -- Rs 85,241)]	-	85,241
Nil units (March 31, 2005 -- 4,085,713) of Rs 10 each in CanLiquid Fund [Market Value Rs Nil (March 31, 2005 -- Rs 41,025)]	-	41,025
	-	126,266
The following investments were purchased and sold during the year		
Purchase and Sale of Nil units (March 31, 2005 - 1,874,055) of Rs 10 each in ING Vysya Liquid Fund	-	20,190
Purchase and Sale of Nil units (March 31, 2005--3,022,418) of Rs 10 each in DSP Merrill Lynch Fund	-	30,254
Purchase and Sale of Nil units (March 31, 2005--3,730,184) of Rs 10 each in LIC Liquid Fund	-	40,245
Purchase and Sale of Nil units (March 31, 2005--3,019,010) of Rs 10 each in Principal Asset Management Fund	-	30,201
Purchase and Sale of Nil units (March 31, 2005--30,912) of Rs 1,000 each in Franklin Templeton Fund	-	40,246
Purchase and Sale of 7,691 units (March 31, 2005--Nil) of Rs 10 each in Canara Bank Mutual Fund	77	-
Purchase and Sale of 2,501,525 units (March 31, 2005--Nil) of Rs 10 each in ABN Amro Mutual Fund	25,015	-
Purchase and Sale of Nil units (March 31, 2005--945,539) of Rs 10 each in HDFC Management Fund	-	10,057
Purchase and Sale of Nil units (March 31,2005--3,017,595) of Rs 10 each in IL&FS Liquid Fund	-	30,176
Purchase and Sale of 53,517,483 units (March 31, 2005 - 125,626,849) units of Rs 10 each in HSBC Cash Fund	535,475	1,287,407
D) Current and unquoted (at lower of cost and fair market value), from IPO funds		
Nil units (March 31, 2005 -- 4,169,132) of Rs 10 each in Birla Cash Manager [Market Value Rs Nil (March 31, 2005 -- Rs 41,698)]	-	41,698
Nil units (March 31, 2005 -- 5,012,424) of Rs 10 each in ABN Amro Liquid Fund [Market Value Rs Nil (March 31, 2005 -- Rs 50,124)]	-	50,124
Nil units (March 31, 2005 -- 5,227,376) of Rs 10 each in Can Liquid Fund [Market Value Rs Nil (March 31, 2005 -- Rs 52,488)]	-	52,488
Nil units (March 31, 2005 -- 10,393,287) of Rs 10 each in Grindlays Cash Fund [Market Value Rs Nil (March 31, 2005 -- Rs104,040]	-	104,007
Nil units (March 31, 2005 -- 20,000,867) of Rs 10 each in HSBC Cash Fund [Market Value Rs Nil (March 31, 2005 -- Rs 200,329)]	-	200,090
Nil units (March 31, 2005 -- 5,208,656) of Rs 10 each in ING Vysya Liquid Fund [Market Value Rs Nil (March 31, 2005 -- Rs 52,253)]	-	52,220
Nil units (March 31, 2005 -- 30,495,573) of Rs 10 each in Kotak Mutual fund [Market Value Rs Nil (March 31, 2005 -- Rs 305,880)]	-	305,724
Nil units (March 31, 2005 -- 8,060,298) of Rs 10 each in LIC Liquid Fund [Market Value Rs Nil (March 31, 2005 -- Rs 87,592)]	-	87,085
Nil units (March 31, 2005 -- 22,711,805) of Rs 10 each in Prudential ICICI Liquid Plan [Market Value Rs Nil (March 31, 2005 -- Rs 269,313)]	-	269,313
Nil units (March 31, 2005 -- 11,584,659) of Rs 10 each in Principal Cash Management Fund [Market Value Rs Nil (March 31, 2005 -- Rs 115,862]	-	115,862
Nil units (March 31, 2005 -- 32,650,510) of Rs 10 each in Reliance Liquid Fund [Market Value Rs Nil (March 31, 2005 -- Rs 498,889)]	-	498,831
Nil units (March 31, 2005 -- 42,129) of Rs 1000 each in TATA Liquid Fund [Market Value Rs Nil (March 31, 2005-- Rs 47,304)]	-	46,915
	-	1,824,357
	-	1,950,623
	1,390,554	**2,430,048**

The following investments were purchased and sold during the year - for the IPO funds	2006	2005
Purchase and Sale of 5,449,794 units (March 31, 2005 -- 37,507,795) of Rs 10 each in Birla Cash Manager	54,516	375,318
Purchase and Sale of 18,584 units (March 31, 2005 -- 61,517,500) of Rs 10 each in Can Liquid Fund	187	617,750
Purchase and Sale of 5,454,256 units (March 31, 2005 -- 45,067,411) of Rs 10 each in Deutsche Insta Cash Plus Fund	56,184	454,489
Purchase and Sale of Nil units (March 31,2005--29,502,924) of Rs 10 each in DSP Merrill Lynch Liquidity Fund	-	354,014
Purchase and Sale of 24,690 units (March 31,2005-- 40,917,600) of Rs 10 each in Grindlays Cash Fund	246	409,472
Purchase and Sale of Nil units (March 31, 2005-- 8,543,943) of Rs 10 each in HDFC Cash Management Fund	-	90,845
Purchase and Sale of 14,660,189 units (March 31,2005--141,237,540) of Rs 10 each in HSBC Cash Fund	146,808	1,439,750
Purchase and Sale of 4,088,839 units (March 31, 2005--26,320,956) of Rs 10 each in ING Vysya Liquid Fund	40,961	271,420
Purchase and Sale of 5,594,845 units (March 31, 2005--324,23,604) of Rs 10 each in JM High Liquidity Fund	56,041	324,601
Purchase and Sale of Nil units (March 31, 2005--1,411,911) of Rs 1,000 each in Franklin Templeton Mutual Fund	-	1,550,323
Purchase and Sale of 465,086 units (March 31, 2005--21,679,401)of Rs 10 each in Kotak Mutual Fund	4,828	240,820
Purchase and Sale of 39,884 units (March 31, 2005--16,451,017) of Rs 10 each in LIC Mutual Fund	434	178,018
Purchase and Sale of 189,082 units (March 31, 2005--42,492,920) of Rs 10 each in ICICI Prudential Fund	2,226	503,651
Purchase and Sale of 5,570,786 units (March 31, 2005--29,889,448) of Rs 10 each in Principal Cash Management Fund	55,783	298,975
Purchase and Sale of 719 units (March 31, 2005--27,164,543) of Rs 1,000 each in TATA Liquid Fund	1,565	353,512
Purchase and Sale of 16,193,474 units (March 31,2005--55,083,311) of Rs 10 each in Reliance Liquid Fund	215,554	841,352
Purchase and Sale of 7,223 units (March 31, 2005--10,025,245) of Rs 10 each in ABN AMRO Liquid Fund	72	100,252
Purchase and Sale of 31,421,615 units (March 31, 2005--167,762,418) of Rs 10 each in Reliance Fixed Maturity Plan	314,220	1,712,490

Included under inter corporate deposits are amounts due from:		
(i) Subsidiary Company		
Clinigene	261,625	90,138
Maximum amount outstanding at any time during the period /year	261,625	90,138

The Company has entered into an agreement with Clinigene, for an interest-free loan not exceeding Rs 300 Million, to support its operational costs and capital expenditure and repayable over a period of 6 years.

(ii) Joint Venture Company		
Biocon Biopharmaceuticals Private Limited	461,197	102,565
Maximum amount outstanding at any time during the year	472,221	102,565

The Company has entered into an agreement with BBPL, for an unsecured loan not exceeding Rs 900 Million and carrying an interest rate of 6 per cent per annum, to support its operational costs and capital expenditure and repayable over a period of 5 years from the date of commercialisation of its project.

10. Inventories

Raw materials	431,014	309,429
Goods-in-bond / goods-in-transit (Raw materials)	23,050	16,119
Packing materials	7,896	4,242
Work-in-progress	522,302	360,403
Finished goods	68,821	22,729
	1,053,083	**712,922**

The inventories of Raw materials and Work-in-progress include trial run inventory of Rs 138,134 at Biocon Park, as the project is yet to commercialise its operations (Refer Note 1).

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11. Sundry debtors (unsecured)	2006	2005
Debts outstanding for a period exceeding six-months		
Considered good	50,292	6,443
Considered doubtful	19,785	17,207
Other debts		
Considered good	2,010,077	1,722,399
	2,080,154	1,746,049
Less: Provision for doubtful debts	19,785	17,207
	2,060,369	**1,728,842**

12. Cash and bank balances		
Cash on hand	1,218	1,410
Balances with scheduled banks:		
In current accounts	2,541	18,476
In deposit accounts	16,276	14,315
	20,035	**34,201**

(a) Deposit account includes a deposit made of Rs Nil (March 31, 2005 - Rs 10,000) under the flexi-deposit account allowing the Company to avail overdraft facility of Rs Nil (March 31, 2005 -- Rs 10,000) at an interest rate of 2 per cent above the fixed deposit rate. The Company has drawn Rs Nil (March 31, 2005 -- Rs Nil) against this facility as at March 31, 2006.

(b) Balances with scheduled banks in current accounts include balance in unclaimed dividend account of Rs 725 (March 31, 2005 - Rs 252).

(c) Balances with scheduled banks in current accounts and deposit account include the balances of the ESOP Trust of Rs 1,298 (March 31, 2005 - Rs 143) and Rs 16,276 (March 31, 2005 -- Rs 4,315), respectively.

13. Loans and advances (Unsecured and considered good)	2006	2005
Advances recoverable in cash or in kind or for value to be received	40,222	29,958
Duty drawback receivable, net of provision of Rs 534 (March 31, 2005 Rs 1,446)	23,101	26,772
Deposits	37,822	35,372
Balances with Customs, Excise and Sales Tax Authorities	110,085	72,973
Advance income-tax, net of provision	-	4,132
Shares held by ESOP trust	905	935
	212,135	**170,142**
Included under advances recoverable in cash or in kind or for value to be received are amounts due from:		
(i) Subsidiary Company		
Clinigene	-	-
Maximum amount outstanding at any time during the period / year	-	46,988
(ii) Joint Venture Company		
Biocon Biopharmaceuticals Private Limited	-	-
Maximum amount outstanding at any time during the period /year	-	19,964
(iii) Biocon India Limited Employees Welfare Trust	-	-
Maximum amount outstanding at any time during the year	-	1,259

14. Current liabilities and provisions	2006	2005
Current liabilities		
Sundry Creditors		
Capital	676,527	987,126
Others	984,477	831,611
Advances from customers	22,691	50,401
Interest accrued but not due	36	201
Investor Education and Protection Fund shall be credited by		
- Unclaimed dividend	725	252
Other liabilities	134,434	83,107
	1,818,890	1,952,698
Provisions for		
Proposed dividend	250,000	200,000
Tax on proposed dividend	35,063	28,050
Gratuity	11,681	17,543
Superannuation	2,536	17,568
Bonus	20,000	26,500
Leave encashment	52,564	39,722
Provision for taxation, net of advance tax	27,217	-
	399,061	329,383
	2,217,951	**2,282,081**

(a) Other liabilities include Rs 1,073 (March 31, 2005 -- Rs 4,596) due to Ms Kiran Mazumdar Shaw, Managing Director and Rs Nil (March 31, 2005 -- Rs Nil) to Mr JMM Shaw, Director and the maximum amount outstanding at any time during the period was Rs 5,530 (March 31, 2005 - Rs 4,596) and Rs.366 (March 31, 2005 - Rs 366) respectively.

(b) Provision for tax includes provision for fringe benefit tax of Rs 450 (Refer Note 21)

(c) Included under advance tax is Rs 394 (March 31, 2005 - Rs 57) of the ESOP trust.

	2006	2005
(d) Dues to small scale industrial undertaking included in Sundry creditors:	16,784	5,657

The names of small-scale industrial undertakings to whom amounts are outstanding for more than 30 days:

a. Acme Synthetic Chemicals
b. Cauvery Mineral Water Private Limited
c. Drawcans Private Limited
d. Eskay Fine Chemicals
e. Quantum Drugs & Chemicals
f. Ragukul Industries
g. Speciality Organics Private Limited

15. Other income	2006	2005
Interest income from investments [gross of tax deducted at source - Rs 3,692 (2005 - Rs 423)]	15,786	5,117
Dividend earned		
On investment of IPO funds	21,508	109,779
Others	568	3,032
Gain on investments sold, net	1,835	1,862
Gain on fixed assets sold, net	346	
Write back of liability	-	13,185
Miscellaneous income	16,8 68	23,538
	56,911	**156,513**

16. Manufacturing, contract research and other expenses	2006	2005
Raw materials consumed, net of duty drawback of Rs 41,356 (2005 - Rs 40,758)	3,911,555	3,443,920
Purchase of goods for resale	86,545	28,046
Employee costs		
Salaries, wages, bonus, etc	337,250	312,907
Group's contribution to provident and other fund	17,379	14,404
Gratuity, superannuation, leave encashment	23,016	42,824
Employee stock compensation expense (See Note 4 & 19)	9,467	23,396
Directors sitting fees	730	500
Welfare expenses	33,488	26,904
Operation and other expenses:		
Royalty and technical fees	4,768	1,087
Rent	2,321	2,170
Communication expenses	23,293	22,437
Travelling and conveyance	65,071	61,028
Professional charges	39,939	40,521
Power and fuel, net of recoveries of Rs 28,727 (2005 - Rs 8,909)	307,847	245,990
Insurance	13,144	12,765
Rates, taxes and fees	3,095	6,540
Lab consumables	33,373	22,203
Repairs and maintenance		
Plant and machinery	57,172	72,138
Buildings	7,502	14,257
Others	24,483	18,175
Selling expenses		
Freight outwards and clearing charges	47,607	40,102
Sales promotion expenses	56,380	31,918
Commission and brokerage (other than sole selling agents)	59,652	52,709
Bad debts written off	1,490	-
Provision for bad and doubtful debts	2,578	2,443
Exchange fluctuation (net)	(21,802)	(24,620)
Loss/(gain) on forward cover contracts, net	25,059	(5,340)
Printing and stationery	6,372	10,731
Provision for dimunition of investments	-	121
Miscellaneous expenses	106,935	45,814
	5,285,709	**4,566,090**
(Increase)/decrease in inventories of finished goods and work-in-progress:		
Opening inventories:		
Finished goods	22,729	17,383
Work-in-progress	360,403	335,329
	383,132	352,712
Closing inventories:		
Finished goods	(68,821)	(22,729)
Work-in-progress	(522,302)	(360,403)
	(591,123)	(383,132)
	(207,991)	(30,420)
	5,077,718	**4,535,670**

Note :

Power and fuel cost of Rs 185,606 (2005 - Rs Nil) and employee costs of Rs 35,513 (2005 - Rs Nil) for the year ended March 31, 2006 have been transferred to capital work in progress, which include salaries, wages and bonus - Rs 33,134 ; Contribution to provident and other funds - Rs 872 ; Gratuity and leave encashment - Rs 1,507 as it relates to construction and installation of new facility at the Biocon Park.

Legal and professional charges of Rs 20,977 (2005 - Rs Nil) identifiable to acquisition of intellectual property rights ('IPRs') have been transferred to capital work in progress.

17. Research and development expenses

Research and development expenses aggregate to Rs 400,746 (March 31, 2005 - Rs 245,526) and include Rs 197,241 (Rs 99,900) on research and development equipment and Rs 18,327 (March 31, 2005 - Rs 3,466) on buildings and the remaining expenses incurred by the Company have been disclosed under the appropriate account heads [Refer Note 24(viii)].

18. Interest and finance charges	2006	2005
Interest paid on :		
Others	16,628	18,511
	16,628	18,511
Less : Interest received from suppliers [gross of tax dedcution at source Rs 54 (2005 - Rs Nil)]	(7,927)	(6,932)
	8,701	11,579
Bank charges	8,186	8,352
	16,887	**19,931**

19. Employee stock compensation

On September 27, 2001, Biocon's Board of Directors approved the Biocon Employee Stock Option Plan ('ESOP Plan 2000') for the grant of stock options to the employees of the Group. A compensation committee has been constituted to administer the plan through the ESOP Trust.

The Trust purchases equity shares of Biocon using the proceeds from the loan obtained from Biocon and will subscribe to such number of shares as is necessary for transferring to the employees. The total number of equity shares transferred to the Trust shall not exceed 250,000 equity shares (pre-bonus and pre-split) of Rs 10 each and shares transferred to each employee will not exceed 10,000 equity shares (pre-bonus and pre-split) of Rs 10 each. The Compensation Committee shall determine the exercise price which will not be less than the face value of the shares. The Compensation Committee had granted 71,510 options under the ESOP Plan 2000 to be exercised at a grant price of Rs 10 (pre-bonus and pre-split). The options will vest with the employees equally over a four year period from the grant date. In case the emplo... yee resigns from employment, the rights relating to shares, which are eligible for exercise, may be purchased by payment of the exercise price whereas, the balance shares shall be forfeited in favour of the ESOP Trust.

Further, during the year ended March 31, 2005 the Compensation Committee has granted 142,100 options under the ESOP Plan 2000 effective January 1, 2004 to be exercised at a grant price of Rs 5. The options vest with the employees equally over a four year period from January 1, 2005.

On January 18, 2004, the Board of Directors announced the Biocon Employees Stock Option Plan (ESOP Plan 2004) for the grant of stock options to the employes of the Company, pursuant to which, the Compensation Committee on March 19, 2004 granted 422,000 options under the ESOP Plan 2004 to be exercised at a grant price of Rs 315 being the issue price determined for the IPO through the book building process. The options will vest with the employees equally over a four year period from April 1, 2005.

The Securities and Exchange Board of India ('SEBI') has issued the Employee Stock Option Scheme and Stock Purchase Guidelines, 1999 ('SEBI guidelines') which are applicable to stock option schemes for employees, of all listed companies. Biocon, though not listed on the date of the grants has followed these guidelines for accounting of ESOP costs [Refer Note 2]. In accordance with these guidelines, the excess of market price of the underlying equity shares on the date of the grant of the stock options over the exercise price of the options is to be recognised in the books of account and amortised over the vesting period. For basic EPS purposes, the shares outstanding including the options exercised by the employees have been considered [Refer Note 2(k)]. For diluted EPS purpose, the shares, which are not yet eligible for exercise, have also been considered as outstanding to the extent these shares are diluted.

The Trust had 4,432,567 (March 31, 2005 -- 5,402,189) equity shares of Rs 5 each as at March 31, 2006 and a summary of the activity of the Trust is as follows :

Particulars	2006	2005
Opening balance of equity shares not granted to employees and available with the Trust	3,138,332	3,082,240
Add: Options cancelled and lapsed during the year	70,383	56,092
Closing balance of shares not granted to employees and available with the Trust	3,208,715	3,138,332
Options granted and exercised at end of year	2,590,533	1,620,911
Options granted and eligible for exercise at end of year	235,200	97,952
Options granted but not eligible for exercise at end of year	988,652	2,165,905
Total employee stock compensation cost as at end of year	91,790	94,129
Vesting period of options		
-- Primarily progressively over four years		
Employee stock compensation expense		
-- Amortised during theyear	9,467	23,396

The estimated fair values of the equity shares have been determined by management on the dates of the grants for ESOP 2000 based on a valuation by an independent appraiser. As per the terms of the ESOP Plan 2004, the exercise price equals the price determined for the IPO through the book building process for the options granted on March 19, 2004. Accordingly no compensation cost has been recorded, as the exercise price equals the fair value of the shares on the date of the IPO.

20. Reconciliation of basic and diluted shares used in computing earning per share	2006	2005
Basic weighted average shares outstanding	95,567,448	94,597,811
Add: Effect of dilutive shares granted but not exercised / not eligible for exercise	1,223,852	2,263,857
Weighted average shares outstanding and potential shares outstanding	**96,791,300**	**96,861,668**

21. Current taxes

The current tax charge of Rs 208,633 (March 31, 2005 - Rs 98,298) is based on the earnings for the year ended March 31, 2006. In addition, the Company has, during the year, provided Rs 5,130 towards fringe benefit tax as introduced by the Government under the Finance Act, 2005.

22. Related party transactions

Sl No	Name of the related party	Relationship	Description	April 1, 2005 to March 31, 2006	Balance as at March 31, 2006 (Payable)/receivable	April 1, 2004 to March 31, 2005	Balance as at March 31, 2005 (Payable)/receivable
1	Kiran Mazumdar Shaw	Managing Director	Salary and perquisites	10,339	(1,073)	10,261	(4,596)
2	JMM Shaw	Director	Salary and perquisites	9,384	-	9,593	-
3	Syngene	Subsidiary Company	Rent income	1,494	-	1,680	-
	International Private Limited		Rent deposit	-	(1,050)	(450)	(1,050)
			Power and water charges	28,247	-	8,909	-
			Insurance Charges	2,599	-	-	-
			Management charges	2,400	-	2,400	2,400
4	Clinigene	Subsidiary Company	Power charges	480	-	480	-
	International Private Limited		Rent income	240	-	240	-
			Management charges	600	-	600	450
			Professional charges	-	-	(300)	-
			Insurance Charges	157	-	-	-
			Unsecured Loan	169,560	261,625	90,138	90,138
			Current account:				
			Due from Clinigene on current a/c	-	-	(46,988)	-
5	Biocon Biopharmaceuticals	Joint Venture Company	Interest income on unsecured loan	15,406	-	2,925	-
	Private Limited		Rent income	779	-	708	-
			Rent deposit received	-	(590)	(590)	(590)
			Management charges received	600	-	600	600
			Insurance Charges	35	-	-	-
			Personnel Deputation Charges	2,664	-	-	-
			Unsecured Loan	338,548	461,197	98,932	102,565
			Due from BBPL on current a/c	-	-	(19,694)	-
6	P K Associates	Relative of Director	Lease Rentals	90	-	-	-

(a) The accumulated compensation cost upto the year ended March 31, 2006 include Rs 22,208 (March 31, 2005 -- Rs 22,208) incurred towards employee compensation cost for options granted to employees of Syngene and Clinigene. The corresponding compensation cost amortised during the year is Rs 9,466 (March 31, 2005 -- Rs 5,677). The Company has not charged this amortisation to Syngene and Clinigene.

(b) The Company has given corporate guarantees of Rs 217,500 (March 31, 2005 - Rs 217,500) to the Customs and Excise department ('CED') on behalf of Syngene and Syngene has furnished a corporate guarantee of Rs 315,000 (March 31, 2005 -- Rs 315,000) on behalf of the Company to the CED.

(c) Effective January 1, 2004, the Company has entered into an agreement with Syngene, Clinigene and BBPL to provide general management support, for which an agreed upon management charge has been levied.

(d) The Company has given corporate guarantee of Rs 131,323 (March 31, 2005 - Rs 46,239) to the Customs and Excise Department ('CED') on behalf of BBPL.

(e) The Company has given corporate guarantee of Rs 4,976 (March 31, 2005 - Rs Nil) to the Customs and Excise Department ('CED') on behalf of Clinigene.

23. Provisions

	Balance at the beginning of the year	Additions during the year	Amount paid during the year	Balance at the end of the year
Leave encashment	39,722	12,842	-	52,564
Bonus	26,500	45,260	51,760	20,000
Superannuation	17,568	-	15,032	2,536
Gratuity	17,543	11,681	17,543	11,681
Proposed dividend	200,000	250,000	200,000	250,000
Tax on proposed dividend	28,050	35,063	28,050	35,063
	329,383	**354,846**	**312,385**	**371,844**

24. Supplementary profit and loss data	2006	2005
(i) Payments to auditors (included in professional and consultancy charges)		
a) Statutory audit	1,400	1,300
b) Tax audit	100	100
c) Reimbursement of out-of-pocket expenses	99	175
	1,599	**1,575**
(ii) Managerial remuneration		
a) Remuneration to Managing Director		
Salary	7,018	6492
Perquisites	1,216	930
Contribution to provident fund	392	881
Bonus	1,713	1,958
	10,339	**10,261**
b) Remuneration to whole-time Director		
Salary	7,018	6492
Perquisites	653	653
Bonus	1,713	1,958
	9,384	**9,103**
c) Computation of net profits in accordance with Section 349 of the Act		
Net profit for the year before tax	1,608,734	1,885,095
Add:		
Depreciation provided in the accounts	228,496	180,915
Managerial remuneration	19,723	19,364
Directors sitting fees	730	500
Provision for bad and doubtful debts	2,578	2,443
	1,860,261	2,088,317
Less:		
Depreciation under Section 350 of the Act	228,496	180,915
Profit on sale of assets	346	1,862
Profit on sale of investment	1,835	-
	230,677	182,777
Net Profit for Section 198 of the Act	1,629,584	1,905,540
Maximum remuneration payable to directors	162,958	190,554
Remuneration paid to Managing Director	10,339	10,261
Remuneration paid to whole time Director	9,384	9,103

As the future liability for gratuity and leave encashment is provided on an actuarial basis for the Company as a whole, the amount pertaining to the directors is not ascertainable and, therefore, not included above.

(iii) Information pursuant to the provisions of paragraphs 3, 4C and 4D of Part II of Schedule VI of the Companies Act, 1956 ('the Act'):

a) Licensed capacity, installed capacity and actual production :

Class of Goods	Licensed Capacity Kg	Installed Capacity Kg	Actual Production Curent Year Kg.	Actual Production Previous Year kg.
Biochemicals:				
Enzymes	*	**	4,021,221	3,595,428
Pharmaceutical	*	**	6,495,665	4,112,542

* Exempted from the licensing provisions of the Industries (Development and Regulation) Act, 1951 in terms of notification No.S.O.477(E) dated July 25, 1991.

** Installed capacity has not been disclosed as these are variable and subject to changes in product mix, and utilisation of manufacturing facilities, given the nature of operations.

b) Inventories and sales

Description	Opening Stock		Sales		Closing Stock	
	Quantity Kg.	Value Rs	Quantity Kg.	Value Rs	Quantity Kg.	Value Rs
2006						
Biochemicals						
Manufacturing:						
Enzymes	14,496	1,750	4,020,832	849,563	14,885	1,519
Pharmaceutical	5,016	1,620	6,485,449	5,847,249	15,232	26,491
Others	-	18,992	-	170,414	-	40,215
Trading:						
Enzymes	2,993	366	26,980	7,698	3,763	595
Pharmaceutical	20	1			20	1
		22,729		6,874,924		68,821
2005						
Biochemicals						
Manufacturing:						
Enzymes	17,029	6,733	3,597,961	887,795	14,496	1,750
Pharmaceutical	1,245	10,454	4,108,771	5,518,550	5,016	1,620
Others	-	-	-	48,956	-	18,992
Trading:						
Enzymes	2,028	192	29,595	8,187	2,993	366
Pharmaceutical	60	4	910	136	20	1
		17,383		6,463,624		22,729

c) Purchase of traded goods:

	2006		2005	
	Quantity (Kg)	Value	Quantity (Kg)	Value
Biochemicals	27,750	7,927	31,430	8,494

d) Details of consumption of raw materials, packing materials and stores:

	2006		2005	
	Quantity (Kg)	Amount	Quantity (Kg)	Amount
Enzymes & Chemicals	26,419,330	3,899,704	15,429,610	3,363,846
Packing materials	-	35,846	-	25,015
Others	-	62,550	-	55,059
	26,419,330	3,998,100	15,429,610	3,443,920

Consumption quantities and values have been derived on the basis of opening stock plus purchases less closing stock and therefore include adjustments ascertained during physical count, write off of obsolete items etc.

	2006		2005	
	Value	Percent	Value	Percent
Imported	2,795,575	70	2,703,415	78
Indigenous	1,202,525	30	740,505	22
	3,998,100	100	3,443,920	100

	2006	2005
(iv) Value of imports calculated on C.I.F. basis :		
Raw materials	2,481,980	2,244,335
Packing materials	2,164	934
Capital goods	349,095	571,084
	2,833,239	**2,816,354**
(v) Earnings in foreign currency:		
Export of goods on FOB basis	3,577,231	3,761,484
Research and development fees	-	807
Recovery of freight, insurance etc on exports	1,504	652
Others	10,781	17,432
	3,589,516	**3,780,375**
(vi) Dividend to non-resident shareholders :		
(remitted in foreign currency)		
Final Dividend		
Number of shareholders	19	769
Number of shares held	26,048,619	32,941,020
Dividend remitted (Rs in thousands)	52,097	32,941
Year to which it relates	2005	2004
(vii) Expenditure in foreign currency :		
(on accrual basis)		
Sales commission	34,967	34,283
Interest on Foreign Currency Non-Resident loans	9,282	16,719
Travel and Conveyance	12,757	13,052
Patent fees	8,357	13,502
Legal and Corporate advisory services	12,609	-
Others	37,128	55,349
	115,100	132,905
(viii) Research & Development Expenses		
(other than on equipments and buildings) [Refer Note 17]		
Salaries, wages, bonus, etc	79,601	68,782
Employee stock compensation expense	1,545	2,683
Lab consumables	33,373	22,203
Travel and Conveyance	9,460	7,171
Patent and Informatic search fees	16,784	22,230
Others	44,415	19,091
	185,178	**142,160**

25. Commitments	2006	2005
(a) Capital commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for, net of advances	336,041	982,897
(b) Operating lease commitments		
Where the Company is a lessee:		
(i) Rent		
The Company had entered into an agreement for lease of building which expires in September 2015. Gross rental expenses for the year aggregates to Rs 90 (March 31, 2005 Rs Nil). The committed lease rentals in future are as follows :		
Not later than one year	189	-
Later than one year and not later than five years	965	-
Later than five years	1,625	-
(ii) Vehicles		
The Company has taken vehicles for certain employees under operating leases, which expire in January 2010. Gross rental expenses for the period aggregate to Rs 4,356 (March 31, 2005 -- Rs 4,583). The committed lease rental in the future are:		
Not later than one year	4,843	3,963
Later than one year and not later than five years	6,519	8,515
Where the Company is a Lessor:		
(i) Rent		
The Company has leased out certain parts of its building and land on an operating lease, which expire over a period upto 2011. Gross rental income for the year aggregate to Rs 1,885 (March 31, 2005 - Rs 2,624). There are no uncollectible minimum lease payments at the balance sheet date. Future minimum lease receipts under operating lease are as follows:		
Not later than one year	2,650	2,628
Later than one year and not later than five years	12,028	10,032
Later than five years	8,578	7,714
26. Contingent liabilities		
(a) Taxation matters under appeal	12,900	9,895
(b) Corporate guarantees		
(i) Corporate guarantee given in favour of the CED in respect of certain performance obligations of Syngene. The Company has informed that necessary terms and conditions have been complied with and no liabilities have arisen	217,500	217,500
(ii) Corporate guarantee given in favour of the CED in respect of certain performance obligations of biocon.	465,000	315,000
(c) Corporate guarantees given in favour of the CED in respect of certain performance obligations of BBPL. The Company has informed that the necessary terms and conditions have been complied with and no liability has arisen	131,352	46,239
(d) Corporate guarantees given in favour of the CED in respect of certain performance obligations of Clinigene. The Company has informed that the necessary terms and conditions have been complied with and no liability has arisen	4,976	-
(e) Claims against the Company not acknowledged as debts	2,170	2,170
(f) The Company has provided a letter of committment to fund the operations of its wholly owned subsidiary Clinigene. (See Note 9(iii))		

27. Details of utilisation of proceeds raised through public issue during the year	2006	2005
Capital work-in-progress [Note 1(a)]	3,150,000	1,325,643
Current investments -- Liquid money market mutual funds [Refer Note 9]	-	1,824,357
	3,150,000	**3,150,000**

28. Foreign exchange option contracts

The Company has entered into option contracts to hedge highly probable forcasted forex transactions. As at March 31, 2006, the Company has currency option contracts to sell US$ 27 Million over the period beginning October 2006 to September 2007 in respect of the forcasted transactions. The impact of marked to market of these option contracts is Rs 24 Million (gain) as at March 31, 2006 which has not been recognised in the profit and loss account in accordance with the Companys' accounting policy.

29. Segmental information

Business segments

The primary reporting of the Company has been performed on the basis of business segment. The Company is organised into two business segments, enzymes and active pharmaceutical ingredients ('Pharma'). Segments have been identified and reported based on the nature of the products, the risks and returns, the organisation structure and the internal financial reporting systems.

April 1, 2005 to March 31, 2006

Particulars	Enzyme	Pharma	Unallocated	Eliminations	Total
Revenues					
External sales, net	849,563	6,025,361	-	-	6,874,924
Inter-segment transfers	72,294	-	-	(72,294)	-
Total revenues	921,857	6,025,361	-	(72,294)	6,874,924
Costs					
Segment costs	(523,481)	(3,660,753)	-	-	(4,184,234)
Inter-segment transfers	-	(72,294)	-	72,294	-
Result					
Segment result	398,376	2,292,314	-	-	2,690,690
Corporate expenses	-	-	(893,484)	-	(893,484)
Other income	-	-	41,125	-	41,125
Interest income	-	-	15,786	-	15,786
Operating profit					1,854,117
Depreciation	(26,911)	(142,463)	(59,122)	-	(228,496)
Interest expense	-	-	(16,887)	-	(16,887)
Income taxes - Current and deferred	-	-	(273,904)	-	(273,904)
Net profit					1,334,830
Other information					
Segment assets	626,616	8,864,941		-	9,491,557
Unallocated corporate assets			2,087,043	-	2,087,043
Total assets					11,578,600
Segment liabilities	138,006	1,751,748		-	1,889,754
Unallocated corporate liabilities			1,658,411	-	1,658,411
Total liabilities					3,548,165
Capital expenditure	10,073	114,648	335,361	-	460,082

April 1, 2004 to March 31, 2005

Particulars	Enzyme	Pharma	Unallocated	Eliminations	Total
Revenues					
External sales	896,814	5,566,810		-	6,463,624
Inter-segment transfers	84,128	-	-	(84,128)	-
Total revenues	980,942	5,566,810	-	(84,128)	6,463,624
Costs					
Segment costs	(505,705)	(3,407,711)	(36,354)	-	(3,949,770)
Inter-segment transfers	-	(84,128)	-	84,128	-
Result					
Segment result	475,237	2,074,971	(36,354)	-	2,513,854
Corporate expenses	-	-	(585,900)	-	(585,900)
Other income	-	-	155,795	-	155,795
Interest income	-	-	2,192	-	2,192
Operating profit					2,085,941
Depreciation	(26,386)	(105,274)	(49,255)	-	(180,915)
Interest expense	-	-	(19,931)	-	(19,931)
Income taxes - Current and deferred	-	-	(141,215)	-	(141,215)
Net profit					1,743,880
Other information					
Segment assets	636,117	6,519,171	-	-	7,155,288
Unallocated corporate assets	-	-	3,069,189	-	3,069,189
Total assets					10,224,477
Segment liabilities	132,476	1,917,232	-	-	2,049,708
Unallocated corporate liabilities	-	-	1,215,385	-	1,215,385
Total liabilities					3,265,093
Capital expenditure	18,917	568,327	202,483	-	789,727

Geographical segments

Secondary segmental reporting is performed on the basis of the geographical location of customers. The operations of the Company comprise export sales and contract reaserch fees contributing to approximately 53 percent (March 31, 2005 -- 58 per cent). The management views the Indian market and export markets as distinct geographical segments. The following is the distribution of the Company's sale by geographical markets

Revenues, net	2006	2005
India	3,297,693	2,702,140
Exports on FOB basis	3,577,231	3,761,484
Total	**6,874,924**	**6,463,624**

The following is the carrying amount of segment assets and additions to fixed assets by geographical area in which the assets are located:

Carrying amount of segment assets	2006	2005
India	10,166,188	9,376,550
Outside India	1,412,412	847,927
Total	**11,578,600**	**10,224,477**

Carrying amount of segment assets outside India represents receivables from export sales.

Segment revenue and result

The expenses that are not directly attributable and that cannot be allocated to a business segment on a reasonable basis are shown as unallocated corporate expenses.

Inter-segment transfers

Segment revenue, segment costs and results include transfers between business segments. Such transfers have been made at cost. The inter-segment transfers have been eliminated on consolidation of the segments.

Segment assets and liabilities

Segment assets include all operating assets used by the business segment and consist principally of fixed assets, investments and current assets Segment liabilities comprise of loan funds which can be identified directly against the respective segments and includes segment current liabilities and provisions. Assets and liabilities that have not been allocated between segments are shown as part of unallocated corporate assets and liabilities respectively.

30. Prior year comparatives

The previous year's figures have been re-grouped, where necessary to conform to current year's classification.

S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

For and on behalf of the Board of Directors

Prashant Singhal
Partner
Membership No: 93283

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Bangalore
April 20, 2006

Murali Krishnan K N
President - Group Finance

Usha T N
Company Secretary

Balance sheet abstract and Company's general business profile

(All amounts in Indian Rupees thousands, except share data)

(a) REGISTRATION DETAILS	
Registration No.	3417
State Code	08
Balance Sheet Date	March 31, 2006
(b) CAPITAL RAISED DURING THE YEAR	
Public Issue	-
Right Issue	Nil
Bonus Issue	Nil
Private Placement	Nil
(c) POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS	
Total Liabilities and shareholders funds	11,578,600
Total Assets	11,578,600
Sources of Funds	
Paid up Capital	500,000
Reserves	7,530,435
Secured Loans	677,549
Unsecured Loans	372,927
Deferred tax liability	279,738
Application of Funds	
Net Fixed Assets	2,278,123
Capital work in progress	4,564,301
Long term Investments	1,390,554
Net Current Assets	1,127,671
(d) PERFORMANCE OF THE COMPANY	
Turnover	6,931,835
Total expenditure	5,323,101
Profit before tax	1,608,734
Profit after tax	1,334,830
Earnings per share in Rupees	13.97
Dividend rate %	50
(e) GENERIC NAME OF PRINCIPAL PRODUCTS OF THE COMPANY	
Item Code No (ITC Code)	350790
Product Description	Enzymes for Pharmaceutical use
Item Code No.(ITC Code)	280000 & 290000
Product Description	Organic & Inorganic Chemicals

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Biocon Limited and Subsidiaries INDIAN GAAP

Auditors' Report

To
The Board of Directors of Biocon Limited

1. We have audited the attached Consolidated Balance Sheet of BIOCON LIMITED, its subsidiaries, Syngene International Private Limited and Clinigene International Private Limited and its joint venture, Biocon Biopharmaceuticals Private Limited [together referred to as 'the Group' as described in Note 2 (a)] as at March 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 consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance 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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. We report that the consolidated financial statements have been prepared by the Group in accordance with the requirements of Accounting Standards (AS) 21, Consolidated Financial Statements issued by the Institute of Chartered Accountants of India.

4. Without qualifying our opinion, we draw attention to Note 1(c) to the financial statements relating to the status and recoverability of the Company's investments in Nobex Inc., USA ('Nobex'). As more fully discussed in Note 1(c) to the financial statements, the Company had invested Rs 256 million in the common stock and promissory notes of Nobex from October 2004 through December 31, 2005. As on December 1, 2005, Nobex had filed for bankruptcy under Chapter 11 of US Bankruptcy laws. The audit report for the three month period and nine-month period ended December 31, 2005 was modified as there was a uncertainty with respect to the Company's ability to recover its investments in Nobex from the monetization of intellectual properties.

Pursuant to the Company emerging as the winning bidder for the assets of Nobex at a bid value of US $ 5 million the sale process for which is expected to be completed within April 2006, the Company is confident that it would be able to commercialise the intellectual properties acquired and generate value in excess of its aggregate investments.

The ultimate realisability of the Nobex investments, including the current bid, is dependant on the Company's ability to successfully commercialise the Intellectual Properties and, accordingly, these financial statements do not include any adjustments from the outcome of this uncertainty.

5. In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the consolidated balance sheet, of the state of affairs of the Group as at March 31, 2006;

(b) in the case of the consolidated profit and loss account, of the profit for the year ended on that date; and

(c) in the case of the consolidated cash flow statement, of the cash flows for the year ended on that date.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No: 93283

Bangalore
April 20, 2006

BIOCON LIMITED

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2006

(All amounts in Indian Rupees thousands)

	Notes	2006	2005
SOURCES OF FUNDS			(Note 30)
Shareholders' Funds			
Share capital	3	500,000	500,000
Reserves and surplus	2(a), 2(m) & 4	8,380,985	6,905,242
		8,880,985	7,405,242
Minority Interest	5	32,218	8,786
Loan Funds			
Secured loans	6	677,549	493,279
Unsecured loans	7	372,927	270,136
		1,050,476	763,415
Deferred Tax Liability	2(k) & 8	297,324	234,406
		10,261,003	**8,411,849**
APPLICATION OF FUNDS			
Fixed Assets	2(b), 2(c), 2(e), 2(j), 2(i)		
Cost	9 & 18	4,070,462	3,300,033
Less: Accumulated depreciation		1,060,598	763,344
Net book value		3,009,864	2,536,689
Capital work-in-progress [including capital advances of Rs 66,778 (March 31, 2005 -- Rs 56,120)]		5,260,221	3,245,132
		8,270,085	5,781,821
Investments	2(g) & 10	1,002,321	2,349,651
Current Assets, Loans And Advances			
Inventories	2(e) & 11	1,104,856	737,964
Sundry debtors	12	2,236,644	1,824,469
Cash and bank balances	13	20,236	34,238
Loans and advances	14	239,450	170,889
		3,601,186	2,767,560
Less: Current Liabilities And Provisions	2(h), 2(i), 2(k), 2(g) & 15	2,612,589	2,487,183
Net Current Assets		988,597	280,377
		10,261,003	**8,411,849**

The accompanying notes 1 to 30 form an integral part of this balance sheet.

As per our report of even date
S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

For and on behalf of the Board of Directors

Prashant Singhal
Partner
Membership No: 93283

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Bangalore
April 20, 2006

Murali Krishnan K N
President - Group Finance

Usha T N
Company Secretary

BIOCON LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR YEAR ENDED MARCH 31, 2006

(All amounts in Indian Rupees thousands, except share data including share price)

	Notes	2006	2005 (Note 30)
INCOME			
Gross sales		7,246,713	6,842,047
Less Excise Duty		371,789	378,423
Net sales	2(d) & 2(j)	6,874,924	6,463,624
Contract research fees	2(d) & 2(h)	1,005,756	662,040
Other income	16	51,446	156,247
		7,932,126	**7,281,911**
EXPENDITURE			
Manufacturing, contract research and other expenses	2(d), 2(h), 2(h), 2(i), 2(j), 2(m), 2(o) & 17	5,592,557	4,887,081
Interest and finance charges	2(i) & 19	17,548	20,282
		5,610,105	**4,907,363**
PROFIT BEFORE DEPRECIATION AND TAXES		2,322,021	2,374,548
Depreciation	2(b) & 9	298,138	225,051
Less: Amount transferred from revaluation reserve	2(b) & 4	1,606	1,606
		296,532	223,445
PROFIT BEFORE TAXES		2,025,489	2,151,103
Provision for income-tax			
Current taxes	2(k) & 22	236,883	128,341
Deferred taxes	2(k) & 8	62,918	57,726
Fringe Benefits	22	5,853	-
PROFIT FOR THE YEAR		**1,719,835**	**1,965,036**
Minority interest	5	19,688	10,414
NET PROFIT FOR THE YEAR		**1,739,523**	**1,975,450**
Balance brought forward from previous year		2,812,928	1,239,916
PROFIT AVAILABLE FOR APPROPRIATION		4,552,451	3,215,366
Proposed dividend on equity shares		250,000	200,000
Tax on proposed dividend		35,063	28,050
Transfer to general reserve		133,483	174,388
BALANCE, END OF THE YEAR		4,133,905	2,812,928
Earnings per share (equity shares, par value of Rs 5 each)	2(n) & 21		
Basic (in Rs)		18.20	20.88
Diluted (in Rs)		17.97	20.39
Weighted average number of shares used in computing earnings per share			
Basic		95,567,448	94,597,811
Diluted		96,791,300	96,861,668

The accompanying notes 1 to 30 form an integral part of the profit and loss account.

As per our report of even date

S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

For and on behalf of the Board of Directors

Prashant Singhal
Partner
Membership No: 93283

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Bangalore
April 20, 2006

Murali Krishnan K N
President - Group Finance

Usha T N
Company Secretary

BIOCON LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2006

(All amounts in Indian Rupees Thousands)

			2006	2005 (Note 30)
I	CASH FLOWS FROM OPERATING ACTIVITIES :			
	Net profit before tax		**2,025,489**	**2,151,103**
	Adjustments for			
	Add: Non cash item/items required to be disclosed separately:			
	Depreciation	296,532		223,445
	Unrealised exchange (gain)/loss	(9,198)		(2,802)
	Amortisation of employee compensation cost	9,467		23,396
	Provision for bad and doubtful debts	2,578		1,249
	Interest expense	25,475		27,290
	Interest income (gross)	(9,868)		(9,551)
	Dividend earned (gross)	(36,079)		(120,800)
	Gain on sale of investment	-		(500)
	Gain on sale of investment in mutual funds	(2,753)		(1,796)
	Gain on assets sold	(346)		-
	Write back of provision	-		(13,185)
			275,808	126,746
	Changes in working capital and other provisions			
	Inventories	(366,892)		118,595
	Sundry debtors	(405,502)		(639,621)
	Loans and advances	(78,553)		65,315
	Current liabilities and provisions (incl book overdraft)	(413,528)		22,247
			(1,264,475)	(433,464)
			(988,667)	(306,718)
	Cash generated from operations		1,036,822	1,844,385
	Tax paid (net of refunds)		(226,934)	(120,097)
	Net cash provided by operating activities		809,888	1,724,288
II	CASH FLOWS FROM INVESTING ACTIVITIES :			
	Fixed assets			
	Purchase	(2,284,916)		(2,850,390)
	Sale	500		-
	Change in minority Interest	-		(5,450)
	Interest received	10,039		8,983
	Dividend received	36,079		120,800
	Sale of investment	4,585,954		12,204,505
	Purchase of investment			
	Long term	(336,130)		(179,441)
	Current	(2,899,739)		(14,151,077)
	Net cash used for investing activities		(888,213)	(4,852,070)
III	CASH FLOWS FROM FINANCING ACTIVITIES :			
	Proceeds from employees for share purchase through ESOP Trust	-		1,259
	Short term borrowings from banks, net	183,500		20,384
	Repayment of secured loans	-		(24)
	Deferred sales tax credit	102,791		95,479
	Interest paid	(25,640)		(27,313)
	Dividend paid	(199,275)		(100,000)
	Dividend tax paid	(28,050)		(12,813)
	Movement in reserves of ESOP trust	13,423		5,450
	Net cash used for financing activities		46,749	(17,578)
IV	NET CHANGE IN CASH AND CASH EQUIVALENTS (I+II+III)		(31,576)	(3,145,360)
V	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		34,238	3,175,140
VI	CASH AND CASH EQUIVALENTS OF THE ESOP TRUST ACQUIRED DURING THE YEAR		17,574	4,458
VII	CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (IV + V + VI)		**20,236**	**34,238**

As per our report of even date

S.R. BATLIBOI & ASSOCIATES

Chartered Accountants

For and on behalf of the Board of Directors

Prashant Singhal
Partner
Membership No: 93283

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Bangalore
April 20, 2006

Murali Krishnan K N
President - Group Finance

Usha T N
Company Secretary

BIOCON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2006

(All amounts in Indian Rupees and US Dollars in thousands, except share data including share price)

1. Background

a. Incorporation and history

Biocon Limited ('Biocon' or 'the Company'), promoted by Ms Kiran Mazumdar Shaw ('KMZ'), was incorporated at Bangalore in 1978 for manufacture of biotechnology products. Syngene International Private Limited ('Syngene') promoted by KMZ, was incorporated at Bangalore in 1993. At March 30, 2002, Biocon acquired 99.99 per cent of the equity shares of Syngene and, resultantly, the company became the subsidiary of Biocon. Clinigene International Private Limited ('Clinigene') was incorporated on August 4, 2000 at Bangalore and became a wholly owned subsidiary of Biocon on March 31, 2001.

Biocon entered into an Agreement on February 22, 2002 to set up a Joint Venture Company, with CIMAB SA ('CIMAB'), a company organised and existing under the laws of Cuba and engaged in research, development, manufacturing and marketing of Biopharmaceuticals, to manufacture and market products using technology and to carry out research activities. Accordingly, Biocon Biopharmaceuticals Private Limited ('BBPL') was incorporated on June 17, 2002 and, on April 18, 2003, Biocon acquired a 51 per cent shareholding in BBPL.

In March 2004, the Company completed an Initial Public Offering ('IPO') and made a fresh issue of 10,000,000 equity shares of Rs 5 each at a price of Rs 315 per share. Consequently, on April 7, 2004, the equity shares of the Company were listed on the National Stock Exchange of India and The Stock Exchange, Mumbai. The proceeds of the issue are being used, to the extent required, for setting up the new facilities to augment the existing capacities for the submerged fermentation and chemical synthesis operations (collectively referred to as 'the Project'), the Company has currently deployed the unutilised funds raised for the Project in liquid money market mutual fund investments [See Note 10 & 27].

The construction of the Project is almost complete, subject to the final commissioning and testing of the effluent treatment plant and certain pre-commissioning tests, which the Company expects to be completed during the quarter ending June 30, 2006. All direct costs related to such pre-commissioning tests are included in the Capital work-in-progress and would be capitalized with the Project. Further, proceeds, if any, from the sale of trial production resulting from such pre-commissioning tests and/or profits, if any, from the transfer of the trial run production to the existing Biocon facility of these trial production have been reduced from Capital work in progress.

Biocon, together with its subsidiaries, Syngene and Clinigene and the joint venture company, BBPL hereinafter is collectively referred to as 'the Group'.

b. Operations

Biocon is engaged in the manufacture of biotechnology products in the pharmaceutical and enzyme sectors through fermentation based technology and had also made an entry in the formulation business during the year ended March 31, 2005. Syngene is primarily engaged in providing contract research services to overseas customers in the field of synthetic chemistry and molecular biology, it also sells products arising from research activities carried out on behalf of its customers; and Clinigene undertakes clinical research activities on discovering new biomarkers and is extending its activity to discovering new diseases subsets and novel data based on pharmacogenomics. The Group has its facilities located at Hebbagodi and Bommasandra, Bangalore district, Karnataka.

c. Investments in Nobex Inc., USA

The Company had entered into Research and Development Agreements and Investment Agreements with Nobex Inc., USA ('Nobex') [Refer Note 9(i)] to carry out joint research and development for Oral Insulin Product and BNP products on October 20, 2004 and April 25, 2005, respectively; and invested Rs 256 million in the common stock and promissory notes from October 2004 through December 31, 2005. It has further paid Rs 13 million towards licence fees for Oral Insulin and Rs 54 million towards loan and security arrangement entered on December 1, 2005 to facilitate the orderly sale of asset. The investments of Rs 339 million upto March 31, 2006 is reflected as investments (schedule 10).

As on December 1, 2005, Nobex had filed for bankruptcy under Chapter 11 of US Bankruptcy laws. Consequently, the audit report for the three month period and nine-month period ended December 31, 2005 was modified as there was uncertainty with respect to the Company's ability to recover its investments in Nobex from the monetization of intellectual properties.

Subsequently on March 20, 2006, the Company has emerged as the winning bidder for the assets of Nobex; including, without limitation, patents relating to certain technologies for Oral Insulin, Oral BNP and Basil Insulin, for a total consideration of US$ 5 million. The Closing for the sale process is expected to be completed within April 2006, accordingly, the total commitment made by Biocon including investments already made aggregates to US$ 12 million. Also, the Company has incurred Rs 21 million of legal costs directly related to the acquisition of these patents upto March 31, 2006, and included under capital work in progress.

Based on the joint product development programs carried on for the Oral Insulin and BNP since October 20, 2004 and April 25, 2005, respectively, the Company is confident that it would be able to commercialise the intellectual properties acquired from Nobex by the year 2012 and based on an expert independent opinion, believes the value of such monetized intellectual property over its economic life to be in excess of the total investments made by it/to be made in Nobex. The ultimate realisability of this investments cannot be presently determined and accordingly, these financial statements do not include any adjustments.

2. Statement of significant accounting policies

a. Basis of presentation and consolidation

The financial statements are prepared under the historical cost convention, on the accrual basis of accounting and to comply in all material respects with the generally accepted accounting principles in India including the mandatory accounting standards issued by the Institute of Chartered Accountants of India ('ICAI') to reflect the financial position and the results of operations of Biocon together with its subsidiary companies, Syngene and Clinigene and joint venture company, BBPL.

Further, the financial statements are presented in the general format specified in Schedule VI to the Companies Act, 1956 ('the Act'). However, as these financial statements are not statutory financial statements, full compliance with the above Act is not required and so they do not reflect all the disclosure requirements of the Act.

The consolidated financial statements of the Group have been prepared based on a line-by-line consolidation of the balance sheet, statement of profit and loss and cash flows of Biocon, Syngene, Clinigene and BBPL as at March 31, 2006.

In accordance with the revised Accounting Standard 27, 'Financial Reporting of Interests in Joint Ventures', ('AS 27'), BBPL, a joint venture company has been accounted as a subsidiary effective April 1, 2004, and computed minority interest. Upto the year ended March 31, 2004, BBPL was accounted as per the proportionate consolidation method as per the prevailing AS 27, at that time.

All material inter-company transactions and balances between the entities included in the consolidated financial statements have been eliminated.

In accordance with the Employee Stock Option Scheme and Stock Purchase Guidelines, 1999 ('SEBI guidelines') issued by Securities and Exchange Board of India ('SEBI'), the Company has also consolidated the ESOP Trust [See Note 20].

The significant accounting policies adopted by the Group in respect of the consolidated financial statements are detailed as follows:

b. Fixed assets and depreciation

Fixed assets are stated at cost, except for revalued freehold land and buildings, which are shown at, estimated replacement cost as determined by valuers less impairment loss, if any, and accumulated depreciation. The Group capitalises all costs relating to the acquisition and installation of fixed assets.

Fixed assets, other than freehold land, but including revalued buildings, are depreciated pro rata to the period of use, on the straight line method at the annual rates based on the estimated useful lives.

	Per cent
Buildings	4.00
Plant and machinery	9.09 - 33.33
Research and development equipment	11.11
Furniture and fixtures	16.67
Vehicles	16.67

Leasehold land on a lease-cum-sale basis are capitalised at the allotment rates currently charged by the Municipal Authorities. Leasehold improvements are being depreciated over the lease term or useful life whichever is lower.

The depreciation charge over-and-above the depreciation calculation on the original cost of the revalued assets is transferred from the revaluation reserve to the consolidated profit and loss account.

Assets individually costing less than Rs 5 are fully depreciated in the year of purchase.

c. Impairment of long-lived assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the income statement for items of fixed assets carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtained from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset, from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if not possible, for the cash generating unit. Impairment loss recognised for an asset in earlier accounting periods is reversed, to the extent of its recoverable amount, if there has been a change in the estimates of used to determine the asset's recoverable amount since the last impairment loss was recognised.

d. Intangibles

Goodwill

Goodwill is amortised over a period of 5 years and assessed for impairment at each balance sheet date.

Intellectual Property rights

Costs relating to intellectual property rights which are acquired are capitalized and amortized on a straight-line basis over their estimated useful lives or ten years whichever is lower.

Research and Development Costs

Research and development costs, including technical know-how fees, incurred for development of products are expensed as incurred, except for development costs which relate to the design and testing of new or improved materials, products or processes which are recognised as an intangible asset to the extent that it is expected that such assets will generate future economic benefits. Research and development expenditure of a capital nature is added to fixed assets. 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.

e. Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis and includes all applicable overheads in bringing the inventories to their present location and condition. Excise duty arising on finished goods and customs duty on imported raw materials in stock (excluding stocks in the bonded warehouse) are treated as part of the cost of inventories.

f. Revenue recognition

Sale of pharmaceuticals, enzymes and compounds

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and are recorded net of excise duty, sales tax and other levies. For the purpose of disclosure in these consolidated financial statements, sales are reflected gross and net of excise duty in the consolidated profit and loss account.

Contract research agreements

The Group enters into two basic types of contract research agreements and the revenues therefrom are recognised on the following basis:

i. Time and material management

Revenues are recognised as services are rendered, in accordance with contractual agreements.

ii. Fixed price arrangements

Revenues relating to fixed price contracts are recognised based on the percentage of completion method.

g. Investments

Investments that are readily realisable and intended to be held for not more than 12 months are classified as current investments. All other investments are classified as long-term investments. Long term investments are stated at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments. Current investments are carried at lower of cost and fair value and determined on an individual investment basis.

h. Retirement benefits

The Group has schemes of retirement benefits for provident fund, gratuity and superannuation, in respect of which, the Group's contributions are charged to the consolidated profit and loss account. The contributions towards provident fund are made to statutory authorities. The gratuity and superannuation fund benefits of the Group are administered by a trust formed for this purpose through the group gratuity and superannuation scheme with Birla Sun Life Insurance Company Limited ('Birla Sunlife'). In respect of gratuity, the liability is accrued on an independent actuarial valuation at the year end. In respect of superannuation, the Group has accrued the liability, based on the schemes of the Group. The Company has discontinued the superannuation scheme during the year with effect from April 1, 2005.

i. Leave encashment

Liability for leave encashment is in accordance with the rules of the Group and is provided on the basis of an actuarial valuation performed by an independent actuary at the year end.

j. Foreign currency transactions

Initial Recognition

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

Conversion

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

Exchange Differences

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

Exchange differences arising on a monetary item that, in substance, form part of the Group's net investment in a non-integral foreign operation is accumulated in a foreign currency translation reserve in the financial statements until the disposal of the net investment, at which time they are recognised as income or as expenses.

Exchange differences relating to the acquisition of fixed assets are adjusted to the cost of fixed assets.

Forward Exchange Contracts not intended for trading or speculation purposes

The premium or discount arising at the inception of forward exchange contracts is amortised as expense or income over the life of the contract. Exchange differences on such contracts are recognised 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 recognised as income or as expense for the year.

Foreign Currency Options Contracts not intended for trading or speculation purposes

The Company enters into foreign currency option contracts to hedge its risks with respect to realisation of future receivables. The cost of these contracts, if any, are expensed over the period of the contract. The Company recognises the loss/gain on the Expiry or Cancellation, whichever is earlier, of the Options Contracts.

k. Income tax

Tax expense comprises 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 Indian Income Tax Act. 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. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

l. Borrowing costs

Borrowing costs that are attributable to the acquisition and construction of a qualifying asset are capitalised as a part of the cost of the asset. Other borrowing costs are recognised as an expense in the year in which they are incurred.

m. Deferred employee stock compensation costs

Deferred employee stock compensation costs for stock options are recognised on the basis of generally accepted accounting principles and in accordance with the guidelines of Securities and Exchange Board of India, and, are measured as the excess of the fair value of the Company's stock on the stock options grant date over the amount an employee must pay to acquire the stock and recognised in a graded manner on the basis of weighted period of services over the vesting period of equity shares. The fair value of the options is measured on the basis of an independent valuation performed or the market price in respect of stock options granted.

n. Earnings per share

The earnings considered in ascertaining the Group's earnings per share comprise of the net profit after tax for the year. The number of shares used in computing the basic earnings per share is the weighted average number of shares outstanding during the year and are adjusted for bonus shares and sub-division of shares for all periods presented in these consolidated financial statements. The number of shares used in computing diluted earnings per share comprises the weighted average share considered for deriving basic earnings per share, and also the weighted average number of shares, if any which would have been issued on the conversion of all dilutive potential equity shares.

The shares issued to the ESOP Trust have been considered as outstanding for basic earnings per share purposes, to the extent these shares have been allocated to the employees' pursuant to the ESOP scheme and are eligible for exercise. For dilutive EPS purpose, the shares, which are not yet eligible for exercise, have been considered as dilutive potential equity shares.

o. Operating lease

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

p. Segment reporting

Identification of segments

The Group's operating businesses are organized and managed separately according to the nature of products manufactured/traded, with each segment representing a strategic business unit that offers different products to different markets. The analysis of geographical segments is based on the areas in which the Group's products are sold.

Intersegment Transfers

The Group generally accounts for intersegment sales and transfers at an agreed marked-up price.

Allocation of common costs

Common allocable costs are allocated to each segment according to the relative contribution of each segment to the total common costs.

Unallocated items

The Corporate and other segment includes general corporate income and expense items which are not allocated to any business segment.

q. Provisions

A provision is recognised for a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation and in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best management estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

3. Share capital	2006	2005
Authorised:		
120,000,000 (March 31, 2005 -- 120,000,000) equity shares of Rs 5 each (March 31, 2005 -- Rs 5 each)	600,000	600,000
Issued, subscribed and paid-up:		
100,000,000 (March 31, 2005 -- 100,000,000) equity shares of Rs 5 each (March 31, 2005 -- Rs 5 each), fully paid	**500,000**	**500,000**

(a) Of the above equity shares:

(i) 30,800 equity shares of Rs 100 each were allotted as fully paid bonus shares by capitalisation of general reserve in the year ended March 31, 1997.

(ii) 23,471 equity shares of Rs 100 each were allotted as fully paid-up shares in the year ended March 31, 2000 pursuant to a contract for consideration other than cash.

(iii) On October 8, 2001, Biocon issued 12,153 equity shares of Rs 100 each to the ESOP Trust under an Employee Stock Option Plan ('ESOP Plan') and the ESOP Trust acquired 350 equity shares of Rs 100 each from certain individuals.

(iv) On March 30, 2002, Biocon acquired 99.9 per cent equity in Syngene through the issue of 202,780 equity shares of Rs 10 each. The consideration was determined on the basis of a fair valuation, as approved by the statutory authorities in India. The related share premium at Rs 403.8 per equity share has been credited to share premium account.

(v) On May 9, 2002 Biocon has further issued 15,870 equity shares of Rs 10 each to the Trust under the ESOP Plan. The Trust on October 20, 2003 acquired 2,500 equity shares of Rs 10 each from certain individuals. The total shares issued to the Trust were 7,023,100 equity shares of Rs 5 each of which grants have been made for 3,822,039 equity shares of the Company under the ESOP Plan as at March 31, 2006.

(vi) In March 2004, Biocon made an IPO of 10,000,000 fresh equity shares of Rs 5 each at a price of Rs 315 per share.

(b) The shareholders at the Extraordinary General Meeting ('EGM') of Biocon held on February 25, 2002, approved the sub-division of equity shares of face value of Rs 100 each into ten equity shares of face value of Rs 10 each. The Board of Directors in their meeting held on March 30, 2002 passed a resolution for effecting the sub-division. Subsequent to this sub-division, the authorised equity share capital of Rs 20,000 has been divided into 2,000,000 equity shares of Rs 10 each and the then issued, subscribed and paid-up capital of Rs 18,218 as at March 31, 2002 was divided into 1,821,780 equity shares of Rs 10 each.

(c) The shareholders at the EGM of Biocon held on November 11, 2003, approved the sub-division of equity shares of face value of Rs 10 each into 2 equity shares of Rs 5 each and increase in authorised capital from Rs 20,000 to Rs 600,000. Subsequent to this sub-division, the authorised equity share capital of Rs 20,000 has been divided into 4,000,000 equity shares of Rs 5 each and the issued, subscribed and paid -up capital of Rs 18,377 has been divided into 3,675,300 shares of Rs 5 each.

(d) Further, the shareholders at the EGM of Biocon held on November 11, 2003 approved the allotment of 86,324,700 equity shares of Rs 5 each as bonus shares in the ratio of 1 : 23.4877958 to the shareholders existing as on November 11, 2003, which was the approved record date for this purpose, by capitalisation of the balance in the profit and loss account of Rs 431,624.

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4. Reserves and surplus	**2006**	**2005**
Capital Reserve	17,094	17,094
Revaluation Reserve		
Balance, beginning of the year	14,302	15,908
Less: Transfer to profit and loss account	1,606	1,606
	12,696	14,302
Securities Premium		
Balance, beginning / end of the year	3,288,478	3,288,478
	3,288,478	3,288,478
General Reserve		
Balance, beginning / end of the year	689,796	515,408
Add: Transfer from Profit and Loss Account	133,483	174,388
	823,279	689,796
ESOP trust		
Dividend and interest income, net	18,873	5,450
Stock compensation adjustment (See note 2(l) & 20)		
Stock options outstanding	94,129	94,788
Deletions during the year	(2,339)	(659)
	91,790	94,129
Less: Deferred employee stock compensation expense	(5,130)	(16,935)
	86,660	77,194
Balance in profit and loss account	4,133,905	2,812,928
	8,380,985	**6,905,242**

(i) Biocon acquired 99.99 per cent in Syngene on March 30, 2002, through the issue of 202,780 equity shares of Rs 10 each. Biocon's shares were fair valued at Rs 907 at the transaction date. Further, as of March 30, 2002 the net assets of Syngene were Rs 101,422 resulting in capital reserve of Rs 17,094.

(ii) Share premium includes an amount of Rs 81,881 received on the allotment of 202,780 equity shares of Rs 10 each on March 30, 2002 at a premium of Rs 403.8 per equity share [(See Note 3(a) (iv)] and Rs 3,100,000 received on the allotment of 10,000,000 equity shares pursuant to the Company's IPO in March 2004 [See Note 3(a) (vi)].

(iii) Deferred employee stock compensation expense (See Note 20):

	2006	**2005**
Stock compensation expense outstanding	16,935	40,990
Stock options cancelled/forfeited during the year	(2,339)	(659)
Stock compensation expense amortised during the year	(9,467)	(23,396)
Closing balance of deferred employee stock compensation expense	**5,130**	**16,935**

(iv) Biocon on November 11, 2003 issued 86,324,700 bonus shares of Rs 5 each through capitalisation of the balance in the profit and loss account to the extent of Rs 431,624. [See note 3(d)]

5. Minority interest

Minority interest represents that part of the net results of operations and of the net assets of Syngene to the extent of 170 shares (0.01 per cent) and BBPL to the extent of 4,312,000 shares (49 per cent) of the share capital, which are attributable to interests which are not owned, directly or indirectly by Biocon.

The share of the net results of operations attributabe to the minority shareholders is as follows:

	2006	**2005**
As per last balance sheet	8,786	21
Opening minority share of BBPL, arising on account of revision in AS-27 [See Note 2(a)].	-	1,933
Additional capital issued during the year	43,120	17,246
Profit/(loss) for the year	(19,688)	(10,414)
	32,218	**8,786**

6. Secured loans	2006	2005
From banks		
Cash credit, packing credit, etc.	677,549	493,279
	677,549	**493,279**

(a) Cash credit, packing credit, etc

(i) On May 10, 2004, the Company renewed its total rupee and foreign currency denominated fund based working capital facilities with State Bank of India ('SBI') of Rs 200,000. These facilities are repayable on demand, secured by a pari-passu first charge on current assets and carry an interest rate of 2 to 6 per cent per annum for foreign currency denominated loans and 7 to 13 per cent per annum for rupee loans. The Company has utilised Rs 130,007 (March 31, 2005 -- Rs 41,567) as of March 31, 2006 inclusive of foreign currency loans of Rs 128,856 (US$ 2,897) (March 31, 2005 -- Rs 41,245) (US$946) as of March 31, 2006.

(ii) On August 23, 2004, the Company renewed its fund and non fund based working capital facilities with Hongkong and Shanghai Banking Corporation ('HSBC') for Rs 545,000. These facilities are repayable on demand, secured by pari-passu first charge on current assets of the Company and carry an interest rate of 2 to 6 percent per annum for foreign currency denominated loans and 5 to 15 per cent per annum for rupee loans. The Company has utilised fund based limits of Rs 239,405 (March 31,2005 -- Rs 305,340) inclusive of foreign currency denominated loans of Rs 218,419 (US$ 4,910) [March 31, 2005 -- Rs 305,340 (US$ 7,000)] as of March 31, 2006.

(iii) On August 26, 2004, the Company renewed its working capital facilities with Canara Bank ('CB') for Rs 200,000. These facilities are repayable on demand, secured by a pari-passu first charge on current assets of the Company and carry an interest rate of 2 to 6 per cent for foreign currency denominated loans and 7 to 12 per cent per annum for rupee loans. The Company has utilised Rs 114,586 (March 31, 2005 -- Rs 15,512) as of March 31, 2006 inclusive of foreign currency denominated loans of Rs 112,116 (US$ 2,521) [March 31, 2005 -- Rs 14,451 (US$ 331)].

(iv) On March 7, 2005, the Company renewed its working capital facility with Export Import Bank ('EXIM Bank') for Rs 310,000. These facilities are repayable on demand, secured by a pari-passu first charge on current assets of the Company and carry an interest rate of 2 to 4 per cent for foreign currency denominated loans and 7 to 12 per cent per annum for rupee loans. The Company has not drawn any amounts at March 31, 2006 and at March 31, 2005.

(v) On November 5, 2004, the Company renewed its fund and non fund based working capital facility with ABN Amro Bank for Rs 230,000. These facilities are repayable on demand, secured by a pari passu second charge on the fixed assets of the Company and carry an interest rate of 2 to 6 per cent for foreign currency denominated loans and 7 to 12 per cent per annum for rupee loans. The Company has utilised Rs 193,551 (March 31, 2005 - Rs 130,860) inclusive of foreign currency denominated loans of Rs192,262 (US$ 4,322) [March 31, 2005 -- Rs 130,860 (US$3,000)] as of March 31, 2006.

(vi) On August 10, 2005 all the above banks have entered into an inter-se agreement for operational convenience for the above working capital limits effecting the modification of the above charge and creation of a pari passu charge on the current assets of the company in favour of all the above banks.

7. Unsecured loans	2006	2005
Deferred payment liability	371,517	270,136
NMITLI - CSIR Loan	1,410	-
	372,927	**270,136**

(i) Under the Industrial Policy of the Government of Karnataka, the Company on November 18, 2000 obtained an order from Karnataka Sales Tax Authority for allowing deferment of sales tax (including turnover tax) for a period upto 8 years with respect to sales from its Bommasandra manufacturing facility of the Company. Under the Order, the deferment amount should not exceed Rs 24,375, of which at March 31, 2006, the Company had utilised Rs 1,050 (March 31, 2005 -- Rs 929).

(ii) Under the Agro Food Processing Industrial Policy of the Government of Karnataka, the Company on November 18, 2000 obtained an order from Karnataka Sales Tax Authority for allowing deferment of sales tax (including turnover tax) for a period upto 12 years with respect to sales from Hebbagodi manufacturing facility of the Company. Under the order, the deferment amount should not exceed Rs 648,938 of which at March 31, 2006, the Company had utilised Rs 370,467 (March 31, 2005 -- Rs 269,207).

(iii) On March 31, 2005, the Company has entered into an agreement with the Council of Sceintific and Industrial Research ('CSIR'), for an unsecured loan of Rs 4,030 for carrying out part of the research and development project under the New Millenium Indian Technology Leadership Initiative ('NMITLI') Scheme. The first instalment of Rs 1,410 (March 31, 2005 - Rs Nil) was released on signing the agreement. The second and third instalment of Rs 1,410 and Rs 1,210 will be released after one year and two years respectively from the date of the agreement. The loans are repayable over 10 annual equal installments starting from October 1, 2008 and carry an interest rate of 3 percent per annum.

8. Deferred tax liability

	Deferred tax (asset) / liability as at April 1, 2005	Current year charge / (credit)	Deferred tax (asset) / liability as at March 31, 2006
Depreciation	255,600	69,838	325,438
Employee retirement benefits	(15,446)	(6,051)	(21,497)
Disallowance under section 43B	1	-	1
Provision for doubtful debts	(5,642)	(868)	(6,510)
Others	(107)	(1)	(108)
	234,406	**62,918**	**297,324**
Year ended March 31, 2005	176,680	57,726	234,406

(i) The Company, effective August 26, 2003 received approval from the Cochin Special Economic Zone for the setting up of a 100 percent Export Oriented Unit ('EOU') for the manufacture and export of all types of statins on which, the Company claims deduction under section 10B of the Income-tax Act, 1961 ('IT Act').

In accordance with the provisions of section 10B of the IT Act, effective August 26, 2003 the Company can avail of a tax deduction in respect of 100 per cent of all export income derived from the export sales arising out of its EOUs. Accordingly, the Company, has not recognised any additional deferred tax liabilty for the EOUs as it expects the timing differences originating in this period to reverse out during the tax holiday period.

(ii) Syngene, constituting two 100 per cent Export Oriented Units (approved by the Cochin Export Processing Zone on December 14, 1998 and the Cochin Special Economic Zone on August 24, 2001), claims exemption under section 10B of the IT Act. Syngene has recognised the deferred tax liability/(asset) arising on account of timing differences for one unit which no longer claims exemption under section 10B of the IT Act, and with respect to Unit II, for those timing differences which do not reverse during the tax holiday.

(iii) During the year, Clinigene has incurred book losses of Rs 11,109 (March 31, 2005 - Rs 29,453) resulting in a tax loss carry-forward situation (accumulated losses at March 31, 2006 - Rs 62,758). Based on the above, the Company has not recognized the net deferred tax asset resulting from the tax loss carry forward as at March, 2006, as currently, although the management is confident of achieving profitablility, there is no virtual certainty that it would reverse the tax loss carry forwards.

(iv) As BBPL is in the start up stage and has not yet commenced operations, it is not eligible to carryforward any tax losses under the Indian Income Tax Act, 1961. The current tax provision of Rs 67 is towards fringe benefit tax as, introduced under the Finance Act, 2005

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9. Fixed assets

	Balance at the beginning of the year	Additions during the year	Deletions during the year	Balance at the end of the year
Cost/Valuation				
Goodwill	1,143	-	-	1,143
Land				
Freehold (revalued)	8,967	-	-	8,967
Freehold (others)	52,089	42,242	-	94,331
Leasehold	169,950	-	-	169,950
Buildings (revalued)	16,561	-	-	16,561
Buildings (others)	520,732	109,243	-	629,975
Leasehold improvements	1,962	3,191	-	5,153
Plant and machinery	2,151,369	406,982	-	2,558,351
Research and development equipment	311,229	197,241	-	508,470
Furniture and fixtures	54,570	10,074	-	64,644
Vehicles	11,461	2,494	1,038	12,917
	3,300,033	**771,467**	**1,038**	**4,070,462**
Year ended March 31, 2005	2,145,665	1,154,368	-	3,300,033
Accumulated depreciation				
Goodwill	1,143	-	-	1,143
Land				
Freehold (revalued)	-	-	-	-
Freehold (others)	-	-	-	-
Leasehold	-	-	-	-
Buildings (revalued)	11,226	2,409	-	13,635
Buildings (others)	67,435	20,465	-	87,900
Leasehold improvements	468	552	-	1,020
Plant and machinery	578,663	227,874	-	806,537
Research and development equipment	77,976	35,453	-	113,429
Furniture and fixtures	21,387	9,223	-	30,610
Vehicles	5,046	2,162	884	6,324
	763,344	**298,138**	**884**	**1,060,598**
Year ended March 31, 2005	538,293	225,051	-	763,344
Net book value				
Goodwill	-			-
Land				
Freehold (revalued)	8,967			8,967
Freehold (others)	52,089			94,331
Leasehold	169,950			169,950
Buildings (revalued)	5,335			2,926
Buildings (others)	453,297			542,075
Leasehold improvements	1,494			4,133
Plant and machinery	1,572,706			1,751,814
Research and development equipment	233,253			395,041
Furniture and fixtures	33,183			34,034
Vehicles	6,415			6,593
	2,536,689			**3,009,864**
Year ended March 31, 2005	1,607,372			2,536,689

(a) Biocon acquired 100 per cent shareholding in Clinigene on March 31, 2001, at a consideration of Rs 500. As of March 31, 2001, the net assets of Clinigene were Rs 188 resulting in a goodwill of Rs 312. The goodwill was fully amortised during the year ended March 31, 2001.

(b) Biocon acquired 51 per cent shareholding in BBPL on April 18, 2003, at a consideration of Rs 102. As of April 18, 2003, Biocon's share of the negative networth of BBPL was Rs 729 resulting in a goodwill of Rs 831. The goodwill was fully amortised during the year ended March 31, 2004.

(c) Certain freehold land and buildings were revalued on November 1, 1994, based on the estimated replacement cost after considering depreciation upto that date, as per valuers reports and the resultant surplus of Rs 34,529 was credited to revaluation reserve. Of this reserve, Rs 21,833 (March 31, 2005 -- Rs 20,227) has been transferred to the profit and loss account for depreciation on these assets or adjusted on the sale of these assets.

(d) The Company has capitalised net foreign exchange loss of Rs 797 (March 31, 2005 - Rs Nil) during the year against capital work in progress / fixed assets

(e) On December 5, 2002, Karnataka Industrial Areas Development Board ('KIADB') allotted land aggregating 26.75 acres to the Company for Rs 64,200 on a lease-cum sale basis for a period of 6 years. In addition, during the year ended March 31, 2005, the Company acquired an additional 41.25 acres of land for Rs 99,417 from KIADB. One of the key conditions include commencement of commercial operations by the Company within 24 months of taking possession, which the Company believes has been complied with by the commencement of operations by Syngene on this land on October 21, 2004. During the quarter ended June 30, 2005, the Company has paid an advance of Rs 56,320 towards allotment of additional 22 acres of land, offered to the Company by KIADB on December 20, 2003. The Company has received the possession certificate from KIADB in January 2006 and is in the process of getting the land registered.

(f) The Company has taken a house property on lease for a term of 10 years at a monthly rental of Rs 15 from P K Associates. The Company has incurred an amount of Rs 3,191 on the lease improvements on this house property (Refer Note 23)

10. Investments (At cost)	2006	2005
Long term investments		
A) Non trade:		
National Savings Certificates	13	13
	13	13
B) Trade investment:		
In Other Companies:		
Unquoted and fully paid up		
3% Convertible Promissory Note of US$ 5,150,000 (March 31, 2005 - US$ 1,000,000) in Nobex Corporation, USA [Refer Note 1(c) and (i) below]	226,274	43,966
3% Series B Convertible Promissory Note of US$ 3,000,000 (March 31, 2005 - US$ 1,000,000) in Vaccinex Inc., USA	131,930	44,735
2,000,000 (March 31, 2005 - 2,000,000) Common Stock at US$ 0.50 each, fully paid, par value US$ 0.001 each of Nobex Corporation, USA [Refer Note 1(c) and (i) below]	45,640	45,640
645,161 (March 31, 2005 - 645,161) Series B1 Preferred Stock at US$ 1.55 each, fully paid, par value US $0.01 each of Vaccinex Inc., USA	45,100	45,100
Advance to Nobex [Refer Note 1(c) and (i) below]	66,627	-
	515,571	179,441

(i) (a) On December 1, 2005 Nobex has filed for bankruptcy under Chapter 11 of the US Brankruptcy laws, the status of the bankruptcy proceedings and the recoverability of the investments is more fully discussed in Note 1(c).

(b) The Company has entered into an 'Investment Agreement' with Nobex Corporation, USA ('Nobex') on October 20, 2004 to invest an amount of US$ 3.3 million (US$ 1 million in Common Stock and US$ 2.3 million in Convertible Promissory Notes). Further, the Company has entered into a 'Oral Insulin Joint Product Development Agreement' for development and commercialization of the Oral Insulin Product. In addition, Biocon will get the warrants of US$ 4.4 million convertible into US$ 3.3 million worth of common stock. As on March 31, 2006, the Company has invested Rs 45,640 (US$ 1 million) (March 31, 2005 - US$ 1 million) towards purchase of common stock, an amount of Rs 87,698 (US$ 2 millon) (March 31, 2005 - US$ 1.0 million) towards the convertible promissory note and has received the warrants entitling it to subscribe for 1.33 million common stock at an exercise price of US$ 0.75 each.

(c) The Company has also entered into an 'Investment Agreement' with Nobex Corporation, USA on April 25, 2005 to invest an amount of US$ 3.15 million in Convertible Promissory Notes. Further, the Company has entered into an 'BNP Joint Product Development Agreement' for development and commercialization of the Oral BNP Product. As on March 31, 2006 the Company has invested Rs 138,576 (US$ 3.15 million) towards purchase of the convertible promissory notes. Further, the Company has paid Rs 12 million towards license fee for distribution rights of Oral Insulin on its commercialization ; and consequent to the filing of the bankruptcy charge under Chapter 11 of the US Bankruptcy laws, the Company has agreed to be a debtor in possession to facilitate the orderly sale of assets of Nobex and committed to fund Nobex for a total sum of USD 1.4 Million under the Loan and Security Agreement ('the agreement') dated December 1, 2005. This amount shall be fully recovered on first priority basis against the sale of assets of Nobex. As on March 31, 2006, the Company has funded a sum of Rs 54 million (Refer Schedule 13).

(ii) The Company has entered into a 'Securities Purchase Agreement' with Vaccinex Inc., USA ('Vaccinex') on November 3, 2004 to invest an amount of US$ 4 million (US$ 1 million in Series B1 Convertible Preferred Stock and US$ 3 million in Series B Convertible Promissory Notes). Further, the Company has entered into a 'Research and Collaboration Agreement' to discover, develop, and commercialize human therapeutic monoclonal antibodies. As on March 31, 2006 the Company has invested Rs 45,100 (US$ 1 million) in the convertible preferred stock and an amount of Rs 131,930 (US$ 3 million) in the convertible promissory note.

Vaccinex has incurred a loss of US$ 5.5 million for the year ended December 31, 2005. In addition, the networth of Vaccinex is fully eroded at the balance sheet date. Vaccinex is in the process of negotiating various relationships, including strategic investors to fund its development plans. As Vaccinex is a development stage enterprise and of strategic importance to the Company, it believes that there is no permanent dimunition in the value of this investment. In accordance with Accounting Standard - 9, considering the above, the Company has not recognised interest income accrued on the promissory notes.

Other Investments	2006	2005
C) Current and unquoted (at lower of cost and fair market value)		
1,788,569 units (March 31, 2005 -- 1,712,547) of Rs 10 each in Reliance Mutual Fund [Market Value Rs 27,359 (March 31, 2005 -- Rs 26,186)]	27,313	26,150
10,000,000 units (March 31, 2005 -- 2,935,137) of Rs 10 each in ING Vysya Mutual Fund - FMP [Market Value Rs 100,000 (March 31, 2005 -- Rs Nil)]	100,000	-
10,000,000 units (March 31, 2005 -- 2,935,137) of Rs 10 each in LIC Mutual Fund [Market Value Rs 100,046 (March 31, 2005 -- Rs 31,896)]	100,000	31,553
7,968,048 units (March 31, 2005 -- Nil) of Rs 10 each in Deutsche Mutual Fund [Market Value Rs 80,000 (March 31, 2005 -- Rs Nil)]	80,000	-
500,000 units (March 31, 2005 -- Nil) of Rs 10 each in Kotak Mutual Fund - FMP [Market Value Rs 50,000 (March 31, 2005 -- Rs Nil)]	50,000	-
2,739,621 units (March 31, 2005 -- 13,550,920) of Rs 10 each in HSBC Mutual Fund [Market Value Rs 27,413 (March 31, 2005-- Rs 137,856)]	27,412	137,856
Nil units (March 31, 2005 -- 2,101,906) of Rs 10 each in Birla Sunlife Mutual Fund [Market Value Rs Nil (March 31, 2005 -- Rs 21,023)]	-	21,019
40,510 units (March 31, 2005 -- Nil) of Rs 10 each in ING Vysya Liquid Fund [Market Value Rs 407 (March 31, 2005 -- Rs Nil)]	406	-
599,869 units (March 31, 2005 -- 1,515,461) of Rs 10 each in Grindlays Liquid Plan [Market Value Rs 6,178 (March 31, 2005 -- Rs 15,623)]	6,178	15,608
2,337,273 units (March 31, 2005 -- 7,247,078) of Rs 10 each in JM Mutual Fund - Liquid Plan [Market Value Rs 23,414 (March 31, 2005 -- Rs 72,637)]	23,414	72,629
2,137,074 units (March 31, 2005 -- Nil) of Rs 10 each in Deutsche Insta Cash Plus Fund [Market Value Rs 22,014 (March 31, 2005 -- Rs Nil)]	22,014	-
500,000 units (March 31, 2005 -- Nil) of Rs 10 each in HDFC Mutual fund - FMP [Market Value Rs 50,000 (March 31, 2005 -- Rs Nil)]	50,000	-
Nil units (March 31, 2005 -- 4,085,713) of Rs 10 each in CanLiquid Fund [Market Value Rs Nil (March 31, 2005 -- Rs 41,025)]	-	41,025
Aggregate amount of unquoted investments	486,737	345,840
The following investments were purchased and sold during the year		
Purchase and Sale of Nil units (March 31, 2005--1,874,055 of Rs 10 each in ING Vysya Liquid Fund	-	20,190
Purchase and Sale of Nil units (March 31, 2005--3,022,418) of Rs 10 each in DSP Merrill Lynch Fund	-	30,254
Purchase and Sale of 120,557 units (March 31, 2005--3,730,184) of Rs 10 each in LIC Liquid Fund	1,925	40,245
Purchase and Sale of Nil units (March 31, 2005--3,019,010) of Rs 10 each in Principal Asset Management Fund	-	30,201
Purchase and Sale of Nil units (March 31, 2005--30,912) of Rs 1,000 each in Franklin Templeton Fund	-	40,246
Purchase and Sale of Nil units (March 31, 2005--955,771) of Rs 10 each in HDFC Management Fund	-	10,166
Purchase and Sale of Nil units (March 31,2005--3,017,595) of Rs 10 each in IL&FS Liquid Fund	-	30,176
Purchase and Sale of 117,456,098 units (March 31, 2005 - 145,491,364) units of Rs 10 each in HSBC Cash Fund	1,184,089	1,494,070
Purchase and sale of 26,676 units (March 31, 2005--1,401,338) of Rs 1,000 each in TATA Mutual Fund	30,447	15,673
Purchase and sale of Nil units(March 31, 2005--4,567,477) of Rs 10 each in JM Mutual Fund - FMP	-	45,920
Purchase and sale of 7,117,532 units (March 31, 2005--72,800) of Rs 10 each in Reliance Fixed Term Scheme	71,175	728
Purchase and sale of 6,900,075 units(March 31 2005-- 2,706,816) of Rs 10 each in Reliance Mutual Fund	71,361	41,297
Purchase and sale of 84,400 units(March 31, 2005--6,482,528) of Rs 10 each in JM Mutual Fund - Liquid Plan	941	65,015
Purchase and sale of 66,340 units (March 31, 2005--Nil) of Rs 10 each in Birla Sunlife Mutual Fund	681	-
Purchase and sale of 2,987,215 units (March 31, 2005--Nil) of Rs 10 each in ING Vysya Liquid Fund	30,000	-
Purchase and sale of 8,000,000 units (March 31, 2005--Nil) of Rs 10 each in Deutsche Mutual Fund	80,000	-
Purchase and Sale of 7,691 units (March 31, 2005--Nil) of Rs 10 each in Canara Liquid Fund	77	-
Purchase and sale of 1,691,643 units (March 31, 2005--Nil) of Rs 10 each in Prudential ICICI Liquid Fund	20,037	-
Purchase and sale of 2,501,525 units(March 31, 2005--5,053,907) of Rs 10 each of ABN AMRO Mutual Fund	25,015	50,539

D) Current and unquoted (at lower of cost and fair market value), from IPO funds	2006	2005
Nil units (March 31, 2005 -- 4,169,132) of Rs 10 each in Birla Cash Manager	-	41,698
[Market Value Rs Nil (March 31, 2005 -- Rs 41,698)]		
Nil units (March 31, 2005 -- 5,012,424) of Rs 10 each in ABN Amro Liquid Fund	-	50,124
[Market Value Rs Nil (March 31, 2005 -- Rs 50,124)]		
Nil units (March 31, 2005 -- 5,227,376) of Rs 10 each in Can Liquid Fund	-	52,488
[Market Value Rs Nil (March 31, 2005 -- Rs 52,488)]		
Nil units (March 31, 2005 -- 10,393,287) of Rs 10 each in Grindlays Cash Fund	-	104,007
[Market Value Rs Nil (March 31, 2005 -- Rs104,040]		
Nil units (March 31, 2005 -- 20,000,867) of Rs 10 each in HSBC Cash Fund	-	200,090
[Market Value Rs Nil (March 31, 2005 -- Rs 200,329)]		
Nil units (March 31, 2005 -- 5,208,656) of Rs 10 each in ING Vysya Liquid Fund	-	52,220
[Market Value Rs Nil (March 31, 2005 -- Rs 52,253)]		
Nil units (March 31, 2005 -- 30,495,573) of Rs 10 each in Kotak Mutual fund	-	305,724
[Market Value Rs Nil (March 31, 2005 -- Rs 305,880)]		
Nil units (March 31, 2005 -- 8,060,298) of Rs 10 each in LIC Liquid Fund	-	87,085
[Market Value Rs Nil (March 31, 2005 -- Rs 87,592)]		
Nil units (March 31, 2005 -- 22,711,805) of Rs 10 each in Prudential ICICI Liquid Plan	-	269,313
[Market Value Rs Nil (March 31, 2005 -- Rs 269,313)]		
Nil units (March 31, 2005 -- 11,584,659) of Rs 10 each in Principal Cash Management Fund	-	115,862
[Market Value Rs Nil (March 31, 2005 -- Rs 115,862]		
Nil units (March 31, 2005 -- 32,650,510) of Rs 10 each in Reliance Liquid Fund	-	498,831
[Market Value Rs Nil (March 31, 2005 -- Rs 498,889)]		
Nil units (March 31, 2005 -- 42,129) of Rs 1,000 each in TATA Liquid Fund	-	46,915
[Market Value Rs Nil (March 31, 2005-- Rs 47,304)]		
Aggregate amount of unquoted investments	-	1,824,357
	486,737	2,170,197
	1,002,321	**2,349,651**
The following investments were purchased and sold during the year - from the IPO funds		
Purchase and Sale of 5,449,794 units (March 31, 2005 -- 37,507,795) of Rs 10 each in Birla Cash Manager	54,516	375,318
Purchase and Sale of 18,584 units (March 31, 2005 -- 61,517,500) of Rs 10 each in Can Liquid Fund	187	617,750
Purchase and Sale of 5,454,256 units (March 31, 2005 -- 45,067,411) of Rs 10 each in Deutsche Insta Cash Plus Fund	56,184	454,489
Purchase and Sale of Nil units (March 31,2005--29,502,924) of Rs 10 each in DSP Merrill Lynch Liquidity Fund	-	354,014
Purchase and Sale of 24,690 units (March 31,2005-- 40,917,600) of Rs 10 each in Grindlays Cash Fund	246	409,472
Purchase and Sale of Nil units (March 31, 2005-- 8,543,943) of Rs 10 each in HDFC Cash Management Fund	-	90,845
Purchase and Sale of 14,660,189 units (March 31,2005--141,237,540) of Rs 10 each in HSBC Cash Fund	146,808	1,439,750
Purchase and Sale of 4,088,839 units (March 31, 2005--26,320,956) of Rs 10 each in ING Vysya Liquid Fund	40,961	271,420
Purchase and Sale of 5,594,845 units (March 31, 2005--324,23,604) of Rs 10 each in JM High Liquidity Fund	56,041	324,601
Purchase and Sale of Nil units (March 31, 2005--1,411,911) of Rs 1,000 each in Franklin Templeton Mutual Fund	-	1,550,323
Purchase and Sale of 465,086 units (March 31, 2005--21,679,401)of Rs 10 each in Kotak Mutual Fund	4,828	240,820
Purchase and Sale of 39,884 units (March 31, 2005--16,451,017) of Rs 10 each in LIC Mutual Fund	434	178,018
Purchase and Sale of 189,082 units (March 31, 2005--42,492,920) of Rs 10 each in ICICI Prudential Fund	2,226	503,651
Purchase and Sale of 5,570,786 units (March 31, 2005--29,889,448) of Rs 10 each in Principal Cash Management Fund	55,783	298,975
Purchase and Sale of 719 units (March 31, 2005--27,164,543) of Rs 1,000 each in TATA Liquid Fund	1,565	353,512
Purchase and Sale of 16,193,474 units (March 31,2005--55,083,311) of Rs 10 each in Reliance Liquid Fund	215,554	841,352
Purchase and Sale of 7,223 units (March 31, 2005--10,025,245) of Rs 10 each in ABN AMRO Liquid Fund	72	100,252
Purchase and Sale of 31,421,615 units (March 31, 2005--167,762,418) of Rs 10 each in Reliance Fixed Maturity Plan	314,220	1,712,490

11. Inventories	2006	2005
Raw materials	482,787	334,471
Goods-in-bond / goods-in-transit (Raw materials)	23,050	16,119
Packing materials	7,896	4,242
Work-in-progress	522,302	360,403
Finished goods	68,821	22,729
	1,104,856	**737,964**

The inventories of Raw materials and Work-in-progress include trial run inventory of Rs 158,134 at Biocon Park, as the project is yet to commercialise its operations (Refer Note 1).

12. Sundry debtors (unsecured)	2006	2005
Debts outstanding for a period exceeding six-months		
Considered good	50,429	6,681
Considered doubtful	19,785	17,207
Other debts		
Considered good	2,186,215	1,817,788
	2,256,429	1,841,676
Less: Provision for doubtful debts	19,785	17,207
	2,236,644	**1,824,469**

Other debts include unbilled revenues of Rs 15,089 (March 31, 2005 - Rs Nil) with respect to services rendered to customers.

13. Cash and bank balances	2006	2005
Cash on hand	1,239	1,447
Balances with scheduled banks:		
In current accounts	2,721	18,476
In deposit accounts	16,276	14,315
	20,236	**34,238**

(a) Deposit account includes a deposit made of Rs Nil (March 31, 2005 - Rs 10,000) under the flexi-deposit account allowing the Company to avail overdraft facility of Rs Nil (March 31, 2005 -- Rs 10,000) at an interest rate of 2 per cent above the fixed deposit rate.

(b) Syngene has term deposits of Rs Nil (March 31, 2005 - Rs 7,000) under the flexi-deposit account allowing Syngene to avail overdraft facility upto Rs Nil (March 31, 2005 - Rs 7,000) at an interest rate of 2 per cent above the term deposit rate.

(c) Balances with scheduled banks in current accounts include balance in unclaimed dividend account of Rs 725 (March 31, 2005 - Rs 252).

(d) Balances with scheduled banks in current accounts and deposit account include the balances of the ESOP Trust of Rs 1,298 (March 31, 2005 - Rs 143) and Rs 16,276 (March 31, 2005 -- Rs 4,315) respectively.

14. Loans and advances (Unsecured and considered good)	2006	2005
Advances recoverable in cash or in kind or for value to be received	44,878	30,273
Duty drawback receivable, net of provision of Rs 534 (March 31, 2005 -- Rs 1,446)	23,101	26,772
Deposits	40,643	38,198
Balances with Customs, Excise and Sales tax Authorities	129,923	74,711
Shares held by ESOP trust	905	935
	239,450	**170,889**

15. Current liabilities and provisions	2006	2005
Current liabilities		
Sundry creditors		
Capital	872,573	1,075,285
Others	1,057,091	860,635
Advances from customers	57,537	68,516
Balance in current account with bank represents book overdraft	19,586	7,040
Interest accrued but not due	36	201
Investor Education and Protection Fund to be credited by :-		
Unclaimed dividend	725	252
Other liabilities	176,225	102,728
	2,183,773	2,114,657
Provisions for		
Proposed dividend	250,000	200,000
Tax on proposed dividend	35,063	28,050
Gratuity	15,820	22,334
Superannuation	2,645	23,963
Bonus	30,700	37,077
Leave encashment	66,938	49,258
Provision for taxation, net of advance tax	27,650	11,844
	428,816	372,526
	2,612,589	**2,487,183**

(a) Provision for tax includes provision for fringe benefit tax of Rs 517 (Refer Note 22)

(b) Other liabilities include Rs 1,073 (March 31, 2005 -- Rs 4,596) due to Ms Kiran Mazumdar Shaw, Managing Director and Rs Nil (March 31, 2005 -- Rs Nil) to Mr JMM Shaw, Director and the maximum amount outstanding at any time during the period was Rs 5,530 (March 31, 2005 - Rs 4,596) and Rs 366 (March 31, 2005 - Rs 366) respectively.

16. Other income	2006	2005
Interest income from investments [gross of tax deducted at source - Rs 233 (2005 - Rs 438)]	1,514	2,543
Dividend income		
On investment of IPO funds	21,508	109,779
Others	14,571	11,021
Profit on sale of investments	2,753	2,296
Gain on fixed assets sold, net	346	
Write back of liabilities	-	13,185
Miscellaneous income	10,754	17,423
	51,446	**156,247**

17. Manufacturing, contract research and other expenses	2006	2005
Raw materials consumed, net of duty drawback of Rs 41,356 (2005 - Rs 40,758)	4,122,984	3,579,555
Purchase of goods for resale	86,546	28,046
Employee costs		
Salaries, wages, bonus, etc	513,726	435,784
Group's contribution to provident and other fund	25,612	20,329
Gratuity, superannuation, leave encashment	31,993	57,785
Employee stock compensation expense (See Note 2 (a), 4 & 20)	9,467	23,396
Directors sitting fees	900	720
Welfare expenses	37,116	30,879
Operating and other expenses:		
Royalty and technical fees	4,768	1,087
Rent	2,849	2,675
Communication expenses	26,285	24,887
Travelling and conveyance	78,224	72,560
Professional charges	51,984	43,581
Power and fuel	336,866	255,726
Insurance	14,589	13,499
Rates, taxes and fees	4,026	7,628
Lab consumables	33,373	22,203
Repairs and maintenance		
Plant and machinery	65,672	79,986
Buildings	8,217	14,784
Others	29,333	22,607
Selling expenses		
Freight outwards and clearing charges	50,542	42,714
Sales promotion expenses	58,170	33,164
Commission and brokerage	60,060	52,722
Bad debts written off	1,501	200
Provision for bad and doubtful debts	2,578	1,249
Exchange fluctuation (net)	(27,248)	(26,278)
Loss/(gain) on forward cover contracts, net	25,059	(5,340)
Printing and stationery	8,913	12,451
Provision for dimunition of investments	-	127
Miscellaneous expenses	136,443	68,775
	5,800,548	**4,917,501**
(Increase)/decrease in inventories of finished goods and work-in-progress:		
Opening inventories:		
Finished goods	22,729	17,383
Work-in-progress	360,403	335,329
	383,132	352,712
Closing inventories:		
Finished goods	(68,821)	(22,729)
Work-in-progress	(522,302)	(360,403)
	(591,123)	(383,132)
	(207,991)	(30,420)
	5,592,557	**4,887,081**

(i) Power and fuel cost of Rs. 185,606 (March 31, 2005 - Rs Nil) and employee costs of Rs 35,513 (March 31, 2005 - Rs Nil) for the year ended March 31, 2006 have been transferred to capital work in progress, which include salaries, wages and bonus - Rs 33,134; Contribution to provident and other funds - Rs 872 ; Gratuity and leave encashment - Rs 1,507 as it relates to construction and installation of new facility at the Biocon Park.

(ii) Legal and professional charges of Rs 20,977 (March 31, 2005 - Rs Nil) identifiable to acquisition of intellectual property rights ('IPRs') have been transferred to capital work in progress.

18. Research and development expenses

Research and development expenses aggregate to Rs 411,305 (March 31, 2005 - Rs 245,526) and include Rs 197,241 (March 31, 2005 - Rs 99,900) on research and development equipment and Rs 18,327 (March 31, 2005 - Rs 3,466) on buildings and the remaining expenses incurred by the Company have been disclosed under the appropriate account heads.

19. Interest and finance charges	2006	2005
Interest paid on :		
Others	17,590	18,564
	17,590	18,564
Less : Interest received from suppliers [Gross of tax deducted at source Rs 54 (2005 - Rs Nil)]	(8,850)	(7,008)
	8,740	11,556
Bank charges	8,808	8,726
	17,548	**20,282**

20. Employee stock compensation

On September 27, 2001, Biocon's Board of Directors approved the Biocon Employee Stock Option Plan ('ESOP Plan 2000') for the grant of stock options to the employees of the Group. A compensation committee has been constituted to administer the plan through the ESOP Trust.

The Trust purchases equity shares of Biocon using the proceeds from the loan obtained from Biocon and will subscribe to such number of shares as is necessary for transferring to the employees. The total number of equity shares transferred to the Trust shall not exceed 250,000 equity shares (pre-bonus and pre-split) of Rs 10 each and shares transferred to each employee will not exceed 10,000 equity shares (pre-bonus and pre-split) of Rs 10 each. The Compensation Committee shall determine the exercise price which will not be less than the face value of the shares. The Compensation Committee had granted 71,510 options under the ESOP Plan 2000 to be exercised at a grant price of Rs 10 (pre-bonus and pre-split). The options will vest with the employees equally over a four year period from the grant date. In case the employee resigns from employment, the rights relating to shares, which are eligible for exercise, may be purchased by payment of the exercise price whereas, the balance shares shall be forfeited in favour of the ESOP Trust.

The Compensation Committee has granted 142,100 options under the ESOP Plan 2000 effective January 1, 2004 to be exercised at a grant price of Rs 5. The options vest with the employees equally over a four year period from January 1, 2005.

On January 18, 2004, the Board of Directors announced the Biocon Employees Stock Option Plan (ESOP Plan 2004) for the grant of stock options to the employees of the Company, pursuant to which, the Compensation Committee on March 19, 2004 granted 422,000 options under the ESOP Plan 2004 to be exercised at a grant price of Rs 315 being the issue price determined for the IPO through the book building process. The options will vest with the employees equally over a four year period from April 1, 2005.

The Securities and Exchange Board of India ('SEBI') has issued the Employee Stock Option Scheme and Stock Purchase Guidelines, 1999 ('SEBI guidelines') which are applicable to stock option schemes for employees, of all listed companies. Biocon, though not listed on the date of the grants has followed these guidelines for accounting of ESOP costs [Refer Note 2]. In accordance with these guidelines, the excess of market price of the underlying equity shares on the date of the grant of the stock options over the exercise price of the options is to be recognised in the books of account and amortised over the vesting period. For basic EPS purposes, the shares outstanding including the options exercised by the employees have been considered [Refer Note 2(k)]. For diluted EPS purpose, the shares, which are not yet eligible for exercise, have also been considered as outstanding to the extent these shares are diluted.

The Trust had 4,432,567 (March 31, 2005 -- 5,402,189) equity shares of Rs 5 each as at March 31, 2006 and a summary of the activity of the Trust is as follows:

Particulars	Exercise Price	2006	2005
Opening balance of equity shares not granted to employees and available with the Trust	Rs 5 each	3,138,332	3,082,240
Add: Options cancelled and lapsed		70,383	56,092
Closing balance of shares not granted to employees and available with the Trust		3,208,715	3,138,332
Options granted and exercised at year end		2,590,533	1,620,911
Options granted and eligible for exercise at year end		235,200	97,952
Options granted but not eligible for exercise at year end		988,652	2,165,905
Total employee stock compensation cost as at year end		91,790	94,129
Vesting period of options -- Primarily progressively over four years			
Employee stock compensation expense -- Amortised during the year		**9,467**	**23,396**

The estimated fair values of the equity shares have been determined by management on the dates of the grants for ESOP 2000 based on a valuation by an independent appraiser. As per the terms of the ESOP Plan 2004, the exercise price equals the price determined for the IPO through the book building process for the options granted on March 19, 2004. Accordingly no compensation cost has been recorded, as the exercise price equals the fair value of the shares on the date of the IPO.

21. Reconciliation of basic and diluted shares used in computing EPS

	2006	2005
Basic weighted average shares outstanding	95,567,448	94,597,811
Add: Effect of dilutive shares granted but not exercised / not eligible for exercise	1,223,852	2,263,857
Weighted average shares outstanding and potential shares outstanding	**96,791,300**	**96,861,668**

22. Current taxes

The current tax charge of Rs 236,883 (March 31, 2005 - Rs 128,341) is based on the earnings for the year ended March 31, 2006 net of write backs of Rs 2,681 with respect to earlier year provisions. In addition, the Company has, during the period, provided Rs 5,853 towards fringe benefit tax as introduced by the Government under the Finance Act, 2005.

23. Related party transactions

Sl No	Name of the related party	Relationship	Description	April 1, 2005 to March 31, 2006	Balance as at March 31, 2006 (Payable)/receivable	April 1, 2004 to March 31, 2005	Balance as at March 31, 2005 (Payable)/receivable
1	Kiran Mazumdar Shaw	Managing Director	Salary and perquisites	10,339	(1,073)	10,261	(4,596)
2	JMM Shaw	Director	Salary and perquisites	9,384	-	9,593	-
3	CIMAB	Joint Venture Partner	Purchase of vials	1,189	-	502	57
			R & D fees	8,865	-	9,011	-
4	P K Associates	Relative of Director	Lease Rentals	90	-	-	-

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24. Provisions	Balance at the beginning of the year	Additions during the year	Amount paid during the year	Balance at the end of the year
Particulars				
Leave encashment	49,258	17,680	-	66,938
Bonus	37,077	66,927	73,304	30,700
Superannuation	23,963	-	21,318	2,645
Gratuity	22,334	15,820	22,334	15,820
Proposed dividend	200,000	250,000	200,000	250,000
Tax on proposed dividend	28,050	35,063	28,050	35,063
	360,682	**385,490**	**345,006**	**401,166**

25. Commitments	2006	2005
(a) Capital commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for, net of advances	479,428	1,367,825
(b) Operating lease commitments		
(i) Rent :		
The Group has entered into lease agreements for lease of premises which expires between 2008 to 2015. Gross rental expenses for the year ended March 31, 2006 aggregate to Rs 570 (March 31, 2005 - Rs 480) The committed lease rental in the future are:		
Not later than one year	669	480
Later than one year and not later than five years	2,195	1,710
Later than five years	1,625	-
(ii) Vehicles :		
The Group has taken vehicles for certain employees under operating leases, which expire from December 2008 to January 2010. Gross rental expenses for the year ended March 31, 2006 aggregate to Rs 5,794 (March 31, 2005 - Rs 6,450). The committed lease rental in the future are:		
Not later than one year	6,334	5,430
Later than one year and not later than five years	8,430	11,726
26. Contingent liabilities		
(a) Taxation matters under appeal	12,900	9,895
(b) Corporate guarantees		
(i) Corporate guarantee given in favour of CED in respect of certain performance obligations of Syngene.	217,500	217,500
(ii) Corporate guarantee given in favour of CED in respect of certain performance obligations of Biocon.	465,000	315,000
(iii) Corporate guarantee given in favour of CED in respect of certain performance obligations of BBPL	131,352	46,239
(iv) Corporate guarantee given in favour of CED in respect of certain performance obligations of Clinigene	4,976	-
The Group is informed that the necessary terms and conditions have been complied with and no liability has arisen.		
(c) Claims against the Group not acknowledged as debts	2,170	2,170
27. Details of utilisation of proceeds raised through public issue		
Capital work-in-progress [Note 1(a)]	3,150,000	1,325,643
Current investments -- Liquid money market mutual funds [Refer Note 10]	-	1,824,357
	3,150,000	**3,150,000**

28. Foreign exchange option contracts

The Company has entered into option contracts to hedge highly probable forcasted forex transactions. As at March 31, 2006, the Company has currency option contracts to sell US$ 27 Million over the period beginning October 2006 to September 2007 in respect of the forcasted transactions. The impact of marked to market of these option contracts is Rs 24 Million (gain) as at March 31, 2006 which has not been recognised in the profit and loss account in accordance with the Companys' accounting policy.

29. Segmental information

Business segments

The primary reporting of the Group has been performed on the basis of business segment. The Group is organised into three business segments, enzymes, active pharmaceutical ingredients ('Pharma') and contract research services. Segments have been identified and reported based on the nature of the products, the risks and returns, the organisation structure and the internal financial reporting systems.

April 1, 2005 to March 31, 2006

Particulars	Enzyme	Pharma	Contract Research	Joint Venture	Unallocated	Eliminations	Total
Revenues							
External sales	849,563	6,025,361	1,005,756	-	-	-	7,880,680
Inter-segment transfers	72,294	-	-	-	-	(72,294)	-
Total revenues	921,857	6,025,361	1,005,756	-	-	(72,294)	7,880,680
Costs							
Segment costs	(523,481)	(3,660,753)	(497,049)	-	-	-	(4,681,283)
Inter-segment transfers	-	(72,294)	-	-	-	72,294	-
Result							
Segment result	398,376	2,292,314	508,707	-	-	-	3,199,397
Corporate expenses	-	-	-	(19,859)	(891,415)	-	(911,274)
Other income	-	-	14,921	-	35,011	-	49,932
Interest income	-	-	1,134	-	380	-	1,514
Operating profit							2,339,569
Depreciation	(26,911)	(142,463)	(68,003)	(31)	(59,124)	-	(296,532)
Interest expense	-	-	(577)	(85)	(16,886)	-	(17,548)
Income taxes - Current and deferred	-	-	-	-	(305,654)	-	(305,654)
Minority Interest	-	-	-	-	19,688	-	19,688
Net profit							1,739,523
Other information							
Segment assets	626,616	8,864,941	1,515,470	654,492	-	-	11,661,519
Unallocated corporate assets	-	-	-	-	1,212,073	-	1,212,073
Total assets							12,873,592
Segment liabilities	138,006	1,751,748	265,688	146,536	-	-	2,301,978
Unallocated corporate liabilities	-	-	-	-	1,658,411	-	1,658,411
Total liabilities							3,960,389
Capital expenditure	10,073	114,648	311,385	-	335,361	-	771,467

April 1, 2004 to March 31, 2005

Particulars	Enzyme	Pharma	Contract Research	Joint Venture	Unallocated	Eliminations	Total
Revenues							
External sales	896,814	5,566,810	662,040	-	-	-	7,125,664
Inter-segment transfers	84,128	-	-	-	-	(84,128)	-
Total revenues	980,942	5,566,810	662,040	-	-	(84,128)	7,125,664
Costs							
Segment costs	(505,705)	(3,407,711)	(336,158)	-	(36,354)	-	(4,285,928)
Inter-segment transfers	-	(84,128)	-	-	-	84,128	-
Result							
Segment result	475,237	2,074,971	325,882	-	-36,354	-	2,839,736
Corporate expenses	-	-	-	(20,569)	(580,584)	-	(601,154)
Other income	-	-	-	-	153,704	-	153,704
Interest income	-	-	-	-	2,543	-	2,543
Operating profit							2,394,829
Depreciation	(26,386)	(105,274)	(42,484)	(31)	(49,270)	-	(223,445)
Interest expense	-	-	(342)	(8)	(19,932)	-	(20,282)
Income taxes - Current and deferred	-	-	-	-	(186,067)	-	(186,067)
Minority Interest	-	-	-	-	10,414	-	10,414
Net profit							1,975,449
Other information							
Segment assets	636,117	6,519,171	851,700	139,019	-	-	8,146,007
Unallocated corporate assets	-	-	-	-	2,753,025	-	2,753,025
Total assets							10,899,032
Segment liabilities	132,476	1,917,232	213,895	18,596	-	-	2,282,199
Unallocated corporate liabilities	-	-	-	-	1,202,805	-	1,202,805
Total liabilities							3,485,004
Capital expenditure	18,917	568,327	364,594	-	202,530	-	1,154,368

Geographical segments

Secondary segmental reporting is performed on the basis of the geographical location of customers. The operations of the Group comprise export sales and contract research fees contributing to approximately 59 per cent (2005 -- 62 per cent). The management views the Indian market and export markets as distinct geographical segments. The following is the distribution of the Group's sale by geographical markets

Revenues, net	2006	2005
India	3,290,600	2,710,718
Exports on FOB basis	4,590,080	4,414,946
Total	**7,880,680**	**7,125,664**

Assets and additions to fixed assets by geographical area - The following is the carrying amount of segment assets and additions to fixed assets by geographical area in which the assets are located:

Carrying amount of segment assets	2006	2005
India	11,308,630	9,963,442
Outside India	1,564,962	935,590
	12,873,592	**10,899,032**

Carrying amount of segment assets outside India represents receivables from export sales.

Segment revenue and result

The expenses that are not directly attributable and that cannot be allocated to a business segment on a reasonable basis are shown as unallocated corporate expenses.

Inter-segment transfers

Segment revenue, segment costs and results include transfers between business segments. Such transfers have been made at cost. The inter - segment transfers have been eliminated on consolidation of the segments.

Segment assets and liabilities

Segment assets include all operating assets used by the business segment and consist principally of fixed assets, investments and current assets Segment liabilities comprise of loan funds which can be identified directly against the respective segments and includes segment current liabilities and provisions. Assets and liabilities that have not been allocated between segments are shown as part of unallocated corporate assets and liabilities respectively.

30. Prior year comparatives

The previous years' figures have been re-grouped/ reclassified, where necessary to conform to current years' classification.

S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

For and on behalf of the Board of Directors

Prashant Singhal
Partner
Membership No: 93283

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Bangalore
April 20, 2006

Murali Krishnan K N
President - Group Finance

Usha T N
Company Secretary

Summarised statement of financials of Subsidiary Companies

(all amounts in Indian Rupees thousands)

	Syngene International Private Limited	Clinigene International Private Limited	Biocon Biopharmaceuticals Private Limietd
Capital	28,750	500	132,000 *
Reserves	1,021,172	(61,755)	(66,373)
Total Assets	1,292,496	223,581	695,845
Total Liabilities	242,574	284,836	630,218
Investments (except in subsidiaries)	486,737	-	-
Turnover	981,730	56,580	-
Profit before tax	483,618	(10,937)	(40,166)
Profit after tax	452,107	(11,109)	(40,233)
Dividend declared	Nil	Nil	Nil

* - including share application money

The Company has obtained exemption from the Ministry of Company affairs, Government of India, from attaching the financial accounts of the subsidiary companies to this Report. The members can however, obtain the copy of the detailed annual accounts of the subsidiary companies and related information by making a request to that effect. A copy of the same shall also be available for inspection at the registered office of the Company.

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Biocon Limited and Subsidiaries US GAAP

REPORT OF INDEPENDENT AUDITORS

To the Stockholders of Biocon Limited :

We have audited the accompanying consolidated balance sheets of Biocon Limited (the "Company") as of March 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of March 31, 2006 and 2005 and the consolidated results of its operations and its cash flows for the years then ended, in conformity with United States generally accepted accounting principles.

Ernst & Young

Bangalore, India
April 20, 2006

BIOCON LIMITED

CONSOLIDATED BALANCE SHEETS

(All amounts in thousands)

	March 31, 2006 In US$	March 31, 2006 In Rs	March 31, 2005 In Rs
ASSETS			
Current assets			
Cash and cash equivalents	60	2,662	19,780
Investments in marketable securities	10,945	486,831	2,172,018
Restricted time deposits	-	-	10,000
Trade receivables, net	50,284	2,236,644	1,824,469
Employee receivables	120	5,332	5,425
Inventories	24,839	1,104,856	737,964
Deferred income taxes	499	22,209	18,680
Prepaid expenses and other current assets	4,799	213,450	126,176
Total current assets	**91,546**	**4,071,984**	**4,914,512**
Goodwill	495	22,002	22,002
Property, plant and equipment, net	169,912	7,557,674	5,610,068
Intangible assets	7,611	338,541	-
Other invetsments	3,980	177,030	179,441
Investment in Joint Venture, net	21	947	-
Loan to Joint Venture Company	10,369	461,197	102,565
Employee receivables	165	7,354	12,755
Other assets	-	13	24,313
TOTAL ASSETS	**284,099**	**12,636,742**	**10,865,656**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	44,217	1,966,770	2,060,282
Advance from customers	1,294	57,537	68,516
Short term borrowings	15,673	697,135	500,319
Accrued employee benefits	1,538	68,431	84,209
Income taxes payable	630	28,044	11,901
Other current liabilities	17	761	201
Total current liabilities	**63,369**	**2,818,678**	**2,725,428**
Deferred income taxes, net	10,367	461,131	342,451
Long term debt	32	1,410	-
Deferred sales taxes liability	8,352	371,517	270,136
TOTAL LIABILITIES	**82,120**	**3,652,736**	**3,338,015**
Stockholders' equity			
Common stock, (Rs 5 par value; 120,000,000 equity shares authorised : 100,000,000 equity shares issued and outstanding)	11,241	500,000	500,000
Additional paid-in capital	75,388	3,353,262	3,355,601
Deferred compensation cost	(115)	(5,129)	(16,935)
Accumulated other comprehensive income	2	93	1,821
Retained earnings	115,463	5,135,780	3,687,154
Total stockholders' equity	**201,979**	**8,984,006**	**7,527,641**
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	**284,099**	**12,636,742**	**10,865,656**

See accompanying notes

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Bangalore
April 20, 2006

BIOCON LIMITED

CONSOLIDATED STATEMENTS OF INCOME

(All amounts in thousands, except share data including share price)

	March 31, 2006 In US$	March 31, 2006 In Rs	March 31, 2005 In Rs
REVENUES			
Sale of products, net of excise duty of Rs 371,789 (March 31, 2005 -- Rs 378,423) and sales tax of Rs 138,522 (March 31, 2005 -- Rs 131,578)	154,562	6,874,924	6,463,624
Contract research services	22,611	1,005,756	662,040
	177,173	**7,880,680**	**7,125,664**
Cost of revenues			
Cost of products sold	94,070	4,184,234	3,913,416
Cost of contract research services	11,175	497,049	336,158
Gross profit	**71,928**	**3,199,397**	**2,876,090**
Research and development expenses	4,401	195,737	146,632
Selling, general and administrative expenses	15,237	677,720	476,117
Depreciation	6,589	293,083	220,196
INCOME FROM OPERATIONS	**45,701**	**2,032,857**	**2,033,145**
Interest expense	395	17,548	20,282
Interest income	(34)	(1,514)	(2,543)
Other income, net	(1,123)	(49,932)	(140,519)
Foreign exchange gain	(49)	(2,189)	(31,618)
Share of losses in Joint Venture	905	40,234	21,284
INCOME BEFORE INCOME TAXES	**45,607**	**2,028,710**	**2,166,259**
Provision for income taxes	7,914	352,034	247,429
NET INCOME	**37,693**	**1,676,676**	**1,918,830**
Earnings per share			
Basic	0.40	17.59	20.26
Diluted	0.39	17.42	19.86
Weighted average number of common shares used in computing earnings per share			
Basic	95,305,796	95,305,796	94,695,763
Diluted	96,223,885	96,223,885	96,621,084

See accompanying notes

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Bangalore
April 20, 2006

BIOCON LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(All amounts in thousands)

Indian Rupees

Particulars	Common Stock			Deferred				
			Additional	compensation		Accumulated Other	Retained	
	Shares	Amount	paid-in capital	cost	Loan to Trust	comprehensive income	earnings	Total
Balance as of March 31, 2004	**100,000**	**500,000**	**3,356,260**	**(40,990)**	**(1,259)**	**-**	**1,881,137**	**5,695,148**
							-	-
Repayment of loan by Trust	-	-	-	-	1,259	-	-	1,259
Forfeiture of stock option grants	-	-	(659)	659	-	-	-	-
Amortisation of compensation costs	-	-	-	23,396	-	-	-	23,396
Comprehensive income:								
Net income	-	-	-	-	-	-	1,918,830	1,918,830
Unrealised gain on securities available for sale	-	-	-	-	-	1,821	-	1,821
Comprehensive income	-	-	-	-	-	-		1,920,651
Dividends paid including dividend tax	-	-	-	-	-	-	(112,813)	(112,813)
Balance as of March 31, 2005	**100,000**	**500,000**	**3,355,601**	**(16,935)**	**-**	**1,821**	**3,687,154**	**7,527,641**
Forfeiture of stock option grants	-	-	(2,339)	2,339	-	-	-	-
Amortisation of compensation costs	-	-	-	9,467	-	-	-	9,467
Comprehensive income:								
Net income	-	-	-	-	-	-	1,676,676	1,676,676
Trasnfer from unrealized gain to realised gain	-	-	-	-	-	(1,821)	-	(1,821)
Unrealised gain on securities available for sale						93	-	93
Comprehensive income	-	-	-	-	-	-	-	1,674,948
Dividends paid including dividend tax	-	-	-	-	-	-	(228,050)	(228,050)
Balance as of March 31, 2006	**100,000**	**500,000**	**3,353,262**	**(5,129)**	**-**	**93**	**5,135,780**	**8,984,006**
In US $	**100,000**	**11,241**	**75,388**	**(115)**	**-**	**2**	**115,463**	**201,979**

See accompanying notes

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Bangalore
April 20, 2006

BIOCON LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in thousands)

	March 31, 2006 In US $	March 31, 2006 In Rs	March 31, 2005 In Rs
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	37,694	1,676,676	1,918,830
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	6,589	293,083	220,196
Amortisation of employee compensation cost	213	9,467	23,396
Provision for doubtful receivables	58	2,578	1,250
Bad debts written off	34	1,501	200
Gain on assets sold	(8)	(346)	-
Gain on sale of marketable securities	(62)	(2,753)	(2,296)
Dividend on mutual fund units	(811)	(36,079)	(120,800)
Unrealised exchange gain	(207)	(9,198)	(2,802)
Deferred tax assets and liabilities	2,589	115,151	119,089
	46,089	**2,050,080**	**2,157,063**
Changes in assets and liabilities:			
Trade receivables	(9,263)	(412,002)	(639,821)
Employee receivables	124	5,494	3,815
Inventories	(8,248)	(366,892)	118,595
Prepaid expenses and other assets	(1,416)	(62,974)	54,868
Current liabilities and non current liabilities	4,735	210,593	11,021
Net cash provided by operating activities	**32,021**	**1,424,299**	**1,705,541**
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in marketable securities	(65,192)	(2,899,742)	(14,150,992)
Sale of marketable securities	103,101	4,585,954	12,204,505
Purchase of other investments	(1,960)	(87,195)	(179,441)
Investment in Joint Venture, net	(21)	(947)	-
Dividend received	811	36,079	120,800
Redemption of restricted time deposits	225	10,000	3,144,203
Purchase of property, plant and equipment	(57,313)	(2,549,286)	(2,745,936)
Purchase of intangible assets	(5,597)	(248,935)	-
Sale of property, plant and equipment	11	500	-
Net cash used in investing activities	**(25,935)**	**(1,153,572)**	**(1,606,861)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of loan by Trust	-	-	1,259
Loan to Joint Venture Company	(8,063)	(358,632)	(102,565)
Receipt of short-term borrowings from banks	4,408	196,046	24,625
Repayment of long term debt	-	-	(24)
Receipt of long term debt	32	1,410	-
Deferred sales tax credit	2,279	101,381	95,479
Dividends and dividend tax paid	(5,127)	(228,050)	(112,813)
Net cash used in financing activities	**(6,471)**	**(287,845)**	**(94,039)**
Net change in cash and cash equivalents	**(385)**	**(17,118)**	**4,641**
Cash and cash equivalents at the beginning of the year	445	19,780	15,139
Cash and cash equivalents at the end of the year	**60**	**2,662**	**19,780**
SUPPLEMENTARY DISCLOSURE FOR CASH ACTIVITIES			
Cash paid for interest	575	25,555	21,024
Cash paid for income taxes	5,102	226,934	63,207

See accompanying notes

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Bangalore
April 20, 2006

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2006

(All amounts in thousands, except share data including share price)

1. Company overview and description of business

1.1 Incorporation and history

Biocon Limited ('Biocon' or 'the Company') was incorporated in 1978 under the laws of India and controlled by Ms Kiran Mazumdar Shaw ("KMZ"), along with her husband Mr John M M Shaw ("JMM") and her brother Mr Ravi Mazumdar ("RM") directly and through Glentec International Limited ("Glentec"), a company incorporated under the laws of Mauritius and controlled by the above persons. KMZ, JMM, RM and Glentec are collectively hereinafter referred to as "the Control Group". The Company has its registered office at 20th KM, Hosur Road, Electronic City PO, Bangalore, India.

As of March 31, 2006, the Company has a controlling interest in the following entities:

• Syngene International Private Limited ("Syngene"), a 99.99 per cent owned subsidiary company incorporated in November 1993 under the laws of India.

• Clinigene International Private Limited ("Clinigene"), a 100 per cent owned subsidiary company incorporated in August 2000 under the laws of India.

Biocon entered into an Agreement on February 22, 2002 to set up a Joint Venture Company, Biocon Biopharmaceuticals Private Limited ("BBPL") with CIMAB SA ("CIMAB"), a company organised and existing under the laws of Cuba and engaged in research, development, manufacturing and marketing of biopharmaceuticals, to manufacture and market products using CIMAB technology and to carry out research activities. Biocon holds 51% of BBPL's equity. Biocon and CIMAB have equal participation rights, in the operations of BBPL, therefore the investment in the joint venture BBPL has been accounted based on the equity method of accounting as prescribed under Accounting Principle Board Opinion No 18 "The Equity Method of Accounting for Investments in Common Stock". BBPL has not yet commenced operations and has no revenues. Biocon is responsible for financing the capital expenditure requirements of BBPL. It is expected that the joint venture partner will provide their share of the capital invested by Biocon in the form of technology and design transfers.

Biocon, together with its subsidiaries, Syngene and Clinigene are hereinafter collectively referred to as "the Group".

1.2 Operations

The Group's principal areas of operations are as follows:

Bio-Pharmaceuticals

The pharmaceuticals business comprises the manufacture and development of active pharmaceutical ingredients ('API') bulk drugs, with focus on products involving fermentation and/or synthetic conversion. The bio-pharmaceuticals business primarily seeks to leverage from the expiry of product patents for Simvastatin, Lovastatin, Atorvastatin and Pravastatin ("Statins") that expire between 2001 and 2009, through research capabilities and fermentation and synthetic chemistry skills that have been developed over the years within the Group.

Enzymes

The enzymes business comprises the development, manufacture and sale of single component enzymes, proprietary formulations and enzyme systems to cater to the demand of a number of diverse industries including food and beverages, textiles, starch, brewing and distilling.

Contract research

The Group provides contract research services to overseas and domestic customers and is primarily engaged in the following areas of such research:

• Molecular biology;
• Synthetic chemistry;
• Bio informatics; and
• Clinical research on well-defined and characterised patients suffering from chronic diseases such as, diabetes, osteoporosis and asthma.

2. Significant Accounting Policies

2.1 Basis of presentation of financial statements

(a) The accompanying consolidated financial statements include Biocon and its subsidiaries ("the Group") and are prepared in conformity with United States generally accepted accounting principles ("US GAAP") to reflect the consolidated financial position and the consolidated results of operations of the Group. Biocon consolidates entities in which it owns or controls more than 50% of voting shares, except as explained below. All material transactions and balances between the Group entities have been eliminated.

(b) The Group accounts for investments in the joint venture, BBPL by the equity method of accounting as its joint venture partner has participating rights over the operating and financing policies of BBPL. The Group has recognised the entire accumulated loss of BBPL, amounting to Rs 66,373 and Rs 26,140 as at March 31, 2006 and 2005, respectively, in these consolidated financial statements as it is entirely responsible for funding the operating cash flow requirements. The carrying value of the investment in BBPL was Rs 947 and Rs Nil as at March 31, 2006 and 2005, respectively.

(c) For the convenience of readers, the balance sheet as of March 31, 2006 and the statement of income for the year then ended have been translated into United States Dollars ('US$') using the Federal Reserve Bank of New York's noon buying rate as confirmed by Hong Kong and Shanghai Banking Corporation ('HSBC') as of March 31, 2006 which was 1US$ = Rs 44.48. The convenience translation should not be construed as a representation that the Rs amounts or the US$ amounts referred to in these financial statements have been, could have been, or could in the future be, converted into US$ or Rs, as the case may be, at this or at any other rate of exchange, or at all.

(d) The Group also separately prepares its consolidated financial statements for the same period in accordance with accounting principles generally accepted in India ("Indian GAAP"). The principle differences between Indian GAAP and US GAAP relate to the treatment of certain deferred tax items, the method of charging depreciation, accruing for vacation pay and gratuity and the accounting for the joint venture.

(e) Certain reclassifications have been made to conform prior period data to the current presentation. These reclassifications had no effect on reported earnings.

2.2 Use of estimates

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

2.3 Foreign currency transactions

Monetary assets and liabilities in foreign currencies are remeasured into functional currency at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are remeasured into functional currency at the rates of exchange prevailing at the date of the transaction. All foreign exchange gains and losses are recorded in the consolidated statements of income.

2.4 Revenue recognition

The Group has two revenue streams, the sale of products and contract research services. The respective accounting policies are as follows:

(i) Revenue from sale of products
Revenue is recognised when significant risks and rewards in respect of ownership of the products are transferred to the customer. Revenue is recognised when the following criteria are met:
- Persuasive evidence of an arrangement exists;
- The price to the buyer is fixed and determinable; and
- Collectibility of the sales price is reasonably assured.

Revenue from domestic sales is recognised on despatch of the products to customers, from the factories of the Group. Revenue from export sales is recognised on shipment of products. Revenues do not include shipping and handling charges reimbursed by the customers amounting to Rs 4,650 and Rs 4,970 during the year ended March 31, 2006 and 2005, respectively.

(ii) Contract research revenues
Revenues from contract research services comprise fees received for research activities carried out for customers in the fields of molecular biology and synthetic chemistry. Research activities are based on contracts that specify the nature of activity to be carried out, basis of billings, manner of payments and are typically in the nature of time and material contracts. Revenues are recognised as services are rendered, in accordance with the terms of the contracts.

Revenue from integrated research and development and contract manufacturing arrangements is recognized only when the remaining obligations under such contracts are determined to be inconsequential or perfunctory. Up-front payments received under such arrangements are deferred and are recognized in the income statements over the period in which the Company perform services or when the Company has completed all its performance obligations.

2.5 Cost of revenues

Cost of products sold comprises costs of direct labour, amortisation of deferred stock compensation, material costs and other direct costs incurred in producing bulk drugs and enzymes but exclude depreciation. Costs of contract research services comprise costs of direct labour, amortisation of deferred stock compensation, material costs and other direct costs related to the Groups' research activities but excludes depreciation.

2.6 Research and development costs

Research and development costs are expensed as incurred. Capital expenditure incurred on equipment and facilities acquired or constructed for research and development activities and having alternative future uses, are capitalised as property, plant and equipment and depreciated over their economic useful life. Costs of acquired technology/know-how having no alternate use are expensed as incurred.

2.7 Cash and cash equivalents

All highly liquid investments with original maturities of ninety days or less are considered to be cash equivalents.

2.8 Marketable securities

Management determines the appropriate classification of marketable securities at the time of purchase and re-evaluates such designation at each balance sheet date. As of March 31, 2006 and 2005, all marketable securities were classified as available-for-sale and consisted of units of highly liquid mutual funds whose cost closely approximates the fair market value.

Available-for-sale securities are carried at fair market value and changes in the fair market value are recorded, net of taxes as comprehensive income (loss) and reported in accumulated other comprehensive income (loss), as a separate component of stockholders' equity. A decline in the fair market value below original cost is recorded in the income statement when it is considered to be other than temporary.

2.9 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a first in first out basis for all categories of inventories. Cost in the case of raw materials and packing materials comprises the purchase price and attributable direct costs, less trade discounts. Cost in the case of work-in-progress and finished goods comprise material costs, direct labour, and production overheads.

Inventories are reviewed on a regular basis for identification of slow-moving and obsolete inventory, which are written down in the period of identification and are included in cost of products sold.

2.10. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Equipment held under capital leases are stated at the present value of minimum lease payments at the inception of the leases. Advances paid towards acquisition of property and equipment and the cost of property and equipment not put to use before the balance sheet date are classified as capital work-in-progress.

The interest cost incurred for funding an asset during its construction period is capitalised based on the actual investment in the asset and the average cost of funds. The capitalised interest is included in the cost of the relevant asset and is depreciated over the estimated useful life of the asset.

Depreciation is computed using the straight-line method over the estimated useful lives of assets. Depreciation of equipment held under capital leases is computed using the straight-line method over the shorter of the assets' estimated lives and the lease term.

Costs of normal repairs and maintenance are charged to income as incurred. Major replacements or betterment of property, plant and equipment are capitalised. During the year ended March 31, 2006 and 2005 the Group has incurred Rs 73,889 and Rs 94,770, respectively, towards normal repairs and maintenance.

2.11 Impairment of long-lived assets

The Group reviews long-lived assets for impairment, whenever an event or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The carrying values of long-lived assets are assessed for recoverability by reference to the estimated future undiscounted cash flows associated with them. Where this assessment indicates a deficit, the assets are written down to market value. For assets, which do not have a readily determinable market value, the assets are written down to their estimated market value, calculated by reference to the estimated future discounted cash flows. Assets to be disposed are reported at the lower of the written down value and the fair value, less the cost to sell.

2.12. Goodwill

Goodwill represents the excess of cost over the fair value of net tangible and identifiable intangible assets of acquired businesses. Goodwill is not amortized but is instead subjected to a periodic impairment test at least annually.

The impairment test is conducted at the reporting unit level by comparing the fair value of the reporting unit with its carrying value. Fair value is primarily determined by computing the future discounted cash flows expected to be generated by the reporting unit. If the carrying value exceeds the fair value, goodwill may be impaired. If this occurs, the fair value of the reporting unit is then allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. This implied fair value is then compared with the carrying amount of the reporting unit goodwill, and if it were less, an impairment loss would be recognized for the difference.

2.13 Other Investments

Investments in unquoted equity where the Group owns less than 20% of the voting interest and debt securities held to maturity are accounted for at cost. A decline in fair value below original cost is recorded in the income statement when it is considered to be other than temporary.

2.14 Operating leases

Lease rental expenses on operating leases are charged to expense over the lease term on a straight-line basis.

2.15 Employee benefits

In accordance with Indian law, all employees of the Group are entitled to receive benefits under the Provident Fund, a defined contribution plan in which both the employee and the Group contribute monthly at a determined rate (currently 12 per cent of the employees' base salary). These contributions are made to the Government Provident Fund. Contributions to defined contribution plans are charged to income in the period in which they accrue. The Group has no further obligation under the Provident Fund, beyond its contributions.

In accordance with Indian law, the Group provides for gratuity, a defined benefit retirement plan ('the Gratuity Plan') covering all its employees. The Gratuity Plan provides a lump sum payment to vested employees on retirement or on termination of employment of an amount based on the respective employees' salary and the years of employment with the Group. The gratuity plan fund benefits of the Group are administered by a trust formed for this purpose and managed by Birla Sunlife. Gratuity benefit cost for the year is calculated on an actuarial basis. Current service costs for the Gratuity Plan are accrued in the year to which they relate. Actuarial gains or losses or prior service costs, if any, resulting from amendments to the plans are recognised and amortised over the remaining period of service of the employees.

The company's liability towards compensated absences is determined on an actuarial valuation basis for the vacation balance standing to the credit of each employee as at year end.

2.16 Income taxes

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to each entity in the Group. Deferred income taxes are recognised for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carry forwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the enactment date. Deferred tax assets are recognised subject to a valuation allowance, when it is more likely than not that asset would not be realised.

2.17 Comprehensive income

SFAS No. 130, "Reporting Comprehensive Income" establishes rules for the reporting of comprehensive income and its components. Comprehensive income is defined as all changes in equity from non-owner sources. The unrealised gains on marketable securities amounting to Rs 93 and Rs 1,821 for the years ended March 31, 2006 and 2005 have been reported as a separate component of other comprehensive income.

2.18 Stock-based compensation

The Group accounts for stock-based compensation using the intrinsic value method prescribed in APB No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Compensation cost for stock options is measured as the excess of the fair value of the Company's stock on the stock options grant date over the amount an employee must pay to acquire the stock and is recognised in a graded manner on the basis of weighted period of services. The fair value of the options is measured on the basis of an independent valuation performed or the market price in respect of stock options granted.

SFAS No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. The Group has elected its current method of accounting as described above, and has adopted the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure", an amendment of SFAS No. 123.

Had compensation cost for the Group's stock based compensation been determined based on the fair value at the grant dates for awards under those plans consistent with the method of FASB Statement 123, the impact on the reported net income and earnings per share would have been as follows:

	March 31,	
	2006	**2005**
Net income as reported	Rs 1,676,676	Rs 1,918,830
Add: stock compensation under APB Opinion No. 25	9,467	23,396
Less: stock compensation under SFAS No. 123	42,482	42,482
Proforma net income	**Rs 1,643,661**	**Rs 1,899,744**
Earnings Per Share		
Basic		
- As reported	Rs 17.59	Rs 20.26
- Proforma	17.25	20.06
Diluted		
- As reported	17.42	19.86
- Proforma	17.08	19.66

For purposes of applying SFAS No. 123, the estimated fair value of stock options granted in the earlier years is given in the table below.

	Fair value (in Rs)
Option plan 2000 – Grant 1 in April 2002	18.58
Option plan 2000 – Grant 2 in January 2004	226.57
Option plan 2004 – Grant 1 in March 2004	18.23

The fair value of each option is estimated at the date of grant using the Black Scholes method. There have been no grants during the fiscal year ended March 31, 2006 and 2005.

2.19 Derivative instruments and hedging activities

The Group entered into forward foreign exchange contracts where the counter party is usually a bank. The Group purchases forward foreign exchange contracts to mitigate the risks of change in foreign exchange rates on accounts receivable denominated in certain foreign currencies. Although these contracts are effective as hedges from an economic perspective, they do not qualify for hedge accounting under SFAS 133 as amended. As per SFAS 133, the changes in the fair value of derivatives that are either not designated as a hedge or is so designated but ineffective, is recognized in the income statement. The change in the fair value of the derivative contracts for the year ended March 31, 2006 and 2005 was a gain of Rs 4.28 million and Rs 1.87 million respectively. Open foreign currency contracts at March 31, 2006 and 2005 amounted to US$ 57,000 and US$ 12,000.

2.20 Earnings per share

Basic earning per share is computed by dividing the net income by the weighted average number of common shares outstanding during the year, excluding equity shares held by the Biocon India Ltd Employee Welfare Trust ('the Trust') and which are pending for grant or remained unvested as at the balance sheet date. Diluted earnings per share is computed using the weighted average of common and dilutive common equivalent shares outstanding during the year, using the treasury stock method for shares which have been granted to employees pursuant to the Employees Stock Option Purchase adopted by the Group, except where the result would be anti-dilutive.

2.21 Intangible assets

In 2004 and 2005 the Company had entered into Research and Development Agreements and Investment Agreements with Nobex Corporation., USA ('Nobex') to carry out joint research and development for Oral Insulin Product and BNP products and had invested Rs 256 million in common stock and promissory notes from October 2004 through December 31, 2005.

In December 2005, Nobex filed for bankruptcy under Chapter 11 of US Bankruptcy laws and subsequently the Company entered into an Asset Purchase Agreement (APA) with Nobex Corporation to purchase substantially all of the assets of Nobex including, without limitation, patents relating to certain technology for Oral Insulin, Oral BNP and Basil Insulin intellectual properties ("IP") and its marketing rights for Rs 338,541.

2.22 Recent accounting pronouncements

In March 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 156, Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140 (the "Statement" or Statement 156), amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, to permit entities to choose to either subsequently measure servicing rights at fair value and report changes in fair value in earnings, or amortize servicing rights in proportion to and over the estimated net servicing income or loss and assess the rights for impairment or the need for an increased obligation. Entities that elect to subsequently measure their servicing rights at fair value may no longer find it necessary to qualify for and apply the provisions of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, to achieve an income statement effect similar to the application of hedge accounting for instruments used to manage the effect of interest rate changes on servicing rights. The group believes that the adoption of FAS 156 will not have a material impact on Group's financial statements.

On April 12, 2006 FASB issued FASB Staff Position (FSP) FIN 46(R)-6 "Determining the Variability to be Considered When Applying FASB Interpretation No. 46(R). This FSP addresses how a reporting enterprise should determine the variability to be considered in applying FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities. 2. The variability that is considered in applying Interpretation 46(R) affects the determination of (a) whether the entity is a variable interest entity (VIE), (b) which interests are variable interests in the entity, and (c) which party, if any, is the primary beneficiary of the VIE. That variability will affect any calculation of expected losses and expected residual returns, if such a calculation is necessary. The group believes that the adoption of FSP will not have a material impact on Group's financial statements.

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment, which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. This standard requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This eliminates the exception to account for such awards using the intrinsic method previously allowable under APB Opinion No. 25. SFAS No. 123(R) will be effective for interim or annual reporting periods beginning on or after June 15, 2005. As of the required effective date, all public entities that used the fair-value-based method for either recognition or disclosure under Statement 123 shall adopt this Statement using a modified version of prospective application (modified prospective application). Under modified prospective application, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the effective date shall be recognized as the requisite service is rendered on or after the effective date. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro forma disclosures under Statement 123.The Group continues to assess the potential impact that the adoption of SFAS No. 123(R) could have on its financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances available in current accounts.

	March 31,					
		2006		2006		2005
Cash on hand	$	28	Rs	1,239	Rs	1,447
Bank balances		32		1,423		18,476
	$	60	Rs	2,662	Rs	19,780

4. Marketable Securities, Available for Sale

	March 31,			
	2006		2005	
	Cost	Fair value	Cost	Fair value
Deutsche Mutual Fund	Rs 80,000	Rs 80,000	Rs -	Rs -
LIC Mutual Fund	100,000	100,046	31,553	31,896
ING Vysya Mutual Fund	100,000	100,000	-	-
Kotak Mutual Fund	50,000	50,000	-	-
Reliance Mutual Fund	27,313	27,359	26,150	26,186
HSBC Mutual Fund	27,412	27,413	137,856	137,856
HDFC Mutual Fund	50,000	50,000	-	-
Deutsche Insta Cash Plus Fund	22,014	22,014	-	-
Grindlays Liquid Plan	6,178	6,178	15,608	15,623
JM Mutual Fund Liquid Plan	23,414	23,414	72,629	72,637
ING Vysya Liquid Fund	406	407	52,220	52,253
CanLiquid Fund	-	-	41,025	41,025
Alliance Cash Manager	-	-	41,698	41,698
ABN Amro Liquid Fund	-	-	50,124	50,124
Can Liquid Fund	-	-	52,488	52,488
Grindlays Cash Fund	-	-	104,007	104,040
HSBC Cash Fund	-	-	200,090	200,329
Kotak Mutual Fund	-	-	305,724	305,880
LIC Liquid Fund	-	-	87,085	87,592
Prudential ICICI Liquid Plan	-	-	269,313	269,313
Principal Cash Management Fund	-	-	115,862	115,862
Reliance Liquid Fund	-	-	498,831	498,889
Birla Sunlife Mutual Fund	-	-	21,019	21,023
TATA Liquid Fund	Rs -	Rs -	Rs 46,915	Rs 47,304
	Rs 486,737	**Rs 486,831**	**Rs 2,170,197**	**Rs 2,172,018**
	$ 10,943	**$ 10,945**	**$ 49,752**	**$ 49,794**

These are highly liquid mutual funds where the cost approximates the fair market value. The gross realized gains in the form of dividend on marketable securities for the year ended March 31, 2006 and 2005 amounting to Rs 36,079 and Rs 120,800, respectively, has been included as a part of other income, unrealised gain of Rs 93 and Rs 1,821 for the year ended March 31, 2006 and 2005, respectively, has been included in Stock holder's equity as part of other comprehensive income. Proceeds from sale of available for sale securities amounted to Rs 4,586 and Rs 12,205 for the year ended March 31, 2006 and 2005 respectively. The cost of sale of such securities are identified based on the "specific identification method".

5. Trade Receivables, Net

	March 31,		
	2006	2006	2005
Trade receivables	$ 50,729	Rs 2,256,429	Rs 1,841,676
Less: Provision for doubtful receivables	445	19,785	17,207
	$ 50,284	**Rs 2,236,644**	**Rs 1,824,469**

During the year ended March 31, 2006 and 2005 the Group had written off Rs 1,501 and Rs 200, respectively, being irrecoverable amounts from identified customers. The net provision for doubtful receivables of Rs 2,578 and Rs 1,249 made during the year ended March 31, 2006 and 2005, respectively, has been made on the basis of specific customer identification.

6. Inventories

	March 31,		
	2006	2006	2005
Raw materials	$ 10,854	Rs 482,787	Rs 482,787
Goods-in-transit and in bond	518	23,050	23,050
Packing materials	178	7,896	7,896
Work-in-progress	11,742	522,302	522,302
Finished goods	1,547	68,821	68,821
	$ 24,839	**Rs 1,104,856**	**Rs 737,964**

7. Property, Plant and Equipment, Net

	Estimated useful life (Years)	March 31 2006		March 31 2006		March 31 2005	
Land		$	1,893	Rs	84,143	Rs	41,951
Advance paid towards acquisition of Land			4,043		179,843		179,843
Buildings	25		14,173		630,415		517,981
Plant, machinery and equipment	3 – 11		57,374		2,551,996		2,145,014
Research and development equipment	9		11,383		506,302		309,061
Furniture and fixtures	6		1,493		66,415		56,341
Vehicles	6		288		12,808		11,352
Capital work-in-progress			102,915		4,577,725		3,107,415
		$	193,562	Rs	8,609,647	Rs	6,368,958
Accumulated depreciation			(23,650)		(1,051,973)		(758,890)
Property, plant and equipment, net		**$**	**169,912**	**Rs**	**7,557,674**	**Rs**	**5,610,068**

Capital work-in-progress as at March 31, 2006 and 2005 include expenditure incurred towards setting up of the new facilities to augment the existing capacities for the submerged fermentation and chemical synthesis operations (collectively referred to as 'the Project').The construction of the Project is substantially complete, subject to the final commissioning and testing of the effluent treatment plant and certain pre-commissioning tests, which the Company expects to complete during the quarter ending June 30, 2006. All direct costs related to such pre-commissioning tests are included in the Capital work-in-progress and would be capitalized with the Project. Further, proceeds, if any, from the sale of trial production resulting from such pre-commissioning tests have been reduced from Capital work in progress.

On December 5, 2002, Karnataka Industrial Areas Development Board ('KIADB') allotted land aggregating 26.75 acres to the Company for Rs 64,200 on a lease-cum sale basis for a period of 6 years. Further, during the year ended March 31, 2004, the Company was allotted an additional 41.25 acres of land for Rs 99,417 from KIADB. The same is reflected at the current allotment rate, the final amount to be determined by KIADB on the completion of six years on fulfillment of certain conditions.

One of the key conditions include the commencement of commercial operations by the company within twenty four months of taking possession, which the Company believes has been complied with by the commencement of operations by Syngene on this land on October 21, 2004. During the quarter ended June 30, 2005, the Company has paid an advance of Rs 56,320 towards the allotment of additional 22 acres of land and has received the possession certificate from KIADB in January 2006 and is in the process of getting the land registered

Capital work in progress includes capital advances of Rs 8,107 and Rs 64,427 as on March 31, 2006 and 2005, respectively.

8. Other Investments

Other investments comprise:

	March 31, 2006		March 31, 2006		March 31, 2005	
Equity securities – Unquoted						
Nobex Corporation, USA	$	-	Rs	-	Rs	45,640
	$	-	Rs	-	Rs	45,640
Held to maturity debt securities						
Vaccinex Inc., USA- Series B1 Preferred stock	$	1,014	Rs	45,100	Rs	45,100
Vaccinex Inc.,- 3% Convertible Promissory Note		2,966		131,930		44,735
Nobex Corporation, USA – 3% Convertible Promissory Note		-		-		43,966
	$	3,980	Rs	177,030	Rs	133,801
	$	**3,980**	**Rs**	**177,030**	**Rs**	**179,441**

Nobex Corporation, USA (“Nobex”) :

In December 2005 Nobex Corporation, USA filed for bankruptcy under Chapter 11 of US Bankruptcy laws. Pursuant to an order issued by the US Bankruptcy court, Biocon acquired rights to transfer substantially all of the assets of Nobex including, without limitation, patents relating to certain technology for Oral Insulin, Oral BNP and Basil Insulin. Accordingly, investments amounting to Rs.338,541 as at March 31 2006 made by the Company in Nobex have been treated as a consideration for the acquisition of an Intangible Asset.

Vaccinex Inc., USA (“Vaccinex”) :

Vaccinex has proprietary technology for the discovery of human therapeutic monoclonal antibodies, which will be used by the Company and Vaccinex to develop the technology further and commercialize it. The Company has entered into a ‘Securities Purchase Agreement’ with Vaccinex on November 3, 2004 to invest an amount of US$ 4 million (US$ 1 million in Series B1 Convertible Preferred Stock and US$ 3 million in Series B Convertible Promissory Notes). Further the Company has entered into a ‘Research and Collaboration Agreement’ to discover, develop, and commercialize human therapeutic monoclonal antibodies.

The Company does not have any ownership interest in Vaccinex as at March 31, 2006. The investment in the preferred stock is convertible into common stock at the option of the Company and investment in Promissory Note will mature on October 31, 2009 or is convertible into Series B1 Preferred stock at the option of either the Company or investee after a certain date.

9. Financial Instruments

9.1. Fair value of financial instruments

The fair values of the Group's current assets and current liabilities (exclusive of related party amounts discussed below) approximate their carrying values because of their short maturity. Such financial instruments are classified as current and are expected to be liquidated within the next twelve months.

Long-term employee receivables are loans given to employees to acquire assets such as property and vehicles. Such loans are repayable over fixed periods ranging from three to eight years and are interest-free in nature. The fair value, determined using market rate of interest, for loans to employees of Rs 12,686 and Rs 18,180 as on March 31, 2006 and 2005 is Rs 11,439 and Rs 15,644, respectively.

The Group pays interest on long term loans at a rate, which closely approximates the market rate and hence, the fair value of the long-term loan closely approximates its carrying value in the financial statements.

As more fully discussed in Note 14, deferred sales taxes liability represents deferment of the sales tax liability of the Company for a period of 8 to 12 years. These amounts are interest free in nature and are repayable over a 5 year term after the end of the deferment period. The fair value, of the amount of deferred sales tax, carried in the financial statements at Rs 371,517 and Rs 270,136 as on March 31, 2006 and 2005, respectively, determined using market rates of interest is Rs 192,592 and Rs 140,019 as on March 31, 2006 and 2005, respectively.

9.2. Concentration of credit risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash equivalents, marketable securities, time deposits, restricted time deposits and trade receivables. By their nature, all such financial instruments involve risk including the credit risk of non-performance by counter parties.

The Group’s cash and cash equivalents and time deposits are invested with banks with high investment grade credit ratings. As of March 31, 2006, 54 per cent of cash and cash equivalents were placed with a bank. To reduce credit risk, investments are made in a diversified portfolio of mutual funds, as described in Note 4, which are periodically reviewed.

Trade receivables are typically unsecured and are derived from revenues earned from customers. The Group monitors the credit worthiness of its customers to which it grants credit terms in the normal course of the business. The Company has a customer in the United States of America who individually accounted for more than 10 per cent of the trade receivables, together with a Hong Kong based customer who accounted for 7 and 5 per cent, respectively, of the total sale of products during the year ended March 31, 2006.

In management’s opinion, as of March 31, 2006, there was no significant risk of non-performance of the counter parties to these financial instruments, other than the amounts already provided for in the financial statements.

10. Short Term Borrowings

Short term borrowings from bank comprises of:

	March 31		
	2006	**2006**	**2005**
Cash credit and packing credit	$ 15,233	Rs 677,549	Rs 493,279
Balance in current account	440	9,586	7,040
	$ 15,673	**Rs 697,135**	**Rs 500,319**

The cash credit and packing credit borrowings are repayable on demand and carry an interest rate of 2 to 6 percent per annum for foreign currency denominated loans and 5 to 15 percent for rupee loans, and secured by pari-passu first charge on current assets of the Company.

Details of cash credit and packing credit:

	March 31			
		2006		2005
State Bank of India				
Fund and non- fund based working capital facilities	Rs	200,000	Rs	200,000
Total utilization		130,007		41,567
Utilisation of foreign currency denominated loans out of above		128,856		41,245
Hongkong and Shanghai Banking Corporation				
Fund and non- fund based working capital facilities		545,000		545,000
Total utilization		239,405		305,340
Utilisation of foreign currency denominated loans out of above		218,419		305,340
Canara Bank				
Fund and non- fund based working capital facilities		200,000		200,000
Total utilization		114,586		15,512
Utilisation of foreign currency denominated loans out of above		112,116		14,451
Export Import Bank				
Fund based working capital facilities		310,000		310,000
Total utilization		-		-
Utilisation of foreign currency denominated loans out of above		-		-
ABN Amro Bank				
Fund and non- fund based working capital		230,000		230,000
Total utilization		193,551		130,860
Utilisation of foreign currency denominated loans out of above		192,262		130,860
Total				
Total utilization		677,549		493,279
Utilization of foreign currency denominated loans out of above	Rs	651,653	Rs	491,896

On August 10, 2005 all the above banks have entered into an inter-se agreement for operational convenience for the above working capital limits effecting the modification of the above charge and creation of a pari passu charge on the current assets of the company in favour of all the above banks.

The total interest incurred for the total short term borrowings and bank charges aggregated Rs 26,398 and Rs 27,290 for the year ended March 31, 2006 and 2005, respectively, excluding interest received from suppliers amounting to Rs 8,850 and Rs 7,008 for the year ended March 31, 2006 and 2005, respectively.

11. Employee Benefit Plans

The Group has employee benefit plans in the form of certain statutory and welfare schemes covering substantially all of its employees. The Group's cost related to defined contribution plans and vacation pay is as follows:

	March 31,					
		2006		2006		2005
Provident fund	$	576	Rs	25,612	Rs	20,329
Superannuation		-		-		19,673
Vacation pay		376		16,724		15,634
	$	**952**	**Rs**	**42,336**	**Rs**	**55,636**

The change in benefit obligation and funded status of the gratuity plan for the year ended March 31, 2006 are as follows:

			March 31,			
		2006		2006		2005
Accumulated benefit obligation	$	698	Rs	31,037	Rs	25,827
Change in benefit obligation						
Benefit obligation at the beginning of the year		1,445		64,273		44,497
Service cost		249		11,074		6,962
Interest cost		72		3,190		2,205
Benefits paid		(55)		(2,445)		(658)
Actuarial loss		32		1,405		11,267
Benefit obligation at the end of the year (A)	**$**	**1,743**	**Rs**	**77,497**	**Rs**	**64,273**
Change in plan assets						
Fair value of plan assets at beginning of year		944		41,981		34,532
Return on plan assets		(3)		(134)		(1,451)
Actual contribution		501		22,275		9,558
Benefits paid		(55)		(2,445)		(658)
Fair value of plan assets at end of year (B)	**$**	**1387**	**Rs**	**61,676**	**Rs**	**41,981**
Funded status (A-B)		**(356)**		**(15,821)**		**(22,292)**
Unrecognized net transition obligation		-		-		-
Unrecognized net actuarial loss/(gain)		352		15,670		11,923
Accrued benefit cost	**$**	**(3)**	**Rs**	**(150)**	**Rs**	**(10,369)**

Net gratuity cost for the year ended March 31, 2006 and 2005 includes the following components:

			March 31,		
		2006		2006	2005
Components of net benefit cost					
Service cost	$	249	Rs	11,074	6,962
Interest cost		72		3,190	2,205
Expected return on plan assets		(55)		(2,451)	(1,957)
Recognised actuarial loss		5		242	-
Net gratuity cost	**$**	**271**	**Rs**	**12,055**	**7,210**

The assumptions used in accounting for the gratuity plan for the year ended March 31, 2006 and 2005 are below:

	March 31,	
	2006	2005
Discount rate	5%	5 %
Expected return on plan assets	5%	5 %
Rate of compensation increase	7%	7 %

The Group evaluates these assumptions based on its long-term plans of growth and industry standards and the expected contribution to the fund during the year ending March 31, 2006, is approximately Rs 15,000. The nature of the asset allocation of the fund is only debt based mutual funds of high credit rating.

The expected benefit payments from the fund over the next ten years are below:

March 31,				
2007	$	74	Rs	3,285
2008		31		1,387
2009		45		1,988
2010		49		2,198
2011		213		9,481
Up to 2016		737		32,801

12. Other Income

Other income comprises of the following:

	March 31		
	2006	2006	2005
Dividend on mutual fund units	$ 811	Rs 36,079	Rs 120,800
Profit on sale of investment	62	2,753	2,296
Gain on fixed assets sold, net	8	346	-
Miscellaneous income	242	10,754	17,423
	$ 1,123	**Rs 49,932**	**Rs 140,519**

13. Provision for Income Taxes

	March 31		
	2006	2006	2005
Current taxes	$ 5,326	Rs 236,883	Rs 128,340
Deferred taxes	2,589	115,151	119,089
Provision for income tax	**$ 7,914**	**Rs 352,034**	**Rs 247,429**
Deferred tax assets:			
Provision for employee benefits	$ 351	Rs 5,592	Rs 12,430
Provision for doubtful debts	146	6,511	6,134
Others	2	106	116
Total deferred tax assets	$ 499	Rs 22,209	Rs 18,680
Deferred tax liabilities:			
Depreciation on property, plant and equipment	$ 7,292	Rs 324,334	Rs 275,407
Undistributed profit of subsidiary	3,075	136,797	67,044
Total deferred tax liabilities	$ 10,367	Rs 461,131	Rs 342,451

The following is a reconciliation of the income tax at the statutory tax rate under the Indian Income-tax Act, 1961 ('IT Act') and the provision for income taxes:

	March 31		
	2006	2006	2005
Net income before taxes	$ 45,607	Rs 2,028,710	Rs 2,166,259
Enacted tax rates in India	33.66%	33.66%	36.5925%
Computed tax expense	15,352	682,864	792,688
Effect of tax rate change	(463)	(20,574)	5,996
Adjustment related to prior years	-	-	(21,447)
Undistributed profits of subsidiary	1,568	69,753	35,292
Permanent differences:			
Non taxable export income	(8,115)	(360,950)	(513,199)
Stock compensation costs	72	3,187	8,561
Weighted deduction on research and development expenses	(521)	(23,161)	(33,590)
Share issue expenses	(231)	(10,297)	(11,194)
Losses of subsidiary and joint venture	387	17,201	18,565
Dividend income	(273)	(12,144)	(44,313)
Others	138	6,155	10,070
Provision for income taxes	**$ 7,914**	**Rs 352,034**	**Rs 247,429**

Biocon, Syngene and Clinigene file separate tax returns as per the applicable tax laws in India.

On July 1, 2002, Biocon received an approval from the Department of Scientific and Industrial Research to claim a weighted deduction of 150 per cent on the expenditure incurred on scientific research or in-house research and development facility under section 35(2AB) of the IT Act retroactively from financial year ended March 31, 2000.

Biocon effective August 26, 2003 received approval from the Cochin Special Economic Zone for the setting up of a 100 percent Export Oriented Unit for the manufacture and export of all types of statins on which, the Company claims exemption under section 10B of the IT Act.

Under the IT Act, the profits of certain units of Syngene and that of Biocon are exempt from income taxes being profits attributable to earnings from a 100 per cent export oriented unit. Under this tax holiday, Syngene can utilise the deduction for a period of 10 consecutive years starting from April 1, 1998. Syngene has opted for this exemption for the years ended March 31, 1999 to March 31, 2008. On February 24, 2003, Syngene obtained an approval from the Department of Scientific and Industrial Research for exemption of profits for further five year ie upto financial year 2013. Further, each of the constituent entities in the Group is eligible for a deduction from Indian income taxes for profits attributable to export operations, subject to meeting the related conditions.

During the year ended March 31, 2006, Syngene has recognised the deferred tax liability/(asset) arising on account of timing differences for one unit which no longer claims exemption under section 10B of the Act, and with respect to Unit II, for those timing differences which do not reverse during the tax holiday.

The accumulated profits amounting to Rs.975,379 of Syngene as of March 31, 2006 are available for distribution to Biocon (the holding company) at the applicable tax rate for dividend distribution. For the year ended March 31, 2006, the Group has recognised the deferred tax liability for the excess of the financial reporting basis over the tax basis of its investment in Syngene.

During the year ended March 31, 2004, Clinigene obtained an approval from the Department of Scientific and Industrial Research for exemption of profits under section 80-IB (8A) of the IT Act.

Temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases arose due to difference in depreciation rates of property, plant and equipment and provision for superannuation, leave encashment, gratuity, provision for entry tax and technical know how fees which are allowable on a payment basis under the IT Act. Since export turnover of the Group qualifies for a deduction from taxable income, a substantial portion of the temporary differences would not have any tax consequences, as they will reverse within the tax holiday period and, accordingly, no deferred tax assets and liabilities have been recognised relating to such temporary differences.

14. Deferred Sales Taxes Liability

The Company has obtained the benefit of deferring its sales tax liability for its manufacturing facilities in Bommasandra and Hebbagodi, to an extent of Rs 24,375 and Rs 648,938, in accordance with the Agro Food Processing Industrial Policy of the Government of Karnataka, for a period of 8 years and 12 years, respectively. In accordance with the Government Order, the Group has deferred its sales tax liabilities aggregating to Rs 371,517 and Rs 270,136 as on March 31, 2006 and 2005, respectively, which is to be repaid over various dates commencing from September 2009.

15. Long Term Debt

During the year ended March 31, 2006 the Company has entered into an agreement with the Council of Scientific and Industrial Research ('CSIR') to avail long term loan amounting to Rs 4,030 for carrying out part of the research and development project under the New Millennium Indian Technology Leadership Initiative ('NMITLI') Scheme. The annual interest of three percent and the principal amount is repayable over a period of 10 years commencing from October 1, 2008. As at March 31, 2006 the Company had drawn Rs 1,410.

16. Stockholders' Equity

The Group has only one class of common stock referred to herein as equity shares. Each holder of equity shares is entitled to one vote per share.

Dividends proposed by the Board of Directors are payable when formally approved by the shareholders, who have the right to decrease but not increase the amount of the dividend recommended. The Company accrues for dividend upon obtaining shareholders approval. Dividend on equity share issued during a fiscal year is paid from the date of issue of these shares. The Company paid cash dividends and dividend tax of Rs 200,000 (Rs 2 per share) and Rs 28,050 and Rs 100,000 (Rs 1 per share) and Rs 12,813 during the period ended March 31, 2006 and 2005 respectively.

Under the Indian Companies Act, all Indian Companies are mandatorily required to restrict certain portion of its retained earnings by transfer of such amounts to general reserve for distribution of dividend beyond a specified percentage. General reserves for the Company as at March 31, 2006 and 2005 amounted to Rs 823,279 and Rs 689,796 respectively.

17. Stock Option Plan ('Option Plan')

On September 27, 2001, the Board of Director's approved the Biocon Stock Option Plan 2000 ('the Option Plan 2000') for the grant of stock options to the employees of Biocon and its subsidiaries. A compensation committee has been constituted to administer the plan.

The Trust purchases equity shares of Biocon using the proceeds from the loan obtained from Biocon and will subscribe to such number of shares as is necessary for transferring to the employees. The total number of equity shares transferred to the Trust shall not exceed 12,243,898 equity shares and shares transferred to each employee will not exceed 489,756 equity shares. The Compensation Committee shall determine the exercise price, which will not be less than the face value of the shares.

The options will vest with the employees equally over a four-year period. In accordance with the plan during the year ended March 31, 2003, the Company had granted 3,502,260 options to the eligible employees of the Company and its subsidiaries. 25 per cent each of the total options granted under the plan will vest to the eligible employees on the completion of 12, 24, 36 and 48 months and is subject to the continued employment of the employee with the Company or its subsidiaries.

Further, during January 2004, the Compensation Committee granted 142,100 options under the Option Plan 2000 effective January 1, 2004 to be exercised at a price of Rs 5. The options will vest with the employees equally over a four year period from the grant date. On January 18 2004, the Board of Directors announced the Biocon Stock Option Plan ('the Option Plan 2004') for the grant of stock options to the employees of the Group, pursuant to which, the Compensation Committee on March 19, 2004 granted 422,000 options under the Option Plan 2004 to be exercised at a price of Rs 315 being the issue price determined for the IPO through the book building process. The options will vest with the employees equally over a four year period from the grant date.

In case the employee resigns from employment, the rights relating to shares, which are eligible for exercise, may be purchased by payment of the exercise price whereas, the balance shares shall be forfeited in favour of the ESOP Trust.

The Group applied APB Opinion 25 and related Interpretations in accounting for these plans. In accordance with APB Opinion 25, the compensation cost has been recognised for the differential between the exercise price and the fair value of value of the shares on the date of the grant. The compensation cost is recognized in the financial statements over the vesting period. The percentage to be recognized in each year is based on the aggregate percentage accrued to the employee at the end of each year.

The Trust had 4,432,567 equity shares of Rs 5 each as of March 31, 2006 of which 3,208,715 shares have not been granted and a summary of the activity of the Trust is as follows:

	March 31,			
	2006		2005	
Particulars	**No of options**	**Weighted average price (In Rs)**	**No of options**	**Weighted average price (In Rs)**
Outstanding at the beginning of the year	2,263,857	53.19	3,098,946	43.29
Granted during the year	-	-	-	-
Exercised during the year	(969,622)	4.05	(778,997)	0.42
Forfeited during the year	(70,383)	156.18	(56,092)	238.89
Outstanding at the end of the year	1,223,852	86.21	2,263,857	53.19

Price range for the options outstanding is as follows:

Grant price (Rs)	**No. of options outstanding March 31,**	
	2006	**2005**
0 – 5	813,227	1,841,857
300 – 320	410,625	422,000

The total stock compensation cost recognised in the consolidated statements of income for the year ended March 31, 2006 and year ended March 31, 2005 is as follows:

	March 31,		
	2006	**2006**	**2005**
Cost of products sold	$ 44	Rs 1,974	Rs 6,250
Cost of contract research services	56	2,510	5,677
Research and development expenses	35	1,545	2,685
Selling, general and administrative expenses	78	3,438	8,784
	$ 213	**Rs 9,467**	**Rs 23,396**

Shares allocated to the employees have been considered as outstanding for basic EPS to the extent they are vested. Shares held by the Trust, which have been allocated but not vested have been included for diluted EPS. The loan granted to the Trust is presented as a separate component of stockholders' equity and repayments of the loan, by way of exercise of the shares by the employees is applied towards repayment of the said loan. As of March 31, 2006 and 2005 the trust has repaid the entire loan.

The following is a reconciliation of the weighted average number of equity shares used in the computation of basic and diluted earnings per equity share:

	March 31, 2006	March 31, 2005
Weighted average number of common shares used for computing basic EPS	95,305,796	94,695,763
Dilutive component of shares that are not eligible for exercise	918,089	1,925,321
Weighted average number of shares used for diluted EPS	96,223,885	96,621,084

18. Leases

The Group has entered into lease agreements for certain of its premises, which expire upto 2015. Gross rental expenses for the year ended March 31, 2006 and 2005 aggregated to Rs 570 and Rs 480, respectively. The committed lease rentals in the future are:

March 31,				
2007	$	18	Rs	789
2008		18		808
2009		17		739
2010		6		252
2011		6		277
Upto 2015		37		1,625
	$	**51**	**Rs**	**4,490**

The Group has taken vehicles for use by certain employees under operating leases, which expire in January 2010. Gross rental expenses for the year ended March 31, 2006 and 2005 aggregated to Rs 5,794 and Rs 6,450, respectively. The committed future minimum lease rental payments are:

March 31,				
2007	$	140	Rs	6,226
2008		118		5,233
2009		51		2,277
2010		14		633
	$	**323**	**Rs**	**14,369**

19. Related Party Transactions

The remuneration paid to KMZ and JMM in accordance with the agreement entered into by them with the Company for the year ended March 31, 2006 and 2005 was Rs 19,723 and Rs 19,854, respectively.

The Company has funded the operations of BBPL by way of extending long-term interest bearing loans repayable after commencement of commercial operations. As at March 31, 2006 and 2005 the loan outstanding was Rs 461,197 and Rs 102,565 respectively, of which Rs 15,406 and Rs 2,925 respectively relates to interest payable to the Company on such funding.

20. Commitments and Contingencies

(a) Capital commitments

The Group had committed to spend approximately Rs 382,984 and Rs 1,005,240 as at March 31, 2006 and 2005, under agreements to purchase property, plant and equipment. This amount is net of advances paid in respect of these purchases (Refer Note 7).

(b) Guarantees

Guarantees provided by banks on behalf of the Group amounted to Rs 818,828 and Rs 578,739 as at March 31, 2006 and 2005, respectively, which mature over periods upto March 2015. The guarantees are primarily in the nature of performance guarantees and were provided to Indian Government agencies. The Group has concluded that the risk of the guarantees being called is remote and accordingly no provision has been made.

(c) Claims against the Group

The Group accounts for loss contingencies when the likelihood of the underlying adverse event occurring is probable and the loss can be reasonably estimated.

(i) Taxation matters under appeal
Biocon has received demand notices from the Income tax authorities in respect of assessments made in the year 1993 to 2003 aggregating Rs 12,900 and Rs 9,895 till March 31, 2006 and 2005, respectively. Biocon has appealed these assessments and management does not anticipate incurring a liability in respect of these amounts.

(ii) Other claims against the Group not acknowledged as obligations amount to Rs 2,170 as of March 31, 2006 and 2005, respectively.

(d) Other commitments

Some of the Group's operations are carried out from five units registered as a 100 per cent export oriented unit under the Special Economic Zone ('SEZ') scheme. Under this scheme the registered units have export obligations, which are based on the formula provided by the notifications/circulars issued by the SEZ authorities from time to time. The consequence of not meeting the above commitments would be a retroactive levy of import duty on items previously imported duty free for these units. Additionally, the respective authorities have rights to levy penalties for any defaults on a case-by-case basis. Management believes that it would meet the required export obligations.

21. Segment reporting and related information

The Chief Operating Decision Maker ("CODM") evaluates the Company's performance and allocates resources based on an analysis of gross profit by product segment. The product segment reviewed by the CODM are as follows:
Enzyme
Pharma and
Contract Research

(a) An analysis of revenue, gross profit and other related information is given below:

April 1, 2005 to March 31, 2006

In Rupees '000

Particulars	Enzyme	Pharma	Contract Research	Unallocated	Eliminations	Total
Revenues						
External sales	849,563	6,025,361	1,005,756	-	-	7,880,680
Inter-segment transfers	72,294	-	-	-	(72,294)	-
Total revenues	921,857	6,025,361	1,005,756	-	(72,294)	7,880,680
Costs						
Segment costs	(523,481)	(3,660,753)	(497,049)	-	-	(4,681,283)
Inter-segment transfers	-	(72,294)	-	-	72,294	-
Gross Profit	398,376	2,292,314	508,707	-	-	3,199,397
Research and development expenses	-	-	-	(195,737)	-	(195,737)
Selling, General and administrative expenses	-	-	-	(677,720)	-	(677,720)
Depreciation	(26,911)	(142,463)	(68,003)	(55,706)	-	(293,083)
Income from operations	371,465	2,149,851	440,704	(929,163)	-	2,032,857
Share of losses in Joint Venture	-	-	-	(40,234)		(40,234)
Interest income	-	-	1,134	380	-	1,514
Interest expense	-	-	(577)	(16,971)	-	(17,548)
Other income	-	-	20,152	31,969	-	52,121
Income before provision for income taxes						2,028,710
Provision for Income taxes	-	-	-	(352,034)	-	(352,034)
Net Income						1,676,676
Other information						
Segment assets	626,616	8,864,941	1,515,470	1,629,714	-	12,636,741
Segment liabilities	138,006	1,751,748	265,688	1,497,293	-	3,652,735
Capital expenditure	10,073	114,648	311,385	335,361	-	771,467

April 1, 2005 to March 31, 2006 — In $ '000

Particulars	Enzyme	Pharma	Contract Research	Unallocated	Eliminations	Total
Revenues						
External sales	19,100	135,462	22,611	-	-	177,173
Inter-segment transfers	1,625	-	-	-	(1,625)	-
Total revenues	20,725	135,462	22,611	-	(1,625)	177,173
Costs						
Segment costs	(11,769)	(82,301)	(11,175)	-	-	(105,245)
Inter-segment transfers	-	(1,625)	-	-	1,625	-
Gross Profit	8,956	51,536	11,436	-	-	71,928
Research and development expenses	-	-	-	(4,401)		(4,401)
Selling, General and administrative expenses	-	-	-	(15,237)	-	(15,237)
Depreciation	(605)	(3,203)	(1,529)	(1,252)	-	(6,589)
Income from operations	8,351	48,333	9,907	(20,890)	-	45,701
Share of losses in Joint Venture	-	-	-	(905)		(905)
Interest income	-	-	25	9	-	34
Interest expense	-	-	(13)	(382)	-	(395)
Other income	-	-	453	719	-	1,172
Income before provision for income taxes					-	45,607
Provision for Income taxes	-	-	-	(7,914)	-	(7,914)
Net Income						37,693
Other information						
Segment assets	14,088	199,302	34,071	36,639	-	284,100
Segment liabilities	3,103	39,383	5,973	33,662	-	82,121
Capital expenditure	226	2,578	7,001	7,540	-	17,345

April 1, 2004 to March 31, 2005 — In Rupees '000

Particulars	Enzyme	Pharma	Contract Research	Unallocated	Eliminations	Total
Revenues						
External sales	896,814	5,566,810	662,040	-	-	7,125,664
Inter-segment transfers	84,128	-	-	-	(84,128)	-
Total revenues	980,942	5,566,810	662,040	-	(84,128)	7,125,664
Costs						
Segment costs	(505,705)	(3,407,711)	(336,158)	(36,354)	-	(4,285,928)
Inter-segment transfers	-	(84,128)	-	-	84,128	-
Gross Profit	475,237	2,074,971	325,882	(36,354)	-	2,839,736
Research and development expenses	-	-	-	(146,632)	-	(146,632)
Selling, General and administrative expenses	-	-	-	(439,763)	-	(439,763)
Depreciation	(26,386)	(105,274)	(42,484)	(46,052)	-	(220,196)
Income from operations	448,851	1,969,697	283,398	(668,801)	-	2,033,145
Share of losses in Joint Venture	-	-	-	(21,284)	-	(21,284)
Interest income	-	-	-	2,543	-	2,543
Interest expense	-	-	(342)	(19,940)	-	(20,282)
Other income	-	-	-	172,137	-	172,137
Income before provision for Income taxes						2,166,259
Provision for Income taxes	-	-	-	(247,429)	-	(247,429)
Net Income						1,918,830
Other information						
Segment assets	636,117	6,519,171	851,700	2,858,668	-	10,865,656
Segment liabilities	132,476	1,917,232	213,895	1,165,912	-	3,429,515
Capital expenditure	18,917	568,327	364,594	202,530	-	1,154,368

(b) An analysis of revenue by Geography (based on location of customers) is given below:

Revenues, net (In Rupees)	**2006**	**2005**
India	3,290,600	2,711,746
Exports	4,590,080	4,413,918
Total	7,880,680	7,125,664

Assets and additions to fixed assets by geographical area - The following is the carrying amount of segment assets by geographical area in which the assets are located.

Carrying amount of segment assets (In Rupees)	**2006**	**2005**
India	11,308,630	9,930,066
Outside India	1,564,962	935,590
Total	**12,873,592**	**10,865,655**

Carrying amount of segment assets outside India represents receivables from export sales.

Segment revenue and result

The expenses that are not directly attributable and that cannot be allocated to a business segment on a reasonable basis are shown as unallocated corporate expenses.

Inter-segment transfers

Segment revenue, segment costs and results include transfers between business segments. Such transfers have been made at cost. The inter-segment transfers have been eliminated on consolidation.

Segment assets and liabilities

Segment assets include all operating assets used by the business segment and consist principally of fixed assets, investments and current assets. Segment liabilities comprise of loan funds which can be identified directly against the respective segments and includes segment current liabilities and provisions. Assets and liabilities that have not been allocated between segments are shown as part of unallocated corporate assets and liabilities respectively.

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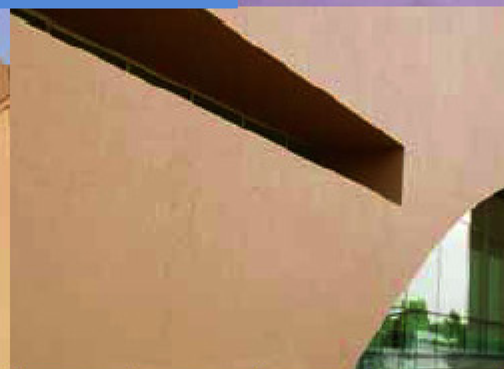

Biocon Corporate Communications | tsk DESIGN info@tsk-design.com Printed at Thomson Press Mumbai

Biocon

Biocon Limited
20th KM Hosur Road
Electronic City
Bangalore 560 100 India
T 91 80 2808 2808
F 91 80 2852 3423

www.biocon.com