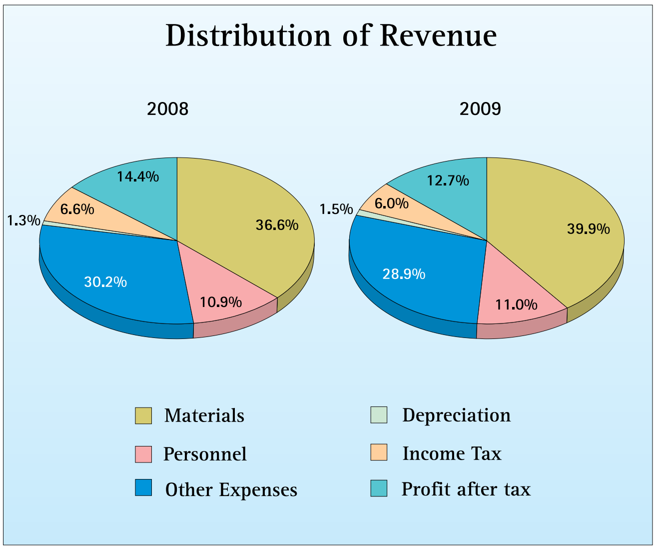
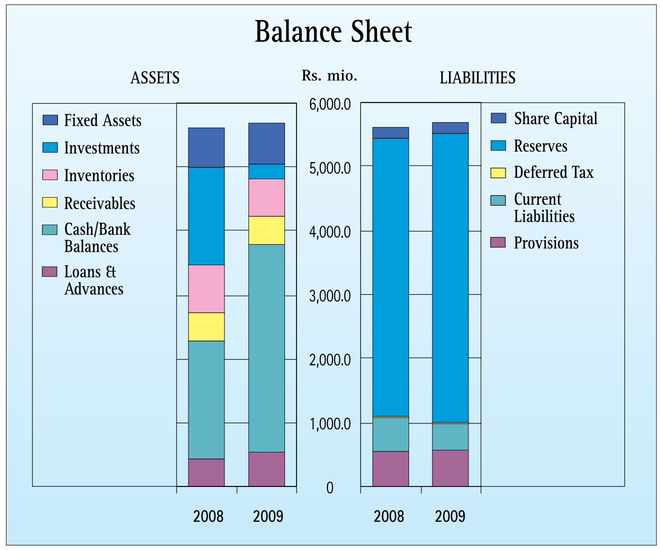
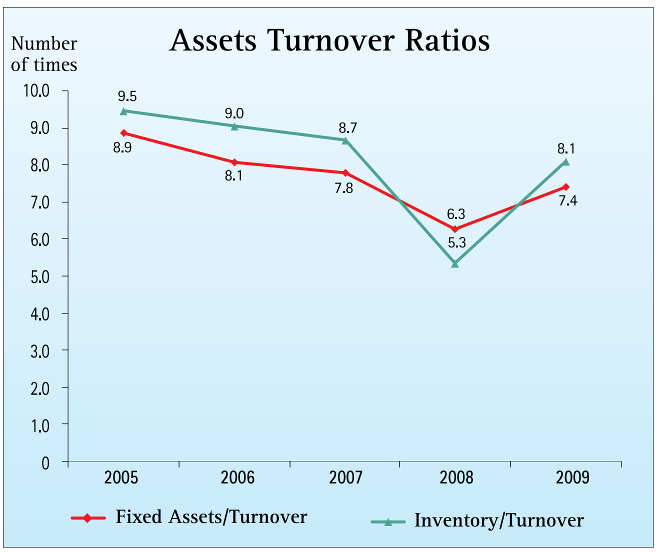
MERCK

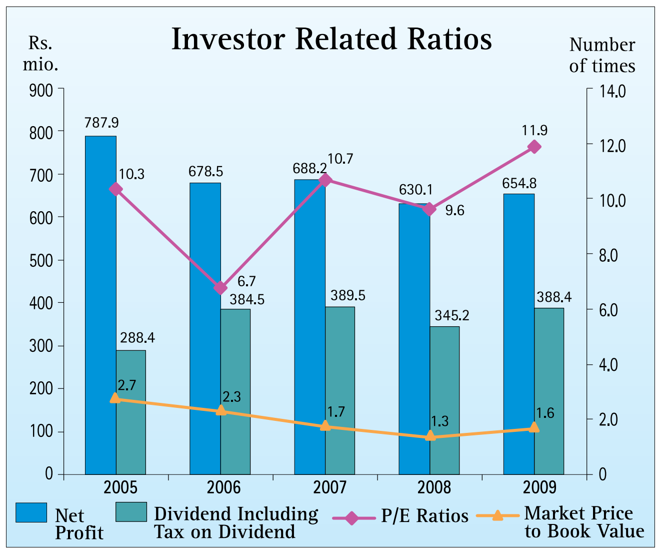
# ANNUAL REPORT 2009

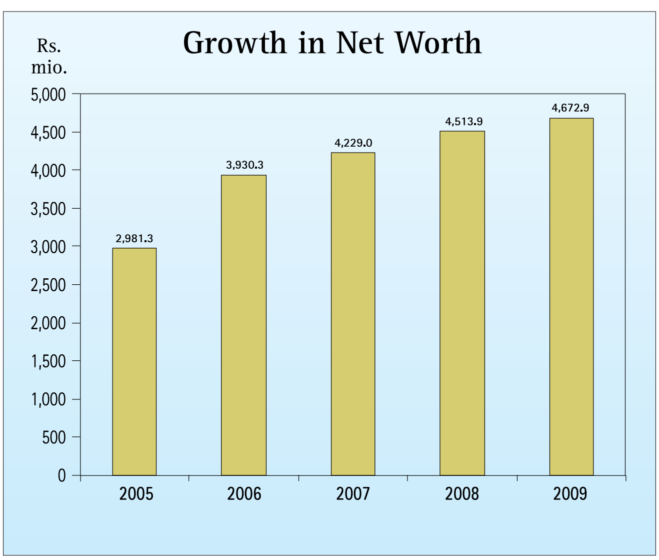
# PERFORMANCE INDICATORS

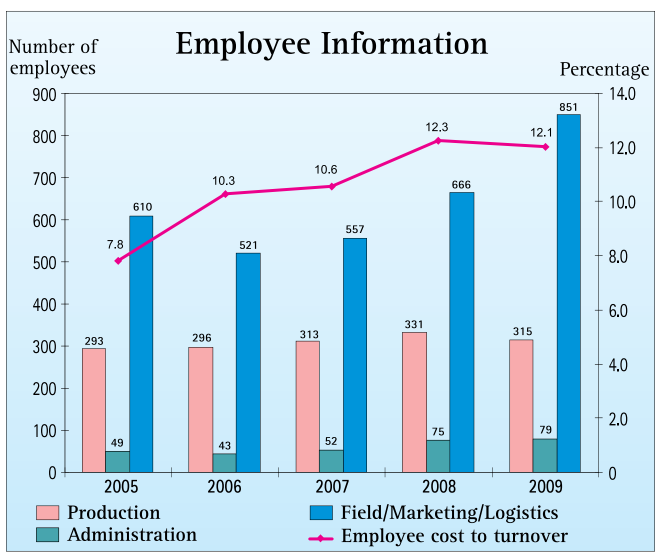



Cover page coated with Iriodin® pearl lustre pigments manufactured by Merck

# Merck Limited
## Forty-third Annual Report and Statement of Accounts 2009

### *Board of Directors*

Mr. S. N. Talwar
*Chairman*

Dr. M. Dziki
*Managing Director*

Dr. H. S. Hermansson
*(up-to 31.07.2009)*

Mr. Ralph Zaat
*(from 20.07.2009)*

Mr. H. C. H. Bhabha

Mr. E. A. Kshirsagar

Mr. K. Shivkumar

Mr. R. L. Shenoy

### *Auditors*

B S R & Co.

### *Bankers*

Canara Bank
Deutsche Bank AG
ICICI Bank Limited
HDFC Bank Limited

### *Legal Advisors*

Crawford Bayley & Co.
Talwar Thakore & Associates

### *Company Secretary*

Mr. H. U. Shenoy

### *Contents*



### *Registered Office*

Shiv Sagar Estate 'A'
Dr. Annie Besant Road
Worli, Mumbai-400 018

### *Plant Location*

Plot No. 11/1
Usgaon, Ponda-403 407
Goa

### *Registrars & Share Transfer Agents*

Sharepro Services (India) Pvt. Ltd.
13AB, Samhita Warehousing Complex,
2nd Floor, Sakinaka Telephone Exchange Lane
Andheri-Kurla Road, Sakinaka
Mumbai-400 072

Cover page coated with Iriodin® pearl lustre pigments manufactured by Merck

# Notice of Annual General Meeting

NOTICE is hereby given that the Forty-third Annual General Meeting of the Members of **Merck Limited** will be held at Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Haji Ali, Mumbai-400 034 on Monday March 29, 2010 at 3.00 p.m. to transact the following business:

**AS ORDINARY BUSINESS:**

1. To receive and adopt the audited Profit and Loss Account for the year ended December 31, 2009, the Balance Sheet as on that date and the Reports of the Board of Directors and Auditors.
2. To declare a dividend for the year 2009.
3. To appoint a Director in place of Mr. S. N. Talwar, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. E. A. Kshirsagar, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting of the Company and to fix their remuneration.

**AS SPECIAL BUSINESS:**

6. To consider and, if thought fit, to pass, with or without modification, as an ORDINARY RESOLUTION the following:

   "RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII of the said Act, Mr. R. L. Shenoy be re-appointed as a Whole-time Director of the Company from December 27, 2009 for a period of two years on the terms and conditions as set out in the Agreement dated December 12, 2009 entered into between the Company and Mr. R. L. Shenoy".

**By Order of the Board of Directors**

**H. U. Shenoy**
Company Secretary

Mumbai, January 22, 2010

*Registered Office:*
Shiv Sagar Estate 'A'
Dr. Annie Besant Road
Worli, Mumbai-400 018

**NOTES:**

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE ON A POLL ONLY INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.**

   The instrument appointing Proxies in order to be effective, must be received at the Registered Office of the Company not less than 48 hours before the Meeting.
2. The relevant Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business at Item No. 6 of the Notice is annexed.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from March 20, 2010 to March 29, 2010 (both days inclusive) for the purpose of payment of dividend.
4. In terms of Sections 205A and 205C of the Companies Act, 1956, the dividend which remains unclaimed for a period of seven years from the date of transfer to the Unpaid Dividend Account is required to be transferred to the "Investor Education and Protection Fund" established by the Central Government. According to the relevant provisions of the Companies Act, 1956, no claims shall lie against the said Fund or the Company for the amount of dividend so transferred to the said Fund. **Members who have not encashed the dividend warrant(s) so far for the year ended December 31, 2002** or any subsequent years are requested to send their claims directly to the Company or to M/s. Sharepro Services (India) Private Ltd. (hereinafter referred to as Sharepro Services). The Company has been sending reminders to the concerned Members to claim their dividend amounts from the Company.
5. Members are requested to notify immediately any change of address and Bank details to their Depository Participants (DPs) in respect of their holdings in electronic form and in respect of shares held in physical form, to the Secretarial department at the Registered Office of the Company or to Sharepro Services.
6. In order to provide protection against fraudulent encashment of dividend warrants, Members are requested to provide, if not already provided earlier, their Bank account number, name and address of the Bank, quoting their folio numbers to the Secretarial department at the Registered Office of the Company or to Sharepro Services.
7. In respect of Members who have given mandate for payment of dividend through Electronic Clearing Service (ECS), the dividend will be paid through ECS and their Bank account details will be printed on their dividend advices.
8. The mandate, if any, given by the Members in respect of shares held in physical form will not be applicable to the dividend payable on shares held by them in demat mode and vice versa. Members holding shares in demat mode must, therefore, give instructions regarding the Bank account in which they wish to receive dividend, to their DPs.
9. Members are informed that in case of joint holders attending the Meeting, only such joint holder who is higher in the order of names will be entitled to vote.
10. In terms of Section 109A of the Companies Act, 1956, Members are entitled to make nomination in respect of shares held by them in physical form. Members desirous of making nominations are requested to send their requests in Form 2B, in duplicate, to the Secretarial department at the Registered Office of the Company or to Sharepro Services.

# Notice of Annual General Meeting

11. A brief profile of the Directors retiring by rotation and eligible for re-appointment/appointed since the last Annual General Meeting, is given in the annexure to this Notice.

**REQUEST TO THE MEMBERS:**

1. Members desiring any relevant information on the accounts at the Annual General Meeting are requested to write to the Company well in advance to ensure that such requests reach the Company at least seven days before the date of Annual General Meeting, so as to enable the Company to keep the information ready.
2. As a measure of economy, copies of the Annual Report will not be distributed at the Annual General Meeting. Members are requested to bring their copies of the Annual Report to the Meeting.

**EXPLANATORY STATEMENT:**

(Pursuant to Section 173(2) of the Companies Act, 1956)

**Item No. 6:**

The Board of Directors of the Company, subject to the consent of the Members in the Annual General Meeting, re-appointed Mr. R. L. Shenoy as a Whole-time Director for a further period of two years with effect from December 27, 2009 on the terms and conditions set out in the Agreement dated December 12, 2009 entered into between Mr. R. L. Shenoy and the Company. The Directors consider the services of Mr. R. L. Shenoy useful to the Company and recommend to re-appoint him as a Whole-time Director in charge of Finance, Legal, Taxation, Secretarial and Commercial functions.

The main terms and conditions of re-appointment as per the Agreement aforesaid and placed for approval before the Members are as under:

I. Period: Two years with effect from December 27, 2009.

II. Mr. R. L. Shenoy shall be in-charge of Finance, Legal, Taxation, Secretarial and Commercial functions of the Company.

III. The total remuneration payable to Mr. R. L. Shenoy shall be as follows :-

(i) For the period of appointment as stated above, the aggregate remuneration payable to Mr. R. L. Shenoy by way of salary and commission shall be a maximum of Rs. 10.0 mio. (Rupees ten million) per annum, subject to such limits as may be fixed by the Board of Directors for each year or part thereof and shall be subject to the overall limits laid down in Sections 198 and 309, read with Schedule XIII of the Act.

(ii) Perquisites, in addition to the above remuneration, would comprise of furnished accommodation or house rent allowance in lieu thereof, gas, electricity, water, furnishings and domestic assistance, use of car with driver, telephone at residence, leave travel concession for self and family, medical reimbursement, fees of clubs, personal accident insurance paid in accordance with the Rules of the Company, etc., such perquisites being restricted to Rs. 6.0 mio. (Rupees six million only) per annum, subject to such limits as may be fixed by the Board of Directors for each year or part thereof and shall be subject to the overall limits laid down in Sections 198 and 309 read with Schedule XIII of the Act. For the purpose of calculating the above ceiling, perquisites shall be evaluated as per Income Tax Rules, wherever applicable.

(iii) In addition, Mr. R. L. Shenoy shall be entitled to:

(a) The Company's contribution to Provident Fund and Superannuation Fund not exceeding 27% of the salary,

(b) Gratuity payment, and

(c) Encashment of earned/privilege leave in accordance with the Rules of the Company.

IV. Reimbursement of expenses incurred on behalf of the Company.

V. The Contract may be terminated by either party by giving to the other party six months notice.

VI. Confidentiality Clause.

VII. If at any time, Mr. R. L. Shenoy, Whole-time Director is disqualified/ceased to be Director of the Company, for any cause whatsoever, he shall vacate office as Whole-time Director of the Company.

The Board commends the re-appointment of Mr. R. L. Shenoy as a Whole-time Director for your approval.

The Agreement executed between the Company and Mr. R. L. Shenoy is open to inspection by Members at the Registered Office of the Company between 2 p.m. and 4 p.m. on all working days except Saturdays and Sundays and Public Holidays, up-to and including the day of the Annual General Meeting.

Mr. R. L. Shenoy is interested in the resolution since it concerns his re-appointment and fixation of remuneration. No other Director is interested in the Resolution.

**By Order of the Board of Directors**

**H. U. Shenoy**
Company Secretary

Mumbai, January 22, 2010

*Registered Office:*
Shiv Sagar Estate 'A'
Dr. Annie Besant Road
Worli, Mumbai-400 018

# Annexure to the Notice of Annual General Meeting

**BRIEF PROFILE OF DIRECTORS SEEKING RE-APPOINTMENT AND DIRECTORS APPOINTED SINCE THE LAST ANNUAL GENERAL MEETING:**

| Particulars | Mr. S. N. Talwar | Mr. E. A. Kshirsagar | Mr. Ralph Zaat | Mr. R. L. Shenoy |
|---|---|---|---|---|
| Date of birth & Age | 21/11/1937 72 years | 10/09/1941 68 years | 31/12/1958 51 years | 16/01/1948 62 years |
| Appointed on | 17/01/1984 | 13/12/2007 | 20/07/2009 | 27/12/1988 |
| Qualifications | B.Com, L.L.B, Solicitor | B.Sc., FCA (England & Wales) FCA (India) | Medical Director, Amsterdam University, the Netherlands Master Business Administration (International Business, Marketing and Strategic Planning) – Rotterdam School of Management/ Erasmus University, the Netherlands | B.Com., LL.M., A.C.A., ACS, A.I.C.W.A., C.A.IIB. |
| Expertise in specific areas | Corporate Laws, Corporate Taxation, International issue of securities, Foreign Exchange laws & Commercial documentation | Corporate Strategy, Valuation, Disinvestment, Mergers & Acquisitions, Govt. Legislation impact on Business | Commercial operations at country and regional levels | Finance, Legal, Taxation, Secretarial and Commercial Functions |
| Directorships held in Public Limited and Private Limited Companies | PZ Cussons India Private Ltd., FCI OEN Connectors Ltd., Transwarranty Finance Limited, Armstrong World Industries (India) Pvt. Ltd., Romil Finance & Investments Pvt. Ltd., Sidham Finance & Investments Pvt. Ltd., 20th Century Fox Corpn. (I) Pvt. Ltd. AON Global Insurance Brokers Pvt. Ltd., Biocon Limited, Birla Sun Life Insurance Co. Ltd., Birla Sun Life Trustee Co. Pvt. Ltd., Blue Star Limited, Blue Star Infotech Limited, Cadbury India Limited, Chowgule & Company Private Ltd., Decagon Investments Pvt. Ltd., ELANTAS Beck India Limited, Emerson Process Management (India) Pvt. Ltd., Epitome Global Services Pvt. Ltd., Esab India Limited, Greaves Cotton Limited, India Value Fund Trustee Company Private Limited, IVF Trustee Company Private Limited, IVF (Mauritius) PCC, IVF (Mauritius) Limited, Indium III (Mauritius) Holding Limited, Indium III (Mauritius) Limited, Indium IV (Mauritius) Holding Limited, Indium IV (Mauritius) Limited, John Fowler (India) Pvt. Ltd., Larsen & Toubro Ltd., MF Global (India) Pvt. Ltd., Morgan Stanley India Capital Pvt. Ltd., Rediffusion-Dentsu, Young & Rubicam Pvt. Ltd., Rakeen Development PJSc, Reva Electric Car Co. Pvt. Ltd., Sandvik Asia Ltd., Shrenuj & Co. Ltd., Samson Maritime Ltd., Solvay Pharma India Ltd., Snowcem Paints Pvt. Ltd., Showdiff Worldwide Pvt. Ltd., Sonata Software Limited, Swiss Re Shared Services (India) Pvt. Ltd., TTK Healthcare TPA Private Limited, Warner Bros Pictures (India) Pvt. Ltd., WAVE Suspension Systems India Private Ltd, Albright & Wilson Chemicals India Ltd., Garware-Wall Ropes Ltd., Hindustan Gum & Chemicals Limited, Johnson & Johnson Ltd., Uhde India Pvt. Ltd. | Batliboi Limited, HCL Infosystems Limited, JM Financial Limited, Rallis India Limited, Tata Chemicals Limited, Manipal Universal Learning Pvt. Ltd., Tribune Corporate & Investment Advisory Services Pvt. Ltd., Vama Sundari Investment Pvt. Ltd., Pharmarc Analytic Solutions Pvt. Ltd. | Merck Pte. Ltd., Singapore, Merck Ltd., Thailand, Merck Inc., Philippines, Merck Ltd., Hong Kong, Beijing Merck Pharmaceutical Consulting Ltd., China | Bangalore Genei (India) Pvt. Ltd. |
| Memberships/ Chairmanships of Committees in Public Limited Companies | Biocon Ltd., Blue Star Ltd., Blue Star Infotech Ltd., Cadbury India Ltd., ELANTAS Beck India Ltd., FCI OEN Connectors Ltd., Greaves Cotton Ltd., Sandvik Asia Ltd., Solvay Pharma India Ltd. | Batliboi Limited, JM Financial Limited, Rallis India Limited, HCL Infosystems Limited, Tata Chemicals Limited | None | None |
| Shareholding in the Company | 5,914 | Nil | Nil | 807 |

# Directors' Report

Your Directors have pleasure in presenting their Report on the business and operations of your Company along with the Accounts for the year ended December 31, 2009.

**FINANCIAL HIGHLIGHTS:**

| | | (Rs. mio.) |
|---|---|---|
| | **2009** | 2008 |
| **SALES** | **4,731.1** | 3,894.6 |
| **OTHER INCOME** | **432.1** | 477.1 |
| Profit before Interest, Depreciation and Taxation | **1,039.9** | 974.8 |
| Interest | **0.3** | 0.1 |
| Depreciation | **75.1** | 57.3 |
| **PROFIT BEFORE TAXATION** | **964.5** | 917.4 |
| Provision for Taxation (net) | **309.7** | 287.3 |
| **PROFIT AFTER TAXATION** | **654.8** | 630.1 |
| Profit & Loss Account Balance brought forward | **1,366.7** | 1,423.5 |
| PROFIT AVAILABLE FOR APPROPRIATION | **2,021.5** | 2,053.6 |
| **APPROPRIATIONS:** | | |
| Transfer to General Reserve | **326.6** | 341.7 |
| Dividend (Proposed) | **332.0** | 295.1 |
| Dividend Tax | **56.4** | 50.1 |
| Balance carried to the Balance Sheet | **1,306.5** | 1,366.7 |

**OPERATIONS:**

The turnover of the Company for the year 2009 was Rs. 4,731.1 mio. as against Rs. 3,894.6 mio. for the year 2008, showing a growth of 21.5% during the year under review. The profit after tax for the year under review was Rs. 654.8 mio as against Rs. 630.1 mio. in the previous year.

The turnover of the Pharmaceuticals division grew from Rs. 3,189.6 mio. in 2008 to 3,525.5 mio. in 2009 showing a growth of 10.5%. The turnover of the Chemicals division for the year was 1,205.6 mio. as against Rs. 705.0 mio. in the previous year, registering an impressive growth of 71.0%.

During the year under review, the Company's exports increased to Rs. 579.8 mio. as against Rs. 353.2 mio. for the previous year registering an impressive growth of 64.2%.

**BUY BACK OF SHARES:**

The Board at its meeting held on May 20, 2009 approved the buy back of Company's fully paid up Equity Shares from the open market at a price not exceeding Rs. 435/- per share. The buy back is limited to an amount of Rs. 451.4 mio being 10% of total paid up capital and free reserves based on audited accounts for the year ended December 31, 2008. The Company has bought back 2,61,842 Equity Shares and all the shares bought back in the buy back offer have been extinguished as on date.

**DIVIDEND:**

The Board of Directors has recommended a divided of Rs. 20/- per share as against Rs. 17.50 per Equity Share paid for the previous year. This is subject to the approval of the Members at the ensuing Annual General Meeting.

**FINANCE:**

The investments of the Company in various debt funds, and fixed deposits with Banks as on the date of the Report amount to Rs. 3,435.8 mio.

**DIRECTORS' RESPONSIBILITY STATEMENT:**

In accordance with Section 217(2AA) of the Companies Act, 1956, your Directors confirm that:

(a) in the preparation of the annual accounts, the applicable Accounting Standards/Rules have been followed along with proper explanation relating to material departures;

(b) the accounting polices have been consistently applied and reasonable and prudent judgement and estimates have been made so as to give a true and fair view of the state of affairs of the Company as at December 31, 2009, and the Profit for the year ended on that date;

(c) proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 has been taken for safeguarding the assets of the Company and for detecting and preventing fraud and other irregularities and;

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

**DIRECTORS:**

Mr. S. N. Talwar and Mr. E. A. Kshirsagar will retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. During the year, Mr. Ralph Zaat was nominated on the Board by Merck KGaA pursuant to the provisions of Article 110 of the Articles of Association of the Company in place of Dr. H. S. Hermansson. The Board placed on record its appreciation of the valuable services rendered by Dr. Hermansson during his tenure as a Director of the Company.

# Directors' Report

Mr. R. L. Shenoy's tenure as a Whole-time Director expired on December 26, 2009. The Directors are of the opinion that it would be advisable to re-appoint Mr. R. L. Shenoy as a Whole-time Director for an additional period of two years with effect from December 27, 2009 subject to Members approval at the ensuing Annual General Meeting.

### FIXED DEPOSITS:

During the year, the Company has not accepted any fixed deposit.

### AUDITORS:

Messrs B S R & Co., Chartered Accountants retire as the Statutory Auditors at the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment. The Audit Committee of the Board recommends the re-appointment of Messrs B S R & Co., as the Statutory Auditors for the year 2010. Messrs B S R & Co. have confirmed their eligibility and willingness to continue to act as the Statutory Auditors of the Company for the year 2010, if re-appointed.

### COST AUDIT:

Messrs S. S. Mani & Co. have been re-appointed to conduct the cost audit of the accounts maintained by the Company in respect of bulk drugs and formulations, for the year 2010.

### PERSONNEL:

As on December 31, 2009, the total number of employees on the payroll was 1,245. Industrial Relations with the employees at various levels continue to be cordial.

The particulars of employees as required under Section 217(2A) read with the Companies (Particulars of Employees) Rules, 1975, form part of this Report. However, pursuant to the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to the Members excluding the statement of particulars of employees under Section 217(2A) of the Companies Act, 1956. Any Member interested in obtaining a copy of the said statement may write to the Company Secretary at the Registered Office of the Company.

### CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO:

The information pertaining to conservation of energy, technology absorption, foreign exchange earnings and outgo required to be disclosed as per Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is given in the annexure forming part of this Report.

### CORPORATE GOVERNANCE:

The Report on the Corporate Governance Code along with a certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreements, as also the Management Discussion and Analysis Report, are annexed to this Report.

**On behalf of the Board of Directors**

**S. N. Talwar**
Chairman

Mumbai, January 22, 2010.

# Annexure to the Directors' Report

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

**(A) CONSERVATION OF ENERGY-GOA PLANT**

**(a) Energy Conservation measures taken:**

1. Reciprocating inefficient chillers are replaced with energy efficient york chillers in Injectable, Central Utility and Oxynex ST plants.
2. Utility equipments operationally controlled as per the production plans.
3. Power factor maintained at 0.99.
4. Power consumption is taken as part of the Six Sigma Project and controlled accordingly.
5. Central utility chilled water pump used for Oxynex ST, thus stopping the operation of the 150 TR chilled water pump along with cooling water.
6. Inefficient pumps replaced with energy efficient pumps.
7. Inefficient lamps replaced with energy efficient CFL lamps.
8. Appropriate DGs loading done in second and third shifts leading to efficient operations.
9. Condensate water returned to boiler.

10 ETP water recirculated for vacuum pumps in Oxynex ST Plant.

11. Steam generation done to the maximum extent by briquette fired boiler.
12. Recirculated RO-EDI water for secondary application.
13. Steam, water, air, chilled water, cooling water leakages monitored and controlled.

**(b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy:**

Installed two screw chillers at a cost of Rs. 7.0 mio.

**(c) Impact of Measures taken at (a) and (b) above:**

1. Power consumption is controlled effectively.
2. The energy conservation measures have resulted in savings which are translated in the reduction of cost of production.

**(d) Total energy consumption and energy consumption per unit of production as per Form A, furnished below:**

## FORM A

DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

**Power and Fuel Consumption at Goa Plant**

| Sr. No. | | Description | Current Year 2009 | Previous Year 2008 |
|---|---|---|---|---|
| 1. | **ELECTRICITY** | | | |
| | (a) | Purchased Units ('000 KWH) | **10,635.73** | 7,973.07 |
| | | Total Amount (Rs. mio.) | **41.48** | 28.79 |
| | | Rate/Unit (Rs.) | **3.90** | 3.61 |
| | (b) | Own Generation | | |
| | | Through Diesel Generator Units ('000 KWH) | **170.24** | 342.06 |
| | | Units/Litre of Diesel Oil | **2.90** | 3.17 |
| | | Cost/Unit (Rs.) | **11.57** | 11.35 |
| 2. | **BOILER FUELS** | | | |
| | (a) | **FURNACE OIL** | | |
| | | Quantity (Kilo Litres) | **195.01** | 480.00 |
| | | Total Amount (Rs. mio.) | **5.38** | 16.55 |
| | | Average Rate (Rs./Kilo Litre) | **27,588.33** | 34,479.17 |
| | (b) | **SOLID FUELS** | | |
| | | Quantity | **3,367.77** | 2,094.80 |
| | | Total Amount (Rs. mio.) | **11.42** | 6.68 |
| | | Average Rate (Rs./Ton) | **3,390.97** | 3,188.85 |

**Consumption per unit of production**

| | Standards (if any) | Current Year (1) | Previous Year (2) |
|---|---|---|---|
| Products (with details)<br>Unit<br>Electricity<br>Furnace Oil<br>Coal<br>Others | In view of the multi-facilities production system, the Company is not in a position to give information required as per this format for the current year as well as the previous year from the records maintained by the Company in accordance with the provisions of the Companies Act, 1956. | | |

# Annexure to the Directors' Report

## (B) TECHNOLOGY ABSORPTION

### FORM B

DISCLOSURE OF PARTICULARS WITH RESPECT TO ABSORPTION OF TECHNOLOGY, RESEARCH AND DEVELOPMENT

(a) RESEARCH AND DEVELOPMENT (R&D)

1. **Specific Areas in which Research has been carried out by the Company:**

**Pharmaceuticals**

The Pharmaceuticals R&D center at Nerul, Navi Mumbai is recognized by the Department of Scientific and Industrial Research. The R&D activities are carried out in various areas like pharmaceuticals, vitamin premixes, cosmetics and packaging development. The R&D center is benefitted on account of the access it has, to the latest technologies developed by Merck KGaA, Germany.

Optimization, standardization and improvement of products and production processes and yields are some of the important achievements of the R&D center in the year 2009. The center also is taking continuous steps for meeting the on-going changes in the regulatory requirements. By its continuous efforts on the import substitution, new product development, the center enables the Company to market more profitable products with better patient compliance.

2. **Benefits derived as a result of R&D:**

The R&D center has assisted the Company in the launch of new products in different therapeutic segments. The center has also been responsible for the improvement in the production processes, improved yields and operational efficiencies. Because of the initiatives of the Center, during the year, the Company launched 25 new products, some of which are line extensions of the existing products. Some of the new products and their therapeutic segments are given below:

| Name of the Product | Therapeutic segment |
|---|---|
| Hemobion Tonic | Iron tonic |
| Hemobion Tablets | Iron preparation |
| Polybion SF Syrup | Vitamin B complex |
| Osto Polybion Suspension | Calcium supplement |
| Carbophage Tablets of different strengths | Anti-diabetic |
| Olmighty Tablets of different strengths | Antihypertensive |
| Exflam Power Gel | Antiinflammatory |
| Ecobion Capsules | Probiotics |
| Tolflex Tablets | Muscle relaxant |

3. **Future Plan of Action:**

Continuous efforts will be made to augment the R&D capabilities through modern scientific and technological techniques and improved infrastructure. Emphasis will be put on the global net working on R&D and also training and development. Efforts will be made to develop innovative commercially viable processes, know how for various dosage forms and also for improving shelf life, stability, quality, convenience and meeting regulatory compliances. The center will be also taking steps to develop anti counterfeit measures for Company's products.

The Company intends to launch the following products during the year 2010.

| Name of the product | Therapeutic segment |
|---|---|
| Starvog Tablets of different strengths | Anti-diabetic |
| Met Neurobion P Tablets | Periferal neuropathy |
| Cefcapene Tablets | Antibacterial |
| Ostonate XT Tablets | Calcium supplement |

4. **Expenditure on R&D:**

| | (Rs. mio.) |
|---|---|
| Capital | 2.3 |
| Recurring | 18.1 |
| Total | 20.4 |
| Total R&D expenditure as a percentage of total turnover | 0.4 |

(b) TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. **Efforts in brief, made towards technology absorption adaptation and Innovation:**

The R&D center carries out developmental activities in various areas such as import substitution for raw materials, batch cycle time reduction and also line extensions of some of the existing products. The center also hires the external consultants for the purpose of augmenting the capabilities for the execution of important products. Under the continuous guidance of Merck KGaA, the center makes endeavours to update the quality systems and current good manufacturing practices.

2. **Benefits derived as a result of above efforts:**

As explained in (a) 2 above

3. **In case of imported technology (imported during the last five financial years):**

Information regarding:

(i) Technology imported

(ii) Year of import

(iii) Has Technology been fully absorbed

(iv) If not fully absorbed, areas where this has not taken place, reasons therefore and future plans of action.

The Company has not imported any technology in the last five years.

However, the Company has been receiving technical know-how from the collaborators, Merck KGaA, Germany on an on-going basis. The technical know-how and information are adapted and absorbed by the Company through continuous experimentation by its trained employees under the guidance of technical personnel from Merck KGaA, Germany.

## (C) FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year, foreign exchange outgo was Rs. 1,062.2 mio. (which includes import of raw materials to the extent of Rs. 438.0 mio.) while the foreign exchange earned was Rs. 546.8 mio., the details of which have been stated under item Nos. iii to vi of Schedule 26 annexed to the financial statements.

The Company's export turnover, both of bulk drugs and formulations has significantly increased on account of the assistance rendered by Merck KGaA. New export markets were added during the year 2009. Both the Pharmaceuticals and Chemicals divisions will make efforts to exploit the potentials that exist in the neighbouring and other regions of the world to expand the Company's presence in those geographies.

**On behalf of the Board of Directors**

**S. N. Talwar**
Chairman

Mumbai, January 22, 2010.

# Annexure to the Directors' Report

## Corporate Governance

(Report on Corporate Governance pursuant to Clause 49 of the Listing Agreements entered into with the Stock Exchanges)

### Company's philosophy on Code of Governance:

Your Company being a part of the Merck Group in Germany is committed to its values and has a strong legacy of fair, transparent and ethical governance practices.

The Company is fully compliant with the requirements of the Listing Agreements and applicable Corporate Governance norms and is committed to ensuring compliance with all modifications within the prescribed time. Following is a brief note on the Company's compliance of the requirements of Code of Corporate Governance laid down by the Stock Exchanges.

### Board of Directors (Board):

The present strength of the Board is seven Directors. The Board comprises of three Executive Directors including the Managing Director. There are Four Non-Executive Directors, of which three Directors including the Chairman are Independent Directors.

None of the Directors on the Board is a Member on more than ten Committees as per the requirements of Clause 49 of the Listing Agreements. Necessary disclosures have been made by the Directors in this regard.

The details of composition of the Board and summary of other Directorships and Board Committee Memberships of each of the Directors as on December 31, 2009 are as follows:

| Name of the Director | *No. of Directorships | *No. of Committee Memberships | *No. of Committee Chairmanships |
|---|---|---|---|
| Mr. S.N. Talwar [1] | 52** | 9 | 3 |
| Mr. H.C.H. Bhabha [1] | 8** | 1 | – |
| Mr. E.A. Kshirsagar [1] | 9** | 7 | 3 |
| Dr. H.S. Hermansson [2] | 5** | – | – |
| Mr. Ralph Zaat [2] | 5** | – | – |
| Dr. M. Dziki [3] | 2** | – | – |
| Mr. R.L. Shenoy [3] | 1** | – | – |
| Mr. K. Shivkumar [3] | – | – | – |

* excluding Directorship and Committee Membership/Chairmanship of Merck Ltd.
1 Non-Executive Independent
2 Non-Executive
3 Executive
** Includes Directorships in Private Ltd. and Foreign Companies

Since the last Annual General Meeting held on April 20, 2009, Dr. H.S. Hermansson has resigned from the Board of Directors with effect from July 31, 2009. Mr. Ralph Zaat was appointed as a Director under Article 110 of the Articles of Association of the Company from July 20, 2009.

### Meetings and Attendance:

The Meetings of the Board are scheduled well in advance. The Board meets at least once in a quarter inter-alia to review the performance of the Company. Each time, a detailed agenda is prepared in consultation with the Chairman and the Managing Director.

During the year 2009, five Board Meetings were held on February 26, 2009, April 20, 2009, May 20, 2009, July 20, 2009 and October 15, 2009.

Attendance at the Board Meetings and at the Annual General Meeting (AGM) held during the year 2009:

| Name of the Director | Board Meetings held during the year | No. of Board Meetings attended | Attendance at the AGM |
|---|---|---|---|
| Mr. S.N. Talwar | 5 | 5 | Yes |
| Mr. H.C.H. Bhabha | 5 | 5 | Yes |
| Mr. E.A. Kshirsagar | 5 | 5 | Yes |
| Dr. H.S. Hermansson* | 5 | – | – |
| Mr. Ralph Zaat** | 5 | 1 | – |
| Dr. M. Dziki | 5 | 5 | Yes |
| Mr. R.L. Shenoy | 5 | 5 | Yes |
| Mr. K. Shivkumar | 5 | 5 | Yes |

* Dr. H.S. Hermansson ceased to be a Director on the Board with effect from July 31, 2009.
** Mr. Ralph Zaat was appointed as Director with effect from July 20, 2009.

### 1. Audit Committee:

The Audit Committee comprises of:

Mr. S.N. Talwar – Chairman
Mr. H.C.H. Bhabha
Mr. E.A. Kshirsagar
Dr. M. Dziki – Managing Director

The Audit Committee held four Meetings on February 26, 2009, April 20, 2009, July 20, 2009 and October 15, 2009.

| | Name of the Director | Category of Director | No. of Committee Meetings | No. of Committee Meetings attended |
|---|---|---|---|---|
| 1. | Mr. S.N. Talwar – Chairman | Non-Executive – Independent | 4 | 4 |
| 2. | Mr. H.C.H. Bhabha | Non-Executive – Independent | 4 | 4 |
| 3. | Mr. E.A. Kshirsagar | Non-Executive – Independent | 4 | 4 |
| 4. | Dr. M. Dziki – Managing Director | Executive | 4 | 4 |

The Audit Committee Meetings are also attended by Director – Finance, Internal Auditors, Statutory Auditors and Cost Auditors as invitees. The business and operational heads are also invited to the Meetings, as and when their presence is required. The Company Secretary acts as the Secretary of the Audit Committee.

The Committee relies on the expertise and knowledge of the Management, the Internal

# Annexure to the Directors' Report

Auditors and the independent Statutory Auditors in carrying out its responsibilities. It also uses external expertise, if required. Management is responsible for the preparation, presentation and integrity of the Company's financial reporting principles. Management is also responsible for internal control over financial reporting and all procedures are designed to ensure compliance with Accounting Standards, applicable laws and regulations as well as for objectively reviewing and evaluating the adequacy, effectiveness and quality of the Company's system of internal control.

Messrs B S R & Co., Chartered Accountants are the Company's independent Statutory Auditors. They are responsible for performing an independent audit of the financial statements and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in India.

The Committee functions according to the applicable provisions of the Companies Act, 1956 and other applicable statutes and the requirements under the Listing Agreements entered into with the Stock Exchanges.

**The Scope of the Audit Committee includes –**

(a) Reviewing the quarterly financial results and annual financial statements before submission to the Board, focusing primarily on:
- Any changes in accounting policies and practices and reasons for the change;
- Major accounting entries involving estimates based on exercise of judgement by Management;
- Significant adjustments arising out of audit findings;
- The going concern assumption;
- Compliance with Accounting Standards;
- Analysis of the effects of alternative generally accepted accounting principles on the financial statements;
- Compliance with listing and other legal requirements concerning financial statements;
- Any related party transactions i.e. transactions of the Company of a material nature with the Management, their subsidiaries or relatives etc., or any related party transaction, that may have a potential conflict with the interests of the Company at large or may not be in the normal course of business;
- Review of annual Management Discussion and Analysis of financial condition and results of operations and the Directors' Responsibility Statement;
- Overseeing the Company's financial reporting process and the disclosure of its financial information, including earnings and press release, to ensure that the financial statements are correct, sufficient and credible;
- Disclosures made under the CEO and CFO certification to the Board.

(b) Reviewing with the Management, Statutory Auditors and Internal Auditors, adequacy of internal control systems and recommending improvements to the Management.

(c) Recommending the appointment/removal of the Statutory Auditors, fixing audit fees, non-audit fees and fees for consulting services provided by the Statutory Auditors to the Company, evaluating Auditors performance, qualifications and independence.

(d) Reviewing the adequacy of internal audit function, coverage and frequency of internal audit, appointment, removal, performance and terms of remuneration of Internal Auditors.

(e) Discussing with the Internal Auditors and senior Management, significant internal audit findings and follow-up thereon.

(f) Reviewing the findings of any internal investigation by the Internal Auditors into matters involving suspected fraud or irregularity or a failure of internal control system of a material nature and report the matter to the Board.

(g) Discussing with the Statutory Auditors before the audit commences, the nature and scope of audit as well as conduct post-audit discussions to ascertain any area of concern.

(h) Reviewing the Company's financial and risk management policies.

(i) Reviewing the effectiveness of the system for monitoring compliance with laws and regulations.

The minutes of the Audit Committee Meetings form part of the Board papers circulated for the Board Meetings. In addition, the Chairman of the Audit Committee briefs the Board about the significant discussions at the Audit Committee Meetings.

**2. Code of Conduct:**

The Board has laid down a Code of Conduct for all Directors and Senior Management staff of the Company. The Code of Conduct of the Company is also posted on the website of the Company, www.merck.co.in. All Directors and members of

# Annexure to the Directors' Report

the Senior Management, which includes Company Executives who report directly to the Managing Director and Executive Directors, have affirmed their compliance with the said Code. A declaration signed by the Managing Director to this effect is appended at the end of this Report. Employees of the Company also affirm compliance with the Code of Conduct which is applicable to all the employees.

3. **CEO/CFO Certificate:**

A Certificate from the Managing Director and Director – Finance on the integrity of the financial statements and other matters of the Company for the financial year ended December 31, 2009, was placed before the Board at its Meeting held on January 22, 2010.

4. **Risk Management:**

Merck has established an effective risk assessment and minimization procedure which is reviewed by the Board periodically. There is a structure in place to identify and mitigate various identifiable risks faced by the Company from time to time. At the Meetings of the Board, these risks are reviewed and new risks are identified. After assessment, controls are put in place with specific responsibility of the concerned officer of the Company.

5. **Remuneration Committee:**

The Board has not constituted a Remuneration Committee during the year. All matters relating to review and approval of compensation payable to the Executive and Non-Executive Directors are considered by the Board within the overall limits approved by the Members.

**Remuneration of Executive Directors:**

The details of remuneration paid/payable to the Executive Directors for the year 2009 are given below:

| Name of the Director | Salary | *Commission | Company's contribution to Funds ** | Perquisites and allowances | Total |
|---|---|---|---|---|---|
| | Rs. | Rs. | Rs. | Rs. | Rs. |
| Dr. M. Dziki | 10,494,843 | 3,600,000 | 2,477,784 | 8,769,377 | 25,342,004 |
| Mr. R.L. Shenoy | 4,509,644 | 3,000,000 | 891,750 | 858,292 | 9,259,686 |
| Mr. K. Shivkumar | 5,659,385 | 1,800,000 | 558,750 | 1,230,066 | 9,248,201 |

* Commission includes provision made in the financial statements, for payment to be made in 2010.

** Aggregate of the Company's contribution to Superannuation Fund and Provident Fund.

NOTES:

a. The Agreement with each of the Executive Directors is for a period of five years except in case of Mr. R.L. Shenoy. Mr. R.L. Shenoy has been re-appointed for a further period of two year with effect from December 27, 2009, subject to the approval of the Members at the ensuing Annual General Meeting of the Company. Either party can terminate the Agreement by giving six months' notice in writing.

b. Commission is paid based on certain pre-agreed performance parameters such as sales, profit and achievement of certain financial indicators.

c. The Company at present does not have a Scheme for grant of Stock Options to the Directors or Employees.

d. Company's contribution to funds does not include charge for gratuity and leave encashment as employee-wise break-up is not available.

**Remuneration of Non-Executive Directors:**

The details of remuneration paid/payable to Non-Executive Directors for the year 2009 are given below:

| Name of the Director | Sitting fees (Rs.) | Commission (Rs.)* |
|---|---|---|
| Mr. S.N. Talwar | 300,000 | 700,000 |
| Mr. H.C.H. Bhabha | 320,000 | 450,000 |
| Mr. E.A. Kshirsagar | 180,000 | 450,000 |

* Provision made in the financial statements, will be paid in 2010.

**Criteria for payment of remuneration to the Non-Executive Directors:**

The remuneration to Non-Executive Directors comprises of sitting fees and commission. The criteria for payment of remuneration are time spent by the Non-Executive Directors at the Audit Committee and Board Meetings, and advice given by these Directors to the Management from time to time on strategic matters, etc, even outside the Board Meetings.

6. **Shareholders'/Investors' Grievance Committee:**

The Shareholders'/Investors' Grievance Committee of the Board comprises of:

Mr. H.C.H. Bhabha – Chairman
Mr. R.L. Shenoy
Mr. K. Shivkumar

The Committee held one Meeting on December 3, 2009.

Mr. H.U. Shenoy, Company Secretary is designated as Compliance Officer of the Company.

At present, there are no pending legal cases wherein adverse claims are made against the Company. However, there are eight pending legal cases, in which name of the Company is included only to facilitate execution of the court order. A statement of the various complaints received and cleared by the Company during the last two years is given below:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Received | Cleared | Received | Cleared |
| 1. Non-receipt of share certificates duly transferred | – | – | 1 | 1 |
| 2. Non-receipt of dividend warrants | 1 | 1 | 2 | 2 |
| 3. Miscellaneous | – | – | – | – |
| 4. Letters from SEBI/ Stock Exchanges and Department of Company Affairs | 1 | 1 | 3 | 3 |

# Annexure to the Directors' Report

**7. General Body Meetings of last three years:**

| Year | Venue | Day and Date | Time |
|---|---|---|---|
| 2006 | Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Haji Ali, Mumbai 400 034. | Friday 30.03.2007 | 3.00 p.m. |
| 2007 | Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Haji Ali, Mumbai 400 034. | Wednesday 16.04.2008 | 3.00 p.m. |
| 2008 | The Royal Room, 3rd floor, Sunville Banquets, Dr. Annie Besant Road, Worli, Mumbai 400 018. | Monday 20.04.2009 | 3.00 p.m. |

All the resolutions moved at the last Annual General Meeting were passed by show of hands by the requisite majority of Members attending the Meeting. The following special resolutions were passed at the previous three Annual General Meetings:

| AGM held on | Whether special resolution passed | Summary |
|---|---|---|
| 30.03.2007 | None | Not applicable |
| 16.04.2008 | Yes | Payment of commission to Non-Executive Directors. Appointment of Emerchemie NB (Ceylon) as Sole Selling Agent of the Company. |
| 20.04.2009 | Yes | Appointment of Amar Al Din Company Limited as Sole Selling Agent of the Company. Appointment of Solyman Services (UK) Ltd. as Sole Selling Agent of the Company. |

During the year 2009, no postal ballot voting process was carried out.

**8. Disclosures:**

There are no materially significant related party transactions, which have potential conflict with the interests of the Company, at large.

The Audit Committee is briefed of the related party transactions undertaken by the Company in the ordinary course of business, material individual transactions which were not in the normal course of business and material individual transactions with related parties or others, which were not at arm's length basis together with Management's justification for the same.

The Management is required to make disclosure to the Board relating to all material financial and commercial transactions stating that they do not have personal interest that could result in a conflict with the interest of the Company, at large.

In the preparation of financial statements, the Company follows Accounting Standards/Rules prescribed in the Companies (Accounting Standards) Rules, 2006 issued by the Central Government, in consultation with the National Advisory Committee on Accounting Standards, to the extent applicable. The Company has not adopted a treatment different from that prescribed in the Accounting Standards.

**9. Compliances:**

The Company has complied with all the requirements including the provisions of Clause 49 of the Listing Agreements entered into with the Stock Exchanges as well as regulations and guidelines of the Securities and Exchange Board of India (SEBI). Consequently, no penalties were imposed or strictures passed against your Company by SEBI, Stock Exchanges or any other statutory authorities. The Company has complied with and adopted the mandatory requirements of the Corporate Governance Code. However, it has not adopted the following non-mandatory requirements of the Code which the Board may consider, adopting in due course of time:

(i) Maintenance of the Chairman's office and tenure of Independent Directors.

(ii) Setting up of Remuneration Committee.

(iii) Communication of half yearly results to each household of Members – The Company publishes its results in leading newspapers and also posts the same on the Company's website.

(iv) Training of Directors – All the Directors have expertise in their areas of specialization.

(v) Mechanism for evaluating Non-Executive Directors.

(vi) Whistle Blower Policy – The Company has set up a Speak-up Line as initiated globally at the Headquarters by Merck KGaA, the Company's principal shareholders wherein an employee can air his/her grievance either through a dedicated website or telephone directly without disclosing his/her identity.

**10. Financial Information to the Members:**

The quarterly financial results are announced within one month from the close of the respective quarter. However, in case of the last quarter, the quarterly results and the annual results are announced within three months from the close of the quarter. The results are published in leading newspapers. The financial results, press releases and other major events/ developments concerning the Company are also posted on the Company's website: www.merck.co.in.

**On behalf of the Board of Directors**

**S. N. Talwar**
Mumbai, January 22, 2010 Chairman

# Annexure to the Directors' Report

## General Shareholder Information

**Annual General Meeting:**

The Forty-third Annual General Meeting of the Members will be held on Monday, March 29, 2010 at 3.00 p.m.

**Venue** – Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Haji Ali, Mumbai-400 034.

**Agenda** – **Ordinary Business:** Adoption of Accounts, Declaration of Dividend, Appointment of Directors retiring by rotation and Appointment of Auditors.

**Special Business:** Re-appointment of Mr. R.L. Shenoy as Whole-time Director.

**Company's financial year:**

1st January to 31st December

**Calendar of Financial Results — 2010:**

(i) First Quarter Results – April 2010

(ii) Second Quarter Results – July 2010

(iii) Third Quarter Results – October 2010

(iv) Results for the year ending December 31, 2010 – January 2011

**Book Closure:**

The Company's Register of Members and Share Transfer Books will remain closed from March 20, 2010 to March 29, 2010 (both days inclusive).

**Dividend:**

The dividend as recommended by the Board of Directors, if declared at this Annual General Meeting, will be paid at par on or after April 5, 2010 to those Members whose names appear on the Company's Register of Members as holders of Equity Shares on March 29, 2010 after giving effect to all valid share transfers in physical form lodged with the Company on or before March 20, 2010. In respect of the shares held in demat mode, the dividend will be paid to those "Deemed Members" as per the beneficial ownership details to be furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) as at the end of business hours on March 19, 2010 for this purpose.

**Listing on Stock Exchanges:**

The Bombay Stock Exchange (BSE) is the Regional Stock Exchange of the Company. The Equity Shares are also listed on the National Stock Exchange of India Limited (NSE).

The Stock Codes for the Company's Equity Shares are as follows:

NSE : MERCK

BSE : 500126

The ISIN number for the Company's Equity Shares in demat mode – INE 199A01012.

Volume of shares traded on:

NSE : 3,238,504

BSE : 3,266,736

Listing fee for the year 2009-2010 has been paid to the Stock Exchanges.

**Share price (Rs.) on NSE – 2009:**

| | *Jan* | *Feb* | *Mar* | *Apr* | *May* | *June* |
|---|---|---|---|---|---|---|
| High | 342.40 | 325.00 | 363.50 | 376.00 | 415.00 | 429.70 |
| Low | 289.00 | 302.00 | 297.00 | 319.20 | 320.05 | 381.55 |

| | *July* | *Aug* | *Sept* | *Oct* | *Nov* | *Dec* |
|---|---|---|---|---|---|---|
| High | 409.80 | 404.50 | 424.00 | 635.00 | 575.40 | 596.15 |
| Low | 382.35 | 382.70 | 393.15 | 406.50 | 515.60 | 545.05 |

Closing share price as on December 31, 2009 : Rs. 576.30

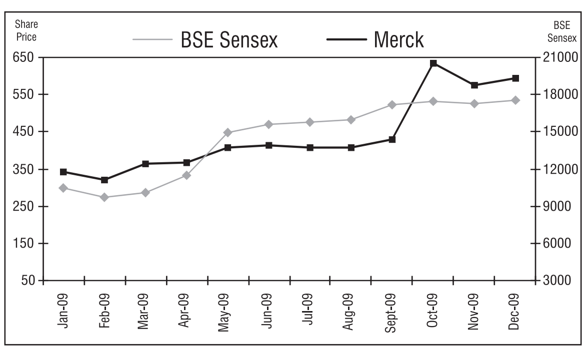
**Share price (Rs.) on BSE – 2009:**

| | *Jan* | *Feb* | *Mar* | *Apr* | *May* | *June* |
|---|---|---|---|---|---|---|
| High | 342.50 | 321.95 | 362.80 | 367.00 | 409.00 | 414.90 |
| Low | 293.00 | 302.50 | 300.00 | 327.00 | 331.25 | 377.05 |

| | *July* | *Aug* | *Sept* | *Oct* | *Nov* | *Dec* |
|---|---|---|---|---|---|---|
| High | 409.00 | 406.95 | 429.95 | 634.00 | 574.80 | 595.00 |
| Low | 383.50 | 385.50 | 395.05 | 406.00 | 518.00 | 541.05 |

Closing share price as on December 31, 2009 : Rs. 577.10

**Share price (in Rs.) in comparison with BSE Sensex (2009):**



# Annexure to the Directors' Report

**Name and Address of the Registrar and Share Transfer Agents:**

**Sharepro Services (India) Private Ltd.**
13 AB, Samhita Warehousing Complex
2nd Floor, Sakinaka Telephone Exchange Lane
Andheri-Kurla Road, Sakinaka
Mumbai-400 072
Phone: 022-67720300 / 022-67720314

**Transfer System:**

Transfer of shares held in physical mode is processed by Sharepro Services and approved by the Share Transfer Committee. Transfer of shares is effected and share certificates are dispatched within a period of 30 days from the date of receipt of relevant documents, provided they are complete in all respects.

During the year, the Share Transfer Committee of the Company met at fortnightly intervals for approval of share transfers and other related matters.

Total number of shares transferred during the last two calendar years was as follows:

| Particulars | 2009 | 2008 |
|---|---|---|
| Number of transfers | 43 | 68 |
| Number of shares processed | 3,739 | 5,172 |

The average time for processing of share transfers including dispatch of share certificates was less than 21 days, if the relevant documents were complete in all respects. The time taken to process dematerialization of shares was 15 days.

As on December 31, 2009, no request for transfer of shares was pending.

**Dematerialization of shares:**

The Company has entered into Agreements with NSDL and CDSL for dematerialization of shares. As on December 31, 2009, a total of 7,431,274 shares of the Company which forms 44.8% of the paid-up share capital of the Company stands dematerialized.

**Distribution of shareholding as on December 31, 2009:**

| Range | No. of Shareholders | % to total | No. of shares held | % to total |
|---|---|---|---|---|
| 1 – 500 | 23,181 | 96.3 | 2,110,105 | 12.7 |
| 501 – 1,000 | 491 | 2.1 | 364,832 | 2.2 |
| 1,001 – 5,000 | 317 | 1.3 | 681,059 | 4.1 |
| 5,001 – 10,000 | 41 | 0.1 | 291,487 | 1.8 |
| 10,001 and above | 53 | 0.2 | 13,151,899 | 79.2 |
| Total | 24,083 | 100.00 | 16,599,382 | 100.00 |

**Shareholders' profile as on December 31, 2009:**

| Particulars | No. of shares held | % to total |
|---|---|---|
| Foreign Collaborators | 8,599,224 | 51.8 |
| Public Financial Institutions and Banks | 2,354,033 | 14.2 |
| F.I.I.s & O.C.B.s | 774,653 | 4.7 |
| Mutual Funds & F.I.s | 311,236 | 1.9 |
| Domestic Companies (incl. Trusts, Partnership) | 581,781 | 3.5 |
| Directors & Relatives | 221,204 | 1.3 |
| Non-Resident Indians | 105,195 | 0.6 |
| Individuals/NSDL/CDSL | 3,652,056 | 22.0 |
| Total | 16,599,382 | 100.00 |

**Shares held by Non-Executive Directors of the Company as on December 31, 2009:**

| | | |
|---|---|---|
| Mr. S.N. Talwar | : | 5,914 |
| Mr. H.C.H. Bhabha | : | 55,303 |
| Mr. E.A. Kshirsagar | : | – |

**Insider Trading Regulations:**

Mr. H.U. Shenoy, Company Secretary is the Compliance Officer of the Company under the "Merck Directors and Designated Employees Code of Conduct for Prevention of Insider Trading". He shall be responsible for the adherence of the Code by the Company and its designated employees. The Company also adheres to the disclosure practices for prevention of insider trading as specified in the SEBI (Prohibition of Insider Trading) Regulations, 1992.

**Plant Location:**
No. 11/1 Usgaon,
Ponda,
Goa-403 407
Phone : 0832-6614101

**Investor Relations Department:**

For the convenience of the Investors, transfer requests and other related issues are also handled in the Secretarial department at the Registered Office.
**Email: investorgrievances@merck.co.in**

**Address of the Registered Office:**

Shiv Sagar Estate 'A'
Dr. Annie Besant Road
Worli, Mumbai-400 018

**Contact Person:**

Mr. H.U. Shenoy, Company Secretary
Phone : 022-66609792 / 66609000
Fax : 022-24950307
Email : hu.shenoy@merck.co.in

**On behalf of the Board of Directors**

**S. N. Talwar**
Mumbai, January 22, 2010 Chairman

# Annexure to the Directors' Report

---

### DECLARATION BY MANAGING DIRECTOR OF COMPLIANCE WITH THE CODE OF CONDUCT POLICY

As provided under Clause 49 of the Listing Agreements with the Stock Exchanges, the Board Members and the Senior Management Personnel have affirmed compliance with the Code of Conduct for the period ended December 31, 2009.

**For Merck Limited**

Mumbai
January 22, 2010

**Dr. M. Dziki**
Managing Director

### CERTIFICATE OF COMPLIANCE WITH THE CORPORATE GOVERNANCE REQUIREMENTS UNDER CLAUSE 49 OF THE LISTING AGREEMENT

To the Members of Merck Limited

We have examined the compliance of conditions of Corporate Governance by Merck Limited ("the Company") for the year ended on December 31, 2009, as stipulated in Clause 49 of the Listing Agreements entered into by 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 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 Agreements.

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

**For B S R & Co.**
Chartered Accountants

**Bhavesh Dhupelia**
Partner
Membership No.: 042070

Mumbai
January 22, 2010

# Annexure to the Directors' Report

## Management Discussion and Analysis Report

### ECONOMIC OUTLOOK

The slow-down which impacted the Indian economy, showed some signs of recovery in the last quarter of 2009, especially on account of the higher industrial output. Despite the deficient monsoon leading to the decrease in the agricultural output, the Indian economy has been decidedly upbeat with a higher-than-expected Gross Domestic Product growth rate of over 7%. It is heartening to note that barring a few industries, the global meltdown had little bearing on most of the business sectors in India. While the recession did rattle the Chemicals industry in the last two years, the Pharmaceuticals industry's growth momentum did not show signs of impairment. In the prevailing economic scenario, the Company performed reasonably well as can be seen from the operational performance.

### OPERATIONAL PERFORMANCE

Merck's turnover growth continued in 2009 in terms of value as well as volumes. Profitability, however, could not keep pace with revenues primarily on account of the large investments in employee cost, promotional activities and measures for improving sales performance. The operational performance of the Company in a nutshell is given below:

| | 2009 | 2008 |
|---|---|---|
| Sales (Rs. mio.) | **4,731.1** | 3,894.6 |
| Other Income (Rs. mio.) | **432.1** | 477.1 |
| Operating Profit (Rs. mio.) | **699.8** | 634.3 |
| Profit Before Tax (PBT) (Rs. mio.) | **964.5** | 917.4 |
| Profit After Tax (PAT) (Rs. mio.) | **654.8** | 630.1 |
| **Ratios :** | | |
| Operating Profit/Sales (%) | **14.8** | 16.3 |
| PBT/Sales (%) | **20.4** | 23.6 |
| PAT/Sales (%) | **13.8** | 16.2 |

### STRATEGIC BUSINESS SEGMENTS

The Company's business is structured in two major segments: Pharmaceuticals and Chemicals.

Pharmaceuticals Segment: This segment comprises of two business divisions, i.e. Merck Serono and Consumer Health Care.

***Merck Serono Division (Merck Serono):*** Merck Serono is the largest division of the Pharmaceuticals segment. It focuses on the therapeutic areas such as Vitamins, Nutritional Supplements, Cardiologicals, Haematinics, Cough and Cold, Anti-malarials, Antibiotics, Dermatologicals and Encephalotropics. In 2009, Merck Serono generated total turnover of Rs. 3,264.1 mio., 17.8% higher than in 2008. This uninterrupted growth, which was above that of the industry, was mainly a result of the higher revenues achieved by the Vitamin-based formulations marketed under the well known brands namely Polybion and Evion. The increase was also accelerated by sales performances of the 'classic' products such as Concor and new launches in different therapeutic areas during the year.

As stated in the previous year's Report, the Company continues its efforts to enter the rural market. In keeping with its strategy, the Company increased the strength of its field staff in 2009 complemented by effective sales promotional measures. Notwithstanding the high turnover, these marketing related expenses, expected to benefit the Company in the long term, impacted the division's earnings before tax.

***Consumer Health Care Division (CHC):*** CHC, the other division of the Pharmaceuticals segment, focuses on three global power brands and selected local specialities in four global Health Care Themes, i.e. Cough & Cold (Nasivion range), Everyday Health Protection (Bion, Maxepa and Electrobion), Women's and Children's Health (Femibion and Evion Cream) and Mobility (Flexijoints). Following a highly aggressive growth in 2008, the division's operating results were heavily affected by lower sales in 2009. Steps have been taken to ensure a sustained long-term growth of sales and operating results.

The Pharmaceuticals segment, specifically Merck Serono, continues to be beleaguered by the Government's pricing legislation. The Company received a few notifications during the year under the Drugs Prices (Control) Order, 1995, following which, there was a significant reduction in the prices of some of the major formulations of the division.

Chemicals Segment: The chemicals segment consists of two divisions, i.e. Life Science Solutions and Pigments.

***Life Science Solutions (LSS) Division:*** LSS deals in high quality Active Pharmaceutical Ingredients, Cosmetic Actives, Bio-pharma material and Vitamin E in different forms. The Company's plant at Goa manufactures Oxynex ST, Thiamine DiSulfide (TDS), Guaiazulene and Vitamin E, all of which are export driven. In the case of Vitamin E being price controlled, the Government has not granted the price in line with the prices of its ingredients As a part of business development, the division has undertaken initiatives to enhance the production capacity of TDS and the process is expected to be completed by the second quarter of 2010. To encash on the growing Pharmaceuticals market, the Company has expanded the sales and marketing network at the beginning of the year.

# Annexure to the Directors' Report

***Pigments Division:*** The turnover of the division, following a sluggish growth in 2008 improved in 2009. The government imposed anti dumping duty which has affected the imports of the product from Germany and has remained a concern for the last 5 years. It has therefore become essential for the Company to continue to focus on the high value profitable pigments. The division intends to launch the Candurin pigments which are used for colour coatings of foods and pharmaceuticals. While the focus is on decorative effects in the foods sector, pharmaceuticals coatings are used to help patients to better identify their medications and to prevent counterfeiting of drugs. The Company has already applied to the Government authorities seeking their approval for the marketing and the use of Candurin as coating substance in food and pharmaceuticals products.

## THREATS, CONCERNS AND RISKS

***Pharmaceuticals Pricing:*** One of the very serious concerns for the Pharmaceuticals division is Government regulation of prices of medicines. The control extends two ways with the first being on the cost of inputs where the Government determines the fixation of prices and the second being the conversion cost which is yet again decided by the Government on the basis of studies carried out by them. Your Company has a very high percentage of Government-price-controlled medicines and the bulk drug Vitamin E, and for the last several years their performance has been subject to the vagaries of a price-sensitive environment.

***Competitive pressures:*** Both the Pharmaceuticals and Chemicals segments operate in a highly competitive market scenario, making it necessary that they differentiate themselves from competition by offering better quality products at lower prices thus adding value to the customers.

***Financial Risks:*** The Company's investments are made mostly in the form of fixed deposits with Public Sector Banks.

With the high amount of imports and exports transacted in foreign currencies the foreign exchange fluctuations have an impact on the working of the Company. By way of hedging of foreign exchange transactions wherever found prudent, the Company minimizes the impact of foreign exchange loss.

Due to the broad customer base both in Pharmaceuticals and Chemicals segments, the Company is exposed to a low credit risk in its sales markets.

***Prices of Inputs:*** The uncertainties in the prices of the inputs and even their availability were causes for concern last year, especially in the case of active pharmaceutical ingredients where prices have shown high amount of variations making it very difficult for the Company to make accurate projections and sustain the operating results.

***Human Resource Risks:*** The Company's success is significantly influenced by the competence and dedication of its employees. Consequently, the Company faces immense pressure and challenge in not only hiring, but also retaining qualified specialists for its Pharmaceuticals and Chemicals segments. Needless to state, turnover of competent employees in this intensely competitive environment is a concern shared by the entire industry. The Company has been countering this development by implementing a Talent and Succession Management Process established by Merck KGaA, Germany, in addition to various other initiatives. The success of these programmes is evident in the Company's attrition rate being lower than the average attrition rate of the industry.

## INTERNAL CONTROL SYSTEM

The Company has established and well-documented procedures which are followed by all its employees. Proper control and systems have been established on authorizations, recording in the books of accounts and utilization of the fixed assets. Revenue expenditure is also monitored with proper processes for budgeting, authorizations, control and recording in the financial statements. The control system has been further strengthened due to SAP, which the company currently uses as its ERP system.

Apart from the above mentioned controls system is also reviewed and audited by a reputed audit firm, Messrs Aneja Associates, who conduct the internal audit of the Company. The Audit Committee of the Company finalizes the annual internal audit programme at the beginning of the year, which is regularly reviewed by the Internal Auditors who submit their reports and observations to the Audit Committee. The Audit Committee then reviews these reports, discusses all the significant audit observations and also monitors the follow up actions, if any, arising on the Internal Auditors' reports.

## HUMAN RESOURCE DEVELOPMENT

The Company's total number of employees as on December 31, 2009 stood at 1,245, as compared to 1,072 last year. During the year, the Company has maintained a cordial relationship with the employees at the Head Office, plant at Goa and with the field staff.

One of the Company's strategies for employee development involves attraction and retention. The first-ever Global Employee Engagement Survey, called PULSE, was conducted by Merck KGaA. The survey showed encouraging results. The Company achieved an overall engagement score of 80% with Performance and Development, Leadership, Values and Ethics, being the

# Annexure to the Directors' Report

key engagement drivers. The Company, in association with Merck KGaA also initiated projects such as Global Grading System, Global Reward System, Global Master Database System, etc to facilitate the career progression of its employees. In addition to these projects, numerous other local programmes have also contributed to the Company's employee development plans.

The Company has collaborated with some educational institutes for not only imparting training but also for accredited higher learning programmes. Leadership programmes were conducted in two layers, the first one for the senior level managerial staff and the second one called 'Generation Next' for second level managers. These training interventions aimed at leadership development, talent acquisition, and career progression are well-supplemented and aligned with the Global Talent and Succession Management Process. The Company believes in adapting its training programmes to the changing times with the aim of enabling its employees to successfully respond to business challenges, threats and opportunities presented by a dynamic business environment.

The Company was successful in reaching two long-term settlements with the Field Staff Union and Employees' Union at Goa with the objective of overall growth of its business, enhanced productivity and employee satisfaction.

**OUTLOOK**

The Company has been building its human capabilities and resources over the last few years with an aim at better operational performance. This has been in addition to enhancing its manufacturing capabilities with new projects and plants. Following such substantial investments, the Company is now in the process of consolidation. In keeping pace with India's current growth-oriented economic and business scenario, the Company aims to achieve better results in volumes as well as profitability in 2010.

**By Order of the Board of Directors**
**S. N. Talwar**
Mumbai, January 22, 2010 Chairman

# Auditors' Report
# To the Members of Merck Limited

We have audited the attached Balance Sheet of Merck Limited ('the Company') as at 31 December 2009 and 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.

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.

We report as follows:

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

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

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

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

   c. the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;

   d. in our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Act;

   e. on the basis of written representations received from the Directors, as of 31 December 2009, and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31 December 2009 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Act; and

   f. in our opinion, and to the best of our information and according to the explanations given to us, the said financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

      (i) in case of the Balance Sheet, of the state of affairs of the Company as at 31 December 2009;

      (ii) in case of the Profit and Loss Account, of the profit of the Company for the year ended on that date; and

      (iii) in case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

**For B S R & Co.**
Chartered Accountants

**Bhavesh Dhupelia**
Partner
Membership No.: 042070

Mumbai
22 January 2010

# Annexure to the Auditors' Report – 31 December 2009

(Referred to in our report of even date)

(i) (a) The Company has maintained proper records showing full particulars, including, quantitative details and situation of fixed assets.

(b) The fixed assets have been physically verified by the Management during the year in line with its policy of verifying them annually. In our opinion, the periodicity of the physical verification of fixed assets is reasonable. According to the explanations given to us, the discrepancies noticed on physical verification of fixed assets were not material and these have been properly dealt with in the books of account.

(c) Fixed assets disposed off during the year were not substantial, and do not affect the going concern assumption.

(ii) (a) The inventory has been physically verified by the Management during the year. In our opinion, the frequency of such verification is reasonable.

(b) The procedures for physical verification of inventories followed by the Management are reasonable and adequate in relation to the size of the Company and the nature of its business.

(c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.

(iii) The Company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under Section 301 of the Act.

(iv) In our opinion and according to the information and explanations given to us, and having regard to the explanation that purchases of certain items of inventories and fixed assets are for the Company's specialised requirements and suitable alternative sources are not available to obtain comparable quotations and similarly sale of certain services are for the buyers' specialised requirements and suitable alternative sources are not available to obtain comparable quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventories and fixed assets and with regard to the sale of goods and services. We have not observed any major weakness in the internal control system during the course of the audit.

(v) (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that Section.

(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred to in (a) above and exceeding the value of Rs 5 lakh with any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time, except for purchase of inventories and sale of services of a special nature, for which suitable alternative sources are not available to obtain comparable quotations. However, in our opinion and on the basis of information and explanations provided, the same appear reasonable.

(vi) The Company has not accepted any deposits from the public during the year.

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

(viii) We have broadly reviewed the books of account maintained by the Company pursuant to the rules prescribed by the Central Government for maintenance of cost records under Section 209(1)(d) of the Act and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the records.

(ix) (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/ accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs duty, Excise duty, and other material statutory dues have been generally regularly deposited during the year by the Company with the appropriate authorities. There are no arrears of undisputed statutory dues as at 31 December 2009 outstanding for a period of more than six months from the date they became payable.

There were no dues on account of Cess under Section 441A of the Act since the date from which the aforesaid Section comes into force has not yet been notified by the Central Government.

(b) According to the information and explanations given to us, there are no dues of Wealth tax and Cess which have not been deposited with appropriate authorities on account of any disputes.

According to the information and explanations given to us, the dues of Income tax, Sales tax, Service tax, Customs duty and Excise duty, as listed in Appendix 1 have not been deposited by the Company on account of disputes.

(x) The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year.

(xi) The Company did not have any outstanding dues to any financial institution, banks or debenture-holders during the year.

(xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

# Annexure to the Auditors' Report – 31 December 2009 (continued)

(xiii) In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi/mutual benefit fund/society.

(xiv) According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.

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

(xvi) The Company did not have any term loans outstanding during the year.

(xvii) According to the information and explanations given to us, the Company has not raised any funds on short term basis during the year.

(xviii) The Company has not made any preferential allotment of shares during the year.

(xix) The Company did not have any outstanding debentures during the year.

(xx) The Company has not raised any money by public issues during the year.

(xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

**For B S R & Co.**
Chartered Accountants

**Bhavesh Dhupelia**
Partner
Membership No.: 042070

Mumbai
22 January 2010

# Appendix 1 as referred to in Paragraph ix(b) of the Annexure to the Auditors' Report

| Name of the statute | Nature of the Dues | Amount (Rs. in million) | Period to which the amount relates | Forum where dispute is pending |
|---|---|---|---|---|
| Income Tax Act, 1961 | Tax and penalty | 1.2 | Assessment year 1986-87 | High Court |
| | | 44.1 | Assessment years 1998-99, 1999-00, 2001-02, 2002-03 and 2003-04 | Income Tax Appellate Tribunal |
| | | 40.5 | Assessment year 2005-06 | Commissioner of Income Tax (Appeals) |
| | | 88.2 | Assessment year 2006-07 | Dispute Resolution Panel |
| Local State Sales tax Act and Central Sales Tax Act | Tax and penalty | 0.3 | 1994-95, 1995-96, 1998-99 | Appellate Assistant Commissioner |
| | | 6.8 | 2001-02, 2003-04, 2004-05 | Deputy Commissioner (Appeals) |
| | | 1.6 | 2003-04, 2005-06 | Assistant Commissioner |
| | | 1.8 | 2005-06, 2006-07 | Deputy Commissioner |
| Finance Act, 1994 (Service Tax) | Tax | 5.4 | 1996-02 | Additional Commissioner |
| Central Excise Act, 1944 | Duty and penalty | 0.1 | 1994-97, 2003-04 | Deputy Commissioner (Appeals) |
| | | 0.5 | 1998-99 | Joint Commissioner |
| | | 13.2 | 2003-06 | Commissioner (Appeals) |
| | | 94.6 | 1996-2006 | Custom Excise & Service tax Appellate Tribunal ("CESTAT") |
| | | 0.1 | 2007-09 | Assistant Commissioner |
| Customs Act, 1962 | Duty | 1.3 | 2006-07 | CESTAT |

# Balance Sheet as at 31 December 2009

Currency: Rupees million

| | Schedules | | 2009 | 2008 | |
|---|---|---|---|---|---|
| **I. SOURCES OF FUNDS** | | | | | |
| **Shareholders' Funds** | | | | | |
| Share Capital | 2 | **166.0** | | | 168.6 |
| Reserves and Surplus | 3 | **4,506.9** | | | 4,345.3 |
| | | | **4,672.9** | | 4,513.9 |
| **Deferred Tax Liability (Net)** | 4 | | **21.2** | | 23.8 |
| **TOTAL** | | | **4,694.1** | | 4,537.7 |
| **II. APPLICATION OF FUNDS** | | | | | |
| **Fixed Assets** | 5 | | | | |
| Gross Block | | **1,482.9** | | | 1,405.8 |
| Less: Accumulated Depreciation/Amortisation | | **854.7** | | | 801.3 |
| Net Block | | **628.2** | | | 604.5 |
| Capital Work-in-Progress including Capital Advances (Rs. 7.9 million; 2008: Rs. 7.2 million) | | **12.1** | | | 17.6 |
| | | | **640.3** | | 622.1 |
| **Investments** | 6 | | **238.2** | | 1,529.3 |
| **Current Assets, Loans and Advances** | | | | | |
| Inventories | 7 | **584.9** | | | 729.8 |
| Sundry Debtors | 8 | **438.1** | | | 444.4 |
| Cash and Bank Balances | 9 | **3,246.4** | | | 1,847.7 |
| Loans and Advances | 10 | **533.7** | | | 432.0 |
| | | **4,803.1** | | | 3,453.9 |
| **Less: Current Liabilities and Provisions** | | | | | |
| Current Liabilities | 11 | **426.2** | | | 519.2 |
| Provisions | 12 | **561.3** | | | 548.4 |
| | | **987.5** | | | 1,067.6 |
| **Net Current Assets** | | | **3,815.6** | | 2,386.3 |
| **TOTAL** | | | **4,694.1** | | 4,537.7 |
| **Significant Accounting Policies** | 1 | | | | |
| **Schedules to financial statements** | 17-35 | | | | |

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

As set out in our attached report of even date
**For B S R & Co.**
Chartered Accountants
**Bhavesh Dhupelia**
Partner
Membership No.: 042070

Mumbai, 22 January, 2010

H. U. Shenoy
Company Secretary

For and on behalf of the Board of Directors

S. N. Talwar — Chairman

M. Dziki — Managing Director

H. C. H. Bhabha
E. A. Kshirsagar
R. L. Shenoy
K. Shivkumar
Directors

# Profit and Loss Account for the year ended 31 December 2009

Currency: Rupees million

| | Schedules | | 2009 | 2008 |
|---|---|---|---|---|
| **INCOME** | | | | |
| Sales (Gross) | | 4,860.5 | | 4,123.4 |
| Less: Excise Duty | | 129.4 | | 228.8 |
| Sales (Net) | | | 4,731.1 | 3,894.6 |
| Other Income | 13 | | 432.1 | 477.1 |
| | | | 5,163.2 | 4,371.7 |
| **EXPENDITURE** | | | | |
| Materials Cost | 14 | | 2,060.9 | 1,599.9 |
| Personnel Expenses | 15 | | 570.2 | 477.6 |
| Operating and Other Expenses | 16 | | 1,492.2 | 1,319.4 |
| Depreciation/Amortisation | 5 | | 75.1 | 57.3 |
| Interest - Others | | | 0.3 | 0.1 |
| | | | 4,198.7 | 3,454.3 |
| **PROFIT BEFORE TAXATION** | | | 964.5 | 917.4 |
| Provision for taxes | | | | |
| Current Tax Expense | | | (307.0) | (298.0) |
| Fringe Benefits Tax | | | (5.3) | (13.5) |
| Deferred Tax Credit | | | 2.6 | 24.2 |
| **NET PROFIT AFTER TAXATION** | | | 654.8 | 630.1 |
| Add: Profit and Loss Balance Brought Forward | | | 1,366.7 | 1,423.5 |
| **PROFIT AVAILABLE FOR APPROPRIATION** | | | 2,021.5 | 2,053.6 |
| **APPROPRIATIONS:** | | | | |
| Proposed Dividend | | | 332.0 | 295.1 |
| Dividend Tax | | | 56.4 | 50.1 |
| Transfer to General Reserve | | | 326.6 | 341.7 |
| Balance carried to the Balance Sheet | | | 1,306.5 | 1,366.7 |
| | | | 2,021.5 | 2,053.6 |
| Basic and Diluted Earnings per share of Face Value Rs. 10.00 (Rs.) | 33 | | 39.0 | 37.4 |
| **Significant Accounting Policies** | 1 | | | |
| **Schedules to financial statements** | 17-35 | | | |

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

As set out in our attached report of even date

**For B S R & Co.**
Chartered Accountants
**Bhavesh Dhupelia**
Partner
Membership No.: 042070

Mumbai, 22 January, 2010

H. U. Shenoy
Company Secretary

For and on behalf of the Board of Directors

S. N. Talwar — Chairman

M. Dziki — Managing Director

H. C. H. Bhabha
E. A. Kshirsagar
R. L. Shenoy
K. Shivkumar
} Directors

# Cash Flow Statement for the year ended 31 December 2009

Currency: Rupees million

| | | | 2009 | | 2008 |
|---|---|---|---|---|---|
| **A. Cash Flow from Operating Activities:** | | | | | |
| Net Profit before Tax | | | **964.5** | | 917.4 |
| Adjustments for: | | | | | |
| Depreciation/Amortisation | | **75.1** | | 57.3 | |
| Profit on Sale of Fixed Assets, Net | | **(0.6)** | | (3.3) | |
| Profit on Sale of Current Investments, Net | | **(1.0)** | | (2.5) | |
| Loss on decline in fair value of Current Investments | | * | | * | |
| Unrealised Exchange Losses/(Gains) | | **0.9** | | (0.5) | |
| Dividend received on Current Investments | | **(20.8)** | | (128.8) | |
| Interest Income | | **(251.6)** | | (158.2) | |
| Interest Expense | | **0.3** | | 0.1 | |
| Provision for Doubtful Debts and Advances | | **11.4** | | 3.2 | |
| (Write back)/Provision for Employee Benefits | | **(11.7)** | | 11.8 | |
| Provision for write down of Inventories | | **11.1** | **(186.9)** | 7.6 | (213.3) |
| Operating Profit before Working Capital Changes | | | **777.6** | | 704.1 |
| Adjustments for: | | | | | |
| Decrease/(Increase) in Inventories | | **133.8** | | (374.5) | |
| (Increase) in Sundry Debtors | | **(3.6)** | | (136.6) | |
| (Increase) in Loans and Advances | | **(54.9)** | | (76.5) | |
| (Decrease)/Increase in Current Liabilities and Provisions | | **(124.1)** | **(48.8)** | 291.9 | (295.7) |
| Cash generated from Operations | | | **728.8** | | 408.4 |
| Interest received | | **8.4** | | 6.3 | |
| Interest paid | | **(0.3)** | | (0.1) | |
| Direct Taxes paid (Net of Refunds) | | **(319.5)** | **(311.4)** | (375.7) | (369.5) |
| Net cash generated from Operating Activities | (A) | | **417.4** | | 38.9 |
| **B. Cash flow from Investing Activities:** | | | | | |
| Purchase of Fixed Assets | | **(95.5)** | | (293.4) | |
| Sale of Fixed Assets | | **2.8** | | 22.3 | |
| Interest Income | | **213.2** | | 166.0 | |
| Dividend received on Current Investments | | **20.8** | | 128.8 | |
| Purchase of Investments | | **(8,287.5)** | | (14,853.4) | |
| Sale of Investments | | **9,579.6** | | 15,666.3 | |
| Investment in Fixed Deposits | | **(2,973.6)** | | (1,573.8) | |
| Fixed Deposits matured | | **1,556.2** | | 895.1 | |
| Net cash generated from Investing Activities | (B) | | **16.0** | | 157.9 |
| **C. Cash flow from Financing Activities:** | | | | | |
| Buy back of shares (including premium & expenses) | | **(107.4)** | | – | |
| Dividend | | **(294.6)** | | (168.2) | |
| Dividend Tax | | **(50.1)** | | (28.7) | |
| Net cash (used) in Financing Activities | (C) | | **(452.1)** | | (196.9) |
| Net (Decrease)/Increase in Cash and Cash Equivalents | (A+B+C) | | **(18.7)** | | (0.1) |
| Cash and Cash Equivalents at the beginning of the year | | | **32.1** | | 32.2 |
| Cash and Cash Equivalents at the end of the year (refer note 2) | | | **13.4** | | 32.1 |

**NOTES TO THE CASH FLOW STATEMENT**

| | 2009 | 2008 |
|---|---|---|
| 1. Cash and Cash Equivalents includes (refer Schedule 9) | | |
| - Cash balance | **0.2** | 0.2 |
| - Bank balance in current accounts | **13.2** | 31.9 |
| | **13.4** | 32.1 |

2. Unpaid Dividend of Rs. 8.1 million (2008: Rs. 7.6 million), included in Bank balances, is not available for use by the Company.
3. The cash flow statement has been prepared under the indirect method as set out in Accounting Standard-3 on cash flow statement prescribed in the Companies (Accounting Standards) Rules, 2006.

As set out in our attached report of even date
**For B S R & Co.**
Chartered Accountants
**Bhavesh Dhupelia**
Partner
Membership No.: 042070

Mumbai, 22 January, 2010

H. U. Shenoy
Company Secretary

For and on behalf of the Board of Directors
S. N. Talwar — Chairman
M. Dziki — Managing Director
H. C. H. Bhabha
E. A. Kshirsagar
R. L. Shenoy
K. Shivkumar
Directors

# Schedules to the Financial Statements

*for the year ended 31 December 2009* Currency: Rupees million

## 1. SIGNIFICANT ACCOUNTING POLICIES

**(a) Basis of preparation of financial statements:**

The financial statements have been prepared and presented under the historical cost convention, on the accrual basis of accounting and in accordance with the provisions of the Companies Act, 1956 and the accounting principles generally accepted in India and comply with the Accounting Standards prescribed in the Companies (Accounting Standards) Rules, 2006 issued by the Central Government, in consultation with the National Advisory Committee on Accounting Standards, to the extent applicable.

The financial statements are presented in millions of Indian Rupees and rounded off to one decimal unless otherwise stated. Figures below Rs 50,000 are disclosed by '*'.

**(b) Use of estimates:**

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities on the date of financial statements. Management believes that the estimates made in the preparation of the financial statements are prudent and reasonable. Actual results could differ from those estimates. Any revision to accounting estimates is recognized prospectively in current and future periods.

**(c) Fixed assets and depreciation/amortisation:**

Fixed assets are stated at cost less accumulated depreciation/ amortisation and impairment loss, if any. Cost comprises of purchase price and any attributable costs such as duties, freight, borrowing costs, erection and commissioning expenses incurred in bringing the assets to its working condition for its intended use and are net of recoverable taxes as applicable.

The Company depreciates its fixed assets on Straight Line Method (SLM),based on the economic useful lives of assets as estimated by the Management. Depreciation on additions is provided pro-rata from the month the assets are put to use. Depreciation on sale of assets is provided up-to the prior month in which the assets are sold.

Depreciation on assets other than Trademarks and Software is provided at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956, except in the following cases where the SLM rates used are greater than the corresponding minimum rates prescribed in Schedule XIV to the Companies Act, 1956:

| Description | Depreciation rate % |
|---|---|
| Plant and Machinery | 5.15, 8.09,11.31 |
| Furniture, Fixtures, Electrical Fittings and Office Equipment | 12 |
| Vehicles | 20 |

Trademarks are amortised over an expected benefit period of 5 years.

Software comprising of System Software and Application Software are amortised on a SLM basis over an expected benefit period of 6 years and 3 years respectively.

Assets individually costing less than Rs. 5,000 are fully depreciated in the year of acquisition.

**(d) Impairment of assets:**

In accordance with Accounting Standard 28 on 'Impairment of assets' as prescribed in the Companies (Accounting Standards) Rules, 2006, the Company assesses at each Balance Sheet date, whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The recoverable amount of the assets (or where applicable that of the cash-generating unit to which the asset belongs) is estimated as the higher of its net selling price and its value in use. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment loss is recognised in the Profit and Loss Account or against revaluation surplus, where applicable. If at the Balance Sheet date, there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is re-assessed and the asset is reflected at the recoverable amount subject to a maximum of the depreciated historical cost.

Value in use is the present value of estimated future cash flows expected to arise from the continuing use of the assets and from its disposal at the end of its useful life.

**(e) Operating Lease:**

Lease rentals in respect of assets acquired under operating lease are charged off to the Profit and Loss Account on a straight-line basis over the lease period.

**(f) Investments:**

Long term investments are stated at cost less provision for diminution which is other than temporary in nature. Current Investments are stated at lower of cost or market value.

**(g) Inventories:**

Inventories are valued at lower of cost and net realisable value. Cost is arrived at using the moving weighted average method and includes attributable factory overheads on the basis of absorption costing principle.

Samples included under inventories are valued at cost and charged to the Profit and Loss Account on distribution.

**(h) Revenue recognition:**

Revenue from sale of goods is recognised on transfer of all significant risks and rewards of ownership to the customers, which is generally on dispatch of goods. Sales are stated net of trade discounts and sales returns and excludes value added tax / sales tax.

Revenue from services rendered is recognized as and when services are rendered and related costs are incurred in accordance with the terms of the contractual agreement.

Indenting commission income is recognised when proof of shipment is received from the supplier.

Dividend income is recognised when the right to receive the dividend is unconditional.

Interest income is recognised on time proportion basis.

# Schedules to the Financial Statements

*for the year ended 31 December 2009* Currency: Rupees million

**(i) Employee benefits:**

***(a) Short-term employee benefits:***

All employee benefits payable wholly within twelve months of rendering the service are classified as short-term employee benefits. These benefits include compensated absences such as paid annual leave and sickness leave. The undiscounted amount of short-term employee benefits expected to be paid in exchange for the services rendered by employees is recognized during the year.

***(b) Post-employment benefits:***

*Defined Contribution Plans*

The Company's approved superannuation scheme is a defined contribution plan. The Company's contribution paid/payable under the scheme is recognised as expense in the Profit and Loss Account during the year in which the employee renders the related service.

*Defined Benefit Plans*

The Company's provident fund, gratuity, leave wages and pension schemes are defined benefit plans.

The Company maintains gratuity fund with the Life Insurance Corporation of India, to which contributions are made on an annual basis. The present value of the obligation under such defined benefit plans is determined based on actuarial valuation using the Projected Unit Credit Method by an independent actuary, which recognises each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation. The Company also makes specified monthly contributions towards employee provident fund to a trust administered by the Company. The interest rate payable by the trust to the beneficiaries every year is being notified by the Government. The Company has an obligation to make good the shortfall, if any, between the return from the investments of the trust and the notified interest rate.

The obligation is measured at the present value of the estimated future cash flows. The discount rates used for determining the present value of the obligation under defined benefit plans are based on the market yields on Government securities as at the Balance Sheet date.

Actuarial gains and losses are recognised immediately in the Profit and Loss Account.

***(c) Other Long-term employment benefits:***

Compensated absences which are not expected to occur within twelve months after the end of the period in which the employee renders the related services are recognized as a liability at the present value of the defined benefit obligation at the Balance Sheet date, using the Projected Unit Credit Method carried out by an independent actuary. The discount rates used for determining the present value of the obligation under defined benefit plan are based on the market yields on Government securities as at the Balance Sheet date.

**(j) Foreign currency transactions:**

Transactions denominated in foreign currency are recorded at the exchange rates prevailing on the date of transactions. Exchange differences arising on foreign exchange transactions settled during the year are recognized in the Profit and Loss Account of the year.

Monetary assets and liabilities in foreign currency, which are outstanding as at the year-end and not covered by forward contracts, are translated at the year-end at the closing exchange rate and the resultant exchange differences are recognized in the Profit and Loss Account. Non-monetary foreign currency items are carried at cost.

In respect of forward exchange contracts, the difference between the forward rate and the exchange rate at the inception of the forward exchange contracts, is recognised as income/expense over the life of the contract. Exchange differences on forward exchange contracts are recognized as income/expense in the Profit and Loss Account of the year.

**(k) Research and Development:**

Research and Development expenditure of a revenue nature is written off in the year in which it is incurred.

**(l) Taxation:**

Income tax expense comprises of current tax, deferred tax charge or credit and fringe benefit tax.

The deferred tax charge or credit is recognised using substantially enacted rates at the Balance Sheet date. In the case of unabsorbed depreciation or carry forward losses, deferred tax assets are recognised only to the extent there is virtual certainty of realisation of such assets. Other deferred tax assets are recognised only to the extent there is reasonable certainty of realisation in future. Such assets are reviewed as at each Balance Sheet date to reassess realisation.

Provision for fringe benefits tax is made on the basis of the applicable rates on the taxable value of eligible expenses of the Company as prescribed under the Income Tax Act, 1961.

**(m) Earnings per share (EPS):**

Basic EPS is computed by dividing the net profit for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year. Diluted EPS is computed using the weighted average number of equity and diluted equity equivalent shares outstanding during the year, except where the results would be anti-dilutive.

**(n) Provisions and Contingent liabilities:**

The Company creates a provision when there is present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably may not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made

Loss contingencies arising from claims, litigations, assessments, fines, penalties etc. are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

# Schedules to the Financial Statements

*as at 31 December 2009* Currency: Rupees million

| | | 2009 | 2008 |
|---|---|---|---|
| **2. SHARE CAPITAL** | | | |
| **AUTHORISED** | | | |
| 18,000,000 (2008: 18,000,000) Equity Shares of Rs. 10 each | | **180.0** | 180.0 |
| **ISSUED, SUBSCRIBED AND PAID-UP** | | | |
| 16,599,382 (2008: 16,861,224) Equity Shares of Rs. 10 each fully paid-up | | **166.0** | 168.6 |
| Out of the above | | | |
| – 127,820 (2008: 127,820) Equity Shares of Rs. 10 each have been allotted as fully paid-up pursuant to a contract for consideration having been received otherwise than in cash. | | | |
| – 5,370,000 (2008: 5,370,000) Equity Shares of Rs. 10 each have been allotted as fully paid-up Bonus Shares, by capitalising Rs. 38.3 million from General Reserve and Rs. 15.4 million from Securities Premium Account. | | | |
| – 8,599,224 (2008: 8,599,224) Equity Shares of Rs. 10 each are held by Merck KGaA, Germany, through its subsidiaries. | | | |
| – During the year 261,842 Equity Shares (2008: Nil shares) were bought back pursuant to the Company's Equity Share buy back scheme. All the shares bought back till 31 December 2009 have been extinguished. [Also refer Schedule 19] | | | |
| | | **166.0** | 168.6 |
| **3. RESERVES AND SURPLUS** | | | |
| Capital Reserve | | **2.6** | 2.6 |
| Capital Redemption Reserve | | | |
| Balance brought forward | **–** | | – |
| Add : Transfer from General Reserve # | **2.6** | | – |
| | | **2.6** | – |
| Securities Premium Account | | **111.3** | 111.3 |
| General Reserve | | | |
| Balance brought forward | **2,864.7** | | 2,523.0 |
| Less : Transfer to Capital Redemption Reserve # | **2.6** | | – |
| Less : Premium paid on Buy back of shares # | **104.8** | | – |
| Add : Transfer from Profit and Loss Account | **326.6** | | 341.7 |
| | | **3,083.9** | 2,864.7 |
| # In respect of shares bought back during the year, Rs. 104.8 million (including share buy back expenses of Rs. 3.7 million) have been adjusted against General Reserve (2008: Rs. Nil). Face value of shares bought back, Rs. 2.6 million has been adjusted to Capital Redemption Reserve (2008: Rs. Nil). [Also refer Schedule 19] | | | |
| Profit and Loss Account | | **1,306.5** | 1,366.7 |
| | | **4,506.9** | 4,345.3 |
| **4. DEFERRED TAX LIABILITY (NET)** | | | |
| Deferred Tax Liability included in the Balance Sheet comprises of: | | | |
| Deferred Tax Liability: | | | |
| Excess of Depreciation as per Income Tax Act, 1961, over Book Depreciation | | **64.6** | 57.5 |
| | | **64.6** | 57.5 |
| Deferred Tax Asset: | | | |
| Provision for Doubtful Debts and Advances | | **8.8** | 4.9 |
| Personnel and Other Related Provisions | | **9.0** | 11.7 |
| Provision for Sales Tax matters | | **16.2** | 15.2 |
| Other Provisions | | **9.4** | 1.9 |
| | | **43.4** | 33.7 |
| | | **21.2** | 23.8 |

# Schedules to the Financial Statements

*as at 31 December 2009* Currency: Rupees million

## 5. FIXED ASSETS

| | GROSS BLOCK AT COST | | | | DEPRECIATION/AMORTISATION | | | | NET BLOCK | |
|---|---|---|---|---|---|---|---|---|---|---|
| Description of Assets | As at 01.01.2009 | Additions | Deductions | As at 31.12.2009 | As at 01.01.2009 | For the Year | Deductions | As at 31.12.2009 | **As at 31.12.2009** | As at 31.12.2008 |
| **Intangible Assets** | | | | | | | | | | |
| Trademarks | 86.9 | – | – | 86.9 | 86.9 | – | – | 86.9 | **–** | – |
| Software | 38.0 | 1.0 | – | 39.0 | 33.8 | 2.2 | – | 36.0 | **3.0** | 4.2 |
| **Tangible Assets** | | | | | | | | | | |
| Freehold Land | 5.0 | – | – | 5.0 | – | – | – | – | **5.0** | 5.0 |
| Buildings and Flats | 375.8 | 12.9 | – | 388.7 | 133.9 | 10.7 | – | 144.6 | **244.1** | 241.9 |
| Plant and Machinery | 764.0 | 66.4 | 10.8 | 819.6 | 482.9 | 49.4 | 10.4 | 521.9 | **297.7** | 281.1 |
| Furniture, Fixtures, Electrical Fittings and Office Equipment | 125.8 | 20.7 | 5.3 | 141.2 | 56.7 | 12.1 | 5.2 | 63.6 | **77.6** | 69.1 |
| Vehicles | 10.3 | – | 7.8 | 2.5 | 7.1 | 0.7 | 6.1 | 1.7 | **0.8** | 3.2 |
| Total | 1,405.8 | 101.0 | 23.9 | 1,482.9 | 801.3 | 75.1 | 21.7 | 854.7 | **628.2** | 604.5 |
| Previous Year | 1,168.2 | 300.4 | 62.8 | 1,405.8 | 787.8 | 57.3 | 43.8 | 801.3 | **604.5** | |

**Notes:**
Buildings and Flats include cost of Shares in a Co-operative Society Rs. * (2008: Rs.*)
Plant and Machinery includes Research and Development equipments.

## 6. INVESTMENTS

| | No. of Units | Face Value in Rs. | **2009** | 2008 |
|---|---|---|---|---|
| *Non-Trade, Long Term (Unquoted) :* | | | | |
| REC Capital Gain Bonds | (65,500) | (10,000) | **–** | 655.0 |
| *Non-Trade, Current (Unquoted) :* | | | | |
| *In Mutual Funds :* | | | | |
| SBI Ultra Short Term IP | 1,139,087 | 10 | **11.5** | – |
| LICMF Liquid Fund | 4,967,418 | 10 | **54.5** | – |
| Canara Treasury Advantage Fund | 980,463 | 10 | **12.2** | – |
| Canara Liquid Super IP | 1,216,440 | 10 | **12.2** | – |
| LIC Liquid Plus Fund | 14,777,050 | 10 | **147.8** | – |
| LICMF Liquid Plus Fund | (10,598,078) | 10 | **–** | 106.0 |
| DWS Money Plus Fund Institutional | (9,886,802) | 10 | **–** | 100.3 |
| Sundaram BNP Paribas Liquid Plus IP | (24,770,084) | 10 | **–** | 258.1 |
| Lotus India Short Term Plan- IP | (26,491,661) | 10 | **–** | 269.1 |
| Fortis Money Plus IP | (14,068,225) | 10 | **–** | 140.8 |
| | | | **238.2** | 1,529.3 |

(Figures in brackets indicate those of the Previous Year)

Refer Schedule 25 for details of Investments purchased and sold during the year.
The aggregate Book Value and Net Asset Value of Unquoted Investments are as follows:

| | **2009** | 2008 |
|---|---|---|
| Aggregate Book Value of Non-Trade, Long Term, Unquoted Investments | **–** | 655.0 |
| Aggregate Book Value of Non-Trade, Current, Unquoted Investments | **238.2** | 874.3 |
| Aggregate Net Asset Value of Non-Trade, Current, Unquoted Investments | **238.2** | 875.0 |

# Schedules to the Financial Statements

*as at 31 December 2009* Currency: Rupees million

| | | 2009 | 2008 |
|---|---|---|---|
| **7. INVENTORIES** | | | |
| Stores and Spare Parts | | **3.8** | 3.4 |
| Stock-in-Trade: | | | |
| – Raw Materials | | **129.0** | 236.5 |
| – Packing Materials | | **53.5** | 61.5 |
| – Finished Goods [includes Stock of Samples (at cost) amounting to Rs. 21.0 million; 2008 : Rs. 23.6 million] | | **373.6** | 382.6 |
| – Work in Process | | **25.0** | 45.8 |
| | | **584.9** | 729.8 |
| **8. SUNDRY DEBTORS** *(Unsecured)* | | | |
| Debts outstanding for a period exceeding six months | | | |
| considered good | | **9.4** | 13.3 |
| considered doubtful | | **22.0** | 12.1 |
| | | **31.4** | 25.4 |
| Other Debts | | | |
| considered good | | **428.7** | 431.1 |
| | | **460.1** | 456.5 |
| Less : Provision for Doubtful Debts | | **22.0** | 12.1 |
| | | **438.1** | 444.4 |
| Due from Companies under the same Management: | | | |
| Merck Specialities Private Limited | | **1.5** | 39.0 |
| Maximum amount outstanding during the year | | **39.0** | 39.0 |
| **9. CASH AND BANK BALANCES** | | | |
| Cash on hand | | **0.2** | 0.2 |
| Bank balances with Scheduled Banks: | | | |
| On Current Accounts | **13.2** | | 31.9 |
| On Deposit Accounts | **3,233.0** | | 1,815.6 |
| | | **3,246.2** | 1,847.5 |
| | | **3,246.4** | 1,847.7 |

# Schedules to the Financial Statements

*as at 31 December 2009* Currency: Rupees million

| | | 2009 | | 2008 |
|---|---|---|---|---|
| **10. LOANS AND ADVANCES** | | | | |
| *(Unsecured)* | | | | |
| Advances recoverable in cash or in kind or for value to be received | | | | |
| considered good | **148.4** | | 106.5 | |
| considered doubtful | **1.5** | | – | |
| | **149.9** | | 106.5 | |
| Less : Provision for Doubtful Advances | **1.5** | | – | |
| | | **148.4** | | 106.5 |
| Loans to Employees | | **10.4** | | 11.1 |
| Interest Receivable | | **73.8** | | 43.8 |
| Income Tax Payments, less Provisions | | **248.8** | | 233.3 |
| (Represents excess of payment of Advance Tax over Provision for Taxation in certain Assessment Years) | | | | |
| Advance Payment of Gratuity | | **2.8** | | – |
| Prepaid Expenses | | **28.4** | | 16.3 |
| Deposits | | | | |
| considered good | **21.1** | | 21.0 | |
| considered doubtful | **2.5** | | 2.5 | |
| | **23.6** | | 23.5 | |
| Less : Provision for Doubtful Deposits | **2.5** | | 2.5 | |
| | | **21.1** | | 21.0 |
| | | **533.7** | | 432.0 |

| | | 2009 | | 2008 |
|---|---|---|---|---|
| **11. CURRENT LIABILITIES** | | | | |
| Acceptances | | **10.9** | | 53.7 |
| Sundry Creditors : | | | | |
| Dues to Micro, Small and Medium Enterprises (Refer Schedule 30) | **0.7** | | 1.3 | |
| Others | **350.9** | | 400.3 | |
| | | **351.6** | | 401.6 |
| Other Liabilities : | | **55.6** | | 56.3 |
| Investor Education and Protection Fund shall be credited by the following amounts (not due as at the year end) : | | | | |
| Unpaid Dividend | | **8.1** | | 7.6 |
| | | **426.2** | | 519.2 |

| | 2009 | 2008 |
|---|---|---|
| **12. PROVISIONS** | | |
| Provision for Taxation less Payments | **19.6** | 11.3 |
| (Represents excess of Provision for Taxation over Advance Tax payment in certain Assessment Years) | | |
| Proposed Dividend | **332.0** | 295.1 |
| Dividend Tax | **56.4** | 50.1 |
| Personnel and Other Related Provisions (Refer Schedule 22) | **75.7** | 109.1 |
| Provision for Leave Encashment | **29.3** | 28.5 |
| Provision for Gratuity | **–** | 9.7 |
| Provision for Sales Tax matters (Refer Schedule 22) | **48.3** | 44.6 |
| | **561.3** | 548.4 |

# Schedules to the Financial Statements

*for the year ended 31 December 2009*

Currency: Rupees million

| | | 2009 | 2008 |
|---|---|---|---|
| **13. OTHER INCOME** | | | |
| Interest on Deposits and Others | | **243.2** | 151.9 |
| (Income tax deducted at source Rs. 34.0 million; 2008: Rs. 32.5 million) | | | |
| Dividend Received on Current Investments | | **20.8** | 128.8 |
| Profit on Sale of Current Investments (Net) | | **1.0** | 2.5 |
| Interest on Delayed Payments from Customers | | **8.4** | 6.3 |
| (Income tax deducted at source Rs. * ; 2008: Rs. *) | | | |
| Indenting Commission | | **1.1** | 3.8 |
| Income from Other Services rendered | | **93.4** | 119.7 |
| Service Tax Credit | | **43.2** | 43.4 |
| Insurance Claims | | **0.9** | 3.5 |
| Profit on Sale of Fixed Assets (Net) | | **0.6** | 3.3 |
| Exchange Gain (Net) | | **6.8** | 3.2 |
| Miscellaneous Income | | **12.7** | 10.7 |
| | | **432.1** | 477.1 |
| **14. MATERIALS COST** | | | |
| Raw Materials consumed | | **1,043.0** | 764.2 |
| Packing Materials consumed | | **399.0** | 336.8 |
| Cost of Traded Products sold | | **598.5** | 615.7 |
| **Decrease/(**Increase) in Inventories | | **20.4** | (116.8) |
| | | **2,060.9** | 1,599.9 |
| **15. PERSONNEL EXPENSES** | | | |
| Salaries, Wages, Bonus and Allowances | | **482.6** | 388.9 |
| Contribution to Provident Fund and Other Funds | | **27.0** | 45.8 |
| Staff Welfare and Amenities | | **60.6** | 42.9 |
| | | **570.2** | 477.6 |
| **16. OPERATING AND OTHER EXPENSES** | | | |
| Power and Fuel | | **62.8** | 53.6 |
| Stores and Spare Parts consumed | | **35.1** | 28.4 |
| Third Party Processing Charges | | **160.5** | 115.4 |
| Excise Duty (Net) | | **7.7** | 20.2 |
| (Represents excise duty paid on free replacements, samples, bonus issues and net impact on opening/closing stocks) | | | |
| Repairs and Maintenance to: | | | |
| Building | | **8.8** | 5.0 |
| Plant and Machinery | | **7.7** | 9.5 |
| Others | | **34.4** | 40.3 |
| Rates and Taxes | | **40.6** | 34.7 |
| Rent | | **40.1** | 37.9 |
| Printing, Stationery, Postage, Telephone and Electricity Expenses | | **43.2** | 33.7 |
| Legal and Professional Expenses | | **125.7** | 115.4 |
| Directors' Fees | | **0.8** | 0.7 |
| Travelling, Conveyance and Vehicle Expenses | | **262.3** | 219.4 |
| Insurance | | **5.3** | 2.7 |
| Research and Development Expenses (Schedule 32) | | **14.4** | 11.4 |
| Donations | | ***** | 0.1 |
| Packing, Forwarding and Freight | | **119.4** | 102.3 |
| Clearing and Forwarding Agents Commission | | **43.2** | 35.5 |
| Selling Agents Commission | | **8.2** | 6.0 |
| Sales Promotion Expenses | | **343.8** | 345.5 |
| Provision for Doubtful Debts (Net) | | **11.4** | 3.2 |
| Bad debts written off | 1.6 | | * |
| Less: Provision for doubtful debts written back | – | | – |
| | | **1.6** | * |
| Royalty | | **93.6** | 76.9 |
| Loss on decline in fair value of Current Investments | | ***** | * |
| Miscellaneous Expenses | | **21.6** | 21.6 |
| | | **1,492.2** | 1,319.4 |

# Schedules to the Financial Statements

*for the year ended 31 December 2009* Currency: Rupees million

**17. CONTINGENT LIABILITIES**

Summary of disputed statutory demands not accepted by the Company are given below:

| | 2009 | 2008 |
|---|---|---|
| Income tax | 345.0 | 252.2 |
| State and Central Sales Tax | 11.7 | 20.2 |
| Excise duty # | 108.6 | 108.5 |
| Service tax | 5.4 | 5.4 |
| Custom Duty | 1.3 | 1.3 |
| | 472.0 | 387.6 |

# Includes Rs. 89.9 million (2008: Rs. 89.9 million) in respect of a guarantee given to a toll center, towards an excise duty demand.

**18. CAPITAL COMMITMENTS**

Estimated amount of contracts remaining to be executed on Capital Account (net of advance) and not provided for: Rs. 17.4 million (2008: Rs. 29.8 million).

**19. SHARE BUY BACK**

In terms of the share buy back scheme approved by the Board of Directors on 20 May 2009, the Company has, during the year, bought back 261,842 (2008: Nil) shares for an aggregate consideration of Rs. 107.4 million (2008: Rs. Nil), including related expenses. The nominal value of the shares bought back has been adjusted against the share capital. In the above scheme, the approved maximum buy back price was Rs. 435 per share.

The nominal value of shares purchased i.e. Rs. 2.6 million has been adjusted against the share capital. An equal amount has been reduced from General Reserve and credited to Capital Redemption Reserve, as per the provisions of the Companies Act, 1956.

The difference between consideration paid (including related expenses) and nominal value of shares aggregating Rs. 2.6 million has been adjusted against General Reserve.

**20. SEGMENT INFORMATION**

**Information About Primary Business Segments**

| Particulars | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Pharmaceuticals | Chemicals | Eliminations | Total | Pharmaceuticals | Chemicals | Eliminations | Total |
| **REVENUE** | | | | | | | | |
| External Revenue | 3,525.5 | 1,206.7 | | 4,732.2 | 3,189.6 | 708.8 | | 3,898.4 |
| Inter-segment Revenue | | 154.5 | (154.5) | – | | 104.1 | (104.1) | – |
| Total Revenue (see Note d below) | 3,525.5 | 1,361.2 | (154.5) | 4,732.2 | 3,189.6 | 812.9 | (104.1) | 3,898.4 |
| **RESULT** | | | | | | | | |
| Segment Result before allocation of Corporate Expenses | 604.9 | 294.9 | | 899.8 | 709.2 | 111.7 | | 820.9 |
| Less: Corporate Expenses | 160.3 | 48.0 | | 208.3 | 156.1 | 36.7 | | 192.8 |
| Net Segment Result | 444.6 | 246.9 | | 691.5 | 553.1 | 75.0 | | 628.1 |
| Interest Expense | | | | (0.3) | | | | (0.1) |
| Other unallocated Income (Net) | | | | 273.3 | | | | 289.4 |
| Income Taxes | | | | (309.7) | | | | (287.3) |
| Net Profit | | | | 654.8 | | | | 630.1 |
| **OTHER INFORMATION** | | | | | | | | |
| Segment Assets | 1,022.3 | 841.6 | | 1,863.9 | 1,209.8 | 730.5 | | 1,940.3 |
| Unallocated Corporate Assets | | | | 3,817.7 | | | | 3,665.0 |
| **Total Assets** | | | | 5,681.6 | | | | 5,605.3 |
| Segment Liabilities | 439.0 | 132.6 | | 571.6 | 516.5 | 187.1 | | 703.6 |
| Unallocated Corporate Liabilities | | | | 437.1 | | | | 387.8 |
| **Total Liabilities** | | | | 1,008.7 | | | | 1,091.4 |
| Capital Expenditure - Additions | 63.8 | 31.7 | | 95.5 | 55.8 | 262.2 | | 318.0 |
| Non-cash expenses other than Depreciation | 35.1 | 11.1 | | 46.2 | 22.5 | (1.9) | | 20.6 |
| Depreciation | 38.6 | 36.5 | | 75.1 | 40.8 | 16.5 | | 57.3 |

# Schedules to the Financial Statements

*for the year ended 31 December 2009* Currency: Rupees million

**Geographical segment information**

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **Domestic** | **Export** | **Total** | Domestic | Export | Total |
| Revenue | **4,152.4** | **579.8** | **4,732.2** | 3,545.2 | 353.2 | 3,898.4 |
| Segment Asset | **1,814.8** | **49.1** | **1,863.9** | 1,897.6 | 42.7 | 1,940.3 |
| Capital Expenditure | **95.5** | **–** | **95.5** | 318.0 | – | 318.0 |

**(a) Business segment**

For Management reporting purposes, the Company is organised into two major operating divisions - Pharmaceuticals and Chemicals. The divisions are the basis on which the Company reports its primary segment information. The above segments have been identified taking into account the organisation structure as well as the differing risks and returns of these segments.

Pharmaceuticals business comprises of Ethicals used in the treatment of Cardiovascular and Metabolic diseases, Consumer Healthcare products and Vitamins-based formulations.

Chemicals business comprises of Bulk drugs and Pigments. Segment revenue relating to the Chemicals business includes income from services provided to customers of this segment.

**(b) Geographical segment**

In respect of secondary segment information, the Company has identified its geographical segment as (i) Domestic and (ii) Exports. The secondary segment information has been disclosed accordingly.

**(c) Accounting policies**

The accounting policies adopted for segment reporting are in line with the accounting policies adopted by the Company for the purpose of these financial statements, except in respect of inter-segment revenues, which have been accounted on the basis of prevailing market rates.

Segment assets include all operating assets used by a segment and consist principally of debtors, inventories and fixed assets, net of allowances and provisions which are reported as direct offsets in the Balance Sheet. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two segments is allocated to the segments on a reasonable basis. Segment liabilities include all operating liabilities and consist principally of creditors and accrued liabilities. Segment assets and liabilities do not include current and deferred income taxes.

**(d) Revenue comprise**

| | **2009** | 2008 |
|---|---|---|
| Sales (Net) | **4,731.1** | 3,894.6 |
| Income from services rendered (included in Other Income) | **1.1** | 3.8 |
| | **4,732.2** | 3,898.4 |

**21. (a) RELATED PARTY DISCLOSURES**

Holding Company:

Merck KGaA, Germany through its subsidiaries listed below as Investing Associates holds 51.8% (2008: 51.0%) of the equity share capital, as at 31 December 2009.

**Investing Associates:**

- Chemitra GmbH, Germany
- Emedia Export Company mbh, Germany
- Merck Internationale Beteiligungen GmbH, Germany

**Other related parties with whom transactions have taken place during the year:**

**Fellow Subsidiaries:**

- EMD Biosciences Inc., USA
- EMD Chemicals Inc., USA
- Merck & Cie KG, Switzerland
- Merck Chemical (Shanghai) Pvt. Ltd., China
- Merck KGaA & Co. Werk Spittal, Austria
- Merck Ltd., Japan
- Merck Ltd., Thailand
- Merck Marker (Pvt.) Ltd., Pakistan
- Merck Pte. Ltd., Singapore
- Merck Pty. Ltd., Australia
- Merck Pty. Ltd., South Africa
- Merck Sante SAS, France
- Merck Serono International S.A., Switzerland
- Merck Specialities Pvt. Ltd., India
- PT Merck Tbk, Indonesia
- Seven Seas Ltd., UK

**Executive Directors:**

- Dr. M. Dziki (Managing Director)
- Mr. R. L. Shenoy
- Mr. K. Shivkumar

# Schedules to the Financial Statements

*for the year ended 31 December 2009* Currency: Rupees million

## 21. (b) SUMMARY OF RELATED PARTY TRANSACTIONS

| | Transactions | Holding Company | Investing Associates | Fellow Subsidiaries | Executive Directors & Relatives | Total |
|---|---|---|---|---|---|---|
| 1. | Purchase of Goods | **225.7** | **–** | **96.2** | **–** | **321.9** |
| | | (155.2) | (–) | (74.3) | (–) | (229.5) |
| 2. | Purchase of Fixed assets | **1.7** | **–** | **–** | **–** | **1.7** |
| | | (–) | (–) | (–) | (–) | (–) |
| 3. | Sale of Goods | **120.1** | **–** | **278.2** | **–** | **398.3** |
| | | (52.0) | (–) | (153.9) | (–) | (205.9) |
| 4. | Services Received | **174.3** | **–** | **16.1** | **–** | **190.4** |
| | | (137.2) | (–) | (22.2) | (–) | (159.4) |
| 5. | Services Rendered | **1.1** | **–** | **95.3** | **–** | **96.4** |
| | | (4.5) | (–) | (137.6) | (–) | (142.1) |
| 6. | Reimbursement of Expenses | **6.4** | **–** | **9.1** | **–** | **15.5** |
| | | (0.6) | (–) | (0.9) | (–) | (1.5) |
| 7. | Dividend Paid | **–** | **150.5** | **–** | * | **150.5** |
| | | (–) | (86.0) | (–) | (*) | (86.0) |
| 8. | Remuneration | **–** | **–** | **–** | **43.8** | **43.8** |
| | | (–) | (–) | (–) | (49.1) | (49.1) |
| 9. | Balances Payable as at year end | **25.4** | **–** | **9.2** | **–** | **34.6** |
| | | (33.9) | (–) | (0.5) | (–) | (34.4) |
| 10. | Balances Receivable as at year end | **0.2** | **–** | **1.5** | **–** | **1.7** |
| | | (13.3) | (–) | (39.0) | (–) | (52.3) |

Figures in brackets indicate those of the Previous Year.

Remuneration does not include charge for gratuity and leave encashment as employee-wise break-up is not available.

Services received include Rs. 33.1 million (2008: Rs. 33.5 million) towards technical consultancy fees included in Legal and Professional Expenses.

Out of the above items, transactions in excess of 10% of the total related party transactions are as under:

| | **2009** | 2008 |
|---|---|---|
| 1. Purchase of Goods | | |
| Merck KGaA, Germany | **225.7** | 155.2 |
| Merck & Cie KG, Switzerland | **33.6** | 40.1 |
| Merck Ltd., Japan | **35.5** | 14.9 |
| 2. Purchase of Capital Goods | | |
| Merck KGaA, Germany | **1.7** | – |
| 3. Sale of Goods | | |
| Merck KGaA & Co. Werk Spittal, Austria | **51.8** | 54.9 |
| Merck KGaA, Germany | **120.1** | 52.0 |
| Merck Marker (Pvt.) Ltd., Pakistan | **58.4** | 44.2 |
| Merck Ltd., Japan | **44.6** | 32.3 |
| EMD Chemicals Inc., USA | **95.1** | – |
| 4. Services Received | | |
| Merck KGaA, Germany | **174.3** | 137.2 |
| Merck Pte. Ltd., Singapore | **11.4** | 22.1 |
| 5. Services Rendered | | |
| Merck Specialities Pvt. Ltd., India | **95.3** | 137.6 |
| 6. Reimbursement of Expenses | | |
| Merck Serono International S.A., Switzerland | **–** | 0.8 |
| Merck Limited, Thailand | **4.6** | – |
| Merck KGaA, Germany | **6.4** | 0.6 |
| PT Merck Tbk, Indonesia | **3.7** | – |
| 7. Dividend Paid | | |
| Emedia Export Company mbh, Germany | **61.8** | 35.3 |
| Merck Internationale Beteiligungen GmbH, Germany | **54.1** | 31.0 |
| Chemitra GmbH, Germany | **34.6** | 19.7 |
| 8. Remuneration | | |
| Dr. M. Dziki | **25.3** | 24.1 |
| Mr. R. L. Shenoy | **9.3** | 8.8 |
| Mr. A. Bhattacharjee | **–** | 8.7 |
| Mr. K. Shivkumar | **9.2** | 7.5 |
| 9. Balances Payable | | |
| Merck KGaA, Germany | **25.4** | 33.9 |
| 10. Balances Receivable | | |
| Merck Specialities Pvt. Ltd., India | **1.5** | 39.0 |
| Merck KGaA, Germany | **0.2** | 13.3 |

# Schedules to the Financial Statements

*for the year ended 31 December 2009* Currency: Rupees million

**22. DISCLOSURE RELATING TO PROVISIONS**

**Personnel and other related provisions**

The Company has made provisions for performance based incentives which are expected to be paid in the first half of the next financial year.

**Provisions in respect of sales tax matters**

The Company has also made provisions for various sales tax/value added tax related matters, which will be settled on completion of the respective assessments.

Summary of the movement in the provisions is given below:

| | Opening Balance | Additions during the year | Utilizations | Reversals | Closing balance |
|---|---|---|---|---|---|
| Personnel and other related provisions | **109.1** | **75.7** | **101.2** | **7.9** | **75.7** |
| | (64.5) | (101.1) | (52.0) | (4.5) | (109.1) |
| Provisions in respect of sales tax matters | **44.6** | **4.7** | **1.0** | **–** | **48.3** |
| | (24.9) | (21.5) | – | (1.8) | (44.6) |
| | **153.7** | **80.4** | **102.2** | **7.9** | **124.0** |
| | (89.4) | (122.6) | (52.0) | (6.3) | (153.7) |

**23. EMPLOYEE BENEFITS**

(i) Effective 1 January 2007, the Company adopted Accounting Standard 15 (AS-15) (revised 2005) on "Employee Benefits" prescribed in Companies (Accounting Standard) Rules, 2006.

(ii) **Contribution to Provident and Superannuation Funds**

Amount of Rs. 27.3 million (2008: Rs. 21.5 million) is recognised as an expense and included in "Personnel costs" (Refer schedule 15) in the Profit and Loss Account.

(iii) **Defined Benefit Plans**

| | | Gratuity | |
|---|---|---|---|
| | | **2009** | 2008 |
| **I.** | **Change in Benefit Obligation** | | |
| | Liability at the beginning of the year | **99.1** | 75.5 |
| | Interest Cost | **5.0** | 5.6 |
| | Current Service Cost | **7.7** | 5.6 |
| | Benefit Paid | **(5.4)** | (3.9) |
| | Actuarial (Gain)/Loss on obligations | **(10.3)** | 16.3 |
| | ***Liability at the end of the year*** | ***96.1*** | ***99.1*** |
| **II.** | **Fair value of Plan Assets** | | |
| | Fair Value of Plan Assets at the beginning of the year | **89.4** | 80.9 |
| | Expected Return on Plan Assets | **7.7** | 7.3 |
| | Contributions | **6.3** | 4.9 |
| | Benefit Paid | **(5.4)** | (3.9) |
| | Actuarial Gain/(Loss) on Plan Assets | **0.9** | 0.2 |
| | ***Fair Value of Plan Assets at the end of the year*** | ***98.9*** | ***89.4*** |
| | ***Total Actuarial Gain/(Loss) to be Recognised*** | ***11.2*** | ***(16.1)*** |
| **III.** | **Actual Return on Plan Assets** | | |
| | Expected Return on Plan Assets | **7.7** | 7.3 |
| | Actuarial Gain/(Loss) on Plan Assets | **0.9** | 0.2 |
| | ***Actual Return on Plan Assets*** | ***8.6*** | ***7.5*** |
| **IV.** | **Amount Recognised in the Balance Sheet** | | |
| | Liability at the end of the year | **(96.1)** | (99.1) |
| | Fair Value of Plan Assets at the end of the year | **98.9** | 89.4 |
| | Difference | **2.8** | (9.7) |
| | ***(Liablities)/Assets Recognised in the Balance Sheet*** | ***2.8*** | ***(9.7)*** |

# Schedules to the Financial Statements

*for the year ended 31 December 2009* Currency: Rupees million

(iii) **Defined Benefit Plans (Continued)**

| | | Gratuity | |
|---|---|---|---|
| | | **2009** | 2008 |
| **V.** | **Expenses Recognised in the Income Statement** | | |
| | Current Service Cost | **7.7** | 5.6 |
| | Interest Cost | **5.0** | 5.6 |
| | Expected Return on Plan Assets | **(7.7)** | (7.3) |
| | Net Actuarial (Gain)/Loss to be Recognised | **(11.2)** | 16.1 |
| | ***Expense Recognised in Income Statement*** | ***(6.2)*** | ***20.0*** |

| | | | |
|---|---|---|---|
| **VI.** | **Balance Sheet Reconciliation** | | |
| | Opening Net (Assets)/Liability | **9.7** | (5.4) |
| | Expense as above | **(6.2)** | 20.0 |
| | Employers Contribution | **(6.3)** | (4.9) |
| | ***Liabilities/(Assets) Recognised in Balance Sheet*** | ***(2.8)*** | ***9.7*** |

| | | | |
|---|---|---|---|
| **VII.** | **Actuarial Assumptions : For the Year** | | |
| | Discount Rate Current | ***7.5%*** | *5.5%* |
| | Rate of Return on Plan Assets Current | ***9.0%*** | *8.5%* |
| | Salary Escalation Current | ***7.0%*** | *8.0%* |

Note: Employer's contribution includes payments made of Rs. 5.4 million (2008 Rs. 3.9 million) towards gratuity obligation by the Company directly to its past employees.

Estimate of future salary increases, considered in actuarial valuation, take account of inflation, seniority, increments and other relevant factors, such as supply and demand in the employment market.

(iv) **Broad category of plan assets relating to Gratuity as a percentage of total plan assets**

The Company's gratuity fund is managed by its insurer, Life Insurance Corporation of India. The plan assets under the fund are deposited under approved securities.

(v) **Compensated absences**

Compensated absences are recognised when the employee renders services that increase their entitlement to future compensated absences. As per the policy of the Company, all employees can carry forward and avail/encash leave on superannuation, death, permanent disablement, retirement and resignation subject to (a) maximum accumulation of 240 days. Compensated absence has been provided for based on outstanding leave balance and the employees' gross pay

The undiscounted amount of short term employee benefits of Rs. 4.5 million (2008 Rs. 2.1 million) is expected to be paid in exchange for the services rendered by employee is recognised as an expense during the year .

(vi) The guidance issued by the Accounting Standard Board (ASB) on implementing AS 15, Employee Benefits (revised 2005) states that provident fund set up by employer, which requires interest shortfall to be met by the employer, needs to be treated as defined benefit plan. The fund does not have any existing deficit or interest shortfall. In regard to any future obligation due to interest shortfall (i.e. government interest to be paid on provident fund scheme exceeds rate of interest earned on investment), pending the issuance of guidance note from the Actuarial Society of India, the Company's actuary has confirmed no additional liability would arise as at the Balance Sheet date.

## 24. LEASE ACCOUNTING

The Company has entered into cancellable operating lease agreements for vehicles. As required under the Accounting Standard 19 on "Lease Accounting" prescribed in the Companies (Accounting Standards) Rules, 2006, the future minimum lease payments on account of the lease are as follows:

| | 2009 | 2008 |
|---|---|---|
| Amount recognized in the Profit and Loss Account | **18.5** | 12.8 |
| The total minimum lease liability for the assets obtained on operating lease basis is Rs. 37.7 million (2008 : Rs. 40.8 million). The maturity profile of operating lease is as follows: | | |
| **Minimum lease payments** | | |
| Payable within 1 year | **16.1** | 14.7 |
| Payable between 1-5 years | **21.6** | 26.1 |
| Payable beyond 5 years | **–** | – |
| Total | **37.7** | 40.8 |

# Schedules to the Financial Statements

*for the year ended 31 December 2009* Currency: Rupees million

**25. DETAILS OF INVESTMENTS PURCHASED AND SOLD DURING THE YEAR**

| Name of the Bond/Fund | Additions Units | Additions Face Value (Rs.) | Cost Rs. Million | Disposals Units |
|---|---|---|---|---|
| ICICI Prudential Institutional Liquid Plan — Super Institutional | **1,248,041** | **10** | **12.5** | **1,248,041** |
| | (6,043,720) | | (60.5) | (6,043,720) |
| Birla Sun Life Cash Plus Institutional Premium | **45,386,394** | **10** | **454.7** | **45,386,394** |
| (Formerly known as Birla Cash Plus Institutional Premium) | (35,946,425) | | (360.7) | (35,946,425) |
| Birla Sun Life Cash Manager — Institutional | **36,215,465** | **10** | **362.3** | **36,215,465** |
| | (25,829,697) | | (258.5) | (25,829,697) |
| Reliance Quarterly Interval Fund | **—** | | **—** | **—** |
| | (19,996,701) | (10) | (200.0) | (19,996,701) |
| Reliance Liquidity Fund | **—** | | **—** | **—** |
| | (602,382) | (10) | (6.0) | (602,382) |
| DWS Insta Cash Plus Fund — Institutional | **998,499** | **10** | **10.0** | **998,499** |
| | (25,508,079) | | (257.0) | (25,508,079) |
| DWS Money Plus Fund — Institutional | **81,144** | **10** | **0.8** | **81,144** |
| | (16,744,684) | | (169.1) | (16,744,684) |
| JM Interval Fund Quarterly Plan | **—** | | **—** | **—** |
| | (20,470,796) | (10) | (204.7) | (20,470,796) |
| JM Fixed Maturity Fund | **—** | | **—** | **—** |
| | (108,848) | (10) | (1.1) | (108,848) |
| JM Money Manager Fund Super Plus | **—** | | **—** | **—** |
| | (14,087,393) | (10) | (142.2) | (14,087,393) |
| JM High Liquidity Fund — Super Institutional Plan | **—** | | **—** | **—** |
| | (13,849,382) | (10) | (138.5) | (13,849,382) |
| ING Vysya Liquid Fund – Super Institutional | **—** | | **—** | **—** |
| | (41,533,627) | (10) | (415.5) | (41,533,627) |
| ING Vysya Fixed Maturity Fund | **—** | | **—** | **—** |
| | (10,000,000) | (10) | (100.0) | (10,000,000) |
| Kotak Fixed Maturity Plan | **—** | | **—** | **—** |
| | (10,213,627) | (10) | (102.1) | (10,213,627) |
| Kotak Quarterly Interval Plan | **—** | | **—** | **—** |
| | (39,983,014) | (10) | (400.0) | (39,983,014) |
| HSBC Cash Fund — Institutional Plus | **—** | | **—** | **—** |
| | (2,886,832) | (10) | (29.0) | (2,886,832) |
| HSBC Liquid Plus — Institutional Plus | **—** | | **—** | **—** |
| | (2,397,960) | (10) | (24.1) | (2,397,960) |
| TATA Liquid Super High Investment Plan | **—** | | **—** | **—** |
| | (182,505) | (1,000) | (210.0) | (182,505) |
| LICMF Liquid Fund | **338,390,015** | **10** | **3,715.6** | **338,390,015** |
| | (241,841,480) | | (2,655.4) | (241,841,480) |
| LICMF Income Plus Fund | **164,981,446** | **10** | **1,650.6** | **164,981,446** |
| (Formerly known as LICMF Liquid Plus Fund) | (179,195,383) | | (1,793.6) | (179,195,383) |
| UTI Liquid Cash Plan Institutional | **—** | | **—** | **—** |
| | (328,923) | (1,000) | (336.7) | (328,923) |
| UTI Fixed Maturity Plan | **—** | | **—** | **—** |
| | (20,000,000) | (10) | (200.0) | (20,000,000) |
| TATA Fixed Horizon Fund | **—** | | **—** | **—** |
| | (5,000,000) | (10) | (50.0) | (5,000,000) |
| BSL Interval Income Fund — Institutional — Quarterly | **—** | | **—** | **—** |
| | (20,497,842) | (10) | (205.0) | (20,497,842) |
| Lotus India Fixed Maturity Plan | **—** | | **—** | **—** |
| | (30,927,269) | (10) | (309.3) | (30,927,269) |

# Schedules to the Financial Statements

*for the year ended 31 December 2009* Currency: Rupees million

**25. DETAILS OF INVESTMENTS PURCHASED AND SOLD DURING THE YEAR (Continued)**

| Name of the Bond/Fund | Additions Units | Additions Face Value (Rs.) | Cost Rs. Million | Disposals Units |
|---|---|---|---|---|
| Lotus India Quarterly Interval Fund | – | | – | – |
| | (45,774,469) | (10) | (457.9) | (45,774,469) |
| Lotus India Liquid Plus Fund – Institutional | – | | – | – |
| | (194,765) | (10) | (2.0) | (194,765) |
| Templeton Quarterly Interval Plan | – | | – | – |
| | (9,981,036) | (10) | (100.0) | (9,981,036) |
| UTI Money Market Fund | – | | – | – |
| | (4,262,307) | (10) | (77.1) | (4,262,307) |
| UTI Liquid Plus Fund – Institutional | – | | – | – |
| | (310,852) | (1,000) | (311.7) | (310,852) |
| Reliance Liquid Fund – Cash Plan | – | | – | – |
| | (10,074,562) | (10) | (112.2) | (10,074,562) |
| Sundaram BNP Paribas Liquid Plus – Super Institutional | **3,422,453** | **10** | **35.7** | **3,422,453** |
| | (37,571,788) | | (388.3) | (37,571,788) |
| Sundaram BNP Paribas Money Fund – Super Institutional | **3,467,513** | **10** | **35.0** | **3,467,513** |
| | (56,834,502) | | (593.0) | (56,834,502) |
| Sundaram BNP Paribas Fixed Term Plan | – | | – | – |
| | (109,549) | (10) | (1.1) | (109,549) |
| ABN AMRO Interval Fund – Quarterly Plan | – | | – | – |
| | (10,179,880) | (10) | (101.8) | (10,179,880) |
| ABN AMRO Flexible Short Term Plan – Quarterly | – | | – | – |
| | (10,000,000) | (10) | (100.0) | (10,000,000) |
| HDFC FMP 90D – Wholesale Plan | – | | – | – |
| | (20,000,000) | (10) | (200.0) | (20,000,000) |
| DWS Liquid Plus Fund – Institutional | – | | – | – |
| | (11,407,782) | (10) | (114.7) | (11,407,782) |
| Reliance Liquid Fund – Treasury Plan – Institutional | – | | – | – |
| | (4,282,856) | (10) | (65.5) | (4,282,856) |
| Reliance Liquid Fund – Treasury Plan – Retail | – | | – | – |
| | (623,368) | (10) | (9.5) | (623,368) |
| Reliance Medium Term Fund | – | | – | – |
| | (2,899,395) | (10) | (49.6) | (2,899,395) |
| Reliance Liquid Plus Fund – Institutional | – | | – | – |
| | (145,569) | (1,000) | (145.8) | (145,569) |
| Canara Robeco Interval Fund | – | | – | – |
| | (4,996,752) | (10) | (50.0) | (4,996,752) |
| Canara Robeco Liquid Fund – Institutional | – | | – | – |
| | (7,072,418) | (10) | (71.0) | (7,072,418) |
| Canara Robeco Liquid Plus Fund – Institutional | – | | – | – |
| | (8,987,216) | (10) | (111.6) | (8,987,216) |
| Birla Sun Life Liquid Plus – Institutional | – | | – | – |
| | (43,055,265) | (10) | (431.3) | (43,055,265) |
| Religare Liquid Fund – Super Institutional | **4,856,856** | **10** | **58.0** | **4,856,856** |
| (Formerly known as Lotus India Liquid Fund – Super Institutional) | (10,854,200) | | (127.5) | (10,854,200) |
| Religare Short Term Plan – Institutional | **5,262,680** | **10** | **53.4** | **5,262,680** |
| (Formerly known as Lotus India Short Term Plan – Institutional) | (984,456) | | (10.0) | (984,456) |
| Sundaram BNP Paribas Interval Fund | – | | – | – |
| | (4,998,650) | (10) | (50.0) | (4,998,650) |
| Birla Sun Life Short Term Fund – Institutional | **51,054,704** | **10** | **510.8** | **51,054,704** |
| | (25,709,609) | | (257.2) | (25,709,609) |

# Schedules to the Financial Statements

*for the year ended 31 December 2009* Currency: Rupees million

**25. DETAILS OF INVESTMENTS PURCHASED AND SOLD DURING THE YEAR (Continued)**

| Name of the Bond/Fund | Additions Units | Additions Face Value (Rs.) | Cost Rs. Million | Disposals Units |
|---|---|---|---|---|
| ICICI Prudential Interval Fund | – | | – | – |
| | (9,976,754) | (10) | (100.0) | (9,976,754) |
| UTI Short Term Fixed Maturity Plan | – | | – | – |
| | (10,000,000) | (10) | (100.0) | (10,000,000) |
| ING Interval Fund – Institutional | – | | – | – |
| | (5,000,000) | (10) | (50.0) | (5,000,000) |
| ICICI Prudential Flexible Income Plan | – | | – | – |
| | (1,903,287) | (10) | (20.1) | (1,903,287) |
| TATA Floater Fund | – | | – | – |
| | (20,907,818) | (10) | (210.8) | (20,907,818) |
| TATA Income Plus | – | | – | – |
| | (19,201,842) | (10) | (201.8) | (19,201,842) |
| Templeton India Treasury Management Account – Super Institutional | – | | – | – |
| | (10,003) | (1,000) | (10.0) | (10,003) |
| Templeton India Treasury Management Account – Institutional | – | | – | – |
| | (79,790) | (1,000) | (81.0) | (79,790) |
| Templeton Floating Rate Income Fund – Long Term Plan | – | | – | – |
| | (6,855,228) | (10) | (71.1) | (6,855,228) |
| Templeton India Treasury Management Account | – | | – | – |
| | (6,285) | (1,000) | (9.5) | (6,285) |
| Canara Robeco Fixed Maturity Plan | – | | – | – |
| | (10,000,000) | (10) | (100.0) | (10,000,000) |
| ING Vysya Liquid Plus Fund – Institutional | – | | – | – |
| | (48,669,711) | (10) | (488.7) | (48,669,711) |
| DWS Insta Cash Plan Fund – Super Institutional | – | | – | – |
| | (10,000,000) | (10) | (100.0) | (10,000,000) |
| Fortis Overnight – Institutional Plus | **8,550,247** | **10** | **85.5** | **8,550,247** |
| | (2,199,795) | | (22.0) | (2,199,795) |
| Fortis Money Plus Institutional | **8,702,960** | **10** | **87.0** | **8,702,960** |
| | – | | – | – |
| SBI – SHF – Ultra Short Term Fund – Institutional | **22,761,937** | **10** | **229.3** | **22,761,937** |
| | – | | – | – |
| SBI – Magnum Insta Cash Fund | **23,220,720** | **10** | **389.0** | **23,220,720** |
| | – | | – | – |
| SBI Premier Liquid Fund – Super Institutional | **19,122,081** | **10** | **191.8** | **19,122,081** |
| | – | | – | – |
| Canara Robeco Liquid Fund – Institutional | **1,195,211** | **10** | **12.0** | **1,195,211** |
| | – | | – | – |
| Canara Robeco Liquid Fund – Super Institutional | **24,615,100** | **10** | **247.2** | **24,615,100** |
| | – | | – | – |
| DBS Chola Liquid Institutional Plus | **520** | **10** | ***** | **520** |
| | – | | – | – |
| ICICI Prudential Floating Rate Plan C | **1,249,425** | **10** | **12.5** | **1,249,425** |
| | – | | – | – |
| Religare Liquid Fund – Institutional | **125,420** | **10** | **1.5** | **125,420** |
| | – | | – | – |

(Figures in brackets indicate those of the Previous Year).

# Schedules to the Financial Statements

*for the year ended 31 December 2009* Currency: Rupees million

**26. SUPPLEMENTARY STATUTORY INFORMATION**

**(i) Remuneration to Directors:**

Managerial remuneration to Directors is summarized below:

| | 2009 | 2008 |
|---|---|---|
| Salaries | **20.6** | 22.5 |
| Commission # | **10.0** | 13.0 |
| Contribution to Provident fund and other funds | **3.9** | 4.4 |
| Perquisites or benefits in cash or in kind | **10.9** | 10.6 |
| Directors' fees | **0.8** | 0.7 |
| | **46.2** | 51.2 |

# Commission for 2009 is net of reversal of excess provision made in 2008 amounting to Rs. 0.05 million

Contribution to provident fund and other funds does not include charge for gratuity and leave encashment as employee-wise break-up is not available.

Computation of Net Profit in accordance with Section 309(5) read with Section 349 of the Companies Act, 1956 is summarized below:

| | 2009 | 2008 |
|---|---|---|
| Profit for the year before taxation as per the Profit and Loss Account | **964.5** | 917.4 |
| *Add:* | | |
| Managerial remuneration | **46.2** | 51.2 |
| Profit on sale of fixed assets, net (as per Section 349) | **0.6** | 3.3 |
| | **1,011.3** | 971.9 |
| *Less:* | | |
| Profit on sale of fixed assets, net (as per Profit and Loss Account) | **0.6** | 3.3 |
| Net profit | **1,010.7** | 968.6 |
| Commission to the Managing Director and the Whole-time Directors | **8.4** | 11.6 |
| Commission @ 1% of the Net Profit to Non-Whole-time Directors, restricted as decided by the Board of Directors | **1.6** | 1.4 |
| Total Commission to Directors | **10.0** | 13.0 |

**(ii) Remuneration to Auditors:**

| | 2009 | 2008 |
|---|---|---|
| Audit fees | **1.3** | 1.3 |
| Taxation matters | **0.9** | 0.5 |
| Other matters | **1.0** | 0.5 |
| Out of pocket expenses | **0.1** | 0.1 |
| Service Tax | **0.2** | 0.3 |
| | **3.5** | 2.7 |

**(iii) Expenditure in foreign currency:**

| | 2009 | 2008 |
|---|---|---|
| Royalty | **92.9** | 68.6 |
| Consultancy fees | **30.0** | 30.0 |
| Professional fees | **32.1** | 35.0 |
| Others (Travelling, Commission, etc.) | **33.4** | 26.4 |
| | **188.4** | 160.0 |

Amounts disclosed above are on accrual basis

**(iv) Value of Imports (On C.I.F. basis):**

| | 2009 | 2008 |
|---|---|---|
| Raw materials | **438.0** | 471.5 |
| Finished goods | **279.2** | 182.4 |
| Components, Stores and Spare Parts | **2.2** | 1.7 |
| Capital goods | **3.9** | 15.3 |
| | **723.3** | 670.9 |

# Schedules to the Financial Statements

*for the year ended 31 December 2009* Currency: Rupees million

**(v) Remittances in foreign currency on account of dividends:**

| | 2009 | 2008 |
|---|---|---|
| Amount of dividend: | | |
| Final 2008 | 150.5 | – |
| Final 2007 | – | 86.0 |
| Number of Non-resident Shareholders: | | |
| Final 2008 | 3 | – |
| Final 2007 | – | 3 |
| Number of Equity Shares held by Non-resident Shareholders: | | |
| Final 2008 | 85,99,224 | – |
| Final 2007 | – | 85,99,224 |

**(vi) Earnings in foreign exchange:**

| | 2009 | 2008 |
|---|---|---|
| Exports of goods on F.O.B. basis | 522.2 | 296.3 |
| Indenting commission | 1.1 | 3.8 |
| Others (Recoveries of SAP expenses, freight, insurance, etc.) | 23.5 | 7.3 |
| | 546.8 | 307.4 |
| Amounts disclosed above are on accrual basis. | | |

**27. INFORMATION RELATING TO CONSUMPTION OF RAW MATERIALS AND STORES**

**(a) Consumption of Raw Materials:**

| Particulars | Quantity | Value |
|---|---|---|
| Isophytol | 216.8 Tonnes | 238.8 |
| | (211.1 Tonnes) | (127.3) |
| Vitamins | 188.8 Tonnes | 207.3 |
| | (178.3 Tonnes) | (193.9) |
| Active Ingredients | 428.10 Tonnes | 187.3 |
| | (364.5 Tonnes) | (186.5) |
| Organic Chemicals | 603.7 Tonnes | 99.9 |
| | 472.2 Kilo Ltrs. | |
| | (503.7 Tonnes) | (68.8) |
| | (370.1 Kilo Ltrs.) | |
| Inorganic Chemicals | 427.3 Tonnes | 34.3 |
| | 188.2 Kilo Ltrs. | |
| | (255.5 Tonnes) | (24.0) |
| | (71.3 Kilo Ltrs.) | |
| Others | | 275.4 |
| | | (163.7) |
| | | 1,043.0 |
| | | (764.2) |

**(b) Value of Imported and Indigenous Raw Materials Consumed:**

| | Value | Percentage to total consumption |
|---|---|---|
| Imported | 492.6 | 47.2 |
| | (352.9) | (46.2) |
| Indigenous | 550.4 | 52.8 |
| | (411.3) | (53.8) |
| | 1,043.0 | 100.0 |
| | (764.2) | (100.0) |

# Schedules to the Financial Statements

*for the year ended 31 December 2009* Currency: Rupees million

**(c) Value of Imported and Indigenous Stores Consumed:**

| | Value | Percentage to total consumption |
|---|---|---|
| Imported | **1.8** | **5.1** |
| | (2.0) | (7.0) |
| Indigenous | **33.3** | **94.9** |
| | (26.4) | (93.0) |
| | **35.1** | **100.0** |
| | (28.4) | (100.0) |

(Figures in brackets in (a) to (c) above indicate those of the Previous Year).

**28. INFORMATION RELATING TO TURNOVER, PRODUCTION, PURCHASE AND STOCKS**

**(A) Sales, capacities, production and inventories in relation to Manufacturing Activity:**

| | | Class of Goods | | | | | |
|---|---|---|---|---|---|---|---|
| | | Bulk Drugs | Reagents/ Chemicals | Injections/ Nasal Drops | Syrups/ Powders/ Ointments | Tablets/ Capsules | Total |
| | | (Tonnes) | (Tonnes) | (Kilo-Ltrs.) | (Tonnes) | (No. million) | (Rs. million) |
| (a) Licensed Capacity | | See Note (e) | – | See Note (e) | See Note (e) | See Note (e) | |
| (b) Installed Capacity @ | | **482.0** | **–** | **443.0** | **–** | **400.0** | |
| | | (479.0) | – | (440.0) | – | (400.0) | |
| (c) Actual Production | | **495.7** | **–** * | **435.1** * | **1,748.0** * | **1,664.0** * | |
| | | (446.3) | (6.1) * | (464.8) * | (1,784.9) * | (1,766.7) * | |
| (d) Opening stock of goods produced | | | | | | | |
| (i) For sale | | **30.7** | **2.0** | **51.8** | **402.6** | **273.9** | |
| | | (23.7) | (1.3) | (48.6) | (62.2) | (128.7) | |
| Value | Rs. million | **36.1** | **1.2** | **44.3** | **46.4** | **127.7** | **255.7** |
| | Rs. million | (17.9) | (0.6) | (44.8) | (20.2) | (62.5) | (146.0) |
| (ii) For samples | | **–** | **–** | **2.5** | **19.0** | **7.8** | |
| | | (–) | (–) | (1.7) | (20.8) | (3.3) | |
| Value | Rs. million | **–** | **–** | **2.3** | **4.6** | **9.9** | **16.8** |
| | Rs. million | (–) | (–) | (2.7) | (3.2) | (3.2) | (9.1) |
| (e) Closing stock of goods produced | | | | | | | |
| (i) For sale | | **34.4** | **0.3** | **50.8** | **104.1** | **266.9** | |
| | | (30.7) | (2.0) | (51.8) | (402.6) | (273.9) | |
| Value | Rs. million | **51.5** | **–** | **49.0** | **67.0** | **93.2** | **260.7** |
| | Rs. million | (36.1) | (1.2) | (44.3) | (46.4) | (127.7) | (255.7) |
| (ii) For samples | | **–** | **–** | **1.6** | **10.8** | **10.6** | |
| | | (–) | (–) | (2.5) | (19.0) | (7.8) | |
| Value | Rs. million | **–** | **–** | **1.6** | **4.1** | **6.6** | **12.3** |
| | Rs. million | (–) | (–) | (2.3) | (4.6) | (9.9) | (16.8) |
| (g) Turnover | | **315.4** | **1.6** | **393.5** | **1,919.3** | **1,537.0** | |
| | | (224.3) | (5.4) | (451.1) | (1,388.3) | (1,589.5) | |
| Value | Rs. million | **714.6** | **1.5** | **577.9** | **777.6** | **1,494.5** | **3,566.1** |
| | Rs. million | (393.5) | (3.4) | (640.2) | (360.4) | (1,388.0) | (2,785.5) |

@ As certified by the Management, on which Auditors have placed reliance, being a technical matter.

* Includes quantities manufactured by others on loan licences.

Figures in brackets indicate those of the Previous Year.

Notes:

(a) Production under "Bulk Drugs" includes items manufactured for captive consumption.

(b) Production includes promotional samples.

(c) "Reagents" is inclusive of repacked items.

(d) Opening and Closing Stocks and Turnover of Vitamins under "Bulk Drugs" include Vitamin derivatives.

(e) Under the liberalised policy of the Government vide Notification No. S-O-477 (E) dated 25 July 1991 and as amended vide Press Release Note No. 4 of 1994 series dated 25 October 1994, Bulk Drugs and Formulations included in above are exempted from licensing procedures under the Industries (Development and Regulation) Act, 1951.

(f) Installed capacities are on an annual basis as at year end.

(g) Quantities of closing stock of goods mentioned above are after adjustments of excess/shortage upon physical stockcounts, free samples, giveaways under the Company's bonus schemes and write offs.

# Schedules to the Financial Statements

*for the year ended 31 December 2009* Currency: Rupees million

**28. INFORMATION RELATING TO TURNOVER, PRODUCTION, PURCHASE AND STOCKS (Continued)**

**(B) Sales, purchases and inventories in relation to Trading Activity:**

| | | Units | Opening Stock | Purchases | Turnover | Closing Stock |
|---|---|---|---|---|---|---|
| (a) | Tablets/Capsules | '000s | **66,714.0** | **218,166.0** | **235,297.9** | **26,376.3** |
| | | '000s | (23,965.2) | (319,034.0) | (268,929.0) | (66,714.0) |
| | | Rs. million | **41.3** | **214.6** | **602.5** | **28.2** # |
| | | Rs. million | (16.0) | (106.7) | (357.2) | (41.3) # |
| (b) | Nasal Drops | Kilo-Ltrs. | **0.1** | **0.1** | **0.1** | **0.1** |
| | | Kilo-Ltrs. | (8.2) | (0.5) | (8.7) | (0.1) |
| | | Rs. million | **0.5** | **9.9** | **16.7** | **0.5** # |
| | | Rs. million | (6.4) | (12.9) | (40.0) | (0.5) # |
| (c) | Reagents/Kits/ | '000s | **5.5** | **18.7** | **19.8** | **4.1** |
| | Equipments/Pigments/ | '000s | (3.3) | (20.5) | (18.3) | (5.5) |
| | Paper Rolls/Booklets | Rs. million | **43.9** | **318.8** | **473.6** | **64.4** |
| | | Rs. million | (24.6) | (282.0) | (305.2) | (43.9) |
| (d) | Syrups/Ointments | Tonnes | **223.4** | **651.4** | **598.6** | **26.5** |
| | | Tonnes | (207.4) | (4,124.4) | (4,014.3) | (223.4) |
| | | Rs. million | **23.0** | **32.2** | **56.2** | **6.6** # |
| | | Rs. million | (24.5) | (251.0) | (403.9) | (23.0) # |
| (e) | Bulk Drugs | Tonnes | **0.8** | **6.0** | **6.4** | **0.4** |
| | | Tonnes | (–) | (2.4) | (1.6) | (0.8) |
| | | Rs. million | **1.4** | **13.5** | **16.0** | **0.9** |
| | | Rs. million | (–) | (1.7) | (2.8) | (1.4) |
| | | Rs. million | **110.1** | **589.0** | **1,165.0** | **100.6** |
| | | Rs. million | (71.5) | (654.3) | (1,109.1) | (110.1) |

\# Includes value of Samples Rs. 8.7 million (2008: Rs. 6.8 million).

Notes:
(a) Quantities of closing stock of goods mentioned above are after adjustments of excess/shortage upon physical stockcounts, free samples, giveaways under the Company's bonus schemes and write offs.
(b) Figures in brackets indicate those of the Previous Year.

**29. UNHEDGED FOREIGN CURRENCY EXPOSURE**

The unhedged foreign currency exposure as on 31 December 2009 is given below:

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **(Foreign Currency)** | **(INR)** | (Foreign Currency) | (INR) |
| *Payables* | | | | |
| USD | **0.4** | **20.3** | 1.0 | 50.0 |
| EUR | **0.3** | **23.1** | 0.6 | 44.7 |
| GBP | * | **0.1** | * | 0.2 |
| CHF | * | **1.4** | – | – |
| SEK | * | **0.1** | * | 0.1 |
| | | **45.0** | | 95.0 |
| *Receivables* | | | | |
| USD | **0.6** | **29.1** | 0.4 | 19.2 |
| EUR | * | **0.1** | 0.2 | 13.5 |
| | | **29.2** | | 32.7 |

# Schedules to the Financial Statements

*for the year ended 31 December 2009* Currency: Rupees million

**30. MICRO, SMALL AND MEDIUM ENTERPRISES**

Under the Micro Small and Medium Enterprises Development Act, 2006, (MSMED) which came into force from October 2, 2006 certain disclosures are required to be made relating to transactions with Micro Small and Medium enterprises. On the basis of the information and records available with the Management, the following disclosures are made for the amounts due to the Micro Small and Medium enterprises, who have registered with the competent authorities:

| | 2009 | 2008 |
|---|---|---|
| Principal amount remaining unpaid to any supplier as at the year end | **0.7** | 1.3 |
| Interest due thereon | **–** | – |
| Amount of interest paid by the Company in terms of section 16 of the MSMED, along with the amount of the payment made to the supplier beyond the appointed day during the accounting year | **–** | 0.1 |
| Amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the MSMED | **–** | – |
| Amount of interest accrued and remaining unpaid at the end of the accounting year | ***** | * |

**31.** Provision for current tax is based on the results for the year ended December 31, 2009 and is determined in accordance with the provisions of the Income Tax Act, 1961. The final tax liability will be determined on the basis of the operations for the year April 1, 2009 to March 31, 2010, being the tax year of the Company.

**32. RESEARCH AND DEVELOPMENT**

Research and Development Expenses incurred during the year and debited to the Profit and Loss Account aggregate to Rs. 18.1 million (2008: Rs. 14.9 million).

Of the above, the composition of Rs. 14.4 million (2008: Rs. 11.4 million) disclosed as "Research and Development Expenses" in Schedule 16 is set out below:

| | 2009 | 2008 |
|---|---|---|
| Salaries, Wages, Bonus and Allowances | **6.4** | 4.9 |
| Contribution to Provident Fund and Other Funds | **0.3** | 0.2 |
| Contribution to Group Gratuity Scheme | ***** | * |
| Staff Welfare and Amenities | **0.5** | 0.3 |
| Stores and Spare Parts Consumed | **2.9** | 3.3 |
| Research Expenses | **1.3** | 1.0 |
| Others | **3.0** | 1.7 |
| | **14.4** | 11.4 |

The balance amount of Rs. 3.7 million (2008: Rs. 3.5 million) represents depreciation on fixed assets used for Research and Development purposes.

**33. EARNINGS PER SHARE**

| | | 2009 | 2008 |
|---|---|---|---|
| Profit after tax attributable to equity shareholders | A | **654.8** | 630.1 |
| Calculation of weighted average number of equity shares | | | |
| Number of equity shares at the beginning of the year | | **16,861,224** | 16,861,224 |
| Equity shares bought back during the year | | **261,842** | – |
| Number of equity shares outstanding at the end of the year | | **16,599,382** | 16,861,224 |
| Weighted average number of equity shares outstanding during the year (based on date of buy back of shares) | B | **16,771,077** | 16,861,224 |
| Basic and diluted earnings per share (Rs.) | A/B | **39.0** | 37.4 |
| Face value per share (Rs.) | | **10.0** | 10.0 |

# Schedules to the Financial Statements

*for the year ended 31 December 2009* Currency: Rupees million

**34. TRANSFER PRICING**

The Company's Management has developed a system of maintenance of information and documents as required by the Transfer Pricing legislation under Section 92-92F of the Income tax Act, 1961. The Company's international transactions with related parties are at arm's length as per the independent accountants report for the year ended 31 March, 2009. Management believes that the Company's international transactions with related parties post 31st March, 2009 continue to be at arm's length and that the Transfer Pricing legislation will not have any impact on these financial statements, particularly on amount of tax expense and that of Provision of Taxation.

**35. PREVIOUS YEAR COMPARATIVES**

Previous year's figures have been regrouped, wherever necessary, to conform to the current year's classification.

Signatures to Schedules
For and on behalf of the Board of Directors

| | | | |
|---|---|---|---|
| | | S. N. Talwar | Chairman |
| | | M. Dziki | Managing Director |
| | | H. C. H. Bhabha | Directors |
| | | E. A. Kshirsagar | |
| | H. U. Shenoy | R. L. Shenoy | |
| Mumbai, 22 January, 2010 | Company Secretary | K. Shivkumar | |

# Balance Sheet Abstract and Company's General Business Profile

| | | |
|---|---|---|
| I. | *Registration Details* | |
| | State Code | 11 |
| | Registration No. | L99999MH1967PLC013726 |
| | Balance Sheet Date | 31.12.2009 |
| II. | *Capital Raised during the Year (Amount in Rs. thousands)* | |
| | Public Issue | NIL |
| | Rights Issue | NIL |
| | Bonus Issue | NIL |
| | Private Placement | NIL |
| III. | *Position of Mobilisation and Deployment of funds (Amount in Rs. thousands)* | |
| | Total Liabilities | 5,681,550 |
| | Total Assets | 5,681,550 |
| | *Sources of Funds: (Amount in Rs. thousands)* | |
| | Paid-Up Capital | 165,994 |
| | Reserves and Surplus | 4,506,878 |
| | Secured Loans | NIL |
| | Unsecured Loans | NIL |
| | Deferred Tax Liability | 21,201 |
| | *Application of Funds: (Amount in Rs. thousands)* | |
| | Net Fixed Assets | 640,250 |
| | Investments | 238,214 |
| | Net Current Assets | 3,815,609 |
| | Miscellaneous Expenditure | NIL |
| | Accumulated Losses | NIL |
| IV. | *Performance of the Company (Amount in Rs. thousands)* | |
| | Turnover | 4,731,135 |
| | Total Expenditure | 4,198,692 |
| | Profit Before Tax | 964,539 |
| | Profit After Tax | 654,813 |
| | Earnings Per Share in Rs. | 39.0* |
| | Dividend Rate% | 200 |
| * | $\frac{\text{Profit after tax}}{\text{Weighted average number of equity shares outstanding during the year}}$ | |
| V. | *Generic Names of Three Principal Products/Services of the Company (as per Monetary terms)* | |
| | Item code No. (ITC Code) | 300450 90 |
| | Product Description | Vitamin B-Complex |
| | Item code No. (ITC Code) | 300450 90 |
| | Product Description | Vitamin B1+B2+B3+B5+B6+B12 |
| | Item code No. (ITC Code) | 300450 37 |
| | Product Description | Vitamin E |

Signatures to Schedules
For and on behalf of the Board of Directors

S. N. Talwar — Chairman

M. Dziki — Managing Director

H. C. H. Bhabha
E. A. Kshirsagar
R. L. Shenoy
K. Shivkumar
} Directors

H. U. Shenoy
Company Secretary

Mumbai, 22 January, 2010

# Financial Highlights : 2000-2009

| | | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Change +/- in % | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **PROFIT & LOSS ACCOUNT SUMMARY** | | | | | | | | | | | | |
| Turnover | Rs. Mio. | 3,134.1 | 3,384.7 | 3,466.9 | 3,641.7 | 3,766.0 | 3,964.6 | 3,294.9 | 3,148.3 | 3,894.6 | 21.5 | **4,731.1** |
| Other Income | " | 61.6 | 84.7 | 90.7 | 106.6 | 138.2 | 183.7 | 967.2 | 395.0 | 477.1 | -9.4 | **432.1** |
| | " | **3,195.7** | **3,469.4** | **3,557.6** | **3,748.3** | **3,904.2** | **4,148.3** | **4,262.1** | **3,543.3** | **4,371.7** | **18.1** | **5,163.2** |
| *Costs & Expenses* | | | | | | | | | | | | |
| Materials Cost | " | 1,624.2 | 1,690.3 | 1,686.8 | 1,760.7 | 1,722.1 | 1,797.1 | 1,393.2 | 1,264.9 | 1,599.9 | 28.8 | **2,060.9** |
| Personnel Expenses | " | 365.6 | 390.8 | 470.4 | 672.4 | 305.7 | 310.0 | 339.3 | 332.0 | 477.6 | 19.4 | **570.2** |
| Interest Expense | " | 23.0 | 5.6 | 3.7 | 8.3 | 1.9 | 0.2 | 0.1 | 0.1 | 0.1 | 200.0 | **0.3** |
| Operating and Other Expenses | " | 586.4 | 654.8 | 689.4 | 619.6 | 702.7 | 790.9 | 768.1 | 881.8 | 1,319.4 | 13.1 | **1,492.2** |
| Depreciation | " | 72.5 | 94.8 | 100.3 | 96.1 | 86.0 | 77.5 | 64.4 | 65.9 | 57.3 | 31.1 | **75.1** |
| | " | **2,671.7** | **2,836.3** | **2,950.6** | **3,157.1** | **2,818.4** | **2,975.7** | **2,565.1** | **2,544.7** | **3,454.3** | **21.5** | **4,198.7** |
| Profit Before Taxation | " | 524.0 | 633.1 | 607.0 | 591.2 | 1,085.8 | 1,172.6 | 1,697.0 | 998.6 | 917.4 | 5.1 | **964.5** |
| Provision for Taxation | " | 138.6 | 186.0 | 207.2 | 194.8 | 375.9 | 384.7 | 363.5 | 310.4 | 287.3 | 7.8 | **309.7** |
| Profit After Taxation | " | 385.4 | 447.1 | 399.8 | 396.4 | 709.9 | 787.9 | 1,333.5 | 688.2 | 630.1 | 3.9 | **654.8** |
| **BALANCE SHEET SUMMARY** | | | | | | | | | | | | |
| *Assets Employed* | | | | | | | | | | | | |
| Fixed Assets (Gross) | Rs. Mio. | 1,247.5 | 1,263.8 | 1,307.8 | 1,290.0 | 1,128.1 | 1,152.2 | 1,153.9 | 1,168.2 | 1,405.8 | 5.5 | **1,482.9** |
| Fixed Assets (Net) | " | 810.6 | 760.4 | 720.2 | 616.5 | 471.6 | 447.4 | 403.1 | 405.0 | 622.1 | 2.9 | **640.3** |
| Investments | " | - | 351.6 | 265.5 | 724.7 | 1,252.8 | 1,406.7 | 2,480.7 | 2,339.7 | 1,529.3 | -84.4 | **238.2** |
| Current Assets (Net) | " | 553.2 | 444.8 | 732.2 | 633.8 | 780.8 | 1,152.6 | 1,092.4 | 1,532.3 | 2,386.3 | 59.9 | **3,815.6** |
| Miscellaneous Expenditure (to the extent not written off or adjusted) | " | - | 34.0 | 136.1 | - | - | - | - | - | - | - | **-** |
| | | **1,363.8** | **1,590.8** | **1,854.0** | **1,975.0** | **2,505.2** | **3,006.7** | **3,976.2** | **4,277.0** | **4,537.7** | **3.4** | **4,694.1** |
| *Financed by* | | | | | | | | | | | | |
| Share Capital | Rs. Mio. | 168.6 | 168.6 | 168.6 | 168.6 | 168.6 | 168.6 | 168.6 | 168.6 | 168.6 | -1.5 | **166.0** |
| Reserves and Surplus | " | 1,149.6 | 1,336.3 | 1,587.7 | 1,793.9 | 2,313.2 | 2,812.7 | 3,761.7 | 4,060.4 | 4,345.3 | 3.7 | **4,506.9** |
| Shareholders' Funds | " | 1,318.2 | 1,504.9 | 1,756.3 | 1,962.5 | 2,481.8 | 2,981.3 | 3,930.3 | 4,229.0 | 4,513.9 | 3.5 | **4,672.9** |
| Borrowings | " | 45.6 | - | - | - | - | - | - | - | - | - | **-** |
| Deferred Tax Liability (Net) | " | - | 85.9 | 97.7 | 12.5 | 23.4 | 25.4 | 45.9 | 48.0 | 23.8 | -10.9 | **21.2** |
| | " | **1,363.8** | **1,590.8** | **1,854.0** | **1,975.0** | **2,505.2** | **3,006.7** | **3,976.2** | **4,277.0** | **4,537.7** | **3.4** | **4,694.1** |
| **OTHER INVESTOR INFORMATION** | | | | | | | | | | | | |
| Earnings Per Share | Rs. | 22.9 | 26.5 | 23.7 | 23.5 | 42.1 | 46.7 | 79.1 | 40.8 | 37.4 | 4.3 | **39.0** |
| Dividend | % | 60.0 | 100.0 | 78.0 | 100.0 | 100.0 | 150.0 | 200.0 | 200.0 | 175.0 | 14.3 | **200.0** |
| Book Value Per Share | Rs. | 78.2 | 89.3 | 104.2 | 116.4 | 147.2 | 176.8 | 233.1 | 250.8 | 267.7 | 5.2 | **281.5** |
| Market Value of Share | High Rs. | 691 | 529 | 370 | 460 | 598 | 590 | 639 | 500 | 460 | 37.8 | **634** |
| | Low Rs. | 251 | 240 | 221 | 215 | 301 | 375 | 425 | 372 | 260 | 12.7 | **293** |
| No. of Shareholders | | 26,815 | 26,963 | 26,692 | 25,487 | 25,304 | 25,235 | 24,805 | 25,718 | 26,096 | -7.7 | **24,083** |
| No. of Employees | | 1,535 | 1,571 | 1,337 | 950 | 927 | 952 | 860 | 922 | 1,072 | 16.1 | **1,245** |

# Notes

MAJOR PRODUCTS IN THE PHARMACEUTICALS DIVISION

**Merck Limited**
Shiv Sagar Estate 'A'
Dr. Annie Besant Road
Worli, Mumbai 400018

www.merck.co.in

vakils