Annual Report 2010

MAJOR PRODUCTS IN THE PHARMACEUTICALS DIVISION

Merck Serono Division

Merck Consumer Health Care Division

Cover page photograph: Merck's initiative towards Corporate Social Responsibility

Merck Limited
Forty-fourth Annual Report and Statement of Accounts 2010

Board of Directors

Mr. S. N. Talwar
Chairman

Dr. M. Dziki
Managing Director

Mr. Timothy Kneen
(from 20.10.2010)

Mr. Ralph Zaat
(up-to 20.10.2010)

Mr. H. C. H. Bhabha

Mr. E. A. Kshirsagar

Mr. Pramod Pimplikar
(from 1.4.2010)

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

Notice of Annual General Meeting

NOTICE is hereby given that the Forty-fourth 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 Tuesday March 29, 2011 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, 2010, the Balance Sheet as on that date and the Reports of the Board of Directors and Auditors.

2. To appoint a Director in place of Mr. H. C. H. Bhabha who retires by rotation and being eligible, offers himself for re-appointment.

3. To appoint a Director in place of Mr. K. Shivkumar, who retires by rotation and being eligible, offers himself for re-appointment.

4. 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:

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

   "RESOLVED THAT Mr. Pramod Pimplikar be and is hereby appointed a Director of the Company".

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, the appointment of Mr. Pramod Pimplikar as a Whole-time Director of the Company from April 1, 2010 for a period of five years on the terms and conditions as set out in the Agreement dated March 29, 2010 entered into between the Company and Mr. Pramod Pimplikar be and it is hereby approved".

By Order of the Board of Directors

H. U. Shenoy
Company Secretary

Mumbai, February 8, 2011

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 Nos. 5 and 6 of the Notice is annexed.

3. The Register of Members and the Share Transfer Books of the Company will remain closed from March 23, 2011 to March 29, 2011 (both days inclusive).

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, 2003** 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 any change of address and bank details to their Depository Participants 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. 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.

7. 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

8. 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 Nos. 5 & 6:

Mr. Pramod Pimplikar was appointed as an Additional Director of the Company under Article 114 of the Articles of Association of the Company read with Section 260 of the Companies Act, 1956. Mr. Pimplikar holds office only till the conclusion of the forthcoming Annual General Meeting.

Notice has been received from a Member under Section 257 of the Companies Act, 1956 together with the requisite deposit proposing Mr. Pramod Pimplikar as a candidate for the office of Director.

Mr. Pimplikar has done his post graduation in Pharmacy and has also done post graduation in Production Management. He has wide and varied experience of more than 29 years in the areas of manufacturing of pharmaceuticals and chemicals, quality assurance, logistics, project management etc.

The Board of Directors of the Company, subject to the consent of the Members appointed Mr. Pramod Pimplikar as a Whole-time Director for a period of 5 years with effect from April 1, 2010 on the terms and conditions set out in the Agreement dated March 29, 2010 entered into between the Company and Mr. Pimplikar. The main terms and conditions of appointment of Mr. Pimplikar as set out in the aforesaid Agreement, placed for approval of the Members are as under:

I. Period: 5 years with effect from April 1, 2010.

   Mr. Pimlikar shall be in charge of the Company's manufacturing and technical operations, logistics, quality assurance and project management.

II. The total remuneration payable to Mr. Pimplikar shall be as follows:

   (i) For the period of appointment as stated above, the aggregate remuneration payable to Mr. Pramod Pimplikar 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 Companies Act, 1956.

   (ii) Perquisites: In addition, 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 and telephone at residence, medical reimbursement, leave travel concessions for self and family, club fees, medical and 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, to 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 Companies Act. For the purpose of calculating the above ceiling, perquisites shall be evaluated as per Income Tax Rules, wherever applicable.

   (iii) In addition, Mr. Pramod Pimplikar 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.

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

IV. The Agreement may be terminated by either party by giving to the other party six months' notice.

V. Confidentiality Clause.

VI. If at any time, Mr. Pimplikar, Whole-time Director is disqualified/ceased to be Director of the Company, for any cause whatsoever, he shall vacate office of Whole-time Director of the Company.

Notice of Annual General Meeting

The Agreement entered into by the Company with Mr. Pimplikar 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.

The Directors consider the services of Mr. Pimplikar useful to the Company and recommend his appointment as the Whole-time Director of the Company.

Except Mr. Pramod Pimplikar, no other Director is interested in the Resolution.

By Order of the Board of Directors

H. U. Shenoy
Company Secretary

Mumbai, February 8, 2011

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. H. C. H. Bhabha	Mr. K. Shivkumar	Mr. Pramod Pimplikar	Mr. Timothy Kneen
Date of birth & Age	15/12/1955 55 years	26/07/1959 51 years	02/10/1959 51 years	23/02/1968 42 years
Appointed on	24/12/1986	13/12/2007	01/04/2010	20/10/2010
Qualifications	B.Com., F.C.A., A.C.A (England & Wales)	B.Sc. (Physics & Mathematics)	M. Pharm, PGD in Production Management	B.Sc. (Hons.) - Biological Sciences, Ashridge (UK), MBA
Expertise in specific areas	Finance, Accounts and Administration	Pharmaceuticals Marketing	Production Management	Pharmaceuticals Marketing
Directorships held in Public Limited and Private Limited Companies	Ceekay Daikin Ltd., SICGIL India Ltd., SICGIL Industrial Gases Ltd., Brandon & Company Pvt. Ltd., Marsh India Pvt. Ltd., Rampart Finance Pvt. Ltd., Ramrod Advisors Pvt. Ltd., Bestprax Club Pvt. Ltd.	None	Merck Specialities Pvt. Ltd.	None
Memberships/ Chairmanships of Committees in Public Limited Companies	Ceekay Daikin Ltd.	None	None	None
Shareholding in the Company	50,000	Nil	Nil	Nil

Directors' Report

The Directors have the pleasure in presenting their Report on the business and operations of your Company along with the Accounts for the year ended December 31, 2010.

FINANCIAL HIGHLIGHTS:

		(Rs. mio.)
	2010	2009
TURNOVER	**5,090.8**	4,731.1
OTHER INCOME	**433.7**	432.1
Profit before Interest, Depreciation and Taxation	**1,171.6**	1,039.9
Interest	**0.7**	0.3
Depreciation/Impairment loss	**213.8**	75.1
PROFIT BEFORE TAXATION	**957.1**	964.5
Provision for Taxation (net)	**325.3**	309.7
PROFIT AFTER TAXATION	**631.8**	654.8
Profit & Loss Account brought forward	**1,306.5**	1,366.7
PROFIT AVAILABLE FOR APPROPRIATION	**1,938.3**	2,021.5
APPROPRIATIONS:		
Transfer to General Reserve	**63.2**	326.6
Interim Dividend Paid	**1,576.9**	–
Dividend Tax on Interim Dividend	**261.9**	–
Final Dividend (Proposed)	**–**	332.0
Dividend Tax on Proposed Final Dividend	**–**	56.4
Balance carried to the Balance Sheet	**36.3**	1,306.5

OPERATIONS:

The operational working of the Company, in detail is discussed in the Management Discussion and Analysis Report forming part of this Report. The turnover of the Company showed an increase of 7.6% over the turnover achieved in the previous year. As against Rs. 4,731.1 mio. achieved in the year 2009, the turnover of the Company in 2010 was Rs. 5,090.8 mio. While the Pharmaceuticals segment showed an increase in the turnover of 3.1%, the Chemicals segment showed an increase of 20.9% compared to the respective turnover of the segments in the preceding year.

The Profit After Tax for the year under review was Rs. 631.8 mio. as against Rs. 654.8 mio. in 2009, a decline of 3.5%.

The F.O.B. value of exports of the Company during the year 2010 was Rs. 468.8 mio. as against Rs. 522.2 mio. achieved in the preceding year. The fall in the value of the exports turnover was on account of the decline in the value of Oxynex exports in the year 2010.

The Company has debited the Profit and Loss Account towards the impairment loss to the extent of Rs. 142.8 mio. on the assets used for the manufacture of Oxynex at its Goa plant for the following reasons:

1. There has been an unexpected steep fall in the demand for Oxynex internationally and the future cash flows warrant the impairment of the value of assets to the extent of Rs. 142.8 mio.
2. It will be difficult to get a willing customer to purchase the assets used for the manufacture of Oxynex as the same are located in the midst of Goa plant. Therefore, any interested customers may find it difficult to have an easy access and also find difficulties in installing the utilities as currently most of the utilities of the Goa plant are installed centrally for all the production units.

Under the circumstances, as obtaining the fair value of the assets may not be feasible, the Directors have taken the decision to impair the value of Oxynex assets used for the manufacture of Oxynex to the extent of Rs. 142.8 mio. based on the value in use of the said assets.

SHARE CAPITAL:

The buy back offer of the Company's equity shares process which was initiated in May 2009, was closed in May 2010. The details of the buy back of Company's equity shares are as follows:

Number of equity shares bought back	261,842
The total cost of equity shares bought back	Rs. 109.1 mio.
The paid up capital after the buy back	Rs. 166.0 mio.

Share capital audit as per the directives of the Securities and Exchange Board of India is being conducted on a quarterly basis by K.G. Saraf & Company, Practicing Company Secretaries. The Share Capital Audit Reports are duly forwarded to the Bombay Stock Exchange and National Stock Exchange of India Limited where the equity shares of the Company are listed.

DIVIDEND:

Your Company has been exploring the best way to utilize the surplus money lying and invested in the low yielding bank deposits and debt funds for the last few years. This fact was brought to the notice of the Members from time to time. Having not been able to acquire any business or brands meeting our requirements and having received a limited response to the buy back offer, your Directors felt that it would be prudent to distribute a part of the surplus funds lying to the Members. Accordingly, the Directors declared an interim dividend of Rs. 95 per share for the year 2010 in October last year.

The Directors, therefore, do not propose to recommend any final dividend.

Directors' Report

FINANCE:

The Company has invested most of the surplus funds in fixed deposits with banks and a small amount in debt based mutual funds.

FIXED DEPOSITS:

The Company has not accepted any public deposits from the public or the Members during the year 2010.

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, 2010 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:

During the year, Mr. Ralph Zaat – Non Executive Director of the Company resigned from the services of the parent company, Merck KGaA which consequent upon such resignation withdrew his nomination as Director from the Board of your Company. In the place of Mr. Ralph Zaat, Mr. Timothy Kneen was nominated by Merck KGaA as Director of your Company in accordance with Article 110 of the Articles of Association of the Company. The Directors while welcoming Mr. Kneen to the Board place on record their sincere appreciation for the valuable contribution and guidance rendered by Mr. Ralph Zaat during his tenure as a Director of the Company.

AUDITORS:

Messrs B S R & Co., Chartered Accountants, retire as Auditors of the Company at the conclusion of the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept the office of the Auditors for the year 2011, if re-appointed. The Audit Committee of the Board recommends the re-appointment of Messrs B S R & Co. as the Statutory Auditors for the year 2011.

COST AUDIT:

Pursuant to Section 233B of the Companies Act, 1956, the Central Government has prescribed cost audit of the accounts maintained by the Company concerning its bulk drugs and formulations divisions. To conduct the cost audit of these divisions, Messrs S. S. Mani & Co. have been re-appointed as Cost Auditors of the Company for the year 2011, subject to the approval of the Central Government.

PERSONNEL:

As on 31 December, 2010, the total number of employees on the payroll was 1,257. 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. 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, February 8, 2011.

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:

(i) Chilled water circulation to Oxynex ST plant & QC building connected from central utility chiller, by doing so on chiller, cooling tower fan & cooling water circulation pump is switched off.

(ii) All utility equipments operationally controlled as per production plans.

(iii) Inefficient reciprocating air compressors replaced with high capacity & high efficiency screw air compressors in central utility.

(iv) Average power factor maintained at 0.98.

(v) High efficiency screw chiller is being installed in soft gelatine plant to replace VAC chiller.

(vi) Appropriate DGs loading done in second & third shifts & one DG is isolated reducing the fuel consumption.

(vii) Water from Injectable Ampoule washing machine & WFI plant & RO/EDI plant returned back to water storage tank & re-used for secondary application like washrooms, garden etc.

(viii) Meters are being installed on all water generation & consumption sources. Efficient monitoring of water generation & consumption is being done by arresting all leakages in underground and storage tanks.

(ix) Treated water from ETP recirculated for vacuum pumps from Oxynex ST & Vitamin E plant.

(x) 6 TPH Boiler (solid fuel fired) taken under 6 sigma project to improve the boiler efficiency & thus reduced the fuel consumption. Incorporated VFDs for ID & FD blowers, modified the furnace to maintain required air draft in the system, which resulted in decrease of fuel consumption.

(xi) Steam generation done to the maximum extent by solid fuel fired boiler.

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

(i) Installed 450 CFM oil free, energy efficient screw air compressor in central utility.

(ii) Inter-connected the Chilled water from central utility to Oxynex ST & QC building.

(iii) Installation of screw chiller in soft gelatine plant.

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

(i) Specific electrical power consumption with respect to production reduced from 10.04 KWH/kg. to 8.52 KWH/kg.

(ii) Specific boiler fuel consumption with respect to production reduced from 3.54 kg of fuel to 3.16 kg. of fuel per kg. of production.

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

FORM A

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

Power and Fuel Consumption at Goa Plant

Sr. No.		Description	Goa Factory Current Year 2010	Goa Factory Previous Year 2009
1.	**ELECTRICITY**			
	(a)	Purchased units ('000 KWH)	**10,708.62**	10,635.73
		Total amount (Rs. Mio.)	**43.11**	41.48
		Rate/Unit (Rs.)	**4.03**	3.90
	(b)	Own generation		
		Through diesel generator units ('000 KWH)	**195.02**	170.24
		Units/Litre of Diesel Oil	**2.90**	2.90
		Cost/Unit (Rs.)	**12.97**	11.57
		Total cost (Rs. Mio.)	**2.53**	1.97
2.	**BOILER FUELS**			
	(a)	**FURNACE OIL**		
		Quantity (Kilo Litres)	**197.13**	195.01
		Total amount (Rs. Mio.)	**6.45**	5.38
		Average rate (Rs./Kilo Litre)	**32,719.53**	27,588.33
	(b)	**SOLID FUELS**		
		Quantity (Tons)	**3,434.89**	3,367.77
		Total amount (Rs. Mio.)	**12.62**	11.42
		Average rate (Rs./Ton)	**3,674.10**	3,390.97

Annexure to the Directors' Report

Consumption per unit of production

	Standards (if any)	Current Year (1)	Current Year (2)
Products (with details) Unit Electricity Furnace Oil Coal 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.		

(B) TECHNOLOGY ABSORPTION

FORM B

FORM FOR 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 Pharma R&D Centre at Shirwane, Navi Mumbai, is recognized by the Department of Scientific and Industrial Research. The R&D activities are carried out in several areas like pharmaceuticals, vitamin premixes, cosmetics and packaging development. The R&D Centre is privileged to have access to the latest technologies developed by Merck KGaA, Germany. Reduction in lead-time with better utilization of resources and cost reduction have been achieved by an integrated approach in development of new processes and packing materials. Evaluation of alternative raw materials meeting the regulatory requirements for improving the productivity is carried out continuously. With a view to achieve cost effectiveness, constant efforts are made to develop new processes, new vendors and improve the existing ones by simplifying/ modifying those and also for improving patient acceptance.

   Efforts are made to develop innovative, commercially viable processes, know-how for both active pharmaceutical ingredients and dosage forms and also for improving the shelf life/stability, quality, convenience, meeting regulatory compliance, with continuous R&D initiatives.

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

   As a result of the continuous improvement and adaptation of technology, the Company was able to commercialise improved processes and yields, enhance quality and reduce costs. Line extensions for existing products and original formulations were developed by using the in-house R&D capabilities. Measures were taken to optimize cost of packing materials.

   Some of the new products/line extensions developed and their therapeutic segments are given below:

Name of the Product	Therapeutic segment
Concor cor 1.25 tablets	Antihypertensive
Concor plus tablets	Antihypertensive
Nasivion classic adult spray	Nasal decongestant
Nasivion moist adult spray	Nasal decongestant
Nasivion No drip	Nasal decongestant
Kidbion IQ	Vitamins with DHA
Cosome tablets	Nasal decongestant
Evion Q 10 Capsules	Nutraceutical
Starvog 0.2 mg tablets	Antidiabetic
Starvog 0.3 mg tablets	Antidiabetic
Metneurobion P capsules	Nutraceutical
Mobiride P tablets	Anti-inflammatory

3. **Future Plan of Action:**

   Continuous efforts will be made to augment the R&D capabilities through the 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/line extensions during the year 2011.

Name of the product	Therapeutic segment
Nasivion classic child spray	Nasal decongestant
Nasivion baby spray	Nasal decongestant
Nasivion moist child spray	Nasal decongestant
Immubron	Respiratory
Livogen injection	Anti Anemic
Neurobion plus injection	Vitamin
Ostonate tablets	Calcium supplement
Starvog 0.2 mg mouth dissolving tablets	Antidiabetic
Starvog 0.3 mg mouth dissolving tablets	Antidiabetic

Annexure to the Directors' Report

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

	(Rs. mio.)
Capital	3.9
Recurring	24.6
Total	28.5
Total R&D expenditure as a percentage of total turnover	0.6

(b) TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

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

   The R&D Centre carries out developmental activities in several areas such as import substitution for raw materials, batch cycle time reduction as also line extensions of some existing products. Apart from the in-house capabilities, external consultancy is hired for certain specific projects wherever required.

   The R & D Centre under the guidance of Merck KGaA, Germany makes endeavors to be up to date with quality systems and current good manufacturing practices.

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

   Changes in processes as well as in packaging methods have resulted in launching of new products, improvement in yield and cost efficiency.

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 relating to processes, products, quality, etc. from the collaborators, Merck KGaA, Germany, on an ongoing 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. 2,087.7 mio (which includes import of raw materials to the extent of Rs. 427.7 mio) while the foreign exchange earned was Rs 511.9 mio, the details of which have been stated under item Nos. (iii) to (vi) of Schedule 26 annexed to the financial statements

The total exports during the year amounted to Rs. 468.8 mio made up of Chemicals Rs. 332.0 mio. and Pharmaceuticals Rs. 136.8 mio. Both the Pharmaceuticals and Chemicals segments will make efforts to exploit the opportunities that exist in the neighbouring and other regions of the world to expand the Company's presence in those locations.

On behalf of the Board of Directors

S. N. Talwar
Chairman

Mumbai, February 8, 2011.

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 Company is committed not only to its values but it 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.

Company's compliance of the requirements of Code of Corporate Governance laid down by the Stock Exchanges, in brief, is given below:

Board of Directors (Board):

The present strength of the Board is eight Directors. The Board comprises of four 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, 2010 are as follows:

Name of the Director	*No. of Directorships	*No. of Committee Memberships$	*No. of Committee Chairmanships
Mr. S.N. Talwar 1	48**	9	3
Mr. H.C.H. Bhabha 1	8**	1	–
Mr. E.A. Kshirsagar 1	11**	8	5
Mr. Timothy Kneen 2	–	–	–
Mr. Ralph Zaat 2	5**	–	–
Dr. M. Dziki 3	1**	–	–
Mr. R.L. Shenoy 3	–	–	–
Mr. K. Shivkumar 3	–	–	–
Mr Pramod Pimplikar 3	1**	–	–

*excluding Directorship and Committee Membership/Chairmanship of Merck Ltd.
$ includes Committee Chairmanships
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 March 29, 2010, Mr. Ralph Zaat ceased to be a Director on the Board with effect from October 20, 2010. Mr. Timothy Kneen was appointed as a Director under Article 110 of the Articles of Association of the Company with effect from October 20, 2010. Mr. Pramod Pimlikar was appointed as Additional Director with effect from April 1, 2010.

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 2010, five Board Meetings were held on January 22, 2010, March 29, 2010, April 23, 2010 July 28, 2010, and October 20, 2010.

Attendance at the Board Meetings and at the Annual General Meeting (AGM) held during the year 2010:

Name of the Director	Board Meetings held during the year	No. of Board Meetings attended	Attendance at the AGM (29.03.2010)
Mr. S.N. Talwar	5	5	Yes
Mr. H.C.H. Bhabha	5	5	Yes
Mr. E.A. Kshirsagar	5	5	Yes
Mr. Ralph Zaat *	5	–	No
Mr. Timothy Kneen **	5	–	NA
Dr. M. Dziki	5	5	Yes
Mr. R.L. Shenoy	5	5	Yes
Mr. K. Shivkumar	5	4	No
Mr Pramod Pimplikar ***	5	3	NA

* Mr. Ralph Zaat ceased to be a Director on the Board with effect from October 20, 2010.
** Mr. Timothy Kneen was appointed as Director with effect from October 20, 2010.
*** Mr. Pramod Pimplikar was appointed as Additional Director with effect from April 1, 2010.

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 January 22, 2010, April 23, 2010, July 28, 2010 and October 20, 2010.

Attendance at the Audit Committee Meetings held during the year 2010:

	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.

Annexure to the Directors' Report

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

Annexure to the Directors' Report

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 for 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, 2010, was placed before the Board at its Meeting held on February 8, 2011.

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 2010 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	9,366,331	3,000,000	2,177,552	10,555,318	25,099,201
Mr. R.L. Shenoy	4,856,045	2,800,000	967,500	1,966,463	10,590,008
Mr. K. Shivkumar	5,657,385	1,900,000	615,000	1,071,018	9,243,403
Mr. Pramod Pimplikar	2,757,000	1,200,000	337,500	946,877	5,241,377

* Commission includes provision made in the financial statements, for payment to be made in 2011.

** 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 years with effect from December 27, 2009. 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 and operational indicators.

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

d. The above figures do not include charge for gratuity and leave encashment for the following reasons:

   i. The Company's liability in respect of gratuity and leave encashment has been valued by an Actuary.

   ii. The employee-wise break up of the same is not available.

Remuneration of Non-Executive Directors:

The details of remuneration paid/payable to Non-Executive Directors for the year 2010 are given below:

Name of the Director	Sitting fees (Rs.)	Commission (Rs.)*
Mr. S.N. Talwar	260,000	750,000
Mr. H.C.H. Bhabha	300,000	500,000
Mr. E.A. Kshirsagar	140,000	500,000

* Provision made in the financial statements, to be paid in 2011.

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

The remuneration to Non-Executive Directors comprises of sitting fees and fixed 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 October 20, 2010.

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:

	2010		2009	
	Received	Cleared	Received	Cleared
1. Non-receipt of share certificates duly transferred	–	–	–	–
2. Non-receipt of dividend warrants	1	1	1	1
3. Miscellaneous	–	–	–	–
4. Letters from SEBI/ Stock Exchanges and Department of Corporate Affairs	–	–	1	1

Annexure to the Directors' Report

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

Year	Venue	Day and Date	Time
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.
2009	Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Haji Ali, Mumbai 400 034.	Wednesday 29.03.2010	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
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.
29.03.2010	No	

During the year 2010, 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 was 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 interests 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 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 by Merck KGaA, 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 45 days from the close of the respective quarter. However, in case of the last quarter, the quarterly results and the annual results are announced within 60 days 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
Chairman

Mumbai, February 8, 2011

Annexure to the Directors' Report

General Shareholder Information

Annual General Meeting:

The Forty-fourth Annual General Meeting of the Members will be held on Tuesday, March 29, 2011 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, Appointment of Directors retiring by rotation and Appointment of Auditors.

Special Business: Appointment of Mr. Pramod Pimplikar as – (a) a Director
(b) a Whole-time Director.

Company's financial year:

1st January to 31st December

Calendar of Financial Results — 2011:

(i) First Quarter Results – April 2011

(ii) Second Quarter Results – July 2011

(iii) Third Quarter Results – October 2011

(iv) Results for the year ending December 31, 2011 – February 2012

Book Closure:

The Company's Register of Members and Share Transfer Books will remain closed from March 23, 2011 to March 29, 2011 (both days inclusive).

Dividend:

The Board of Directors had declared interim dividend on October 20, 2010 @950% i.e. Rs. 95/- per share which was paid on October 25, 2010. The Board has not recommended any final dividend.

Listing on Stock Exchanges:

The Bombay Stock Exchange (BSE) is the Regional Stock Exchange of the Company. The 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 : 4,246,518

BSE : 3,100,517

Listing fee for the year 2010-2011 has been paid to the Stock Exchanges.

Share price (Rs.) on NSE – 2010:

	Jan	*Feb*	*Mar*	*Apr*	*May*	*June*
High	652.95	637.00	680.00	695.00	665.00	764.20
Low	571.60	576.25	612.00	621.10	582.35	620.00

	July	*Aug*	*Sept*	*Oct*	*Nov*	*Dec*
High	773.80	732.25	752.65	1,008.00	824.00	744.00
Low	710.35	682.40	694.10	703.65	675.35	675.00

Closing share price as on December 31, 2010 : Rs. 717.95

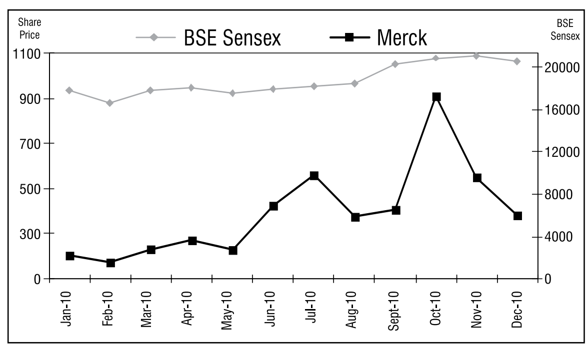
Share price (Rs.) on BSE – 2010:

	Jan	*Feb*	*Mar*	*Apr*	*May*	*June*
High	653.00	637.50	665.90	686.80	665.00	763.00
Low	566.20	576.15	612.10	620.00	600.10	625.00

	July	*Aug*	*Sept*	*Oct*	*Nov*	*Dec*
High	830.15	738.90	754.00	1,006.00	825.70	742.00
Low	705.00	684.75	691.20	706.25	690.00	686.00

Closing share price as on December 31, 2010 : Rs. 716.50

Share price (in Rs.) in comparison with BSE Sensex (2010):



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.

Annexure to the Directors' Report

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	2010	2009
Number of transfers	**84**	43
Number of shares processed	**6,662**	3,739

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, 2010, 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, 2010, a total of 7,471,346 shares of the Company which forms 45.0% of the paid-up share capital of the Company stands dematerialized.

Distribution of shareholding as on December 31, 2010:

Range	No. of Shareholders	% to total	No. of shares held	% to total
1 – 500	26,327	96.49	2,228,498	13.43
501 – 1,000	499	1.83	366,646	2.21
1,001 – 5,000	349	1.28	745,405	4.49
5,001 – 10,000	52	0.19	385,600	2.32
10,001 and above	57	0.21	12,873,233	77.55
Total	27,284	100.00	16,599,382	100.00

Shareholders' profile as on December 31, 2010:

Particulars	No. of shares held	% to total
Foreign Collaborators	8,599,224	51.80
Public Financial Institutions and Banks	1,982,517	11.95
F.I.I.s & O.C.B.s	946,317	5.70
Mutual Funds & F.I.s	292,924	1.76
Domestic Companies (incl. Trusts, Partnership Firms)	688.850	4.15
Directors & Relatives	215,901	1.30
Non-Resident Indians	111,626	0.67
Individuals/NSDL/CDSL	3,762,023	22.67
Total	16,599,382	100.00

Shares held by Non-Executive Directors of the Company as on December 31, 2010:

Mr. S.N. Talwar	:	5,914
Mr. H.C.H. Bhabha	:	50,000
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 is 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, February 8, 2011 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, 2010.

For Merck Limited

Mumbai
February 8, 2011

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, 2010, 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
Firm's Registration No: 101248W

Bhavesh Dhupelia
Partner
Membership No.: 042070

Mumbai
February 8, 2011

Annexure to the Directors' Report

Management Discussion and Analysis Report

The Indian economy was not affected in the last two years on account of the global recession which adversely impacted most of the matured economies. The agricultural sector which has been one of the laggards in the past years, has contributed to the improvement of the Gross Domestic Product which is estimated to grow by 8.5% in 2010-2011. However, the optimism on the unbounded potential for growth has been clouded by the spiralling inflation, high fiscal deficit level, infrastructure constraints, downward trend in foreign direct investments which might impede the growth trajectory of the economy in the near future.

In the backdrop of the current economic and political scenario, your Company has recorded satisfactory performance on the turnover and profit in the year 2010. The following table gives, in brief, the performance of the Company in the year 2010.

Key Parameters	2010	2009
Turnover (Rs. mio.)	**5,090.8**	4,731.1
Profit After tax (Rs. mio.)	**631.8**	654.8
Percentage of Profit After Tax to turnover	**12.4**	13.8
Sales to Fixed Assets employed ratio	**9.9**	7.4
Current Assets ratio	**4.2**	4.9
Percentage Return on Capital employed	**18.2**	14.0
Book value of shares – Rs.	**208.7**	281.5

At Rs. 631.8 mio., profit after tax, fell marginally over the 2009 profit after tax mainly on account of the impairment loss of Oxynex assets debited to the Profit and Loss Account of the year. Higher input costs and marketing costs which did not match the sales growth of 2010, also contributed to the fall in the profit.

The Company has been operating in two major segments, Pharmaceuticals and Chemicals which contributed 71% and 29% to revenue respectively. The performance of the segments in the year 2010 is summarized below:

Pharmaceuticals Segment: The Pharmaceuticals segment has two business divisions i.e. Merck Serono and Consumer Health Care. Both the divisions cater to the requirement of medical fraternity on various therapeutic segments and have a vast distribution net work in India and abroad.

Merck Serono: The division deals with the Vitamins, Nutritional supplements, Cardiometabolic, Haematinics, Cough and cold, Anti-malarials, Antibiotics, Dermatologicals and Encephalotropics, etc. The division posted a turnover of Rs. 3,284.9 mio. in 2010 as against the turnover of Rs. 3,264.1 mio., achieved in the previous year. The division's performance came basically from some of the traditional products such as Neurobion, Polybion, Evion and Livogen along with Cardiometabolic product Concor, which has been contributing to the growth of sales in the past few years. The entry into the Cardiometabolic Care in 2009 with a dedicated sales and marketing team has given greater focus and thrust to this fast growing therapeutic area. Concor has gained 5 ranks from 2008 to 2010 and is now the 8th largest brand in the beta-blocker therapeutic segment.

For the last few decades, your Company has been highly dependent upon the formulations based on Vitamins and with brand names such as Neurobion, Polybion and Evion, well known in the medical fraternity and regularly used by the patients. The turnover of these brands constitute around 66% of the total turnover of the division. Haematinics therapeutic segment products sold under the galenic forms such as tablets and syrup under the brand name Livogen are also contributing to the growth of the turnover of the division.

The division has a good distribution net work and also effective marketing set up with the field staff which is spread across the country. Lot of efforts are being made to improve the reach & penetration in the rural areas.

Consumer Health Care: The turnover of the division in the year 2010 was Rs. 348.8 mio. as against the turnover of Rs. 261.4 mio. in 2009, registering a growth of 33%. The division deals in the therapeutic segments such as Cough and cold with its flagship brand Nasivion, Womens and children health care with the global brands Femibion and Kidbion, Everyday health protection with Bion and Maxepa, and Mobility segment with Flexijoints. In addition to these global health themes, the division is also prominently present in the ORS category with its second largest brand Electrobion and Skin Care with Evion Cream. For the year 2010, as per ORG IMS, all the brands of the division have registered a double digit growth which is higher than the market growth.

The year 2010, was the turnaround year for the division not only in terms of performance but also in terms of initiatives. Towards the last quarter of 2010, one of the strategic steps taken by the division was the promotion of its brand, Nasivion through the television media to reach the masses across the country. The division also launched innovative line extensions of the existing brands such as Nasivion No drip and Nasivion Moist.

Chemicals Segment: The turnover of Chemicals division grew in 2010 by 21% over the previous year, from Rs. 1,205.6 mio. to Rs. 1,457.1 mio. The segment deals in two major business divisions i.e. Life Science Solutions and Pigments.

Annexure to the Directors' Report

Life Science Solutions: The division deals mainly in Active pharmaceutical ingredients, High quality Excipients, Cosmetic active ingredients, Bio-pharmaceutical products and Vitamin E in different forms. The division's performance is in line with the growth in the Pharmaceuticals industry as its customers are mostly from the Pharmaceuticals industry. During the year, the demand for Oxynex, one of the products manufactured in Goa, fell drastically, which affected the export revenue of the division. Most of the bulk drugs i.e. Vitamin E, Thiamine DiSulphide (TDS), Guaiazulene, Oxynex are manufactured in Goa. Excepting for Vitamin E, the other bulk drugs are export oriented. While the Company expanded the capacity of Oxynex two years ago, unfortunately on account of the lack of demand, the export turnover of Oxynex did not match the higher installed capacity. The Company is exploring other options to utilize the plant.

The expansion of the TDS plant has been completed in 2010 and the increased production volume should assist in the enhancement of the export turnover of the product. The division has expanded the sales and marketing net work and also instituted a Regulatory Services department to advise the customers regarding the documentation for the export of formulations.

Pigments: In the face of stiff competition from the domestic industry, the division could show satisfactory growth in the turnover over the previous year. The division still is reeling under the anti dumping duty impact on its imports and has not been able to show significant profitability. The division has been exploring various areas of use of pigments to broad base its applications.

Internal Controls: The Company follows a robust internal control system which helps to safeguard the Company's assets against losses of unauthorised use and improper handling. The Company also has an exhaustive budgetary and standard costing process which is also monitored by the Headquarters from Germany. The Company's internal control and standard operating processes built in its operations are supplemented by an equally strong outsourced internal audit firm which is empowered to assess the adequacy and compliance of the internal controls systems, statutory requirements etc. The internal audit work is assigned to a well established and experienced firm, M/s. Aneja Associates who conducts the internal audit on the basis of the areas of audit and schedule, finalised by the Audit Committee. The internal auditors submit their reports to the Audit Committee which recommends the control measures to be followed by the Company from time to time.

Risk Management: The Company having both domestic as well as international business is fraught with and exposed to various risks. The Company has a well established risk management process under which once the risks are identified they will be escalated to the appropriate level and remedial measures are taken. The risks and concerns are reviewed periodically by the Audit Committee to whom such risks and remedial measures, if any, are presented. Some of the risks and the concerns which the Company currently faces are the following:

Inflationary trends: Most of the Company's products in the Pharmaceuticals segment are covered under the Government legislation which allows only the Government to fix the prices of such products. While the input costs are increasing, the Company has not got the corresponding increase in the end prices of formulations from the Government. The Company has been making attempts to launch the formulations which do not require the fixation of prices by the Government. The Company has been partially successful so far.

Competition: The Company's products are exposed to competition both from local as well as from abroad. The Company has been trying to mitigate this risk by strategic pricing, quality and uniqueness in the production, delivery etc.

Foreign Exchange Fluctuations: The forex fluctuations could be one of the concerns facing the Company in the year 2011. The Company's imports and exports are impacted on account of the fluctuations. The Company's principals are offering advice on the hedging of the risks at regular intervals.

Regulatory: The Company's business is a regulated one and is governed by various statutes of the Government. Changes in the statutes and the compliance of the same is both time consuming and sometimes arduous. While in the case of Pharmaceuticals business, pricing norms set by the Government, FDA related legislations are to be followed, for Chemicals business, the registration processes of certain imports pose lot of inconvenience and at times loss of business.

Third party dependence: The Company's distribution and major part of the manufacturing activities are assigned to third parties who have access to the Company's assets and business processes. Though the Company underwrites the risks arising on such transactions to the extent possible, it can not be ruled out that it may face some business interruption for some time, if anything untoward happenings take place.

Annexure to the Directors' Report

Human Resource Initiatives:

The Company focuses on developing the employee capabilities to get their superior performance in the growth of the Company. The Performance Management System process has further been strengthened to support achievement of business objectives. The key initiatives have been to build talent management and succession planning to grow leaders and build talent pipeline. There have been various initiatives by the Company on the employee development. Various training programs both in India and abroad were held to focus on the alignment of employee capabilities with the business requirements. Special emphasis however, has been given to training at the Headquarters level which would enable the participants to have better global net working and best practices sharing.

There are on roll, as on December 31, 2010, 1,257 employees working in various areas of its business and operations. The relationship with the employees at all levels remained cordial. Subsequent to an employee engagement survey, a lot of emphasis has been given on improving work life balance by engaging and providing facilities to employees. The results of the employee engagement survey also establishes the fact that Merck is an ideal place to work and build a career.

One of the concerns of the Human Resource Department has been retention of employees on account of the current dynamic employment market scenario. The challenge has however been addressed by the department by striking a fine balance between meeting the business needs with the employee expectations.

Outlook:

While there is an element of uncertainty in the economy and business, the Company's endeavor is to sustain operational growth in line with the industry growth both in terms of turnover and profitability. The Indian Pharmaceuticals industry can look forward to 2011 with greater optimism than most. This is because it finds itself to be robust both at home and abroad. It anticipates a healthy growth of 16%. It will be fuelled primarily by the rising incomes and private health care expenditure. A stable and growing urban demand coupled with the unexploited market potential, specially in the rural markets, which we will try to tap in the coming years, bodes well for the future of the Company.

By Order of the Board of Directors

S. N. Talwar

Mumbai, February 8, 2011 — 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 2010 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 (Auditor's 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 2010, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 December 2010 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 2010;

      (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
Firm's Registration No. 101248W

Bhavesh Dhupelia
Partner
Membership No.: 042070

Mumbai
8 February 2011

Annexure to the Auditors' Report – 31 December 2010

(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) (a) The Company has granted loan to a company covered in the register maintained under Section 301 of the Act. The maximum amount outstanding during the year was Rs. 443 million and the year-end balance of such loans was Rs. 443 million. The Company has not granted any loans, secured or unsecured, to firms or other parties covered under Section 301 of the Act.

(b) In our opinion, the rate of interest and other terms and conditions on which loans have been granted to the aforesaid company listed in the register maintained under Section 301 of the Act are not, prima facie, prejudicial to the interests of the Company.

(c) In the case of loans granted to a Company listed in the register maintained under Section 301, the borrower has been regular in repaying the principal amounts as stipulated and in the payment of interest.

(d) There is no overdue amount in excess of Rupees one lakh in respect of the loans granted to the Company covered in the register maintained under Section 301 of the Act.

(e) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, paragraph 4(iii)(e), (f) and (g) of the Order is not applicable to the Company.

(iv) In our opinion and according to the information and explanations given to us, and having regard to the explanation that purchase of certain items of inventories 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 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.

Annexure to the Auditors' Report – 31 December 2010 (continued)

(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 2010 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, Service 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, 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.

(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
Firm's Registration No. 101248W

Bhavesh Dhupelia
Partner
Membership No.: 042070

Mumbai
8 February 2011

Annexure to the Auditors' Report – 31 December 2010 (continued)

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
		47.6	Assessment years 1998-99, 1999-00, 2001-02, 2002-03 and 2003-04	Income Tax Appellate Tribunal
		9.2	Assessment year 2004-05	Income Tax Appellate Tribunal
		40.5	Assessment year 2005-06	Commissioner of Income Tax (Appeals)
		88.2	Assessment year 2006-07	Income Tax Appellate Tribunal
		313.2	Assessment year 2007-08	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
		6.0	2001-02, 2003-04	Deputy Commissioner (Appeals)
		1.0	2003-04, 2005-06	Assistant Commissioner
		1.1	2005-06, 2006-07	Deputy Commissioner
		9.6	2007-08	Deputy Commissioner
Central Excise Act, 1944	Duty and penalty	0.1	1994-97, 2003-04	Deputy Commissioner (Appeals)
		0.5	1998-99	Joint Commissioner
		0.2	2005-06	Commissioner (Appeals)
		4.8	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 2010

Currency: Rupees million

		Schedules		2010	2009
I.	**SOURCES OF FUNDS**				
	Shareholders' Funds				
	Share Capital	2	166.0		166.0
	Reserves and Surplus	3	3,298.2		4,506.9
				3,464.2	4,672.9
	Deferred Tax Liability (Net)	4		–	21.2
	TOTAL			3,464.2	4,694.1
II.	**APPLICATION OF FUNDS**				
	Fixed Assets	5			
	Gross Block		1,536.0		1,482.9
	Less: Accumulated Depreciation/Amortisation/Impairment loss		1,043.3		854.7
	Net Block		492.7		628.2
	Capital Work-in-Progress including Capital Advances (Rs. 11.8 million; 2009: Rs. 7.9 million)		19.7		12.1
				512.4	640.3
	Investments	6		201.8	238.2
	Deferred Tax Assets (Net)	7		34.6	–
	Current Assets, Loans and Advances				
	Inventories	8	611.2		584.9
	Sundry Debtors	9	560.8		438.1
	Cash and Bank Balances	10	1,427.7		3,246.4
	Loans and Advances	11	951.3		533.7
			3,551.0		4,803.1
	Less: Current Liabilities and Provisions				
	Current Liabilities	12	609.8		426.2
	Provisions	13	225.8		561.3
			835.6		987.5
	Net Current Assets			2,715.4	3,815.6
	TOTAL			3,464.2	4,694.1
	Significant Accounting Policies	1			
	Schedules to financial statements	18-37			

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
Firm Registration No. 101248W

Bhavesh Dhupelia
Partner
Membership No.: 042070

Mumbai, 08 February, 2011

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
P. H. Pimplikar
— Directors

Profit and Loss Account for the year ended 31 December 2010

Currency: Rupees million

	Schedules		2010	2009
INCOME				
Sales (Gross)		5,234.8		4,860.5
Less: Excise Duty		144.0		129.4
Sales (Net)			5,090.8	4,731.1
Other Income	14		433.7	432.1
			5,524.5	5,163.2
EXPENDITURE				
Materials Cost	15		2,078.7	2,060.9
Personnel Expenses	16		684.6	570.2
Operating and Other Expenses	17		1,589.6	1,492.2
Depreciation/Amortisation/Impairment loss	5		213.8	75.1
Interest – Others			0.7	0.3
			4,567.4	4,198.7
PROFIT BEFORE TAXATION			957.1	964.5
Provision for taxes				
Current Tax Expense			(381.1)	(307.0)
Fringe Benefits Tax			–	(5.3)
Deferred Tax Credit			55.8	2.6
NET PROFIT AFTER TAXATION			631.8	654.8
Add: Profit and Loss Balance Brought Forward			1,306.5	1,366.7
PROFIT AVAILABLE FOR APPROPRIATION			1,938.3	2,021.5
APPROPRIATIONS:				
Interim Dividend			1,576.9	–
Tax on Interim Dividend			261.9	–
Proposed Dividend			–	332.0
Dividend Tax			–	56.4
Transfer to General Reserve			63.2	326.6
Balance carried to the Balance Sheet			36.3	1,306.5
			1,938.3	2,021.5
Basic and Diluted Earnings per share of Face Value Rs. 10.00 (Rs.)	33		38.1	39.0
Significant Accounting Policies	1			
Schedules to financial statements	18–37			

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
Firm Registration No. 101248W

Bhavesh Dhupelia
Partner
Membership No.: 042070

Mumbai, 08 February, 2011

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
P. H. Pimplikar
— Directors

Cash Flow Statement for the year ended 31 December 2010

Currency: Rupees million

			2010		2009
A. Cash Flow from Operating Activities:					
Net Profit before Tax			**957.1**		964.5
Adjustments for:					
Depreciation/Amortisation		**71.0**		75.1	
Impairment loss		**142.8**		–	
Profit on Sale of Fixed Assets, Net		**(0.5)**		(0.6)	
Profit on Sale of Current Investments, Net		**(1.1)**		(1.0)	
Loss on decline in fair value of Current Investments		*		*	
Unrealised Exchange Losses		**1.4**		0.9	
Dividend received on Current Investments		**(11.9)**		(20.8)	
Interest Income		**(190.2)**		(251.6)	
Interest Expense		**0.7**		0.3	
Provision for Doubtful Debts and Advances		**6.7**		11.4	
Provision/(write back) for Employee Benefits		**10.6**		(11.7)	
Provision for write down of Inventories		**(1.3)**	**28.2**	11.1	(186.9)
Operating Profit before Working Capital Changes			**985.3**		777.6
Adjustments for:					
Decrease/(Increase) in Inventories		**(25.0)**		133.8	
(Increase) in Sundry Debtors		**(132.0)**		(3.6)	
(Increase) in Loans and Advances		**(16.5)**		(54.9)	
(Decrease)/Increase in Current Liabilities and Provisions		**228.4**	**54.9**	(124.1)	(48.8)
Cash generated from Operations			**1,040.2**		728.8
Interest received		**9.0**		8.4	
Interest paid		**(0.7)**		(0.3)	
Direct Taxes paid (Net of Refunds)		**(388.8)**	**(380.5)**	(319.5)	(311.4)
Net cash generated from Operating Activities	(A)		**659.7**		417.4
B. Cash flow from Investing Activities:					
Purchase of Fixed Assets		**(87.9)**		(95.5)	
Sale of Fixed Assets		**2.5**		2.8	
Interest Income		**220.0**		213.2	
Dividend received on Current Investments		**11.9**		20.8	
Purchase of Investments		**(9,542.2)**		(8,287.5)	
Sale of Investments		**9,579.7**		9,579.6	
Loans given (net of repayment)		**(443.0)**		–	
Investment in Fixed Deposits		**(2,701.5)**		(2,973.6)	
Fixed Deposits matured		**4,724.5**		1,556.2	
Net cash generated from Investing Activities	(B)		**1,764.0**		16.0
C. Cash flow from Financing Activities:					
Buy back of shares (including premium & expenses)		**(1.7)**		(107.4)	
Dividend		**(1,899.4)**		(294.6)	
Dividend Tax		**(318.3)**		(50.1)	
Net cash (used) in Financing Activities	(C)		**(2,219.4)**		(452.1)
Net (Decrease)/Increase in Cash and Cash Equivalents	(A+B+C)		**204.3**		(18.7)
Cash and Cash Equivalents at the beginning of the year			**13.4**		32.1
Cash and Cash Equivalents at the end of the year (refer note 2)			**217.7**		13.4

NOTES TO THE CASH FLOW STATEMENT

1. Cash and Cash Equivalents includes (refer Schedule 10) – Cash balance	**0.3**	0.2
– Bank balance in current accounts	**66.2**	13.2
– Bank balance in deposit accounts (maturity less than 3 months)	**151.2**	–
	217.7	13.4

2. Unpaid Dividend of Rs. 17.6 million (2009: Rs. 8.1 million), included in Cash Bank balances, are 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
Firm Registration No. 101248W
Bhavesh Dhupelia
Partner
Membership No.: 042070

Mumbai, 08 February, 2011

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
P. H. Pimplikar
— Directors

Schedules to the Financial Statements

for the year ended 31 December 2010 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. 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, 20, 25
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 is amortised on a SLM basis over an expected benefit period of 6 years and 3 years respectively.

Assets individually costing Rs. 0.005 million or less are fully depreciated in the year of acquisition.

(d) Impairment of assets:

In accordance with AS 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 asset 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 for raw materials 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 recognised 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 2010 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 recognised 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 at the balance sheet date 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 Trustees. 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.

Actuarial gains and losses are recognised immediately in the profit and loss account

(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 recognised 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 recognised 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 recognised 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 current tax, deferred tax charge or credit.

The deferred tax charge or credit is recognised using enacted or 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 of income in future. Such assets are reviewed as at each balance sheet date to reassess realisation.

(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 2010

Currency: Rupees million

		2010	2009
2. SHARE CAPITAL			
AUTHORISED			
18,000,000 (2009: 18,000,000) Equity Shares of Rs. 10 each		**180.0**	180.0
ISSUED, SUBSCRIBED AND PAID-UP			
16,599,382 (2009: 16,599,382) Equity Shares of Rs. 10 each fully paid-up		**166.0**	166.0
Out of the above			
– 127,820 (2009: 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 (2009: 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 (2009: 8,599,224) Equity Shares of Rs. 10 each are held by Merck KGaA, Germany, through its subsidiaries.			
– During the year Nil shares (2009: 261,842 shares) were bought back pursuant to the Company's buy back scheme. All the shares bought back have been extinguished. [Also refer Schedule 20]			
		166.0	166.0
3. RESERVES AND SURPLUS			
Capital Reserve		**2.6**	2.6
Capital Redemption Reserve			
Balance brought forward	**2.6**		–
Add : Transfer from General Reserve #	**–**		2.6
		2.6	2.6
Securities Premium Account		**111.3**	111.3
General Reserve			
Balance brought forward	**3,083.9**		2,864.7
Less : Transfer to Capital Redemption Reserve #	**–**		2.6
Less : Premium/Expenses paid on Buy back of shares #	**1.7**		104.8
Add : Transfer from Profit and Loss Account	**63.2**		326.6
		3,145.4	3,083.9
# In respect of shares bought back, Rs. 1.7 million (2009: Rs. 104.8 million) has been adjusted against General Reserve. Face value of shares bought back, Rs. Nil (2009: Rs. 2.6 million) has been adjusted to Capital Redemption Reserve. [Also refer Schedule 20]			
Profit and Loss Account		**36.3**	1,306.5
		3,298.2	4,506.9
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
		–	64.6
Deferred Tax Asset:			
Provision for Doubtful Debts and Advances		**–**	8.8
Personnel and Other Related Provisions		**–**	9.0
Provision for Sales Tax matters		**–**	16.2
Other Provisions		**–**	9.4
		–	43.4
		–	21.2

Schedules to the Financial Statements

as at 31 December 2010 Currency: Rupees million

5. FIXED ASSETS

Description of Assets	GROSS BLOCK AT COST As at 01.01.2010	Additions	Deductions	As at 31.12.2010	DEPRECIATION/AMORTISATION/IMPAIRMENT LOSS As at 01.01.2010	For the Year	Deductions	As at 31.12.2010	Impairment Loss # As at 31.12.2010	NET BLOCK **As at 31.12.2010**	As at 31.12.2009
Intangible Assets											
Trademarks	86.9	–	–	86.9	86.9	–	–	86.9	–	**–**	–
Software	39.0	2.1	–	41.1	36.0	2.2	–	38.2	–	**2.9**	3.0
Tangible Assets											
Freehold Land	5.0	–	–	5.0	–	–	–	–	–	**5.0**	5.0
Buildings and Flats	388.7	3.0	1.2	390.5	144.6	11.2	1.0	154.8	28.5	**207.2**	244.1
Plant and Machinery	819.6	61.9	22.6	858.9	521.9	43.6	21.4	544.1	95.0	**219.8**	297.7
Furniture, Fixtures, Electrical Fittings and Office Equipment	141.2	13.3	1.1	153.4	63.6	13.6	0.9	76.3	19.3	**57.8**	77.6
Vehicles	2.5	–	2.3	0.2	1.7	0.4	1.9	0.2	–	**–**	0.8
Total	1,482.9	80.3	27.2	1,536.0	854.7	71.0	25.2	900.5	142.8	**492.7**	628.2
Previous Year	1,405.8	101.0	23.9	1,482.9	801.3	75.1	21.7	854.7	–	**628.2**	

Notes:

Buildings and Flats include cost of Shares in a Co-operative Society Rs. * (2009: Rs.*)

Plant and Machinery includes Research and Development equipments.

\# Charge for the year includes impairment loss of Rs. 142.8 million (2009: Rs. Nil). Refer Schedule 21.

6. INVESTMENTS

	No. of Units	Face Value in Rs.	**2010**	2009
Non-Trade, Current (Unquoted) :				
In Mutual Funds :				
LICMF Liquid Fund	6,102,819	10	**67.0**	–
	(4,967,418)	10	**–**	54.5
Canara Robeco Liquid Fund – Super Institutional	2,918,756	10	**29.4**	–
	(1,216,440)	10	**–**	12.2
SBI Magnum Insta Cash Fund	6,294,747	10	**105.4**	–
SBI- SHF- Ultra Short Term Fund – Institutional	(1,139,087)	10	**–**	11.5
Canara Robeco Treasury Advantage Fund Institutional	(980,463)	10	**–**	12.2
LICMF Income Plus Fund	(14,777,050)	10	**–**	147.8
			201.8	238.2

(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:

	2010	2009
Aggregate Book Value of Non-Trade, Current, Unquoted Investments	**201.8**	238.2
Aggregate Net Asset Value of Non-Trade, Current, Unquoted Investments	**201.8**	238.2

Schedules to the Financial Statements

as at 31 December 2010 Currency: Rupees million

		2010	2009
7. DEFERRED TAX ASSETS (NET)			
Deferred Tax Asset included in the Balance Sheet comprises of:			
Deferred Tax Liability:			
Excess of Depreciation as per Income Tax Act, 1961 over book depreciation		**15.1**	–
		15.1	–
Deferred Tax Asset:			
Provision for Doubtful Debts and Advances		**10.7**	–
Personnel and other related provisions		**8.6**	–
Provision for Sales Tax matters		**17.0**	–
Other Provisions		**13.4**	–
		49.7	–
		34.6	–
8. INVENTORIES			
Stores and Spare Parts		**4.5**	3.8
Stock-in-Trade:			
– Raw Materials		**185.9**	129.0
– Packing Materials		**57.1**	53.5
– Finished Goods [includes Stock of Samples (at cost) amounting to Rs. 17.2 million; (2009 : Rs. 21.0 million)]		**305.6**	373.6
– Work in Process		**58.1**	25.0
		611.2	584.9
9. SUNDRY DEBTORS			
(Unsecured)			
Debts outstanding for a period exceeding six months			
considered good		**11.3**	9.4
considered doubtful		**29.0**	22.0
		40.3	31.4
Other Debts			
considered good		**549.5**	428.7
		589.8	460.1
Less : Provision for Doubtful Debts		**29.0**	22.0
		560.8	438.1
Due from Companies under the same Management:			
Merck Specialities Private Limited		**0.5**	1.5
Maximum amount outstanding during the year		**33.9**	39.0
10. CASH AND BANK BALANCES			
Cash on hand		**0.3**	0.2
Bank balances with Scheduled Banks:			
On Current Accounts	**66.2**		13.2
On Deposit Accounts	**1,361.2**		3,233.0
		1,427.4	3,246.2
		1,427.7	3,246.4

Schedules to the Financial Statements

as at 31 December 2010 Currency: Rupees million

		2010	2009
11. LOANS AND ADVANCES			
(Unsecured)			
Advances recoverable in cash or in kind or for value to be received			
considered good	164.7		148.4
considered doubtful	1.2		1.5
	165.9		149.9
Less : Provision for Doubtful Advances	1.2		1.5
		164.7	148.4
Loans to Employees		8.4	10.4
Loan to Merck Specialities Private Limited		443.0	–
Interest Receivable		35.0	73.8
Income Tax Payments, less Provisions		248.2	248.8
(Represents excess payment of Advance Tax over Provision for Taxation in certain Assessment Years)			
Advance Payment of Gratuity		–	2.8
Prepaid Expenses		22.3	28.4
Deposits			
considered good	29.7		21.1
considered doubtful	2.5		2.5
	32.2		23.6
Less : Provision for Doubtful Deposits	2.5		2.5
		29.7	21.1
		951.3	533.7
Due from Companies under the same Management:			
Merck Specialities Private Limited		445.6	–
Maximum amount outstanding during the year		445.6	–
Due from Director		1.4	–
Maximum amount outstanding during the year		1.6	–
12. CURRENT LIABILITIES			
Acceptances		20.5	10.9
Sundry Creditors:			
Dues to Micro, Small and Medium Enterprises (Refer Schedule 35)	0.9		0.7
Others	541.6		350.9
		542.5	351.6
Other Liabilities:		29.2	55.6
Investor Education and Protection Fund shall be credited by the following amounts (not due as at the year end):			
Unpaid Dividend		17.6	8.1
		609.8	426.2
13. **PROVISIONS**			
Provision for Taxation less Payments		11.3	19.6
(Represents excess of Provision for Taxation over Advance Tax payment in certain Assessment Years)			
Proposed Dividend		–	332.0
Dividend Tax		–	56.4
Personnel and Other Related Provisions (Refer Schedule 22)		125.5	75.7
Provision for Leave Encashment		34.0	29.3
Provision for Gratuity		3.1	–
Provision for Sales Tax matters (Refer Schedule 22)		51.9	48.3
		225.8	561.3

Schedules to the Financial Statements

for the year ended 31 December 2010 Currency: Rupees million

	2010	2009
14. OTHER INCOME		
Interest on Deposits and Others	**181.2**	243.2
(Income tax deducted at source Rs. 23.2 million; 2009: Rs. 34.0 million)		
Dividend Received on Current Investments	**11.9**	20.8
Profit on Sale of Current Investments (Net)	**1.1**	1.0
Interest on Delayed Payments from Customers	**9.0**	8.4
(Income tax deducted at source Rs. 0.1 million; 2009: Rs. *million)		
Indenting Commission	**1.2**	1.1
Income from Other Services rendered	**137.6**	93.4
Service Tax Credit	**44.0**	43.2
Other Operating Income	**29.9**	–
Insurance Claims	**1.3**	0.9
Profit on Sale of Fixed Assets (Net)	**0.5**	0.6
Sundry Balances written back	**0.2**	–
Exchange Gain (Net)	**6.7**	6.8
Miscellaneous Income	**9.1**	12.7
	433.7	432.1
15. MATERIALS COST		
Raw Materials consumed	**931.8**	1,043.0
Packing Materials consumed	**394.1**	399.0
Cost of Traded Products sold	**680.0**	598.5
Decrease in Inventories	**72.8**	20.4
	2,078.7	2,060.9
16. PERSONNEL EXPENSES		
Salaries, Wages, Bonus and Allowances	**567.6**	482.6
Contribution to Provident Fund and Other Funds	**52.7**	27.0
Staff Welfare and Amenities	**64.3**	60.6
	684.6	570.2
17. OPERATING AND OTHER EXPENSES		
Power and Fuel	**66.0**	62.8
Stores and Spare Parts consumed	**27.7**	35.1
Third Party Processing Charges	**174.1**	160.5
Excise Duty (Net)	**11.9**	7.7
(Represents excise duty paid on free replacements, samples, bonus issues and net impact on opening/closing stocks)		
Repairs and Maintenance to:		
Building	**5.5**	8.8
Plant and Machinery	**8.3**	7.7
Others	**26.9**	34.4
Rates and Taxes	**27.6**	40.6
Rent	**56.8**	40.1
Printing, Stationery, Postage, Telephone and Electricity Expenses	**34.6**	43.2
Legal and Professional Expenses	**134.4**	125.7
Directors' Fees	**0.7**	0.8
Travelling, Conveyance and Vehicle Expenses	**288.5**	262.3
Insurance	**7.6**	5.3
Research and Development Expenses (Schedule 32)	**20.5**	14.4
Donations	*****	*
Packing, Forwarding and Freight	**107.4**	119.4
Clearing and Forwarding Agents Commission	**45.4**	43.2
Selling Agents Commission	**8.2**	8.2
Sales Promotion Expenses	**404.7**	343.8
Provision for Doubtful Debts/Advances (Net)	**6.7**	11.4
Bad debts written off	*****	1.6
Royalty	**98.7**	93.6
Loss on decline in fair value of Current Investments	*****	*
Miscellaneous Expenses	**27.4**	21.6
	1,589.6	1,492.2

Schedules to the Financial Statements

for the year ended 31 December 2010 Currency: Rupees million

18. CONTINGENT LIABILITIES

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

	2010	2009
Income tax	673.9	345.0
State and Central Sales Tax, Entry Tax	23.4	11.7
Excise duty #	5.7	108.6
Service tax	–	5.4
Customs duty	1.3	1.3
	704.3	472.0

Includes Rs. Nil million (2009: Rs. 89.9 million) in respect of a guarantee given to a toll center, towards an excise duty demand.

19. CAPITAL COMMITMENTS

Estimated amount of contracts remaining to be executed on Capital Account (net of advance) and not provided for: Rs. 40.3 million (2009: Rs. 17.4 million).

20. 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 Nil (2009: 261,842) shares for an aggregate consideration of Rs. 1.7 million (2009: Rs. 107.4 million), including related expenses. 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 in 2009. 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.

21. IMPAIRMENT OF ASSETS

During the current year, the Company has impaired one of its chemical plants on basis of determination of value in use of the plant, which the Company considers as the relevant Cash Generating Unit for purposes of impairment testing. This plant is situated at the Company's production facility at Goa. Management noted that there is an indication for impairment of the plant on account of significant reduction in market demand of the product and no alternate use of plant expected as at date.

The amount of impairment loss aggregating Rs. 142.8 million has been debited to profit and loss account for the year ended 31 December 2010. The Company has considered a discount rate of 9.8%. The plant is a chemical plant and forms a part of the Chemicals segment of the Company.

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	75.7	135.0	79.5	5.7	125.5
	(109.1)	(75.7)	(101.2)	(7.9)	(75.7)
Provisions in respect of sales tax matters	48.3	3.8	0.2	–	51.9
	(44.6)	(4.7)	(1.0)	–	(48.3)
Total	124.0	138.8	79.7	5.7	177.4
	(153.7)	(80.4)	(102.2)	(7.9)	(124.0)

Figures in brackets indicate those of the Previous Year.

Schedules to the Financial Statements

for the year ended 31 December 2010 Currency: Rupees million

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. 28.8 million (2009: Rs. 27.3 million) is recognised as an expense and included in "Personnel costs" (Refer schedule 16) in the profit and loss account.

(iii) **Defined Benefit Plans:**

		Gratuity	
		2010	2009
1.	**Change in Benefit Obligation**		
	Liability at the beginning of the year	**96.1**	99.1
	Interest Cost	**6.6**	5.0
	Current Service Cost	**7.0**	7.7
	Benefit Paid	**(6.5)**	(5.4)
	Actuarial (Gain)/Loss on obligations	**8.6**	(10.3)
	Liability at the end of the year	***111.8***	***96.1***
2.	**Fair value of Plan Assets**		
	Fair Value of Plan Assets at the beginning of the year	**98.9**	89.4
	Expected Return on Plan Assets	**9.0**	7.7
	Contributions	**7.5**	6.3
	Benefit Paid	**(6.5)**	(5.4)
	Actuarial Gain/(Loss) on Plan Assets	**(0.2)**	0.9
	Fair Value of Plan Assets at the end of the year	***108.7***	***98.9***
	Total Actuarial Gain/(Loss) to be Recognised	***(8.8)***	***11.2***
3.	**Actual Return on Plan Assets**		
	Expected Return on Plan Assets	**9.0**	7.7
	Actuarial Gain/(Loss) on Plan Assets	**(0.2)**	0.9
	Actual Return on Plan Assets	***8.8***	***8.6***
4.	**Amount Recognised in the Balance Sheet**		
	Liability at the end of the year	**(111.8)**	(96.1)
	Fair Value of Plan Assets at the end of the year	**108.7**	98.9
	(Liablities)/Assets Recognised in the Balance Sheet	***(3.1)***	*2.8*
5.	**Expenses Recognised in the Income Statement**		
	Current Service Cost	**7.0**	7.7
	Interest Cost	**6.6**	5.0
	Expected Return on Plan Assets	**(9.0)**	(7.7)
	Net Actuarial (Gain)/Loss to be Recognised	**8.8**	(11.2)
	Expense Recognised in the Income Statement	***13.4***	***(6.2)***

Schedules to the Financial Statements

for the year ended 31 December 2010 Currency: Rupees million

(iii) **Defined Benefit Plans: (continued)**

		Gratuity	
		2010	2009
6.	**Balance Sheet Reconciliation**		
	Opening Net (Assets)/Liability	**(2.8)**	9.7
	Expense as above	**13.4**	(6.2)
	Employers Contribution	**(7.5)**	(6.3)
	Liabilities/(Assets) Recognised in the Balance Sheet	***3.1***	***(2.8)***
7.	**Actuarial Assumptions : For the Year**		
	Discount Rate Current	***7.8%***	*7.5%*
	Rate of Return on Plan Assets Current	***9.0%***	*9.0%*
	Salary Escalation Current	***7.0%***	*7.0%*

Note: Employer's contribution includes payments made of Rs. 6.5 million (2009: Rs. 5.4 million) towards gratuity obligation by the Company directly to its past employees.

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

(iv) **Experience adjustments:**

	2010	2009	2008	2007
Present value of defined benefit obligation	**111.8**	96.1	99.1	75.5
Fair value of the Plan Assets	**108.7**	98.9	89.4	80.9
Surplus/(Deficit) in the plan	**(3.1)**	2.8	(9.7)	5.4
Experience adjustments on:				
Plan Liabilities (Gain)/Loss	**8.6**	(10.3)	16.3	(3.5)
Plan Assets Gain/(Loss)	**(0.2)**	0.9	(0.2)	(0.8)

(v) **Broad category of plan assets relating to gratuity as a percentage of total plan assets:**

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

(vi) **Compensated absences:**

Compensated absences are recognised when the employees render service 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 absences have been provided for based on outstanding leave balance and the employees' gross pay.

The undiscounted amount of short term employee benefits of Rs. 6.2 million (2009: Rs. 4.5 million) is expected to be paid in the exchange for the services rendered by employees, is recognised as an expense during the year.

(vii) The Guidance on Implementing AS-15, Employee Benefits (revised 2005) issued by Accounting Standards Board (ASB) states that benefits involving employer established provident funds, which require interest shortfalls to be recompensed, are to be considered as defined benefit plans. Pending the issuance of the final guidance note from the Actuarial Society of India, the Company's actuary has expressed an inability to reliably measure provident fund liabilities. Accordingly the Company is unable to exhibit the related information.

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:

	2010	2009
Amount recognized in the profit and loss account	**20.1**	18.5
The total minimum lease liability for the assets obtained on operating lease basis is Rs. 77.5 million (2009: Rs. 37.7 million). The maturity profile of operating lease is as follows:		
Minimum lease payments		
Payable within 1 year	**20.4**	16.1
Payable between 1-5 years	**57.1**	21.6
Payable beyond 5 years	**–**	–
Total	**77.5**	37.7

Schedules to the Financial Statements

for the year ended 31 December 2010 Currency: Rupees million

25. DETAILS OF INVESTMENTS PURCHASED AND SOLD DURING THE YEAR

Name of the Fund	Purchase Units	Purchase Face Value (Rs.)	Cost Rs. Million	Sale Units
LICMF Liquid Fund	**477,613,776**	**10**	**5,244.2**	**477,613,776**
	(338,390,015)		(3,715.6)	(338,390,015)
LICMF Income Plus Fund	**117,056,727**	**10**	**1,170.7**	**117,056,727**
	(164,981,446)		(1,650.6)	(164,981,446)
Reliance Liquidity Fund	**30,988,564**	**10**	**310.0**	**30,988,564**
	(–)		(–)	(–)
SBI – SHF – Ultra Short Term Fund — Institutional	**10,182,721**	**10**	**102.7**	**10,182,721**
	(22,761,937)		(229.3)	(22,761,937)
SBI – Magnum Insta Cash Fund	**40,277,419**	**10**	**674.7**	**40,277,419**
	(23,220,720)		(389.0)	(23,220,720)
Canara Robeco Liquid Fund — Super Institutional	**53,501,124**	**10**	**538.0**	**53,501,124**
	(24,615,100)		(247.2)	(24,615,100)
Canara Robeco Treasury Advantage Fund — Institutional	**2,862,988**	**10**	**35.5**	**2,862,988**
	(–)		(–)	(–)
Birla Sun Life Cash Plus Institutional Premium	**62,998,945**	**10**	**631.2**	**62,998,945**
	(45,386,394)		(454.7)	(45,386,394)
ICICI Prudential Liquid Super Institutional Plan	**3,499,710**	**100**	**350.1**	**3,499,710**
	(–)		(–)	(–)
TATA Liquid Super High Investment Plan	**314,079**	**1,000**	**350.0**	**314,079**
	(–)		(–)	(–)
Birla Sun Life Cash Manager — Institutional	**—**		**—**	**—**
	(36,215,465)	(10)	(362.3)	(36,215,465)
DWS Insta Cash Plus Fund — Institutional	**—**		**—**	**—**
	(998,499)	(10)	(10.0)	(998,499)
DWS Money Plus Fund — Institutional Plan	**—**		**—**	**—**
	(81,144)	(10)	(0.8)	(81,144)
Sundaram BNP Paribas Liquid Plus — Super Institutional	**—**		**—**	**—**
	(3,422,453)	(10)	(35.7)	(3,422,453)
Sundaram BNP Paribas Money Fund — Super Institutional	**—**		**—**	**—**
	(3,467,513)	(10)	(35.0)	(3,467,513)
Religare Liquid Fund — Super Institutional	**—**		**—**	**—**
	(4,856,856)	(10)	(58.0)	(4,856,856)
Religare Short Term Plan — Institutional	**—**		**—**	**—**
	(5,262,680)	(10)	(53.4)	(5,262,680)
Birla Sun Life Short Term Fund — Institutional	**—**		**—**	**—**
	(51,054,704)	(10)	(510.8)	(51,054,704)
Fortis Overnight — Institutional Plus	**—**		**—**	**—**
	(8,550,247)	(10)	(85.5)	(8,550,247)
Fortis Money Plus Institutional	**—**		**—**	**—**
	(8,702,960)	(10)	(87.0)	(8,702,960)
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)
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)
ICICI Prudential Institutional Liquid Plan —	**—**		**—**	**—**
Super Institutional	(1,248,041)	(10)	(12.5)	(1,248,041)

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

Schedules to the Financial Statements

for the year ended 31 December 2010 Currency: Rupees million

26. SUPPLEMENTARY STATUTORY INFORMATION

(i) Remuneration to Directors:

Managerial remuneration to Directors is summarised below:

	2010	2009
Salaries	**22.6**	20.6
Commission #	**10.6**	10.0
Contribution to provident fund and other funds	**4.1**	3.9
Perquisites or benefits in cash or in kind	**14.6**	10.9
Directors' fees	**0.7**	0.8
	52.6	46.2

Provision for Commission for 2009 was utilised to the extent of Rs.8.7 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 summarised below:

	2010	2009
Profit for the year before taxation as per the profit and loss account	**957.1**	964.5
Add:		
Managerial remuneration	**52.6**	46.2
Profit on sale of fixed assets, net (as per Section 349)	**0.5**	0.6
	1,010.2	1,011.3
Less:		
Profit on sale of fixed assets, net (as per profit and loss account)	**0.5**	0.6
Net profit	**1,009.7**	1,010.7
Commission to the Managing Director and the Whole-time Directors	**8.9**	8.4
Commission @ 1% of the net profit to Non-Whole-time Directors, restricted as decided by the Board of Directors	**1.7**	1.6
Total Commission to Directors	**10.6**	10.0

(ii) Remuneration to Auditors:

	2010	2009
Audit fees	**1.4**	1.3
Taxation matters	**1.1**	0.9
Other matters	**0.7**	1.0
Out of pocket expenses	**0.1**	0.1
Service Tax	**0.3**	0.2
	3.6	3.5

(iii) Expenditure in foreign currency:

	2010	2009
Royalty	**98.7**	92.9
Consultancy fees	**30.0**	30.0
Professional fees	**36.5**	32.1
Others (travelling, commission, etc.)	**42.1**	33.4
	207.3	188.4

Amounts disclosed above are on accrual basis

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

	2010	2009
Raw materials	**427.7**	438.0
Finished goods	**460.5**	279.2
Components, Stores and Spare Parts	**2.4**	2.2
Capital goods	**22.4**	3.9
	913.0	723.3

Schedules to the Financial Statements

for the year ended 31 December 2010 Currency: Rupees million

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

	2010	2009
Amount of dividend:		
Interim 2010	**816.9**	–
Final 2009	**150.5**	–
Final 2008	**–**	150.5
Number of Non-resident Shareholders:		
Interim 2010	**3**	–
Final 2009	**3**	–
Final 2008	**–**	3
Number of Equity shares held by Non-resident Shareholders:		
Interim 2010	**8,599,224**	–
Final 2009	**8,599,224**	–
Final 2008	**–**	8,599,224

(vi) Earnings in foreign exchange:

	2010	2009
Exports of goods on F.O.B. basis	**468.8**	522.2
Indenting commission	**1.2**	1.1
Others (Recoveries of SAP expenses, freight, insurance, etc)	**41.9**	23.5
	511.9	546.8

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	**269.3 Tonnes**	**143.7**
	(216.8 Tonnes)	(238.8)
Vitamins	**239.7 Tonnes**	**173.0**
	(188.8 Tonnes)	(207.3)
Active Ingredients	**384.2 Tonnes**	**186.9**
	(428.1 Tonnes)	(187.3)
Organic Chemicals	**588.4 Tonnes**	**121.3**
	728.0 Kilo Ltrs.	
	(603.7 Tonnes)	(99.9)
	(472.2 Kilo Ltrs.)	
Inorganic Chemicals	**703.5 Tonnes**	**55.1**
	268.7 Kilo Ltrs.	
	(427.3 Tonnes)	(34.3)
	(188.2 Kilo Ltrs.)	
Others		**251.8**
		(275.4)
		931.8
		(1,043.0)

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

	Value	Percentage to total consumption
Imported	**376.2**	**40.4**
	(492.6)	(47.2)
Indigenous	**555.6**	**59.6**
	(550.4)	(52.8)
	931.8	**100.0**
	(1,043.0)	(100.0)

Schedules to the Financial Statements

for the year ended 31 December 2010 Currency: Rupees million

(c) Value of Imported and Indigenous Stores Consumed:

	Value	Percentage to total consumption
Imported	**1.5**	**5.4**
	(1.8)	(5.1)
Indigenous	**26.2**	**94.6**
	(33.3)	(94.9)
	27.7	**100.0**
	(35.1)	(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)	(Kilolitres)	(Tonnes)	(No. million)	(Rs. million)
(a) Licensed Capacity		See Note (e)	–	See Note (e)	See Note (e)	See Note (e)	
(b) Installed Capacity @		**595.0**	**–**	**443.0**		**400.0**	
		(482.0)	–	(443.0)		(400.0)	
(c) Actual Production		**592.2**	**5.4**	**476.2 ***	**4,181.3 ***	**2,082.0 ***	
		(543.0)	–	(521.0)*	(5,106.6)*	(1,667.2)*	
(d) Opening stock of goods produced							
(i) For sale		**38.9**	**0.3**	**65.0**	**690.6**	**267.0**	
		(31.4)	(2.0)	(56.0)	(461.4)	(277.7)	
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		**–**	**–**	**4.5**	**38.5**	**10.6**	
		(–)	(–)	(83.8)	(28.5)	(8.2)	
Value	Rs. million	**–**	**–**	**1.6**	**4.1**	**6.6**	**12.3**
	Rs. million	(–)	(–)	(2.3)	(4.6)	(9.9)	(16.8)
(e) Closing stock of goods produced							
(i) For sale		**36.0**	**1.9**	**29.8**	**438.3**	**175.6**	
		(38.9)	(0.3)	(65.0)	(690.6)	(267.0)	
Value	Rs. million	**39.6**	**0.1**	**18.2**	**42.8**	**56.2**	**156.9**
	Rs. million	(51.5)	(*)	(49.0)	(67.0)	(93.2)	(260.7)
(ii) For samples		**–**	**–**	**3.1**	**30.3**	**8.3**	
		(–)	(–)	(4.5)	(38.5)	(10.6)	
Value	Rs. million	**–**	**–**	**0.9**	**3.3**	**5.9**	**10.1**
	Rs. million	(–)	(–)	(1.6)	(4.1)	(6.6)	(12.3)
(f) Turnover		**373.2**	**3.8**	**485.3**	**4,033.2**	**2,047.4**	
		(358.1)	(1.6)	(464.1)	(4,477.7)	(1,540.0)	
Value	Rs. million	**683.3**	**0.3**	**653.9**	**831.4**	**1,906.9**	**4,075.8**
	Rs. million	(714.6)	(1.5)	(577.9)	(777.6)	(1,494.5)	(3,566.1)

@ 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.
(h) The converted quantities are grouped and arranged in accordance with current year conversion factors.

Schedules to the Financial Statements

for the year ended 31 December 2010 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	**29,118.9**	**45,243.3**	**41,082.9**	**19,251.2**
		'000s	(67,457.3)	(222,762.7)	(237,733.3)	(29,118.9)
		Rs. million	**28.2**	**80.6**	**154.2**	**29.2 #**
		Rs. million	(41.3)	(214.6)	(602.5)	(28.2)#
(b)	Nasal Drops	Kilolitres	**0.7**	**51.7**	**31.9**	**11.8**
		Kilolitres	(0.7)	(14.7)	(10.5)	(0.7)
		Rs. million	**0.5**	**40.9**	**73.3**	**12.2 #**
		Rs. million	(0.5)	(9.9)	(16.7)	(0.5)#
(c)	Reagents/Kits/	'000s	**4.1**	**39.5**	**35.3**	**7.7**
	Equipments/Pigments/	'000s	(5.5)	(18.7)	(19.8)	(4.1)
	Paper Rolls/Booklets	Rs. million	**64.4**	**578.2**	**771.0**	**95.6**
		Rs. million	(43.9)	(318.8)	(473.6)	(64.4)
(d)	Syrups/Ointments	Tonnes	**32.2**	**16.6**	**11.8**	**3.4**
		Tonnes	(208.5)	(668.3)	(598.7)	(32.2)
		Rs. million	**6.6**	**10.2**	**12.0**	**1.6 #**
		Rs. million	(23.0)	(32.2)	(56.2)	(6.6)#
(e)	Bulk Drugs	Tonnes	**0.4**	**4.0**	**2.0**	**–**
		Tonnes	(0.8)	(6.0)	(6.4)	(0.4)
		Rs. million	**0.9**	**8.1**	**4.5**	**–**
		Rs. million	(1.4)	(13.5)	(16.0)	(0.9)
		Rs. million	**100.6**	**718.0**	**1,015.0**	**138.6**
		Rs. million	(110.1)	(589.0)	(1,165.0)	(100.6)

\# Includes value of samples Rs. 7.1 million (2009: Rs. 8.7 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.
(c) The converted quantities are grouped and arranged in accordance with current year conversion factors.

29. SEGMENT INFORMATION

Information about Primary Business Segments:

Particulars	2010				2009			
	Pharmaceuticals	**Chemicals**	**Eliminations**	**Total**	Pharmaceuticals	Chemicals	Eliminations	Total
REVENUE								
External Revenue	**3,633.7**	**1,488.2**		**5,121.9**	3,525.5	1,206.7		4,732.2
Inter-segment Revenue		**148.6**	**(148.6)**	**–**		154.5	(154.5)	–
Total Revenue (see Note d below)	**3,633.7**	**1,636.8**	**(148.6)**	**5,121.9**	3,525.5	1,361.2	(154.5)	4,732.2
RESULT								
Segment Result before allocation of Corporate Expenses	**640.4**	**269.0**		**909.4**	604.9	294.9		899.8
Less: Corporate Expenses	**117.8**	**37.0**		**154.8**	160.3	48.0		208.3
Net Segment Result	**522.6**	**232.0**		**754.6**	444.6	246.9		691.5
Interest Expense				**(0.7)**				(0.3)
Other unallocated Income (Net)				**203.2**				273.3
Income Taxes				**(325.3)**				(309.7)
Net Profit				**631.8**				654.8
OTHER INFORMATION								
Segment Assets	**1,028.3**	**872.9**		**1,901.2**	1,022.3	841.6		1,863.9
Unallocated Corporate Assets				**2,398.6**				3,817.7
Total Assets				**4,299.8**				5,681.6
Segment Liabilities	**629.7**	**173.2**		**802.9**	439.0	132.6		571.6
Unallocated Corporate Liabilities				**32.7**				437.1
Total Liabilities				**835.6**				1,008.7
Capital Expenditure – Additions	**40.8**	**47.1**		**87.9**	63.8	31.7		95.5
Non-cash expenses other than Depreciation/ Amortisation/Impairment loss	**12.7**	**11.1**		**23.8**	35.1	11.1		46.2
Depreciation/Amortisation/Impairment loss	**39.4**	**174.4**		**213.8**	38.6	36.5		75.1

Schedules to the Financial Statements

for the year ended 31 December 2010 Currency: Rupees million

Geographical segment information

	2010			2009		
	Domestic	**Export**	**Total**	Domestic	Export	Total
Revenue	**4,590.1**	**531.8**	**5,121.9**	4,152.4	579.8	4,732.2
Segment Asset	**1,830.1**	**71.1**	**1,901.2**	1,814.8	49.1	1,863.9
Capital Expenditure	**87.9**	**–**	**87.9**	95.5	–	95.5

(a) Business segment:

For Management reporting purposes, the Company is organised into two major operating segments - Pharmaceuticals and Chemicals. The segments 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 segment comprises of Ethicals used in the treatment of Cardiovascular and Metabolic diseases, Consumer Healthcare products and Vitamins-based formulations.

Chemicals segment comprises of Bulk drugs and Pigments. Segment Revenue relating to the Chemicals business segment 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 comprises of:

	2010	2009
Sales (Net)	**5,090.8**	4,731.1
Income from services rendered (included in Other Income)	**1.2**	1.1
Other Operating Income	**29.9**	–
	5,121.9	4,732.2

30. (a) RELATED PARTY DISCLOSURES

Holding Company:

Merck KGaA, Germany through its subsidiaries listed below as Investing Associates holds 51.8% (2009 : 51.8%) of the equity share capital, as at 31 December 2010.

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:	**Executive Directors:**
■ EMD Biosciences Inc., USA	■ Dr. M. Dziki (Managing Director)
■ EMD Chemicals Inc., USA	■ Mr. R. L. Shenoy
■ Merck & Cie KG, Switzerland	■ Mr. K. Shivkumar
■ Merck (Pvt) Ltd., Pakistan (Formerly known as Merck Marker (Pvt.) Ltd., Pakistan)	■ Mr. P. H. Pimplikar (w.e.f. 1 April 2010)
■ Merck Chemicals (Shanghai) Co. Ltd., China	
■ Merck Consumer Health Care Holding GmbH, Germany	
■ Merck Inc., Philippines	
■ Merck KGaA & Co. Werk Spittal, Austria	
■ Merck KGaA, Rep Office in Vietnam	

Schedules to the Financial Statements

for the year ended 31 December 2010 Currency: Rupees million

- Merck Limited, Japan
- Merck Limited, South Korea
- Merck Limited, Thailand
- Merck Patent GmbH, Germany
- Merck Pharmaceutical (HK) Ltd., Hong Kong
- Merck Pte. Ltd., Singapore
- Merck Pty. Ltd., Australia
- Merck Pty. Ltd., South Africa
- Merck S.A., France
- Merck Sante SAS, France
- Merck Schuchardt, Germany
- Merck Sdn Bhd, Malaysia
- Merck Serono S. A., Switzerland (Formerly known as Merck Serono International S A, Switzerland)
- Merck Specialities Private Limited, India
- P. T. Merck, Indonesia (Formerly known as P. T. Merck Tbk, Indonesia)
- Seven Seas Limited, United Kingdom
- Millipore (India) Private Limited, India (w.e.f 15 July 2010).

30. (b) SUMMARY OF RELATED PARTY TRANSACTIONS

	Transactions	Holding Company	Investing Associates	Fellow Subsidiaries	Executive Directors & Relatives	Total
1.	Purchase of Goods	**354.6**	**–**	**148.5**	**–**	**503.1**
		(225.7)	(–)	(96.2)	(–)	(321.9)
2.	Purchase of Fixed assets	**(–)**	**–**	**7.0**	**–**	**7.0**
		(1.7)	(–)	(–)	(–)	(1.7)
3.	Sale of Goods	**28.7**	**–**	**298.5**	**–**	**327.2**
		(120.1)	(–)	(278.2)	(–)	(398.3)
4.	Services Received	**184.6**	**–**	**17.5**	**–**	**202.1**
		(174.3)	(–)	(16.1)	(–)	(190.4)
5.	Services Rendered	**11.2**	**–**	**126.4**	**–**	**137.6**
		(1.1)	(–)	(95.3)	(–)	(96.4)
6.	Reimbursement of Expenses	**16.3**	**–**	**24.7**	**–**	**41.0**
		(6.4)	(–)	(9.1)	(–)	(15.5)
7.	Loan Given	**–**	**–**	**521.4**	**1.6**	**523.0**
		(–)	(–)	(–)	(–)	(–)
8.	Loan Repaid	**–**	**–**	**78.4**	**0.2**	**78.6**
		(–)	(–)	(–)	(–)	(–)
9.	Interest on Loan	**–**	**–**	**2.6**	**0.1**	**2.7**
		(–)	(–)	(–)	(–)	(–)
10.	Dividend Paid	**–**	**816.9**	**–**	*****	**816.9**
		(–)	(150.5)	(–)	(*)	(150.5)
11.	Remuneration	**–**	**–**	**–**	**50.2**	**50.2**
		(–)	(–)	(–)	(43.8)	(43.8)
12.	Balances Payable as at year end	**30.2**	**–**	**16.9**	**–**	**47.1**
		(25.4)	(–)	(9.2)	(–)	(34.6)
13.	Balances Receivable as at year end	**0.4**	**–**	**452.1**	**1.4**	**453.9**
		(0.2)	(–)	(1.5)	(–)	(1.7)

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.

Schedules to the Financial Statements

for the year ended 31 December 2010 Currency: Rupees million

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

		2010	2009
1.	Purchase of Goods		
	Merck KGaA, Germany	**354.6**	225.7
	Merck & Cie KG, Switzerland	**38.1**	33.6
	Merck Ltd., Japan	**49.8**	35.5
2.	Purchase of Capital Goods		
	Merck KGaA, Germany	**–**	1.7
	Millipore (India) Private Limited, India	**7.0**	–
3.	Sale of Goods		
	Merck KGaA & Co. Werk Spittal, Austria	**97.2**	51.8
	Merck KGaA, Germany	**28.7**	120.1
	Merck Marker (Pvt.) Ltd., Pakistan	**52.9**	58.4
	Merck Ltd., Japan	**26.0**	44.6
	EMD Chemicals Inc., USA	**99.6**	95.1
4.	Services Received		
	Merck KGaA, Germany	**184.6**	174.3
	Merck Pte. Ltd., Singapore	**5.3**	11.4
5.	Services Rendered		
	Merck Specialities Private Limited, India	**126.3**	95.3
6.	Reimbursement of Expenses		
	Merck Limited, Thailand	**0.7**	4.6
	Merck Serono S. A., Switzerland	**7.6**	0.8
	Merck KGaA, Germany	**16.3**	6.4
	P. T. Merck Tbk, Indonesia	**0.0**	3.7
7.	Loan Given		
	Merck Specialities Private Limited, India	**521.4**	–
8.	Loan Repaid		
	Merck Specialities Private Limited, India	**78.4**	–
9.	Dividend Paid		
	Emedia Export Company mbh, Germany	**335.8**	61.8
	Merck Internationale Beteiligungen GmbH, Germany	**293.6**	54.1
	Chemitra GmbH, Germany	**187.5**	34.6
10.	Remuneration		
	Dr. M. Dziki	**25.1**	25.3
	Mr. R. L. Shenoy	**10.6**	9.3
	Mr. K. Shivkumar	**9.2**	9.2
	Mr. P. H. Pimplikar	**5.2**	–
11.	Balances Payable		
	Merck KGaA, Germany	**30.2**	25.4
	Millipore (India) Private Limited, India	**7.0**	–
12.	Balances Receivable		
	Merck Specialities Private Limited, India	**446.1**	1.5
	Merck KGaA, Germany	**0.4**	0.2

31. TAXATION

Provision for current tax is based on the results for the year ended 31 December 2010 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 1 April 2010 to 31 March 2011, being the tax year of the Company.

Schedules to the Financial Statements

for the year ended 31 December 2010 Currency: Rupees million

32. RESEARCH AND DEVELOPMENT

Research and development expenses incurred during the year and debited to the profit and loss account aggregate to Rs. 24.6 million (2009: Rs. 18.1 million).

Of the above, the composition of Rs. 20.5 million (2009: Rs. 14.4 million) disclosed as "Research and Development Expenses" in Schedule 17 is set out below:

	2010	2009
Salaries, Wages, Bonus and Allowances	**7.2**	6.4
Contribution to Provident Fund and Other Funds	**0.3**	0.3
Contribution to Group Gratuity Scheme	*	*
Staff Welfare and Amenities	**0.6**	0.5
Stores and Spare Parts Consumed	**3.3**	2.9
Research Expenses	**5.7**	1.3
Others	**3.4**	3.0
	20.5	14.4

The balance amount of Rs. 4.1 million (2009: Rs. 3.7 million) represents depreciation on fixed assets used for Research and development purposes.

33. EARNINGS PER SHARE

		2010	2009
Profit after tax attributable to equity shareholders	A	**631.8**	654.8
Calculation of weighted average number of equity shares			
Number of equity shares at the beginning of the year		**16,599,382**	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**	16,599,382
Weighted average number of equity shares outstanding during the year (based on date of buy back of shares)	B	**16,599,382**	16,771,077
Basic and diluted earnings per share (Rs.)	A/B	**38.1**	39.0
Face value per share (Rs.)		**10.0**	10.0

34. UNHEDGED FOREIGN CURRENCY EXPOSURE

The unhedged foreign currency exposure as on 31 December 2010 is given below:

	2010		2009	
	(Foreign Currency)	**(INR)**	(Foreign Currency)	(INR)
Payables				
USD	**0.6**	**27.3**	0.4	20.3
EUR	**0.4**	**25.8**	0.3	23.1
GBP	*	**0.2**	*	0.1
CHF	**0.1**	**2.4**	*	1.4
SEK	*	**0.1**	*	0.1
		55.8		45.0
Receivables				
USD	**1.1**	**50.1**	0.6	29.1
EUR	**0.1**	**4.8**	*	0.1
		54.9		29.2

Schedules to the Financial Statements

for the year ended 31 December 2010 Currency: Rupees million

35. 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:

	2010	2009
Principal amount remaining unpaid to any supplier as at the year end	**0.9**	0.7
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	*	–
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	**0.1**	*
Amount of further interest remaining due and payable even in the succeeding years, for the purpose of disallowance as a deductible expenditure under Section 23 of the MSMED.	**–**	–

36. 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 2010. Management believes that the Company's international transactions with related parties post 31 March 2010 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.

37. PREVIOUS YEAR COMPARATIVES

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

As set out in our attached report of even date

For B S R & Co.
Chartered Accountants
Firm Registration No. 101248W

Bhavesh Dhupelia
Partner
Membership No.: 042070

Mumbai, 08 February, 2011

H. U. Shenoy
Company Secretary

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
P. H. Pimplikar
Directors

Balance Sheet Abstract and Company's General Business Profile

I.	*Registration Details*	
	State Code	11
	Registration No.	L99999MH1967PLC013726
	Balance Sheet Date	31.12.2010
II.	*Capital Raised during the Year (Amount in Rs. '000)*	
	Public Issue	NIL
	Rights Issue	NIL
	Bonus Issue	NIL
	Private Placement	NIL
III.	*Position of Mobilisation and Deployment of funds (Amount in Rs. '000)*	
	Total Liabilities	4,299,826
	Total Assets	4,299,826
	Sources of Funds: (Amount in Rs. '000)	
	Paid-Up Capital	165,994
	Reserves and Surplus	3,298,204
	Secured Loans	NIL
	Unsecured Loans	NIL
	Deferred Tax Liability	NIL
	Application of Funds: (Amount in Rs. '000)	
	Net Fixed Assets	512,44
	Investments	201,797
	Deferred Tax Assets	34,594
	Net Current Assets	2,715,363
	Miscellaneous Expenditure	NIL
	Accumulated Losses	NIL
IV.	*Performance of the Company (Amount in Rs. '000)*	
	Turnover (Total Income)	5,524,509
	Total Expenditure	4,567,392
	Profit Before Tax	957,117
	Profit After Tax	631,813
	Earnings Per Share in Rs.	38.1*
	Dividend Rate %	950
*	Profit after tax / Weighted average number of equity shares outstanding during the year	16,599,382
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
P. H. Pimplikar
} Directors

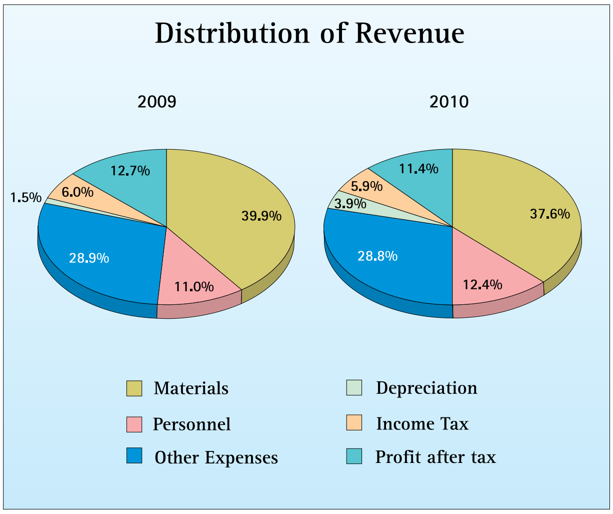
H. U. Shenoy
Company Secretary

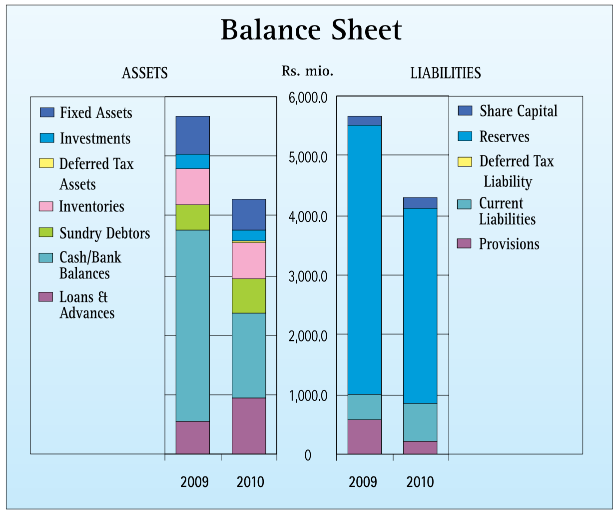
Mumbai, 08 February, 2011

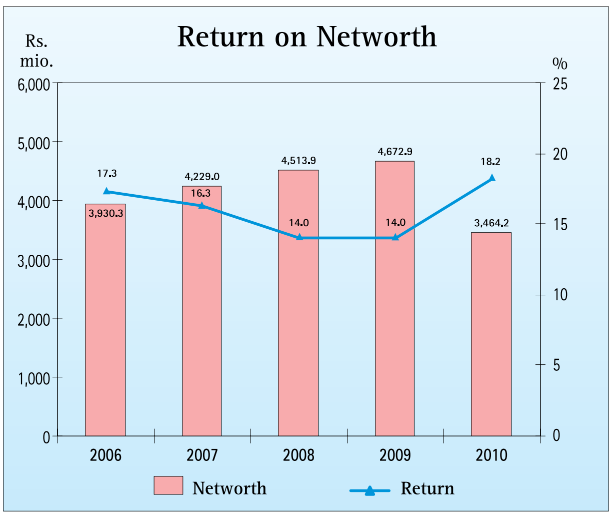
Financial Highlights : 2001-2010

		2001	2002	2003	2004	2005	2006	2007	2008	2009	Change +/- in %	2010
PROFIT & LOSS ACCOUNT SUMMARY												
Turnover	Rs. Mio.	3,384.7	3,466.9	3,641.7	3,766.0	3,964.6	3,294.9	3,148.3	3,894.6	4,731.1	7.6	**5,090.8**
Other Income	"	84.7	90.7	106.6	138.2	183.7	967.2	395.0	477.1	432.1	0.4	**433.7**
	"	**3,469.4**	**3,557.6**	**3,748.3**	**3,904.2**	**4,148.3**	**4,262.1**	**3,543.3**	**4,371.7**	**5,163.2**	**7.0**	**5,524.5**
Costs & Expenses												
Materials Cost	"	1,690.3	1,686.8	1,760.7	1,722.1	1,797.1	1,393.2	1,264.9	1,599.9	2,060.9	0.9	**2,078.7**
Personnel Expenses	"	390.8	470.4	672.4	305.7	310.0	339.3	332.0	477.6	570.2	20.1	**684.6**
Interest Expense	"	5.6	3.7	8.3	1.9	0.2	0.1	0.1	0.1	0.3	133.3	**0.7**
Operating and Other Expenses	"	654.8	689.4	619.6	702.7	790.9	768.1	881.8	1,319.4	1,492.2	6.5	**1,589.6**
Depreciation/Impairment loss	"	94.8	100.3	96.1	86.0	77.5	64.4	65.9	57.3	75.1	184.7	**213.8**
	"	**2,836.3**	**2,950.6**	**3,157.1**	**2,818.4**	**2,975.7**	**2,565.1**	**2,544.7**	**3,454.3**	**4,198.7**	**8.8**	**4,567.4**
Profit Before Taxation	"	633.1	607.0	591.2	1,085.8	1,172.6	1,697.0	998.6	917.4	964.5	-0.8	**957.1**
Provision for Taxation	"	186.0	207.2	194.8	375.9	384.7	363.5	310.4	287.3	309.7	5.0	**325.3**
Profit After Taxation	"	447.1	399.8	396.4	709.9	787.9	1,333.5	688.2	630.1	654.8	-3.5	**631.8**
BALANCE SHEET SUMMARY												
Assets Employed												
Fixed Assets (Gross)	Rs. Mio.	1,263.8	1,307.8	1,290.0	1,128.1	1,152.2	1,153.9	1,168.2	1,405.8	1,482.9	3.6	**1,536.0**
Fixed Assets (Net)	"	760.4	720.2	616.5	471.6	447.4	403.1	405.0	622.1	640.3	-20.0	**512.4**
Investments	"	351.6	265.5	724.7	1,252.8	1,406.7	2,480.7	2,339.7	1,529.3	238.2	-15.3	**201.8**
Current Assets (Net)	"	444.8	732.2	633.8	780.8	1,152.6	1,092.4	1,532.3	2,386.3	**3,815.6**	-28.8	**2,715.4**
Deferred Tax Assets (Net)	"	-	-	-	-	-	-	-	-	**-**	-	**34.6**
Miscellaneous Expenditure (to the extent not written off or adjusted)	"	34.0	136.1	-	-	-	-	-	-	-	**-**	**-**
		1,590.8	**1,854.0**	**1,975.0**	**2,505.2**	**3,006.7**	**3,976.2**	**4,277.0**	**4,537.7**	**4,694.1**	**-26.2**	**3,464.2**
Financed by												
Share Capital	Rs. Mio.	168.6	168.6	168.6	168.6	168.6	168.6	168.6	168.6	166.0	**-**	**166.0**
Reserves and Surplus	"	1,336.3	1,587.7	1,793.9	2,313.2	2,812.7	3,761.7	4,060.4	4,345.3	4,506.9	-26.8	**3,298.2**
Shareholders' Funds	"	1,504.9	1,756.3	1,962.5	2,481.8	2,981.3	3,930.3	4,229.0	4,513.9	4,672.9	-25.9	**3,464.2**
Deferred Tax Liability (Net)	"	85.9	97.7	12.5	23.4	25.4	45.9	48.0	23.8	**21.2**	-	**-**
	"	**1,590.8**	**1,854.0**	**1,975.0**	**2,505.2**	**3,006.7**	**3,976.2**	**4,277.0**	**4,537.7**	**4,694.1**	**-26.2**	**3,464.2**
OTHER INVESTOR INFORMATION												
Earnings Per Share	Rs.	26.5	23.7	23.5	42.1	46.7	79.1	40.8	37.4	39.0	-2.3	**38.1**
Dividend	%	100.0	78.0	100.0	100.0	150.0	200.0	200.0	175.0	200.0	375.0	**950.0**
Book Value Per Share	Rs.	89.3	104.2	116.4	147.2	176.8	233.1	250.8	267.7	281.5	-25.9	**208.7**
Market Value of Share (BSE)	High Rs.	529	370	460	598	590	639	500	460	634	58.7	**1,006**
	Low Rs.	240	221	215	301	375	425	372	260	293	93.2	**566**
No. of Shareholders		26,963	26,692	25,487	25,304	25,235	24,805	25,718	26,096	24,083	13.3	**27,284**
No. of Employees		1,571	1,337	950	927	952	860	922	1,072	1,245	1.0	**1,257**

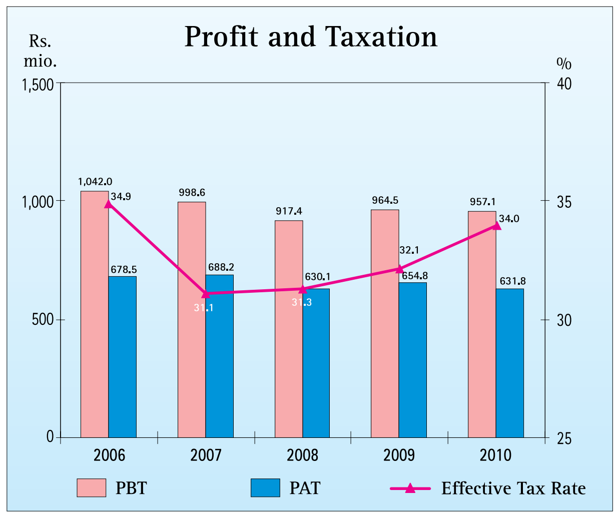
PERFORMANCE INDICATORS



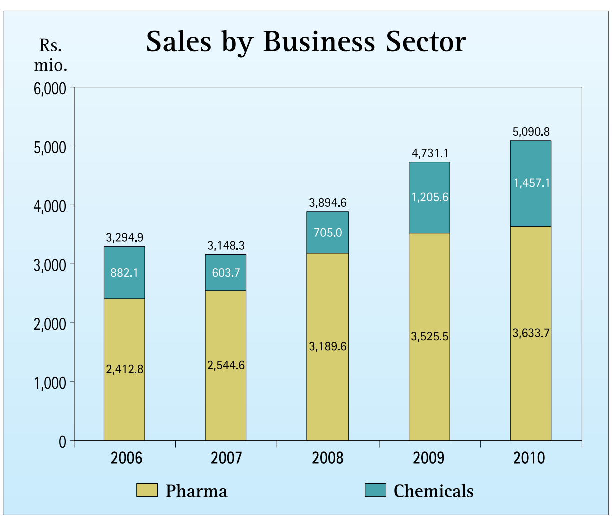


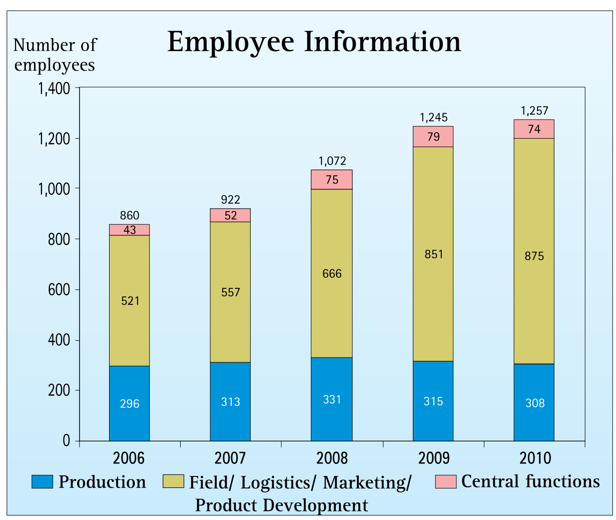


Note: Return of 2006 excludes income from sale of Analytics & Reagents business



Note: PAT of 2006 excludes income from sale of Analytics & Reagents business





Cover page coated with Iriodin® pearl lustre pigments manufactured by Merck www.merck.co.in

vakils