

Board of Directors

(As on 06.02.2004)

Chairman

D. S. Parekh

Vice-Chairman

V. Thyagarajan

Managing Director

S. Kalyanasundaram

Directors

R. R. Bajaaj

Dr. A. Banerjee

J. D. Coombe

N. Ranthi Dev (upto 31.12.03)

P. Driver (upto 9.10.03)

M. B. Kapadia

A. S. Lakshmanan

V. Narayanan

P. V. Nayak

Dr. M. Reilly

S. J. Scarff

Company Secretary

A. A. Nadkarni

Registered Office

Dr. Annie Besant Road

Mumbai 400 030

Telephone: 24959595

Fax: 24959494

Bankers

Bank of America

Citibank N.A.

HDFC Bank Limited

Hongkong and Shanghai Banking Corporation Limited

Standard Chartered Bank

State Bank of India

Auditors

Price Waterhouse & Co.

Solicitors

Crawford Bayley & Co.

Gagrat & Co.

Executive Committee

Managing Director

S. Kalyanasundaram

Senior Executive Director

M. B. Kapadia

– Finance, Legal & Secretarial

– Corporate Communications & Administration

– Fine Chemicals

Executive Director

Dr. A. Banerjee

– Technical

Executive Vice-President

T. Sengupta

– Human Resources

Vice-Presidents

M. K. Vasanth Kumar

– Information Technology

K. Shivkumar

– Pharmaceuticals

H. Singh

– Pharmaceuticals

Senior General Manager

J. Dwivedy

– Pharmaceuticals Procurement

Factories

– 2nd Pokhran Road, Thane

– Ambad, Nashik

– Metagalli, Mysore

Registrars & Share Transfer Agents

GlaxoSmithKline Consumer Healthcare Limited,

DLF Plaza Tower, DLF City, Phase-I,

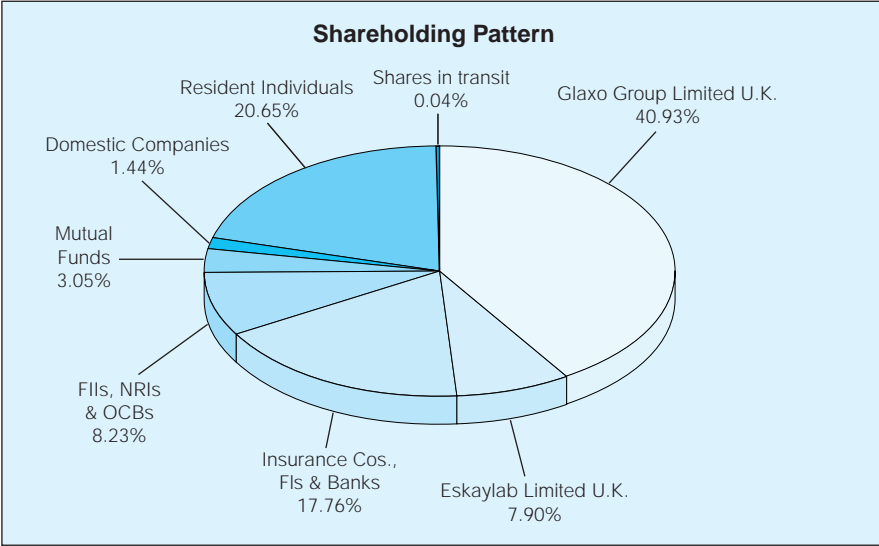
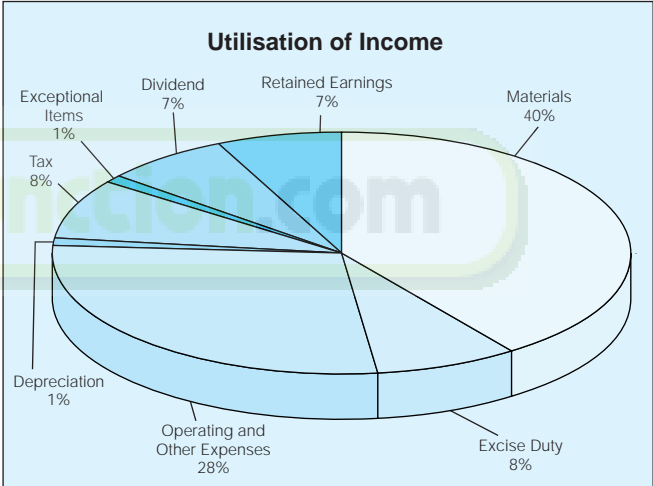
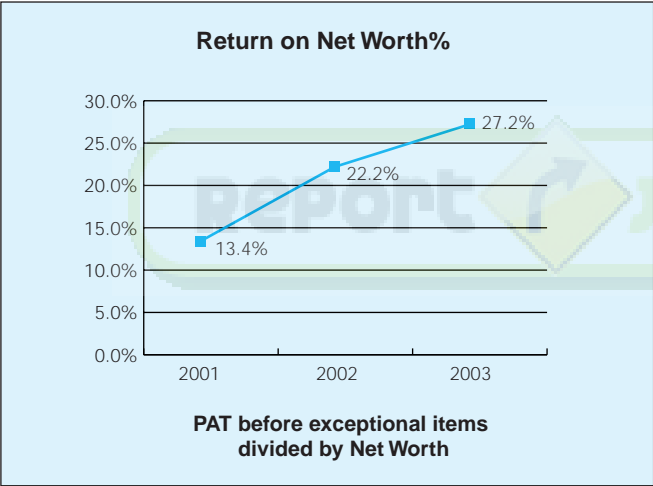
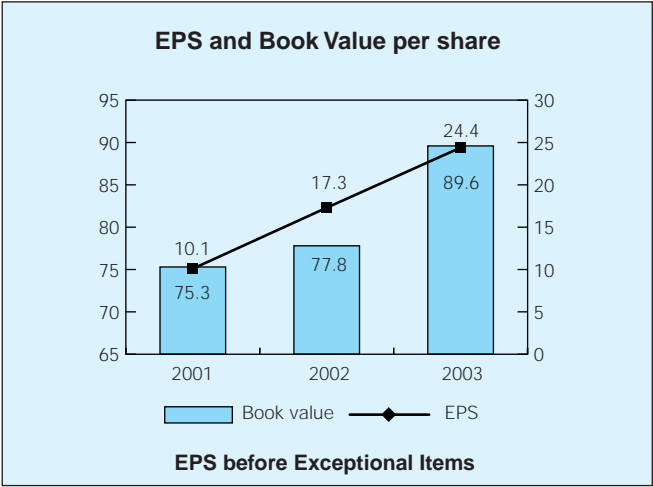
Gurgaon 122 002

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Charts



Directors' Report

The Directors have pleasure in submitting their Report for the year ended 31st December 2003.

1. Results & Dividend for the year ended 31st December 2003

	Year ended 31 st December 2003 Rs. in Lakhs	Year ended 31 st December 2002 Rs. in Lakhs
NET SALES	1191,68.98	1148,21.68
PROFIT BEFORE TAXATION AND EXCEPTIONAL ITEMS	284,56.40	196,32.79
Less: Provision for Taxation	102,70.34	67,85.91
PROFIT AFTER TAXATION AND BEFORE EXCEPTIONAL ITEMS	181,86.06	128,46.88
Less: Exceptional Items (Net of Tax)	(9,63.29)	(30,41.02)
NET PROFIT AFTER TAX	172,22.77	98,05.86
Add: Balance brought forward from the previous year ..	120,88.93	91,64.27
Amount available for disposal.	293,11.70	189,70.13
APPROPRIATIONS :		
General Reserve	17,50.00	10,00.00
Equity Dividend	74,47.50	52,13.25
Distribution Tax on Dividend	9,54.21	6,67.95
Balance carried forward	191,59.99	120,88.93

2. Dividend

The Directors recommend a Dividend of Rs. 10.00 per Equity Share for the year (previous year Rs.7.00 per Equity Share). If approved by the Shareholders at the Annual General Meeting, the Dividend will absorb Rs. 74.48 crores. The Dividend Distribution Tax borne by the Company amounts to Rs. 9.54 crores.

3. Management Discussion and Analysis

(a) As will be seen from the financial results, your Company delivered yet another year of significant improvement in profits. Profit after Tax and before Exceptional Items increased by 42%, to Rs. 182 crores in 2003. The performance reflects the strategies implemented since 2001 which have resulted in a good growth of priority brands and enhanced operational efficiencies.

The Company registered a sales growth of 3.8% in 2003. Pharmaceuticals sales grew by 5.8% over the previous year. The Animal Health business recorded a growth of 4.4%. Sales in the Qualigens Fine Chemicals business increased by 16.4%. Exports sales were lower than last year by 43%, due to the reduced requirements of Ranitidine Base from GlaxoSmithKline plc.

As in the past, your Company continued its strategy of focussing its marketing efforts on around 30 priority brands by adequately promoting them to strengthen their equity. A strong double-digit growth in the sales of profitable brands, supported by manufacturing / procurement efficiencies, helped improve the Gross Margin percentage (i.e. Net Sales less Materials Costs and Excise Duty as a percentage of Net Sales) to 50.3% in 2003 as compared to 47.4% last year. Focussed efforts continued during the year to keep headcount increases as also the overall expense base of the Company under control. This led to Staff Cost and Other Expenditure (excluding Depreciation and Interest) being Rs. 23.7 crores lower than the previous year. All the abovestated initiatives

resulted in the Profit before Interest Expenses / Investment Income, Depreciation and Taxes increasing to Rs. 282.7 crores in 2003 as compared with Rs. 207.5 crores last year.

Cash generation from Operations continued to be favourable during the year, driven by the strong business performance. Cash surpluses were invested in safe instruments. The Company continues to enjoy the highest rating from the Credit Rating Information Services of India Limited, of P1+ for its Commercial Paper program.

(b) The Pharmaceuticals Business

Your Company commands a 5.6% market share for the combined GlaxoSmithKline Group Companies retaining its No. 1 position in the Indian Pharmaceuticals market (Source : ORG MAT December 2003). Sales of the Pharmaceuticals business segment was Rs. 971 crores constituting 81% of the Company's total sales. The Indian Pharmaceuticals market grew by 5.1% this year (Source : ORG MAT December 2003), one of the lowest growth rates in recent times. This low growth can be attributed mainly to the slowdown in retail purchases on account of the confusion over the introduction of VAT coupled with an industry-wide volume and price decline. Industry growth continues to be driven by chronic segments such as Anti-Diabetes, Cardiovascular, Central Nervous System and Anti-Ulcerants.

Against this backdrop, your Company registered a growth of 5.8% in Pharmaceuticals sales. The growth was totally driven by the priority brands, which are at the core of the Company's strategy and which registered a double-digit growth. These include brands such as Augmentin, which continues to grow from strength to strength gaining market share and which was twice rated by IMS as the No.1 brand, and the Vaccines range, which continues to gain market share. This year, the Vaccines team rolled out a novel concept of 'Famili Vaccines' which is an immunization awareness initiative launched by the Company. Your Company continues to enjoy its leadership position in the Dermatological, Corticosteroids and Thyroid preparation segments in which its products are represented. In addition, your Company has successfully in-licensed three products, viz. CCM (Calcium Citrate Maleate), Zimig (Terbenafine) and Vozet (Levocetirizine). Initiatives were also taken to effectively manage the life cycle of some key products with the launch of three line extensions.

Efforts to improve sales and marketing capabilities continued through the year. The continued focus on field force productivity has yielded encouraging results. There has been a substantial improvement in field force productivity in the last two years. Your Company's field force productivity continues to be a bench-mark for the industry.

The advent of product patent protection in 2005 will present an opportunity for your Company to introduce newer chemical entities of the GSK group, which will considerably strengthen our product portfolio. Your Company is positioning itself as a "partner of choice" to exploit the commercial opportunities of a product patent regime.

(c) The Agrivet Farm Care (AFC) Business

The AFC business continues to maintain its No.1 position in the Animal Health sector. The business has a presence in the cattle, poultry, aquaculture, canine, equine and sheep segments with a well-established reputation for quality. With a Sales growth of 4% in 2003, the business achieved a sizeable improvement in Trading Profit due to an improved contribution from the key promoted products, savings in procurement costs and reduction of expenses. 5 new products were launched in the cattle, poultry and canine segments which helped to reduce the dependence on low margin products. The business migrated to the JDEdwards ERP platform, which will mainly help to improve debtors management and inventory controls.

(d) The Qualigens Fine Chemicals (QFC) Business

The QFC business holds the No.1 position in a very fragmented Laboratory Chemicals market with an estimated market share of 29%. Net Sales grew by 16% over the previous year with a significant improvement in Trading Profit due to an improved product mix and supply chain initiatives. The business commands a strong presence in Laboratory Chemicals, Diagnostics, Glassware, Liquid Handling Instruments and Filtration products. The Diagnostics activity, which covers the complete range of Serodiagnosis and Biochemical Tests, successfully launched HIV and HCV Elisa Kits. Sales of Laboratory Glassware, launched last year, have registered significant growth. The launch of the Filtration products range of Pall Corporation, U.S.A., has been well accepted in the market. The business migrated to a new ERP platform, which will help to provide greater visibility on key performance indicators, and improved controls over operations.

(e) Pharmaceuticals Pricing

The National Pharmaceuticals Pricing Authority (NPPA) effected a downward revision in the prices of Ranitidine formulations in September 2003. This has affected the margins of Zinetac and the full impact of this reduction will be felt by your Company in 2004.

In July 2003, the NPPA revised the prices of three salts of the bulk drug Betamethasone, the impact of which was not significant.

The Division Bench of the Hon'ble High Court of Karnataka at Bangalore had, in a writ petition filed by the Company, held that downward price revisions announced by the NPPA should be made effective within 15 days from the date of the notification for all batches of products including those manufactured prior to the date of notification by the NPPA. The Company has challenged the judgement in the Supreme Court. Since the matter is of vital importance to the pharmaceutical industry, the three industry associations viz. OPPI, IDMA and IPA have also separately petitioned the Supreme Court in the matter.

As reported last year, the Government has moved the Supreme Court in respect of the judgement of the Hon'ble High Court of Delhi which had set aside the DPEA demand relating to the bulk drug Betamethasone. The matter is pending hearing by the Supreme Court.

(f) Internal Control System

The Company maintains a system of internal control, including suitable monitoring procedures. The Internal Audit Department regularly conducts a review to assess the financial and operating controls at various locations of the Company. Any significant issue is required to be brought to the attention of the Audit Committee of the Board. The Statutory Auditors and the Head of Internal Audit are invited to attend the Audit Committee meetings.

(g) Human Resources

The Company is focussed on building talent for the future. During 2003, Talent Management Processes have been introduced for managers in various functions. As a part of this process, your Company has tied up with S.P. Jain Institute of Management & Research to build new competencies for the senior field managers. This pioneering initiative will be completed in 2005.

The Company also implemented a performance linked reward scheme for its managers in offices and factories. Field managers continue to be covered under field incentive schemes.

The Company continued to have cordial and harmonious relations with its employees and the Unions, except for sporadic incidents of agitation in some states of the country by Medical Representatives. As a part of integration of field staff, a majority of Professional Sales Representatives of the heritage SmithKline Beecham Company have accepted revised terms and have been absorbed into a common GlaxoSmithKline cadre. Settlements in relation to AIS

and Kit Allowance for the heritage Glaxo India Limited factories and Field Staff have been completed in a cordial atmosphere. Negotiations on Long Term Settlements for the Company's Head Office at Worli and factory at Thane are in progress.

A Voluntary Retirement Scheme was announced at the Bangalore factory in December 2003, where all the Workmen opted for VRS and have been separated with effect from 31st December 2003. The Company has built adequate buffer stocks to cater to market demands till the supplies from the new sources commence.

Your Company had a staff strength of 4271 permanent employees on its payroll as at 31st December 2003.

(h) Procurement & Manufacturing Excellence

Internet based Electronic Procurement Application for Strategic Sourcing (e-PASS) was used extensively. This software provides RFI (Request For Information), complex service based RFP (Request For Proposal), multi-attribute RFQ (Request For Quotation) and price based Reverse Auctions capabilities. More than 50 e-sourcing events were conducted and 80 suppliers were trained. An Internet-based Purchase Order Visibility System, Intranet-based TRAK systems and a Vendor Rating System have been put to use during the year which have been useful in managing spend, source plans, contracts and budgets. The GSK Suppliers Forum was conducted for non-production item vendors and service providers to give them a clear vision of expectations. Your Company's initiatives have enabled the suppliers of your Company to be approved for bulk drugs supply to the GlaxoSmithKline Group globally; these include supplies of Dextromethorphan, Pseudoephedrine, Sulphamethaxole, Trimethoprim, Domperidone, and Paracetamol.

All manufacturing sites have imparted Lean Manufacturing and Six Sigma concepts. By using Lean Sigma tools and techniques, the sites have been able to achieve substantial savings in terms of increased productivity, reduced usage, reduced inventory, improvement in delivery performance, increase in "right first time" batches, waste reduction and elimination.

Capital expenditure of Rs.15.4 crores was incurred during the year mainly for upgradation, maintenance and modernisation of the Company's factories and offices.

(i) Information Technology (IT)

Investments in IT were made in strategic areas aimed at improving operational efficiency and enhancing the quality of information to aid decision-making. One of the key IT business initiatives in 2003 was SFA (Sales Force Automation). SFA aims at capturing and providing a matrix of information such as the field force's reach, frequency of visits to the doctors and time spent at the customer end. This helps management to assess productivity parameters such as sales performance, call averages and doctor coverage.

Another major application implemented in 2003 was HRMS – the Human Resources Management System. HRMS will assist in employee-related initiatives and the management of compensation, benefits and appraisals.

An IT initiative for some of our external stakeholders was the Purchase Order Visibility project. This application allows suppliers to track purchase orders. It also enables the Company and its suppliers to view information about restricted information on availability and prices.

(j) Social Affairs

During the last five years, GlaxoSmithKline plc. has donated albendazole tablets valued at Rs. 58 crores (\$ 12.8 Million) to three States in India for the treatment of Lymphatic Filariasis (LF). As a founding partner in the Global Alliance to eliminate LF, GlaxoSmithKline plc is

committed to the fight against one of the world's most disfiguring and disabling diseases. Working in partnership with the World Health Organization (WHO), the Ministries of Health in 80 LF-endemic countries, organizations in the private and public sectors and academia, GlaxoSmithKline plc will donate albendazole, one of three WHO-recommended LF prevention drugs, for as long as it takes to eliminate LF. Best estimates place this commitment at around 6 billion treatments over the next 20 years. Globally, a total of 240 million albendazole treatments have been donated since 1999. LF, also known as elephantiasis, has been a major public health problem in India next only to malaria. It is estimated that as many as 443 million people live in LF endemic areas and over 22 million suffer from symptoms of the disease.

The Company maintained its thrust on social initiatives during the year. The scope of social responsibility encompasses doing social work in Worli Koliwada in Mumbai and three tribal villages in Nashik district. Besides providing basic facilities including clean drinking water and medical attention, the Company-sponsored rural trust dedicated a Community Centre for the adivasis in Aundhewadi village during the year. Similarly, the urban trust of the Company introduced an English-medium play-school for Worli Koliwada children which received a spontaneous response. In addition, trust runs a 24-hour help-line for disseminating information on HIV/AIDS to the masses on humanitarian grounds. This help-line has attended to over 40,000 calls from the needy over the past three years. CII, the apex industrial body, has rated GSK's HIV/AIDS help-line as the best in the field in India.

(k) Cautionary Note

Certain statements in the "Management Discussion and Analysis" section may be forward-looking and are stated as required by applicable laws and regulations. Many factors may affect the actual results, which could be different from what the Directors' envisage in terms of future performance and outlook.

4. Directors

Retirement

Mr. P. V. Nayak retired as Senior Executive Director of the Company on 30th September 2003. The Board places on record its deep appreciation of the long years of service rendered by Mr. P. V. Nayak and for the significant contributions made by him to the growth of the Company.

Resignations

Mr. P. Driver and Mr. N. Ranthi Dev resigned as Directors. The Board places on record its appreciation of the valuable services rendered during their tenure as Directors and for their contributions to the deliberations of the Board.

Appointments

Dr. M. Reilly has been appointed as a Non-Executive Director with effect from 9th October 2003 and Dr. A. Banerjee as Executive Director with effect from 1st January 2004 to fill the casual vacancies caused by the resignations of Mr. P. Driver and Mr. N. Ranthi Dev respectively.

Mr. P. V. Nayak was appointed as Additional Non-Executive Director of the Company with effect from 9th October 2003. Mr. Nayak holds office upto the ensuing Annual General Meeting. A proposal for the appointment of Mr. Nayak as a Director retiring by rotation is being placed before the Members for approval at the Annual General Meeting.

Retirement by Rotation

Mr. S. J. Scarff, Mr. M. B. Kapadia and Dr. A. Banerjee retire by rotation and, being eligible, offer themselves for re-appointment.

5. Directors' Responsibility Statement

Your Directors confirm :

- (i) that in the preparation of the annual accounts, the applicable accounting standards have been followed;
- (ii) that the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year ended 31st December 2003 and of the profit of the Company for that year;
- (iii) that the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) that the Directors have prepared the annual accounts on a going concern basis.

6. Corporate Governance

Your Company is a part of the GlaxoSmithKline plc group and conforms to norms of Corporate Governance adopted by them. As a Listed Company, necessary measures are taken to comply with the Listing Agreements with the Stock Exchanges. A report on Corporate Governance, along with a certificate of compliance from the Auditors, given in Annexure 'B', forms a part of this Report.

7. Auditors

Members are requested to re-appoint M/s. Price Waterhouse & Co., Chartered Accountants, as the Auditors of the Company and authorise the Audit Committee to fix their remuneration.

8. General

- (i) The particulars relating to conservation of energy, technology absorption and foreign exchange earnings and outgo are given in Annexure 'A' forming part of this report. The particulars of employees required to be furnished under Section 217(2A) of the Companies Act, 1956, read with the rules thereunder, forms part of this report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the reports and accounts are being sent to all the Shareholders of the Company excluding the statement of particulars of employees. Any Shareholder interested in obtaining a copy may write to the Company Secretary at the Registered Office of the Company. Further, attached to the accounts of the Company are the Report and Audited Accounts of Biddle Sawyer Limited.
- (ii) The Directors express their appreciation for the contribution made by the employees to the significant improvement in the operations of the Company.

On behalf of the Board of Directors

D.S. Parekh
Chairman

Mumbai: 6th February 2004

Annexure 'A' 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 Board of Directors) Rules, 1988, and forming part of the Directors' Report for the calendar year ended 31st December 2003.

I. Conservation of Energy:

Energy conservation measures taken:

1. The factories continued their quest for energy conservation. Energy waste was identified by baselining of utilities. Kaizen techniques were employed to identify areas and reduce the energy spend. Energy conservation activities in 2003 made significant contribution to the business and your Company's performance registered new benchmarks. The Thane Site received the following National and International recognition for its energy conservation efforts.
 - a) National Energy Conservation Award 2003 Certificate of Merit in the Chemical Sector from the Government of India, Ministry of Power .
 - b) The Excellence Recognition Award and The President's Roll of Honour (jointly with other Primary Manufacturing Sites) for the 'Energy Conservation Projects' from GSK plc. This is a highest honour at the international level within the Company.

Following are a few of the Energy Conservation Projects undertaken in 2003.

- Rationalisation of air compressor usage resulting in stopping of one compressor.
- Diffused aeration at effluent treatment plant to replace the surface aerators.
- Rationalisation of chilled water units resulting in the stoppage of two refrigeration compressors.
- Variable speed drives for town water and cooling water process pumps.
- Solar heating systems for canteen.
- Operational controls - load management by use of energy monitoring system to reduce maximum demand, peak hour demand and unnecessary running of air conditioning systems.
- Installation of ultrafiltration module instead of distillation.
- Optimizing condenser sizing of chilled brine plant.

Apart from the above measures, continued efforts for monitoring of noise levels, recycling of waste and impact of gaseous emission from boiler chimney is being monitored and controlled by ensuring proper combustion efficiency of the equipment.

2. Impact of measures taken :

The adoption of energy conservation measures indicated above has resulted in substantial savings in the energy cost.

3. Total energy consumption and energy consumption per unit of production :

A) Power and Fuel Consumption

		Year ended 31st December, 2003	Year ended 31st December, 2002
1. Electricity			
(a) Purchased units	Kwh '000	20,479.93	24,677.83
Total amount	Rs. lakhs	825.68	1,057.34
Rate/Unit	Rs.	4.03	4.28
(b) Own generation			
(i) Through Diesel Generator			
Units	Kwh '000	353.34	935.99
Units /ltr of Diesel Oil	Kwh	2.53	2.51
Cost per unit	Rs.	8.17	7.31
(ii) Through Steam Turbine/Generator		-	-
2. Furnace Oil and LSHS			
Quantity	KL	3,555.80	3,390.19
Total amount	Rs. lakhs	430.73	383.81
Average rate	Rs./KL	12,113.45	11,321.29
3. Others			
Natural Gas			
Quantity	NM ³ '000	-	982.69
Total cost	Rs. lakhs	-	83.20
Average rate per Th,NM ³	Rs./NM ³	-	8.47

(B) Consumption per unit of production:

		Year ended 31st December 2003		Year ended 31st December 2002	
		Chemicals (incl. Bulk Drugs) per tonne	Formula- tions per million packs	Chemicals (incl. Bulk Drugs) per tonne	Formula- tions per million packs
Electricity	(Units)	104,315	40,306	56,607	40,435
Furnace Oil , LDO & LSHS	KLtrs	24.51	4.48	8.56	4.34
Natural Gas	Th.NM ³	-	-	6.92	-

N.B. There are no separate standards available for each category since the product range under each head shown above consists of various products with different consumption.

II. Research and Development and Technology Absorption

A. Research and Development (R&D)

- (1) The Company has an R&D Center, which is approved by the Department of Scientific and Industrial research. The Company carried out R&D in several areas including :

PR&D has developed number of new products in the area of topical preparations, very palatable liquid orals, new calcium supplements with vitamins and multi-vitamins/multimineral capsules and in development of new products for Animal Health Care Division.

Specific areas in which R&D is carried on by the Company:

- Development of indigenous technologies for major drugs, process improvements, technology absorption.
- Process improvements, technology absorption and optimization for basic drugs, process simplification.

The Company is privileged to have access to the latest technologies developed by the GlaxoSmithKline Group.

The R&D Center is doing supportive work for the Discovery Chemistry / Technology Groups U.K. and U.S.A. Your Company is actively involved in synthesis of monomers for high throughput Combinatorial Chemistry Research for group R&D research at Stevenage/Harlow (U.K.) & Upper Marion U.S.A.

- (2) Benefits derived as a result of the above R&D:

R&D efforts have helped to bring out an improvement in processes, product design and operating efficiencies. Significant process improvements have been made in Betamethasone production. Development work for further improving efficiency of Betamethasone, is continuing. R&D work has also resulted in improved productivity and stability of products, import substitution of high value materials such as solvent and key intermediate / reagents, elimination of use of certain hazardous chemicals and cost reduction. Process technologies developed in-house are being made available to units in the small scale sector to enable them to set up facilities conforming to high standards of GMP and quality.

- (3) Future Plan of Action:

Emphasis will continue to be laid on the main areas set out above and particularly on the development of new technologies for Betamethasone, Clobetasone, Clobetasol and collaborative research work with GlaxoSmithKline-R&D, UK.

- (4) Expenditure on R&D:

	Rs. Lakhs
(i) Capital	22
(ii) Recurring	332
(iii) Total	354
(iv) Total R&D expenditure as a percentage of turnover	0.30%