

Board of Directors

(As on 15.02.2005)

Chairman

D. S. Parekh

Vice-Chairman

V. Thyagarajan

Managing Director

S. Kalyanasundaram

Directors

R. R. Bajaj
Dr. A. Banerjee
J. D. Coombe
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: 022-24959595

Fax: 022-24959494

Website: www.gsk-india.com

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 & Corporate Affairs
– Corporate Communications & Administration
– Fine Chemicals

Executive Director

Dr. A. Banerjee
– Technical

Executive Vice-President

T. Sengupta
– Human Resources

Vice-Presidents

J. Dwivedy
– Procurement - South Asia

Dr. K. Marthak

– Medical Affairs

K. Shivkumar

– Pharmaceuticals

H. Singh

– Pharmaceuticals

M. K. Vasanth Kumar

– Information Technology & Supply Chain

Factories

– 2nd Pokhran Road, Thane
– Ambad, Nashik

Registrars & Share Transfer Agents

GlaxoSmithKline Consumer Healthcare Limited,
DLF Plaza Tower, DLF City, Phase-I,
Gurgaon 122002

Tel : 0124-2540700-03 Fax : 0124-2540720

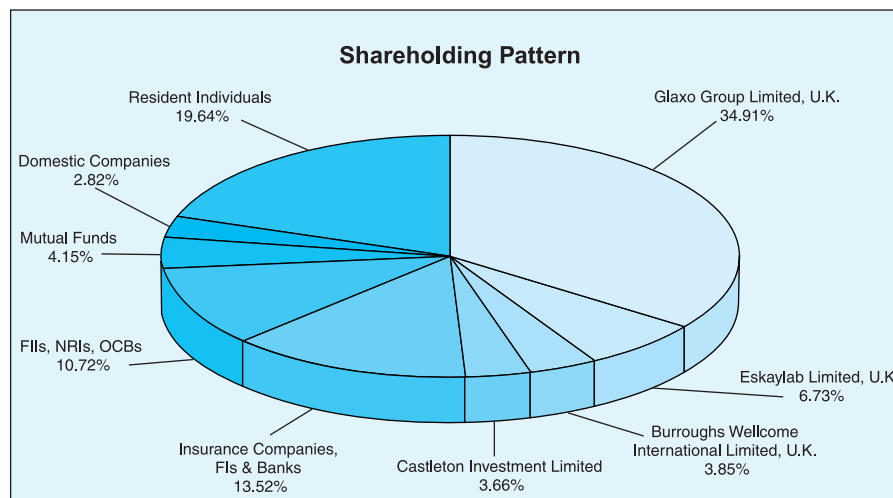
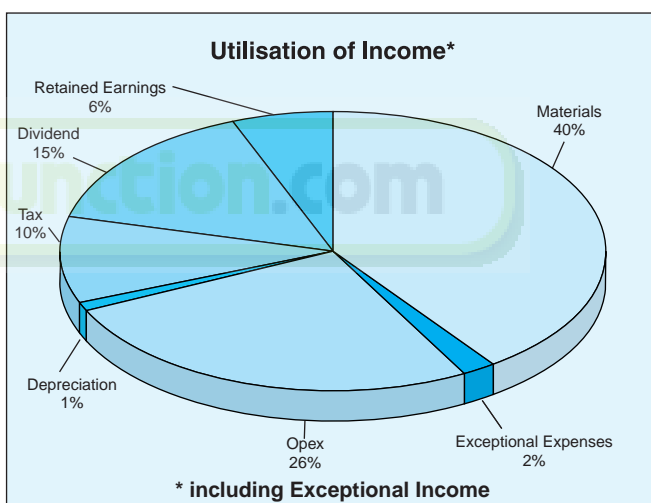
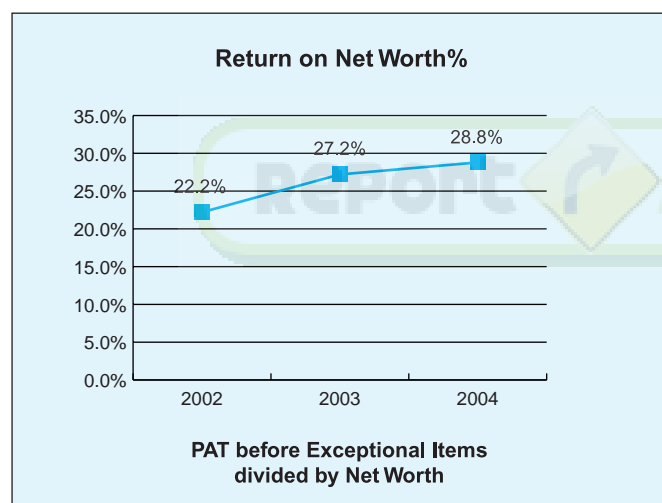
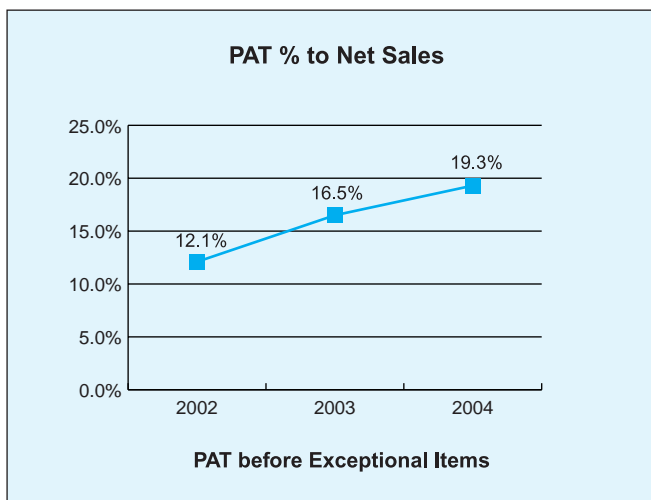
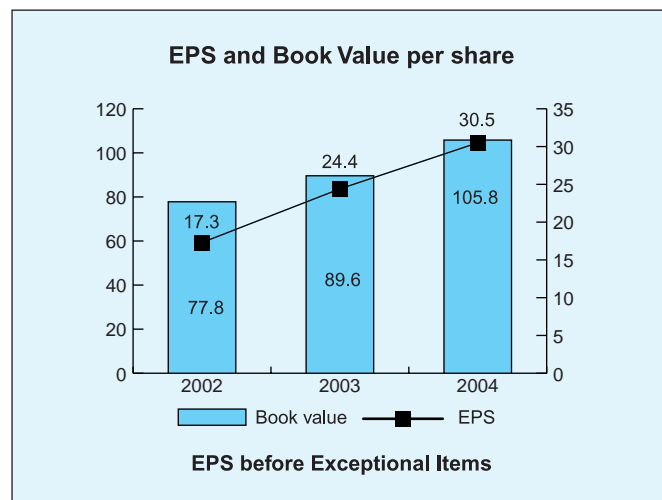
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Charts

[2004 includes the merged results of Burroughs Wellcome (India) Limited]



Directors' Report

The Directors have pleasure in submitting their Report for the year ended 31st December 2004.

1. Merger

The Scheme of Amalgamation of Burroughs Wellcome (India) Limited [BWIL] was sanctioned by the Bombay High Court and accordingly, BWIL was merged with your Company from the Appointed Date i.e 1st January 2004. The shareholders of the erstwhile BWIL received fourteen shares of your Company for every ten shares held by them in that Company. As a consequence, the Paid-up Capital of your Company stands increased by Rs.12.85 crores to Rs.87.32 crores. The Board welcomes the Shareholders of BWIL to participate in the future of GlaxoSmithKline Pharmaceuticals Limited.

2. Results & Dividend for the year ended 31st December 2004

	Year ended 31st December 2004 Rs. In Lakhs	Year ended 31st December 2003 Rs. In Lakhs
SALES (Gross)	1479,59.42	1191,68.98
Less: Excise duty on Sales	103,70.18	90,11.37
NET SALES	1375,89.24	1101,57.61
PROFIT BEFORE TAXATION AND EXCEPTIONAL ITEMS	418,23.91	284,56.40
Less: Provision for Taxation	152,18.87	102,70.34
PROFIT AFTER TAXATION AND BEFORE EXCEPTIONAL ITEMS	266,05.04	181,86.06
Exceptional Items (Net of Tax)	67,04.39	(9,63.29)
NET PROFIT AFTER TAX	333,09.43	172,22.77
Add: Balance brought forward from the previous year . .	191,59.99	120,88.93
Additions as at 1st January 2004 of erstwhile BWIL, pursuant to the Scheme of Amalgamation	5,32.95	—
Amount available for disposal	530,02.37	293,11.70
APPROPRIATIONS :		
General Reserve	33,31.00	17,50.00
Equity Dividend (incl. special additional one-time Dividend)	209,57.40	74,47.50
Distribution Tax on Dividend	27,38.87	9,54.21
Balance carried forward	259,75.10	191,59.99

Since the results for the year ended 31st December 2004 include the results of BWIL, they are not comparable with those of the previous year ended 31st December 2003. However, for the information of Members, the performance for the current year and the previous year, with the results of BWIL for both the years included therein, is given below to facilitate comparison. In addition, the Management Discussion and Analysis in para 4 is on a comparable basis.

	Year ended 31st December 2004 Rs. In Lakhs	Year ended 31st December 2003 Rs. In Lakhs
SALES (Gross)	1479,59.42	1390,01.69
Less: Excise duty on Sales	103,70.18	112,92.37
NET SALES	1375,89.24	1277,09.32
PROFIT BEFORE TAXATION AND EXCEPTIONAL ITEMS	418,23.91	358,88.11
Less: Provision for Taxation	152,18.87	129,04.69
PROFIT AFTER TAXATION AND BEFORE EXCEPTIONAL ITEMS	266,05.04	229,83.42
Exceptional Items (Net of Tax)	67,04.39	(63,42.02)
NET PROFIT AFTER TAX	333,09.43	166,41.40

3. Dividend

The Directors recommend a Dividend of Rs.13.00 per Equity Share for the year (previous year Rs.10.00 per Equity Share). If approved by the Shareholders at the Annual General Meeting, the Dividend will absorb Rs.128.36 Crores inclusive of the Dividend Distribution Tax borne by the Company.

The consistent improvement in operating margins for the past three years, tight working capital management and cash inflows from the sale of properties have resulted in a favourable cash position. A portion of the surplus cash is proposed to be returned to the shareholders. The Directors are therefore pleased to recommend a special additional one-time Dividend of Rs.11.00 per Equity Share. If approved by the Shareholders at the Annual General Meeting, the special additional one-time Dividend will absorb Rs.108.60 Crores inclusive of the Dividend Distribution Tax borne by the Company.

4. Management Discussion and Analysis

(a) 2004 was another successful year for your Company with total sales registering a growth of 7.7%. Led by a double digit growth of promoted products, overall sales of the Pharmaceuticals business grew by 8.7% against an industry growth of 6.4%. The Animal Health and Qualigens Fine Chemicals businesses also achieved a reasonable growth of 7% and 5.5% respectively. However, Export sales were lower than last year by 16.5%.

As has been done since the merger with SmithKline Beecham Pharmaceuticals (India) Limited, your Company continues to focus aggressive sales and marketing efforts on around 30 major brands. These brands have continued to achieve strong double digit growth year after year. The Pharmaceuticals business was successful in driving the sales growth entirely through growth in volumes.

As compared to a sales growth of 7.7%, material costs grew by 6.4%. All other expenses were tightly controlled resulting in the overall expense base not increasing beyond the previous year's figure. This resulted in the Profit Before Interest Expenses / Investment Income, Depreciation and Taxes increasing to Rs.409 crores in 2004 as compared with Rs.347 crores last year.

Cash generation from Operations continued to be favourable during the year, driven by the strong business performance. Cash surpluses were deployed in safe instruments.

The sale of a portion of the Company's property at Worli, which was in excess of its needs, was successfully completed during the year.

Your Company applauds the Government's efforts on the introduction of a product patent regime by the stipulated date of 1st January 2005. While certain areas of the legislation continue to be a concern for research based pharmaceutical companies, notably the compulsory licencing provisions, your Company is quite appreciative of the task before the Government and laud them for ensuring that India did not default on its obligations.

Your Company welcomes the Government's announcement of bringing VAT into effect from 1st April 2005 in the 4% category. The lower rate of VAT for medicines will be beneficial to both, patients and the Industry.

The revised mode of charging excise duty will adversely impact the cost of pharmaceutical products. Representations have been made to the Government for an upward revision of the abatement of 35%.

(b) The Pharmaceuticals Business

Your Company commands a 6.5% market share retaining its No.1 position in the Indian Pharmaceuticals Market (source ORG IMS Stockist Audit December MAT 2004). Net sales of the Pharmaceuticals business segment was Rs.1158 crores constituting 84% of the Company's total sales. The Indian Pharmaceuticals Market grew by 6.4% this year (source ORG IMS Retail Audit December Mat 2004) as compared to a growth of 5.1% during 2003. Sluggish growth of the Industry in 2004 was mainly due to price erosions resulting from stiff competition and a slowdown of new product introductions by domestic companies.

Against this back-drop, your Company registered a growth of 8.7% in Pharmaceuticals sales. The Company's strategy to focus on priority brands has driven this growth. Your Company's brand "Augmentin" is now the No.1 pharmaceuticals brand as rated by IMS. The vaccines range continues to gain market share. The novel concept of "famili vaccines", which is an immunization awareness initiative launched by your Company last year, gained momentum during the year. Your Company received the prestigious "Multi Cultural Diversity Award" from GlaxoSmithKline Consumer Healthcare Limited, U.S. for the family vaccines initiatives, selected from 83 entries received from markets world-wide. This year, two new brands Fluarix & Priorix were launched. Your Company enjoys a leadership position in the Dermatologicals, Corticosteroids and Thyroid preparation segments. CCM (Calcium Citrate Maleate) continued to do well and has created a new segment in the Calcium market. Cobadex CZS and Glacex – a nutritional supplement, have further strengthened their position in the Nutritional category. Vozet and Cetzine are the leaders in the Anti-histamine segment.

A number of initiatives have been taken to improve field force productivity. The Company has rolled out the Worldwide Sales Force Excellence program aimed at improving field force productivity. Your Company has been ranked No.1 in corporate image by Doctors in a survey by AC Nielsen ORG Marg Corporate Image Study 2003-2004.

With the introduction of the Product Patent Regime, research based pharmaceutical companies not present in India are expected to establish their presence in India. Your Company's strong presence in the Indian market and its proven sales, marketing & distribution capabilities, position your Company as a "Partner of Choice" for collaboration with such companies. Your Company will continue its strategy to continue licensing of new products in strategically important therapy areas to drive growth.

3 new products licensed towards the end of 2003 have met with good commercial success. Zimig, a product licensed from Novartis, has become the leading antifungal product in its

category. In the current year, your Company plans to introduce at least 3 new products licensed from other companies in the Gynaecology, Gastroenterology and Nutritionals segments. In addition, your Company is also looking for opportunities to build a robust portfolio in growing market segments like Cardiovascular, Central Nervous System and Diabetes.

(c) The Agrivet Farm Care (AFC) Business

The AFC business continues to maintain its No.1 position in the Animal Health sector with an approximate market share of 10%. The business has a presence in the cattle, poultry, aquaculture, canine and sheep segments with an undisputed reputation for quality and service.

In 2004, the Veterinary Industry registered negative growth due to the scare of bird flu. Sales of poultry vaccines were affected due to a ban on import of poultry vaccines. In spite of these unfavourable factors, the AFC business achieved a growth of 7%. Apart from Poultry vaccines, other products recorded a strong growth of 15%. There was a sizable improvement in the trading profit due to improved contribution from the key promoted products, savings in procurement costs and reduction in other expenses.

In addition, AFC launched four new products in major segments, some of which are introduced for the first time in the Indian Veterinary market. These launches have helped to reduce the dependence on low margin products. Implementation of the JD Edwards ERP system in 2003 has helped to improve debtors and inventory management.

(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 5.5% over the previous year with a significant improvement in Trading Profit due to an improved product mix. The business commands a strong presence in Laboratory Chemicals, Diagnostics, Glassware, Liquid Handling Instruments and Filtration products. The Chemicals business showed a substantial growth of 16% in 2004. Growth in the Diagnostics business, which covers the complete range of Serodiagnosis, Biochemical Tests and Coagulation range was sluggish. In the Laboratory Glassware segment, QFC has consolidated its position and increased its market share by 5%. The business migrated to the JD Edwards ERP platform, which helped to provide greater visibility on key performance indicators and improved control 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 a profit erosion of Rs.17 crores on this account had to be absorbed in 2004.

The NPPA raised a demand of Rs.5.59 crores (comprising Rs.4.36 crores as the principal amount and Rs.1.23 crores as interest) on the Company alleging overcharging of prices in respect of the Salbutamol formulation 'Ventorlin Inhaler' for the period March 2002 to August 2003. The demand has been challenged by your Company in the Delhi High Court inter alia on the ground that there was no price fixation possible during the period in question as the Bombay High Court had, in a judgment passed in August 2001, held that Salbutamol (and 6 other bulk drugs) ought not to be part of the First Schedule to the DPCO, 1995, and thus outside the purview of price control. The said Bombay High Court judgment was subsequently set aside by the Supreme Court by way of a remand to the Bombay High Court to review its earlier judgment, which is pending the consideration of the Bombay High Court. The Delhi High Court has stayed the demand raised on the Company, subject to depositing 50% of the principal amount demanded and furnishing a security acceptable to the NPPA for the balance amount.

As reported last year, the Government has moved the Supreme Court in respect of the judgment 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**

Pursuant to the focus on talent building for the future, the Company introduced several developmental activities directed mainly towards Performance Excellence in Sales & Marketing and at the Factories. Several programs on Sales Force Excellence, Marketing Excellence, Operations Excellence and Leadership / Change Management were initiated, covering a large number of employees in different cadres. The programme at the S. P. Jain Institute of Management and Research, to build new competencies for Senior Field Managers, is progressing well and has shown encouraging results.

The Company continued to have cordial and harmonious relations with its employees and unions. Negotiations with the union on the long-term wage agreements for the head office at Worli and for the factory at Thane were concluded and settlements signed. In appreciation of the need for enhanced efficiencies, the union co-operated with the management to institute measures for improving productivity at the Thane factory. Discussions on the long-term wage agreements for the field staff are in progress.

A Voluntary Retirement Scheme was announced at the Mysore factory in November 2004. All employees had opted for benefits under VRS. Several measures had been undertaken to assist the separating employees to rehabilitate themselves.

Your Company had a staff strength of 4136 as on 31st December 2004, compared to 4271 as at the end of the previous year.

(h) **Procurement & Manufacturing Excellence**

Procurement Excellence programs have played a major role in improving procurement efficiencies with respect to price, assurance of supply and regulatory compliance. Development of new vendors enabled your Company to identify alternate sources, to bring in price benefits and mitigate risk in supplies.

Extensive use of e-procurement, strategic sourcing and professional buying helped in efficient sourcing of inputs and controlling the price of materials in an inflationary market. Usage of Intranet systems provided greater visibility on spend and the tracking of benefits. The procurement team continued to receive structured training in professional buying and has been exposed to global category management during the year.

Non-inventory purchases such as capital goods, engineering items, promotional items, services etc. were identified as focus areas during the year to improve cost savings.

Manufacturing Excellence

Operational Excellence (OE) activities at the factories focused on building awareness, knowledge management, implementing Kaizen and other tools and monitoring planned actions. Training and development of staff in lean manufacturing and six sigma concepts was an area of special

focus during the year. Through the application of OE in manufacturing operations at the site, costs were controlled despite inflationary pressures.

(i) Information Technology (IT)

Several fresh initiatives in the area of IT were implemented during the year including stabilizing ERP systems for integrated business processes, improved SFA (Sales Force Automation) across India, developing more applications for the intranet system “apnaGSK” and HRMS (Human Resources Management System) for better employee productivity, as well as the Customer Connect program. Strategies for enhancing these and similar initiatives continue to be the focus in the coming year.

(j) Corporate Social Responsibility

Corporate Social Responsibility continues to be an integral part of our business. GSK makes a significant contribution to society through medicine donations, conducting healthcare awareness programs and community development. The uniqueness of GSK’s social initiatives lies in the development of self-reliance by tackling issues through the involvement of the beneficiaries themselves. While selecting projects, priority is given to those which contribute to healthcare, especially of women and children. New initiatives in the field of education are an area of focus.

The eastern coastline of India experienced large-scale devastations from tsunami waves on 26th December 2004. GSK plc has donated 1 million antibiotic doses and 6,00,000 doses of typhoid and hepatitis vaccines to the affected countries in Asia and is committed to donate £2 million to organizations working on relief efforts and long-term rebuilding projects in these countries. Your Company donated a large consignment of life-saving medicines to the worst hit areas of Nagapatanam through an NGO involved in rescue and relief operations on the ground. Your Company has also responded to requests of UNICEF, National Stock Exchange and local medical associations by way of donations of medicines. The total relief provided is around Rs.12 lakhs. In addition, individual employees are contributing one day’s salary to the Prime Minister’s National Relief Fund, which contribution will be matched by an equal amount from your Company.

GlaxoSmithKline plc continues to be committed to the World Health Organisation (WHO) initiative of eradicating Lymphatic Filariasis (L.F.) from across the world. L.F., also known as Elephantiasis in India, is one of the world’s most disfiguring and disabling diseases. India has been a major beneficiary under this global initiative as a large percentage of the Indian population lives in areas prone to L.F. This is the largest social responsibility initiative undertaken by any pharmaceutical company across the world.

(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.

5. Directors

Retirement by Rotation

Mr. R. R. Bajaaj, Mr. A. S. Lakshmanan and Mr. V. Narayanan retire by rotation and, being eligible, offer themselves for re-appointment.

6. 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 2004 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.

7. **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.

8. **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.

9. **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

Mumbai: 15th February 2005

D.S. Parekh
Chairman

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 2004.

I. Conservation of Energy:

- 1) Energy Management continued to be a key area for all the factories. Regular monitoring of energy generation, distribution and consumption trends were carried out to have effective control on utilization of energy. Awareness programmes were conducted resulting in informed employees playing an important role in noticing and stopping energy waste. Brainstorming sessions, formation of energy teams, use of 'Just Do It' tool and display of visuals like consumption trends etc are a few of the activities that were progressed to continue momentum and get increased participation from staff on energy conservation.

The Nashik Factory received the "National Energy Conservation award for the year 2004" under Drugs & Pharmaceuticals category. This was awarded by Hon'ble Prime Minister of India on 14th December 2004. Nashik site also received The Excellence Recognition Commendation Award for efforts on Waste Reduction presented by GSK plc.

Energy Conservation measures taken:

Following are a few of the Energy Conservation Projects undertaken in 2004 :

1. Installation of electronic expansion valve.
2. Installation of eductors to replace steam ejectors.
3. Rainwater harvesting.
4. Installation of variable frequency drive for reciprocating air conditioning plants.
5. Use of turbine ventilator in place of Exhaust blowers in Ampoules & vials.
6. Installation of Liquid desiccant dehumidifier in place of electrically heated dehumidifier.

Apart from the above measures, continued efforts for monitoring of noise levels, re-cycling of waste and impact of gaseous emission from boiler chimneys are being monitored and controlled by ensuring proper combustion efficiency of the equipment.

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

- 3) Power and Fuel Consumption :

A) Power and Fuel Consumption

		Year ended 31st December 2004	Year ended 31st December 2003
1.	Electricity		
(a)	Purchased units	Kwh '000	19473.88
	Total amount	Rs. Lakhs	730.27
	Rate/Unit	Rs.	3.75
(b)	Own generation		
(i)	Through DG units	Kwh '000	265.17
	Units / ltr of Diesel Oil	Kwh '000	2.49
	Cost per unit	Rs.	10.95
(ii)	Through Steam Generator		—
2.	Furnace Oil & LSHS		
	Quantity	KL	3334.3
	Total amount	Rs. Lakhs	401.28
	Average rate	Rs. / KL	12035.06
3.	Others		—