

Board of Directors

(As on 13.02.2006)

Chairman

D. S. Parekh

Vice-Chairman

V. Thyagarajan

Managing Director

S. Kalyanasundaram

Directors

P. Bains (w.e.f. 26.07.2005)

R. R. Bajaj

Dr. A. Banerjee

J. D. Coombe (upto 26.07.2005)

M. B. Kapadia

N. Kaviratne (w.e.f. 26.07.2005)

A. S. Lakshmanan

V. Narayanan

P. V. Nayak

P. Parsonson - Alternate to P. Bains (w.e.f. 26.07.2005)

Dr. M. Reilly

S. J. Scarff (upto 26.07.2005)

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

Factories

– 2nd Pokhran Road, Thane

– Ambad, Nashik

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.

Corporate Management

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

Vice-Presidents

J. Dwivedy

– Procurement - South Asia

Dr. S. Joglekar

– Medical Affairs & Regulatory

R. Limaye

– Marketing & Commercial Strategy

S. Patel

– Legal & Corporate Affairs

R. Raghunandan

– Quality - South Asia

K. Shivkumar

– Pharmaceuticals

H. Singh

– Pharmaceuticals

M. K. Vasanth Kumar

– Information Technology & Supply Chain

Registrars & Share Transfer Agents

GlaxoSmithKline Consumer Healthcare Limited,

DLF Plaza Tower, DLF City, Phase-I,

Gurgaon 122 002 (Haryana)

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

email: jeewat.2.rai@gsk.com

Share Department

Dr. Annie Besant Road,

Mumbai 400 030

Telephone: 022-24959415/434

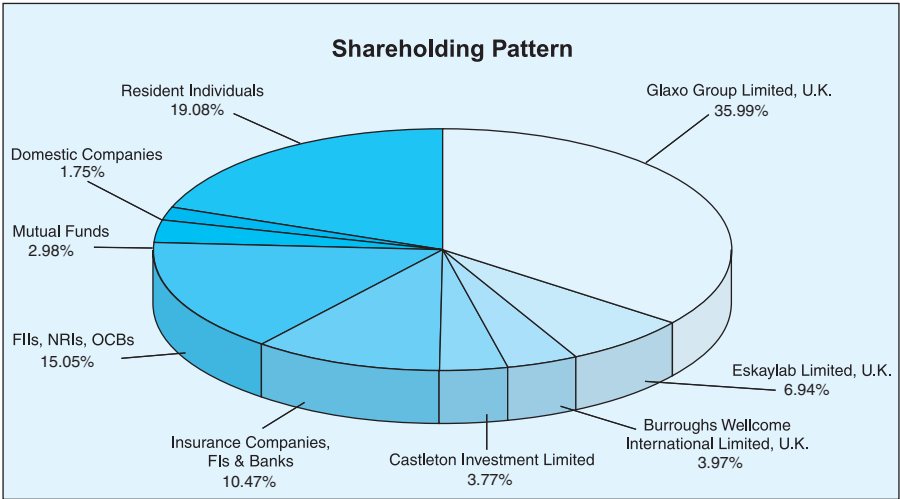
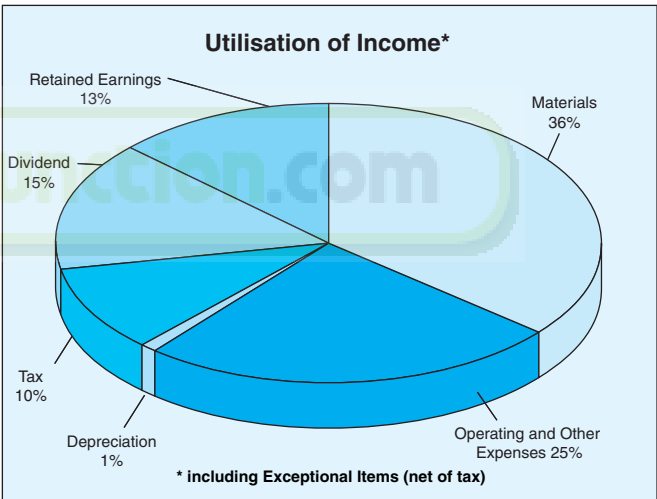
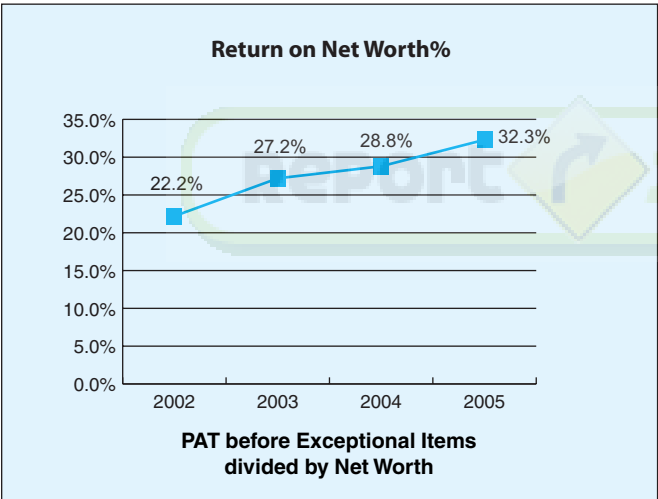
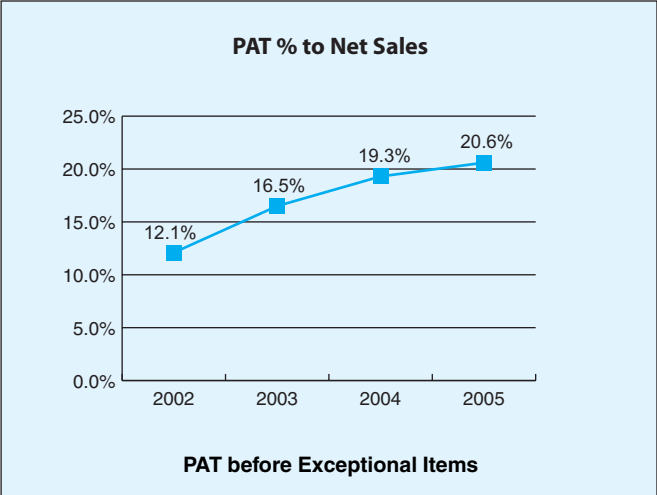
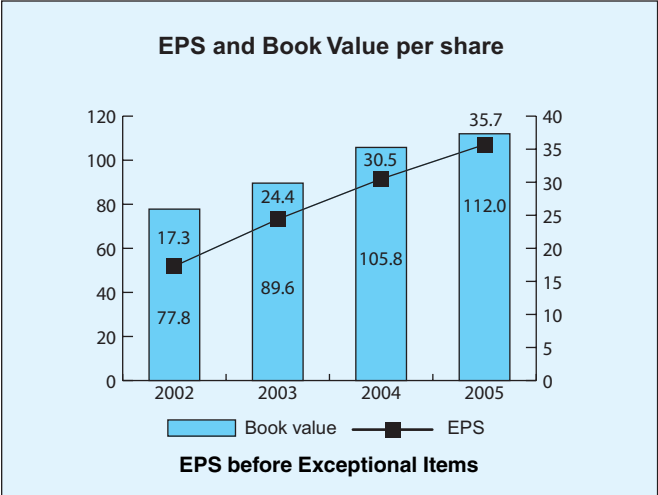
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Contents

| | |
|---|----|
| Charts | 2 |
| Directors' Report | 3 |
| Annexure to Directors' Report | 9 |
| Report on Corporate Governance | 12 |
| Auditors' Report | 23 |
| Financial Statements | 26 |
| Statement pursuant to Section 212 | 52 |
| Biddle Sawyer Limited | 53 |
| Consolidated Financial Statements | 59 |
| Financial Summary | 80 |

Charts



Directors' Report

The Directors have pleasure in submitting their Report for the year ended 31st December 2005.

1. Results & Dividend for the year ended 31st December 2005

| | Year ended 31st December 2005 Rs. in Lakhs | Year ended 31st December 2004 Rs. in Lakhs |
|--|---|---|
| SALES (Gross) | 1575,88.86 | 1479,59.42 |
| Less: Excise duty on Sales | 90,58.63 | 103,70.18 |
| NET SALES | 1485,30.23 | 1375,89.24 |
| PROFIT BEFORE TAXATION AND EXCEPTIONAL ITEMS | 477,90.85 | 418,23.91 |
| Less: Provision for Taxation | 171,62.40 | 152,18.87 |
| PROFIT AFTER TAXATION AND BEFORE EXCEPTIONAL ITEMS | 306,28.45 | 266,05.04 |
| Exceptional Items (Net of Tax) | 195,79.85 | 67,04.39 |
| NET PROFIT AFTER TAX | 502,08.30 | 333,09.43 |
| Add: Balance brought forward from the previous year | 259,75.10 | 191,59.99 |
| Additions as at 1st January 2004 of erstwhile Burroughs Wellcome (India) Limited, pursuant to the Scheme of Amalgamation | — | 5,32.95 |
| Amount available for disposal | 761,83.40 | 530,02.37 |
| APPROPRIATIONS : | | |
| General Reserve | 50,20.83 | 33,31.00 |
| Equity Dividend (incl. special additional one-time dividend) | 237,16.84 | 209,57.40 |
| Distribution Tax on Dividend | 33,26.29 | 27,38.87 |
| Balance carried forward | 441,19.44 | 259,75.10 |

2. Dividend

The Directors recommend a dividend of Rs.14 per Equity Share for the year (previous year Rs.13.00 per Equity Share). If approved by the Shareholders at the Annual General Meeting, the dividend will absorb Rs.118.58 crores. The Dividend Distribution Tax borne by the Company will amount to Rs.16.63 crores.

The cash position continues to remain favourable over the last few years due to improved operating margins, tight working capital management and inflows from sale of properties. In 2005, your Company disposed off two properties located at Mulund, Mumbai at a net profit of Rs. 217 crores. The Directors are of the view that a portion of the surplus cash be returned to the shareholders. The Directors are therefore pleased to recommend a special additional one-time dividend of Rs.14 per Equity Share. If approved by the Shareholders at the Annual General Meeting, the special additional one-time dividend will absorb Rs.118.58 crores. The Dividend Distribution Tax borne by the Company on this dividend will amount to Rs.16.63 crores.

3. Buyback of Shares of the Company

Your Company commenced the Share Buyback program in May 2005 in terms of the consent given by the Shareholders through Postal Ballot. Your Company has bought back 26,19,529 shares of Rs.10 each for an aggregate consideration of Rs.209,16.37 lakhs at an average price of Rs.798.48 (inclusive of all associated costs) from the open market through Stock Exchanges. The Buyback program was closed by the Company on 21st December 2005, resulting in a reduction in the paid up Share Capital to Rs.8470.30 lakhs from Rs.8732.25 lakhs. Consequently, the promoter shareholding has increased from 49.15% to 50.67%. The Company has no immediate plans for further buyback of shares.

4. Management Discussion and Analysis

- (a) Your Company commands a 6.5% market share, retaining its No. 1 position in the Indian Pharmaceuticals Market (Source: Stockist Audit [ORG IMS] MAT December 2005 – this audit is representative of the Company's customer base covering stockists, sale to hospitals and vaccines purchases). As will be seen from the financial results, your Company had another successful year, with total sales registering an overall growth of 8%. Pharmaceuticals sales grew by 8.6%, driven entirely by a double digit growth of the priority products. The Animal Health business recorded a growth of 9%. Sales in the Qualigens Fine Chemicals business were flat primarily due to unprecedented floods which affected availability of stocks for sale. Export sales were lower than last year by 3.7%.

Profit After Tax and Before Exceptional Items improved to Rs.306.3 crores, recording a growth of 15.1%, despite significant increase in cost of goods arising from change in the methodology of calculation of Excise Duty on bought-in finished goods formulations. The impact was neutralized through continued improvement in product mix, sales & marketing effectiveness and procurement efficiencies all of which helped increase the overall gross margin by Rs.74 crores. Higher income from treasury operations and clinical research activities coupled with sophisticated procurement and expense management systems have also contributed to the profit improvement.

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

(b) The Pharmaceuticals Business

The Indian Pharmaceuticals Market grew by 8.6% as per [ORG IMS] SSA Retail Audit MAT December 2005. (5.3% as per Stockist Audit [ORG IMS] MAT December 2005).

Net sales of the Pharmaceuticals business segment was Rs.1257 crores constituting 85% of the Company's total sales. Your Company registered a growth of 8.6% in Pharmaceuticals sales. The Company's strategy focussed on Priority Products and their active promotion and the shift from the acute to the chronic disease segments, has resulted in these products continuing to achieve double digit sales growth for four years in a row. Augmentin continues to be the No.1 brand as rated by IMS. The vaccines range continues to register robust growth and gain market share. Your Company recognizes the longer term potential of vaccination for adults, by focusing efforts towards developing the adult vaccination market through a targeted marketing program. This initiative has shown an encouraging response from the corporate sector. Your Company enjoys a leadership position in the Dermatologicals, Corticosteroids, Vaccines and Thyroid preparation segments in which its products are represented. Vozet and Cetzine continue to be the leaders in the Anti-histamine segment. Calpol, Neosporin and Phexin continue to grow and have further strengthened their position in their respective segments.

Your Company takes pride in setting an Industry benchmark for its Sales Force Effectiveness. During the year, WSFE (Worldwide Sales Force Excellence), a Global programme developed by GlaxoSmithKline plc, was implemented in India. The sales force productivity of your Company continues to register a double digit growth.

Business Development and In-Licensing has been one of the major drivers of growth for your Company since 2002. The key strategy for Business Development has been to enter fast growing therapeutic segments like diabetes, cardiovascular and anti-ulcerants and to consolidate the Company's presence in areas where it can leverage on its sales and marketing strengths.

During the year, your Company launched four new products licensed from companies in the US and Japan viz. Parit (Rabeprazole) in alliance with Eisai, Japan, Ferronine (a novel chelated iron) in alliance with Albion, USA and two new oral contraceptives in alliance with Organon. Your Company has signed an agreement with a major European company to introduce a new product in the cardiovascular therapy area in 2006.

This year, your Company made a major entry in Diabetes through the launch of Windia and Windamet. Diabetes is one of the fastest growing therapeutic areas in India with more than 30 million diabetics. Your Company's entry in this therapeutic area is expected to be an important driver of business growth in the years to come. Your Company is also working on line extensions for Windia which are expected to be launched in 2006-07.

(c) Research & Development

GlaxoSmithKline plc has one of the largest and most promising pipelines in the industry, with 140 projects in clinical development. Of these compounds, 43 new molecular entities have moved into Phase II trials, including compounds to treat HIV, diabetes, blood disorders and multiple sclerosis.

Your Company is well known for some of the pioneering initiatives in the Country, including being the first ever pharmaceutical company to commence manufacturing activities in India in the early part of the 20th century. Today, India's strengths in the global knowledge-based economy is widely recognized and India has been identified by GlaxoSmithKline plc as a major source for a variety of knowledge-based high value-added activities such as chemistry development, clinical research and IT enabled activities relating to R&D.

While most of the Clinical Research activities today are concentrated around US, Western Europe and Japan, GlaxoSmithKline plc will continue to invest in R&D procurement in emerging markets in Asia, Eastern Europe and Latin America.

India has been identified as a major center for clinical research across a number of disease areas such as breast cancer, central nervous system related disorders and infectious diseases. Your Company has made excellent progress in the last 2 years and has proven itself for its quality, speed and cost effectiveness.

(d) The Agrivet Farm Care (AFC) Business

The AFC business continues to maintain its No. 1 position in the Animal Health sector with a market share of approximately 10%. The business has a presence in the cattle, poultry, aquaculture, canine and sheep segments with an undisputed reputation for quality and service. Selective restructuring of field force in high volume territories has increased customer and product focus.

In 2005, while the Veterinary Industry registered a growth of approximately 5%, the AFC business achieved a growth of 9.8%. There was an increase in the procurement cost of products due to a change in the method of calculating excise duty and introduction of VAT on feed supplements in some States. In spite of this, the business achieved a 13% growth in Trading Profit due to improved product mix.

(e) The Qualigens Fine Chemicals (QFC) Business

The QFC business holds the No. 1 position in a highly competitive Laboratory Chemicals market. The chemicals activity showed a growth of 8%, but diagnostics, glassware and other allied ranges recorded sluggish sales. Sales were impacted due to loss of stocks on account of heavy floods in July 2005. Despite flat sales, an improved mix and expense control helped to achieve a Trading Profit growth of 8%.

(f) Pharmaceuticals Pricing

The National Pharmaceuticals Pricing Authority (NPPA) effected a downward revision in the prices of Vitamin C and Ranitidine formulations during the year.

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.

(g) 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.

(h) Human Resources

In line with your Company's philosophy of investing in the development of its employees, it has initiated a number of major programmes during 2005. In the area of manufacturing, 2 major initiatives – Leadership Edge Programme and "Vision Factory" to further enrich the managerial and technical competencies of people involved in the manufacturing operations were implemented. Similarly as part of a major global initiative to continue to improve market effectiveness, Phase II of the Marketing Excellence Programme (MEP) was implemented. A number of training programmes were initiated by GlaxoSmithKline plc's R&D Training Department aimed at achieving qualitative improvements in clinical research activities.

Your Company continued to have cordial and harmonious relations with its employees and Unions. Long term settlements for Field staff were concluded in a cordial atmosphere. In appreciation of the need to enhance efficiency, the Unions have agreed to improve productivity in the field. Discussions on the long term wage settlement for the Nashik site are in progress and are likely to be concluded during the year.

Your Company had a staff strength of 4016 as on 31st December 2005, compared to 4136 as at the end of the previous year.

(i) Procurement Excellence

Procurement Excellence Programs and Strategic Sourcing continued to be vital elements of the Company's endeavors to have a cost effective and compliant sourcing base.

E-Procurement and sourcing tools were used extensively to obtain competitive prices and to counter inflation. Nearly 300 e-sourcing events were conducted during the year. The increased use of advanced data warehousing packages housed on intranet systems have enabled the consolidation of spend across regions.

Supplier events and reviews were carried out during the year to educate suppliers and service providers on the business requirements for customers in regulated markets. This was essential, considering the fact that India is fast emerging as a global sourcing hub for pharmaceuticals and allied services.

During the year, the GlaxoSmithKline global procurement organization was rated number 1 in a global benchmark study by AT Kearney, conducted across 275 organizations worldwide, covering all industries.

(j) Manufacturing Excellence

There was considerable focus on the Operational Excellence activities at the sites during the year. Various projects were undertaken which resulted in substantial cost savings, including, cycle time reduction for Betnovate C, yield improvements and packing productivity improvements for Celin.

Process capability improvement initiatives in respect of 20 key products generated benefits on yield and overall productivity. Better management and reduction in door to door time resulted in reduced inventory levels by 40% in comparison with 2004.

There has been a marked improvement in overall effectiveness and productivity resulting in reduced market complaints.

(k) Information Technology (IT)

Year 2005 also saw IT enabling business to analyze and manage the Doctors' database for making the correct impact in each call (Quantum Leap Project), making available multi-dimensional view of the sales information for better results (iSMART project) and, through Project Galaxy,

making available Daily Sales information to the field managers. The scope of ApnaGSK, the employee self service portal was further increased by adding Travel booking and Travel expense processing modules. Collaborative tools like on-line messaging (Sametime) were encouraged to significantly increase communication effectiveness.

During 2005, the focus was on compliance and risk mitigation by implementing and testing IQMS (Integrated Quality Management System) and IT Continuity Plans in the event of any disasters.

(I) Corporate Social Responsibility

GSK's community development initiatives continue to be focused on raising the quality of life of the underprivileged with better access to health and education.

The Company's Social Responsibility team assisted by Tata Institute of Social Sciences (TISS) assessed the socio-economic, health and development status of 92 tribal villages in Peth Taluka, Nashik district and identified 15 villages which would most benefit from planned programs. A pilot project was initiated on 4th November 2005 in these 15 villages.

Your Company continued to contribute to society through donations and community development initiatives. Hundreds of blind families in Ulhasnagar suffered heavy losses in the floods of 26th July last year. The Company supported these families by giving them essential supplies equivalent to two months' requirements to help them tide over the crisis.

(m) 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

Resignations

Mr. J. D. Coombe and Mr. S. J. Scarff 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

Mr. Nihal Kaviratne has been appointed as Independent Director in the casual vacancy caused by the resignation of Mr. S. J. Scarff with effect from 26th July 2005.

Mr. Peter Bains has been appointed as Non-Executive Director and Mr. Paul Parsonson as alternate to him, in the casual vacancy caused by the resignation of Mr. J. D. Coombe with effect from 26th July 2005.

Retirement by Rotation

Mr. N. Kaviratne, Mr. P. V. Nayak and Dr. M. Reilly 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 2005 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 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

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.

10. Employees

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 : 13th February 2006

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 2005.

I. Conservation of Energy:

- 1) Energy Management continued to be a key area for both the sites. Regular monitoring of energy generation, distribution and consumption trends were carried out to have effective control on energy utilisation. Awareness programs 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.

Energy Conservation measures taken:

Various projects were taken up during 2005 for optimal energy utilization. Some of the projects that were implemented are:

1. Quality electricity conditioning equipment (Electroflow) at substation.
2. Rationalisation of transformer use.
3. Magnets for treatment of Hot water and Cooling water Systems.
4. Replacement of chilled water pump motor from 100hp to 75hp.
5. Solar water heating system for canteen.
6. Installation of variable frequency drives for refrigeration compressors.
7. Use of energy efficient lighting.

Apart from the above measures, continued efforts for monitoring of noise levels, re-cycling of waste and impact of gaseous emission from boiler chimney is 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 2005 | Year ended 31st December 2004 |
|----------------------------|-----------|-------------------------------------|-------------------------------------|
| 1. Electricity | | | |
| (a) Purchased units | Kwh '000 | 18,674.16 | 19,473.88 |
| Total amount | Rs. Lakhs | 714.04 | 730.56 |
| Rate/Unit | Rs. | 3.824 | 3.751 |
| (b) Own generation | | | |
| (i) Through DG units | Kwh '000 | 138.65 | 265.17 |
| Units/ltr of HSD | Kwh '000 | 1.95 | 2.49 |
| Cost per unit | Rs. | 17.29 | 10.95 |
| (ii) Coal | | — | — |
| 2. Furnace Oil, LDO & LSHS | | | |
| Quantity | KL | 3,168.00 | 3,334.30 |
| Total amount | Rs. Lakhs | 477.01 | 401.28 |
| Average rate | Rs./KL | 15,057.13 | 12,035.06 |
| 3. Others | | — | — |

B) Consumption Per Unit of production

| | | Year ended 31st December 2005 | | Year ended 31st December 2004 | |
|----------------------------|---------|--|--------------------------------------|--|--------------------------------------|
| | | Chemicals (Incl.Bulk Drugs) Per Tonne | Formulations Per Million Packs | Chemicals (Incl.Bulk Drugs) Per Tonne | Formulations Per Million Packs |
| Electricity | (Units) | 205503 | 56490 | 96143 | 50460 |
| Furnace Oil, LDO & LSHS | Kltrs | 42.23 | 7.46 | 20.38 | 6.45 |

II. Research and Development and Technology Absorption

A. Research and Development (R&D)

The Company has a Pharmaceutical R&D Centre (PR&D) at Nashik, which is approved by the Department of Scientific and Industrial Research. The Company carried out R&D in several areas including:

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

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. PR&D is also involved in development of new products for Animal Health Care Division.

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

The Company also has a Chemistry R&D Centre (CR&D) which is located at Thane. The CR&D Center is doing supportive work for the Discovery Chemistry / Technology Groups, UK and USA. Your Company is actively involved in synthesis of monomers for high throughput Combinatorial Chemistry research for group R&D research at Stevenage/Harlow (UK) & RTP/Upper Providence (USA).

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. 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 set up facilities, conforming to high standards of GMP and quality.

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.

Expenditure on R&D:

| | Rs. Lakhs |
|--|-----------|
| 1. Capital | 15.00 |
| 2. Recurring | 424.18 |
| Total: | 439.18 |
| 3. Total R&D expenditure as a percentage of turnover | 0.30% |