

Board of Directors

(As on 16.02.2007)

Chairman

D. S. Parekh

Vice-Chairman

V. Thyagarajan

Managing Director

S. Kalyanasundaram (upto 31.12.06)

Dr. H. B. Joshipura (w.e.f 1.01.07)

Directors

P. Bains

R. R. Bajaj

Dr. A. Banerjee

M. B. Kapadia

N. Kaviratne

A. S. Lakshmanan

V. Narayanan

P. V. Nayak

P. Parsonson (upto 26.07.06)

Dr. M. Reilly

Company Secretary

A. A. Nadkarni

Registered Office

Dr. Annie Besant Road

Mumbai 400 030

Telephone: 24959595

Fax: 24959494

Website: www.gsk-india.com

Factories

– 2nd Pokhran Road, Thane

– Ambad, Nashik

Bankers

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.

Management Team

Managing Director

Dr. H. B. Joshipura

Senior Executive Director

M. B. Kapadia

– Finance, Legal & Corporate Affairs

– Corporate Communications & Administration

– Fine Chemicals

Executive Director

Dr. A. Banerjee

– Technical

Executive Vice-Presidents

R. Sequeira

– Human Resources

H. Singh

– Pharmaceuticals

M. K. Vasanth Kumar

– Information Technology & Supply Chain

Vice-Presidents

J. Dwivedy

– Procurement – South Asia

Dr. S. Joglekar

– Medical Affairs & Clinical Research

S. Khanna

– Finance

R. Limaye

– Marketing & Commercial Strategy

S. Patel

– Legal & Corporate Affairs

R. Raghunandan

– Quality

K. Shivkumar

– Pharmaceuticals

Registrars & Share Transfer Agents

GlaxoSmithKline Consumer Healthcare Limited,

DLF Plaza Tower, DLF City, Phase-I,

Gurgaon 122002 (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

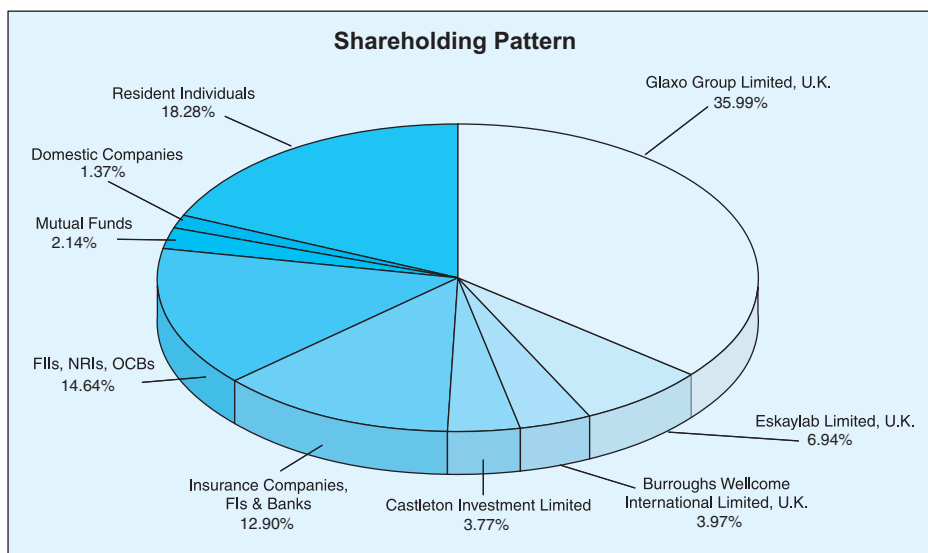
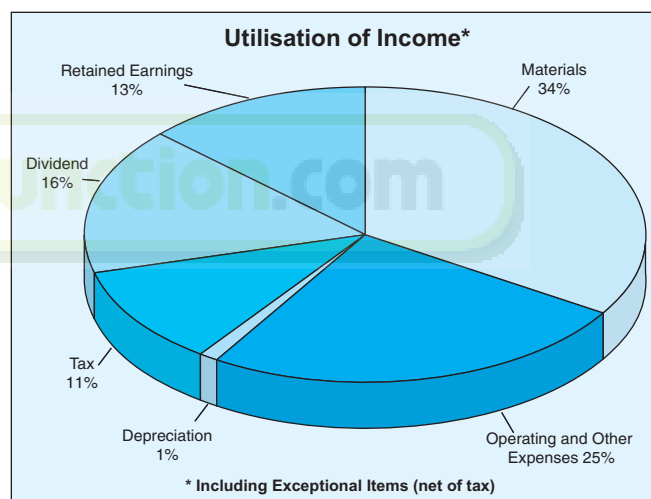
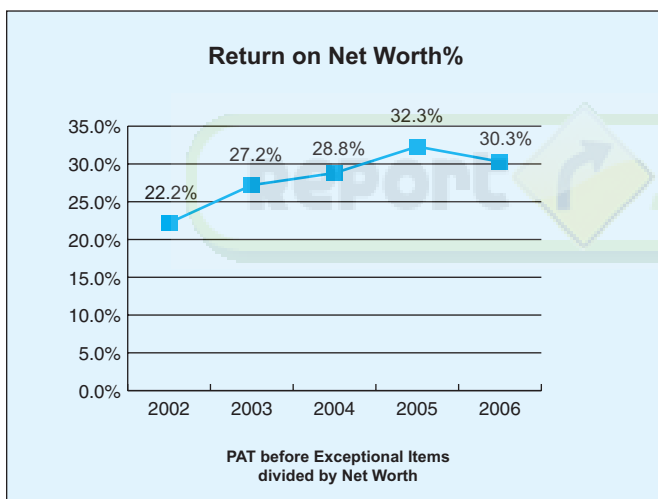
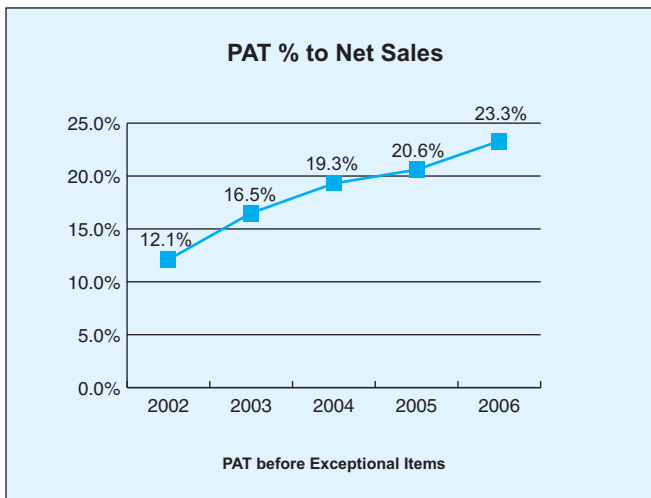
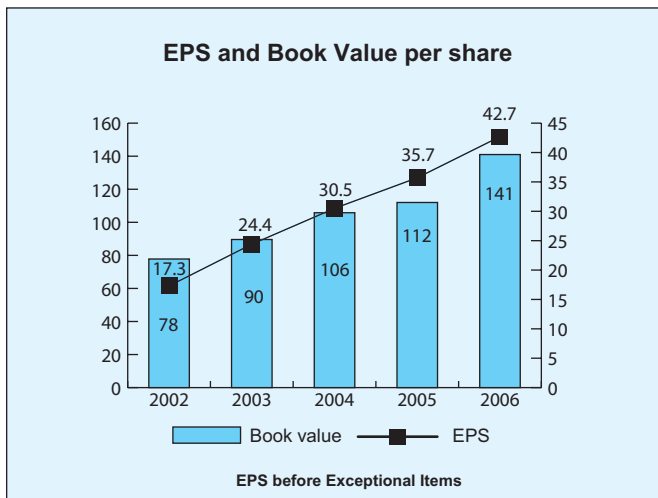
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Contents

Charts	2
Directors' Report	3
Annexure to Directors' Report	9
Report on Corporate Governance	12
Auditors' Report	25
Financial Statements	28
Statement pursuant to Section 212	58
Biddle Sawyer Limited	59
Consolidated Financial Statements	65
Financial Summary	88

Charts



Directors' Report

The Directors have pleasure in submitting their Report for the year ended 31st December 2006.

1. Results & Dividend for the year ended 31st December 2006

	Year ended 31 st December 2006 Rs. in Lakhs	Year ended 31 st December 2005 Rs. in Lakhs
SALES (Gross)	1677,56.57	1575,88.86
Less: Excise duty on Sales	124,64.54	90,58.63
NET SALES	1552,92.03	1485,30.23
PROFIT BEFORE TAXATION AND EXCEPTIONAL ITEMS	555,95.40	477,90.85
Less: Provision for Taxation	194,23.04	171,62.40
PROFIT AFTER TAXATION AND BEFORE EXCEPTIONAL ITEMS	361,72.36	306,28.45
Exceptional Items (Net of Tax)	183,78.97	195,79.85
NET PROFIT AFTER TAX	545,51.33	502,08.30
Add: Balance brought forward from the previous year	441,19.44	259,75.10
Amount available for disposal	986,70.77	761,83.40
APPROPRIATIONS :		
General Reserve	54,55.13	50,20.83
Equity Dividend (including special additional dividend)	262,57.94	237,16.84
Distribution Tax on Dividend	36,82.68	33,26.29
Balance carried forward	632,75.02	441,19.44

Your Company divested the Agrivet Farm Care (AFC) Business as a going concern to Virbac Animal Health India Private Limited, a 100% subsidiary of Virbac S. A. France, on 31st July 2006 for a consideration of Rs.207.10 crores. As provided under the Companies Act, 1956, approval of the Shareholders was obtained by postal ballot. The financial results for the year under review are therefore not comparable. After excluding the AFC Business, the financial results for 2005 and 2006 of the continuing businesses of the Company are as follows:

	Year ended 31 st December 2006 Rs. in Lakhs	Year ended 31 st December 2005 Rs. in Lakhs
NET SALES	1490,06.64	1363,89.83
PROFIT BEFORE TAXATION AND EXCEPTIONAL ITEMS	547,35.40	453,79.13

2. Dividend

The Directors recommend a Dividend of Rs.17.00 per Equity Share for the year (previous year Rs.14.00 per Equity Share). If approved by the Shareholders at the Annual General Meeting, the Dividend will absorb Rs.144.00 crores. The Dividend Distribution Tax borne by the Company will amount to Rs.20.20 crores.

With the additional cash generation from the divestment of the AFC Business, 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 Dividend of Rs.14 per Equity Share. If approved by the Shareholders at the Annual General Meeting, the special additional 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. Management Discussion and Analysis

- (a) Your Company commands a 6.4% market share in the Indian Pharmaceuticals Market (Source: Stockist Audit [ORG IMS] IIPA MAT December 2006 - this audit is representative of the Company's customer base covering stockists, sale to hospitals and vaccines purchases). Your Company enjoys a leadership position in the Hospital segment (Source: [ORG IMS] Hospital Audit MAT December 2006) and in segments in which its products are represented. Your Company had another satisfactory year, with Net Sales of the Company's continuing businesses (excluding the AFC Business) registering a growth of 9.3%. Pharmaceuticals sales also grew by 9.2% during the year. The Qualigens Fine Chemicals business recorded a sales growth of 8.7% and Export sales grew by 10.4%.

Profit Before Tax and Exceptional Items of the Company's continuing businesses (excluding the AFC Business) grew by 20.6%. A double-digit growth in the priority products range, procurement and manufacturing efficiencies and tight expense control helped improve profits. Higher income from treasury operations and clinical research operations 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 13% (Source: Stockist Audit [ORG IMS] IIPA MAT December 2006).

Net sales of the Pharmaceuticals business segment was Rs.1373 crores constituting 92% of the Company's total sales (excluding the AFC business).

The Pharmaceuticals growth of 9.2% was a result of the continued strategy focussed on Priority Products and their active promotion, and the shift from the acute to the chronic disease segments. New products were once again the major driver of growth in Pharmaceuticals. Sales of Augmentin have crossed Rs.100 crores this year. Your Company enjoys a leadership position in the segments in which its products are represented including Dermatologicals, Corticosteroids, Anti-infectives, Pain/Analgesics and Thyroid preparations. Calpol is the leader in the non-narcotic anti-pyretic segment and Neosporin is the leader in topical antibiotic preparations. Augmentin and Phexin continue to be amongst the top five brands in the anti-infective segment. Vozet and Cetzine are leaders in the anti-histamine segment. The Vaccines business has registered a negative growth mainly on account of the competitive pricing environment coupled with stock outs of key products. To some extent, sales were impacted since the accelerated demand for certain products in the anti-infective and pain segments could not be met due to capacity constraints and due to discontinuation of select products during the year. Your Company has taken steps for improvement of supply of key products and aggressive measures are being initiated to counter the competition.

Windia and Windamet for treatment of Diabetes, one of the fastest growing therapeutic areas and the in-licensed products, Parit and Ferronine, launched last year are all progressing well.

Business Development continues to be the major driver of growth for the Company since 2002. Products launched since 2002 have contributed to around 25% of the Company's incremental sales in 2006. The key strategy for Business Development is to identify partners

and introduce products in high growth therapeutic areas. Your Company is in talks with some leading Japanese and American companies for new products in therapeutic areas like serious infections, cardiovascular and trauma care. After making a major entry in diabetes with the introduction of Windia and Windamet, your Company is also developing four new products in the Windia family. Plans are in hand to introduce new products in therapeutic areas like anti-inflammatory/analgesic, oral antibiotics, cardiovascular and anti-coagulants in 2007.

(c) Research & Development

Scientists at GlaxoSmithKline plc are working hard to discover new ways of treating illness and disease. Consequently, GlaxoSmithKline plc has one of the largest and most promising pipelines in the industry with nearly 95 new chemical entities (NCEs) with about 45 active Phase I studies, 60 Phase II studies and 30 Phase III studies. Your Company has access to the resources of a global Company devoted to the application of science not only for the prevention and cure of disease, but also for improving the quality of life.

As reported last year, India has been identified as a major center for clinical research across a number of therapy areas for diseases which are relevant to India such as cancer, psychiatric disorders and infectious diseases. The emphasis of Clinical Research activities today is shifting from large, multi-centric Phase III studies to Phase II studies. GSK has identified 6 Oncology centers capable of conducting early phase studies in India, which are being developed with the expert inputs of the Institute for Cancer Medicine, University of Oxford. Similar initiatives are also being undertaken across other therapeutic areas.

Your Company has made excellent progress in its clinical operations in the last three years and has proven itself for its quality, speed and cost effectiveness as demonstrated by successful regulatory inspections by external bodies such as the US FDA. In 2006, your Company participated in 16 global clinical studies (8 global clinical studies in 2005) of which, 11 were Phase II and 5 were Phase III studies, spanning across 6 therapy areas involving over 200 patients. Over the last few years, your Company has also trained more than 100 investigators on ICH GCP guidelines, thus contributing to improving the quality of clinical trials in India.

(d) The Qualigens Fine Chemicals (QFC) Business

The QFC business has maintained its market leadership position with an overall sales growth of 8.7% this year. The Chemicals activity continued to grow in double digits. Several new products were launched during the year. The glassware segment showed good growth with large orders from industries and institutions. For the Diagnostics activity, plans are in hand for introduction of new ranges and advance technology kits.

(e) Exports

Exports recorded a sales turnover of Rs.30 crores, comprising both Bulk Drugs and Formulations. Exports of bulk drugs were to major markets like Japan, Mexico, France, Germany, Holland, UK, South Africa and Denmark. Formulations were exported to Sri Lanka, Myanmar and Vietnam.

(f) Pharmaceuticals Pricing

The National Pharmaceuticals Pricing Authority (NPPA) effected a downward revision in the prices of several vitamin 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 continues to remain pending before 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

The Company continued its emphasis on investing in the development of its employees through a number of programs. In the area of manufacturing, a program on “Change Management and Leadership” was conducted in 2006, to help meet new business challenges. Sales force effectiveness was targeted through programs such as Worldwide Sales Force Excellence (selling skills), disease product knowledge accreditation, competency mapping for the sales force supported by development programmes for both frontline sales managers and medical representatives.

On the industrial relations front, your Company continued to enjoy a cordial and harmonious relationship with its employees and Unions. The Long Term Settlement with the Nashik site Union was concluded in August 2006 with agreement on redeployment and productivity improvements.

Your Company had a staff strength of 3850 as on 31st December 2006, compared to 4016 as at the end of the previous year. The reduced headcount is mainly on account of divestment of the AFC business.

(i) Procurement

Procurement Excellence programs and strategic sourcing initiatives continued to gain momentum. 460 e-sourcing events were used to identify the capabilities of the supply base, benchmark prices and generate competitive advantage in the market. Use of internet/intranet packages and shared databases made knowledge management a reality and an integral part of day to day work. Such initiatives have enabled your Company to mitigate inflationary pressures. During the year, the procurement processes were subject to further controls in the areas of Compliance, Environment Health and Safety and Risk Mitigation.

The Sourcing Group Management certification programs, Effective Contracting programs and Regional Sourcing Forums helped globalize the Procurement function. The creation of a Procurement Technology Work Cell and setting up of a Low Cost Sourcing Group in India is an expression of the parent company's recognition of local competencies and India's importance as a global sourcing base.

(j) Manufacturing

A new state of the art Liquid Injectibles facility of international standard has been commissioned at Nashik. The bulk drug plant, quality assurance and process development laboratories and the water management system at the Thane plant have all been upgraded to global standards. Quality Management Systems at the factories have been strengthened further. The Thane Plant was inspected by MHRA, the U.K. regulatory body, and your Company expects to receive the MHRA approval shortly. The Company continued its focus on process capability and understanding using six sigma tools resulting in improved yields, productivity and higher capacity utilisation at the sites.

(k) Information Technology (IT)

IT continued its focus on effective support to the business and on risk mitigation and compliance. As a first step in ensuring effective IT Continuity Planning, the Company's C&F Agents were provided with Lease Line connectivity in addition to VSATs. Additionally, a Disaster Recovery centre has been set up at Thane factory. As part of the Global IT strategy, several servers and applications were consolidated and hosted centrally, to reduce cost.

In order to improve sales force effectiveness, all first line Managers were provided Laptops with online access to key information like doctors coverage, territory coverage and sales information systems.

A few GSK dealers from metro towns have been provided with e-ordering facility from their desk. The response has been very satisfactory. Plans are in hand to increase this base in 2007.

To support the upgradation of the Thane factory to global standards, the BPCS system has been implemented and validated in line with MHRA norms.

(l) Corporate Social Responsibility

During the year, your Company started several new social responsibility initiatives, in addition to continuing with its on-going work in Mumbai and Nashik.

As part of the Government of India's Mid-Day Meal Programme for primary municipal schools, your Company made a donation to the ISKON Food Relief Foundation which will enable over 2000 children from below the poverty line families to enjoy a nutritious daily meal for one year.

Your Company has facilitated the operation of a Learning Centre near Worli, Mumbai run by the Akanksha Foundation, an NGO that works for underprivileged children. Akanksha operates over 40 Learning Centers in Mumbai and Pune, which are supported by corporates, and trains the children in English, mathematics, values and general awareness through non-formal teaching methods.

The Shishukalyan Snehi Swayamsevak Sanstha (SSSS) Trust supported by your Company continued its activities for pre-primary children at Worli-Koliwada, besides conducting developmental programmes for the Janata High School's underprivileged students. Over 2000 children are able to avail of this facility which is aimed at good quality education, day care, routine medical facilities and counselling. A Child Rights Rally was organized by SSSS with the help of the Worli Police Station for creating awareness on child rights issues in society.

The Gramin Arogya Vikas Sanstha (GAVS) supported by your Company, provide community health services through a medical van to 15 tribal villages in Peth. Tailoring classes for vocational purposes and health awareness programs in the 15 villages were held during the year. It also continued to operate a pre-primary school for 50 Amrapali slum children and a play area for the children of one of its adopted villages - Ubhidhond in Peth taluka was constructed. Such initiatives have been very well received by the villagers.

Your Company operates, a 24-hour HIV/AIDS telephonic Helpline service for dissemination of information, as well as counselling on HIV and AIDS. The Helpline provides guidance on sources of infection, detection and medical centers offering treatment. Psycho-social counselling is an integral part of the service. Callers are assured of confidentiality while obtaining high quality advice. The Helpline has answered over 75,000 calls in the past six years.

The city of Mumbai faced terrorist attacks on 11th July 2006. To assist the injured, your Company donated life saving essential medicines to some Hospitals.

(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.

4. Directors

Resignations

Consequent to Mr. S. Kalyanasundaram taking on other responsibilities in the GlaxoSmithKline group, he ceased to be the Managing Director of your Company with effect from 31st. December 2006. The Board places on record its deep appreciation of the services rendered by Mr. S. Kalyanasundaram as Managing Director and for his significant contributions to the growth and profitability of the Company.

Mr. Paul Parsonson resigned as Alternate Director to Mr. Peter Bains. The Board places on record its appreciation of the valuable services rendered during his tenure as Alternate Director and for his contributions to the deliberations of the Board.

Appointments

The Board of Directors has appointed Dr. Hasit B. Joshipura as the Managing Director of the Company for a period of five years with effect from 1st January 2007. A proposal for his appointment as the Managing Director is being placed before the Members for approval at the Annual General Meeting.

Retirement by Rotation

Mr. R. R. Bajaaj, Dr. A. Banerjee and Mr. M. B. Kapadia 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 2006 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 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

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.

9. 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 : 16^h February 2007

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 2006.

I. Conservation of Energy:

- 1) Energy Management continued to be a key area for the factories at Thane and Nashik. Regular monitoring of energy generation, distribution and consumption trends were carried out for effective control on utilisation of energy. Training and awareness programmes for employees were conducted for reducing energy waste. Brainstorming sessions, formation of energy teams, use of 'Just Do It' tool and display of visuals like consumption trends are a few of the activities that were progressed to get increased participation from staff on energy conservation.

Energy Conservation measures taken:

Various Projects were undertaken during the year 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. Solar water heating system
4. Installation of variable frequency drives for Refrigeration compressors
5. Installation of liquid desiccant technology for humidity control
6. SCADA for boiler
7. Maximum demand management
8. Installation of variable frequency drives for Compressors, pumps & AC plant

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

Power and Fuel Consumption:

A) Power and Fuel Consumption

		Year ended 31 st December 2006	Year ended 31 st December 2005
Electricity			
Purchased units	KWH'000	20,063.44	18,674.16
Total amount	Rs.Lacs	847.69	714.04
Rate / Unit	Rs.	4.225	3.824
Own generation			
Through DG			
Units	KWH'000	158.24	138.65
Units / Ltr of HSD	KWH'000	2.33	1.95
Cost per unit	Rs.	17.52	17.29
Coal		—	—
Furnace Oil, LDO & LSHS			
Quantity	KL	3,239.00	3,168.00
Total amount	Rs.Lacs	654.07	477.01
Average rate	Rs./KL	20,193.58	15,057.13
Others		—	—

B) Consumption Per Unit of production

		Year ended 31 st December 2006		Year ended 31 st December 2005	
		Chemicals (Incl.Bulk Drugs) Per Tonne	Formulations Per Million Packs	Chemicals (Incl.Bulk Drugs) Per Tonne	Formulations Per Million Packs
Electricity	Units	198,255	57,894	205,503	56,490
Furnace Oil, LDO & LSHS	KLtrs	36.72	6.75	42.23	7.46

II. Research and Development (R&D)

The Company has two R&D Centres, which are approved by the Department of Scientific and Industrial Research, Government of India.

Pharmaceutical R&D has developed a number of new products in the area of palatable liquid orals (aqueous and oily), as also topical steroid in emollient cream base. Pharmaceutical R&D is also involved in collaborative development of new products along with leading pharma companies. Immunosuppressant ointment and pain reliever tablet have been commercially launched through collaborative development.

The Chemistry R & D team is engaged in custom synthesis of monomers / building blocks, which are used either for high throughput chemistry or as integral parts of probable drug molecules. The monomers prepared are essentially small molecules, mostly novel entities, and the scale varies from milligram to kilogram quantities. This work supports the discovery research and drug discovery initiatives of GlaxoSmithKline R&D at Harlow, UK; Stevenage, UK, Verona, Italy; and Upper Providence, USA.

The Company is privileged to have access to various research databases used world wide and to latest technologies developed by the GlaxoSmithKline Group.

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. 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. It has also helped in carrying out custom synthesis of various monomers critical in molecular discovery research initiative.

Future Plan of Action:

Emphasis will continue to be laid on the main areas set out above and particularly on the development of new products such as multivitamin-multimineral in novel form, Cephalosporin formulations and line extensions and collaborative research work with other companies and GSK UK.

Expenditure on R&D:

	Rs. Lakhs
1. Capital	185.33
2. Recurring	429.75
Total:	615.08
3. Total R&D expenditure as a percentage of turnover -	0.40%