

Board of Directors

(As on 22.02.2008)

Chairman

D. S. Parekh

Vice-Chairman

V. Thyagarajan

Managing Director

Dr. H. B. Joshipura

Directors

P. Bains

R. R. Bajaj

Dr. A. Banerjee

M. B. Kapadia

N. Kaviratne

A. S. Lakshmanan (upto 25.10.07)

V. Narayanan

P. V. Nayak

Dr. M. Reilly

R. C. Sequeira (w.e.f. 25.10.07)

Company Secretary

A. A. Nadkarni

Factories

– 2nd Pokhran Road, Thane

– Ambad, Nashik

Bankers

Citibank N.A.

HDFC Bank Limited

Hongkong and Shanghai Banking Corporation Limited

State Bank of India

Auditors

Price Waterhouse & Co

Solicitors

Crawford Bayley & Co.

Gagrat & Co.

Registrars & Share Transfer Agents

Karvy Computershare Private Limited

Unit: GlaxoSmithKline Pharmaceuticals Limited

Plot No. 17-24, Vittal Rao Nagar,

Madhapur, Hyderabad 500081

Tel: 040 - 23420818/23420828

Fax: 040 - 23420814

email: Satheesh@Karvy.Com

Share Department

Dr. Annie Besant Road,

Mumbai 400 030

Tel: 022-24959415/434

Fax: 022-24981526

email: ajay.a.nadkarni@gsk.com

Management Team

Managing Director

Dr. H. B. Joshipura

Senior Executive Director

M. B. Kapadia

– Finance, Legal & Corporate Affairs

– Corporate Communications & Administration

Executive Directors

Dr. A. Banerjee

– Technical

R. C. Sequeira

– Human Resources

Executive Vice-Presidents

H. Singh

– Pharmaceuticals

M. K. Vasanth Kumar

– Information Technology & Supply Chain

Vice-Presidents

Dr. S. Joglekar

– Medical & Clinical Research

S. Khanna

– Finance

R. Limaye

– Pharmaceuticals

S. Patel

– Legal & Corporate Affairs

General Manager

Sunder Rajan

– Corporate Communications

Registered Office

Dr. Annie Besant Road

Mumbai 400 030

Tel: 24959595

Fax: 24959494

Website www.gsk-india.com

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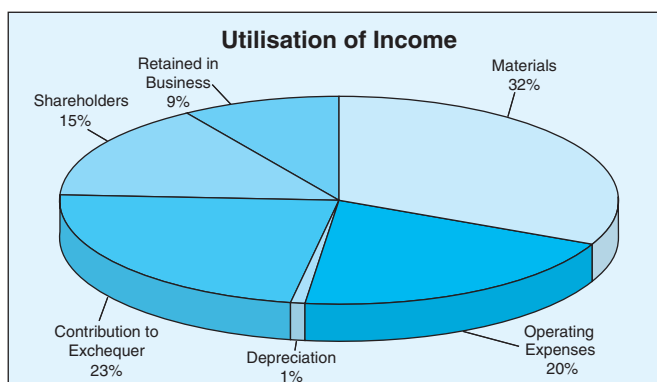
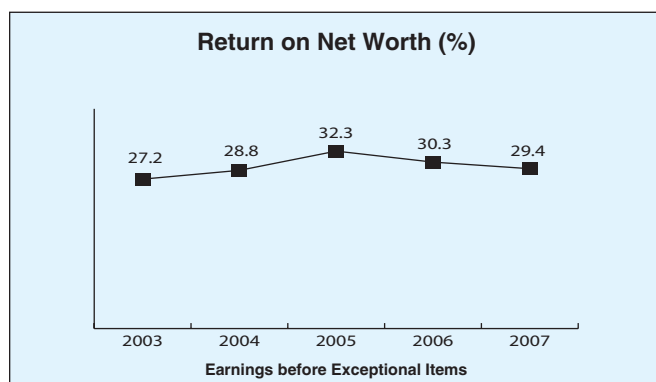
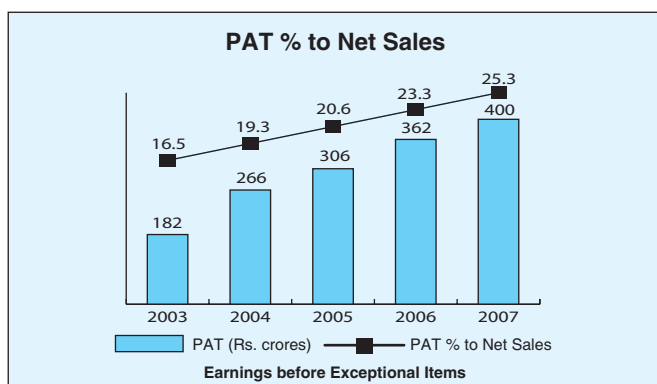
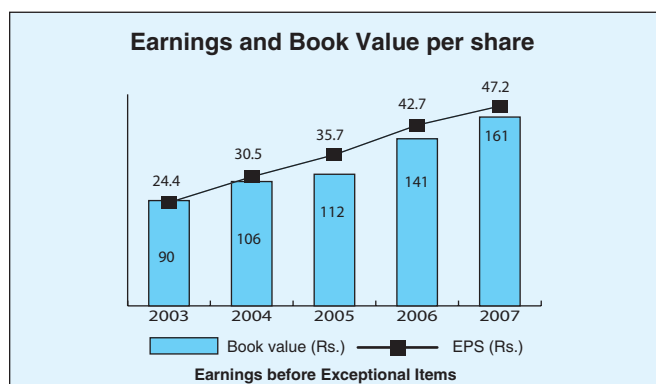
Financial Summary

(Amounts in Rupees Lakhs)	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
PROFIT AND LOSS ACCOUNT										
Sales	1712,84	1677,57	1575,89	1479,59	1191,69	1148,22	1097,37	934,62	885,50	793,84
Profit before tax	611,18	555,95	477,91	418,24	284,56	196,33	115,58	84,84	104,95	120,03
Tax	211,46	194,23	171,63	152,19	102,70	67,86	40,26	32,52	27,89	33,40
Profit after tax	399,72	361,72	306,28	266,05	181,86	128,47	75,32	52,32	77,06	86,63
Exceptional items (net of tax)	137,94	183,79	195,80	67,04	(9,63)	(30,41)	(31,34)	18,22	—	—
Net Profit	537,66	545,51	502,08	333,09	172,23	98,06	43,98	70,54	77,06	86,63
Dividends-equity	304,93	262,58	237,17	209,57	74,47	52,13	40,96	29,89	35,87	29,88
Tax on distributed profit	51,82	36,83	33,26	27,39	9,54	6,68	(5,16)	6,75	4,24	2,99
Retained Earnings	180,91	246,10	231,65	96,13	88,22	39,25	8,18	33,90	36,95	53,76
BALANCE SHEET										
Equity Capital	84,70	84,70	84,70	87,32	74,48	74,48	74,48	59,78	59,78	59,78
Reserves	1276,21	1110,01	863,91	836,94	593,01	504,80	486,10	334,67	300,78	263,83
Net Worth	1360,91	1194,71	948,61	924,26	667,49	579,28	560,58	394,45	360,56	323,61
Borrowings	5,77	5,54	4,85	3,85	2,86	1,98	9,71	34,85	20,70	20,11
Total Capital Employed	1366,68	1200,25	953,46	928,11	670,35	581,26	570,29	429,30	381,26	343,72
Net Fixed Assets	92,90	94,46	96,94	91,49	99,38	115,40	137,62	101,37	104,56	92,36
Investments	1333,32	1139,41	913,06	776,82	409,12	162,00	151,68	124,87	115,55	116,58
Net Current Assets	(59,54)	(33,62)	(56,54)	59,80	161,85	303,86	280,99	203,06	161,15	134,78
OTHER KEY DATA										
(Rupees per Rs.10/- Equity Share)										
DIVIDENDS	36.00	31.00	28.00	24.00	10.00	7.00	5.50	5.00	6.00	5.00
EARNINGS before exceptional items	47.19	42.70	35.69	30.47	24.42	17.25	10.11	8.75	12.89	14.49
EARNINGS after exceptional items	63.48	64.40	58.51	38.15	23.13	13.17	5.90	11.80	12.89	14.49
BOOK VALUE	160.67	141.05	112.00	105.85	89.63	77.78	75.27	65.99	60.31	54.13

NOTES

- The Dividends for 2007, 2006, 2005 and 2004 include a special additional dividend of Rs. 18, Rs. 14, Rs. 14 and Rs. 11 per equity share respectively.
- The Company has divested its Fine Chemicals business on 30th September, 2007 and its Animal Health business on 31st July, 2006.
- The Company has bought back and extinguished 26,19,529 equity shares during 2005.
- Burroughs Wellcome (India) Limited merged with the Company from 1.1.2004.
- The Marketing Undertaking of Megdoot Chemicals Limited has demerged into, and Croydon Chemical Works Limited has amalgamated with the Company from 1.1.2002.
- SmithKline Beecham Pharmaceuticals (India) Limited merged with the Company from 1.1.2001.
- Dividend for 1999 includes a special additional one-time Platinum Jubilee Dividend of Rs. 2.00 per equity share.

Charts



Directors' Report

The Directors have pleasure in submitting their Report for the year ended 31st December 2007

1. Results & Dividend for the year ended 31st December 2007

	Year ended 31 st December 2007 Rs. in Lakhs	Year ended 31 st December 2006 Rs. in Lakhs
SALES (Gross)	1712,84.15	1677,56.57
Less: Excise duty on Sales	135,70.03	124,64.54
NET SALES	1577,14.12	1552,92.03
PROFIT BEFORE TAXATION AND EXCEPTIONAL ITEMS	611,17.47	555,95.40
Less: Provision for Taxation	211,45.66	194,23.04
PROFIT AFTER TAXATION AND BEFORE EXCEPTIONAL ITEMS	399,71.81	361,72.36
Exceptional Items (Net of Tax)	137,94.04	183,78.97
NET PROFIT AFTER TAX	537,65.85	545,51.33
Add: Balance brought forward from the previous year	632,75.02	441,19.44
Amount available for disposal	1170,40.87	986,70.77
APPROPRIATIONS :		
General Reserve	53,76.59	54,55.13
Equity Dividend (including special additional dividend)	304,93.08	262,57.94
Distribution Tax on Dividend	51,82.30	36,82.68
Balance carried forward	759,88.90	632,75.02

Your Company divested the Qualigens Fine Chemicals (QFC) Business as a going concern to Thermo Electron LLS India Private Limited, a subsidiary of Thermo Fisher Scientific Inc., on 30th September 2007 for a consideration of Rs.240 crores. As provided under the Companies Act, 1956, approval of the Shareholders was obtained by postal ballot. In July 2006, the Company had sold the Agrivet Farm Care (AFC) Business. The financial results for 2006 and 2007 are therefore not comparable.

The growth in Sales, excluding the Animal Health and Fine Chemicals businesses was 7.8% and in Profit before Tax and Exceptional Items was 13.8% for the year ended 31st December 2007 on a comparable basis. The Profit before Tax and Exceptional Items as a percentage of Net Sales improved to 39.6% in 2007 compared to 37.4% last year, on a comparable basis.

2. Dividend

The Directors recommend a Dividend of Rs.18.00 per Equity Share for the year (previous year Rs.17.00 per Equity Share). If approved by the Shareholders at the Annual General Meeting, the Dividend will absorb Rs.152.47 crores. The Dividend Distribution Tax borne by the Company will amount to Rs. 25.91 crores.

Having regard to the Company's surplus cash position and the cash generation during the year from the divestment of the QFC 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.18.00 per Equity Share. If approved by the Shareholders at the Annual General Meeting, the special additional Dividend will absorb Rs.152.47 crores. The Dividend Distribution Tax borne by the Company on this Dividend will amount to Rs. 25.91 crores.

3. Management Discussion and Analysis

- (a) With a leadership position in the Pharmaceuticals market, your Company had another satisfactory year with Net Sales of the Company's continuing businesses (i.e. excluding QFC) registering a growth of 7.5%. Pharmaceuticals sales grew 7.1% during the year.

Profit Before Tax and Exceptional Items of the Company's continuing businesses grew by 13.8% on a comparable basis. The growth was primarily driven by sales of priority products which registered a double digit growth, improvement in the gross margin and expense control. This was achieved despite a significant price reduction imposed by the government on several formulations of the bulk drug Bethamethasone. Higher income from treasury operations also contributed to the profit improvement.

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

(b) The Pharmaceuticals Business

The Indian Pharmaceuticals Market grew by 13.4% (Source: [ORG IMS] SSA MAT December 2007).

Net Sales of the Pharmaceuticals business segment was Rs.1468 crores.

Your Company enjoys a leadership position in the segments in which its products are represented including Dermatologicals, Corticosteroids, Anti-parasitic, Vitamins, Minerals, Nutritionals and Thyroid preparations. Augmentin is the leader in the Anti-infectives segment. Betnesol and Eltroxin are leaders in the Corticosteroids and Thyroid preparations segment respectively and Zentel leads the Anti-parasitic segment. Calpol, Neosporin and Vozet maintained their leadership position in the Anti-pyretic, Topical Antibiotic and Levoceterizine segments respectively. Cobadex CZS is the No. 1 brand amongst all antioxidants and CCM became the 3rd largest selling calcium brand. In the second year of their launch, Zobactin has become the 4th largest brand in the broad spectrum Penicillin Injectibles segment and Parit was ranked no. 5 in the Rabeprazole market.

In 2007, your Company continued the search for new Business Development opportunities through alliances and in-licenses. Your Company introduced Carzec (carvedilol) in the cardiology segment in alliance with Roche. Your Company also introduced an oral antibiotic, Zemetril (cefprozil), and a new product Inflanpen for pain and inflammation. Arxitra (fondaparinux sodium), a product in the anti-thrombosis segment, was also launched during the year.

The key strategy for Business Development is to identify new products in high growth therapeutic areas like cardiology and diabetes and in the therapeutic areas in which your Company has a well-established presence viz. critical care, dermatology and biotechnology. Alliances for cardiology and critical care products are in advanced stages of discussion. Opportunities in areas like cosmeceuticals and critical care antibiotics are being explored.

(c) Research & Development

GlaxoSmithKline plc is committed to Research and Development of medicines that would improve the quality of life of people around the world and which truly make a difference to patients.

This R&D effort is supported by the Clinical Operations group in India, which conducts clinical studies across a number of disease areas ranging from cancer, depression, schizophrenia, diabetes and leishmaniasis (kala azar).

Last year, your Company initiated 14 new clinical trials, in which 333 patients participated. In 2006, 11 new clinical trials were initiated and a total of 276 patients had been enrolled. Most of the clinical studies initiated in 2007 have been in Oncology and Neuropsychiatry. Your Company has trained more than 150 investigators at around 50 hospitals across India. The quality of work continues to be of a high order, evidenced by a FDA regulatory inspection and a number of internal compliance audits.

(d) Exports

Exports recorded a sales turnover of Rs.40.3 crores, comprising both Bulk Drugs and Formulations. Exports of bulk drugs were to major markets like Japan, Mexico, France, Indonesia and Korea.

(e) Pharmaceuticals Pricing

The National Pharmaceuticals Pricing Authority (NPPA) effected a downward revision in the prices of several betamethasone and 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.

(f) Internal Control Framework

The Company has a well established framework of internal controls in operation, including suitable monitoring procedures and self-assessment exercises. An independent Internal Audit function reviews the Company's financial and operating controls at various locations.

The Company's Risk Management Framework ensures compliance with the provisions of Clause 49 of the Listing Agreement. The Company has prepared a Risk Inventory of all identified risks, which have been prioritised. Senior Management has ownership of the key risks, their management and mitigation plans. The Board, through the Audit Committee, reviews the key risks, the internal control framework and the audit findings.

(g) Human Resources

Human Resources forms an integral part of your Company's strategy for growth. A robust talent identification and validation process was conducted across the Middle Management levels. This also included Development Centres which were based on the recently introduced High Performance Behaviours identified for the GlaxoSmithKline global organisation. External Training programmes were aimed at development of key talent. A two-day workshop on 'Winning Attitudes for Successful People' was conducted across the manufacturing organisation for employees at various levels.

Your Company continues to lay strong emphasis on Sales Training for its field force both at the induction level and through refresher programs to accredit front-line Medical Representatives and managers on Pathology-Product-Promotion. This is aimed at brand-building and improving the quality of communication to the doctor community.

On the Industrial Relations front, your Company continued to enjoy a cordial and harmonious relationship with its employees and Unions. A Settlement on payment of Kit Allowance was signed with the regional Unions across the country covering all Medical Representatives. The settlement is valid from January 2006 to December 2009.

In order to assess and measure employee engagement / satisfaction levels, a study has been commissioned through a leading external organisation. The findings are awaited.

Your Company had a staff strength of 3620 employees as on 31st December 2007 compared to 3850 employees at the end of the previous year. The reduced headcount is mainly on account of divestment of the QFC business which had 142 employees.

(h) Procurement

Procurement focused on Strategic Sourcing initiatives during 2007. eProcurement and Sourcing tools were used to buy key categories. 900 e-sourcing events were conducted to identify the capabilities of the supply base, benchmark prices and generate competitive advantage in the market. Knowledge management through shared databases made the decision making process scientific. Mitigation plans were put in place to counter inflationary pressures in the commodities market. These strategic sourcing efforts and timely decisions on buying helped counter inflationary pressures. Continuous improvement on Compliance, Environment Health and Safety and Risk Mitigation was an area of focus. Supplier Relationship Management initiatives in key categories helped your Company avail of better service and improvement in on-time supplies.

Anti-counterfeit measures were pro-actively initiated for various packaging materials like pack labels, mono cartons and flexible materials. Contract manufacturers were also engaged in value added services like formulation development, new source development and exploring the availment of Tax incentives.

(i) Manufacturing

Your Company's Thane site was approved by the UK regulatory authority MHRA for the export of Betamethasone Valerate to various European and South American markets. The site has upgraded its civil fabric and quality systems to meet the requirements of the regulated markets. The Nashik site continues to be the lead site supplying approximately 50% of your Company's sales volumes. The site is in the process of reviewing its manufacturing processes with a view to improving the overall equipment efficiency and productivity using six sigma tools.

(j) Information Technology (IT)

IT provided support to the pharmaceuticals business through new initiatives like the Stockist Connect and Phasing of Sales Orders projects. A fully resilient wide-area data network was put in place, which will mitigate the impact of any failures in the existing network.

In the Stockist Connect project, your Company linked about 500 stockists using the Internet. Besides ease of placing orders, the stockists benefited through improved visibility of order execution while your Company got timely information on secondary sales and stock statements enabling better planning.

The Phasing of Sales Orders project, undertaken by Supply Chain and IT, is aimed at reducing the concentration of orders at the month end to a more balanced set of weekly orders. The results of the pilot run are encouraging.

A comprehensive Disaster Recovery and IT Continuity Plan catering to a diverse IT infrastructure spread across several locations in India is fully operational.

(k) Corporate Social Responsibility

During the year, your Company continued with its many social responsibility initiatives in Mumbai and Nashik.

The Gramin Arogya Vikas Sanstha (GAVS), supported by the Company, continued to provide medical services to 15 predominantly Tribal villages in Peth Taluka, Nashik District. Over 20,000 tribal people are benefited by this healthcare initiative. Vocational training programs like tailoring and bamboo training were initiated for tribal women living in all adopted villages through Self Help Groups. GAVS also operates a Balwadi (pre-school) for children under the age of 5 years at a rag-pickers' community in Nashik and continues to support pre-school education through the Balwadi at the Worli Koliwada village.

The GSK/HIVAIDS Helpline continues to disseminate information on the disease with psycho-social support to callers. Your Company continues to support organisations like Aakanksha by

way of providing space for running a Learning and Development Centre for under privileged children from slums in and around Worli, while also supporting the ISKCON Foundation's Mid-Day Meal project in Mumbai.

(I) 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

Resignation

Mr. A. S. Lakshmanan resigned as Director from 25th October 2007. The Board places on record its appreciation of the valuable services rendered during his long tenure as Director and for his contributions to the deliberations of the Board.

Appointment

The Board of Directors has appointed Mr. R. C. Sequeira as Executive Director of the Company for a period of five years with effect from 25th October 2007, in the casual vacancy caused by the resignation of Mr. A. S. Lakshmanan. A proposal for his appointment as Executive Director is being placed before the Members for approval at the Annual General Meeting.

Retirement by Rotation

Mr. V. Narayanan, Dr. M. Reilly and Mr. R. C. Sequeira 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 2007 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, 22nd February 2008



Annexure 'A' to the Directors' Report

I. Conservation of Energy:

Thane and Nashik factories continued their efforts towards giving priority to Energy Conservation measures including regular review of energy consumption and effective control on its utilisation. The sites have taken a challenging target of reducing the energy consumption year on year with a view to reducing the adverse impact of consumption of fossil fuel on the environment and also saving energy cost.

Energy Conservation measures taken during the year:

- Replacement of old chillers with highly efficient Screw Chillers
- Energy intensive dehumidification system in manufacturing areas was replaced by Drykor type efficient dehumidifiers
- Use of positive transmission belts in Air handling systems to reduce energy loss due to slippage.
- Installed High efficiency boiler feed water pumps
- Increase in CFM – Output of Nitrogen plant with same motor HP
- Reduction of load loss of CRD Nitrogen plant air compressor by optimizing the compressor size
- Optimisation of Chilled water Process pumps, extraction system in place of Steam Ejector
- Variable speed drive for Cooling Tower pump
- Recycling of water
- Maximum demand management
- Stepless controller for Boiler
- Installation of variable frequency drives for Compressors, pumps & A/C plant

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

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 2007	Year ended 31 st December 2006
Electricity			
Purchased units	KWH'000	20,715.03	20,063.44
Total amount	Rs.Lakhs	1,017.70	847.69
Rate / Unit	Rs.	4.91	4.23
Own generation			
Through DG			
Units	KWH'000	88.31	158.24
Units / Ltr of HSD	KWH'000	1.82	2.33
Cost per unit	Rs.	22.20	17.52
Coal		—	—
Furnace Oil, LDO & LSHS			
Quantity	KL	2,988.61	3,239.00
Total amount	Rs.Lakhs	578.58	654.07
Average rate	Rs./KL	19,359.48	20,193.58
Others		—	—

B) Consumption PU of production

		Year ended 31 st December 2007		Year ended 31 st December 2006	
		Chemicals (Incl.Bulk Drugs) Per Tonne	Formulations Per Million Packs	Chemicals (Incl.Bulk Drugs) Per Tonne	Formulations Per Million Packs
Electricity	Units	158,066	66,418	198,255	57,894
Furnace Oil, LDO & LSHS	KLtrs	30.20	4.91	36.72	6.75

II. Research and Development (R&D)

Your Company has two R&D units, namely Chemistry Research & Development (CR&D) and Pharmaceutical Research & Development (PR&D). Both are approved by Department of Science and Industrial Research, Government of India.

A. Chemistry Research & Development (CR&D), Thane

CR&D at Thane carries custom synthesis for the Discovery Medicinal Chemistry (DMC) team belonging to the parent company's R&D group. The activities include preparation of small organic molecules, known as monomers or building blocks. These monomers developed might lead to new chemical entities. A number of new molecules having potential for further development have been synthesized.

During 2007 CR&D, Thane initiated a new activity called 'Array Synthesis'. This enables quicker generation of library of new molecules by parallel synthesis methodology.

B. Pharmaceutical Research and Development (PR&D)

Pharmaceutical R&D has developed a number of new products in the area of life-style diseases (tablets formulations for cardiac and diabetic treatment), anti-infective (tablets, dry syrups and topical combination preparations) and anti-viral tablets, either in-house or in collaboration with leading pharmaceutical companies. The manufacturing processes for many products were simplified and the raw & packaging material were rationalised. Anti-counterfeit features are being developed for a number of products and implemented.

PR&D efforts have helped to bring out an improvement in processes, product design and operating efficiencies. R&D work has also resulted in improved stability of products and cost reduction.

Future Plan of Action:

The Pharmaceutical R&D is being upgraded for developing various dosage forms for India and International markets. The Company is privileged to have access to various research databases used worldwide and to latest technologies developed by the GlaxoSmithKline Group.

Expenditure on R&D:

	Rs. Lakhs
1. Capital	141.26
2. Recurring	440.16
Total:	581.42
3. Total R&D expenditure as a percentage of turnover	0.37%

Technology Absorption, Adaptation and Innovation:

Nashik site has implemented bar code verification system for verification of packaging components in its Liquid Department thus resulting in better assurance of quality to customer.