

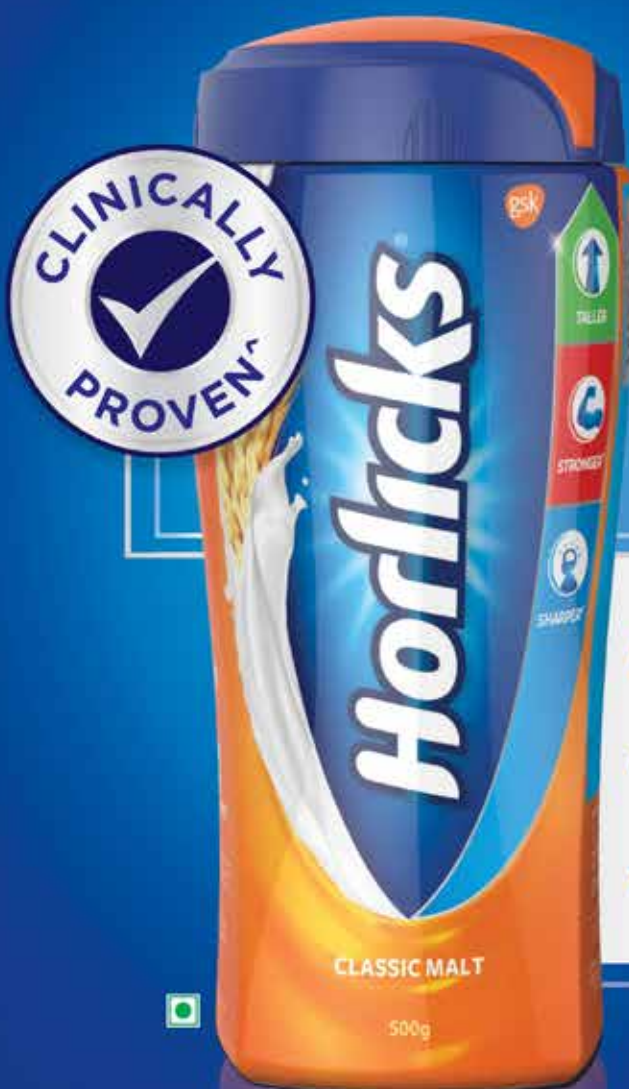


GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED

Annual Report

FOR THE YEAR ENDED MARCH 31, 2017

“ In a study, it was found that up to
9 in 10 children's diets could be
DEFICIENT in micronutrients* ”



- **Taller**
- **Stronger⁺**
- **Sharper⁺⁺**



GLAXOSMITHKLINE
CONSUMER HEALTHCARE LIMITED

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Registrars And Transfer Agents:

Karvy Computershare Pvt. Ltd.
Karvy Selenium Tower B
Plot No. 31 & 32, Gachibowli, Financial District,
Nanakramguda, Serilingampally
Hyderabad - 500 008

Website: www.gsk-ch.in

Investor Email ID: investor.2.co@gsk.com

Corporate Identity Number: L24231PB1958PLC002257

Chairman

Subodh Bhargava

Managing Director

Manoj Kumar

Directors

Kunal Kashyap
Mukesh H. Butani
Naresh Dayal
Sangeeta Talwar
P. Dwarakanath
Vivek Anand
Jonathan Box (till 17.05.2016)
Joaquim B Mascaro (w.e.f. 18.05.2016)
Jaiboy J. Phillips (till 31.08.2016)
Anup Dhingra (w.e.f. 01.09.2016)

Company Secretary

Sonali Khanna (till 17.05.2016)
Shanu Saxena (w.e.f. 05.08.2016)

Bankers

State Bank of India
HDFC Bank Limited
HSBC Bank
Deutsche Bank A.G.
ANZ Bank
DBS Bank
Standard Chartered Bank
Citibank N.A.
Bank Of America
Barclays Bank

Auditors

Price Waterhouse

Registered Office

Patiala Road, Nabha – 147 201 (Punjab)

Head Office

24 & 25 Floor, One Horizon Centre, DLF Phase - V
Gurugram – 122 002 (Haryana)



Financial Statistics

Ten Year Financial Statistics

(Rs. Lacs)

	2007	2008	2009	2010	2011*	2012*	2013-14* (15 Months)	2014-15**	2015-16*** (Ind AS)	2016-17*** (Ind AS)
SOURCES AND APPLICATIONS OF FUNDS										
SOURCES OF FUNDS										
SHARE CAPITAL	42,06	42,06	42,06	42,06	42,06	42,06	42,06	42,06	42,06	42,06
RESERVES & SURPLUS	6,04,29	7,18,82	8,63,04	9,17,98	11,02,12	13,18,92	17,70,79	20,70,98	27,56,65	30,80,61
TOTAL SHAREHOLDERS' FUNDS	6,46,35	7,60,88	9,05,10	9,60,04	11,44,18	13,60,98	18,12,85	21,13,04	27,98,71	31,22,67
FUNDS EMPLOYED	6,46,35	7,60,88	9,05,10	9,60,04	11,44,18	13,60,98	18,12,85	21,13,04	27,98,71	31,22,67
DEFERRED TAX LIABILITIES	17,28	6,58	-	-	-	-	-	-	-	-
TOTAL	6,63,63	7,67,46	9,05,10	9,60,04	11,44,18	13,60,98	18,12,85	21,13,04	27,98,71	31,22,67
APPLICATION OF FUNDS										
GROSS FIXED ASSETS	5,40,99	5,55,34	5,96,26	7,07,29	7,85,82	8,53,47	8,93,07	11,01,60	6,20,82***	6,89,27***
DEPRECIATION	2,97,65	3,29,24	3,64,00	3,96,71	4,35,97	4,62,40	5,14,71	5,67,54	88,16***	1,44,17***
NET FIXED ASSETS	2,43,34	2,26,10	2,32,26	3,10,58	3,49,85	3,91,07	3,78,36	5,34,06	5,32,66***	5,45,10***
INVESTMENTS	2,97,83	0.05	0.05	0.05	-	-	-	-	-	-
DEFERRED TAX ASSET	-	-	11,01	26,73	39,89	61,63	90,30	1,04,34	1,13,13	1,27,80
NET ASSETS (CURRENT AND NON CURRENT)	1,22,46	5,41,36	6,61,83	6,22,73	7,54,44	9,08,28	13,44,19	14,74,64	21,52,92	24,49,77
TOTAL APPLICATION	6,63,63	7,67,46	9,05,10	9,60,04	11,44,18	13,60,98	18,12,85	21,13,04	27,98,71	31,22,67

*2011, 2012 and 2013-14 based on Revised Schedule VI

**2014-15, 2015-16 and 2016-17 based on Schedule III

***For 2015-16 and 2016-17, the Company has availed the deemed cost exemption and used the previous GAAP net carrying amount of property, plant and equipment including capital work in progress as deemed cost. Refer Note 3 of Financial Statements

^2015-16 and 2016-17 are stated as per Ind AS

Ten Year Track Record

(Rs. Lacs)

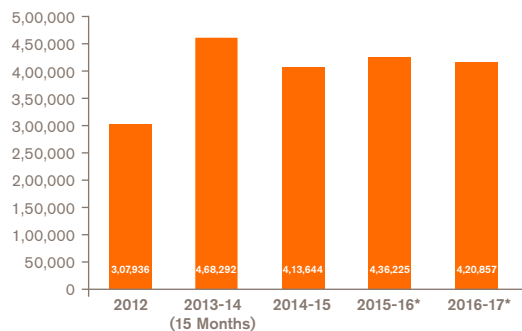
	2007	2008	2009	2010	2011	2012	2013-14 (15 Months)	2014-15	2015-16 (Ind AS)*	2016-17 (Ind AS)*
TURNOVER	12,78,46	15,42,78	19,21,50	23,06,12	26,85,51	30,79,36	46,82,92	41,36,44	43,62,25	42,08,57
PROFIT BEFORE TAX	2,45,12	2,85,71	3,53,86	4,51,80	5,40,26	6,48,69	10,16,07	8,89,14	10,55,95	10,10,42
NET PROFIT	1,62,68	1,88,33	2,32,78	2,99,85	3,55,21	4,36,76	6,74,75	5,83,60	6,87,28	6,56,68
OTHER COMPREHENSIVE INCOME (NET)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	(3,91)	21,60
TOTAL COMPREHENSIVE INCOME	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	6,83,37	6,78,28
DIVIDEND	50,47	63,08	75,70	2,10,28	1,47,19	1,89,25	1,89,25	2,31,31	2,31,31**	2,94,39**
CORPORATE DIVIDEND TAX	8,58	10,72	12,87	34,92	23,88	30,70	32,16	47,09	47,09**	59,93**
RETAINED EARNINGS	1,03,63	1,14,53	1,44,22	54,65	1,84,13	2,16,80	4,51,87	3,05,21	4,04,98**	3,23,96**
DIVIDEND - %	1,20	1,50	1,80	5,00	3,50	4,50	4,50	5,50	5,50	7,00
EARNINGS PER SHARE (Rs.)	38.68	44.78	55.35	71.30	84.46	103.75	160.44	138.77	163.42	156.15
NUMBER OF SHARE										
HOLDERS	22,315	22,548	22,443	22,867	25,639	27,020	26,423	27,288	33,352	41,916

*2015-16 and 2016-17 are stated as per Ind AS

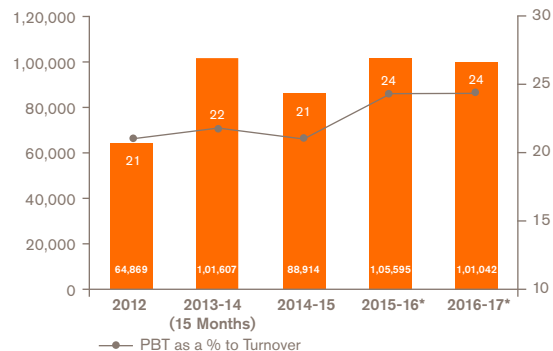
**For 2015-16 and 2016-17, the company has reported Dividend, CDT & Dividend % on actual payment basis as per Ind AS.

Financial Highlights

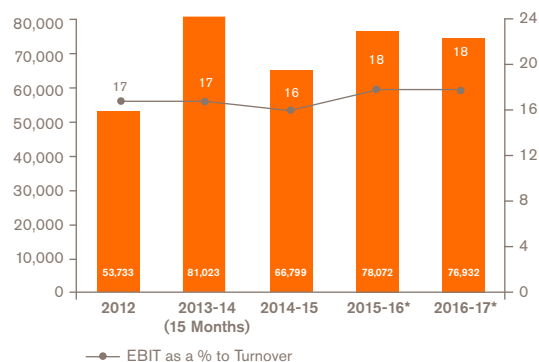
Turnover
(Rs. Lacs)



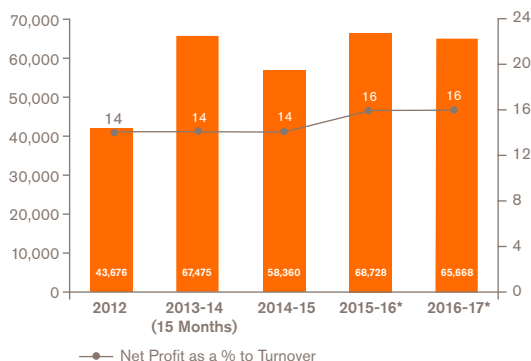
Profit Before Tax
(Rs. Lacs)



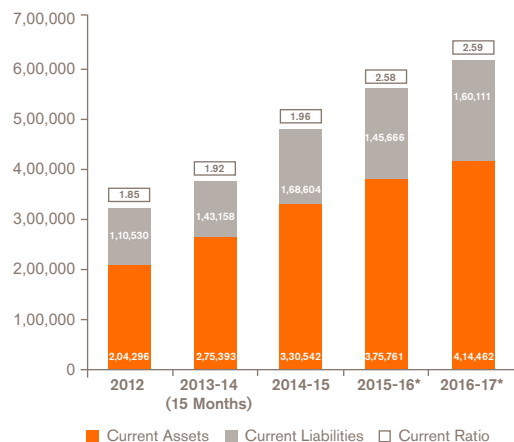
EBIT
(Rs. Lacs)



Net Profit
(Rs. Lacs)



Current Ratio (Times)
(Rs. Lacs)



*2015-16 & 2016-17 are stated as per Ind AS

Directors' Report

Your Directors are pleased to present the Annual Report on the business and operations of your Company and the audited Financial Statements of the Company for the year ended March 31, 2017, in accordance with the Companies (Indian Accounting Standards) Rules, 2015 (Ind AS) prescribed under Section 133 of the Companies Act, 2013 and other recognised accounting practices and policies to the extent applicable provisions of the Act from FY 2016-17.

Financial Results

(Rs. Lacs)

	Year ended March 31, 2017	Year ended March 31, 2016
Revenue from operations	44,21,08.89	45,64,37.68
Profit before Depreciation, Amortisation and Tax	10,74,59.12	11,13,39.07
Less: Depreciation	64,17.54	57,43.87
Profit Before Tax	10,10,41.58	10,55,95.20
Less: Provision for Tax		
- Current Tax	3,70,23.47	3,76,85.34
- Deferred Tax	(16,49.69)	(8,18.10)
	3,53,73.78	3,68,67.24
Profit After Tax	6,56,67.80	6,87,27.96
Other comprehensive income (Net)	21,60.47	(3,90.77)
Total comprehensive income for the year	6,78,28.27	6,83,37.19
Appropriations		
Dividend Paid	(2,94,38.88)	(2,31,30.55)
Tax on Dividend	(59,93.06)	(47,08.83)
Transferred to General Reserves	-	(68,69.15)
	(3,54,31.94)	(3,47,08.53)
Earnings Per Share (Rs.) (Basic & Diluted)	156.15	163.42
Dividend per Share (Rs.)	70.00*	70.00

*Dividend is recommended by the Directors and is subject to the approval of the Shareholders.

Performance of the Company

Your Company continued its journey to become a truly Fast Moving Consumer Healthcare Company and performed well against increased competitive intensity and volatile external environment. Net Sales and Profit after Tax for the year ended March 31, 2017 were Rs. 42,08,57 Lacs and Rs. 65,668 Lacs respectively. Your Company retained its leadership position in HFD category with volume and value market share at 64.4% and 56.3% respectively.

Your Company continued its focus on innovation, delivering products of value with superior science and has entered the advanced nutrition segment for consumers who want very high science products. Horlicks Growth+, launched in May, 2016 is clinically proven formula for catch up growth for children between 3-9 years. It has been proven to show results within 6 months of regular usage. The product is available in vanilla and chocolate variants to encourage consumption for children as they typically like these flavours.

Science remains the core of our product portfolio that addresses the nutritional needs of consumers. The new & improved Horlicks, re-launched in April, 2016, has 2X Immuno Nutrients, scientifically proven to support immunity to help the body's natural defence system. Research has shown that low immunity can obstruct the overall growth in children, leading to hindrances in day-to-day activities including school attendance. Horlicks 2X immunity addresses the mental & physical growth of children, thereby bringing

alive our product proposition of making child "Taller, Stronger and Sharper".

Your Company launched in May, 2016 Cardia+ which contains Nutriose, which keeps the consumer fuller for longer so that they eat less and do not eat in between meals. This is clinically proven to reduce RLP Cholesterol, reduce insulin spikes, reduce blood sugar spikes.

Women's Horlicks continued its differentiation through "Bone Health" platform which was re-staged in August, with a unique combination of Calcium, Vitamin D and Vitamin K2 that helps to bind the bones. It was backed by a holistic campaign to remind consumers that it was time to start consumption of nutrients for strong bones once you turn '30'. The digital campaign "Strong to the Bone", launched on Women's Day, included an online Bone Mineral Density test. This campaign helped Women's Horlicks to emerge as the No.1 brand in online share of voice.

Mother's Horlicks was launched with great tasting Kesar flavor in June to address the taste fatigue of expecting and new mothers. The "Early Start" campaign continued to drive growth. Mother's Horlicks became the No.1 prescribed pregnancy HFD brand for the 1st time ever.

Marie Biscuits, were launched in September in East, positioned as "The Perfect Marie" backed by Horlicks' equity, aiming to entice consumers to switch to Horlicks Marie. This was backed with a holistic communication, strong launch plan and execution. The brand has garnered 1% market share.

In line with the access strategy, the Company reduced the price of Horlicks and Boost sachet to Rs. 5 & Rs. 10 to ensure that our products will be more attractive value enabling to increase consumer base. This has resulted in increase of consumption offtake. This will also help migrate consumers to the regular packs.

Junior Horlicks launched a new communication series in August, 2016 to drive differentiation around brain development emphasising the need for a specialized health drink in early years. Digital advocacy programs and social media interactions helped increase engagement, consideration and strengthen benefit perception amongst toddlers' mothers.

Boost was re-introduced in March last year with a new communication platform of "Play a Bigger Game". This was supported by a new visual that highlighted its packaging & looks across all consumer and shopper touch points. The brand had a growth of 7% and reached highest ever market shares in its core market in South.

In 2017-18, building on the same winning formula, a new campaign was launched with Indian cricket team captain, Virat Kohli. The 1st ever branded digital web series for kids with Virat was launched and garnered 15 million views online.

Boost further strengthened its consumer connect through inspiring campaigns. Boost 'Play the Pros', at the Chennai Open, recorded a new Guinness Record at an Association of Tennis Professionals event for the "largest" Kids Tennis Session.

Dividend

The Directors recommend a total dividend of Rs. 70 per equity share of Rs. 10 each for the year ended March 31, 2017. If approved by the Members at the ensuing Annual General Meeting to be held on August 9, 2017, it will be paid on or before, September 8, 2017 to those Members whose names appear in the Company's Register of Members and to those persons whose names appear as beneficial owners (as per the details to be furnished by the Depositories in respect of the shares held in dematerialised form) as at the close of business hours on August 3, 2017.

With reference to point 11 (g) (iii) in the Audit report, the delay in deposit of demand draft to Investor Education Protection Fund was procedural, your Company did not benefit from the delay and the same has been submitted and accepted by the Registrar of Companies.

Management Discussion and Analysis Report

The changing global political landscape, shifting attitudes to globalisation, free trade, wage stagnation, political uncertainty, Brexit in UK caused significant volatility and unpredictability.

In India, the government remains keen on driving economic reforms. There are multiple initiatives like Demonetisation, GST, Digitisation, Make in India, Infrastructure project investments, rural development and financial empowerment.

The economic environment during the year remained under pressure on account of demonetisation leading to subdued consumer sentiments. During the year Rs. 500 & Rs. 1000 notes were demonetised. Thus, having a significant impact on cash dominated Indian economy. There was major impact on cash dominated geographies and channels, mainly wholesale and rural, resulting in lower consumption. Your Company responded to the volatile demand situation with agile Supply Chain and by supporting Trade with extended credit terms.

GST bill has been passed in the Parliament which is a positive for the economy as it will not only smoothen the credit chain, improve tax compliance but also bring more transparency in the system. The multiple administration and technological challenges in its implementation are key to its success. Your Company is on track for GST Implementation, basis the GST laws available in public domain and are upgrading IT systems to ensure GST readiness and compliance.

The fundamentals of the Indian economy continue to be good, reinforcing its growth potential. However the pace of execution of reforms remains key to translating the positive sentiment to actual growth of the economy.

FMCG Industry continued to remain under pressure due to subdued demand and market sentiments. Consumers continue to prioritise necessities as against discretionary spends. Earnings across the sector struggled on account of consumption.

Despite challenges, we are well placed to deliver consistent performance given our understanding of consumer behaviour. We also have robust price value proposition, high-science based products, Go to Market Strategy, pipeline for innovative products, efficient cost and talent management processes. These, we believe, fortifies us against headwinds.

The rural business has been working with the vision of building a strong connect with the communities it serves. Over the years your Company has built a strong rural business that continues to reach over 20,000 villages directly. This has helped the Company build categories & brands and create positive social impact by building awareness on nutrition & promoting good health practices.

Two key growth drivers in our Rural Programme are Horlicks Swasthya Abhiyan (HSA) and Village Level Entrepreneurs (VLE); HSA program aims to improve the standard of hygiene & health in the rural areas, engaging with rural medical practitioners and community workers, thus creating awareness, education and relevance for our brands. HSA now reaches over 5,600 villages, 10,000 Rural Medical practitioners and connects with over a million consumers. VLE has reached more than 1,600 villages by which we are reaching out to bottom of the pyramid (Direct reach of 1,60,000 Consumers) and in this process, create livelihood for underprivileged rural women while enhancing access of our products in small villages economically empowering rural women. Mobile Sakhi, a mobile based advisory service for pregnant mothers, delivers vital information pertaining to pregnancy is used by over 50,000 rural women.

Further, your Company has started to address the issue of malnutrition with strategic partners as part of Corporate Social Initiatives during the year.

Your Company's growth in Modern Trade continues to show progress. The strong performance has been on the back of visibility initiatives, strategic placements and competitive growth during Big Day sales, shopper education, activations and bone health checks.

Your Company continues to invest in Brands and connect with the Consumers through innovative and diversified platforms of Advertising. The Company has made investments in E-commerce Channel. Encouragement to the Cashless transactions has given a lot of push to the e-commerce companies.

Your Company has made significant efforts towards digital advocacy programs including activity targeting moms online. Other activities include social media amplification of TVCs (Junior Horlicks), Bone Density Tests on Women's Day, popularisation of "Horlicks Brand Store", digital launches for Cardia+ & Growth+ to name a few. All these have helped increase engagement, consideration and strengthen benefit perception amongst customers.

Your Company's focus on cost management, working capital optimisation and simplification program continued to deliver positive results in mitigating inflation and supporting profitable growth. Improvement in working capital, better cash flow and cost optimization have supported sustained investments in Company's brands. Simplification initiatives like Electronic Collection and E-claims have been taken to empower, improve speed and strengthen the existing processes for better customer experience.

Reserves

The total Reserves as on March 31, 2017 stood at Rs. 30,80,61.28 Lacs representing an increase of 12% from March 31, 2016.

Research and Development (R&D)

Your Company's R&D vision is to improve lives of more by creating and sustaining consumer led Science based innovation. Last year we introduced 7 new launches with deep consumer insight and high science which helped create strong portfolio of Nutrition category.

- Horlicks with 2X Immuno-nutrients claim i.e. Selenium and vitamin D delivered at 100% RDA, which is scientifically proven to support immunity for consumers was launched in April, 2016.
- Horlicks Growth Plus was launched in May, 2016. A patent pending clinically proven formula evolved at Schneider Children's Medical Centre for children of age 3-9 years who are lagging behind on their growth is proven to help catch up on lost growth with key claims i) Horlicks Growth+: Start catching up on growth in just 3 months ii) Clinically Proven Horlicks Growth+: proven visible growth in 6 months. Two product variants i.e. vanilla and chocolate variants have been developed with great taste experience. The new design has a reusable wide mouth PET tamper proof container with silver tinted wrap around shrink sleeve to make it stand out on the shelf. Its flat cap surface makes it more stable on shelf and inbuilt plug seal, inside cap surface, offers in use sealability. Its primary pack structure keeps the product safe from moisture and gas during 12 months of product shelf life.
- Boost pack restage delivered a sharper design in line with a new brand visual language of 3X more stamina.
- Horlicks Cardia+ has been designed to deliver clinically proven i) Reduction in glucose spike ii) Reduction in Insulin spike iii) Reduction in RLP cholesterol. The product has been specially formulated with proprietary soluble fibres i.e. a) Fibersol which retards digestion and absorption of the associated dietary carbohydrate, thus flattening the postprandial rise in plasma glucose and insulin concentrations



and b) Nutriose which reduces daily calorie intake and has a great vanilla taste. The packaging, delivered through science based packaging technology, stands out on the shelves.

- Mother's Horlicks Kesar flavour was developed by NPD team basis a strong consumer insight on ethnic Indian taste and association of Kesar with pregnancy. The product has been received very well.
- Women's Horlicks was developed with CALSEAL idea i.e. Calcium, Vitamin D and Vitamin K2 combination to drive Women's Horlicks brand relevance through stronger science on bone health with addition of Vitamin K2 in formula. There is strong evidence of Vitamin K2 science in absorption of calcium by bones.
- Horlicks Marie was developed by R&D team as your Company entered a new segment in food business in September, 2016. R&D team delivered a consumer winning product within 3 months of development time and this was possible due to strong technical capabilities in R&D team.

Packaging has long proven to be a critical success factor for winning with the consumers. Packaging excellence awards and recognitions have been received externally and internally within GSK India, Asia, and at the global level. Recently, high science packaging lab has been established to enhance capability and drive packaging science based innovation program for more functional based packaging.

You will be pleased to know your Company's R&D function has the cutting edge best practices as mentioned below:

- Adopted best practices in consumer insights and have strong network with GSK's global capabilities on scientific exploration, clinical science, sensory and product understanding, packaging expert networks to access best information to deliver product of best quality, science and relevance.
- Profitable growth ambitions are actively supported by R&D through a structured Value Engineering Program which also helps to mitigate the increasing cost of raw materials. Design to value remains an integral part of R&D product development process to provide most efficient cost advantage to end consumer.
- R&D partners with Supply Chain on a long term manufacturing process that is cost efficient, more sustainable and high quality.
- R&D is working also towards our environment sustainability initiatives. The R&D function has also partnered with Supply Chain for capacity enhancement projects and initiated work on long term manufacturing processes that are cost and capital efficient and aims to lower carbon footprint.
- The R&D function continues to focus on the regulatory compliance with local food laws, and also proactively engages with the regulatory authorities and industry associations to shape the regulatory environment for science based innovation in food and nutrition.

You will be glad to know that your Company's R&D is significantly involved in building and defining new science and benefits either through new technology that would give cutting edge advantage for our offerings along with scientific research to drive differentiated claims to maintain category leadership. Some of the high science differentiated products are in advance stage of development for launches in short, medium, and long term, and thus making our innovation pipeline robust.

ISO Certification

Your Company's manufacturing facilities at Nabha, Rajahmundry and Sonapat continue to be certified to the latest version of ISO 9001: 2008, ISO 22000: 2005, ISO 14001: 2004 and OHSAS 18001: 2007 by SGS, a leading International certification Company. These certifications

indicate our commitment in meeting in a sustainable manner Global Quality, Environment, Health, and Safety Standards.

Information Technology

Your Company strengthens its efforts in integration of Information Technology for business efficiencies. The Information Technology function has been a key business enabler across all functions of the Company.

During the year, the Company has kicked off simplification projects like outsourcing Payroll & Medical Claims reimbursement in order to streamline the processes. Plans are afoot to rollout First SFA (GSKCH Global reporting and detailing solution) for expert marketing team in India. The rollout would help improve HCP's in-clinic experience, besides supporting the business with cutting edge execution analytics. Further, IT infrastructure upgrade is on track to ensure GST readiness and compliance.

In view of the uncertainty of the GST Go Live date, and to minimize business disruption owing to its implementation, the Company has taken a decision to defer the CERPS project implementation (SAP implementation project) till GST is rolled out.

Internal Control System and Adequacy

Your Company has established and maintained adequate internal control framework in line with the Internal Financial Controls ("IFC") requirement within the meaning of the explanation to Section 134(5)(e) of the Companies Act, 2013 including financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India (ICAI). The Company has evaluated the operating effectiveness of internal control systems which are supplemented by:

- Well-documented standard operating procedures, policies, risk and control matrices for all material processes and fraud risk mitigation. Further, these documents are tested for operating effectiveness, regularly reviewed and updated to align with global best practices.
- Any material variances from the budget are reviewed on a monthly basis and require approval of the Management Team. All major policy changes are approved by the Managing Director.
- The self-assessment by process/ control owner is also used as the basis of CEO/CFO certification as required under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 with the Stock Exchange. Further, the self certification is reviewed by the Audit Committee on a half yearly basis.
- Your Company has a Risk Management and Compliance Board (RMCB), now called the 'Risk Management Committee' (RMC), comprising of the Managing Director, Finance Director, Operations Director, Executive Vice President – Legal and Executive Vice President – Human Resource. Risk maps stating the significant business risks, potential consequences along with mitigation plans are prepared by each function and reviewed by RMC on a regular basis.
- Your Company has a robust internal audit function, that reports into the Audit Committee and carries out review of operations, systems and functions basis the plan approved by Audit Committee.

All significant Audit observations and follow-up actions thereon are reported to the Audit Committee. The Committee reviews the adequacy and effectiveness of your Company's internal control framework and monitors the implementation of audit recommendations including those relating to strengthening your Company's risk management policies and systems.

Human Resource Development

In 2016, your Company continued in its journey to become a truly Fast Moving Consumer Healthcare Company where employees feel valued, able

to develop, contribute to our mission and be proud of what we achieve. Your Company remains focussed in building a culture where both People and Performance are equally important.

A large part of embedding this culture in the organization is linked to providing rewarding careers to our people. To this extent, your Company has developed an integrated approach to Career Framework titled 'My Winning Career'. Our focus towards this initiative ensured that employees were able to leverage a vast number of career & development initiatives throughout 2016 which is reflected in the improving Engagement Survey scores.

Various initiatives around these enabled employees in the organization to come together, take a step back and spend a day dedicated to conversations around careers & development.

Your Company continued to invest significantly in developing talent across levels, leveraging processes such as Integrated Talent Management to ensure sustainability of talent, role changes and robust succession pipelines for all our key roles. Our focus on Differentiated Development ensures that employees are able to leverage a variety of opportunities to develop and take on greater responsibilities in line with their career aspirations. We also continued to build our early talent pipeline by hiring from the best B-schools, as well as sending our high potential talent on global talent acceleration programs.

Your Company also took positive steps towards Industrial relations. As a part of this, the Nabha Long Term Wage Settlement was successfully signed within plan on 14th June 2016 with the recognized union.

Your Company is strongly committed to principles of Inclusion and Diversity which is a critical element of the global HR strategy as well. In 2016, your organization refreshed the leave policy for new parents much ahead of industry & government standards, focusing on new parents; both men & women, single parents to ensure that they are supported and enabled by the organization. 2016 also saw our first ever "Inclusion & Diversity Week" to conduct a series of events and activations aimed at increasing employee awareness and sensitization to build an inclusive and diverse culture. Your organization also saw the appointment of women in leadership roles double in 2016 over 2015. Intake of women at entry level talent pipeline too has increased significantly.

Your Company has also put in place a Prevention of Sexual Harassment (POSH) at Workplace policy aimed at ensuring safety & respectable non-discriminatory environment for all employees. This policy defines what constitutes sexual harassment at workplace, reporting an incident, role of internal complaints committee and consequences in case of both genuine & false charges.

Building a healthy, engaged workforce remains one of our key priorities, and towards that we launched a program titled Partnership for Prevention (P4P), offering a host of preventive healthcare services for employees and their dependents. Under P4P, employee and their covered dependents can avail a range of preventive healthcare services at zero cost.

Your Company continues to reinforce its Values through relevant and transparent internal communication, employee engagement and direct contact programmes to ensure we have a highly engaged workforce that is truly aligned to your Company's mission of "do more, feel better, live longer."

Awards and Recognition

Your Company efforts to deliver the best quality products backed up by science based innovation, strong talent base and brands have been recognised during the year. Some of the key recognitions are:

- Rural campaigns won 6 awards at the 10th Annual Flame Asia Awards.
- Horlicks won a Gold at the prestigious DBA Design Effectiveness Awards 2017 for the product design in the beverage category.
- Boost Race of Champions won New On Ground Property of the year.
- Won the Golden Peacock Environment Management Award at the 18th World Congress on Environment Management, 2016.
- GSK ranked #1 on FORTUNE's Change the World list. The 'Change the World' list recognises companies that have made significant

progress in sustainable, scalable approaches to addressing societal problems as part of their Company strategy.

Directors

Mr. Joaquim Mascaro was nominated as Director by Horlicks Limited under Article 97A of the Articles of Association of the Company w.e.f. May 18, 2016 in place of Mr. Jonathan Box. The change was noted and resolution for appointment was passed in the meeting held on May 17, 2016. The Board of Directors wishes to place on record its sincere appreciation for the valuable advice and guidance rendered by Mr. Jonathan Box.

At the Annual General Meeting held on August 5, 2016 the following Directors were elected under the system of proportional representation, Mr. Kunal Kashyap, Mr. P. Dwarkanath, Mr. Naresh Dayal, Mr. Mukesh H. Butani, Ms. Sangeeta Talwar, Mr. Jaiboy John Phillips and Mr. Vivek Anand for a period of three years.

The Board of Directors, at its meeting held on August 5, 2016 appointed Ms. Shanu Saxena as Company Secretary of the Company, w.e.f. August 5, 2016, due to the resignation of Ms. Sonali Khanna. The Board of Directors wishes to place on record its sincere appreciation for the valuable advice and guidance rendered by Ms. Sonali Khanna.

The Board of Directors, at its meeting held on August 5, 2016 also appointed Mr. Anup Dhirga as an Executive Director of the Company, w.e.f. September 1, 2016 till date of Annual General Meeting to be held in 2019, in the casual vacancy caused by the resignation of Mr. Jaiboy John Philips. The Board of Directors wishes to place on record its sincere appreciation for the valuable advice and guidance rendered by Mr. Jaiboy John Philips.

Performance Evaluation of Board

A regular process of evaluating the Board's performance can help the Board in validating the relevance of its processes and provide insights for strengthening its overall efficiency and effectiveness. We evaluate the Board as whole, the Directors, the Committees and the Chairman of the Board through a survey that takes place annually and the mechanism followed is mentioned below:

1. In February, multiple surveys were sent to all Directors through a secured online survey portal.
2. The evaluation was based on Board Effectiveness, Processes adopted by the Board, Contribution by the Board Members, Value addition by the Board, Committee Effectiveness and contribution of the Committees.
3. Once the Directors completed filling the survey, the third party appointed compiled the results and shared the analysis with the NRC Chairman and Chairman of the Board.
4. The Chairman of the Board then individually discussed the results and shared feedback with all Directors.
5. On the basis of the report of performance evaluation, it was determined whether to extend or continue the term of appointment of the Independent Directors.

On account of recent 'Guidance Note on Board Evaluation' shared by SEBI (dated January 5, 2017), we had revised few aspects of our Board Evaluation. While your organization was already compliant to most of the guidelines circulated by SEBI, we made few minor changes to the evaluation process. A notable change this year was to appoint a third party to manage the board evaluation process.

Criteria for Appointment of Directors

The success of the Board of Directors depends on the composition, structure, resources, diligence, and authority of the entire board, as well as their working relationships with other participants of corporate governance, including management. Your Company is committed to corporate governance best practices and is vigilant at the time of appointment of its Directors.

Key Responsibilities:

The Board of Directors is ultimately responsible for the Company's business affairs and governance. To that goal a director would be expected to:

- Represent organization's shareholders' interests and create value for them.
- Align the interests of management with those of shareholders while

protecting the interests of other stakeholders (customers, creditors, suppliers).

- Oversee the Company's performance by setting objectives, establishing short-term and long-term strategies to achieve these objectives.
- Provide counsel to the Company's senior executives on material strategic decisions and risk management. Establish or approve strategic plans and decisions to achieve these goals.
- Oversee the sustainability of the Company in creating long-term shareholder value and protecting interests of other stakeholders.

Pre-requisites for consideration:

- The candidate to acknowledge that s/he has sufficient time to effectively discharge her/his duties.
- The candidate should have skill sets and expertise area which is complementary to the current Board. The Board assesses the needs of the current Board to ensure that there is a range of skills, experience and diversity represented, including an understanding of:
 - the industry and markets in which the Company operates
 - Accounting, finance and legal matters
 - Other key areas of business operations
- The candidate should have experience and depth of knowledge in her/his area of work so as to contribute meaningfully to the operations of the Board
- There should be no conflict of interest between the candidate and the Company. The individual should not be in relation to any current employee of the Company and should not be holding more than 2% of the Company's shares at the time or during the appointment
- The candidate should not be employed or related to another organization/body which can directly/indirectly influence the operations of the Company or is in direct competition with the Company.

The Candidate has not been convicted of any offence, whether involving moral turpitude or otherwise and sentenced to imprisonment for not less than six months and a period of five years has not elapsed from the date of expiry of sentence.

Remuneration Policy

Remuneration Policy for Non-Executive Directors

Your Company believes that its Board Members bring immense value in their independent evaluation and oversight of the operations of the Company. It is therefore expected that they will devote significant time and provide unbiased point of view to their board duties.

The remuneration paid to each Non-executive Director is as per the structure determined by the Nomination & Remuneration Committee and the Board. This is reviewed periodically and also compared to other peer organizations. It is ensured that the remuneration paid to them is in accordance with the provisions of the Companies Act and any other applicable law.

The remuneration structure for the Non-Executive Directors comprises of annual Commission and sitting fee per meeting attended.

Remuneration Policy for Employees

Philosophy

Your Company recognizes that reward is important in engaging employees and motivating them to do their best work to deliver our strategic priorities and mission. We reward high performance and recognize outstanding achievements of employees in a way that is consistent with our values and behaviours.

Principles

- Competitive – Your Company provides competitive rewards within a global reward framework.
- Differentiated – Your Company differentiates reward to attract and retain skilled employees; reward the greatest contributors and recognize employees who evolve their skills to enhance their individual contribution to GSK's success.
- Alignment – Your Company's reward programs and practices are transparent and focus on ensuring alignment at several levels.

- Business alignment – Your Company's reward program take into account the common and business-specific skill/ performance requirements across our various business units.
- Country alignment – Reward aims at meeting the needs of our diverse workforce and enabling them to live our mission – to do more, feel better and live longer.
- Individual alignment – Individual objectives are set and reviewed annually to ensure employees have a clear understanding of the link between the business value they deliver and their own performance based reward.

Managerial Remuneration

Your Company believes its employees are its biggest assets and aligns its compensation and benefits towards rewarding employees in line with its Rewards policy. Your Company focuses on being market aligned as well as differentiate basis performance to drive a high performance culture.

Your Company has 3807 permanent workers, including workmen. The remuneration for the workmen at two of the factories is governed by Long Term Wage Settlement (LTWS) which is done in consultation with the unions. For the remaining employees, the targeted salary increase was 10% for all employees including KMP.

If we compare the remuneration of these to that of median employee, we observe the following ratio:

Name	Designation	Remuneration for year ended March 31, 2017 (Rs.)*	Remuneration for year ended March 31, 2016 (Rs.)*	Salary Change	Ratio of Salary to Median Employee
Manoj Kumar ¹	Managing Director	58,436,168	57,661,832	NC**	80
Vivek Anand ²	Director-Finance	31,123,815	28,206,218	NC**	43
Jaiboy Phillips ³	Director-Operations	20,035,493	28,692,921	NC**	27
Anup Dhingra ⁴	Director-Operations	29,471,892	NA***	NC**	43
Sonali Khanna ⁵	General Manager Legal & Company Secretary	835,566	6,740,191	NC**	1
Shanu Saxena ⁶	Company Secretary & Area Ethics and Compliance Officer	5,768,232	NA***	NC**	8

*Remuneration is calculated on accrual basis.

**Not Comparable.

***Not Applicable.

1 Appointed in the role with effect from 1 June, 2015, salary increase & ratio to median salary not comparable

2 Appointed in the role with effect from 1 June, 2015, salary increase & ratio to median salary not comparable

3 Ceased to be in role with effect from 31 August, 2016, salary increase & ratio to median salary not comparable

4 Appointed in the role with effect from 1 September, 2016, salary increase & ratio to median salary not comparable

5 Ceased to be in role with effect from 17 May, 2016, salary increase & ratio to median salary not comparable

6 Appointed in the role with effect from 5 August, 2016, salary increase & ratio to median salary not comparable

Your Company believes that by means of the variable pay plan the Company is able to link a portion of compensation to the individual and business performance which creates a strong positive reinforcement. It also ensures that the employees of the Company are rewarded only when the shareholders' goals are met. Your Company's variable pay plan, therefore, links the variable pay to both – individual performance and business results such as sales growth and operating profits.

The ratio of the remuneration of the highest paid director to that of the employees who are not directors but receive remuneration in excess of the highest paid director during the financial year is not applicable. It is also, affirmed that the remuneration is as per the Remuneration Policy of your Company.

Name	Designation	Remuneration of KMP as percentage of Revenue	Remuneration of KMP as percentage of PBT
Manoj Kumar	Managing Director	0.13%	0.58%
Vivek Anand	Director-Finance	0.07%	0.31%
Jaiboy Phillips ¹	Director-Operations	0.04%	0.20%