



Annual Report \_\_\_\_\_ 2006

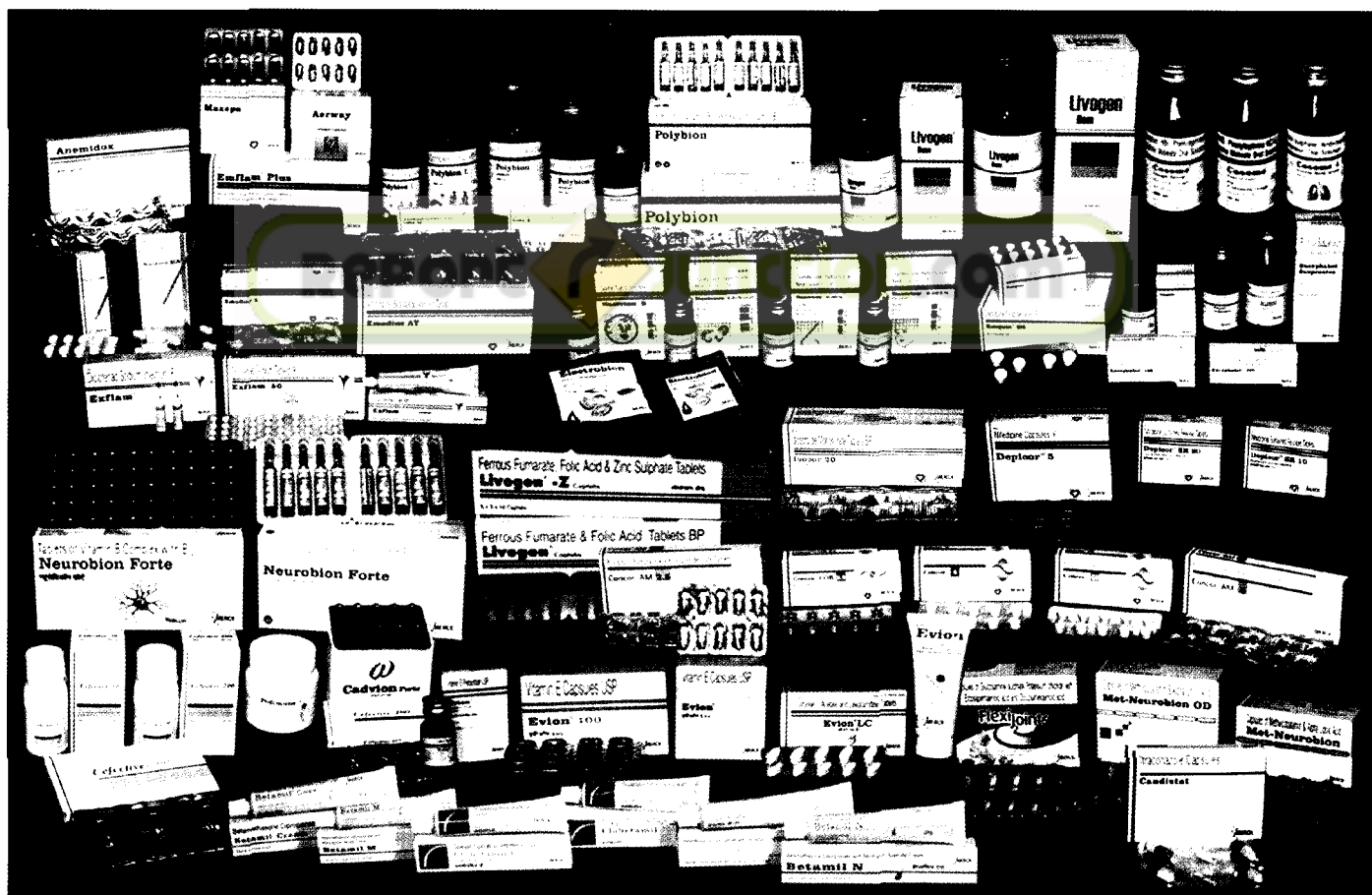


Candurin® - Unique coating pigment for food and pharmaceutical application.

Well-positioned in Pharmaceuticals and Chemicals

We think in generations

## MAJOR PRODUCTS IN THE MERCK PHARMA RANGE



Coated with Iridion® pearl lustre pigments manufactured by Merck

# Merck Limited

## Fortieth Annual Report and Statement of Accounts 2006

<i>Board of Directors</i>	<i>Auditors</i>	<i>Bankers</i>	<i>Legal Advisors</i>		
Mr. S. N. Talwar <i>Chairman</i>	BSR & Co.	Canara Bank	Crawford Bayley & Co.		
Dr. H. Mauer <i>Managing Director</i> (upto 31.7.2006)		Union Bank of India			
Dr. M. Dziki <i>Managing Director</i> (from 1-8-2006)		Deutsche Bank AG			
		Citibank N.A.			
		Standard Chartered Bank			
		ICICI Bank Limited			
		HDFC Bank Limited			
Dr. J. Sombroek					
Mr. W. W. Zywoitek					
Mr. H. C. H. Bhabha					
Dr. S. M. Gupte				<i>Contents</i>	<i>Page No.</i>
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<i>Executive Committee:</i>					
Dr. M. Dziki <i>Managing Director</i>					
Mr. A. Bhattacharjee <i>Director - Chemicals</i>					
Dr. S. M. Gupte <i>Director - Pharma</i>					
Mr. G. V. S. Rayudu <i>Director - Technical, I.T. &amp; Personnel</i>					
Mr. R. L. Shenoy <i>Director - Finance, Legal, Logistics &amp; Commercial</i>					
	<i>Company Secretary</i>				
	Mr. H. U. Shenoy				
<i>Registered Office</i>	<i>Plant Location</i>	<i>R &amp; T Agents</i>			
Shiv Sagar Estate 'A'	Plot No. 11/1	Sharepro Services (India) Pvt. Ltd.			
Dr. Annie Besant Road	Usgaon, Ponda 403 407	912, Raheja Centre			
Worli, Mumbai 400 018	Goa	Free Press Journal Marg			
		Nariman Point			
		Mumbai 400 021			

# Notice of Annual General Meeting

NOTICE is hereby given that the Fortieth Annual General Meeting of the Members of Merck Limited will be held at Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Haji Ali, Mumbai 400 034 on Friday, 30th March, 2007 at 3.00 p.m. to transact the following business:

## AS ORDINARY BUSINESS:

1. To receive and adopt the audited Profit and Loss Account for the year ended 31st December, 2006, the Balance Sheet as on that date and the Reports of the Board of Directors and Auditors.
2. To declare a dividend for the year 2006.
3. To appoint a Director in place of Mr. H. C. H. Bhabha who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. V. D. Narkar who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting of the Company and to fix their remuneration.

## AS SPECIAL BUSINESS:

6. To consider and, if thought fit, to pass, with or without modification, as an ORDINARY RESOLUTION the following:  
 "RESOLVED THAT subject to the approval of the Central Government and pursuant to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII of the said Act, Dr. Marek Dziki be appointed as Managing Director of the Company from 1st August, 2006 for a period of five years on the terms and conditions as set out in the Agreement dated 1st August, 2006 entered into between the Company and Dr. Dziki.

By Order of the Board of Directors

H. U. Shenoy  
Company Secretary

Mumbai, 22nd January, 2007

Registered Office :

Shiv Sagar Estate 'A'

Dr. Annie Besant Road

Worli, Mumbai 400 018

## NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE ON A POLL ONLY, INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.

Proxies in order to be effective, must be received by the Company at its Registered Office, not less than 48 hours before the Meeting.

2. The relevant Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business at Item No. 6 of the Notice is annexed.

3. The Register of Members and the Share Transfer Books of the Company will remain closed from 23rd March, 2007 to 30th March, 2007 (both days inclusive) for the purpose of payment of dividend.
4. In terms of Sections 205A and 205C of the Companies Act, 1956, the dividend which remained unclaimed for a period of seven years from the date of transfer to the Unpaid Dividend Account, is required to be transferred to the Investor Education and Protection Fund established by the Central Government. According to the relevant provisions of the Companies Act, 1956, as amended, no claims shall lie against the said Fund or the Company for the amount of dividend so transferred to the said Fund. Members who have not encashed the dividend warrant(s) so far for the year ended 31st December, 1999 or any subsequent years are requested to send their claim directly to the Company or to the Registrars and Transfer Agents - Sharepro Services (India) Private Ltd. (hereinafter referred to as Sharepro Services). The Company has been sending reminders to the concerned Members to claim their dividend.
5. Members are requested to notify immediately any change of address to their Depository Participants (DPs) in respect of their holdings in electronic form and in respect of shares held in physical form, to the Secretarial Department at the Registered Office of the Company or to the Registrars and Transfer Agents - Sharepro Services.
6. In order to provide protection against fraudulent encashment of dividend warrants, Members are requested to provide, if not provided earlier, their Bank account number, name of the Bank and address of the Branch, quoting their folio numbers to the Secretarial Department at the Registered Office of the Company or to the Registrars & Transfer Agents - Sharepro Services.
7. In respect of Members who have given mandate for payment of dividend through Electronic Clearing Service (ECS), the dividend will be paid through ECS and their Bank account details will be printed on their dividend advices.
8. The mandate, if any, given by the Members in respect of shares held in physical form will not be applicable to the dividend payable on shares held by them in demat mode and vice versa. Members holding shares in demat mode must, therefore, give instructions regarding the Bank account in which they wish to receive dividend, to their DPs.
9. Members are informed that in case of joint holders attending the Meeting, only such joint holder who is higher in the order of names will be entitled to vote.
10. In terms of Section 109A of the Companies Act, 1956, Members are entitled to make nomination in respect of shares held by them in physical form. Members desirous of making nomination are requested to send their requests in Form 2B, in duplicate, to



## Notice of Annual General Meeting

the Secretarial Department at the Registered Office of the Company or to the Registrars and Transfer Agents – Sharepro Services.

11. A brief profile of the Directors to be appointed/retiring by rotation and eligible for re-appointment, as required by Clause 49 (IV)(G) of the Listing Agreements signed by the Company with the Stock Exchanges, is given in the Annexure to this Notice.

### REQUEST TO THE MEMBERS:

1. Members desiring any relevant information on the Accounts at the Annual General Meeting are requested to write to the Company at least seven days in advance, of the Meeting, so as to enable the Company to keep the information ready.
2. As a measure of economy, copies of the Annual Report will not be distributed at the Annual General Meeting. Members are requested to bring their copies of the Annual Report to the Meeting.

### EXPLANATORY STATEMENT:

Pursuant to Section 173(2) of the Companies Act, 1956.

#### Item No. 6:

Consequent to the retirement of Dr. H. Mauer as Managing Director on 31st July, 2006, Dr. Dziki was appointed as Managing Director of the Company with effect from 1st August, 2006 pursuant to Article 136 of the Articles of Association of the Company, on the terms and conditions set out in the Agreement dated 1st August, 2006 entered into between the Company and Dr. Dziki. The Company has made an application to the Central Government under the provisions of Section 269 of the Companies Act, 1956 seeking its approval.

The main terms and conditions of appointment as per Agreement entered into with Dr. Dziki are as under :

- I. Period - 5 years with effect from 1st August, 2006.
- II. Dr. Dziki as the Managing Director of the Company shall be entrusted with the management and control of the affairs of the Company subject to the superintendence, control and direction of the Board of Directors and relevant provisions of the Companies Act, 1956.
- III. In consideration of the performance of his duties, the total remuneration payable to Dr. Dziki shall be as follows:
  - (i) For the Company's financial year 2006 and thereafter, the aggregate remuneration payable to Dr. Dziki by way of salary and commission shall be a maximum of Rs. 20.0 mio. per annum, subject to such limits as may be fixed by the Board of Directors for each year or part thereof and shall be subject to the overall limits laid down in Sections 198 and 309 read with Schedule XIII of the Act.

- (ii) Perquisites: In addition to the above, remuneration would comprise of free furnished accommodation with gas, electricity, water, furnishings and domestic assistance, telephone at residence, Company-maintained chauffeur driven cars for official and personal use, expenses on children's education, servants'/helpers' allowance, leave travel concession, medical reimbursement, fees of clubs, personal accident insurance, reimbursement of expenses incurred on joining duty and returning to home country after completion of tenure or earlier for any reason, in accordance with the Rules of the Company, such perquisites being restricted to Rs. 20.0 mio. per annum, to be fixed by the Board of Directors, for each year or part thereof and shall be subject to the overall limits laid down in Sections 198 and 309 read with Schedule XIII of the Act. For the purpose of calculating the above ceiling, perquisites shall be evaluated as per Income Tax Rules, wherever applicable.

- (iii) In addition, Dr. Dziki shall be entitled to the Company's contribution to Provident Fund and Superannuation Fund not exceeding 27% of the salary, gratuity payment and encashment of earned/privilege leave in accordance with the Rules of the Company. These perquisites, however, shall not be included in the computation of aforesaid limits for remuneration or perquisites.

- IV. Reimbursement of expenses incurred on behalf of the Company.
- V. The Contract may be terminated by either party by giving to the other party six months' notice.
- VI. Confidentiality Clause.
- VII. If at any time Dr. Dziki, the Managing Director disqualifies/ceases to be Director of the Company, for any reason/cause whatsoever, he shall vacate office as the Managing Director of the Company.

The Board commends the appointment of Dr. Dziki as the Managing Director for your approval.

The Agreement entered into by the Company with Dr. Dziki is open to inspection by Members at the Registered Office of the Company between 2 p.m. and 4 p.m. on all working days except Saturdays and Sundays.

Except Dr. Dziki, none of the other Directors is interested in the Resolution.

By Order of the Board of Directors

H. U. Shenoy  
Company Secretary

Mumbai, 22nd January, 2007

Registered Office :  
Shiv Sagar Estate 'A'  
Dr. Annie Besant Road  
Worli, Mumbai 400 018

## Annexure to the Notice

### BRIEF RESUMÉ OF DIRECTORS SEEKING RE-APPOINTMENT AND DIRECTORS APPOINTED SINCE THE LAST ANNUAL GENERAL MEETING:

The details of other Directorships and Committee Memberships of the above-referred Directors are as follows:

Directors appointed since the last Annual General Meeting:

Name	Dr. Marek Dziki
Date of Birth & Age	1.2.1963 – 43 years
Appointed on	1.8.2006
Qualification	M.D., MBA, Ph.D.
Expertise in specific areas	Since 1992, the year of joining the Merck Group, Dr. Dziki has held senior positions in the Merck Group, the last being Head of Strategic Innovation at the Headquarters in Darmstadt, Germany.
Directorships held in other Public Companies	Nil
Memberships/Chairmanships of Committees across Public Companies	Nil
No. of shares held	Nil

Directors seeking re-appointment at the Annual General Meeting:

Name	Mr. H.C.H. Bhabha	Mr. V.D. Narkar
Date of birth & age	15.12.1955 – 51 years	15.7.1941 – 65 years
Appointed on	24.12.1986	24.11.2000
Qualification	B.Com., F.C.A., A.C.A. (England & Wales)	B.A.(Hons.) Econ., LL.B., F.C.A.
Expertise in specific areas	Mr. H.C.H. Bhabha is a Director on the Boards of some well-known companies and possesses considerable experience in areas concerning finance, accounts and administration.	Mr. V.D. Narkar is a Chartered Accountant qualified from M/s. A. F. Ferguson & Co., Chartered Accountants. He has vast industry experience and has been in public practice for over 30 years, firstly as partner of M/s. Picardo & Narkar, Chartered Accountants and now practicing as M/s. Narkar & Associates, Chartered Accountants and Management Consultants. He has also been Bombay University Professor for over 7 years and also a visiting faculty at Jamnalal Bajaj Institute for Management Studies, Mumbai. He is a Fellow Member of ICAI since 1975, Member of the Institute of Internal Auditors, Mumbai and Member of BCA for a long time.
Directorships held in Public Companies (excluding Foreign Companies)	(1) Ceekay Daikin Ltd. (2) SICGIL India Ltd. (3) SICGIL Industrial Gases Ltd.	(1) Wyeth Ltd. (2) Savita Chemicals Ltd. (3) Savita Polymers Ltd. (4) Millennium Night Star Breweries Ltd. (5) LKP Forex Ltd. (6) Worli Industrial Properties Ltd.
Memberships/Chairmanships of Committees across Public Companies.	<b>Audit Committee:</b> (1) Ceekay Daikin Ltd.  <b>Remuneration Committee:</b> (2) SICGIL Industrial Gases Ltd.	<b>Audit Committee:</b> (1) Wyeth Ltd. (2) Savita Chemicals Ltd. (3) Millennium Night Star Breweries Ltd.  <b>Shareholders' Grievance Committee:</b> (1) Wyeth Ltd. (2) Savita Chemicals Ltd.
Shareholding	1,11,803	Nil

## Directors' Report

Your Directors have pleasure in presenting their Report on the business and operations of your Company along with the Accounts for the year ended 31st December, 2006.

### FINANCIAL HIGHLIGHTS:

	(Rs. mio.)	
	2006	2005
<b>SALES</b>	<b>3,294.9</b>	<b>3,964.6</b>
<b>OTHER INCOME</b>	<b>312.2</b>	<b>183.7</b>
Profit before Interest, Depreciation and Taxation	1,761.5	1,250.3
Interest	0.1	0.2
Depreciation	64.4	77.5
<b>PROFIT BEFORE TAXATION</b>	<b>1,697.0</b>	<b>1,172.6</b>
Provision for Taxation (net)	363.5	384.7
<b>PROFIT AFTER TAXATION</b>	<b>1,333.5</b>	<b>787.9</b>
Profit & Loss Account Balance brought forward	901.9	627.9
<b>PROFIT AVAILABLE FOR APPROPRIATION</b>	<b>2,235.4</b>	<b>1,415.8</b>
<b>APPROPRIATIONS</b>		
Transfer to General Reserve	370.2	225.5
Dividend (Proposed) – Rs. 20/- per share which is inclusive of a special 40th Anniversary Dividend of Rs. 5/- per share	337.2	252.9
Dividend Tax	47.3	35.5
Balance carried to the Balance Sheet	1,480.7	901.9

The financial highlights of 2006 are not comparable with the results of 2005 on account of the sale of the Life Science and Analytics (excluding Bulk Drugs) Business (referred to as LS&A business) effected by the Company in April, 2006.

### OPERATIONS:

The turnover of the Company for the year 2006 was Rs. 3,294.9 mio. as against Rs. 3,964.6 mio. for the year 2005. The fall in the turnover is attributed to loss of sale, on account of disposal of the LS&A business by the Company. The profit after tax at Rs. 1,333.5 mio. for the year 2006, should also be read in conjunction with the sale of the LS&A business by the Company. The sale consideration of Rs. 816.6 mio. was received in April, 2006. The gain on sale of business of Rs. 655.0 mio. is shown separately in the Profit and Loss Account. The disclosures on the discontinued operation as required by the Accounting Standard have been made in the Accounts as well as Schedules to the Accounts.

The turnover of the Pharma Division for the year was Rs. 2,412.8 mio. as against Rs. 2,258.2 mio. of last year, showing a growth of around 7%. The turnover of the Chemicals Division for the year was Rs. 882.1 mio.

made up of Rs. 384.6 mio. towards LS&A and Rs. 497.5 mio. towards Life Science Products and Pigments, as against Rs. 1,706.4 mio. in the previous year made up of Rs. 1,281.0 mio. of LS&A and Rs. 425.4 mio. towards Life Science Products and Pigments.

### DIVIDEND:

Your Directors recommend for the consideration of the Members, dividend at Rs. 15/- per share (previous year Rs. 15/- per share) for the year 2006. The Directors are also pleased to recommend an additional dividend of Rs. 5/- per share on the 40th Anniversary of the formation of the Company.

### FINANCE:

The investments of the Company in various debt funds, tax saving capital gain bonds and short-term deposits with Banks as on the date of the Report are Rs. 3,530.7 mio.

### DIRECTORS' RESPONSIBILITY STATEMENT:

In accordance with Section 217(2AA) of the Companies Act, 1956, your Directors confirm that:

- in the preparation of the annual accounts, the applicable Accounting Standards have been followed along with proper explanation relating to material departures;
- the accounting policies have been consistently applied and reasonable and prudent judgment and estimates have been made so as to give a true and fair view of the state of affairs of the Company as at 31st December, 2006, and the Profit for the year ended on that date;
- proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, has been taken including that for safeguarding the assets of the Company and for detecting and preventing fraud and other irregularities; and
- the annual accounts have been prepared on a going-concern basis.

### MERCK CHARITABLE TRUST:

In continuation of your Company's endeavour to forge the commitment to help the maximum number of underprivileged students in their pursuit of higher studies, your Company will make a contribution for the year 2006, a sum of Rs. 10.0 mio. to the Merck India Charitable Trust. During the year, 46 students received financial assistance from the Trust. Thus the total amount committed to the Trust upto the year 2006, amounts to Rs. 30.0 mio.

### DIRECTORS:

Mr. H.C.H. Bhabha and Mr. V.D. Narkar will retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

Dr. H. Mauer, Managing Director of the Company since 1st July, 2002 retired from the services of the Company

## Directors' Report

with effect from 31st July, 2006. The Board of Directors place on record its appreciation for the valuable contribution made by Dr. Mauer in the growth of the Company during his tenure.

The Board of Directors pursuant to the provisions of Article 136 of the Articles of Association of the Company has appointed Dr. Marek Dziki as the Managing Director effective 1st August, 2006 subject to the approval of the Shareholders and of the Central Government under the provisions of the Companies Act, 1956.

### FIXED DEPOSITS:

During the year, the Company has not accepted any deposits. During the year, the outstanding fixed deposits of Rs. 0.2 mio. were transferred to the Investor Education and Protection Fund in terms of the provisions of Section 205C of the Companies Act, 1956.

### AUDITORS:

Messrs BSR & Co., Chartered Accountants, retire as the Statutory Auditors at the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment. The Audit Committee of the Board recommends the re-appointment of Messrs BSR & Co., as the Statutory Auditors for the year 2007. Messrs BSR & Co. have confirmed their eligibility and willingness to continue to act as the Statutory Auditors of the Company for the year 2007, if appointed.

### COST AUDIT:

Messrs S.S. Mani & Co., Cost Accountants, have been re-appointed to conduct the cost audit of the accounts/records maintained by the Company in respect of Bulk Drugs and Formulations, for the year 2007.

### PERSONNEL:

As on the date of the Report, the total number of employees on the payroll was 874. Industrial Relations with the employees at various levels continue to be cordial.

The information required to be included as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, is set out in the Annexure forming part of this Report.

### CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO:

The information pertaining to conservation of energy, technology absorption, foreign exchange earnings and outgo required to be disclosed as per Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is given in the annexure forming part of this Report.

### CORPORATE GOVERNANCE:

The Report on the Corporate Governance Code along with a certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under amended Clause 49 of the Listing Agreement, as also the Management Discussion and Analysis Report, are annexed to this Report.

On behalf of the Board of Directors

S. N. Talwar  
Chairman

Mumbai, 22nd January, 2007.

### Annexure to the Directors' Report

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st December, 2006

Name of the Employee	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Qualification	Experience (Years)	Date of Commencement of Employment	Age (Years)	Last Employment held
<b>Employed throughout the year:</b>							
MR. BHATTACHARJEE A. R.	Director - Chemicals	57,88,588	B.Sc.	23	18-Aug-85	44	Chemist - Kopran Chemicals
DR. GUPTA S. M.	Director - Pharma	60,08,119	M.D. (Bombay)	33	16-Jan-78	55	Tutor in Medicine - K.E.M. Hospital
MR. RAYUDU G. V. S.	Director - Technical, Information Technology & Personnel	60,19,462	B. Tech.	36	27-Jan-82	59	Project Manager - Jainex Ltd.
MR. SHENOY R. L.	Director - Finance, Legal, Logistics & Commercial	60,77,113	B.Com., LL.M., A.C.A., ACS, A.I.C.W.A., C.A.IIB., M.B.I.M., (London)	34	18-Aug-80	58	Asst. Secretary - Tata Electric Companies
<b>Employed for a part of the year:</b>							
DR. MAREK DZIKI	Managing Director	1,11,58,752	M.D., MBA, Ph.D.	15	01-Aug-06	43	Vice President - Head of Strategic Innovation - Merck KGaA, Germany
DR. HERIBERT MAUER	Managing Director	58,00,024	M.A., Ph.D. (Eco.)	37	01-Jul-02	63	Managing Director - Merck S.p.A., Italy

#### Notes:

1. All employments are contractual and terminable on either side. Other terms of employment are as per the Rules of the Company.
2. Gross Remuneration includes Salary, Allowances, Commission, monetary value of Perquisites, Leave Travel Assistance and Company's Contribution to Provident and Superannuation Funds.
3. None of the employees is a relative of any Director of the Company.
4. Age, experience and qualifications reflect the position as on 31st December, 2006.

On behalf of the Board of Directors

S. N. Talwar  
Chairman

Mumbai, 22nd January, 2007.



# Annexure 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 the Board of Directors) Rules, 1988.

## (A) CONSERVATION OF ENERGY:

### GOA FACTORY

#### (a) Energy Conservation measures taken:

1. Usage of generated power was minimised by co-ordinating with government electricity department.
2. Average power factor maintained above 0.99.

3. Maximum wood fired boiler was used to reduce the steam cost.
4. Variable frequency drives were provided to process water pumps and boiler (ID) blower.
5. In Injection plant, chilled water load was converted into cooling water load.

#### (b) Impact of measures taken:

1. Improved boiler efficiency.
2. High speed diesel consumption reduced in generating electricity.
3. Power consumption increased only marginally even after increase in production quantities and new products.

## FORM A

### FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

#### Power and Fuel Consumption at Goa Factory

Sr. No.	Description	Year 2006	Year 2005
1.	<b>ELECTRICITY</b>		
(a)	Purchased		
	Units ('000 KWH)	6,898.67	6,669.50
	Total Amount: (Rs. mio.)	22.57	21.88
	Rate/Unit (Rs.)	3.27	3.28
(b)	Own Generation		
	Through Diesel Generator		
	Units ('000 KWH)	146.60	316.27
	Units/Ltr. of Diesel Oil	3.08	3.10
	Cost/Unit (Rs.)	10.80	9.68
2.	<b>BOILER FUELS</b>		
(a)	<b>FURNACE OIL</b>		
	Quantity (Kilo Litre)	97.17	357.70
	Total Amount (Rs. mio.)	2.11	6.15
	Average Rate (Rs./K. Litre)	21,757.00	17,193.00
(b)	<b>SOLID FUELS</b>		
	Quantity (Tons)	3,364.00	1,418.48
	Total Amount (Rs. mio.)	4.93	2.16
	Average Rate (Rs./Ton)	1,465.11	1,522.76

#### Consumption per unit of production

	Standards (if any)	Current year (1)	Previous year (2)
Products (with details)	In view of the multi-facilities production system, the Company is not in a position to give information required as per this format for the current year as well as for the previous year from the records maintained by the Company in accordance with the provisions of the Companies Act, 1956.		
Unit			
Electricity			
Furnace Oil			
Coal			
Others			

## (B) TECHNOLOGY ABSORPTION:

### FORM B

#### FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO ABSORPTION OF TECHNOLOGY, RESEARCH AND DEVELOPMENT.

##### a. RESEARCH & DEVELOPMENT (R & D):

1. SPECIFIC AREAS IN WHICH R & D HAS BEEN CARRIED OUT BY THE COMPANY:

R & D center at Navi Mumbai, duly recognized by the Department of Scientific and Industrial Research, carries out the development

concerning the reduction in the lead time of processes, better utilization of resources, development of new processes and packing materials. In addition, the center also deals with the evaluation of alternative raw materials meeting regulatory requirements for improving productivity and cost effectiveness.

2. BENEFITS DERIVED AS A RESULT OF THE ABOVE R & D:

On account of the efforts of R & D, there has been improvement in the quality and

## Annexure to the Directors' Report

a reduction in the cost of processes. Line extensions for existing products and original formulations were developed by using in-house R & D capabilities. During the year, because of the efforts of R & D, following products were developed and launched in the market.

1. Metneurobiobn OD Capsules
2. Flexijoint Capsules
3. Concor AM tablets
4. New Evion Cream

### 3. FUTURE PLAN OF ACTION:

Efforts will be made to develop innovative, commercially viable processes, know-how for both active pharmaceutical ingredient and dosage forms and also for improving the shelf life/stability, quality, convenience, meeting regulatory compliance and continuous R & D initiatives.

### 4. EXPENDITURE ON R & D:

	(Rs. mio)
Capital	5.5
Recurring	10.1
Total	15.6
Total R & D expenditure as a percentage of total turnover	0.5

### b. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

#### 1. EFFORTS IN BRIEF MADE TOWARDS TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

Under the guidance of Merck KGaA, the R & D center, takes all steps to be upto date with quality systems and current good manufacturing practices. Taking into account ongoing changes, efforts are also made to upgrade the processes and improve the productivity.

#### 2. BENEFITS DERIVED AS A RESULT OF THE ABOVE EFFORTS:

Changes in processes as well as in packaging methods have resulted in launching of new products, improvement in yield and cost efficiency.

### 3. IN CASE OF IMPORTED TECHNOLOGY (IMPORTED DURING THE LAST 5 FINANCIAL YEARS):

#### INFORMATION CONCERNING:

- (I) TECHNOLOGY IMPORTED : NO IMPORT OF TECHNOLOGY IN THE LAST 5 YEARS
- (II) YEAR OF IMPORT : NOT APPLICABLE
- (III) HAS TECHNOLOGY BEEN FULLY ABSORBED : NOT APPLICABLE
- (IV) IF NOT FULLY ABSORBED, AREAS WHERE THIS HAS NOT TAKEN PLACE, REASONS THEREFOR, AND FUTURE PLANS OF ACTION : NOT APPLICABLE

The Company has been receiving technical know-how from the collaborators, Merck KGaA, Germany on an ongoing basis. The technical know-how and information are adapted and absorbed by the Company through continuous experimentation by its trained employees under the guidance of technical personnel from Merck KGaA, Germany.

### (C) FOREIGN EXCHANGE EARNINGS AND OUTGO:

During the year, foreign exchange outgo was Rs. 751.9 mio. (which include import of raw materials to the extent of Rs 252.0 mio.) while the foreign exchange earned was Rs. 191.8 mio., the details of which have been stated under item Nos. iii to vi of Schedule 24 annexed to the Accounts.

The exports of the Company during the year 2006 amounted to Rs. 174.6 mio. as against Rs. 152.4 mio. achieved last year. The increase in the exports has largely been driven by the export of Bulk Drugs ie Vitamin E, OxyneX and Thiamine Disulphide. Merck KGaA has been assisting the Company in getting export orders from Group Companies. The efforts to improve on the exports of formulations are continuing both at the level of Group Companies and with outside parties. The exports volume should further improve in the year 2007.

On behalf of the Board of Directors

S. N. Talwar  
Chairman

Mumbai, 22nd January, 2007.