



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(All amounts in millions of Rupees, unless otherwise stated)

1. (a) Background

Wockhardt Limited ('WL' or 'Company') is a subsidiary of Khorakiwala Holdings and Investments Private Limited. The Company has controlling interest, directly or through subsidiaries, in the following entities during the year ended December 31, 2007:

| Name of subsidiaries | Country of Incorporation | Name of Parent | Percentage of ownership |
|---|--------------------------|------------------------------------|-------------------------|
| 1. Wockhardt Biopharm Limited | India | Wockhardt Limited | 100% |
| 2. Vinton Healthcare Limited | India | Wockhardt Limited | 100% |
| 3. Wockhardt Infrastructure Development Limited | India | Wockhardt Limited | 100% |
| 4. Wockhardt UK Holdings Limited (formerly, Wockhardt UK Limited) | England & Wales | Wockhardt Limited | 100% |
| 5. CP Pharmaceuticals Limited | England & Wales | Wockhardt UK Holdings Limited | 100% |
| 6. Wallis Group Limited | England & Wales | Wockhardt UK Holdings Limited | 100% |
| 7. The Wallis Laboratory Limited | England & Wales | Wallis Group Limited | 100% |
| 8. Wallis Licensing Limited | England & Wales | Wallis Group Limited | 100% |
| 9. Wockhardt UK Limited | England & Wales | Wockhardt EU Operations (Swiss) AG | 100% |
| 10. PWH Limited | England & Wales | Pinewood Laboratories Limited | 100% |
| 11. Wockhardt France (Holdings) S.A.S. | France | Wockhardt EU Operations (Swiss) AG | 100% |
| 12. Girex S.A.S. | France | Wockhardt France (Holdings) S.A.S. | 100% |
| 13. Pharma 2000 S.A.S. | France | Wockhardt France (Holdings) S.A.S. | 100% |
| 14. Niverpharma S.A.S. | France | Wockhardt France (Holdings) S.A.S. | 100% |
| 15. Negma Lerads S.A.S. | France | Wockhardt France (Holdings) S.A.S. | 100% |
| 16. S.E.G.A. S.A.S. | France | Wockhardt France (Holdings) S.A.S. | 100% |
| 17. DMH S.A.S. | France | Wockhardt France (Holdings) S.A.S. | 100% |
| 18. Phytex S.A.S. | France | Wockhardt France (Holdings) S.A.S. | 100% |
| 19. Scomedix S.A.S. | France | Wockhardt France (Holdings) S.A.S. | 100% |
| 20. Mazal Pharmaceutique S.A.R.L. | France | Girex S.A.S. | 100% |
| 21. Hariphar S.C. | France | Pharma 2000 S.A.S. | 80% |
| | | Negma Lerads S.A.S. | 10% |
| | | DMH S.A.S. | 10% |
| 22. Cap Dermatology S.A.R.L. | France | Niverpharma S.A.S. | 100% |
| 23. Chams Informatique S.A.R.L. | France | S.E.G.A S.A.S. | 100% |
| 24. S.C.I. Salome | France | S.E.G.A S.A.S. | 99% |
| | | DMH S.A.S. | 1% |
| 25. Negma Beneulex S.A. | Belgium | Wockhardt France (Holdings) S.A.S. | 54% |
| | | Negma Lerads S.A.S. | 46% |
| 26. Wockpharma Ireland Limited | Ireland | Wockhardt EU Operations (Swiss) AG | 100% |
| 27. Pinewood Laboratories Limited | Ireland | Wockpharma Ireland Limited | 100% |
| 28. Nonash Limited | Ireland | Pinewood Laboratories Limited | 100% |
| 29. Wockhardt EU Operations (Swiss) AG | Switzerland | Wockhardt Limited | 100% |
| 30. Esparma AG | Switzerland | Wockhardt EU Operations (Swiss) AG | 100% |
| 31. CP Pharma (Schweiz) AG | Switzerland | CP Pharmaceuticals Limited | 100% |
| 32. Esparma GmbH | Germany | Wockhardt Limited | 100% |
| 33. Wockhardt Europe Limited | British Virgin Islands | Wockhardt Limited | 100% |
| 34. Wockhardt Nigeria Limited | Nigeria | Wockhardt Europe Limited | 100% |
| 35. Wockhardt Farmaceutica Do Brazil Ltda | Brazil | Wallis Laboratory Limited | 90% |
| | | Wockhardt Europe Limited | 10% |
| 36. Wockhardt USA, Inc. | USA | Wockhardt EU Operations (Swiss) AG | 100% |
| 37. Atlantis USA, Inc. | USA | Wockhardt Limited | 100% |
| 38. Wockhardt Holding Corporation | USA | Wockhardt EU Operations (Swiss) AG | 100% |
| 39. MGP Holding Corporation | USA | Wockhardt Holding Corporation | 100% |



| Name of subsidiaries | Country of Incorporation | Name of Parent | Percentage of ownership |
|--|--------------------------|------------------------------------|-------------------------|
| 40. Morton Grove Pharmaceuticals, Inc. | USA | MGP Holding Corporation | 100% |
| 41. MGP, Inc. | USA | Morton Grove Pharmaceuticals, Inc. | 100% |
| 42. Wockhardt Cyprus Limited | Cyprus | Wockhardt EU Operations (Swiss) AG | 100% |

The Company together with its subsidiaries Wockhardt Europe Limited ('WEL'), Wockhardt Biopharm Limited ('WBL'), Wockhardt Infrastructure Development Limited ('WIDL'), Consolidated Wockhardt UK Holdings Limited ('WUK'), Esparma GmbH (EG), Vinton Healthcare Limited and Consolidated Wockhardt EU Operations (Swiss) AG ('WS')(collectively, 'the Group') is primarily engaged in the business of manufacture and marketing of pharmaceutical products. The group has twelve manufacturing locations and there are five locations where research and development activities are carried out.

(b) Basis of consolidation

- The consolidated financial statements of the group have been prepared based on a line-by-line consolidation of the financial statements of Wockhardt Limited and its subsidiaries using uniform accounting policies for like transactions and other events in similar circumstances. All material inter-company balances and transactions are eliminated on consolidation.
- Assets and liabilities of subsidiaries are translated into Indian rupees at the rate of exchange prevailing as at the Balance Sheet date. Revenues and expenses are translated into Indian rupees at average of twelve months closing rates and the resulting net translation adjustment aggregating Rs. 341.33 million (USD 8.66 million) [2006 – Rs. 9.07 million (USD 0.2 million)] has been adjusted to Reserves.
- During the year, WL along with its subsidiaries, have established following wholly owned subsidiaries:

| Name of subsidiaries | Country of Incorporation |
|--|--------------------------|
| 1. Wockhardt France (Holdings) S.A.S. | France |
| 2. Girex S.A.S. | France |
| 3. Pharma 2000 S.A.S. | France |
| 4. Niverpharma S.A.S. | France |
| 5. Negma Lerads S.A.S. | France |
| 6. S.E.G.A S.A.S. | France |
| 7. DMH S.A.S. | France |
| 8. Phytex S.A.S. | France |
| 9. Scomedia S.A.S. | France |
| 10. Mazal Pharmaceutique S.A.R.L. | France |
| 11. Hariphar S.C. | France |
| 12. Cap Dermatology S.A.R.L. | France |
| 13. Chams Informatique S.A.R.L. | France |
| 14. S.C.I. Salome | France |
| 15. Negma Beneulex S.A. | Belgium |
| 16. Esparma AG | Switzerland |
| 17. Atlantis USA, Inc. | USA |
| 18. Wockhardt Holding Corporation | USA |
| 19. MGP Holding Corporation | USA |
| 20. Morton Grove Pharmaceuticals, Inc. | USA |
| 21. MGP, Inc. | USA |

At the reporting date, this has resulted in an increase in net assets by Rs. 7,305.86 million (USD 185.38 million) and change in Profit before tax by Rs. 553.69 million. (USD 14.05 million).

(d) Convenience translation

The accompanying financial statements have been prepared in Indian rupees, the national currency of India. Solely for the convenience of the reader, the financial statements as of and for the year ended December 31, 2007 have been translated into United States dollars at the closing rate as at December 31, 2007 [USD 1 = Rs. 39.41 (2006 – USD 1 = Rs. 44.25)]. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollars at such a rate or any other rate.

2. Summary of Group's Significant Accounting Policies

The consolidated financial statements are prepared under the historical cost convention, on the accrual basis of accounting and in conformity with accounting principles generally accepted in India. These consolidated financial



statements have been prepared to meet the requirements of Clause 32 of the listing agreement with the stock exchanges. The significant accounting policies of the group are as follows:

(a) Fixed assets, depreciation/amortization and impairment

Fixed assets are stated at cost less accumulated depreciation/amortization and impairment loss if any. The Group capitalises all costs relating to the acquisition and installation of fixed assets.

The carrying amounts of fixed assets and intangible assets (including goodwill) are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts and where carrying values exceed the estimated recoverable amount, assets are written down to the recoverable amount. The recoverable amount is the greater of assets net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values at the weighted average cost of capital.

Depreciation is provided, using the straight-line method, pro-rata to the period of use of assets, based on the estimated useful life of the assets.

Fixed assets whose aggregate cost is Rs. 5,000 or less are depreciated fully in the year of acquisition.

Intangible assets except goodwill are amortised over a period of 3-15 years, which are based on their useful lives.

(b) Foreign currency translations

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of transaction.

Foreign currency monetary items are reported using closing rate. Non-monetary items, which are carried in terms of historical cost denominated in a foreign currency, are reported using the exchange rate at the date of transaction.

Exchange differences arising on the settlement of monetary items or on reporting Company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognized as income or as expenses in the year in which they arise. Exchange differences arising in respect of fixed assets acquired from outside India on or before accounting period commencing before December 7, 2006 are capitalised as part of fixed assets.

Profit/loss on derivative financial instruments such as forward exchange contracts and interest rate swaps to hedge risks associated with foreign currency fluctuations and interest rates are considered as revenue items.

Premium or discount on forward exchange contracts arising at the inception of forward exchange contracts is amortized as expense or income over the life of the contract. Exchange differences on such contracts are recognized in the statement of profit and loss in the year in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognized as income or as expense for the year.

(c) Investments

Long-term investments are stated at cost. Provision is made to recognise a diminution, other than temporary, in the value of investments. Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis.

(d) Inventories

All inventories are valued at moving weighted average price other than finished goods, which are valued on quarterly moving average price. Finished goods and Work in progress is computed based on respective moving weighted average of procured materials and appropriate share of labour and other manufacturing overheads.

Inventories are valued at cost or net realizable value, whichever is lower. Cost also includes all charges incurred for bringing the inventories to their present location and condition. Excise and customs duty accrued on production or import of goods, as applicable, is included in the valuation of inventories.

Inventories of samples and stores and spare parts are valued at cost.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and to make the sale.

(e) Employee benefits

Retirement benefits in the form of Provident Fund, Family Pension Fund, Super Annuation Schemes and non-contributory money purchase scheme, which are defined contribution schemes, are charged to the Profit & Loss Account of the year when the contributions to the respective funds accrue.

WUK operates defined contribution pension scheme. Till February 2004, WUK operated defined benefit pension scheme. The assets of schemes are held separately from those of the WUK in an independently administered fund.

Gratuity liability, which is a defined benefit scheme, and provision for leave encashment is accrued and provided for on the basis of an actuarial valuation made at the end of each financial year.



The Company maintains 401(k) retirement contribution plans that cover all regular employees on the payroll of Wockhardt USA, Inc (WUSA) & Morton Grove Pharmaceuticals, Inc. The Company makes a matching contribution on the first 6% and employee participation is allowable as per US Government laws. The assets of the plan are held separately from those of the Company in an independently administered fund.

Expenses on Voluntary Retirement Scheme incurred are charged off over a maximum period of 4 years. No such expenditure shall be carried forward to accounting periods commencing on or after 1st April, 2010.

(f) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Sale of Goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which coincides with dispatch of goods to customers. Revenues are recorded at invoice value, net of excise duty, sales tax, value added tax (VAT), returns and trade discounts.

Sale of Services

Revenues from services are recognised on completion of such services.

Export Incentive

Benefit on account of entitlement to import duty free materials under the "Duty Entitlement Pass Book Schemes" is recognized in the year of export.

Royalties

Revenue is recognized on an accrual basis in accordance with the terms of the relevant agreement.

Interest

Revenue is recognized on a time proportion basis taking into account the amount outstanding and the rate applicable.

(g) Research and development (R & D)

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised over the period of expected future sales from the related project, not exceeding ten years.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

(h) Income tax

Tax expense comprises of current, deferred and fringe benefit tax.

Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the provisions of local Income Tax rules as applicable to the financial year. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Minimum Alternative Tax (MAT) credit is recognized as an asset only when and to the extent there is convincing evidence that the Company will pay normal income tax during the specified period. MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in the Guidance Note issued by the Institute of Chartered Accountants of India, the said asset is created by way of credit to the profit and loss account and shown as MAT credit entitlement. The Company reviews the same at each balance sheet date and writes down the carrying amount of MAT credit entitlement to the extent there is no longer convincing evidence to the effect that Company will pay normal income tax during the specified period.

Income tax charge is the simple aggregation of the tax charge appearing in the group companies.

(i) Leases

Operating leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the lease term are classified as operating lease. Operating lease payments are recognized as an expense in the Profit & Loss Account on a straight-line basis over the lease term.



Finance Lease

The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases and hire purchase contracts. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

(j) Acquisitions and goodwill

On acquisition, the excess cost of acquisition over carrying value of assets acquired is treated as goodwill.

(k) Financing/Borrowing cost

Financing/Borrowing costs attributable to acquisition and/or construction of qualifying asset are capitalised as a part of the cost of such assets, up to the date such assets are ready for their intended use. Other financing/borrowing costs are charged to Profit & Loss Account. Initial direct costs are recognised immediately as an expense.

Expenses incurred in connection with raising of funds are amortised over the tenure of the borrowing.

(l) Provisions

A provision is recognised when an enterprise has a present obligation as a result of past event, it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at the balance sheet date and adjusted to reflect the current best estimates.

(m) Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the period. The weighted average number of equity shares outstanding during the period are adjusted for events of bonus issue to existing shareholders and share split.

For the purpose of calculating diluted earnings per share, the net profit attributable to equity shareholders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential equity shares from the exercise of options on unissued share capital. The number of equity shares is the aggregate of the weighted average number of equity shares and the weighted average number of equity shares, which would be issued on the conversion of all the dilutive potential equity shares into equity shares. Options on unissued equity share capital are deemed to have been converted into equity shares.

(n) Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to the profit and loss account over the expected useful lives of the relevant assets. Grants of revenue nature are credited to income in the period to which they relate.

| | As at 31.12.2007 Rs. in millions | As at 31.12.2007 USD in millions [see note 1 (b) (d)] | As at 31.12.2006 Rs. in millions | As at 31.12.2006 USD in millions [see note 1 (b) (d)] [Note 31] |
|--|--|--|--|---|
| 3. SHARE CAPITAL | | | | |
| AUTHORISED | | | | |
| 250,000,000 (2006 – 250,000,000) Equity shares of Rs. 5 each | 1,250.00 | 31.72 | 1,250.00 | 28.25 |
| | 1,250.00 | 31.72 | 1,250.00 | 28.25 |
| ISSUED, SUBSCRIBED AND PAID UP | | | | |
| 109,435,903 (2006 – 109,435,903) Equity shares of Rs. 5 each fully paid up | 547.18 | 13.88 | 547.18 | 12.37 |
| | 547.18 | 13.88 | 547.18 | 12.37 |

1. Of the above shares:

- (a) 70,123,304 (2006 – 70,123,304) fully paid up equity shares of Rs. 5/- each were allotted pursuant to scheme of arrangement to demerge pharmaceuticals business of Carol Info Services Limited ('CISL') (formerly Wockhardt Life Science Limited).
- (b) 2,400,000 (2006 – 2,400,000) fully paid up equity shares of Rs. 5/- each were allotted pursuant to amalgamation of Wockhardt Veterinary Limited ('WVL') with the Company.



- (c) 69,716,132 (2006 – 69,716,132) equity shares of Rs. 5/- fully paid up are held by Khorakiwala Holdings and Investments Private Limited, the holding company.
2. 439,200 (2006 – 439,200) fully paid equity shares of Rs. 5/- each were allotted pursuant to exercise of stock options.
3. 36,431,502 (2006 – 36,431,502) equity shares of Rs. 5/- each are allotted as Bonus shares out of Capital Redemption Reserve.

| | As at 31.12.2007 Rs. in millions | As at 31.12.2007 USD in millions [see note 1 (b) (d)] | As at 31.12.2006 Rs. in millions | As at 31.12.2006 USD in millions [see note 1 (b) (d)] [Note 31] |
|---|--|--|--|---|
| 4. RESERVES AND SURPLUS | | | | |
| Capital redemption reserve | | | | |
| Balance as per last accounts | 265.34 | 6.73 | 265.57 | 6.00 |
| Utilised for issue of bonus shares | - | - | (0.23) | (0.01) |
| | 265.34 | 6.73 | 265.34 | 5.99 |
| Securities premium account | | | | |
| Balance as per last accounts | 134.14 | 3.40 | 117.07 | 2.65 |
| Additions: during the year | - | - | 17.07 | 0.39 |
| | 134.14 | 3.40 | 134.14 | 3.04 |
| Employee stock option outstanding | - | - | 3.68 | 0.08 |
| Less: Deferred employee compensation expenses | - | - | - | - |
| | - | - | 3.68 | 0.08 |
| Capital reserve on consolidation | | | | |
| Balance as per last accounts | 720.26 | 18.28 | - | - |
| Additions: during the year | - | - | 720.26 | 16.28 |
| | 720.26 | 18.28 | 720.26 | 16.28 |
| Foreign currency translation reserve | | | | |
| Balance as per last accounts | 72.21 | 1.83 | 81.28 | 1.84 |
| Deductions: during the year | (341.33) | (8.66) | (9.07) | (0.20) |
| | (269.12) | (6.83) | 72.21 | 1.64 |
| General reserve | | | | |
| Balance as per last accounts | 7,956.53 | 201.89 | 6,465.76 | 146.13 |
| Less: Adjustment for employee benefit provision | - | - | (9.23) | (0.21) |
| Transfer from profit and loss account | 500.00 | 12.69 | 1,500.00 | 33.90 |
| | 8,456.53 | 214.58 | 7,956.53 | 179.82 |
| Profit and loss account | 2,881.28 | 73.11 | 963.53 | 21.77 |
| | 12,188.43 | 309.27 | 10,115.70 | 228.62 |
| 5. SECURED LOANS | | | | |
| (A) Term loans | | | | |
| (i) From financial institutions | - | - | 164.01 | 3.71 |
| (ii) From banks: | 22,526.34 | 571.59 | 14,326.68 | 323.78 |
| (B) Working Capital Loans from Banks | 913.84 | 23.19 | 260.05 | 5.88 |
| | 23,440.18 | 594.78 | 14,750.74 | 333.37 |

(A) Term Loans are secured as under:

- (a) Foreign currency denominated loan (External Commercial Borrowings) are secured by mortgage and hypothecation of movable and immovable assets at Aurangabad, Ankleshwar, Daman, Biotech-Waluj, Cephal-Waluj (Plant & Machinery) and Research Centre, Aurangabad. The loans are repayable in July 2008, September 2008 and March 2009.
- (b) Rupee denominated loans from banks includes an amount of Rs. 7.76 million (2006 – Rs. 19.08 millions) for purchase of vehicles and are secured by hypothecation of vehicles purchased under the agreement.



- (c) Loan amounting to Rs. 592.13 million (2006 – Rs. 868.83 million) is secured against the fixed assets and working capital of Wockhardt UK Holdings Limited.
- (B) Working capital loans from banks are secured by hypothecation of inventories and debtors and specific charge on all tangible movable assets excluding plant and machinery tools, equipments, accessories, etc.

| | As at 31.12.2007 Rs. in millions | As at 31.12.2007 USD in millions [see note 1 (b) (d)] | As at 31.12.2006 Rs. in millions | As at 31.12.2006 USD in millions [see note 1 (b) (d)] |
|--|--|--|--|--|
| [Note 31] | | | | |
| 6. UNSECURED LOANS | | | | |
| Long term | | | | |
| (A) Sales tax deferral loan | 52.29 | 1.33 | 52.29 | 1.18 |
| (B) Zero coupon foreign currency convertible bonds | 4,275.99 | 108.50 | 4,801.13 | 108.51 |
| (C) Short term Loans | 1,231.28 | 31.24 | 98.58 | 2.23 |
| | 5,559.56 | 141.07 | 4,952.00 | 111.92 |

(A) 108,500 (2006 – 108,500) zero coupon foreign currency convertible bonds of USD 1,000 each are:

- (a) Convertible by the holders at any time on or after 24 November, 2004 but prior to close of business on 25 September, 2009. Each bond will be converted into 94.265 fully paid up equity share with par value of Rs. 5 per share at a fixed price of Rs. 486.075 per share.
- (b) Redeemable in whole but not in part, at the option of the Company at any time on or after 25 October 2007 but not less than seven business days prior to maturity date i.e. 25 October, 2009 as per the terms and conditions of the bonds mentioned in the offering circular.
- (c) Redeemable on maturity date at 129.58 percent of its principal amount, if not redeemed or converted earlier.

| | As at 31.12.2007 Rs. in millions | As at 31.12.2007 USD in millions [see note 1 (b) (d)] | As at 31.12.2006 Rs. in millions | As at 31.12.2006 USD in millions [see note 1 (b) (d)] |
|---|--|--|---|--|
| [Note 31] | | | | |
| 7. DEFERRED TAX LIABILITY (Net) | | | | |
| Deferred tax liabilities | | | | |
| Difference between depreciation on block of assets (including CWIP) | 1,385.28 | 35.15 | 1,101.14 | 24.89 |
| Total (A) | 1,385.28 | 35.15 | 1,101.14 | 24.89 |
| Deferred tax assets | | | | |
| Provision for gratuity | 32.16 | 0.82 | 31.71 | 0.72 |
| Provision for leave encashment | 25.75 | 0.65 | 21.37 | 0.49 |
| Deferred expenses | 139.56 | 3.54 | (10.05) | (0.23) |
| Tax Losses in Subsidiaries | 124.80 | 3.17 | – | – |
| Provision for bonus | 1.83 | 0.05 | 1.42 | 0.03 |
| Provision for doubtful debts | 140.23 | 3.56 | 135.63 | 3.07 |
| Total (B) | 464.33 | 11.79 | 180.08 | 4.08 |
| Net Deferred tax liability (A-B) | 920.95 | 23.36 | 921.06 | 20.81 |
| Net deferred tax liability as of the year end | 920.95 | 23.36 | 921.06 | 20.81 |



8 Fixed Assets

| PARTICULARS | Gross Block | | | | | Depreciation | | | | | Net Block | | | | |
|--|---------------------|------------------|---------------------------|-------------------------|---------------------|---------------------|-----------------|---------------------------|-------------------------|---------------------|--------------------|---|--------------------|---|---------------|
| | As At 01.01.2007 | Additions | Deductions & Transfers | Exc. Gain/ (Loss) | As At 31.12.2007 | As At 01.01.2007 | Additions | Deductions & Transfers | Exc. Gain/ (Loss) | As At 31.12.2007 | As at 31.12.2007 | | As at 31.12.2006 | | |
| | | | | | | | | | | | Rs. In Millions | USD in Millions See Note 1(b)(d) | Rs. In Millions | USD in Millions See Note 1(b)(d) | |
| Intangibles | | | | | | | | | | | | | | | |
| Goodwill on Consolidation | 5,626.06 | 10,179.22 | - | - | 15,805.28 | 6.72 | - | - | (6.72) | - | 15,805.28 | 401.05 | 5,619.34 | 126.99 | |
| Licenses & Dossiers | 757.37 | 564.72 | 1.70 | 4.56 | 1,324.95 | 578.08 | 565.10 | 1.70 | 11.33 | 1,150.81 | 174.14 | 4.42 | 179.29 | 4.05 | |
| Trade Marks | 1,221.00 | 156.53 | 69.07 | (20.65) | 1,287.81 | 357.41 | 129.57 | 69.97 | (2.02) | 414.79 | 873.02 | 22.15 | 865.59 | 19.52 | |
| Software | 159.67 | 93.50 | (5.17) | (6.12) | 250.02 | 21.25 | 78.56 | (6.87) | (5.71) | 102.97 | 147.05 | 3.73 | 158.42 | 3.15 | |
| Total Intangibles A | 7,764.10 | 10,993.77 | 67.60 | (22.21) | 18,668.06 | 963.46 | 771.03 | 64.80 | (1.12) | 1,668.57 | 16,999.49 | 431.35 | 6,800.64 | 153.69 | |
| Tangibles | | | | | | | | | | | | | | | |
| Freehold land | 405.68 | 56.61 | (2.45) | (52.03) | 430.71 | 296.38 | 0.64 | - | (26.93) | 270.09 | 160.62 | 4.08 | 107.30 | 2.43 | |
| Leasehold land | 83.41 | 178.10 | - | 0.88 | 262.39 | 4.76 | 4.40 | - | (0.09) | 9.07 | 253.32 | 6.43 | 78.65 | 1.78 | |
| Buildings | 1,232.44 | 975.44 | 2.45 | 0.82 | 2,206.25 | 192.62 | 712.03 | - | 10.37 | 915.02 | 1,291.23 | 32.76 | 1,059.82 | 23.50 | |
| Electrical Fittings | 1.11 | - | - | - | 1.11 | 0.33 | 0.05 | - | - | 0.38 | 0.73 | 0.02 | 0.78 | 0.02 | |
| Plant and Machinery | 7,518.54 | 2,116.13 | 12.56 | (164.90) | 9,457.21 | 2,210.74 | 1,534.41 | (38.04) | (78.61) | 3,704.58 | 5,752.63 | 145.97 | 5,307.80 | 119.96 | |
| Furniture and fittings | 202.78 | 95.98 | - | (6.24) | 290.52 | 77.38 | 47.45 | - | (5.19) | 119.64 | 170.88 | 4.34 | 125.40 | 2.83 | |
| Office Equipments | 923.07 | 810.62 | 517.87 | (9.06) | 1,206.76 | 530.05 | 672.59 | 513.87 | (2.61) | 686.16 | 520.60 | 13.21 | 393.02 | 8.88 | |
| Information Technology Equipments | 296.57 | 135.41 | 0.03 | (9.59) | 420.36 | 214.10 | 75.47 | 0.03 | (8.92) | 280.62 | 139.74 | 3.55 | 82.47 | 1.86 | |
| Vehicles | 100.62 | 2.10 | 30.40 | (0.47) | 71.85 | 54.69 | 13.79 | 20.74 | (0.32) | 47.42 | 24.43 | 0.62 | 45.93 | 1.04 | |
| Assets on Finance Lease | 4.98 | 1,053.38 | - | 22.27 | 1,080.63 | 4.98 | 877.66 | - | 18.56 | 901.20 | 179.43 | 4.54 | - | - | |
| Total Tangibles B | 10,767.20 | 5,419.77 | 560.86 | (198.32) | 15,427.79 | 3,586.03 | 3,938.49 | 496.60 | (93.74) | 6,934.18 | 8,495.61 | 215.52 | 7,181.17 | 162.30 | |
| Capital Work-in-Progress :C (Inclusive of Capital Advances) | | | | | 5,219.59 | | | | | | 5,219.59 | 132.44 | 5,085.91 | 69.74 | |
| Total | A+B+C | 18,531.30 | 16,413.54 | 628.46 | (220.53) | 39,315.44 | 4,549.49 | 4,709.52 | 561.40 | (94.86) | 8,602.75 | 30,712.69 | 779.31 | 17,067.72 | 385.73 |

The net block of tangible fixed assets includes an amount of Rs. 38.25 million (2006 - Rs. 60.10 million) in respect of assets held under Hire Purchase contracts and Rs. 179.43 million (2006 - Rs. 144.23) in respect of assets under finance lease.

Capital expenditure that has been contracted but not provided for Rs. 833.23 million (2006 - Rs. 1,091.22 million).

Capital Work-in-progress includes expenditure incurred during construction period pending allocation aggregating Rs. 773.73 million (Previous Year - Rs. 590.15 million). These expenses include Material Consumption Rs. 80.10 million (Previous Year - Rs. 55.02 million), Employee cost aggregating Rs. 198.48 million (Previous Year - Rs. 119.98 million), Interest expenses Rs. 0.21 million (Previous Year - Rs. 0.37 million), Depreciation Rs. 46.47 million (Previous Year - Rs. 20.62 million) and Operating expenses aggregating Rs. 448.47 million (Previous Year - Rs. 394.16 million) [Stores & spares Rs. 52.52 million (Previous Year - Rs. 19.37 million), Power Rs. 20.38 million (Previous Year - Rs. 10.66 million), Travelling Rs. 11.24 million (Previous Year - Rs. 11.11 million), Repairs Rs. 14.57 million (Previous Year - Rs. 3.70 million), General Expenses Rs. 349.76 million (Previous Year - Rs. 349.32 million)].

Addition to fixed assets and depreciation for the year include the cost of the assets of subsidiaries acquired during the year of Rs. 5,125.20 million (2006 - Rs. 2,769.15 millions) and accumulated depreciation thereon of Rs. 3,924.68 million (2006 - Rs. 817.64 millions) respectively.

| | As at 31.12.2007 Rs. in millions | As at 31.12.2007 USD in millions [see note 1 (b) (d)] | As at 31.12.2006 Rs. in millions | As at 31.12.2006 USD in millions [see note 1 (b) (d)] |
|--|--|--|--|--|
| 9. INVESTMENTS | | | | |
| LONG TERM INVESTMENTS (at Cost) | | | | |
| Other than trade (Unquoted) | | | | |
| 305,982 (2006 - 305,982) shares of Bharuch Eco-Aqua Infrastructure Ltd of Rs. 10 each fully paid | 3.05 | 0.08 | 3.05 | 0.07 |
| 6,300 (2006 - 6,300) shares of Bharuch Environmental Infrastructure Ltd of Rs. 10 each fully paid | 0.06 | - | 0.06 | - |
| 250 (2006 - 250) Shares of Kanishka Housing Development Co. Pvt. Ltd. of Rs. 100 each fully paid | 0.03 | - | 0.03 | - |
| 1,000 Shares of Saraswat Co- Op Bank Ltd. of Rs. 10 each fully paid up | 0.01 | - | - | - |
| Investment in Associates | | | | |
| 19,215,000 Equity shares of Swiss Bio Sciences AG (Refer note 27) | 706.29 | 17.92 | - | - |
| | 709.44 | 18.00 | 3.14 | 0.07 |

Units of Mutual Funds Purchased & Sold during the year Rs. 100 million (2006 - Rs. 350 million)

| | As at 31.12.2007 Rs. in millions | As at 31.12.2007 USD in millions [see note 1 (b) (d)] | As at 31.12.2006 Rs. in millions | As at 31.12.2006 USD in millions [see note 1 (b) (d)] |
|------------------------|--|--|--|--|
| 10. INVENTORIES | | | | |
| Raw materials | 2,340.47 | 59.39 | 1,453.76 | 32.86 |
| Packing materials | 154.12 | 3.91 | 173.75 | 3.93 |
| Work-in-progress | 763.76 | 19.38 | 534.32 | 12.08 |
| Finished goods | 4,297.94 | 109.06 | 2,010.72 | 45.44 |
| Samples | 30.33 | 0.77 | 30.73 | 0.69 |
| Stores and spare parts | 131.13 | 3.33 | 96.68 | 2.19 |
| | 7,717.75 | 195.84 | 4,299.96 | 97.19 |



| | As at 31.12.2007 Rs. in millions | As at 31.12.2007 USD in millions [see note 1 (b) (d)] | As at 31.12.2006 Rs. in millions | As at 31.12.2006 USD in millions [see note 1 (b) (d)] [Note 31] |
|---|--|--|--|---|
| 11. SUNDRY DEBTORS | | | | |
| Sundry debtors considered good | 6,700.65 | 170.02 | 4,615.65 | 104.34 |
| Sundry debtors considered doubtful | 473.13 | 12.01 | 480.99 | 10.87 |
| | 7,173.78 | 182.03 | 5,096.64 | 115.21 |
| <i>Less: Provision for doubtful debts</i> | <i>(473.13)</i> | <i>(12.01)</i> | <i>(480.99)</i> | <i>(10.87)</i> |
| Sundry Debtors, net of provisions/ charge back | 6,700.65 | 170.02 | 4,615.65 | 104.34 |
| 12. CASH AND BANK BALANCES | | | | |
| Cash on hand | 1.67 | 0.04 | 1.93 | 0.04 |
| Balances with Scheduled banks | | | | |
| — on current accounts | 590.93 | 14.99 | 472.53 | 10.68 |
| — on margin accounts | 23.92 | 0.61 | 24.53 | 0.55 |
| — on deposit accounts [Includes unutilised amounts of FCCB Rs. 382.28 million (2006 – Rs. 4,214.78 million)] | 3,185.26 | 80.82 | 9,232.79 | 208.66 |
| | 3,801.78 | 96.46 | 9,731.78 | 219.93 |
| 13. LOANS AND ADVANCES (Unsecured, considered good) | | | | |
| Loans to employees | 13.55 | 0.34 | 16.40 | 0.37 |
| Loans to companies | 0.31 | 0.01 | 0.10 | – |
| Advances recoverable in cash or in kind or for value to be received | 766.11 | 19.44 | 548.08 | 12.39 |
| Accrued income | 8.88 | 0.23 | 33.66 | 0.76 |
| Balance with customs and excise authorities | 186.73 | 4.74 | 128.01 | 2.89 |
| Loans to others | 0.30 | 0.01 | 0.15 | – |
| Minimum alternate tax (MAT) credit entitlement | 199.16 | 5.05 | 199.16 | 4.50 |
| Advance taxes (including tax deducted at source) – net of provisions for tax* | 179.83 | 4.56 | 79.52 | 1.80 |
| Other deposits | 533.71 | 13.54 | 371.65 | 8.40 |
| | 1,888.58 | 47.92 | 1,376.73 | 31.11 |
| 14. CURRENT LIABILITIES AND PROVISIONS CURRENT LIABILITIES | | | | |
| Sundry creditors | 4,506.08 | 114.34 | 2,798.58 | 63.25 |
| Lease finance | 99.45 | 2.52 | 60.02 | 1.36 |
| Security deposits | 164.43 | 4.17 | 153.92 | 3.48 |
| Investor education and protection fund shall be credited as & when due by the following amounts: | | | | |
| Unclaimed dividends | 15.15 | 0.38 | 9.04 | 0.20 |
| Interest accrued but not due | 140.21 | 3.56 | 21.75 | 0.49 |
| Other liabilities | 3,375.85 | 85.67 | 1,932.13 | 43.65 |
| | 8,301.17 | 210.64 | 4,975.44 | 112.43 |
| PROVISIONS | | | | |
| Interim dividend on equity shares payable | – | – | 547.18 | 12.38 |
| Tax on interim dividend payable | – | – | 76.74 | 1.74 |
| Proposed dividend | 273.59 | 6.94 | – | – |
| Tax on proposed dividend | 46.50 | 1.18 | – | – |
| Provision for retirement benefits | 178.33 | 4.53 | 163.94 | 3.71 |
| Other provision | 75.00 | 1.90 | 45.00 | 1.02 |
| | 573.42 | 14.55 | 832.86 | 18.85 |
| | 8,874.59 | 225.19 | 5,808.30 | 131.28 |

* Advance Taxes are after netting off provisions for taxes of Rs. 235.50 Millions (2006 – Rs. 47.26 Millions). Tax assets and liabilities are in accordance with respective countries Tax Legislations.



| | For the year ended 31.12.2007 Rs. in millions | For the year ended 31.12.2007 USD in millions [see note 1 (b) (d)] | For the year ended 31.12.2006 Rs. in millions | For the year ended 31.12.2006 USD in millions [see note 1 (b) (d)] [Note 31] |
|--|--|--|--|---|
| 15. OTHER INCOMES | | | | |
| Dividends received on investments | 0.08 | – | 0.73 | 0.02 |
| Profit/(Loss) on sale of assets | (7.57) | (0.19) | 0.67 | 0.02 |
| Miscellaneous income | 117.93 | 2.99 | 188.39 | 4.26 |
| | 110.44 | 2.80 | 189.79 | 4.30 |
| 16. MATERIAL CONSUMED AND PURCHASE OF GOODS | | | | |
| Consumption of raw and packing materials | 7,373.89 | 187.11 | 5,085.45 | 114.93 |
| Purchase of finished goods | 3,985.05 | 101.11 | 2,205.87 | 49.85 |
| | 11,358.94 | 288.22 | 7,291.32 | 164.78 |
| 17. (INCREASE)/DECREASE IN INVENTORIES | | | | |
| Inventories as at December 31, 2006 | | | | |
| Finished goods | 2,010.72 | 51.02 | 1,547.13 | 34.97 |
| Samples | 30.73 | 0.78 | 24.63 | 0.56 |
| Work-in-progress | 534.33 | 13.56 | 180.25 | 4.07 |
| Less: Excise duty on opening stock | (32.21) | (0.82) | (56.58) | (1.28) |
| | 2,543.57 | 64.54 | 1,695.43 | 38.32 |
| Stock acquired on acquisition of Subsidiary Companies | | | | |
| Finished goods | 788.07 | 20.00 | 235.28 | 5.32 |
| Work-in-progress | 306.85 | 7.79 | 0.03 | – |
| | 1,094.92 | 27.79 | 235.31 | 5.32 |
| Inventories as at December 31, 2007 | | | | |
| Finished goods | (4,297.94) | (109.06) | (2,010.72) | (45.44) |
| Samples | (30.33) | (0.77) | (30.73) | (0.69) |
| Work-in-progress | (763.76) | (19.38) | (534.33) | (12.08) |
| Less: Excise duty on closing stock | 22.12 | 0.56 | 32.21 | 0.73 |
| | (5,069.91) | (128.65) | (2,543.57) | (57.48) |
| | (1,431.42) | (36.32) | (612.83) | (13.84) |
| 18. OPERATING AND OTHER EXPENSES | | | | |
| Employee costs | 4,678.69 | 118.72 | 2,691.98 | 60.84 |
| Travelling expenses | 493.33 | 12.52 | 417.07 | 9.43 |
| Freight and forwarding | 530.33 | 13.46 | 363.37 | 8.21 |
| Selling and distribution | 707.16 | 17.94 | 524.34 | 11.84 |
| Commission on sales | 220.30 | 5.59 | 179.02 | 4.05 |
| Power and fuel | 476.60 | 12.09 | 439.54 | 9.93 |
| Rent, Rates and taxes | 174.58 | 4.43 | 160.24 | 3.62 |
| Repairs and maintenance: | | | | |
| Machinery | 169.50 | 4.30 | 113.01 | 2.55 |
| Buildings | 23.51 | 0.60 | 17.99 | 0.41 |
| Others | 123.55 | 3.13 | 119.90 | 2.71 |
| Stores and spare parts consumed | 307.41 | 7.80 | 316.30 | 7.15 |
| Insurance | 152.08 | 3.86 | 116.95 | 2.64 |
| Bad debts | 51.18 | 1.30 | 8.84 | 0.20 |
| Miscellaneous expenses | 2,105.63 | 53.43 | 1,140.70 | 25.78 |
| | 10,213.85 | 259.17 | 6,609.25 | 149.36 |
| 19. FINANCIAL EXPENSES (Net) | | | | |
| Interest paid | | | | |
| On term Loans | 1,321.17 | 33.52 | 224.02 | 5.06 |
| Others Loans | 316.96 | 8.04 | 185.33 | 4.19 |
| | 1,638.13 | 41.56 | 409.35 | 9.25 |
| Add: Exchange (gain)/loss on borrowings | (314.27) | (7.97) | (98.53) | (2.23) |
| Less: Interest received | (349.57) | (8.87) | (284.43) | (6.43) |
| | 974.29 | 24.72 | 26.39 | 0.59 |



| | For the year ended 31.12.2007 Rs. in millions | For the year ended 31.12.2007 USD in millions [see note 1 (b) (d)] | For the year ended 31.12.2006 Rs. in millions | For the year ended 31.12.2006 USD in millions [see note 1 (b) (d)] [Note 31] |
|---|--|--|--|---|
| 20. (a) Annual commitments under non-cancellable operating leases are: | | | | |
| Less than 1 year | 25.78 | 0.65 | 21.38 | 0.48 |
| More than 1 year but less than 5 years | 69.75 | 1.77 | 59.09 | 1.34 |
| More than 5 years | 75.13 | 1.91 | 22.92 | 0.52 |
| | 170.66 | 4.33 | 103.39 | 2.34 |
| (b) Annual commitments under finance leases are: | | | | |
| In 1 year or less | 79.85 | 2.03 | 50.69 | 1.15 |
| More than 1 year but less than 5 years | 63.63 | 1.61 | 44.80 | 1.01 |
| More than 5 years | 8.76 | 0.22 | – | – |
| | 152.24 | 3.86 | 95.49 | 2.16 |
| Less: Finance charge | 2.30 | 0.06 | 6.23 | 0.14 |
| Present value of minimum lease payments | 149.94 | 3.80 | 89.26 | 2.02 |
| 21. EXPENDITURE ON RESEARCH AND DEVELOPMENT | | | | |
| Capital | 1,011.09 | 25.66 | 767.01 | 17.33 |
| Revenue | 504.59 | 12.80 | 610.41 | 13.80 |
| | 1,515.68 | 38.46 | 1377.42 | 31.13 |

22. EARNINGS PER SHARE

The calculations of earnings per share (basic and diluted) are based on the earnings and number of shares are computed as below:

| Reconciliation of earnings | 2007 Rs. in millions | 2007 USD in millions | 2006 Rs. in millions | 2006 USD in millions |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Profit after tax for the financial year | 3,858.14 | 97.90 | 2,412.50 | 54.54 |
| Net profit attributable to equity shareholders | 3,858.14 | 97.90 | 2,412.50 | 54.54 |
| Reconciliation of weighted average number of shares | Shares | | Shares | |
| For basic earnings per share | 109,435,903 | | 109,419,237 | |
| Add: Deemed exercise of options on unissued equity share capital | – | | 22,161 | |
| For diluted earnings per share | 109,435,903 | | 109,441,398 | |
| Earnings per share (nominal value Rs. 5 each) | | | | |
| Basic | 35.25 | 0.89 | 22.05 | 0.50 |
| Diluted | 35.25 | 0.89 | 22.04 | 0.50 |

23. SEGMENT INFORMATION

(i) Information about Primary Segments

The company is primarily engaged in pharmaceutical business which is considered as the only reportable business segment as per Accounting Standard - AS 17 'Segment Reporting' issued by the Institute of Chartered Accountants of India.

(ii) Information about Secondary Segments

Sales by market - The following is the distribution of the Company's sale by geographical market regardless of where the goods were produced:



| Geographical segment | 2007 | | 2006 | |
|----------------------|-----------------|-----------------|-----------------|-----------------|
| | Rs. in millions | USD in millions | Rs. in millions | USD in millions |
| India | 7,811.82 | 198.22 | 6,764.71 | 152.88 |
| USA / Western Europe | 16,813.47 | 426.63 | 8,808.31 | 199.07 |
| Rest of the World | 1,906.25 | 48.37 | 1,717.37 | 38.81 |
| Total | 26,531.54 | 673.22 | 17,290.39 | 390.76 |

Assets and additions to fixed assets by geographical area – The following table shows the carrying amount of segment assets and liabilities to fixed assets by geographical area in which the assets are located:

| | India | | Others | |
|---|--------------------------|--------------------|--------------------------|--------------------|
| | Rs. in millions | USD in millions | Rs. in millions | USD in millions |
| Carrying amount of segment assets | 16,310.96 (16,404.38) | 413.88 (370.74) | 35,219.92 (20,737.86) | 893.68 (468.68) |
| Additions to tangible and intangible assets | 736.45 (2,266.40) | 18.69 (51.22) | 11,752.40 (6,749.87) | 298.21 (152.55) |

(iii) **Notes:**

Geographical segments: Secondary segmental reporting is performed on the basis of the geographical location of customers. The management views the Indian market and export markets as distinct geographical segments.

Segment assets: Segment assets include all operating assets used by a segment and consist principally of debtors, inventories, advances and fixed assets, net of allowances. Assets at the corporate level are not allocable to segments on a reasonable basis and thus the same have not been allocated.

Figures in brackets represent prior year comparatives

24. RELATED PARTY DISCLOSURES

(a) **Parties where control exists**

Holding company

Khorakiwala Holdings and Investments Private Limited

(b) **Related party relationships where transactions have taken place during the period**

Fellow Subsidiary

Carol Info Services Limited

Associates Enterprises

Khorakiwala Foundation

Key management personnel

H F Khorakiwala, Chairman and Managing Director

Rajiv B Gandhi, Whole Time Director

(c) **Transactions with related parties during the period**

| | 2007 | | 2006 | |
|---|-----------------|-----------------|-----------------|-----------------|
| | Rs. in millions | USD in millions | Rs. in millions | USD in millions |
| Holding company | | | | |
| Dividend Paid | 958.60 | 24.32 | 348.58 | 7.88 |
| Fellow Subsidiary/Associate enterprises | | | | |
| Loan Licensee paid [(2006 – Merind Limited –Rs. 252.65 million), Carol Info Services Limited Rs. 75.76 million (2006 – Rs. 69.20 million)] | 75.76 | 1.92 | 321.85 | 7.27 |
| Rent paid [(Carol Info Services Limited Rs. 51.93 million (2006 – Rs. 48.59 million), (2006 – Merind Limited – Rs 1.42 million)] | 51.93 | 1.32 | 50.01 | 1.13 |



| | 2007 Rs. in millions | 2007 USD in millions | 2006 Rs. in millions | 2006 USD in millions |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Expenses recovered/(paid) [Carol Info Services Limited Rs. 15.60 million (2006 – Rs. 10.80 million), Khorakiwala Foundation Rs. 0.81 million (2006 – Rs. 2.59 million)] | 16.41 | 0.42 | 13.39 | 0.30 |
| Donation given [Khorakiwala Foundations Rs. 2.70 million (2006 – Rs. Nil)] | 2.70 | 0.07 | – | – |
| Security deposit given [(2006 – Merind Limited – Rs. 280 million), Carol Info Services Limited Rs. 250 million (2006 – Rs. 250 million)] | 250.00 | 6.34 | 530.00 | 11.98 |
| Security deposit recovered [(2006 – Merind Limited – Rs. 280 million), Carol Info Services Limited Rs. 250 million (2006 – Rs. 250 million)] | 250.00 | 6.34 | 530.00 | 11.98 |
| Key management personnel | | | | |
| Remuneration to Directors: | | | | |
| Salary | 16.87 | 0.43 | 11.50 | 0.26 |
| Commission | 70.96 | 1.80 | 71.18 | 1.61 |
| Contribution to Provident Fund | 1.32 | 0.03 | 1.22 | 0.03 |
| Other Perquisites | 0.78 | 0.02 | 1.43 | 0.03 |
| | 89.93 | 2.28 | 85.33 | 1.93 |
| (d) Related party balances | | | | |
| Payable to associate enterprises [(2006 – Merind Limited – Rs. 21.49 million), Carol Info Services Limited Rs. 15.15 million (2006 – Rs. 14.77 million)] | (15.15) | (0.38) | (36.26) | (0.82) |
| Payable to Key management personnel – Chairman and Managing Director | (70.96) | (1.80) | (71.18) | (1.61) |

25. Turnover includes exchange rate gain, including gain on hedging activity, of Rs. 843.96 million (2006 – Rs. 829.50 million).

26. Provision for Sales Return, date expiry and chargebacks - Opening Balance Rs. 116.67 million (2006 – 26.11 million), Additions during the year Rs. 140.65 million (2006 – Rs.156.30 million), utilised during the year Rs. 139.13 million (2006 – Rs. 64.16 million), Closing Balance Rs. 111.56 million (2006 – Rs. 116.67) [(Net of exchange Rs. 6.62 million (2006 – Rs. 1.58 million)].

27. INVESTMENT IN ASSOCIATE COMPANIES

Investment in associate include goodwill of Rs. 543.21 Millions (2006 – Nil). The holding interest of Wockhardt group in Swiss Bio Sciences AG is 45 % (2006 – Nil)

28. CONTINGENT LIABILITIES NOT PROVIDED FOR:

- Demands by Central Excise authorities in respect of Classification/Valuation/Cenvat Credit related disputes; stay orders have been obtained by the Company in case of demands which have been confirmed – Rs. 63.01 million (2006 – Rs. 66.67 million).
- Demand by Income tax authorities Rs. 535.35 million (2006 – Rs. 408.53 million) disputed by the Company.
- A Government grant of Rs. 44.46 million (2006 – Rs. 37.80 Million) received by Pinewood Limited, which pertains to periods prior to acquisition, is repayable only if certain conditions are not fulfilled.
- 108,500 (2006 – 108,500) Zero coupon foreign currency convertible bonds of USD 1,000 each are:
 - Convertible by the holders at any time on or after November 24, 2004 but prior to close of business on September 25, 2009. Each bond will be converted into 94.265 fully paid up equity share with par value of Rs. 5 per share at a fixed price of Rs. 486.075 per share.



- (ii) Redeemable, in whole but not in part, at the option of the Company at any time on or after October 25, 2007 but not less than seven business days prior to maturity date i.e October 25, 2009 subject to the fulfillment of certain terms and obtaining requisite approvals.
- (iii) Redeemable on maturity date at 129.57 percent of its principal amount, if not redeemed or converted earlier.
The Bonds are considered as monetary liability. The bonds are redeemable only if there is no conversion of the bonds earlier. Hence the payment of premium on redemption is contingent in nature, the outcome of which is dependent on uncertain future events. Hence no provision is considered necessary nor has been made in the accounts in respect of such premium amounting to a maximum of Rs. 775.98 million (2006 – Rs. 581.74 million).
- (e) Contingent liability in respect of VAT for Wockhardt UK Holding Limited and its subsidiaries amounts Rs. Nil (2006 – Rs. 169.06 million).

29. EMPLOYEE BENEFIT

(A) Defined Benefit Plans:

| | 2007 | | 2006 | |
|---|--------------------------|-------------------------------------|--------------------------|-------------------------------------|
| | Gratuity (Non-funded) | Leave Encashment (Non-funded) | Gratuity (Non-funded) | Leave Encashment (Non-funded) |
| I. Expenses recognised during the year ended December 31, 2007 | | | | |
| 1. Current Service Cost | 15.07 | 7.49 | 7.79 | 6.60 |
| 2. Interest cost | 7.81 | 4.68 | 4.76 | 2.59 |
| 3. Actuarial Losses/(Gains) | (12.14) | 17.15 | 4.90 | 14.90 |
| Total Expenses | 10.74 | 29.32 | 17.45 | 24.09 |
| II. Net Asset/(Liability) recognised in the Balance Sheet as at December 31, 2007 | | | | |
| 1. Present value of defined benefit obligation | 94.62 | 75.75 | 94.20 | 63.50 |
| 2. Net Asset/(Liability) | (94.62) | (75.75) | (94.20) | (63.50) |
| III. Reconciliation of Net Asset/(Liability) recognised in the Balance Sheet during the period ended December 31, 2007 | | | | |
| 1. Net Asset/(Liability) at the beginning of the year | (94.20) | (63.50) | (84.94) | (48.67) |
| 2. Expense as per I above | 10.74 | 29.32 | 17.45 | 24.09 |
| 3. Employer contributions | 10.32 | 17.07 | 8.19 | 9.26 |
| Net asset/(liability) at the end of the year | (94.62) | (75.75) | (94.20) | (63.50) |
| Experience adjustment | 5.76 | N.A. | 4.90 | N.A. |
| IV. Actuarial Assumptions: | As at 31.12.2007 | | As at 31.12.2006 | |
| 1. Discount rate | 8.00% | | 7.50% | |
| 2. Mortality | LIC (1994-96) Ultimate | | LIC (1994-96) Ultimate | |

- Note: (a) Amounts recognized as an expense and included in the Schedule 18:
"Retirement benefits" are gratuity Rs. 8.68 million (Previous Year – Rs. 17.46 million), Leave Encashment Rs. 29.67 million (Previous Year – Rs. 31.34 million).
- (b) Actuarial valuation is worked out considering attrition rate and estimates of future salary increase taking into account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.
- (c) In the previous year, the Company had gone for earlier adoption of Accounting Standard 15 (Revised) which is mandatory from accounting periods starting from December 7, 2006. Accordingly, the Company had provided for gratuity and leave encashment based on actuarial valuation done as per Projected Unit Credit Method. Further, in accordance with the transitional provision in the revised Accounting Standard, Rs. Nil [Previous Year – Rs. 9.23 million (net of tax liability Rs. 4.68 million)] has been adjusted to the General Reserve.



(B) Defined contribution plan:

Amount recognised as an expense and included in the Schedule 18 – “Contribution to provident and other funds” of Profit and Loss Account Rs. 505.45 million (Previous Year – Rs. 160.52 million).

30. DISCLOSURE REGARDING DERIVATIVE INSTRUMENTS AND UNHEDGED FOREIGN CURRENCY EXPOSURE

- (a) The Company enters into forward exchange contracts being derivative instruments, which are not intended for trading, or speculative purposes, but for hedge purposes, to establish the amount of reporting currency required or available at the settlement date of certain payables and receivables.
- (b) Outstanding currency swaps (other than forward exchange contracts stated above) to hedge against fluctuations in changes in exchange rate and interest rate changes:

| No. of contracts | 2007 | | 2006 | |
|--------------------|-----------------|-----------------|-----------------|-----------------|
| | 2 | | 2 | |
| | USD in millions | Rs. in millions | JPY in millions | Rs. in millions |
| National principal | 100.00 | 3,941.00 | 4,158.83 | 1,548.75 |

- (c) The year end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below:

| Particulars | Currency | 2007 | | Currency | 2006 | |
|------------------------------------|----------|--|-----------------|----------|--|-----------------|
| | | Amt. in Foreign Currency (in millions) | Rs. in millions | | Amt. in Foreign Currency (in millions) | Rs. in millions |
| Loan Aailed | USD | 50.00 | 1,970.50 | USD | 50.26 | 2,223.82 |
| | | | | GBP | 1.03 | 89.86 |
| Interest Payable | USD | 0.72 | 28.28 | USD | 0.48 | 21.27 |
| | | | | ACU | 0.03 | 1.12 |
| Sundry Debtors | ACU | 0.16 | 6.42 | ACU | 0.03 | 1.12 |
| | AUD | 0.01 | 0.48 | AUD | 0.01 | 0.48 |
| | CHF | 0.04 | 1.54 | CHF | – | – |
| | EUR | 5.45 | 315.66 | EUR | 0.57 | 33.48 |
| | GBP | 3.41 | 268.83 | GBP | 4.26 | 369.87 |
| | USD | 59.31 | 2,337.28 | USD | 33.08 | 1,463.87 |
| | | | | EUR | 3.02 | 175.94 |
| Loans and Advances | USD | 21.83 | 860.16 | USD | 1.82 | 80.71 |
| | CHF | 0.04 | 1.29 | CHF | – | – |
| | GBP | – | – | GBP | 5.22 | 452.88 |
| | | | | ACU | – | – |
| Sundry Creditors | ACU | 0.001 | 0.05 | ACU | – | – |
| | AUD | 0.0002 | 0.01 | AUD | 0.004 | 0.15 |
| | CAD | 0.01 | 0.22 | CAD | – | – |
| | CHF | 0.08 | 2.68 | CHF | 0.06 | 2.20 |
| | EUR | 1.10 | 63.62 | EUR | 0.21 | 12.51 |
| | GBP | 0.46 | 36.09 | GBP | 0.97 | 84.00 |
| | JPY | 15.83 | 5.56 | JPY | 48.48 | 18.05 |
| | SEK | 0.23 | 1.44 | SEK | – | – |
| | USD | 8.48 | 334.04 | USD | 8.02 | 355.00 |
| | ZAR | 0.001 | – | ZAR | – | – |
| Foreign Currency Convertible Bonds | USD | 108.50 | 4,275.99 | USD | 108.50 | 4,801.13 |
| Time Deposit | USD | 9.70 | 382.28 | USD | 95.25 | 4,214.78 |

31. PREVIOUS YEAR COMPARATIVES

Previous year’s figures have been re-grouped where necessary to conform to this year’s classification.

As per our report of even date

For S. R. Batliboi & Co.
Chartered Accountants

per **Vijay Bhatt**
Partner
Membership No: 36647

Place : Mumbai
Date : February 20, 2008

For and on behalf of the Board of Directors

H. F. Khorakiwala
Chairman and Managing Director

B. L. Maheshwari
Shekhar Datta
Aman Mehta
Bharat Patel
R. A. Shah
Abid Hussain
Directors

R. B. Gandhi
Company Secretary