

DIRECTORS' REPORT

Dear Members,

Your Directors hereby present the Eleventh Annual Report of the Company along with the audited accounts for the fifteen months period ended March 31, 2010.

The Financial Year of the Company was extended from December 31, 2009 to March 31, 2010 in order to avoid duplication in preparation and audit of accounts under the Companies and Income Tax Act. Consequently, **the current Annual Accounts and Reports of the Company are for a period of fifteen months, from January 1, 2009 to March 31, 2010; these figures are therefore not comparable with those of previous year ended December 31, 2008.**

FINANCIAL PERFORMANCE

| | Fifteen Months ended March 31, 2010 | (₹ in millions) Twelve Months ended December 31, 2008 |
|--|--|---|
| Consolidated | | |
| Income | 45,309 | 36,254 |
| Profit before Depreciation, Interest & Tax | 8,527 | 8,211 |
| Profit/(Loss) Before Exceptional Items & Tax | 3,093 | 3,300 |
| Exceptional Items | (12,949) | (5,810) |
| Profit/(Loss) Before Tax and after Exceptional Items | (9,856) | (2,510) |
| Provision for Taxation (Expense)/Credit | (167) | 916 |
| Share of Profit/(Loss) from Associates | 16 | 205 |
| Net Profit/(Loss) | (10,007) | (1,389) |
| Standalone | | |
| Income | 19,019 | 14,861 |
| Profit Before Depreciation, Interest & Tax | 4,850 | 3,398 |
| Profit/(Loss) Before Exceptional Items & Tax | 1,372 | (133) |
| Exceptional Items | (9,305) | (4,438) |
| Profit/(Loss) Before Tax and after Exceptional Items | (7,933) | (4,571) |
| Provision for Taxation (Expense)/Credit | (9) | 1,083 |
| Profit/(Loss) After Tax | (7,942) | (3,488) |

For the fifteen months period ended March 31, 2010, the Company registered 25% growth in consolidated turnover to ₹ 45,014 million. The Profit before depreciation, interest and tax grew from ₹ 8,211 million to ₹ 8,527 million. However, the Company incurred loss of ₹ 10,007 million, primarily on account of Mark to Market (MTM) loss.

DIVIDEND AND RESERVES

In view of the losses during the fifteen months period ended March 31, 2010, no amount is transferred to the General Reserve and the directors do not recommend any dividend on equity shares and preference shares for the period under review.

CORPORATE DEBT RESTRUCTURING

The Company had approached the Corporate Debt Restructuring (CDR) Cell through ICICI Bank Limited in April 2009 for restructuring the debts of the Company through CDR mechanism. The final restructuring package was approved by CDR Empowered Group vide its letter dated July 4, 2009. The detailed information on Corporate Debt Restructuring is provided in Management Discussion and Analysis Report.

CHANGES IN CAPITAL STRUCTURE

During the period under review, the Company allotted 912,994,875 Non-Convertible Cumulative Redeemable Preference Shares of ₹ 5/- each and 424,163,605 Optionally Convertible Cumulative Redeemable Preference Shares of ₹ 5/- each aggregating to ₹ 6,685.79 millions in terms of approved CDR package dated July 4, 2009. The Authorised Share Capital of the Company was increased from ₹ 1,750/- millions to ₹ 9,250/- millions to accommodate the said issue of preference shares. There was no change in paid up equity share capital of the Company.

DIVESTMENTS

During the period under review, the Company divested Animal Health Care Division to Vetoquinol, France. The business of Esparma GmbH was also divested to Mova GmbH.

DIRECTORS

Mr. Rajiv Gandhi resigned from the position of Director – Corporate Finance and Information with effect from March 31, 2010. The Board places on record their appreciation for the valuable services rendered by him during his tenure as a Director of the Company.

Mr. Aman Mehta and Mr. Bharat Patel retire by rotation as directors at the upcoming Annual General Meeting and being eligible, offer themselves for re-appointment. The Board recommends their appointment at the forthcoming Annual General Meeting. As required under clause 49 of the listing agreement, brief information about them is as under:

Mr. Aman Mehta has been a Director of the Company since February 12, 2004. Mr. Aman Mehta graduated with Honors degree in Economics from University of Delhi in 1967 and has since participated in numerous management programmes. Mr. Aman Mehta was earlier associated with HSBC, during this association he has worked in variety of roles all over the world and has headed HSBC operations in the Middle East, America and Asia Pacific. He is on the Boards of Tata Consultancy Services Limited, Jet Airways Limited, Cairn India Limited, Godrej Consumer Products Limited, Vedanta Resources Plc, PCCW Ltd., Hongkong, Emaar MFG Land Limited, ING Group N.V. Netherlands and Max India Limited. He is Chairman of Audit Committee of Tata Consultancy Services Limited, Cairn India Limited, Jet Airways Limited and Vedanta Resources Plc and member of Audit Committee of Emaar MFG Land Limited, Godrej Consumer Products Limited and PCCW Ltd., Hongkong. He is also Chairman of Remuneration Committee of Tata Consultancy Services Limited and Emaar MFG Land Limited and member of Remuneration Committee of Vedanta Resources Plc. UK, Cairn India Limited and Jet Airways Limited. Mr. Aman Mehta does not hold any equity shares of the Company.

Mr. Bharat Patel has been a Director of the Company since October 30, 2001. He is M.B.A. from Notre Dame University and M.B.A. in Marketing from University of Michigan, U.S.A. He is renowned expert with wide experience in fast moving consumer goods industry. He is on the boards of Force Motors Limited, NESCO Limited, Yes Bank Limited and

Sasken Communication Technologies Limited. He is Chairman of Shareholders Grievance Committee and member of Audit Committee of Yes Bank Limited. He is also a member of Remuneration Committee of Force Motors Limited and NESCO Limited. Mr. Bharat Patel does not hold any equity shares of the Company.

AUDITORS

M/s Haribhakti & Co., Chartered Accountants, Statutory Auditors of the Company, retire at the conclusion of the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. They have expressed their willingness to act as Auditors of the Company, if appointed, and have further confirmed that the said appointment would be in conformity with the provisions of Section 224 (1B) of the Companies Act, 1956. The Board recommends their appointment.

AUDITORS' REPORT

With regard to qualification and emphasis of matter contained in the Auditors' Report, explanations are given below:

- (a) Point 5 (a) of Auditor's Report – Note 32 of Notes to Accounts to the financial statements:

Corporate Debt Restructuring (CDR) Scheme is effective from April 15, 2009. The Outstanding liabilities of the Company are being restructured under the aegis of Corporate Debt Restructuring Scheme. As required under the scheme the Master Restructuring Agreement (MRA) and other necessary documents have been executed and effective. The CDR Scheme comprehensively covers the FCCB liabilities and crystallized derivatives/hedging liabilities.

- (b) Point 5 (b) of Auditor's Report – Note 36 of Notes to Accounts to the financial statements:

Winding up petitions are filed by certain lenders/banks in Bombay High Court and the Company has filed affidavit in reply. ICICI Bank, as empowered by CDR and Employee Union have filed intervention application against the winding up. The matter are sub-judice and outcome of which cannot be currently ascertained.

- (c) Point 6 of Auditor's Report

The Company has charged the crystallized derivative losses to the Profit & Loss Account and some of the documentation trail is being co-related, for which the Company has formed a task force and necessary actions are being taken.

- (d) Point 7 of Auditor's Report

Certain derivatives/hedging contracts have been unilaterally cancelled by banks. The Company has treated the demand of ₹ 8,483.22 million as a contingent liability and has not acknowledged as debt, since the liability cannot be currently ascertained even on a best effort basis till the final outcome of the matter.

The Company is of the view that these are contingent liabilities as these arise from past events and existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within control of the Company and therefore, has not acknowledged these claims against the Company as debts.

- (e) Point (vii) of Annexure to Auditor's Report

The Company has an internal audit system which it believes to be commensurate to the size of its operations. The Company has already commenced the process of further strengthening the internal audit system to enlarge

its scope in respect of Treasury Operations. Further, as per the CDR Scheme the Company cannot execute any new derivative transactions (excluding forwards strictly for hedging purposes for a maximum period of 180 days) without prior approval of CDR Empowered Group and accordingly the treasury operations of the Company have been significantly reduced.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors, based on the representation received from the operating management, confirm that:

- in the preparation of annual accounts, applicable accounting standards have been followed along with proper explanation relating to material departure;
- in order to provide a true and fair view of the state of affairs of the Company as on March 31, 2010 and the loss for the period ended on that date, reasonable and prudent judgments and estimates have been made and generally accepted accounting policies have been selected and consistently applied;
- for safeguarding the assets of the Company and for preventing and detecting any material fraud and irregularities, proper and sufficient care has been taken for maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956;
- the annual accounts presented to the members have been prepared on going concern basis.

FIXED DEPOSITS

During the period under review, no fixed deposits were accepted by the Company.

PARTICULARS OF EMPLOYEES

Information as prescribed under Section 217 (2A) of the Companies Act, 1956 ("the Act"), read with the Companies (Particulars of Employees) Rules, 1975, amended from time to time forms part of this report. As per the provisions of Section 219(1)(b)(iv) of the Act, the Report and Accounts are being sent to the shareholders of the Company excluding the statement of particulars of employees under Section 217(2A) of the Act. Any shareholder interested in obtaining a copy of the statement may write to the Company Secretary at the Registered Office of the Company.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS & OUTGO

The information pursuant to section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, relating to the Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo are set out in Annexure A to this report.

LEGAL COMPLIANCE

The Company has received an exemption from the Central Government under Section 212 (8) of the Companies Act, 1956 with regard to attaching of the balance sheet, profit and loss account and other documents of the subsidiaries for the fifteen months period ended March 31, 2010 to this report. The annual accounts of the subsidiaries will be made available for inspection by any member of the Company at the registered office of the Company and also at the registered office of the concerned subsidiaries. The annual accounts of the subsidiary companies and detailed information will be made available to the members of the company and subsidiaries upon receipt of request from them. A statement pursuant to the provisions of Section 212(1)(e) of the Companies Act, 1956 and the summary of the key financials of the company's subsidiaries are included in this Annual Report. Pursuant to Clause 32 of the Listing

Agreement and Accounting Standard AS-21, the Audited Consolidated Financial Statements for the fifteen months period ended March 31, 2010 forms part of the Annual Report.

SECRETARIAL AUDIT

As directed by Securities and Exchange Board of India (SEBI), secretarial audit is being carried out at the specified period by the practicing company secretary. The findings of the secretarial audit were entirely satisfactory.

MANAGEMENT DISCUSSION AND ANALYSIS AND CORPORATE GOVERNANCE

A detailed report on Corporate Governance along with the certificate on compliance with the conditions of corporate governance under clause 49 of the Listing Agreement and Management Discussion and Analysis Report are given separately in this Annual Report.

ACKNOWLEDGEMENTS

Your Directors acknowledge the impeccable service rendered by the employees of the Company at all levels towards its overall success. The Directors also take this opportunity to place on record their appreciation to the stakeholders, bankers and members of medical profession for their continued support to the Company.

For and on behalf of the Board

H. F. KHORAKIWALA

Chairman

Mumbai, May 20, 2010