MERCK

Innovation helps us find Solutions; down to the smallest detail.

ANNUAL REPORT 2012

Our Pharmaceutical Business

Merck Serono Division

Product Portfolio	Therapy Areas
Concor®	Diabetes Care
Neurobion Forte Tablet	Cardiovascular Diseases
Dvion	Health & Nutrition
Evion®	Hematinics
Carbophage	Vitamins
Polybion® Lc	Women's Health
Olmighty®	Pain Management
Livogen® HEMTONIC	Immunity
Starvog®	Dermatology
Met-Neurobion	Probiotics
Dvion Pearl	
Neurobion Forte RF	
Cosome®	
Neurobion® Plus	
Livogen® Captabs	
Polybion® CZS	
Livogen®-XT	
Ecobion® Capsules Sachet	
Cerofene	
Ostonate	
Prenone®	
Immubron	
Tolflex®	
Livogen®-Z Captabs	
Livogen® Injection	
Pedimune®	
Candistat	
Osto-Polybion® D	
Evion® Forte	

PRODUCTS FOR EVERY STAGE OF LIFE

Merck Consumer Health Division

Merck Limited

Forty-sixth Annual Report and Statement of Accounts 2012

Board of Directors

Mr. S. N. Talwar
Chairman

Dr. C. Boedecker
Managing Director
(from 01.08.2012)

Dr. M. Dziki
Managing Director
(up-to 31.07.2012)

Mr. H. C. H. Bhabha

Mr. E. A. Kshirsagar

Mr. N. Krishnan
(from 22.10.2012)

Mr. R. L. Shenoy
(up-to 30.09.2012)

Mr. P. H. Pimplikar

Dr. Peter-Ulrich Mannheimer
(from 01.10.2012)

Mr. T. Kneen
(up-to 30.09.2012)

Auditors

B S R & Co.

Bankers

Canara Bank
Deutsche Bank AG
ICICI Bank Limited
HDFC Bank Limited

Company Secretary

Mr. Vikas R. Gupta
(from 01.06.2012)

Mr. H. U. Shenoy
(up-to 11.05.2012)

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Registered Office

Shiv Sagar Estate 'A'
Dr. Annie Besant Road
Worli, Mumbai-400 018

Plant Location

Plot No. 11/1
Usgaon, Ponda-403 407
Goa

Registrar & Share Transfer Agents

Sharepro Services (India) Pvt. Ltd.
13AB, Samhita Warehousing Complex
2nd Floor, Sakinaka Telephone Exchange Lane
Andheri-Kurla Road, Sakinaka
Mumbai-400 072

Notice of Annual General Meeting

NOTICE is hereby given that the Forty-sixth Annual General Meeting of the Members of Merck Limited will be held at Mayfair Banquets — South Hall 254-C, Dr. Annie Besant Road, Worli, Mumbai-400 030, on Friday, March 15, 2013 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 December 31, 2012, the Balance Sheet as on that date and the Reports of the Board of Directors and Auditors thereon.

2. To declare a dividend for the year 2012.

3. To appoint a Director in place of Mr. E. A. Kshirsagar, who retires by rotation and being eligible, offers himself for re-appointment.

4. To appoint a Director in place of Mr. Pramod Pimplikar, 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. (a) To consider and, if thought fit, to pass, with or without modification, as an ORDINARY RESOLUTION the following:—

   "RESOLVED THAT Dr. Claus-Dieter Boedecker be and he is hereby appointed as a Director of the Company.

   (b) 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, approval of the Company be and is hereby accorded to the appointment of Dr. Claus-Dieter Boedecker as Managing Director of the Company for a period of three years with effect from August 01, 2012 on the terms and conditions as set out in the Agreement dated June 27, 2012 entered into between the Company and Dr. Claus-Dieter Boedecker, an extract of which is set out in the explanatory statement attached hereto, with liberty to the Board of Directors of the Company to alter and vary the terms and conditions of appointment and/or remuneration, subject to the same being within the limits as approved by the shareholders. Resolved further that notwithstanding anything contained herein, where in any financial year the Company incurs a loss or its profits are inadequate, the Company shall pay to Dr. Claus-Dieter Boedecker, the remuneration by way of salary, bonus, commission and other allowances not exceeding the limits specified under para 2 of Section II, Part II of Schedule XIII to the Companies Act, 1956 (including any statutory modification or re-enactment(s) thereof, for the time being in force) or such other limits as may be prescribed by the Government from time to time as minimum remuneration".

7. (a) To consider and, if thought fit, to pass, with or without modification, as an ORDINARY RESOLUTION the following:—

   "RESOLVED THAT Mr. N. Krishnan be and he is hereby appointed as a Director of the Company.

   (b) RESOLVED THAT 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, or any statutory modification(s) or re-enactment thereof, approval of the Company be and is hereby accorded to the appointment of Mr. N. Krishnan as a Whole-time Director of the Company for a period of five years with effect from October 22, 2012 on the terms and conditions as set out in the Agreement dated October 22, 2012 entered into between the Company, an extract of which is set out in the explanatory statement attached hereto with liberty to the Board of Directors of the Company to alter and vary the terms and conditions of appointment and/or remuneration, subject to the same being within the limits as approved by the shareholders. Resolved further that notwithstanding anything contained herein, where in any financial year the Company incurs a loss or its profits are inadequate, the Company shall pay to Mr. N. Krishnan, the remuneration by way of salary, bonus, commission and other allowances not exceeding the limits specified under para 2 of Section II, Part II of Schedule XIII to the Companies Act, 1956 (including any statutory modification or re-enactment thereof, for the time being in force) or such other limits as may be prescribed by the Government from time to time as minimum remuneration".

Notice of Annual General Meeting

8. To consider and, if thought fit, to pass, with or without modification, as a SPECIAL RESOLUTION the following:—

   "RESOLVED THAT pursuant to the provisions of Section 309 and other applicable provisions of the Companies Act, 1956, the Company do hereby approve and consent to the payment of a sum not exceeding one percent (1%) of the net profits of the Company, computed in accordance with the provisions of Section 198 of the Companies Act, 1956, amongst the directors of the Company (other than Managing Director and Whole-time Directors) of such amounts and in such manner as may be decided by the Board of Directors and such payments shall be made in respect of the profits for a period of five years commencing from January 01, 2013 until December 31, 2017".

By Order of the Board of Directors

Vikas Gupta
General Counsel & Company Secretary

Mumbai, January 30, 2013

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

NOTES:

1. *Members' right to appoint proxy:* 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. The instrument appointing proxies in order to be effective must be received at the Registered Office of the Company not less than 48 hours before commencement of the Meeting.

2. *Explanatory Statement for the Special Business:* The relevant Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business at Item Nos. 6, 7 and 8 of the Notice is annexed.

3. *Book Closure Dates:* The Register of Members and the Share Transfer Books of the Company will remain closed from Saturday, March 09, 2013 to Friday, March 15, 2013 (both days inclusive) for the purpose of Annual General Meeting.

4. *Register of Directors' Shareholding:* The Register of Directors' shareholding maintained under Section 307 of the Companies Act, 1956 will be available for inspection by members at the Annual General Meeting.

5. *Register of Contracts:* The Register of contract maintained under Section 301 of the Companies Act, 1956 will be available for inspection by members at the Annual General Meeting.

6. *Dividend of prior years:* In terms of Sections 205A and 205C of the Companies Act, 1956, the dividend which remains 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, no claims shall lie against the said Fund or the Company for the amount of dividend so transferred to the said Fund. Accordingly dividend upto the financial year December 31, 2004 have been transferred to "Investor Education and Protection Fund". A list of shareholders whose such unclaimed dividend has been transferred is available on the company's website www.merck.co.in. Members who have not encashed the dividend warrant(s) so far for the year ended December 31, 2005 or any subsequent years are requested to send their claims directly to the Company or to M/s. Sharepro Services (India) Private Ltd. (hereinafter referred to as Sharepro Services) contact details are given at the end of this notice.

7. *Change of Address:* Members are requested to notify any change of address and bank details to their depository participants 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 Sharepro Services.

8. *Joint Holding:* Members are informed that in case of joint holders attending the Meeting, only one such joint holder whose name appears first in the joint holder list will be entitled to vote.

9. *Appointment of Nominee:* 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 nominations are requested to send their requests in Form 2B, in duplicate, to the secretarial department at the registered office of the Company or to Sharepro Services.

Notice of Annual General Meeting

10. *Profile of directors:* A brief profile of the Directors proposed to be appointed and of the directors retiring by rotation and eligible for re-appointment at this annual general meeting is given in the annexure to this Notice.

REQUEST TO THE MEMBERS:

1. *Request for additional information, if required:* Members desiring any relevant information on the accounts at the annual general meeting are requested to write to the Company well in advance to ensure that such requests reach the Company at least seven days before the date of the meeting, so as to enable the Company to keep the information ready. As a measure of economy, copies of the Annual Report will not be distributed at the annual general meeting.

2. *Green Initiative:* Members are requested to bring their copies of the Annual Report to the Meeting. Company is concerned about the environment and utilizes natural resources in a sustainable way. No copies of the annual report will be circulated at the meeting.

   The Ministry of Corporate Affairs (MCA), Government of India, has by its Circular Nos. 17/2011 and 18/2011, dated April 21, 2011 and April 29, 2011 respectively, permitted paperless compliances by companies as part of its green initiatives in corporate governance. Recognizing the spirit of the circular issued by the MCA, we are sending documents like the notice convening the general meetings, financial statement, directors' report, auditor's report etc. to the email address provided by you with your depositories.

We request you to provide your email address to us in any of the following ways:

1. *Register your email address with your depository:* In case you are holding shares in electronic form please provide your email id to your depository participant (DP). We'll download the same from the depository at the time of finalizing the mailing list. or

2. *Register your email id using our web site:* To register your email id for the above purpose you may log on to our web site www.merck.co.in and on the 'Investors' page you will find an option of registration for Green Initiative. or

3. *Write to us:* You may provide your email id details in a simple letter addressed either to the secretarial department of the Company or to Sharepro Services at the address given below.

Contact Details:

Company
Ms. Prachi Vichare,
Assistant Company Secretary,
Merck Limited
Dr. A. B. Road
Shiv Sagar Estate, 'A'
Worli, Mumbai-400 018.
Phone: 022-66609000
email : prachi.vichare@merckgroup.com

Sharepro Services
Unit – Merck Limited
Sharepro Services (India) Private Ltd.
13 AB, Samhita Warehousing Complex
2nd Floor, Sakinaka Telephone Exchange Lane
Andheri-Kurla Road, Sakinaka
Mumbai-400 072
Phone: 022-67720300 / 022-67720314
sharepro@shareproservices.com

Notice of Annual General Meeting

EXPLANATORY STATEMENT:
(Pursuant to Section 173(2) of the Companies Act, 1956)

Item 6:

The Board of Directors of the Company at its meeting held on July 23, 2012 appointed Dr. Claus-Dieter Boedecker as an additional Director of the Company with effect from August 01, 2012, pursuant to Section 260 of the Companies Act, 1956, read with Article 114 of the Articles of Association of the Company. In terms of the provisions of Section 260 of the Act, Dr. Claus-Dieter Boedecker will hold office up to the date of the ensuing annual general meeting. The Company has received a notice in writing from a member along with a deposit of Rs. 500 for proposing the candidature of Dr. Claus-Dieter Boedecker for the office of Director of the Company under the provisions of Section 257 of the Act.

Further the Board also appointed, subject to the approval of the members in general meeting and Central Government, Dr. Claus-Dieter Boedecker as Managing Director of the Company for a period of three years commencing from August 01, 2012.

The material terms of the contract dated June 27, 2012 entered into between the Company and Dr. Claus-Dieter Boedecker are as under:

I. Period: from August 01, 2012 to July 31, 2015.

II. Dr. Claus-Dieter Boedecker shall be In-charge of the management of the Company.

III. The total remuneration payable to Dr. Claus-Dieter Boedecker shall be as follows:

   (i) Salary & Commission: For the period of appointment as stated above, the aggregate remuneration payable to Dr. Claus-Dieter Boedecker by way of salary and commission shall be a maximum of Rs. 20.00 million (Rupees twenty million) 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 Companies Act, 1956.

   (ii) Perquisites: In addition to the above remuneration he would be entitled to perquisites as per the Company policy including furnished accommodation or house rent allowance in lieu thereof, gas, electricity, water, furnishings and domestic assistance, use of company car with driver, telephone at residence, children's education allowance, leave travel concession for self and family, medical reimbursement, fees of clubs, settling-in allowance, mobility allowance, club membership, moving expenses, home trip allowance, pets allowance, personal accident insurance paid in accordance with the Rules of the Company etc., The aggregate value of such perquisites shall not exceed Rs. 20.00 million (Rupees twenty million) 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. For the purpose of calculating the above ceiling, perquisites shall be evaluated as per Income Tax Rules, wherever applicable.

   In addition, Dr. Claus-Dieter Boedecker shall be entitled to encashment of earned/privilege leave as per Rules of the Company and the Company shall pay and reimburse to the Managing Director all reasonable expenses and charges incurred by him for and on behalf of the Company.

IV. The Agreement may be terminated by either party by giving to the other party three months' notice.

V. Confidentiality Clause.

VI. If at any time, Dr. Claus-Dieter Boedecker, Managing Director is disqualified/ceased to be Director of the Company, for any cause whatsoever, he shall vacate office of Managing Director of the Company.

The Agreement entered into by the Company with Dr. Claus-Dieter Boedecker 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, Sundays and public holidays, up to and including the day of the Annual General Meeting.

Except Dr. Claus-Dieter Boedecker, no other Director is interested in the Resolution.

Item 7:

The Board of Directors of the Company at its meeting held on October 22, 2012 appointed Mr. N. Krishnan as an additional Director of the Company with effect from October 22, 2012, pursuant to Section 260 of the Companies Act, 1956, read with Article 114 of the Articles of Association of the Company. In terms of the provisions of Section 260 of the Companies Act 1956, Mr. N. Krishnan will hold office up to the date of the ensuing annual general meeting. The Company has received a notice in writing from a member along with a deposit of Rs. 500 for proposing the candidature of Mr. N. Krishnan for the office of Director of the Company under the provisions of Section 257 of the Act.

Notice of Annual General Meeting

Further the Board also appointed, subject to the approval of the members in general meeting, Mr. N. Krishnan as Whole-time Director of the Company for a period of five years commencing from October 22, 2012.

The material terms of the contract dated October 22, 2012 entered between the Company and Mr. N. Krishnan are as under:

I. Period: Five years from October 22, 2012

II. Mr. N. Krishnan shall be In-charge of Finance, Treasury and Taxation functions of the Company.

III. The total remuneration payable to Mr. N. Krishnan shall be as follows

(i) *Salary & Commission (bonus)* - For the period of appointment as stated above, the aggregate remuneration payable to Mr. N. Krishnan by way of salary and commission shall be a maximum of Rs. 10.00 million (Rupees ten million) 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 Companies Act, 1956.

(ii) *Perquisites* - In addition to the above remuneration he would be entitled to perquisites as per the Company policy including furnished accommodation or house rent allowance in lieu thereof, gas, electricity, water, furnishings and domestic assistance, use of company car with driver, telephone at residence, children's education allowance, leave travel concession for self and family, medical reimbursement, fees of clubs, club membership, personal accident insurance paid in accordance with the Rules of the Company etc., the aggregate value of such perquisites shall not exceed Rs. 5.00 million (Rupees five million) 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. For the purpose of calculating the above ceiling, perquisites shall be evaluated as per Income Tax Rules, wherever applicable.

Additionally, Mr. N. Krishnan shall be entitled to Company contribution to Provident Fund and superannuation funds not exceeding 27% of the salary; Gratuity payment; Encashment of earned/privilege leave as per Company rules; and Reimbursement of expenses incurred on behalf of the Company.

V. The Agreement may be terminated by either party by giving to the other party six months' notice.

VI. Confidentiality Clause.

VII. If at any time, Mr. N. Krishnan Whole-time Director is disqualified/ceased to be Director of the Company, for any cause whatsoever; he shall vacate office of Whole-time Director of the Company.

The Agreement entered into by the Company with Mr. N. Krishnan 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, Sundays and public holidays, up to and including the day of the Annual General Meeting.

Except Mr. N. Krishnan, no other Director is interested in the Resolution.

Item 8:

The shareholders of the Company at their forty first annual general meeting held on April 16, 2008 had by a special resolution approved the payment of remuneration by way of commission to non-executive independent directors who are neither in the whole time employment of the Company nor a managing director provided such remuneration shall not exceed one percent (1%) of the net profits of the Company for the financial year commencing from December, 2008 and ending in December, 2012.

The present resolution placed at item 8 of the notice proposes to seek the approval of members pursuant to Section 309 of the Companies Act, 1956 for payment of remuneration by way of commission to non–executive independent directors provided the same shall not exceed one percent (1%) of the net profits of the Company annually for a further period of five years commencing from the financial year beginning January 01, 2013 and ending December 31, 2017.

By Order of the Board of Directors

Vikas Gupta
General Counsel & Company Secretary

Mumbai, January 30, 2013

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

Notice of Annual General Meeting

Annexure to the Notice of Annual General Meeting

BRIEF PROFILE OF DIRECTORS PROPOSED TO BE APPOINTED OR SEEKING RE-APPOINTMENT AT THE ENSUING ANNUAL GENERAL MEETING

Particulars	Dr. Claus-Dieter Boedecker	Mr. N. Krishnan	Mr. Pramod Pimplikar	Dr. Peter-Ulrich Mannheimer	Mr. E. A. Kshirsagar
Date of birth & Age	23/02/1954 58 years	03/12/1969 43 years	02/10/1959 53 years	23/04/1962 50 years	10/09/1941 71 years
Appointed as director of the Company on	01/08/2012	22/10/2012	01/04/2010	01/10/2012	13/12/2007
Qualifications	He holds a Diploma in Chemistry and Doctorate in Natural Sciences (PhD) from the Ruhr University of Bochum, Germany	B. Com, CWA	M. Pharm, PGD in Production Management	Business Administration with Technical Engineering at Technical University Darmstadt Degree Dipl. Wirtschaftsingenieur	B.Sc., FCA (England & Wales), FCA (India)
Expertise in specific areas	He is doctorate from Ruhr University in Bochum, Germany in analytical chemistry. Since 1985 Dr. Boedecker is associated with Merck group and has been working at various senior positions in the group. Immediately prior to joining the Company Dr. Boedecker was working as President and Managing Director, Merck Limited Taiwan and Merck Display Technologies Limited Taiwan	Finance, Taxation function of the Company	Production Management	Company Management, administration and corporate strategy & planning	Corporate Strategy, Valuation, Disinvestment, Mergers & Acquisitions, Govt. Legislation impact on Business
Directorships held in Public Limited and Private Limited Companies	Merck Specialities Pvt. Limited and Millipore (India) Pvt. Limited	Merck Specialities Pvt. Limited and Millipore (India) Pvt Limited	Merck Specialities Pvt. Limited	He is on the board of various Merck group companies abroad. He does not hold any directorship in any Indian company.	Batliboi Limited, HCL Infosystems Limited, JM Financial Limited, JM Financial Products Limited, Manappuram Finance Limited, Manipal Global Education Services Pvt. Limited, Rallis India Limited, Tata Chemicals Limited, Tata Chemicals Europe Holding Limited, England, Tata Chemicals Magadi Limited, UK, Vama Sundari Investment Pvt. Limited, Mauritius.
Memberships/ Chairmanships of Committees in Public Limited Companies	None	None	None	Nil	Batliboi Limited, JM Financial Limited, Rallis India Limited, HCL Infosystems Limited, Tata Chemicals Limited, JM Financial Products Limited, Manappuram Finance Limited.
Shareholding in the Company	Nil	Nil	Nil	Nil	Nil

Directors' Report

We are pleased to present the report on our business and operations for the year ended December 31, 2012.

FINANCIAL HIGHLIGHTS:

		(Rupees million)	
		2012	2011
Income from Operations		6,872.8	5,895.7
Other Income		202.0	168.8
Profit before Interest, Depreciation and Tax		1,257.1	892.8
Interest		0.2	0.2
Depreciation		89.0	79.5
Impairment (reversal)		-	(142.8)
Provision for Taxation (net)		383.9	319.1
Profit after tax		784.0	636.8
Profit available for appropriations		1,457.1	673.1
Appropriations:			
Transfer to General Reserve		78.4	—
Dividend		41.5	—
Balance carried to the Balance Sheet		1,330.5	673.1
EPS			
– Basic	(Rs.)	47.2	38.4
– Diluted	(Rs.)	47.2	38.4

OPERATIONS:

The operational working of the Company in detail is discussed in the Management Discussion and Analysis Report forming part of this Report. During the financial year ending December 31, 2012 the Company achieved turnover of Rs. 6,580.7 million as against turnover of Rs 5,575.7 million achieved during the previous year, registering a growth of 18%. During the year under report, the Pharmaceuticals segment showed an increase in turnover of 14.4% and the Chemicals segment registered an increase of 26.3% as compared to the respective segment turnover in the preceding financial year.

The Profit after Tax for the year under review was Rs. 784.0 million as against Rs. 636.8 million in 2011, showing an increase of 23%.

The export turnover of the Company during the year 2012 was Rs. 729.8 million as against Rs. 538.9 million achieved in the preceding year.

SHARE CAPITAL:

Share capital audit as per the directives of the Securities and Exchange Board of India is being conducted on a quarterly basis by K.G. Saraf & Company, Practising Company Secretaries. The Share Capital Audit Reports are duly forwarded to the Bombay Stock Exchange and National Stock Exchange of India Limited where the equity shares of the Company are listed. During the year ended December 31, 2012 there is no change in issued and subscribed capital of the Company, the outstanding capital as on December 31, 2012 is Rs. 166.0 million comprising of 16.60 million equity shares of Rs. 10 each.

DIVIDEND:

The Board of Directors has recommended a dividend of Rs. 2.50/- (Rupees two and fifty paisa per share only) per equity share of the company for the year 2012. This is subject to the approval of the Members at the ensuing annual general meeting.

FIXED DEPOSITS:

The Company has not accepted any public deposits from the public or the members during the year 2012.

DIRECTORS' RESPONSIBILITY STATEMENT:

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

(a) in the preparation of the annual accounts, the applicable Accounting Standards/Rules have been followed along with proper explanation relating to material departures;

(b) the accounting policies have been consistently applied and reasonable and prudent judgement and estimates have been made so as to give a true and fair view of the state of affairs of the Company as at December 31, 2012 and the profit for the year ended on that date;

(c) proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, has been taken for safeguarding the assets of the Company and for detecting and preventing fraud and other irregularities and;

(d) the annual accounts have been prepared on a going concern basis.

DIRECTORS:

During the year Dr. Claus-Dieter Boedecker was appointed as Managing Director of the Company for a period of three (3) years effective from August 01, 2012 in place of Dr. Marek Dziki, whose contract of employment expired on July 31, 2012.

The Board appointed Mr. N. Krishnan as Whole-time Director of the Company for a period of five (5) years effective from October 22, 2012 in place of Mr. R. L. Shenoy who ceased to be the Whole-time Director and Chief Financial Officer of the Company upon attaining superannuation.

Terms of appointment of Dr. Claus-Dieter Boedecker and Mr. N. Krishnan are set out in the notice convening annual general meeting.

Directors' Report

Pursuant to Article 110 of the Articles of Association of the Company, Merck KGaA, Germany, has appointed Dr. Peter-Ulrich Mannheimer as Director of the Company in place of Mr. Tim Kneen with effect from October 01, 2012.

We place on record our sincere appreciation for the contributions made by Dr. Marek Dziki, Mr. Tim Kneen and Mr. R.L. Shenoy during their respective tenures as members of the Board of the Company.

Mr. Pramod Pimplikar, Executive Director, and Mr. E.A. Kshirsagar, Director, will retire by rotation at the forthcoming Annual General Meeting of the Company being eligible they are seeking re-appointment as Director of the Company. Board recommends their re-appointment.

AUDITORS:

Messrs B S R & Co., Chartered Accountants, retires as Auditors of the Company at the conclusion of the forthcoming Annual General Meeting and has confirmed their eligibility and willingness to accept the office of the Auditors for the year 2013, if re-appointed. The Board and audit committee of the Company has recommended the reappointment of Messrs B S R & Co., Chartered Accountants, as statutory auditor of the Company to hold office as such until the conclusion of next Annual General Meeting.

COST AUDIT:

Pursuant to Section 233B of the Companies Act, 1956, the Central Government has prescribed cost audit of the accounts to be maintained by the Company concerning its bulk drugs and formulations divisions. To conduct the cost audit of these divisions, Messrs Sanghvi Randeria & Associates, Cost Accountants, has been re-appointed as Cost Auditors of the Company for the year 2013, subject to the approval of the Central Government.

PERSONNEL:

As on December 31, 2012, the total number of employees on the payroll was 1,277. Industrial relations with the employees at various levels generally continued to be cordial. During the year under review workers union at Goa plant initiated negotiations with the Company which is under finalization and active discussions.

The particulars of employees, as required under Section 217(2A) read with the Companies (Particulars of Employees) Rules, 1975, form part of this Report. However, pursuant to the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to the Members excluding the statement of particulars of employees. Any Member may obtain a copy of the said statement by writing to the Company Secretary at the registered office of the Company.

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:

A Report on the compliance of Corporate Governance Code along with auditors' certificate thereon, as stipulated under Clause 49 of the Listing Agreements, is annexed to this Report.

GREEN INITIATIVE:

Your company has taken the initiative of going green and minimizing the impact on the environment. This year we are circulating the copy of the annual report only in electronic format to all those Members who have registered their email address with us. This would substantially reduce the number of paper printed copies. We would encourage other Members also to register themselves for receiving annual report in electronic form.

ACKNOWLEDGEMENTS:

The Directors thank the Company's employees, customers, vendors, investors, and institutions for their continued support to the Company. The Directors also thank the Government of various countries, Government of India, State Government and concerned Government Departments/Agencies for their co-operation.

On behalf of the Board of Directors

S. N. Talwar
Chairman

Mumbai, January 30, 2013

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 PLANT

(a) Energy conservation measures taken:

1. All Utility equipments operationally controlled as per production plans.
2. Replaced 52 nos. conventional street lights fixtures with energy efficient LED type fixtures
3. Installed Energy Savers to the identified split ACs/ductable ACs.
4. Installed the VFDs with temperature transmitters for the cooling fan of cooling towers in Injectable & Softgel plant.
5. Connected Central Utility chilled water to Oxynex & QC Building & thus stopping of Oxynex Chiller for 8 months.
6. For Briquette fired boiler cashew shell cake/Coconut shells are used throughout the year as it is less expensive, and easily available in Goa & high CV as compared to briquettes.
7. Replaced the higher capacity Boiler chimney & thus one ID blower made obsolete.
8. Regular maintenance is done to steam condensate traps & safety valves to avoid leakages. Replaced faulty steam traps.
9. Preparation for annual inspection of Boiler done within 6 days to reduce the F.O. consumption.
10. Appropriate DGs loading done in second & third shift & one DG is isolated reducing the fuel consumption.
11. Rain water harvesting done for cooling towers.
12. Captive power generation plant under implementation.

(b) Additional Investments & Proposals, if any, being implemented for reduction of consumption of energy:

1. Investment done in LED street light fixtures, boiler grates, VFDs for pumps & CT fans.
2. Investment done in energy savers for identified split ACs & Ductable ACs.
3. Rain water harvesting for cooling towers.
4. Investment planned for Captive power & steam generation under implementation

(c) Impact of measures taken at (a) & (b) above:

1. Power factor improved & Maintained to 0.99.
2. Furnace consumption reduced by 36%.
3. Diesel Consumption reduced by 65%.
4. Total Electrical consumption is increased by only 1.2% inspite of increased production & electrical load.

(d) Total energy consumption and energy consumption per unit of production as per Form A, are given below:

FORM A

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

Power and Fuel Consumption at Goa Factory

Sr. No.		Description	Goa Factory Current Year 2012	Goa Factory Previous Year 2011
1.		ELECTRICITY		
	(a)	Purchased Units ('000 KWH)	12,519.18	12,188.40
		Total Amount (Rs. million)	52.92	48.81
		Rate/Unit (Rs.)	4.24	4.01
	(b)	Own Generation		
		Through Diesel Generator Units ('000 KWH)	97.12	278.18
		Units/Litre of Diesel Oil	2.08	2.70
		Cost/Unit (Rs.)	16.26	15.50
		Total Cost (Rs. million)	1.58	4.31
2.		BOILER FUELS		
	(a)	FURNACE OIL		
		Quantity (Kilo Litre)	60.99	95.12
		Total Amount (Rs. million)	3.04	4.14
		Average Rate (Rs./Kilo Litre)	49,847.60	43,523.96
	(b)	SOLID FUELS		
		Quantity (Tons)	2,942.79	2,848.58
		Total Amount (Rs. million)	11.16	11.91
		Average Rate (Rs./Ton)	3,792.18	4,181.03

Annexure to the Directors' Report

Consumption per unit of production

	Standards (if any)	Current Year (1)	Current Year (2)
Products (with details) Unit Electricity Furnace Oil Coal Others	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 the previous year from the records maintained by the Company in accordance with the provisions of the Companies Act, 1956.		

(B) TECHNOLOGY ABSORPTION

FORM B

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

(a) RESEARCH AND DEVELOPMENT (R & D)

1. Specific Areas in which Research has been carried out by Company:

Pharma

The Pharma R & D center at Shirwane, Nerul, Navi Mumbai, is recognized by the Department of Scientific and Industrial Research. The R & D activities are carried out in various areas like pharmaceuticals, vitamin premixes, cosmetics and food products.

The research center is privileged to have access to the latest technologies developed by Merck KGaA, Germany.

Reduction in lead time with better utilization of resources has been achieved by an integrated approach in development of new processes and packing materials.

Evaluation of alternate raw materials meeting the regulatory requirements for improving the productivity is carried out continuously. With a view to achieve cost effectiveness, constant efforts are made to develop and improve existing ones by simplifying or modifying those.

Continuous efforts are made to make product more user friendly, more profitable and have better patient compliance.

To get market existence in shortest span of time, various new products are launched by selecting appropriate external P2P vendors complying to Merck quality standards and then internalization to improve product profitability.

2. Benefits derived as a result of above R & D:

As a result of continuous improvement and adaptation of technology, the Company was able to commercialize improved processes and yields, enhance quality and reduce costs, line extensions of existing products and original formulations were developed by using in-house R & D capabilities.

Products launched in year 2012 are:

1. Nasivion day and night tablets
2. Nasivion allergy tablets
3. Prenone tablets
4. Carbophage forte tablets
5. Dvion sachet
6. Neurobion forte RF injection

3. Future Plan of Action:

Launch of the following products is planned in year 2013:

1. Nasivion vaporub cream
2. Nasivion advanced
3. Starvog M tablets
4. Dvion capsules
5. Cerofene tablets
6. Ivabradine 5 mg tablets
7. Carbophage range – 4 products
8. Tolflex D tablets
9. Febuxostat tablets
10. Rabeprazole + Levosulpride tablets

Efforts will be made to develop innovative, commercially viable processes, know-how for various dosage forms and also for improving shelf life, stability, quality, convenience and meeting regulatory compliances.

4. Expenditure on R & D:

	(Rupees million)
Capital	10.7
Recurring	53.5
Total	64.2
Total R & D expenditure as a percentage of total turnover	0.97

Annexure to the Directors' Report

(b) TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

The R & D center carried out developmental activities in various areas such as import substitution for raw materials, batch cycle time reduction and also line extensions of some of the existing products, internalization of principle-to-principle products, alternate vendor development, technology transfer of existing products at new additional centers etc.

Apart from in-house capabilities, external consultancies are hired for some specific projects, if required.

The R & D center also, under guidance of Merck KGaA, Germany, makes endeavors to be up to date with quality systems and current good manufacturing practices.

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

(c) FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year, foreign exchange outgo was Rs. 1,895.6 million (which includes import of raw materials to the extent of Rs. 708.2 million) while the foreign exchange earned was Rs. 801.8 million, the details of which have been stated under note 35, 36, and 37 to the financial statements.The total exports during the year amounted to Rs. 729.8 million made up of Chemicals Rs. 483.2 million and Pharmaceuticals Rs. 246.6 million. Both the Pharmaceuticals and Chemicals segments will make efforts to exploit the opportunities that exist in the neighbouring and other regions of the world to expand the Company's presence in those locations.

On behalf of the Board of Directors

S. N. Talwar
Chairman

Mumbai, January 30, 2013

Annexure to the Directors' Report

Corporate Governance

(Report on Corporate Governance pursuant to Clause 49 of the Listing Agreements entered into with the Stock Exchanges)

Company's philosophy on Code of Governance:

Our Corporate culture has always been characterised by responsible behaviour whether with respect to our products, our employees, the environment or society. This is because not only ownership but also business success creates responsibility. Firmly establishing responsible behaviour throughout the Company is one of the basic principles of Company management at Merck. The Company strives to follow the best corporate governance practices, develop best policies/guidelines and communicate and train all its employees in order to foster a culture of compliance and acting responsibly at every level of the organization.

Board of Directors (the Board):

Board composition

The Company has the policy to have an optimal mix of executive and independent directors. Presently, the Board comprises of seven Directors of whom three (3) directors are Executive Directors, one (1) director is Non-Executive Director and three (3) directors are Independent Directors.

None of the Directors on the Board is a Member of more than ten committees and meets the requirements of Clause 49 of the Listing Agreement. Necessary disclosures have been made by the Directors in this regard.

The details of composition of the Board and summary of other Directorships and Board Committee Memberships of directors who hold the office of director of the Company during the financial year 2012 is as follows:

Name of the Director	*No. of Directorships	**No. of Committee memberships includes Chairmanships	**No. of Committee Chairmanships
Mr. S.N. Talwar [1]	43	7	3
Mr. H.C.H. Bhabha [1]	7	1	–
Mr. E.A. Kshirsagar [1]	11	8	5
Mr. Timothy Kneen [5]	–	–	–
Dr. M. Dziki [3, 6]	1	–	–
Mr. R.L. Shenoy [3, 5]	–	–	–
Mr. N. Krishnan [3, 7]	2	–	–
Mr. Pramod Pimplikar [3]	1	–	–
Dr. Claus D. Boedecker [3, 4]	2	–	–
Dr. Peter-Ulrich Mannheimer [2]	11	–	–

Notes:

* Includes directorships in private limited and foreign companies;

** excludes directorship and committee membership/chairmanship of Merck Ltd.

1. Non-Executive Independent Director.
2. Non-Executive Director and in terms of Article 110 of the Article of Association of the Company, Merck KGaA nominated him as director with effect from October 01, 2012.
3. Executive Director.
4. Appointed as Managing Director with effect from August 01, 2012.
5. Ceased to be a director of the Company with effect from September 30, 2012.
6. Term of his agreement expired on July 31, 2012.
7. Appointed as whole time director with effect from October 22, 2012.

Meetings and Attendance:

Meetings of the Board are scheduled well in advance. The Board meets at least once in a quarter inter alia to review the performance of the Company, status of compliance of laws and quarterly and annual financial results. Each time, a detailed agenda is prepared in consultation with the Chairman and the Managing Director.

During the year 2012, four Board Meetings were held on February 28, 2012, April 20, 2012, July 23, 2012 and October 22, 2012.

Attendance of directors at the board and shareholder meetings during the year 2012:

Name of the Director	Meetings held during the tenure of director during the year 2012	No. of Board Meetings attended	Attendance at the AGM (April 9, 2012)
Mr. S.N. Talwar	4	4	Yes
Mr. H.C.H. Bhabha	4	3	No
Mr. E.A. Kshirsagar	4	3	Yes
Mr. Timothy Kneen*	3	–	No
Dr. M. Dziki**	3	3	Yes
Mr. R.L. Shenoy***	3	3	Yes
Mr. N. Krishnan	1	1	NA
Mr Pramod Pimplikar	4	4	Yes
Dr. Claus D. Boedecker	1	1	NA
Dr. Peter-Ulrich Mannheimer	1	–	NA

* Appointed as director on October 20, 2010 and ceased to be a director from September 30, 2012.

** Appointed as a Managing Director on August 1, 2006 and ceased to hold the office effective from July 31, 2012.

*** Appointed as director on December 27, 1988 and ceased to be a director from September 30, 2012.

'NA' means not required to attend since they were not directors on the date of the shareholder meeting.

Board Committees

a. Audit Committee

Composition

Presently, the Audit Committee comprises of four Directors of whom three (3) are Independent Directors and the Managing Director. The committee is chaired by an Independent director.

Mr. S.N. Talwar – Chairman

Mr. H.C.H. Bhabha

Mr. E.A. Kshirsagar

Dr. Claus D. Boedecker – Managing Director

Meetings and Attendance:

During the year 2012 the Audit Committee held four meetings on February 28, 2012, April 20, 2012, July 23, 2012, and October 22, 2012.

Annexure to the Directors' Report

Attendance at the Audit Committee Meetings:

Name of the Director	Category of Director	No. of Committee Meetings held during tenure of director	No. of Committee Meetings attended
1. Mr. S.N. Talwar – Chairman	Non-Executive – Independent	4	4
2. Mr. H.C.H. Bhabha	Non-Executive – Independent	4	3
3. Mr. E.A. Kshirsagar	Non-Executive – Independent	4	3
4. Dr. M. Dziki – Managing Director*	Executive	3	3
5. Dr. Claus D. Boedecker**	Executive	1	1

* Term of agreement with him expired on July 31, 2012.

** Appointed as a Managing Director of the Company with effect from August 01, 2012.

The Audit Committee meetings are also attended by Director Finance, Internal Auditors, Statutory Auditors and Cost Auditors as invitees. The business and operational heads are also invited to the Meetings, as and when their presence is required. The Company Secretary acts as the Secretary of the Audit Committee.

Scope of the Audit Committee

The Committee functions according to the applicable provisions of the Companies Act, 1956 and other applicable statutes and the requirements under the Listing Agreements entered into with the Stock Exchanges.

(a) Reviewing the quarterly and annual financial statements before submission to the Board, focusing primarily on:
   - Any changes in accounting policies and practices and reasons for the change;
   - Major accounting entries involving estimates based on exercise of judgment by Management;
   - Significant adjustments arising out of audit findings;
   - The going concern assumption;
   - Compliance with Accounting Standards;
   - Analysis of the effects of alternative generally accepted accounting principles on the financial statements.

(b) Compliance with listing and other legal requirements concerning financial statements;

(c) Any related party transactions i.e. transactions of the Company of a material nature with the Management, subsidiaries or relatives etc., or any related party transaction, that may have a potential conflict with the interests of the Company at large or may not be in the normal course of business;

(d) Review of annual Management Discussion and Analysis of financial condition and results of operations and the Directors' Responsibility Statement;

(e) Overseeing the Company's financial reporting process and the disclosure of its financial information, including earnings and press release, to ensure that the financial statements are correct, sufficient and credible;

(f) Disclosures made under the CEO and CFO certification to the Board;

(g) Reviewing with the Management, Statutory Auditors and Internal Auditors, adequacy of internal control systems and recommending improvements to the Management;

(h) Recommending the appointment/removal of the Statutory Auditors, fixing audit fees, non-audit fees, evaluating Auditors performance, qualifications and independence;

(i) Reviewing the adequacy of internal audit function, coverage and frequency of internal audit, appointment, removal, performance and terms of remuneration of Internal Auditors;

(j) Discussing with the Internal Auditors and senior Management, significant internal audit findings and follow-up thereon;

(k) Reviewing the findings of any internal investigation by the Internal Auditors into matters involving suspected fraud or irregularity or a failure of internal control system of a material nature and report the matter to the Board;

(l) Discussing with the Statutory Auditors before the audit commences, the nature and scope of audit as well as conduct post-audit discussions to ascertain any area of concern;

(m) Reviewing the Company's financial and risk management policies;

(n) Reviewing the effectiveness of the system for monitoring compliance with laws and regulations.

The minutes of the Audit Committee meetings form part of the Board papers circulated for the Board Meetings. In addition, the Chairman of the Audit Committee briefs the Board about the significant discussions at the Audit Committee Meetings.

The Committee relies on the expertise and knowledge of the management, the Internal Auditors and the independent Statutory Auditors in carrying out its responsibilities. It also uses external expertise, if required. Management is responsible for the preparation, presentation and integrity of the Company's financial reporting principles. Management is also responsible for internal control over financial reporting and all procedures are designed to ensure compliance with Accounting

Annexure to the Directors' Report

Standards, applicable laws and regulations as well as for objectively reviewing and evaluating the adequacy, effectiveness and quality of the Company's system of internal control.

b. Shareholders'/Investors' Grievance Committee:

Composition

Presently the Shareholders'/Investors' Grievance Committee comprises of three (3) Directors of whom two are Executive Directors and one is Independent Director.

Mr. H.C.H. Bhabha – Chairman

Mr. N. Krishnan

Mr. Pramod Pimplikar

Meetings and Attendance:

The Committee held one Meeting on December 18, 2012.

Name of the Director	Category of Director	No. of Committee Meetings held during tenure of director	No. of Committee Meetings attended
1. Mr. H.C.H. Bhabha – Chairman	Non-Executive – Independent	1	1
2. Mr. N. Krishnan	Executive	1	1
3. Mr. Pramod Pimplikar	Executive	1	0

Scope of the Shareholders'/Investors' Grievance Committee

1. To look into the redressal of Shareholders' and Investors' complaints.
2. To oversee transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. by members.
3. To look into requests received for dematerialisation of shares.
4. To review total number of complaints received and replied to the satisfaction of shareholders.
5. To oversee the performance of the Registrar and Share Transfer Agents and recommends measures to improve investor services.

c. Special Committee for issuance of duplicate share certificates etc.

Composition

The board has constituted a Special Committee for the purposes of issuance of duplicate share certificates, rematerialization of shares. The committee comprises of two Independent directors, Mr. S.N Talwar and Mr. H.C.H. Bhabha. The special committee meeting is chaired by Mr. Talwar as an Independent director.

Mr. Vikas Gupta, Company Secretary is designated as Compliance Officer of the Company.

Meetings and Attendance:

Five Committee meetings were held during the year 2012, on April 9, 2012, June 25, 2012, August 27, 2012, October 22, 2012 and December 18, 2012.

Name of the Director	Category of Director	No. of Committee Meetings held during tenure of director	No. of Committee Meetings attended
1. Mr. S.N Talwar – Chairman	Non-Executive – Independent	5	5
2. Mr. H.C.H. Bhabha	Non-Executive – Independent	5	5

Scope of the Special Committee

To look into the requests received for issue of Duplicate share certificates on account of loss/ mutilated certificates.

1. To look into the requests received for rematerialisation of share certificates from the shareholders.
2. To issue share certificates upon consolidation or sub-division of shares of the Company.

Remuneration Committee:

The Board has not constituted a separate remuneration Committee, all matters relating to review and approval of compensation payable to the Executive and Non-Executive Directors are considered by the Board within the overall limits approved by the Members.

Code of Conduct:

The Board has laid down a Code of Conduct for all Directors and senior Management and all its employees. The Code of Conduct of the Company is also posted on the investor relation page of the company website www.merck.co.in. All employees have affirmed their compliance with the said Code. A declaration signed by the Managing Director to this effect is appended at the end of this Report.

CEO/CFO Certificate:

A Certificate from the Managing Director and Director - Finance on the integrity of the financial statements and other matters of the Company for the financial year ended December 31, 2012, was placed before the Board at its Meeting held on January 30, 2013.

Risk Management:

Merck has established an effective risk assessment and minimization procedure which is reviewed by the Board periodically. There is a structure in place to identify and mitigate various identifiable risks faced by the Company from time to time. At the Meetings of the Board, these

Annexure to the Directors' Report

risks are reviewed and new risks are identified. After assessment, controls are put in place with specific responsibility of the concerned officer of the Company.

Remuneration of Executive Directors:

The details of remuneration paid/payable to the Executive Directors for the year 2012 are given below:

Name of the Director	Salary	*Commission	**Company's contribution to Funds	Perquisites and allowances	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Dr. M. Dziki##	7,548,177	(46,172)	1,439,280	13,297,881	22,239,166
Mr. R.L. Shenoy#	4,648,990	2,060,000	918,750	995,940	8,623,680
Mr. Pramod Pimplikar	4,780,000	1,650,000	607,500	1,410,234	8,447,734
Mr. N. Krishnan$	1,613,640	600,000	63,750	302,774	2,580,164
Dr. Claus D. Boedecker$$	8,427,509	5,500,000	–	4,431,166	18,358,675

* Commission includes provision made in the financial statements, for payment to be made in 2012 and reversal of excess provision of 2011.
Commission includes provision made in financial statement for payment to be made in 2013 and is net of reversal/excess provision made in 2011.

** Aggregate of the Company's contribution to Superannuation Fund and Provident Fund.

Term of agreement with Dr. M. Dziki as a Managing Director had expired July 31, 2012

\# Ceased to be a Director on the Board with effect from September 30, 2012.

$ Appointed as a Whole-time director with effect from October 22, 2012. Total remuneration includes Rs. 1,690,452 for period 01-07-2012 to 22-10-2012.

$$ Appointed as a Managing Director with effect from August 01, 2012.

NOTES:

a. The Agreement with each of the Executive Directors is for a period of five years except in case of Dr. Claus D. Boedecker, Managing Director who has been appointed for a period three (3) years until July 31, 2015. The agreements with Executive Directors can be terminated by either party by giving a notice of six (6) months. The agreement with the Managing Director can be terminated by giving three months' notice.

b. Commission paid is based on certain pre-agreed performance parameters upon achievement of certain financial and operational indicators such as sales, profit etc.

c. The Company at present does not have a Scheme for grant of Stock Options to the Directors or Employees.

d. The above figures do not include charge for gratuity and leave encashment for the following reasons:
   i. The Company's liability in respect of gratuity and leave encashment has been valued by an Actuary.
   ii. The employee-wise breakup of the same is not available.

Remuneration of Non-Executive Directors:

The details of remuneration paid/payable to Non-Executive Directors for the year 2012 as approved by board are given below:

Name of the Director	Sitting fees (Rs.)	Commission (Rs.)
Mr. S.N. Talwar	260,000	770,000
Mr. H.C.H. Bhabha	240,000	550,000
Mr. E.A. Kshirsagar	120,000	550,000

Criteria for payment of remuneration to the Non-Executive Directors:

The remuneration to Non-Executive Directors comprises of sitting fees and variable commission. The criteria for payment of remuneration are time spent by the Non-Executive Directors at the Audit Committee and Board Meetings, and advice given by these Directors to the Management from time to time on strategic matters, etc., even outside the Board Meetings.

Report on shareholders' queries/grievances

At present, there are no pending legal cases wherein adverse claims are made against the Company. However, there are eight pending legal cases, in which name of the Company is included only to facilitate execution of the court order. A statement of the various complaints received and cleared by the Company during the last two years is given below:

	2012		2011	
	Received	Cleared	Received	Cleared
1. Non-receipt of share certificates duly transferred	-	-	1	1
2. Non-receipt of dividend warrants	2	2	5	5
3. Miscellaneous	–	–	–	–
4. Letters from SEBI/ Stock Exchanges and Department of Corporate Affairs	–	–	–	–

General Body Meetings held during last three years:

Year	Venue	Day and Date	Time
2009	Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Haji Ali, Mumbai 400 034.	Wednesday March 29, 2010	3.00 p.m.
2010	Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Haji Ali, Mumbai 400 034.	Tuesday March 29, 2011	3.00 p.m.
2011	Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Haji Ali, Mumbai 400 034.	Monday April 09, 2012	3.00 p.m.

All the Resolutions moved at the last Annual General Meeting were passed by show of hands by the requisite majority of Members attending the Meeting. The following Special Resolutions were passed at the previous three Annual General Meetings:

AGM held on	Whether special resolution passed	Summary
29.03.2010	No	
29.03.2011	No	
09.04.2012	No	

During the year 2012, no postal ballot voting process was carried out.

Disclosures:

There are no materially significant related party transactions between the Company and directors, the management or relatives except for those disclosed in the annual accounts for the year ended December 31, 2012.

The Audit Committee was briefed of the related party transactions undertaken by the Company in the ordinary course of business, material individual transactions which were not in the normal course of business and material individual transactions with related parties or others, which were not at arm's length basis together with Management's justification for the same.

Compliances:

The Company has complied with all the requirements including the provisions of Clause 49 of the Listing Agreements entered into with the Stock Exchanges as well as regulations and guidelines of the Securities and Exchange Board of India (SEBI). Consequently, no penalties were imposed or strictures passed against your Company by SEBI, Stock Exchanges or statutory

Annexure to the Directors' Report

authorities. The Company has complied with and adopted the mandatory requirements of the Corporate Governance Code. However, it has not adopted the following non-mandatory requirements of the Code which the Board may consider adopting in due course of time:

(i) Maintenance of the Chairman's office and tenure of Independent Directors.

(ii) Setting up of Remuneration Committee.

(iii) Communication of half yearly results to each household of Members – the Company publishes its results in leading newspapers and also posts the same on the Company's website.

(iv) Training of Directors – All the Directors have expertise in their areas of specialization.

(v) Mechanism for evaluating Non-Executive Directors.

(vi) Whistle Blower Policy. The Company has set up a Speak-up Line as initiated globally by Merck KGaA, Company's principal shareholders wherein an employee can air his/her grievance either through a dedicated website or telephone directly without disclosing his/her identity.

Financial Information to the Members:

The last year's audited accounts were announced by the Company within 60 days of closure of the financial year. The quarterly results during the year were announced well within 45 days of close of the fiscal quarter. The results are published in leading newspapers. The financial results, press releases and other major events/developments concerning the Company are also posted on the Company's website: www.merck.co.in.

On behalf of the Board of Directors

S. N. Talwar
Chairman

Mumbai, January 30, 2013

Annexure to the Directors' Report

General Shareholder Information

Annual General Meeting:

The Forty-sixth Annual General Meeting of the Members will be held on Friday, 15th March, 2013 at 3.00 p.m.

Venue	—	Mayfair Banquets - South Hall 254-C, Dr. Annie Besant Road, Worli, Mumbai-400 030		
Agenda	—	Ordinary Business:	(a)	Adoption of Accounts;
			(b)	Declaration of dividend,
			(c)	Re-appointment of Directors retiring by rotation and;
			(d)	Re-appointment of Auditors.
		Special Business:	(a)	Appointment of Dr. Claus-Dieter Boedecker as a director and Managing Director;
			(b)	Appointment of Mr. N. Krishnan as a director and Whole-Time Director;
			(c)	Approval of payment of Commission to Non-Executive Directors.

Company's financial year:

1st January to 31st December.

Calendar of Financial Results — 2013:

(i)	First Quarter Results	—	April, 2013
(ii)	Second Quarter Results	—	July, 2013
(iii)	Third Quarter Results	—	October, 2013
(iv)	Results for the year ending December 31, 2013	—	January, 2014

Book Closure:

The Company's Register of Members and Share Transfer Books will remain closed from March 09, 2013 to March 15, 2013 (both days inclusive)

Dividend:

The Board of Directors has recommended a dividend at the rate Rs. 2.50/- (Rupees two and fifty paisa) per equity share of the Company. This is subject to the approval of the Members at the ensuing Annual General Meeting.

Listing on Stock Exchange:

Bombay Stock Exchange (BSE) is the Regional Stock Exchange of the Company. The shares are also listed on the National Stock Exchange of India Limited (NSE).

The Stock Codes for the Company's equity shares are as follows:

NSE : MERCK

BSE : 500126

The ISIN number for the Company's equity shares in demat mode – INE199A01012.

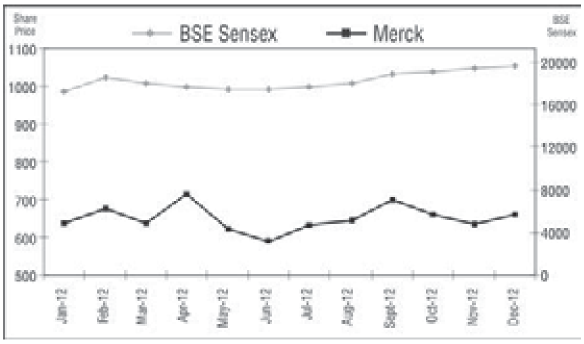
Share Price Information on NSE and BSE for the year 2012:

Month	BSE			NSE		
Year : 2012	High	Low	Volume	High	Low	Volume
January	635.00	585.05	19,034	632.90	592.15	85,280
February	675.70	613.15	32,649	680.05	612.05	78,572
March	635.00	593.00	37,674	658.20	592.05	64,197
April	714.20	585.10	178,919	712.95	600.05	317,814
May	620.00	558.00	34,834	625.00	557.05	56,524
June	586.85	555.00	74,190	598.75	555.00	46,583
July	630.00	572.05	164,112	629.00	574.10	351,302
August	643.30	604.00	38,711	642.40	606.75	114,384
September	699.00	605.00	115,055	698.00	621.45	191,012
October	660.00	602.00	41,103	660.00	612.35	70,744
November	634.95	588.10	34,416	677.65	590.00	48,437
December	660.00	629.90	30,758	660.00	611.95	67,615

Closing share price of the Company on NSE as on December 31, 2012: Rs. 650.65

Closing share price of the Company on BSE as on December 31, 2012: Rs. 650.05

Merck share price movement (in Rs.) viz-a-viz SENSEX (2012):



Name and Address of the Registrar and Share Transfer Agents:

Sharepro Services (India) Private Ltd.
13 AB, Samhita Warehousing Complex
2nd Floor, Sakinaka Telephone Exchange Lane
Andheri-Kurla Road, Sakinaka
Mumbai-400 072
Phone: 022-67720300 / 022-67720314

Transfer System:

Transfer of shares held in physical mode is processed by Sharepro Services and approved by the Share Transfer Committee. Transfer of shares is effected and share certificates are dispatched within a period of 15 days from the date of receipt of relevant documents, provided they are complete in all respects.

Annexure to the Directors' Report

During the year, the Share Transfer Committee of the Company met at fortnightly intervals for approval of share transfers and other related matters.

Total number of shares transferred during the last two calendar years was as follows:

Particulars	2012	2011
Number of transfers	37	56
Number of shares processed	2,962	4,810

The average time for processing of share transfers including dispatch of share certificates was less than 21 days, if the relevant documents were complete in all respects. The time taken to process dematerialization of shares was less than 15 days.

As on December 31, 2012, no request for transfer of shares was pending.

Dematerialization of shares:

The Company has entered into Agreements with NSDL and CDSL for dematerialization of shares. As on December 31, 2012, a total of 16,122,532 shares of the Company which forms 97.13 % of the paid-up share capital of the Company stands dematerialized.

Distribution of shareholding as on December 31, 2012

Range	No. of Shareholders	% to total shareholders	No. of shares held	% to total to paid up capital
1 – 500	25,935	96.58	2,161,448	13.02
501 – 1,000	502	1.87	371,798	2.24
1,001 – 5,000	335	1.24	677,104	4.08
5,001 – 10,000	41	0.15	298,845	1.80
10,001 and above	44	0.16	13,090,187	78.86
Total	26,857	100.00	16,599,382	100.00

Shareholders' profile as on December 31, 2012:

Category Of Shareholders	No. of Shares	% to total paid up capital
Promoters/Foreign Collaborators	8,599,224	51.80
Banks	2,589	0.01
Financial Institutions	245	0.00
FII	759,399	4.58
Insurance Companies	1,695,074	10.21
Mutual Funds	1,216,474	7.33
Domestic Companies	499,499	3.01
Non Resident Indians	97,065	0.58
Directors & Relatives	202,250	1.22
Others	3,527,563	21.26
Total	16,599,382	100.00

Shares held by Non-Executive Directors of the Company as on December 31, 2012:

Mr. S.N. Talwar	:	5,914
Mr. H.C.H. Bhabha	:	37,156
Mr. E.A. Kshirsagar	:	Nil
Dr. Peter-Ulrich Mannheimer	:	Nil

Insider Trading Regulations:

Mr. Vikas Gupta, General Counsel & Company Secretary is the Compliance Officer of the Company under the "Code for Prevention of Insider Trading". He is responsible for the adherence of the Code by the Company and its designated employees. The Company also adheres to the disclosure practices for prevention of insider trading as specified in the SEBI (Prohibition of Insider Trading) Regulations, 1992.

Plant Location:

No. 11/1 Usgaon,
Ponda,Goa-403 407
Phone : 0832-6614101

Investor Relations Department:

For the convenience of the Investors, transfer requests and other related issues are also handled in the Secretarial department at the Registered Office.
Email: investorgrievances@merckgroup.com

Registered Office Address:

Shiv Sagar Estate 'A'
Dr. Annie Besant Road
Worli, Mumbai-400 018

Contact Person:

Mr. Vikas Gupta, General Councel & Company Secretary
Phone : 022-66609111/66609000
Fax : 022-24950307
Email : vikas.r.gupta@merckgroup.com

On behalf of the Board of Directors

S. N. Talwar
Chairman

Mumbai, January 30, 2013

Annexure to the Directors' Report

DECLARATION BY MANAGING DIRECTOR OF COMPLIANCE WITH THE CODE OF CONDUCT POLICY

As provided under Clause 49 of the Listing Agreements with the Stock Exchanges, the Board Members and the Senior Management Personnel have affirmed compliance with the Code of Conduct for the period ended December 31, 2012.

For Merck Limited

Dr. Claus-Dieter Boedecker
Managing Director

Mumbai
January 30, 2013

CERTIFICATE OF COMPLIANCE WITH THE CORPORATE GOVERNANCE REQUIREMENTS
UNDER CLAUSE 49 OF THE LISTING AGREEMENT

To the Members of Merck Limited

We have examined the compliance of conditions of Corporate Governance by Merck Limited ("the Company") for the year ended on December 31, 2012, as stipulated in Clause 49 of the Listing Agreements entered into by the Company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion, and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreements.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the Management has conducted the affairs of the Company.

For B S R & Co.
Chartered Accountants
Firm's Registration No.: 101248W

Bhavesh Dhupelia
Partner
Membership No.: 042070

Mumbai
January 30, 2013

Annexure to the Directors' Report

Management Discussion and Analysis Report

As against the earlier estimate of 7%, the Indian economy is expected to scale down to 6%, the slowest in the last decade. Fiscal deficit is targeted to be at 5% of GDP, a consequence of reduction in fuel subsidies. The asset quality of banks and inflation remain a cause of concern. All this is in the backdrop of weak Rupee, waiting for softening of interest rates and investment grading risk. With continued policy reforms and measures, along with constructive global economic indicators, the Indian economic growth rates could see a revival.

The following table exhibits, in summary, the financial performance of the Company for year 2012.

Key Parameters	2012	2011
Turnover (Rs. million)	6,580.7	5,575.7
Profit After Tax (Rs. million)	784.0	636.8
Profit After Tax to Turnover (%)	11.9	11.4
Sales to Fixed Assets employed (ratio)	8.6	7.7
Current Assets (ratio)*	4.7	5.0
Return on capital employed (%)	16.2	15.5
Book value of shares (Rs.)	291	247

* 2011 re-calculated as per revised Schedule VI

The profit after tax for year 2012 increased by 23% over previous year, as against 17% rise in total revenue. This positive profit growth was due to successful containment of other operating costs, despite the pressures of higher inputs costs and exchange fluctuation.

As you are aware, the Company in year 2011 had reversed the impairment loss relating to the Oxynex assets at Goa, since being successful in putting the plant to alternate use and generating cash flow. Accordingly, the profit excluding impairment, as per cent to revenue from operations, improved in year 2012 vis-a-vis year 2011, by 3% points.

The Company's revenue across two main segments, namely Pharmaceuticals and Chemicals, is split in the ratio of 66 : 34. Various Regulatory controls and pricing legislations continue to challenge both the segments. The adverse foreign exchange fluctuation, higher input cost of materials and inflation continue to exert pressure on the margins of the Company.

The analysis of the two segments is briefly stated below.

Pharmaceuticals Segment:

The Pharmaceuticals Segment has two Business Divisions, namely Merck Serono and Consumer Health Care. The performances for the two Business Divisions are highlighted below.

Merck Serono:

Merck Serono division accounted for 60% of the Total Company's turnover, registering a growth of 15% over year 2011. The time tested brands of *Neurobion, Polybion, Evion, Livogen* and *Concor* continued their contribution to the sales growth of the Merck Serono Division, each recording double digit, above market growth vis-a-vis 2011.

Concor continues to attain double digit growth (27% in year 2012), through therapeutic thrust and focus, consequent to set up of a dedicated sales and marketing team in year 2009. Concor has scaled up from 14th position to be the 6th position in the Beta-blocker therapeutic segment.

Carbophage, a Metformin from the house of the original discovery of Merck Group, continued the double digit growth (61% in year 2012) and is now the 10th position in the Anti Diabetic therapeutic segment.

In the haematinic therapeutic segment, *Livogen* has registered 21% growth over year 2011, and continues to retain the Number 1 prescribed rank in India *(Source: CMARK '12)*. The setting up of the Women's Health business field in year 2012, had enabled further focus on the iron supplement market, which rejuvenated the brand performance, particularly with gynaecologists.

Merck Serono division continues to emphasise the spread of field force across the country, optimizing structure for efficient coverage in the major metros and through improved penetration in rural areas. The division aims to continue their penetration into the rural areas with the core legacy brands of *Neurobion, Polybion* and *Evion* and to manage life cycle management with new product launches. The division will continue to focus on more specialist areas such as Cardio-Diabetic and Women's Health, while driving efficient growth in General Medicines.

Consumer Health Care Division:

Consumer Health Care division accounted for 8% of the Total Company's turnover, registering a growth of 12% over year 2011.

The Consumer Health Care division channels its sales focus via the global health themes – (a) Cough and Cold, (b) Every Day Health Protection, (c) Women's and Children's Health (d) Mobility.

Annexure to the Directors' Report

Consumer Health Care division is amongst Top 5 consumer marketing companies in its covered markets. The main segment for the division is 'Cough & Cold', with lead brand of *'Nasivion',* which has lead products in Nasal Sprays. The market growth for the brand was 20% (MAT Nov.'12) vis-a-vis previous year and has maintained its No. 2 position in the nasal market *(Source: IMS Nov. 2012)*. *Nasivion* plans bold launches into larger sub-categories of 'Cold', with line extensions in oral solids for Allergy & Cold Solids tablets.

Everyday Health Protection, Women & Children Health is being represented by the iconic brand 'Seven Seas'. Post the transition of the brand into the portfolio, it has performed well and has captured 45% of market share in year 2012 *(Source: IMS Nov 2012)*. In addition, the Oral Rehydration Salt brand *Electrobion,* had a solid growth of 14% in year 2012.

The division aims to gain further growth by adding further line extensions on brand *Nasivion* and *Seven Seas,* and leveraging on the local and global R&D capabilities.

Pharma Exports:

With Merck Group prevalent in more than 67 countries worldwide, the opportunity to export remains rather limited. However, the Company exports to some Asian and African countries, the major being Sri Lanka, Nepal, Myanmar, Lebanon, Tanzania, Kenya and Libya, among others. Pharma exports grew by 22% in the year 2012 and contributed 6% to total Pharma Segment sales. The major growth came from African region.

Production:

The production requirement of the Pharma segment is catered through the Company's own facility at Goa and various toll manufactured units. The Toll units are under regular supervision in regard to the manufacturing standards. The Goa unit is fully utilised and goes through self regulated productivity efficiency programs. The facility has made good progress in enabling reduction of fuel costs, despite increase in the production volumes.

Chemicals Segment:

The Chemicals segment sales turnover grew by 26% in year 2012, to achieve Rs. 2,124 million as against Rs. 1,682 million in year 2011. The Chemical segment comprises of two divisions: i.e. Pharm Chem Solutions and Performance Materials.

Pharm Chem Solutions:

The Pharm Chem Solutions division, as evident from the name, offers products and solutions for Pharma and BioPharma industry. Products mainly comprise of Active Pharmaceutical ingredients, High quality Excipients and Bio-pharmaceuticals.

The division's bulk drug products like Vitamin E, Guaizulene, Thaimine DiSulphide (TDS) are manufactured at Goa. The company has exited the status of Export Oriented Unit for all the Bulk Drugs manufactured at Goa.

Goa plant is fully utilised towards the manufacture of Vitamin E and TDS. The capacity for Vitamin E may be expanded in year 2013 in case of increased demand.

The sales and marketing team has been successful in securing volume growth in line with the Pharma industry. As well, the ability to provide advice regarding regulatory compliance has ensured customers treating Merck as continued trusted partner in their growing business.

Performance Materials:

The Performance Materials Division consists of two segments, namely, Pigments and Cosmetic actives.

In the backdrop of sluggish automotive industry performance, average industrial growth in the economy and stiff competition from local competition, the sales and marketing team of Pigments business put in excellent efforts in customer intimacy, to ensure application support in their end products. This enabled the Pigments segment to register healthy double digit growth over year 2011. The Oxynex business also had good growth in year 2012, and is supported by Goa, which is operating at full capacity.

Internal Controls:

The Company has adequate internal control system to ensure safeguard of its assets that are protected against loss of unauthorised use and improper handling. The Company is subject to exhaustive budgetary and costing process, as well monitoring and audit by Merck KGaA, Germany, at regular intervals. Additionally, in order to supplement the internal control process, the company has engaged the services of an able and reputed firm, M/s. Aneja Associates, who are authorised by the Audit Committee to assess the adequacy and compliance of internal control process, statutory requirements, etc. Audit Committee finalises the areas of Audit and their schedule, discuss the findings of the audit, and directs the company to set up applicable control measures.

Risk Management:

Business Related Risks:

The changed demand development of the Company's products, positively or negatively, due to changed

Annexure to the Directors' Report

customer behaviour, economic forces, input material availability, composition of legacy brands sales to turnover, span of products under price control, ability to roll out successful new products / line extensions / product applications, employee talent management, availability of able employees etc. could affect the Company's performances. The Company, in the course of portfolio management, regularly evaluates and if necessary, refocuses.

Inability of the Company to command for sale price rise on account of inflationary effects on the input materials, utilities, rising wage costs and overheads etc., could erode margins. Given that large proportion of the Company's turnover is under price control by the government regulations on Pharma pricing, majority of the products faced inability to raise sales price, despite cost rises. The Company constantly engages in cost reduction measures and also by launching products out of price control by government.

The Company imports from Europe, US and South East Asia are subject to foreign exchange fluctuations, which impact the input prices. The Company's principals offer advice on the hedging of the risks at regular intervals.

Legal Risks:

The Company's business is a regulated one and is governed by various statutes of the Government. Changes in the statutes and the compliance of the same is both time consuming and sometimes difficult. While in the case of Pharmaceuticals business, pricing norms set by the Government and FDA related legislation, are to be adhered to, in the case of Chemicals business, the registration processes of certain imports create lot of hassles, delay and loss of business.

Third Party dependence Risks:

The Company uses third party support in regard to manufacturing and distribution of the goods of its products. These parties have access to the Company's assets and business process. The Company uses internal control and audit measures to safe guard itself against any adverse events. However, business interruptions could happen, in case of untoward events taking place.

Information Technology Risks:

These are software related precautions like handling of data integrity, access rights, virus firewalls, data protection, etc. Merck Group guidelines and processes are in place and their adherence is continuously monitored and subject to global audits at regular intervals.

Environment and Safety Risks:

The Company's own manufacturing as well as toll units, along with the distribution facilities, are subject to environmental and safety risks. The Company is adhering to the local legislation on environment protection and is supported by Group guidelines and audits at regular intervals, to ensure safety standards are put in place to safeguard people, environment and products.

Human Resource Initiative:

The Company had 1,277 employees as on 31st December 2012, as against 1,257 employee as in previous year on the same day. The Company has various Human Resource initiatives in place designed to ensure that Merck employees continue to be productive, efficient, and believe the Company to be a great place to work and build a career. Such initiatives include employer branding, employee engagement, talent management, succession planning, work/life balance, development opportunities, training and counselling.

Human Resource initiatives are also in place to drive and emphasise the Merck values: Integrity, Transparency, Courage, Responsibility, Respect and Achievement.

The Company has a Reward and Recognition programme designed to safeguard against attrition, develop leaders and build a talent pipeline. The Company has cordial relations with employees at all levels.

Outlook:

The Company has well balanced portfolio in Pharmaceuticals and Chemicals and growth achievement in line with the Industry. With renewed rigour in implementing economic policies and pricing regulation, the Company looks forward for further excelling the business results.

By Order of the Board of Directors

S. N. Talwar
Chairman

Mumbai, January 30, 2013

Auditors' Report
To the Members of Merck Limited

We have audited the attached balance sheet of Merck Limited ('the Company') as at 31 December 2012 and the related statement of profit and loss and the cash flow statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditor's Report) Order, 2003 ('the Order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 ('the Act'), we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to above, we report that:

(a) we have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purposes of our audit;

(b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

(c) the balance sheet, the statement of profit and loss and the cash flow statement dealt with by this report are in agreement with the books of account;

(d) in our opinion, the balance sheet, the statement of profit and loss and the cash flow statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Act;

(e) on the basis of written representations received from directors of the Company as at 31 December 2012 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 December 2012 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act; and

(f) in our opinion, and to the best of our information and according to the explanations given to us, the said financial statements give the information required by the Act, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

    (i) in case of the balance sheet, of the state of affairs of the Company as at 31 December 2012;

    (ii) in case of the statement of profit and loss, of the profit of the Company for the year ended on that date; and

    (iii) in case of the cash flow statement, of the cash flows of the Company for the year ended on that date.

For B S R & Co.
Chartered Accountants
Firm's Registration No. 101248W

Bhavesh Dhupelia
Partner
Membership No.: 042070

Mumbai
30 January 2013

Annexure to the Auditors' Report – 31 December 2012

(Referred to in our report of even date)

(i) (a) The Company has maintained proper records showing full particulars, including, quantitative details and situation of fixed assets.

(b) The fixed assets have been physically verified by the Management during the year in line with its policy of verifying them annually. In our opinion, the periodicity of the physical verification of fixed assets is reasonable. According to the explanations given to us, the discrepancies noticed on physical verification of fixed assets were not material and these have been properly dealt with in the books of account.

(c) Fixed assets disposed off during the year were not substantial, and do not affect the going concern assumption.

(ii) (a) The inventory, except goods-in-transit and stocks lying with third parties, has been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable. For stocks lying with third parties at the year end, written confirmations have been obtained.

(b) The procedures for physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

(c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.

(iii) (a) The Company has granted loan to a company covered in the register maintained under Section 301 of the Act. The maximum amount outstanding during the year was Rs 284.8 million and the year-end balance of such loans was Rs Nil. The Company has not granted any loans, secured or unsecured, to firms or other parties covered under Section 301 of the Act.

(b) In our opinion, the rate of interest and other terms and conditions on which loans have been granted to the aforesaid company listed in the register maintained under Section 301 of the Act are not, prima facie, prejudicial to the interests of the Company.

(c) In the case of loans granted to a company listed in the register maintained under Section 301, the borrower has been regular in repaying the principal amounts as stipulated and in the payment of interest.

(d) There is no overdue amount in excess of Rupees one lakh in respect of the loans granted to the company covered in the register maintained under Section 301 of the Act.

(e) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, paragraph 4(iii)(e), (f) and (g) of the Order is not applicable to the Company.

(iv) In our opinion and according to the information and explanations given to us, and having regard to the explanation that purchases of certain items of inventories and fixed assets are for the Company's specialised requirements and suitable alternative sources are not available to obtain comparable quotations and similarly sale of certain services are for the buyers' specialised requirements and suitable alternative sources are not available to obtain comparable quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventories and fixed assets and sale of goods and services. We have not observed any major weakness in the internal control system during the course of the audit.

(v) (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that section.

(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred to in (a) above and exceeding the value of Rs 5 lakh with any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time, except for purchases of inventories and fixed assets and sale of services of a special nature, for which suitable alternative sources are not available to obtain comparable quotations. However, in our opinion and on the basis of information and explanations provided, the same appear reasonable.

(vi) The Company has not accepted any deposits from the public during the year.

(vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

(viii) We have broadly reviewed the books of account maintained by the Company pursuant to the rules prescribed by the Central Government for maintenance of cost records under Section 209(1)(d) of the Act and are of the opinion that prima facie, the prescribed accounts and records have been

Annexure to the Auditors' Report – 31 December 2012 (continued)

made and maintained. However, we have not made a detailed examination of the records.

(ix) (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Service tax, Customs duty, Excise duty, and other material statutory dues have been generally regularly deposited during the year by the Company with the appropriate authorities. There are no arrears of undisputed statutory dues as at 31 December 2012 outstanding for a period of more than six months from the date they became payable. As explained to us, the Company did not have any dues on account of Investor Education and Protection Fund.

(b) According to the information and explanations given to us, there are no dues of Wealth tax and Service tax which have not been deposited with appropriate authorities on account of any disputes.

According to the information and explanations given to us, the dues of Income-tax, Sales-tax, Customs duty and Excise duty, as listed in Appendix 1 have not been deposited by the Company on account of disputes.

(x) The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the current financial year and in the immediately preceding financial year.

(xi) The Company did not have any outstanding dues to any financial institution, banks or debenture-holders during the year.

(xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi / mutual benefit fund / society.

(xiv) According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.

(xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.

(xvi) The Company did not have any term loans outstanding during the year.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we are of the opinion that the funds raised on short-term basis have not been used for long-term investment.

(xviii) The Company has not made any preferential allotment of shares during the year.

(xix) The Company did not have any outstanding debentures during the year.

(xx) The Company has not raised any money by public issues during the year.

(xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For B S R & Co.
Chartered Accountants
Firm's Registration No.: 101248W

Bhavesh Dhupelia
Partner
Membership No.: 042070

Mumbai
30 January 2013

Annexure to the Auditors' Report – 31 December 2012 (continued)

Appendix 1 as referred to in Paragraph ix(b) of the Annexure to the Auditors' Report

Name of the statute	Nature of the dues	Amount (Rs in million)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Tax and penalty	1.2	Assessment year 1986-87	High Court
		36.5	Assessment year 1998-99, 1999-00, 2000-01, 2001-02, 2002-03 and 2003-04	Income Tax Appellate Tribunal
		9.2	Assessment year 2004-05	Income Tax Appellate Tribunal
		0.3	Assessment year 2005-06	Commissioner of Income Tax (Appeals)
		94.3	Assessment year 2006-07	Income Tax Appellate Tribunal
		320.5	Assessment year 2007-08	Income Tax Appellate Tribunal
		23.2	Assessment year 2008-09	Commissioner of Income Tax (Appeals)
		13.8	Assessment year 2009-10	Commissioner of Income Tax (Appeals)
Local State Sales Tax Act and Central Sales Tax Act, 1956	Tax and penalty	0.3	1994-95, 1995-96, 1998-99	Appellate Assistant Commissioner
		6.0	2001-02, 2003-04	Deputy Commissioner (Appeals)
		1.0	2003-04, 2005-06	Assistant Commissioner
		1.1	2006-07	Deputy Commissioner
		6.8	2007-08	Deputy Commissioner
		16.9	2008-09	Joint Commissioner
Central Excise Act, 1944	Duty and penalty	0.1	1994-97, 2003-04	Deputy Commissioner (Appeals)
		0.5	1998-99	Joint Commissioner
		0.3	2005-06	Commissioner (Appeals)
		4.8	1996-2006	Customs Excise & Service tax Appellate Tribunal ("CESTAT")
		0.1	2007-09	Assistant Commissioner
Customs Act, 1962	Duty	1.3	2006-07	CESTAT

Balance Sheet as at 31 December 2012

Currency: Rupees million

	Note	2012	2011
EQUITY AND LIABILITIES			
Shareholders' funds			
Share capital	3	166.0	166.0
Reserves and surplus	4	4,670.6	3,934.8
		4,836.6	4,100.8
Non-current liabilities			
Deferred tax liabilities (net)	5	7.2	8.4
Long-term provisions	6	128.2	122.2
		135.4	130.6
Current liabilities			
Trade payables	7	408.6	290.7
Other current liabilities	8	371.2	356.9
Short-term provisions	6	190.9	117.2
		970.7	764.8
		5,942.7	4,996.2
ASSETS			
Non-current assets			
Fixed assets	9		
Tangible fixed assets		750.2	712.6
Intangible fixed assets		1.3	2.4
Capital work-in-progress		17.5	4.3
Long-term loans and advances	10	588.8	483.3
		1,357.8	1,202.6
Current assets			
Current investments	11	236.4	227.4
Inventories	12	1,309.6	1,130.9
Trade receivables	13	644.2	621.8
Cash and bank balances	14	1,929.8	1,132.8
Short-term loans and advances	10	398.5	646.5
Other current assets	15	66.4	34.2
		4,584.9	3,793.6
		5,942.7	4,996.2
Significant accounting policies	2		
Notes to financial statements	23-43		

The notes referred to above form an integral part of the financial statements.

As per our report of even date attached

For B S R & Co.
Chartered Accountants
Firm Registration No. 101248W

Bhavesh Dhupelia
Partner
Membership No.: 042070

Mumbai, 30 January, 2013

Vikas R. Gupta
Company Secretary

For and on behalf of the Board of Directors

S. N. Talwar — Chairman

C. Boedecker — Managing Director

H. C. H. Bhabha
E. A. Kshirsagar
N. Krishnan
P. H. Pimplikar
} Directors

Statement of Profit and Loss for the year ended 31 December 2012

Currency: Rupees million

	Note	2012	2011
REVENUE FROM OPERATIONS	16		
Sale of products (gross)			
Finished products		5,225.3	4,416.1
Traded products		1,582.0	1,328.0
Less: Excise duty		226.6	168.4
Sale of products (net)		6,580.7	5,575.7
Other operating revenues		292.1	320.0
		6,872.8	5,895.7
OTHER INCOME	17	202.0	168.8
		7,074.8	6,064.5
EXPENSES			
Cost of materials consumed	18	1,794.4	1,695.4
Purchases of stock-in-trade	19	1,160.9	1,131.9
Changes in inventories of finished goods, work-in-progress and stock-in-trade	20	34.9	(399.5)
Employee benefits	21	853.0	811.0
Depreciation and amortisation	9	89.0	79.5
Impairment loss (reversal)	9	–	(142.8)
Other expenses	22	1,974.7	1,933.1
		5,906.9	5,108.6
Profit before tax		1,167.9	955.9
Income tax expense			
Current tax		385.0	276.0
Deferred tax (credit)/charge		(1.1)	43.1
Profit after tax		784.0	636.8
Earnings per equity share [nominal value of share Rupees 10 each]	39		
Basic		47.2	38.4
Diluted		47.2	38.4
Significant accounting policies	2		
Notes to financial statements	23-43		

The notes referred to above form an integral part of the financial statements.

As per our report of even date attached

For B S R & Co.
Chartered Accountants
Firm Registration No. 101248W

Bhavesh Dhupelia
Partner
Membership No.: 042070

Mumbai, 30 January, 2013

Vikas R. Gupta
Company Secretary

For and on behalf of the Board of Directors

S. N. Talwar	Chairman
C. Boedecker	Managing Director
H. C. H. Bhabha	Directors
E. A. Kshirsagar	Directors
N. Krishnan	Directors
P. H. Pimplikar	Directors

Cash Flow Statement for the year ended 31 December 2012

Currency: Rupees million

			2012		2011
A. Cash flow from operating activities:					
Net Profit before taxation and exceptional items			1,167.9		955.9
Adjustments for:					
Depreciation/Amortisation		89.0		79.5	
Impairment loss (reversal)		–		(142.8)	
Profit on Sale of Current Investments, Net		*		*	
Loss/(Profit) on sale of fixed assets (net)		0.6		(0.4)	
Unrealised foreign exchange differences		2.1		(3.8)	
Dividend received on investments		(20.3)		(18.8)	
Interest income		(165.1)		(137.6)	
Provision for doubtful trade receivables		11.8		8.0	
(Write back)/Provision for employee benefits		(28.5)		19.8	
Provision for write down of Inventories		27.4	(83.0)	11.7	(184.4)
Operating cash flow before working capital changes			1,084.9		771.5
Adjustments for:					
(Increase) in Trade Receivables		(36.6)		(64.4)	
(Increase)/Decrease in Loans and Advances		(53.0)		286.3	
(Increase) in Inventories		(206.1)		(531.4)	
Increase in Liabilities and Provisions		151.7	(144.0)	30.4	(279.1)
Cash generated from operations			940.9		492.4
Income tax paid (Net of refunds)		(398.3)	(398.3)	(304.5)	(304.5)
Net cash generated from operating activities	(A)		542.6		187.9
B. Cash flow from investing activities:					
Purchase of fixed assets (including addition to capital work-in-progress)		(136.1)		(150.6)	
Sale of fixed assets		1.5		1.5	
Interest received		132.9		138.4	
Dividend received on investments		20.3		18.8	
Purchase of investments		(7,319.9)		(5,667.6)	
Loan recovered/(given), (net)		244.8		(464.8)	
Sale of investments		7,310.9		5,642.0	
Bank deposits (having original maturity of more than three months), (net)		(1,072.6)		391.5	
Net cash (used) in investing activities	(B)		(818.2)		(90.8)
C. Cash flow from financing activities:					
Payment for buy-back of share (including premium and expenses)			–		(0.2)
Net cash (used) in financing activities	(C)		–		(0.2)
Net (decrease)/increase in cash and cash equivalents	(A + B + C)		(275.6)		96.9
Cash and cash equivalents at the beginning of the year (see note below)			314.6		217.7
Cash and cash equivalents at the end of the year (see note below)			39.0		314.6
NOTES TO THE CASH FLOW STATEMENT					
1. Cash and cash equivalents includes					
– Cash balance			0.1		0.1
– Bank balances in current accounts			38.9		41.0
– Bank balances in deposit accounts (maturity less than 3 month)			–		273.5
			39.0		314.6

2. Unpaid dividend of Rs. 13.7 million (2011: Rs. 15.0 million), included in bank balances, is not available for use by the Company.
3. The cash flow statement has been prepared under the indirect method as set out in Accounting Standard-3 on cash flow statement prescribed in the Companies (Accounting Standard) Rules, 2006.

As per our report of even date attached

For B S R & Co.
Chartered Accountants
Firm Registration No. 101248W

Bhavesh Dhupelia
Partner
Membership No.: 042070

Mumbai, 30 January, 2013

Vikas R. Gupta
Company Secretary

For and on behalf of the Board of Directors

S. N. Talwar — Chairman

C. Boedecker — Managing Director

H. C. H. Bhabha
E. A. Kshirsagar
N. Krishnan
P. H. Pimplikar
} Directors

Notes to the Financial Statements

as at 31 December 2012 Currency: Rupees million

1. COMPANY OVERVIEW

Merck Limited ('the Company') is a public company domiciled in India. It is incorporated under the Companies Act, 1956 and its shares are listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). The Company is primarily engaged in manufacturing and marketing of pharmaceuticals, bulk drugs, fine chemicals and pigments. The Company is organized in two major divisions – Pharmaceuticals and Chemicals.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements.

(a) Basis of preparation of financial statements:

These financial statements have been prepared and presented on the accrual basis of accounting and comply with the Accounting Standards prescribed in the Companies (Accounting Standards) Rules, 2006 issued by the Central Government, the relevant provisions of the Companies Act, 1956 and other accounting principles generally accepted in India, to the extent applicable. The financial statements are presented in millions of Indian Rupees and rounded off to one decimal unless otherwise stated. Figures below Rupees 50,000 are disclosed by '*'.

This is the first year of application of the revised Schedule VI to the Companies Act, 1956 for the preparation of the financial statements of the Company. The revised Schedule VI introduces some significant conceptual changes as well as new disclosures. These include classification of all assets and liabilities into current and non-current. The previous year figures have also undergone a major reclassification to comply with the requirements of the revised Schedule VI.

(b) Use of estimates:

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses and the disclosure of contingent liabilities on the date of financial statements. Management believes that the estimates made in the preparation of the financial statements are prudent and reasonable. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognized prospectively in current and future periods.

(c) Current-non-current classification:

All assets and liabilities are classified into current and non-current.

Assets

An asset is classified as current when it satisfies any of the following criteria:

(a) it is expected to be realised in, or is intended for sale or consumption in, the company's normal operating cycle;
(b) it is held primarily for the purpose of being traded;
(c) it is expected to be realised within 12 months after the reporting date; or
(d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

Current assets include the current portion of non-current financial assets.

All other assets are classified as non-current.

Liabilities

A liability is classified as current when it satisfies any of the following criteria:

(a) it is expected to be settled in the company's normal operating cycle;
(b) it is held primarily for the purpose of being traded;
(c) it is due to be settled within 12 months after the reporting date; or
(d) the company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current liabilities include current portion of non-current financial liabilities.

All other liabilities are classified as non-current.

Operating cycle

Operating cycle is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents.

(d) Fixed assets and depreciation/amortisation:

Tangible fixed assets:

Tangible fixed assets are carried at cost of acquisition or construction less accumulated depreciation and/or accumulated impairment loss, if any. The cost of an item of tangible fixed asset comprises its purchase price, including import duties and other non-refundable taxes or levies and any directly attributable cost of bringing the asset to its working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price.

Subsequent expenditures related to an item of tangible fixed asset are added to its book value only if they increase the future benefits from the existing asset beyond its previously assessed standard of performance. Tangible asset is derecognised on disposal or when no future economic benefits are expected from its use and disposal.

Tangible fixed assets under construction are disclosed as capital work in progress.

Losses arising from retirement and gains or losses arising from disposal of an tangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit and loss.

Intangible fixed assets:

Intangible assets that are acquired by the Company are measured initially at cost. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment loss.

Subsequent expenditure is capitalised only when it increases the future economic benefits from the specific asset to which it relates. An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and disposal.

Losses arising from retirement and gains or losses arising from disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit and loss.

Depreciation/amortisation:

Depreciation is provided on straight line method over the estimated useful life of each asset as determined by the management. The rates of depreciation prescribed in Schedule XIV to the Companies Act, 1956 are considered as the minimum rates. If the management's estimate of the useful life of a fixed asset at the time of acquisition of the asset or of the remaining useful life on a subsequent review is shorter than that envisaged in the aforesaid schedule, depreciation is provided at a higher rate based on the management's estimate of the useful life/remaining useful life.

Depreciation is provided on a pro-rata basis i.e. from the date on which asset is ready for use.

Depreciation on assets other than Trademarks and Software is provided at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956, except in the following cases where the SLM rates used, are greater than the corresponding minimum rates prescribed in Schedule XIV to the Companies Act, 1956:

Notes to the Financial Statements

as at 31 December 2012 Currency: Rupees million

Description	Depreciation rate %
Buildings and Flats	5, 6.67, 20
Plant and Machinery	5.15, 11.31, 12.5, 20, 25, 33.33
Furniture, Fixtures, Electrical Fittings and Office Equipment	12, 20, 33.33
Vehicles	20

Trademarks are amortised over an expected benefit period of 5 years.

Software comprising of System Software and Application Software is amortised on a SLM basis over an expected benefit period of 6 years and 3 years respectively.

Plant and equipment and furniture and fixtures, costing individually upto Rupees 5,000 or less, are depreciated fully in the year of purchase. If the aggregate of such items of plant and equipment constitutes more than 10 percent of the total actual cost of plant and equipment, the depreciation rates applicable to such items are applied.

Depreciation/amortization for the year is recognised in the statement of profit and loss.

The useful lives are reviewed by the management at each financial year-end and revised, if appropriate. In case of a revision, the unamortized depreciable amount is changed over the revised remaining useful life.

A fixed asset is eliminated from the financial statements on disposal or when no further benefit is expected from its use and disposal.

Assets retired from active use and held for disposal are stated at the lower of their net book value and net realisable value and shown under 'Other current assets'.

Losses arising from retirement or gains or losses arising from disposal of fixed assets which are carried at cost are recognised in the statement of profit and loss.

(e) Impairment of assets:

Fixed assets (tangible and intangible) are reviewed at each reporting date to determine if there is any indication of impairment. For assets in respect of which any such indication exists and for intangible assets mandatorily tested annually or at period end for impairment, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets (cash generating unit or CGU) that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its net selling price. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses are recognised in the statement of profit and loss. Impairment loss recognised in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

If at the balance sheet date there is an indication that a previously assessed impairment loss no longer exists or has decreased, the assets or CGU's recoverable amount is estimated. For assets other than goodwill, the impairment loss is reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Such a reversal is recognised in the statement of profit and loss; however, in the case of revalued assets, the reversal is credited directly to revaluation surplus except to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the profit or loss. Impairment loss recognized for goodwill is not reversed in a subsequent period unless the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur, and subsequent external events have occurred that reverse the effect of that event.

(f) Operating lease:

Assets acquired under leases other than finance leases are classified as operating leases. The total lease rentals (including scheduled rental increases) in respect of an asset taken on operating lease are charged to the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit. Initial direct costs incurred specifically for an operating lease are deferred and charged to the statement of profit and loss over the lease term.

(g) Investments:

Investments that are readily realisable and intended to be held for not more than a year from the date of acquisition are classified as current investments. All other investments are classified as long-term investments. However, that part of long term investments which is expected to be realized within 12 months after the reporting date is also presented under 'current assets' as "current portion of long term investments" in consonance with the current-non-current classification scheme of revised Schedule VI.

Long-term investments (including current portion thereof) are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment.

Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investments.

Any reductions in the carrying amount and any reversals of such reductions are charged or credited to the statement of profit and loss.

Profit or loss on sale of investments is determined on the basis of weighted average carrying amount of investments disposed off.

(h) Inventories:

Inventories which comprise raw materials, packing material, work-in-progress, finished goods, stock-in-trade, stores and spares, and loose tools are carried at the lower of cost and net realisable value.

Cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

In determining the cost, weighted average cost method is used. In the case of manufactured inventories and work-in-progress, fixed production overheads are allocated on the basis of normal capacity of production facilities.

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

The net realisable value of work-in-progress is determined with reference to the selling prices of related finished products. Raw materials and other supplies held for use in the production of finished products are not written down below cost except in cases where material prices have declined and it is estimated that the cost of the finished products will exceed their net realisable value.

The comparison of cost and net realisable value is made on an item-by-item basis.

(i) Revenue recognition:

Revenue from sale of goods in the course of ordinary activities is recognised when property in the goods or all significant risks and rewards of their ownership are transferred to the customer and no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods and regarding its collection. The amount recognised as revenue is exclusive of sales tax, value added taxes (VAT) and service tax, and is net of returns, trade discounts and quantity discounts.

Revenue from shared services is recognized as and when services are rendered and related costs are incurred, in accordance with the terms of the contractual agreement.

Notes to the Financial Statements

as at 31 December 2012 Currency: Rupees million

Interest income is recognised on time proportion basis after taking into account the amount outstanding and the interest rate applicable.

Dividend income is recognised when the right to receive payment is established.

(j) Employee benefits:

(a) Short-term employee benefits:

Employee benefits payable wholly within twelve months of receiving employee services are classified as short-term employee benefits. These benefits include salaries and wages, bonus and ex-gratia. The undiscounted amount of short-term employee benefits to be paid in exchange for employee services is recognized as an expense as the related service is rendered by employees.

(b) Post-employment benefits:

The Company's approved superannuation scheme is a defined contribution plan. The Company's contribution paid/payable under the scheme is recognised as expense in the statement of profit and loss during the year in which the employee renders the related service.

Defined Benefit Plans

The Company's provident fund, gratuity, leave wages and pension schemes are defined benefit plans.

The Company maintains gratuity fund with the Life Insurance Corporation of India, to which contributions are made on an annual basis. The present value of the obligation under such defined benefit plans is determined based on actuarial valuation at the balance sheet date using the Projected Unit Credit Method by an independent actuary, which recognises each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation.

The Company also makes specified monthly contributions towards employee provident fund to the Merck Employees Provident Fund Trust. The interest rate payable by the trust to the beneficiaries every year is being notified by the Government. The Company has an obligation to make good the shortfall, if any, between the return from the investments of the trust and the interest payable at the notified rate.

The obligation is measured at the present value of the estimated future cash flows. The discount rates used for determining the present value of the obligation under defined benefit plans are based on the market yields on Government securities as at the balance sheet date.

Actuarial gains and losses are recognised immediately in the statement of profit and loss.

(c) Other Long-term employment benefits:

Compensated absences which are not expected to occur within twelve months after the end of the period in which the employee renders the related services are recognized as a liability at the present value of the defined benefit obligation at the balance sheet date, using the Projected Unit Credit Method carried out by an independent actuary. The discount rates used for determining the present value of the obligation under defined benefit plan, are based on the market yields on Government securities as at the balance sheet date.

Actuarial gains and losses are recognised immediately in the statement of profit and loss.

(k) Foreign exchange transactions:

Transactions denominated in foreign currency are recorded at the exchange rates prevailing on the date of transactions. Exchange differences arising on foreign exchange transactions settled during the year are recognized in the profit and loss account of the year.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated into Indian rupees at the closing exchange rates on that date. The resultant exchange differences are recognised in the statement of profit and loss.

(l) Provisions:

A provision is recognised if, as a result of a past event, the Company has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The provisions are measured on an undiscounted basis.

Provision for breakage and expiry

Cost of return on account of breakage and expiries are estimated on the basis of past experience. Provision is made in respect of cost for anticipated breakage and expiries in the year of sale of goods.

Contingencies

Provision in respect of loss contingencies relating to claims, litigation, assessment, fines, penalties, etc. are recognised when it is probable that a liability has been incurred, and the amount can be estimated reliably.

(m) Contingent liabilities and contingent assets:

A contingent liability exists when there is a possible but not probable obligation, or a present obligation that may, but probably will not, require an outflow of resources, or a present obligation whose amount cannot be estimated reliably. Contingent liabilities do not warrant provisions, but are disclosed unless the possibility of outflow of resources is remote. Contingent assets are neither recognised nor disclosed in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

(n) Income taxes:

Income-tax expense comprises current tax (i.e. amount of tax for the period determined in accordance with the income-tax law) and deferred tax charge or credit (reflecting the tax effects of timing differences between accounting income and taxable income for the period). Income-tax expense is recognised in profit or loss except that tax expense related to items recognised directly in reserves is also recognized in those reserves.

Current tax is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the applicable tax rates and tax laws. Deferred tax is recognised in respect of timing differences between taxable income and accounting income i.e. differences that originate in one period and are capable of reversal in one or more subsequent periods. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognised only if there is a virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets are reviewed as at each balance sheet date and written down or written-up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised.

(o) Cash and cash equivalents:

Cash comprises cash on hand and demand deposits with banks. Cash equivalents are short term (with an original maturity of three months or less from the date of acquisition), highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(p) Research and Development:

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of profit and loss as incurred.

The development activities undertaken by the company are subject to technical, regulatory and other uncertainties, such that, in the opinion of management, the criteria for capitalization are not met prior to obtaining marketing approval by the regulatory authorities in markets. Internal development costs that do not meet these criteria are therefore expensed as incurred.

Notes to the Financial Statements

as at 31 December 2012 Currency: Rupees million

	2012	2011
3. SHARE CAPITAL		
Authorised		
18,000,000 (2011: 18,000,000) equity shares of Rs. 10 each	180.0	180.0
Issued, subscribed and paid-up		
16,599,382 (2011: 16,599,382) equity shares of Rs. 10 each	166.0	166.0

A. Reconciliation of number of shares outstanding:

	2012 Number	2012 Amount	2011 Number	2011 Amount
Equity shares at the beginning and at the end of the year	16,599,382	166.0	16,599,382	166.0

B. Rights, preferences and restrictions attached to equity shares

The Company has a single class of equity shares. Accordingly, all equity shares rank equally with regard to dividends and share in the Company's residual assets. The equity shares are entitled to receive dividend as declared from time to time. The voting rights of an equity shareholder on a poll (not on show of hands) are in proportion to its share of the paid-up equity capital of the Company. Voting rights cannot be exercised in respect of shares on which any call or other sums presently payable have not been paid.

Failure to pay any amount called up on shares may lead to forfeiture of the shares.

On winding up of the Company, the holders of equity shares will be entitled to receive the residual assets of the Company, remaining after distribution of all preferential amounts in proportion to the number of equity shares held.

C. Shares held by subsidiaries of ultimate holding company

	2012 Number	2012 Amount	2011 Number	2011 Amount
Emedia Export Company mbh, Germany	3,534,559	35.4	3,534,559	35.4
Merck Internationale Beteiligungen GmbH, Germany	3,091,224	30.9	3,091,224	30.9
Chemitra GmbH, Germany	1,973,441	19.7	1,973,441	19.7
	8,599,224	86.0	8,599,224	86.0

D. Details of shareholders holding more than 5% of shares

	2012 Number	2012 % to total shares in the class	2011 Number	2011 % to total shares in the class
Equity shares of Rs. 10 each fully paid up held by -				
Emedia Export Company mbh, Germany	3,534,559	21.3%	3,534,559	21.3%
Merck Internationale Beteiligungen GmbH, Germany	3,091,224	18.6%	3,091,224	18.6%
Chemitra GmbH, Germany	1,973,441	11.9%	1,973,441	11.9%
Life Insurance Corporation of India	1,202,938	7.3%	1,407,051	8.5%
SBIMF Magnum Sector Fund	1,160,862	7.0%	–	–

E. Aggregate number of shares bought back during the period of five years immediately preceeding reporting date: 2012: 261,842; 2011: 261,842

	2012	2011
4. RESERVES AND SURPLUS		
Capital reserve		
As at commencement and at the end of the year	2.6	2.6
Capital redemption reserve		
As at commencement and at the end of the year	2.6	2.6
Securities premium account		
As at commencement and at the end of the year	111.3	111.3
General reserve		
At the commencement of the year	3,145.2	3,145.4
Less: Expenses paid on buy-back of shares #	–	0.2
Add: Transfer from surplus (Profit and Loss balance)	78.4	–
	3,223.6	3,145.2

In respect of shares bought back, Rs. Nil (2011: Rs. 0.2 million) have been adjusted against General Reserve. [Also refer Note 25]

Notes to the Financial Statements

as at 31 December 2012 Currency: Rupees million

	2012	2011
Surplus (Profit and Loss balance)		
At the commencement of the year	673.1	36.3
Add: Profit for the year	784.0	636.8
Less: Appropriations		
Transfer to general reserve	78.4	–
Proposed equity dividend [Rs. 2.50/- per equity shares (2011: Rs. Nil)]	41.5	–
Tax on proposed equity dividend	6.7	–
	1,330.5	673.1
	4,670.6	3,934.8
5. DEFERRED TAX LIABILITY (NET)		
Deferred tax liability:		
Arising on account of timing differences in:		
Excess of depreciation as per Income Tax Act, 1961, over book depreciation	68.7	66.2
	68.7	66.2
Deferred tax asset:		
Arising on account of timing difference in:		
Provision for doubtful trade receivables/advances	16.9	13.2
Personnel and other related provisions	9.2	13.2
Provision for sales tax matters	22.3	18.3
Other provisions	13.1	13.1
	61.5	57.8
	7.2	8.4

6. PROVISIONS

	Long-term		Short-term	
	2012	2011	2012	2011
Provision for employee benefits:				
Gratuity [refer note 30]	–	8.1	–	–
Compensated absences	29.1	36.0	8.8	7.5
Other employee benefits [refer note 28]	9.3	10.7	112.7	104.4
Provision for Provident fund [refer note 30]	–	–	–	5.3
Other provisions:				
Provision for sales tax [refer note 28]	68.4	56.1	–	–
Proposed equity dividend	–	–	41.5	–
Tax on proposed equity dividend	–	–	6.7	–
Provision for tax [net of advance tax paid for certain years Rs. 980.3 million; (2011: Rs. 585.0 million)]	21.4	11.3	21.2	–
	128.2	122.2	190.9	117.2

	2012	2011
7. TRADE PAYABLES		
Acceptances	20.9	21.8
Trade payables:		
Dues to Micro, Small and Medium Enterprises [refer note 40]	2.2	1.3
Others	385.5	267.6
	408.6	290.7
8. OTHER CURRENT LIABILITIES		
Advances from customers	27.7	28.6
Creditors for capital purchases	19.7	24.9
Employee benefits payable	47.8	43.4
Statutory dues		
– Tax deducted at source	11.4	7.5
– Sales tax	10.6	14.0
– Excise duty/Service tax	13.3	2.1
– Provident fund	5.4	5.5
Accrual for expenses	221.6	215.9
Investor Education and Protection Fund shall be credited by the following amounts (not due as at the year end):		
Unpaid dividend	13.7	15.0
	371.2	356.9

Notes to the Financial Statements

as at 31 December 2012 Currency: Rupees million

9. FIXED ASSETS

Tangible fixed assets

	Freehold Land	Buildings and Flats	Plant and Machinery	Furniture and Fixtures	Vehicles	Office Equipment	Total
Gross Block							
Balance as at 01 January 2011	5.0	390.5	858.9	75.7	0.2	77.7	1,408.0
Additions	—	17.8	103.3	14.0	0.4	23.0	158.5
Disposals	—	—	(12.7)	(0.7)	(0.2)	(3.1)	(16.7)
Balance as at 31 December 2011	5.0	408.3	949.5	89.0	0.4	97.6	1,549.8
Balance as at 01 January 2012	5.0	408.3	949.5	89.0	0.4	97.6	1,549.8
Additions	—	12.1	90.4	18.5	—	6.4	127.4
Disposals	—	—	(17.8)	(3.3)	—	(2.1)	(23.2)
Balance as at 31 December 2012	5.0	420.4	1,022.1	104.2	0.4	101.9	1,654.0
Depreciation and impairment loss (reversal)							
Balance as at 01 January 2011	—	183.3	639.1	46.9	0.2	48.7	918.2
Depreciation for the year	—	11.4	49.3	7.7	*	9.0	77.4
Impairment loss (reversal) during the year #	—	(28.5)	(95.0)	(6.4)	—	(12.9)	(142.8)
Accumulated depreciation and impairment losses on disposals	—	—	(12.2)	(0.6)	(0.2)	(2.6)	(15.6)
Balance as at 31 December 2011	—	166.2	581.2	47.6	—	42.2	837.2
Balance as at 01 January 2012	—	166.2	581.2	47.6	*	42.2	837.2
Depreciation for the year	—	11.9	55.5	9.8	0.1	10.4	87.7
Accumulated depreciation on disposals	—	—	(16.2)	(3.1)	—	(1.8)	(21.1)
Balance as at 31 December 2012	—	178.1	620.5	54.3	0.1	50.8	903.8
Net Block							
As at 31 December 2011	5.0	242.1	368.3	41.4	0.4	55.4	712.6
As at 31 December 2012	5.0	242.3	401.6	49.9	0.3	51.1	750.2
Capital work-in-progress							
Balance as at 31 December 2011	—	—	—	—	—	—	4.3
Balance as at 31 December 2012	—	—	—	—	—	—	17.5

Intangible fixed assets

	Brands/Trademarks	Computer Software	Total
Gross Block			
Balance as at 01 January 2011	86.9	41.1	128.0
Additions	—	1.6	1.6
Balance as at 31 December 2011	86.9	42.7	129.6
Balance as at 01 January 2012	86.9	42.7	129.6
Additions	—	0.2	0.2
Balance as at 31 December 2012	86.9	42.9	129.8
Amortisation			
Balance as at 01 January 2011	86.9	38.2	125.1
Depreciation for the year	—	2.1	2.1
Balance as at 31 December 2011	86.9	40.3	127.2
Balance as at 01 January 2012	86.9	40.3	127.2
Depreciation for the year	—	1.3	1.3
Balance as at 31 December 2012	86.9	41.6	128.5
Net Block			
As at 31 December 2011	—	2.4	2.4
As at 31 December 2012	—	1.3	1.3

Note:

Buildings and Flats include cost of Shares in a Co-operative Society Rs. * (2011: Rs. *)

Plant and Machinery includes Research and Development equipments.

\# Refer note 26 for impairment adjustment.

Depreciation and amortisation	2012	2011
Depreciation on tangible fixed assets	87.7	77.4
Amortisation of intangible fixed assets	1.3	2.1
	89.0	79.5

Notes to the Financial Statements

as at 31 December 2012 Currency: Rupees million

10. LOANS AND ADVANCES

	Long Term		Short Term	
	2012	2011	2012	2011
To parties other than related parties				
Capital advances (Unsecured and considered good)	1.1	5.8	—	—
Security deposits (Unsecured)				
considered good	83.4	80.4	—	—
considered doubtful	2.5	2.5	—	—
	85.9	82.9	—	—
Less: Provision for doubtful deposits	2.5	2.5	—	—
	83.4	80.4	—	—
Other loans and advances:				
Loans to employees (Unsecured and considered good)	4.7	3.7	3.9	3.7
Advances to employees (Unsecured)				
considered good	—	—	11.2	11.4
considered doubtful	—	—	1.2	1.2
	—	—	12.4	12.6
Less: Provision for doubtful advances	—	—	1.2	1.2
	—	—	11.2	11.4
Prepaid Gratuity	9.5	—	—	—
Others (Unsecured and considered good)				
Advances for supply of goods	—	—	19.2	2.1
Drawback receivable	—	—	3.3	8.7
Cenvat credit receivable	132.0	100.2	41.2	65.5
Excise duty refund	—	—	32.5	25.4
Advance Sales Tax/VAT receivable	11.4	8.3	1.7	1.1
Custom duty receivable	2.2	—	—	—
Prepaid expenses	1.1	8.2	23.4	34.7
Other Advances	22.1	—	42.1	29.1
Advance income tax [net of provision for tax Rs. 3,241.9 million; (2011: Rs. 3,462.4 million)]	321.3	276.7	—	—
To related parties				
Loan to bodies corporates:				
– Millipore (India) Private Limited	—	—	220.0	180.0
– Merck Specialities Private Limited	—	—	—	284.8
	588.8	483.3	398.5	646.5

Disclosure of loans given to fellow subsidiaries as required by clause 32 of listing agreement:	Balance amount		Maximum amount outstanding during the year	
	2012	2011	2012	2011
– Millipore (India) Private Limited	220.0	180.0	300.0	240.0
– Merck Specialities Private Limited	—	284.8	284.8	445.6

11. CURRENT INVESTMENTS

	2012	2011
(Lower at cost or fair value)		
Non-Trade, Current (Unquoted)		
In mutual funds:		
– LIC NOMURA MF Liquid Fund – Dividend Plan	20.0	32.4
– Canara Robeco Liquid Fund – Regular Daily Dividend	71.1	53.8
– SBI Premier Liquid Fund – Daily Dividend	85.0	141.2
– UTI Liquid Cash Plan Institutional – Daily Income Option – Re-investment	60.3	—
	236.4	227.4

Notes to the Financial Statements

as at 31 December 2012 Currency: Rupees million

	2012	2011
12. INVENTORIES		
(Valued at lower of cost and net realisable value)		
Raw materials [Includes stock-in-transit Rs. 20.3 million (2011: Rs. Nil)]	485.0	305.3
Packing materials	92.2	57.9
Work in process	87.7	73.4
Finished products	310.7	372.0
Stock-in-trade [Includes stock-in-transit Rs. 38.0 million (2011: Rs. Nil)]	329.9	317.8
Stores and spares	4.1	4.5
	1,309.6	1,130.9

Inventory of finished products and stock-in-trade includes inventory of samples aggregating Rs. 16.0 million (2011: Rs. 21.3 million)

	2012	2011
13. TRADE RECEIVABLES		
(Unsecured)		
Debts outstanding for a period exceeding six months from the date they become due for payment		
considered good	26.5	17.2
considered doubtful	45.7	34.7
	72.2	51.9
Less: Provision for doubtful receivable	45.7	34.7
(a)	26.5	17.2
Other trade receivables		
considered good	617.7	604.6
considered doubtful	1.3	2.3
	619.0	606.9
Less: Provision for doubtful receivables	1.3	2.3
(b)	617.7	604.6
(a+b)	644.2	621.8

	2012	2011
14. CASH AND BANK BALANCES		
Cash and cash equivalents:		
Cash on hand	0.1	0.1
Balances with banks		
– Current accounts	25.2	26.0
– Deposit accounts*	—	273.5
Other bank balances:		
– Unpaid dividend	13.7	15.0
– Deposit accounts**	1,890.8	818.2
	1,929.8	1,132.8
Details of bank balances/deposits		
* Bank balances available on demand/deposits with original maturity of 3 months or less included under "Cash and cash equivalents"	—	273.5
** Bank deposits due to mature within 12 months of the reporting date included under "Other bank balances"	1,890.8	818.2

Unpaid Dividend of Rs. 13.7 million (2011: Rs. 15.0 million), included in Bank balances, is not available for use by the Company.

	2012	2011
15. OTHER CURRENT ASSETS		
(Unsecured, considered good)		
Interest accrued but not due on term deposits	66.4	34.2
	66.4	34.2

Notes to the Financial Statements

for the year ended 31 December 2012 Currency: Rupees million

	2012	2011
16. REVENUE FROM OPERATIONS		
Sale of Products		
Finished goods	5,225.3	4,416.1
Traded goods	1,582.0	1,328.0
Sale of Products (gross)	6,807.3	5,744.1
Less: Excise duty	226.6	168.4
Sale of Products (net)	6,580.7	5,575.7
Breakup of Revenue from Operations		
Finished goods (Net of Excise duty):		
Tablets/Capsules	2,427.0	2,018.7
Nasal Drops/Injections	656.1	624.4
Reagents/Kits/Pigments	6.2	1.7
Syrups/Ointments	948.9	852.3
Bulk Drugs	960.5	750.6
	4,998.7	4,247.7
Traded goods:		
Tablets/Capsules	239.4	192.4
Nasal Drops/Injections	169.8	185.8
Reagents/Kits/Pigments	1,156.9	924.2
Syrups/Ointments	15.9	20.8
Bulk Drugs	—	4.8
	1,582.0	1,328.0
Other operating revenue:		
Income from shared services	248.3	225.4
Duty drawback on exports	9.9	1.5
Sale of scrap	7.9	3.9
Service tax credit	24.4	83.8
Indenting commission	0.6	1.5
Other income	1.0	3.9
	292.1	320.0
17. OTHER INCOME		
Interest income on:		
– Loans and bank deposits	165.1	137.6
– Delayed Payments from Customers	7.3	8.0
Insurance claims	0.7	1.2
Dividend income on current investments	20.3	18.8
Net gain on account of foreign exchange fluctuations	4.5	—
Profit on sale of assets (net)	—	0.4
Miscellaneous income	4.1	2.8
	202.0	168.8

Notes to the Financial Statements

for the year ended 31 December 2012 Currency: Rupees million

	2012	2011
18. COST OF MATERIALS CONSUMED		
Inventory of materials at the beginning of the year	363.2	243.0
Add: Purchases	2,008.4	1,815.6
Less: Inventory of materials at the end of the year	577.2	363.2
	1,794.4	1,695.4
Break-up of cost of materials consumed		
Isophytol	227.1	187.2
Vitamins	224.9	281.8
Active Ingredients	245.1	223.7
Organic Chemicals	168.6	110.0
Inorganic Chemicals	62.5	55.2
Others	866.2	837.5
	1,794.4	1,695.4
Break-up of inventory - materials		
Isophytol	155.5	45.2
Vitamins	90.9	59.4
Active Ingredients	76.6	75.8
Organic Chemicals	70.1	69.6
Inorganic Chemicals	8.0	11.1
Others	176.1	102.1
	577.2	363.2
19. PURCHASE OF STOCK-IN-TRADE		
Purchase of stock-in-trade	1,160.9	1,131.9
	1,160.9	1,131.9
Break-up of purchases of stock-in-trade		
Tablets/Capsules	105.3	98.0
Nasal Drops/Injections	63.2	68.1
Reagents/Kits/Pigments	983.7	948.3
Syrups/Ointments	8.7	13.4
Bulk Drugs	—	4.1
	1,160.9	1,131.9

20. CHANGES IN INVENTORIES OF FINISHED GOODS, WORK-IN-PROCESS AND STOCK-IN-TRADE

		2012			2011		
		Opening Inventory	Closing Inventory	(Increase)/ Decrease in inventory	Opening Inventory	Closing Inventory	(Increase)/ Decrease in inventory
Traded Goods							
Tablets/Capsules		36.7	39.0	(2.3)	29.2	36.7	(7.5)
Nasal Drops/Injections		13.1	14.4	(1.3)	12.2	13.1	(0.9)
Reagents/Kits/Pigments		264.0	273.2	(9.2)	95.6	264.0	(168.4)
Syrups/Ointments		4.0	3.3	0.7	1.6	4.0	(2.4)
	(a)	317.8	329.9	(12.1)	138.6	317.8	(179.2)
Manufactured Goods							
Tablets/Capsules		143.6	145.5	(1.9)	61.1	143.6	(82.5)
Nasal Drops/Injections		98.2	44.8	53.4	20.1	98.2	(78.1)
Reagents/Kits/Pigments		*	0.1	(0.1)	0.1	*	0.1
Syrups/Ointments		106.7	63.8	42.9	46.1	106.7	(60.6)
Bulk Drugs		23.5	56.5	(33.0)	39.6	23.5	16.1
	(b)	372.0	310.7	61.3	167.0	372.0	(205.0)
Work-in-progress	(c)	73.4	87.7	(14.3)	58.1	73.4	(15.3)
Total	(a+b+c)	763.2	728.3	34.9	363.7	763.2	(399.5)

Notes to the Financial Statements

for the year ended 31 December 2012 Currency: Rupees million

	2012	2011
21. EMPLOYEE BENEFITS		
Salaries, wages, bonus and allowances	719.0	660.7
Contribution to provident fund and other funds	40.0	48.3
Gratuity [refer note 30]	6.7	11.9
Compensated absences	12.3	12.3
Directors' commission	9.8	10.1
Staff welfare expenses	65.2	67.7
	853.0	811.0
22. OTHER EXPENSES		
Stores and spare parts consumed	29.7	41.3
Power and fuel	68.1	69.4
Excise duty (net)	16.5	39.5
Third party processing charges	205.3	240.7
Repairs and maintenance:		
Building	2.7	5.0
Plant and Machinery	8.6	9.3
Others	47.0	46.6
Rates and taxes	36.4	31.5
Rent [refer note 27]	114.6	100.5
Printing, stationery, postage, telephone and electricity expenses	42.7	39.3
Legal and professional expenses [refer note 34]	216.2	197.1
Directors fees	0.6	0.8
Travelling, Conveyance and Vehicle Expenses [refer note 27]	312.8	271.0
Insurance	8.4	7.8
Research expenses [refer note 38]	50.1	28.3
Donations	*	*
Loss on sale/retirement of fixed assets (net)	0.6	—
Packing, forwarding and freight	125.7	130.7
Clearing and forwarding agents commission	51.9	51.4
Selling agents commission	5.8	9.3
Advertisement and sales promotion expenses	441.6	451.7
Provision for doubtful trade receivables	11.8	8.0
Bad Debts written off (net)	4.8	1.0
Bank charges	1.6	1.1
Royalty	125.5	103.5
Net loss on account of foreign exchange fluctuations	—	2.8
Miscellaneous expenses	45.7	45.5
	1,974.7	1,933.1

23. CONTINGENT LIABILITIES
(to extent not provided for)
Summary of disputed statutory demands not accepted by the Company are given below:

	2012	2011
Income tax	719.0	708.2
State and Central Sales Tax, Entry Tax	40.5	39.1
Excise duty	5.7	5.7
Custom duty	1.3	1.3
	766.5	754.3

24. COMMITMENTS
Estimated amount of contracts remaining to be executed on Capital Account, (net of capital advance Rs. 1.1 million; 2011: Rs. 5.8 million) and not provided for Rs. 26.3 million (2011: Rs. 15.7 million).

25. SHARE BUY-BACK
The Company has, during the year, incurred expenses of Rs. Nil (2011: Rs. 0.2 million), towards the buy-back of shares, in terms of the share buy-back scheme approved by the Board of Directors on 20th May 2009.

26. IMPAIRMENT OF ASSETS

The Company had impaired one of its Chemical plants on account of significant reduction in the market demand of the product and no identified alternate use of the Cash Generating Unit (CGU) during the year ended 31 December 2010. The amount of impairment loss aggregating Rs. 142.8 million was debited to statement of profit and loss and formed part of the 'Chemicals' segment of the Company.

During the year ended 31 December 2011, the Company identified alternate uses for the said CGU and had modified and put to use the chemical plant to manufacture alternate product. Accordingly, as at the end of the previous year, based on the approved utilization plan for the CGU, the Company reversed impairment loss of Rs. 142.8 million crediting statement of profit and loss.

27. LEASE ACCOUNTING

The Company has entered into cancellable operating lease agreements for vehicles and office premises/godowns. The lease charges of Rs. 21.5 million (2011: Rs. 21.6 million) and Rs. 114.6 million (2011: Rs. 100.5 million) for vehicles and office premises/godowns have been included under the sub-head Travelling, Conveyance and Vehicle Expenses and Rent respectively under the head "Other Expenses" (refer note 22) in the statement of profit and loss.

28. DISCLOSURE RELATING TO PROVISIONS

Personnel and other related provisions:

The Company has made provisions for performance-based incentives which are expected to be paid in the next financial year.

Provisions in respect of sales tax matters:

The Company has also made provisions for various sales tax/value added tax related matters, which will be settled on completion of the respective assessments.

Summary of the movement in the provisions is given below:

	Opening Balance	Additions during the year	Utilizations	Reversals	Closing balance
Personnel and other related provisions	115.1	115.1	93.4	14.8	122.0
	(125.5)	(110.7)	(103.8)	(17.3)	(115.1)
Provisions in respect of sales tax matters	56.1	12.3	—	—	68.4
	(51.9)	(4.2)	(—)	(—)	(56.1)
Total	171.2	127.4	93.4	14.8	190.4
	(177.4)	(114.9)	(103.8)	(17.3)	(171.2)

Figures in brackets indicate those of the previous year

29. UNHEDGED FOREIGN CURRENCY EXPOSURE

Foreign Currency exposure on account of trade receivable/payable not hedged by derevative instruments are as follows:

	2012 (Foreign Currency million)	2012 (Rupees million)	2011 (Foreign Currency million)	2011 (Rupees million)
Payables				
USD	1.0	56.3	0.9	47.7
EUR	1.1	84.5	0.5	36.7
GBP	*	0.2	*	0.2
CHF	*	0.9	0.1	3.3
SEK	—	—	*	0.1
		141.9		88.0
Receivables				
USD	1.6	83.8	1.6	85.8
EUR	0.2	10.9	0.2	10.5
JPY	—	—	14.8	9.9
		94.7		106.2

Notes to the Financial Statements

for the year ended 31 December 2012 Currency: Rupees million

30. EMPLOYEE BENEFITS

(i) Contribution to Provident and Superannuation Funds

Amount of Rs. 31.0 million (2011: Rs. 29.8 million) is recognised as an expense and included in "Employee Benefits" (Refer note 21) in the statement of Profit and Loss.

(ii) Defined benefit plan

The Company operates two post employment defined benefit plans that provide Gratuity and Provident fund benefits. The gratuity plans entitles an employee, who has rendered atleast five years of continious service, to receive one-half month's salary for each year of completed service at the time of retirement/exit. The Company also makes specified monthly contributions towards employee provident fund to the Merck Employees Provident Fund Trust. The interest rate payable by the trust to the beneficiaries every year is being notified by the Government. The Company has an obligation to make good the shortfall, if any, between the return from the investments of the trust and the interest payable at the notified rate.

The following table summarises the position of assets and obligations of the gratuity plan.

(iii) Disclosures for defined benefit plan (gratuity)

		2012	2011
I.	Change in Benefit Obligation		
	Liability at the beginning of the year	127.7	111.8
	Interest Cost	9.7	7.9
	Current Service Cost	9.7	8.1
	Benefit Paid	(23.3)	(5.4)
	Actuarial (Gain)/Loss on obligations	(1.5)	5.3
	Liability at the end of the year	122.3	127.7
II.	Fair value of Plan Assets		
	Fair Value of Plan Assets at the beginning of the year	119.6	108.7
	Expected Return on Plan Assets	11.1	9.8
	Contributions	24.3	6.9
	Benefit Paid	(23.3)	(5.4)
	Actuarial Gain/(Loss) on Plan Assets	0.1	(0.4)
	Fair Value of Plan Assets at the end of the year	131.8	119.6
III.	Actual Return on Plan Assets		
	Expected Return on Plan Assets	11.1	9.8
	Actuarial Gain/(Loss) on Plan Assets	0.1	(0.4)
	Actual Return on Plan Assets	11.2	9.4
IV.	Amount Recognised in the Balance Sheet		
	Liability at the end of the year	(122.3)	(127.7)
	Fair Value of Plan Assets at the end of the year	131.8	119.6
	Asset/(Liablities) Recognised in the Balance Sheet	9.5	(8.1)
V.	Expenses Recognised in the Income Statement		
	Current Service Cost	9.7	8.1
	Interest Cost	9.7	7.9
	Expected Return on Plan Assets	(11.1)	(9.8)
	Net Actuarial Gain/(Loss) To Be Recognised	(1.6)	5.7
	Expense Recognised in Income Statement	6.7	11.9
VI.	Balance Sheet Reconciliation		
	Opening Net Liability	8.1	3.1
	Expense as above	6.7	11.9
	Employers Contribution	(24.3)	(6.9)
	(Asset)/Liablities Recognised in Balance Sheet	(9.5)	8.1

Notes to the Financial Statements

for the year ended 31 December 2012 Currency: Rupees million

30. EMPLOYEE BENEFITS (continued)

		2012	2011
VII.	Principal Actuarial Assumptions		
	Discount Rate Current	8.2%	8.9%
	Rate of Return on Plan Assets Current	9.4%	9.5%
	Salary Escalation Current	9.0%	9.0%

Note: Note: Employer's contribution includes payments made of Rs. 23.3 million (2011: Rs. 5.4 million) towards Gratuity obligation by the Company directly to its past employees.

Estimate of future salary increases, considered in actuarial valuation, take account of inflation, seniority, increments and other relevant factors, such as supply and demand in the employment market.

Assumptions regarding future mortality are based on published statistics and mortality tables. The calculation of the defined benefit obligation is sensitive to the mortality assumptions.

(iv) Five-year information:

Amounts for the current and previous four periods are as follows:

	2012	2011	2010	2009	2008
Gratuity					
Present value of defined benefit obligation	122.3	127.7	111.8	96.1	99.1
Fair value of plan assets	131.8	119.6	108.7	98.9	89.4
Surplus/(deficit) in plan	9.5	(8.1)	(3.1)	2.8	(9.7)
Experience adjustments on:					
Plan liabilities (Gain)/Loss	(1.8)	4.1	8.6	(10.3)	16.3
Plan assets Gain/(Loss)	0.1	0.4	(0.2)	0.9	(0.2)

(v) Broad category of plan assets relating Gratuity as a percentage of total plan assets:

The Company's gratuity fund is managed by its insurer, Life Insurance Corporation of India. The plan assets under the fund are deposited under approved securities.

(vi) Disclosure for defined benefit plan (Provident Fund):

The guidance issued by the Accounting Standard Board on implementing AS 15, Employee Benefits (revised 2005) states that provident fund set up by employer, which requires interest shortfall to be met by the employer, needs to be treated as defined benefit plan. The Institute of Actuaries of India has, during the year, issued the guidance for measurement of provident fund liabilities on actuarial basis. Based on this guidance note, the actuary has provided an actuarial valuation of the provident fund liability of the Company as at 31 December 2012.

As per the report of the independent actuary, there is no shortfall as at 31 December 2012 (2011: shortfall of Rs. 5.3 million) that needs to be recorded by the Company.

The details of fund and plan asset position are:

Particulars	2012	2011
Present value of benefit obligation	433.9	411.8
Plan Assets at period end	460.9	406.5
Liability recognized in Balance Sheet	—	5.3

Principal Assumptions used in determining the present value obligation of interest rate guarantee under the Deterministic Approach:

Particulars	2012	2011
Discount rate	8.0%	8.3%
Expected rate of return on assets	8.5%	8.5%

(vii) Compensated absences:

Compensated absences are recognized when the employees render service that increase their entitlement to future compensated absence. Employees can carry forward and avail/ encash leave as per the policy of the Company. Compensated absences have been provided for, based on outstanding leave balance and the employees' gross pay.

The undiscounted amount of short term employee benefits of Rs. 8.3 million (2011: Rs. 8.1 million) is expected to be paid in the exchange for the services rendered by employees is recognised as an expense during the year.

Notes to the Financial Statements

for the year ended 31 December 2012 Currency: Rupees million

31. DETAILS OF IMPORTED AND INDIGENOUS MATERIALS, COMPONENTS AND SPARE PARTS CONSUMED DURING THE YEAR

	2012		2011	
	Value	% of total consumption	Value	% of total consumption
Raw materials				
Imported	449.7	25.1%	427.6	25.2%
Indigenous	1,344.7	74.9%	1,267.8	74.8%
	1,794.4	100.0%	1,695.4	100.0%
Spare Parts				
Imported	1.0	3.3%	2.3	5.6%
Indigenous	28.7	96.7%	39.0	94.4%
	29.7	100.0%	41.3	100.0%

32. (a) RELATED PARTY DISCLOSURES

Related parties where control exists

Ultimate Holding Company:

Merck KGaA, Germany through its subsidiaries listed below as Investing Associates holds 51.8% (2011: 51.8%) of the equity share capital, as at 31 December 2012.

Investing Associates:

- Chemitra GmbH, Germany
- Emedia Export Company mbh, Germany
- Merck Internationale Beteiligungen GmbH, Germany

Other related parties with whom transactions have taken place during the year:

Fellow Subsidiaries:

- EMD Millipore Corporation, USA (Formerly known as EMD Chemicals Inc., USA)
- EMD Serono Inc., USA
- Merck & Cie., Switzerland
- Merck (Private) Limited, Pakistan
- Merck Consumer Health Care Holding GmbH, Germany
- Merck Inc., Philippines
- Merck KGaA & Co. Werk Spittal, Austria
- Merck Limited, Japan
- Merck Limited, South Korea
- Merck Limited, Taiwan
- Merck Limited, Thailand
- Merck Patent GmbH, Germany
- Merck Pharmaceutical (HK) Limited, Hong Kong
- Merck Pte Ltd, Singapore
- Merck S.A., France
- Merck Sdn Bhd, Malaysia
- Merck Serono Co., Limited, Japan
- Merck Serono S.A., Switzerland
- Merck Specialities, Private Limited, India
- Merck Vietnam Company, Vietnam
- Millipore India Private Limited, India
- Millipore S.A.S., France
- P.T. Merck Indonesia, Indonesia
- Seven Seas Limited, United Kingdom
- Suzhou Taizhu Technology Development Co., China

Notes to the Financial Statements

for the year ended 31 December 2012 Currency: Rupees million

32. (a) RELATED PARTY DISCLOSURES (continued)

Key Managerial Personnel:

- Dr. Claus Boedecker (Managing Director) (Appointed on 1st August 2012)
- Dr. M. Dziki (Managing Director) (Resigned on 31st July 2012)
- Mr. N. Krishnan (Appointed on 22nd October 2012)
- Mr. R.L. Shenoy (Retired on 30th September 2012)
- Mr. P.H. Pimplikar
- Mr. K. Shivkumar (Resigned on 24 May 2011)

32. (b) SUMMARY OF RELATED PARTY TRANSACTIONS

	Transactions	Ultimate Holding Company	Investing Associates	Fellow Subsidiaries	Executive Directors & Relatives	Total
1.	Purchase of Goods	576.7	—	288.1	—	864.8
		(592.4)	(—)	(240.4)	(—)	(832.8)
2.	Purchase of Fixed assets	—	—	3.1	—	3.1
		(—)	(—)	(1.1)	(—)	(1.1)
3.	Sale of Goods	28.4	—	499.5	—	527.9
		(22.5)	(—)	(350.7)	(—)	(373.2)
4.	Services Received	299.7	—	83.6	—	383.3
		(244.5)	(—)	(52.4)	(—)	(296.9)
5.	Services Rendered	—	—	214.8	—	214.8
		(7.9)	(—)	(205.3)	(—)	(213.2)
6.	Reimbursement of Expenses	22.2	—	28.1	—	50.3
		(13.8)	(—)	(6.2)	(—)	(20.0)
7.	Advances Received	—	—	—	—	—
		(13.5)	(—)	(5.5)	(—)	(19.0)
8.	Loan Given	—	—	180.0	—	180.0
		(—)	(—)	(524.0)	(—)	(524.0)
9.	Loan Recovered	—	—	424.8	—	424.8
		(—)	(—)	(502.2)	(1.4)	(503.6)
10.	Interest income on Loan	—	—	30.7	—	30.7
		(—)	(—)	(26.9)	(—)	(26.9)
11.	Managerial Remuneration*	—	—	—	60.2	60.2
		(—)	(—)	(—)	(54.8)	(54.8)
12.	Balances Payable as at year-end	56.2	—	30.0	—	86.2
		(49.6)	(—)	(19.0)	(—)	(68.6)
13.	Balances Receivable as at year-end	3.8	—	253.9	—	257.7
		(3.5)	(—)	(513.9)	(—)	(517.4)

Figures in brackets indicate those of the previous year.

* Remuneration does not include charge for gratuity and leave encashment as employee-wise break-up is not available.

Out of the above items, transactions in excess of 10% of the total related party transactions are as under:

	2012	2011
1. Purchase of Goods		
Merck KGaA, Germany	576.7	592.4
EMD Millipore Corporation, USA	84.1	33.0
2. Purchase of Capital Goods		
Merck Specialities Private Limited, India	2.5	—
Millipore (India) Private Limited, India	0.6	1.1

Notes to the Financial Statements

for the year ended 31 December 2012 Currency: Rupees million

32. (b) SUMMARY OF RELATED PARTY TRANSACTIONS (continued)

Out of the above items, transactions in excess of 10% of the total related party transactions are as under:

	2012	2011
3. Sale of Goods		
Merck KGaA & Co. Werk Spittal, Austria	130.6	131.5
Merck (Private) Limited, Pakistan	32.5	80.6
Merck Limited, Japan	22.2	42.5
EMD Millipore Corporation, USA	274.6	75.9
4. Services Received		
Merck KGaA, Germany	299.7	244.5
Merck Serono S.A., Switzerland	45.9	24.6
5. Services Rendered		
Merck Specialities Private Limited, India	193.6	188.1
6. Reimbursement of Expenses		
Merck KGaA, Germany	22.2	13.8
Merck Pte. Limited, Singapore	13.4	2.8
EMD Millipore Corporation, USA	11.0	0.5
7. Advances Received		
Merck KGaA, Germany	—	13.5
Merck Pte. Limited, Singapore	—	4.8
8. Loan Given		
Merck Specialities Private Limited, India	—	284.0
Millipore (India) Private Limited, India	180.0	240.0
9. Loan Recovered		
Merck Specialities Private Limited, India	284.8	442.2
Millipore (India) Private Limited, India	140.0	60.0
10. Interest on Loan		
Merck Specialities Private Limited, India	6.9	25.2
Millipore (India) Private Limited, India	23.8	1.7
11. Managerial Remuneration		
Dr. Claus Boedecker	18.4	—
Dr. M. Dziki	22.2	29.2
Mr. N. Krishnan	2.6	—
Mr. R.L. Shenoy	8.6	10.7
Mr. P.H. Pimplikar	8.4	8.4
Mr. K. Shivkumar	—	6.5
12. Balances Payable		
Merck KGaA, Germany	56.2	49.6
13. Balances Receivable		
Merck Specialities Private Limited, India	1.0	287.1
Millipore (India) Private Limited, India	220.0	180.0

Notes to the Financial Statements

for the year ended 31 December 2012 Currency: Rupees million

33. SEGMENT INFORMATION

Information About Primary Business Segments:

Particulars	2012				2011			
	Pharmaceuticals	Chemicals	Eliminations	Total	Pharmaceuticals	Chemicals	Eliminations	Total
REVENUE								
External Revenue	4,573.4	2,299.4	—	6,872.8	4,049.1	1,846.6	—	5,895.7
Inter-segment Revenue	—	164.5	(164.5)	—	—	127.1	(127.1)	—
Total Revenue	4,573.4	2,463.9	(164.5)	6,872.8	4,049.1	1,973.7	(127.1)	5,895.7
RESULT								
Segment Result before allocation of Corporate Expenses	792.8	355.6	—	1,148.4	551.1	429.8	—	980.9
Less: Corporate Expenses	137.3	35.7	—	173.0	150.0	39.2	—	189.2
Net Segment Result	655.5	319.9	—	975.4	401.1	390.6	—	791.7
Interest Expense	—	—	—	(0.2)	—	—	—	(0.2)
Other unallocated Income (Net)	—	—	—	192.7	—	—	—	164.4
Net Profit before tax	—	—	—	1,167.9	—	—	—	955.9
Income Taxes	—	—	—	(383.9)	—	—	—	(319.1)
Net Profit after tax	—	—	—	784.0	—	—	—	636.8
OTHER INFORMATION								
Segment Assets	1,576.7	1,584.0	—	3,160.7	1,488.1	1,364.7	—	2,852.8
Unallocated Corporate Assets	—	—	—	2,782.0	—	—	—	2,143.4
Total Assets	—	—	—	5,942.7	—	—	—	4,996.2
Segment Liabilities	790.3	189.3	—	979.6	631.2	219.9	—	851.1
Unallocated Corporate Liabilities	—	—	—	126.5	—	—	—	44.3
Total Liabilities	—	—	—	1,106.1	—	—	—	895.4
Capital Expenditure during the year	92.5	43.6	—	136.1	96.9	53.7	—	150.6
Depreciation/Impairment loss/(reversal)#	41.5	47.5	—	89.0	35.9	(99.2)	—	(63.3)
Non-cash expenses other than Depreciation	(8.6)	53.0	—	44.4	32.7	6.4	—	39.1

Geographical Segments information:

	2012			2011		
	Domestic	Export	Total	Domestic	Export	Total
Revenue	6,119.7	753.1	6,872.8	5,293.7	602.1	5,895.7
Segment Asset	3,045.9	114.8	3,160.7	2,739.5	113.3	2,852.8
Capital Expenditure during the year	136.1	—	136.1	150.6	—	150.6

(a) Business segment:

For Management reporting purposes, the Company is organised into two major operating divisions - Pharmaceuticals and Chemicals. The divisions are the basis on which the Company reports its primary segment information. The above segments have been identified taking into account the organisation structure as well as the differing risks and returns of these segments.

Pharmaceutical business comprises of Ethicals used in the treatment of Cardiovascular and Metabolic diseases, Consumer Healthcare products and Vitamins-based formulations.

Chemicals business comprises Bulk drugs and Pigments. Segment Revenue relating to the Chemicals business segment includes income from services provided to customers of this segment.

(b) Geographical segment:

In respect of secondary segment information, the Company has identified its geographical segment as (i) Domestic and (ii) Exports. The secondary segment information has been disclosed accordingly.

(c) Accounting policies:

The accounting policies adopted for segment reporting are in line with the accounting policies adopted by the Company for the purpose of these financial statements, except in respect of inter-segment revenues, which have been accounted on the basis of prevailing market rates.

Notes to the Financial Statements

for the year ended 31 December 2012 Currency: Rupees million

33. SEGMENT INFORMATION (continued)

Segment assets include all operating assets used by a segment and consist principally of debtors, inventories and fixed assets, net of allowances and provisions which are reported as direct offsets in the Balance Sheet. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two segments is allocated to the segments on a reasonable basis. Segment liabilities include all operating liabilities and consist principally of creditors and accrued liabilities. Segment assets and liabilities do not include current and deferred income taxes.

Segment revenue: Segment revenue comprises the portion of company's revenue that is directly attributable to a segment or that can be allocated on a reasonable basis to a segment, and intersegment transfer.

Segment expense: Segment expense comprises the expense resulting from the operating activities of a segment that is directly attributable to the segment or that can be allocated on a reasonable basis to the segment and expense relating to transactions with other segments.

Inter-segment transfers: Segment revenue, segment expense and segment result include transfers between business segments and between geographical segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar goods. Those transfers are eliminated in preparing company-wide results.

(d) Revenue comprises of:

	2012	2011
Sales (Net)	6,580.8	5,575.7
Other operating revenue	292.1	320.0
	6,872.9	5,895.7

\# Refer Note 26 for impairment adjustment

34. PAYMENT TO AUDITORS

	2012	2011
Audit fees	1.5	2.2
Taxation matters	0.7	0.2
Other matters	1.2	0.8
Out of pocket expenses	0.1	0.1
Service Tax	0.4	0.2
	3.9	3.5

35. EXPENDITURE IN FOREIGN CURRENCY

	2012	2011
Royalty	125.5	103.5
Consultancy fees (including IT Support charges)	47.0	37.6
Professional fees	104.7	83.5
Others (traveling, commission, etc.)	78.7	50.9
	355.9	275.5

Amounts disclosed above are on accrual basis

36. VALUE OF IMPORTS (ON C.I.F. BASIS)

	2012	2011
Raw materials	708.2	640.4
Finished goods	800.7	757.2
Components, Stores and Spare Parts	0.6	1.1
Capital goods	30.2	31.8
	1,539.7	1,430.5

Notes to the Financial Statements

for the year ended 31 December 2012 Currency: Rupees million

37. EARNINGS IN FOREIGN EXCHANGE

	2012	2011
Exports of goods on F.O.B. basis	729.8	538.9
Indenting commission	0.6	1.5
Others (Recoveries of SAP expenses, freight, insurance, etc.)	71.4	31.1
	801.8	571.5

38. RESEARCH AND DEVELOPMENT

Research expenses incurred during the year and debited to the statement of profit and loss aggregate to Rs. 53.5 million (2011: Rs. 31.0 million).

Of the above, the composition of Rs. 50.1 million (2011: Rs. 28.3 million) disclosed as “Research and Development Expenses” in Note 22 is set out below:

	2012	2011
Salaries, Wages, Bonus and Allowances	9.7	8.1
Contribution to Provident Fund and Other Funds	0.4	0.3
Contribution to Group Gratuity Scheme	0.1	*
Staff Welfare and Amenities	0.4	0.2
Stores and Spare Parts Consumed	2.2	2.1
Research Expenses	22.9	13.1
Others	14.4	4.5
	50.1	28.3

The balance amount of Rs. 3.4 million (2011: Rs. 2.7 million) represents depreciation on fixed assets used for Research and Development purposes.

39. EARNINGS PER SHARE (‘EPS’)

		2012	2011
Profit after tax attributable to equity shareholders	A	784.0	636.8
Calculation of weighted average number of equity shares			
Number of equity shares at the beginning of the year		16,599,382	16,599,382
Number of equity shares outstanding at the end of the year		16,599,382	16,599,382
Weighted average number of equity shares outstanding during the year	B	16,599,382	16,599,382
Basic and diluted earnings per share (Rs.)	A/B	47.2	38.4
Face value per share (Rs.)		10.0	10.0

40. DUES TO MICRO, SMALL AND MEDIUM ENTERPRISES

Under the Micro Small and Medium Enterprises Development Act, 2006, (MSMED) which came into force from October 2, 2006, certain disclosures are required to be made relating to transactions with Micro Small and Medium enterprises. On the basis of the information and records available with the Management, the following disclosures are made for the amounts due to the Micro Small and Medium enterprises, who have registered with the competent authorities:

	2012	2011
Principal amount remaining unpaid to any supplier as at the year end	2.2	1.3
Interest due thereon	*	—
Amount of interest paid by the Company in terms of Section 16 of the MSMED, along with the amount of the payment made to the supplier beyond the appointed day during the accounting year	—	—
Amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the MSMED	*	*
Amount of interest accrued and remaining unpaid at the end of the accounting year	*	*
Amount of further interest remaining due and payable even in the succeeding years, for the purpose of disallowance as a deductible expenditure under Section 23 of the MSMED Act, 2006	—	—

Notes to the Financial Statements

for the year ended 31 December 2012 Currency: Rupees million

41. TRANSFER PRICING

Transactions with overseas related parties are governed by transfer pricing regulations of the Indian Income-tax Act, 1961. The Company's international transactions with related parties are at arm's length as per the independent accountants report for the year ended 31 March 2012. Management believes that the Company's international transactions with related parties post March 2012 continue to be at arm's length and that the transfer pricing legislation will not have any impact on the financial statements, particularly on the amount of tax expense and that of provision for taxation.

42. Information with regard to other matter specified in Schedule VI to the Act is either nil or not applicable to the Company for the year.

43. PRIOR YEAR FIGURES

Previous year's figures have been regrouped/rearranged wherever necessary to conform to current year's presentation.

As per our report of even date attached

For B S R & Co.
Chartered Accountants
Firm Registration No. 101248W

Bhavesh Dhupelia
Partner
Membership No.: 042070

Mumbai, 30 January, 2013

Vikas R. Gupta
Company Secretary

Signatures to Schedules
For and on behalf of the Board of Directors

S. N. Talwar — Chairman

C. Boedecker — Managing Director

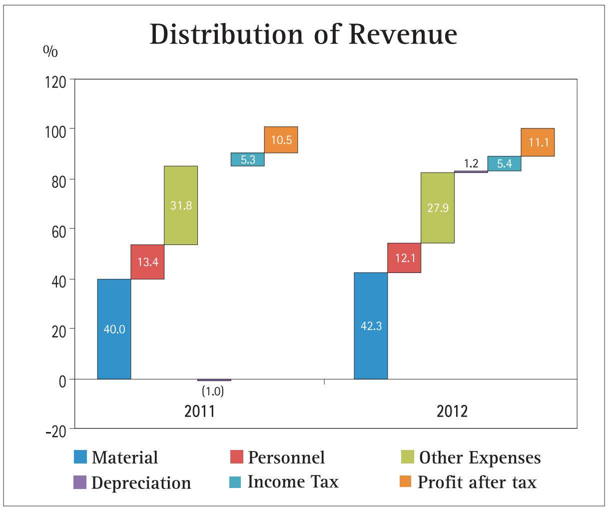
H. C. H. Bhabha
E. A. Kshirsagar
N. Krishnan
P. H. Pimplikar
} Directors

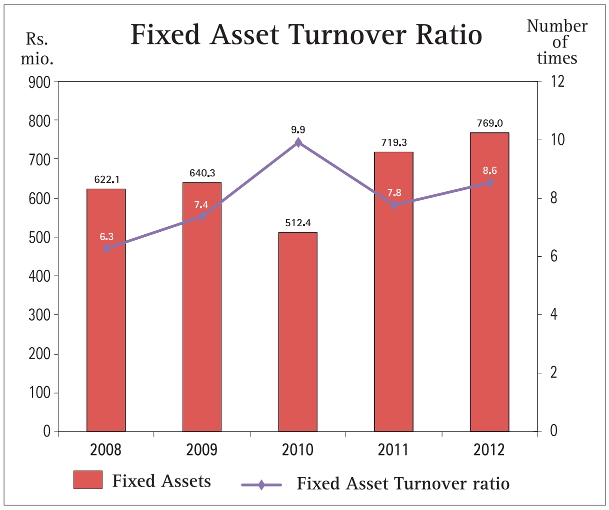
Financial Highlights : 2003-2012

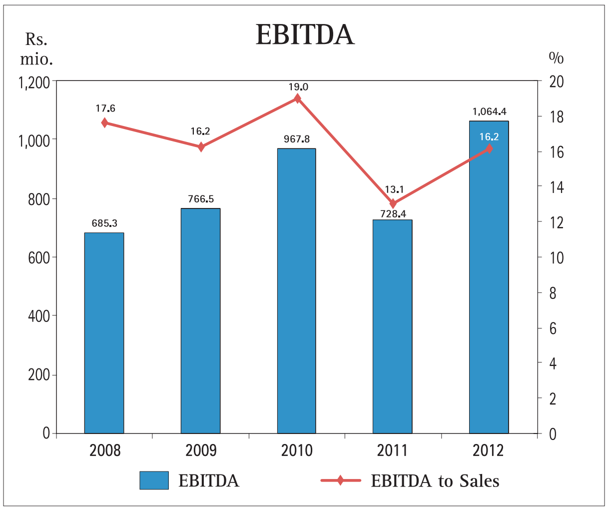
		2003	2004	2005	2006	2007	2008	2009	2010	2011 ##	Change +/- in %	2012 ##
PROFIT & LOSS ACCOUNT SUMMARY												
Turnover	Rs. Mio.	3,641.7	3,766.0	3,964.6	3,294.9	3,148.3	3,894.6	4,731.1	5,090.8	5,575.7	18.0	6,580.7
Operating and Other Income	“	106.6	138.2	183.7	967.2	395.0	477.1	432.1	433.7	488.8	1.1	494.1
	“	3,748.3	3,904.2	4,148.3	4,262.1	3,543.3	4,371.7	5,163.2	5,524.5	6,064.5	16.7	7,074.8
Costs & Expenses												
Materials Cost	“	1,760.7	1,722.1	1,797.1	1,393.2	1,264.9	1,599.9	2,060.9	2,078.7	2,427.8	23.2	2,990.2
Personnel Expenses	“	672.4	305.7	310.0	339.3	332.0	477.6	570.2	684.6	811.0	5.2	853.0
Operating and Other Expenses	“	627.9	704.6	791.9	768.2	881.9	1,319.5	1,492.5	1,590.3	1,933.1	2.2	1,974.7
Depreciation/Impairment loss (reversal)	“	96.1	86.0	77.5	64.4	65.9	57.3	75.1	213.8	(63.3)	–240.6	89.0
	“	3,157.1	2,818.4	2,975.7	2,565.1	2,544.7	3,454.3	4,198.7	4,567.4	5,108.6	15.6	5,906.9
Profit Before Taxation	“	591.2	1,085.8	1,172.6	1,697.0	998.6	917.4	964.5	957.1	955.9	22.2	1,167.9
Provision for Taxation	“	194.8	375.9	384.7	363.5	310.4	287.3	309.7	325.3	319.1	20.3	383.9
Profit After Taxation	“	396.4	709.9	787.9	1,333.5	688.2	630.1	654.8	631.8	636.8	23.1	784.0
BALANCE SHEET SUMMARY												
Assets Employed												
Fixed Assets (Gross)	Rs. Mio.	1,290.0	1,128.1	1,152.2	1,153.9	1,168.2	1,405.8	1,482.9	1,536.0	1,679.4	6.2	1,783.8
Fixed Assets (Net)	“	616.5	471.6	447.4	403.1	405.0	622.1	640.3	512.4	719.3	6.9	769.0
Investments	“	724.7	1,252.8	1,406.7	2,480.7	2,339.7	1,529.3	238.2	201.8	227.4	4.0	236.4
Current and Non-Current Assets (Net)	“	633.8	780.8	1,152.6	1,092.4	1,532.3	2,386.3	3,815.6	2,715.4	3,162.5	21.4	3,838.4
Deferred Tax Assets (Net)	“	-	-	-	-	-	-	-	34.6	–	–	–
		1,975.0	2,505.2	3,006.7	3,976.2	4,277.0	4,537.7	4,694.1	3,464.2	4,109.2	17.9	4,843.8
Financed by												
Share Capital	Rs. Mio.	168.6	168.6	168.6	168.6	168.6	168.6	166.0	166.0	166.0	–	166.0
Reserves and Surplus	“	1,793.9	2,313.2	2,812.7	3,761.7	4,060.4	4,345.3	4,506.9	3,298.2	3,934.8	18.7	4,670.6
Shareholders’ Funds	“	1,962.5	2,481.8	2,981.3	3,930.3	4,229.0	4,513.9	4,672.9	3,464.2	4,100.8	17.9	4,836.6
Deferred Tax Liability (Net)	“	12.5	23.4	25.4	45.9	48.0	23.8	21.2	-	8.4	–14.3	7.2
	“	1,975.0	2,505.2	3,006.7	3,976.2	4,277.0	4,537.7	4,694.1	3,464.2	4,109.2	17.9	4,843.8
OTHER INVESTOR INFORMATION												
Earnings Per Share	Rs.	23.5	42.1	46.7	79.1	40.8	37.4	39.0	38.1	38.4	22.9	47.2
Dividend	%	100.0	100.0	150.0	200.0	200.0	175.0	200.0	950.0	–	-	25.0
Book Value Per Share	Rs.	116.4	147.2	176.8	233.1	250.8	267.7	281.5	208.7	247.0	18.0	291.4
Market Value of Share (BSE)	High Rs.	460	598	590	639	500	460.0	634	1,006	760	-6.0	714
	Low Rs.	215	301	375	425	372	260.0	293	566	553	0.4	555
No. of Shareholders		25,487	25,304	25,235	24,805	25,718	26,096.0	24,083	27,284	27,313	–1.7	26,857
No. of Employees		950	927	952	860	922	1,072	1,245	1,257	1,257	1.6	1,277

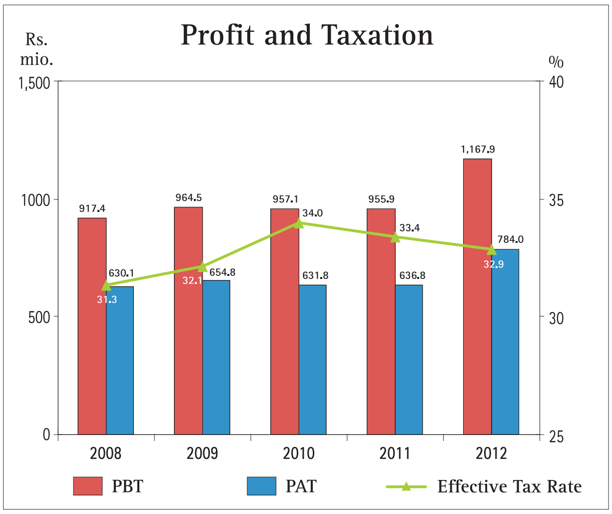
as per revised Schedule VI

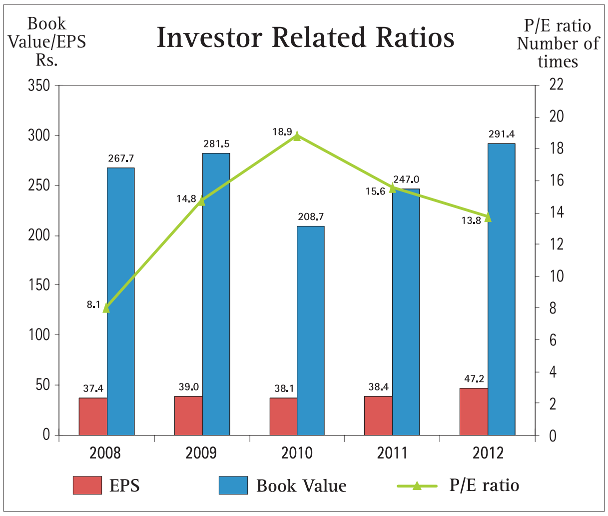
PERFORMANCE INDICATORS

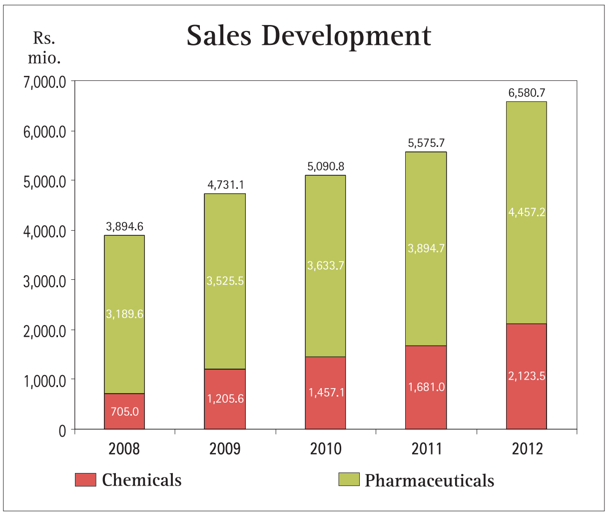












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MERCK

Merck Limited- Dr. A. B. Rd,Worli,-400 018 Mumbai

Date 28th February, 2013
Division/Dept.
Care of
Phone
Fax
E-mail

Your letter
Your ref.

FORM A

(Pursuant to Clause 31 of the listing agreement and SEBI circular no. CIR/ CFD/ DIL/ 7/ 2012 dated August 13, 2012)

Covering letter of the annual audit report (unqualified report) to be filed with the Stock Exchange along with 6 copies of Annual Report.

1.	Name of the Company	Merck Limited
2.	Annual financial statements for the year ended	31st December, 2012
3.	Type of Audit observation	Unqualified as per the enclosed Audit report dated 30th January, 2013.
4.	Frequency of observation	Not applicable

For and on behalf of the Board of Directors of Merck Limited

Dr. Claus Dieter Boedecker
Managing Director

Krishnan Narayanaswamy
CFO & Director- Finance

S. N. Talwar
Chairman – Audit Committee

For B S R & Co.
Chartered Accountants
Firm's Registration No: 101248W

Bhavesh Dhupelia
Partner
Membership No: 042070

MERCK LIMITED MUMBAI

Enclosure : Audit report dated 30th January, 2013 on financial results of Merck Limited pursuant to clause 41 of Listing agreement.

Merck Limited
Shiv Sagar Estate 'A',
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