MERCK INDIA ANNUAL REPORT 2014

INNOVATION PROPELS OUR GROWTH

We aspire to
MAKE GREAT THINGS HAPPEN

Not everything we do leads to a breakthrough, but we never lose sight of the human needs that motivate us. With our research-driven specialty businesses, we help patients, customers, partners and our communities around the world live a better life.

We Deliver Entrepreneurial Success Through Innovation.

Merck Limited

Forty-Eighth Annual Report and Statement of Accounts 2014

Board of Directors

Mr. S. N. Talwar
Independent Director – Chairman of the Board

Mr. Anand Nambiar
Managing Director (appointed w.e.f. 05 February 2015)

Dr. Claus-Dieter Boedecker
Managing Director (resigned w.e.f. 31 January 2015)

Mr. H. C. H. Bhabha
Independent Director

Mr. E. A. Kshirsagar
Independent Director (resigned w.e.f. 13 January 2015)

Mrs. Rani A. Jadhav
Independent Director (appointed w.e.f. 05 February 2015)

Dr. Peter-Ulrich Mannheimer
Non-Executive Director

Mr. Pramod H. Pimplikar
Executive Director – Technical Operations
(resigned w.e.f. 13 January 2015)

Mr. Brijesh Kapil
Executive Director – Consumer Health Division
(appointed w.e.f. 05 February 2015)

Mr. Ali Sleiman
Executive Director – Merck Serono Division
(appointed w.e.f. 05 February 2015)

Mr. N. Krishnan
CFO & Executive Director – Finance

General Counsel & Company Secretary

Mr. Vikas R. Gupta

Auditors

B S R & Co. LLP,
Chartered Accountants

Bankers

Canara Bank
Deutsche Bank AG
ICICI Bank Limited
HDFC Bank Limited

Contents

Registered Office

Shiv Sagar Estate 'A'
Dr. Annie Besant Road
Worli, Mumbai-400 018
Phone: +91 22 66609000
Fax: +91 22 24950307
Website: www.merck.co.in

Corporate Identity Number

L99999MH1967PLC013726

Plant Location

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

Registrar & Share Transfer Agent

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-Eighth Annual General Meeting of the Members of Merck Limited will be held on Wednesday, April 08, 2015 at 3 p.m. at Sunville Banquets, 3rd Floor, Royal Room, 9, Dr. Annie Besant Road, Worli, Mumbai-400 018 to transact the following business:

1. To receive, consider and adopt the Audited Financial Statements of the Company for the year ended December 31, 2014, including the audited Balance Sheet as at December 31, 2014, the statement of Profit and Loss for the year ended on that date together with the reports of the Board of Directors and Auditors thereon.

2. To declare a dividend for the year 2014.

3. To appoint a Director in place of Mr. N. Krishnan (DIN: 01027659) who retires by rotation and, being eligible, offers himself for re-appointment.

4. To consider and, if thought fit, to pass, with or without modification(s) the following resolution as ORDINARY RESOLUTION:

   "**RESOLVED THAT** pursuant to the provisions of Section 139 and other applicable provisions, if any, of the Companies Act, 2013 ("the Act") and the Rules framed thereunder, as amended from time to time, B S R & Co. LLP, Chartered Accountants Firm Registration No.: (101248W/ W-100022), be and is hereby re-appointed as Auditors of the Company to hold office from the conclusion of this Annual General Meeting (AGM) until the conclusion of the next AGM of the Company to be held in the year 2016, at such remuneration plus service tax, out-of-pocket, travelling and living expenses, etc., as may be mutually agreed between the Board of Directors of the Company and the Auditors".

5. To consider and, if thought fit, to pass, with or without modification, as an ORDINARY RESOLUTION the following:

   "**RESOLVED THAT** pursuant to the provisions of Sections 149 and 152 and any other applicable provisions of the Companies Act, 2013 and Rules framed thereunder (including any statutory modification or re-enactment thereof for the time being in force) to the Companies Act, 2013, Mr. S.N. Talwar (DIN: 00001456) a Non-Executive Director of the Company, who has submitted a declaration that he meets the criteria of independence as provided under Section 149(6) of the Act and who is eligible for appointment be and is hereby appointed as an Independent Director of the Company, to hold office for a term of five years, commencing from April 08, 2015 to April 07, 2020, not liable to retire by rotation".

6. To consider and, if thought fit, to pass, with or without modification, as an ORDINARY RESOLUTION the following:

   "**RESOLVED THAT** pursuant to the provisions of Sections 149 and 152 and any other applicable provisions of the Companies Act, 2013 and Rules framed thereunder (including any statutory modification or re-enactment thereof for the time being in force) to the Companies Act, 2013, Mr. H.C.H. Bhabha (DIN: 00286072) a Non-Executive Director of the Company, who has submitted a declaration that he meets the criteria of independence as provided under Section 149(6) of the Act and who is eligible for appointment be and is hereby appointed as an Independent Director of the Company, to hold office for a term of five years, commencing from April 08, 2015 to April 07, 2020, not liable to retire by rotation".

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

   "**RESOLVED THAT** pursuant to the provisions of Sections 149 and 152 and any other applicable provisions of the Companies Act, 2013 and Rules framed thereunder (including any statutory modification or re-enactment thereof for the time being in force) to the Companies Act, 2013, Mrs. Rani Ajit Jadhav (DIN: 07070938) a Non-Executive Additional Independent Director of the Company, who has submitted a declaration that she meets the criteria of independence as provided under Section 149(6) of the Act and who is eligible for appointment be and is hereby appointed as an Independent Director of the Company, to hold office for a term of five years, commencing from April 08, 2015 to April 07, 2020, not liable to retire by rotation".

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

   "**RESOLVED THAT** Mr. Anand Nambiar (DIN: 02006594) who was appointed as an Additional Director of the Company by the Board of Directors be and is hereby appointed as a Director of the Company".

   "**RESOLVED FURTHER THAT** subject to the approval of the Central Government and pursuant to the provisions of Sections 196 and 197 and any other applicable provisions, if any, of the Companies Act, 2013 read with Schedule V 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. Anand Nambiar as the Managing Director of the Company for a period

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from February 05, 2015 until September 30, 2017 on the terms and conditions as set out in the Agreement dated February 05, 2015 entered into between him and the Company, an extract of which is placed in the explanatory statement attached hereto with the liberty to the Board of Directors of the Company to alter and vary the terms and conditions of appointment and/or remuneration, subject the same is 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. Anand Nambiar, the remuneration by way of salary, bonus, commission and other allowances not exceeding the limits specified under Section II, Part II of Schedule V to the Companies Act, 2013 (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".

9. To consider and, if thought fit, to pass, with or without modification, as an ORDINARY RESOLUTION the following:

"**RESOLVED THAT** Mr. Brijesh Kapil (DIN: 06949048) who was appointed as an Additional Director of the Company by the Board of Directors be and is hereby appointed as a Director of the Company".

"**RESOLVED FURTHER THAT** pursuant to the provisions of Sections 196 and 197 and any other applicable provisions, if any, of the Companies Act, 2013 read with Schedule V 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. Brijesh Kapil as a Wholetime Director of the Company for a period of five years with effect from February 05, 2015 until February 04, 2020 on the terms and conditions as set out in the Agreement dated February 05, 2015 entered into between him and the Company, an extract of which is placed in the explanatory statement attached hereto with the liberty to the Board of Directors of the Company to alter and vary the terms and conditions of appointment and/or remuneration, subject the same is 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. Brijesh Kapil, the remuneration by way of salary, bonus, commission and other allowances not exceeding the limits specified under Section II, Part II of Schedule V to the Companies Act, 2013 (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".

10. To consider and, if thought fit, to pass, with or without modification, as an ORDINARY RESOLUTION the following:

"**RESOLVED THAT** Mr. Ali Sleiman (DIN:07055130) who was appointed as an Additional Director of the Company by the Board of Directors be and is hereby appointed as a Director of the Company".

"**RESOLVED FURTHER THAT** pursuant to the approval of the Central Government and the provisions of Sections 196 and 197 and any other applicable provisions, if any, of the Companies Act, 2013 read with Schedule V 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. Ali Sleiman as a Wholetime Director of the Company for a period from February 05, 2015 to September 30, 2017 on the terms and conditions as set out in the Agreement dated February 05, 2015 entered into between him and the Company, an extract of which is placed in the explanatory statement attached hereto with the liberty to the Board of Directors of the Company to alter and vary the terms and conditions of appointment and/or remuneration, subject the same is 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. Ali Sleiman, the remuneration by way of salary, bonus, commission and other allowances not exceeding the limits specified under Section II, Part II of Schedule V to the Companies Act, 2013 (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".

11. To consider and, if thought fit, to pass, with or without modification, as an ORDINARY RESOLUTION the following:

"**RESOLVED THAT** pursuant to the provisions of Section 148(3) and other applicable provisions, if any, of the Companies Act, 2013, read with the Companies (Audit and Auditors) Rules, 2014, the consent of the Company be and is hereby given for payment of remuneration of Rs. 2 lacs

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(Rupees Two lacs only) plus applicable taxes and out of pocket expenses for conducting audit of the cost records of the Company for the financial year 2015 to M/s. Joshi Apte and Associates, Cost Accountants who were appointed as Cost Auditor of the Company by the Board of Directors at its meeting held on February 05, 2015".

"**RESOLVED FURTHER THAT** the Board of Directors of the Company (including its Committee thereof), be and is hereby authorized to do all acts and take all such steps as may be necessary, proper or expedient to give effect to this resolution".

12. 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 the Clause 49 of the Listing Agreement and other applicable provisions if any, including any statutory modification or re-enactment thereto, approval of the Company be and is hereby accorded to the Board of Directors to enter into agreement or transactions or arrangement with Merck KGaA, Germany, a Related Party, as defined in the Companies Act 2013 and the Listing Agreement for purchase, sale, import and export of products, services, technical consultancy services, intellectual property rights, royalty, IT services, reimbursement/ recovery cost or other obligations on such terms and conditions as may be mutually agreed upon between the Company and Merck KGaA for an amount not exceeding Rs. 200 crores (Rupees Two Hundred crores only) in each financial year".

"**RESOLVED FURTHER THAT** the Board of Directors or any committee thereof be and is hereby authorised to do all such acts, deeds, matters and things, and to finalise the terms and conditions as may be necessary to give effect to this Resolution".

By Order of the Board of Directors

Vikas R. Gupta
General Counsel & Company Secretary

Mumbai, February 05, 2015

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

CIN: L99999MH1967PLC013726

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 Forty-Eight (48) hours before commencement of the Meeting. Proxies submitted on behalf of limited companies, societies, etc., must be supported by appropriate resolutions/authority, as applicable.

2. A person can act as proxy on behalf of members not exceeding fifty and holding in the aggregate not more than ten percent of the total share capital of the Company carrying voting rights. A member holding more than ten percent of the total share capital of the Company carrying voting rights may appoint a single person as proxy and such person shall not act as a proxy for any other person or shareholder.

3. *Explanatory Statement for the Special Business:* The relevant Explanatory Statement pursuant to Section 102 of the Companies Act, 2013 in respect of the Item Nos. 5 to 12 of the Notice is annexed.

4. The relevant details as required under clause 49 of the Listing Agreements entered into with Stock Exchanges, of persons seeking appointment/re-appointment as Directors are also annexed.

5. *Book Closure Dates:* The Register of Members and the Share Transfer Books of the Company will remain closed from Monday, April 06, 2015 to Wednesday, April 08, 2015 (both days inclusive) for the purpose of Annual General Meeting.

6. If the dividend as recommended by the Board of Directors is approved at the Annual General Meeting, payment of such dividend will be made on or before Thursday, May 07, 2015 as under:

   a. To all Beneficial Owners in respect of shares held in dematerialised form as per the data as may be made available by the National Securities Depository Limited and the Central Depository Services (India) Limited as of the close of business hours on April 05, 2015;

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b. To all Members in respect of shares held in physical form after giving effect to valid transfers in respect of transfer requests lodged with the Company on or before the close of business hours on April 04, 2015.

7. Members holding shares in electronic form may please note that their bank details as furnished by the respective Depositories to the Company will be considered for remittance of dividend as per the applicable regulations of the Depositories and the Company will not entertain any direct request from such Members for change/deletion in such bank details. Further, instructions if any, already given by them in respect of shares held in physical form, will not be automatically applicable to the dividend paid on shares held in electronic form. Members may, therefore, give instructions regarding bank accounts in which they wish to receive dividend to their DPs.

8. *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, 2013, no claim 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, 2006 have been transferred to "Investor Education and Protection Fund". A list of shareholders whose such unclaimed dividend has been transferred is available on Company's website www.merck.co.in. Members who have not encashed the dividend warrant(s) so far for the year ended December 31, 2007 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') whose contact details are given at the end of this notice.

9. *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.

10. *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.

11. In compliance with the provisions of Section 108 of the Companies Act, 2013, the Rules framed thereunder and Clause 35B of the Listing Agreement the Members are provided with the facility to cast their vote electronically, through the e-voting services provided by NSDL, on all resolutions set forth in this Notice. All shareholders holding shares as on February 27, 2015 (end of the day) being the cut-off date [i.e record date for the purpose of Rule 20(3)(vii) of the Companies (Management and Administration) Rules, 2014]fixed for determining voting rights of members will be entitled to participate in e-voting process.

Instructions for E-voting

A. For members whose email IDs are registered with the Company/Depository Participants will receive an e-mail from NSDL:

a) Open the e-mail and also open PDF file sent to you in the email by NSDL. The file will prompt for a password. Kindly input your Client ID or Folio No. as may be applicable in the box prompted for password. The said PDF file contains your user ID and password/PIN for e-voting. Please note that this password is an initial password only.

b) Launch Internet browsing by typing the following URL

https://www.evoting.nsdl.com.

c) Click on Shareholder – Login.

d) Put User ID and password as initial password noted in step (a) above. Click login.

e) Password Change Menu appears. Change the password with new password of your choice with minimum 8 digits/characters or a combination thereof. Note down your new password. It is strongly recommended not to share your password with any other person and take utmost care to keep your password confidential.

f) Home page of 'e-voting' opens. Click on 'e-voting'- Active Voting Cycles.

g) Select "EVEN" of Merck Limited.

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h) Now you are ready for e-voting as "Cast Vote" page opens.

i) Cast your vote by selecting appropriate option and click on "Submit" and also "Confirm" when, prompted.

j) Upon confirmation, the message "Vote cast successfully" will be displayed.

k) Votes once cast cannot be modified

l) Institutional shareholders (i.e. other than individuals, HUF, NRI, etc.) are required to send scanned copy (PDF/JPG format) of the relevant Board Resolution/ Authority letter etc., together with attested specimen signature of the duly authorized signatory(ies) who are authorized to vote, to the Scrutinizer through e-mail to evoting@sarafandassociates.com with a copy marked to evoting@nsdl.co.in

B. In case of shareholders' receiving physical copy of Annual Report initial password will be provided at the bottom of the attendance slip circulated alongwith this Annual Report. Please follow all steps from Sl. No (b) to Sl. No (l) above, to cast vote.

C. If shareholder is already registered with NSDL for e-voting, then shareholder can use his existing user id and password for casting vote.

The voting period commences from 9.00 a.m. on 2nd April, 2015 and ends at 6.00 p.m. on 4th April, 2015. The e-voting module will be disabled for voting thereafter by NSDL. During this periods the members of the Company, holding shares either in physical form or in demat form, as on the cut-off date of February 27, 2015 may cast their votes electronically.

In case of any queries, you may refer the frequently asked Questions (FAQs) for shareholders and e-voting user manual for shareholders available at the "downloads" section of **www.evoting.nsdl.com** or call on toll free no: 1800-222-990.

The Scrutinizer shall within a period of not exceeding three (3) working days from the conclusion of the e-voting period will submit his report of the votes cast in favour or against, if any, forthwith to the Chairman of the Company. The results declared along with the Scrutinizer's report will be placed on the Company's website **www.merck.co.in** and website of NSDL **www.nsdl.co.in** within two (2) days of passing of the resolutions at the 48th Annual General Meeting of the Company and communicated to the Stock Exchanges.

Mr. K.G. Saraf of Saraf and Associates, Practicing Company Secretaries (Membership No. FCS: 1596), has been appointed as the Scrutinizer to scrutinize the e-voting process (including the physical Form received from the Members who do not have access to the e-voting process) in a fair and transparent manner.

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. Pursuant to Section 101 of the Act read with applicable rules, the Annual report for the year 2014 is being sent through electronic mode to all those Members whose email IDs are registered with the Company or Depository Participants at the email ID so provided. For Members who have not registered their email ID with the Company or Depository Participants, a physical copy of the Annual report for the year 2014 is being sent by permitted mode of communication.

3. *Green Initiative:* Members are requested to bring their copies of the Annual Report to the Meeting.

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

   a) *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

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

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c) *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.

4. Members holding shares in dematerialised form are requested to intimate all changes pertaining to their bank details, National Electronic Clearing Service (NECS), Electronic Clearing Service (ECS), mandates, nominations, power of attorney, change of address, change of name, e-mail address, contact numbers, etc., to their Depository Participant (DP). Changes intimated to the DP will then be reflected in the Company's records which will help the Company and the Company's Registrars and Transfer Agents, Sharepro Services to provide efficient and better services. Members holding shares in physical form are requested to intimate such changes to Sharepro Services.

5. Members holding shares in physical form are requested to consider converting their holding to dematerialized form to eliminate all risks associated with physical shares and for ease in portfolio management. Members can contact the Company or Sharepro Services, for assistance in this regard.

Contact Details:
Company
Merck Limited
Mr. Jeevan Mondkar
Manager – Legal & Secretarial Department
Shiv Sagar Estate, 'A', Dr. Annie Besant Road
Worli, Mumbai-400 018.
Phone: 022-66609000
Email : jeevan.mondkar@merckgroup.com

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

EXPLANATORY STATEMENT:

(Pursuant to Section 102 of the Companies Act, 2013)

Item Nos. 5 to 7:

Pursuant to the provisions of Section 149 of the Companies Act, 2013, the Company needs to have at least one-third of the total number of directors as Independent Directors, who are not liable to retire by rotation, accordingly, the Company has appointed Mr. S.N. Talwar, Mr. H.C.H. Bhabha and Mrs. Rani Ajit Jadhav as Independent Directors, in compliance with the requirements.

The matter regarding appointment of Mr. S.N. Talwar, Mr. H.C.H. Bhabha and Mrs. Rani Ajit Jadhav as Independent Directors for a term of 5 years was placed before the Nomination and Remuneration Committee and the Board at their meetings held on February 05, 2015 which recommended their appointment as Independent Directors. While recommending the appointment of Mr. S.N. Talwar and Mr. H.C.H. Bhabha the Board has evaluated their performance at its meeting held on February 05, 2015.

Mr. S.N. Talwar, Mr. H.C.H. Bhabha and Mrs. Rani Ajit Jadhav have confirmed that they meet the criteria of independence as provided under Section 149(6) of the Act. In the opinion of the Board the above named directors meet the Independence criteria for appointment as Independent Directors of the Company and they are independent of management of the Company. The Board considers that their continued association would be of immense benefit to the Company and it is desirable to continue to avail of services of these Independent Directors.

The Company has received a notice in writing from a member of the Company along with the deposit of requisite amount under Section 160 of the Act proposing candidature of the above named Directors as Independent Directors of the Company for a period of 5 years with effect from April 08, 2015.

None of the Directors or Key Managerial Personnel of the Company or their relatives, other than Mr. S.N. Talwar, Mr. H.C.H. Bhabha and Mrs. Rani Ajit Jadhav (being appointees) are interested, financially or otherwise, in their respective resolutions placed at Item Nos. 5, 6 and 7.

The draft terms and conditions of appointment of Mr. S.N. Talwar, Mr. H.C.H. Bhabha and Mrs. Rani Ajit Jadhav will be open for inspection by the

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Members at the Registered Office of the Company on all working days (Monday – Friday) between 11.00 am and 1.00 pm upto the date of Annual General Meeting.

A brief profile of Mr. S.N. Talwar, Mr. H.C.H. Bhabha and Mrs. Rani Ajit Jadhav, the non-executive directors of the Company, are placed in the annexure attached hereto.

The Board recommends the resolutions set forth at Item Nos. 5, 6 and 7 of the Notice for approval of the Members of the Company.

Item No. 8:

The Board of Directors of the Company at its Meeting held on February 05, 2015 appointed Mr. Anand Nambiar as an Additional Director of the Company with effect from February 05, 2015 pursuant to Section 161(1) of the Companies Act, 2013, read with Article 114 of the Articles of Association of the Company. In terms of the provisions of Section 161(1) of the Act, Mr. Anand Nambiar holds office up to the date of the ensuing Annual General Meeting.

The Company has received a notice in writing from a member of the Company along with the deposit of requisite amount under Section 160 of the Act proposing candidature of Mr. Anand Nambiar as Directors of the Company.

Further Board also appointed Mr. Anand Nambiar as the Managing Director of the Company for a period from February 05, 2015 to September 30, 2017, subject to the approval of the members in general meeting and the Central Government.

The material terms of the contract dated February 05, 2015 entered into between the Company and Mr. Anand Nambiar are as under:

I. Period: From February 05, 2015 to September 30, 2017.

II. Mr. Anand Nambiar shall be in charge of the day to day management of the Company.

III. The total remuneration payable to Mr. Anand Nambiar shall be as follows:

   (i) *Salary & Commission:* For the period of appointment as stated above, the aggregate remuneration payable to Mr. Anand Nambiar by way of salary and commission shall be a maximum of Rs. 20 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 196 and 197, read with Schedule V of the Companies Act, 2013.

   (ii) *Perquisites:* In addition to the above remuneration he would also 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 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 196 and 197 read with Schedule V of the Act. For the purpose of calculating the above ceiling, perquisites shall be evaluated as per Income Tax Rules, wherever applicable.

   In addition, Mr. Anand Nambiar 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. If at any time, Mr. Anand Nambiar, Managing Director is disqualified/ceased to be Director of the Company, for any cause whatsoever, he will vacate the office of Managing Director of the Company.

The Agreement entered into by the Company with Mr. Anand Nambiar is open to inspection by Members at the Registered Office of the Company between 11.00 am and 1.00 pm on all days except Saturdays and Sundays and public holidays, up to and including the day of the Annual General Meeting.

Except Mr. Anand Nambiar, no other Director or Key Management Personnel or their respective relatives are concerned or interested in the Resolution.

Notice of Annual General Meeting

A brief profile of Mr. Anand Nambiar, Additional Director of the Company is placed in the Annexure attached hereto.

The Board recommends the resolution set forth at Item No. 8 of the Notice for approval of the Members of the Company.

Item No. 9:

The Board of Directors of the Company at its Meeting held on February 05, 2015 appointed Mr. Brijesh Kapil as an Additional Director of the Company with effect from February 05, 2015 pursuant to Section 161(1) of the Companies Act, 2013, read with Article 114 of the Articles of Association of the Company. In terms of the provisions of Section 161(1) of the Act, Mr. Brijesh Kapil holds office up to the date of the ensuing Annual General Meeting.

The Company has received a notice in writing from a member of the Company along with the deposit of requisite amount under Section 160 of the Act proposing candidature of Mr. Brijesh Kapil as Director of the Company.

Further Board also appointed, subject to the approval of the members in general meeting, Mr. Brijesh Kapil as a Wholetime Director of the Company for a period of five years commencing from February 05, 2015 to February 04, 2020.

The material terms of the contract dated February 05, 2015 entered into between the Company and Mr. Brijesh Kapil are as under:

I. Period: From February 05, 2015 to February 04, 2020.

II. Mr. Brijesh Kapil shall be in charge of the Consumer Health Division of the Company or such other matters as may be assigned to him by the Board from time to time and he will be a Key Managerial Personnel.

III. The total remuneration payable to Mr. Brijesh Kapil shall be as follows:

   a) *Salary & Commission:* For the period of appointment as stated above, the aggregate remuneration payable to Mr. Brijesh Kapil by way of salary and commission shall be a maximum of Rs. 10 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 196 and 197, read with Schedule V of the Companies Act, 2013.

   b) *Perquisites:* In addition to the above remuneration he would also 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.10 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 196 and 197 read with Schedule V of the Act. For the purpose of calculating the above ceiling, perquisites shall be evaluated as per Income Tax Rules, wherever applicable.

   In addition, Mr. Brijesh Kapil shall be entitled to encashment of annual leave, contribution to provident fund, gratuity as per Rules of the Company and the Company shall pay and reimburse to the Wholetime 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. If at any time, Mr. Brijesh Kapil, Wholetime Director is disqualified/ceased to be Director of the Company, for any cause whatsoever, he will also vacate the office of Wholetime Director of the Company.

The Agreement entered into by the Company with Mr. Brijesh Kapil is open to inspection by Members at the Registered Office of the Company between 11.00 am and 1.00 pm on all days except Saturdays and Sundays and public holidays, up to and including the day of the Annual General Meeting.

Except Mr. Brijesh Kapil, no other Director or Key Management Personnel or their respective relatives are concerned or interested in the Resolution.

Notice of Annual General Meeting

A brief profile of Mr. Brijesh Kapil, Additional Director of the Company is placed in the Annexure attached hereto.

The Board recommends the resolution set forth at Item No. 9 of the Notice for approval of the Members of the Company.

Item No. 10:

The Board of Directors of the Company at its Meeting held on February 05, 2015 appointed Mr. Ali Sleiman as an Additional Director of the Company with effect from February 05, 2015, pursuant to Section 161(1) of the Companies Act, 2013, read with Article 114 of the Articles of Association of the Company. In terms of the provisions of Section 161(1) of the Act, Mr. Ali Sleiman will hold office up to the date of the ensuing Annual General Meeting.

The Company has received a notice in writing from a member of the Company along with the deposit of requisite amount under Section 160 of the Act proposing candidature of Mr. Ali Sleiman as Director of the Company.

The Board also appointed, Mr. Ali Sleiman as a Wholetime Director of the Company for a period from February 05, 2015 to September 30, 2017, subject to the approval of the members in general meeting and the Central Government.

The material terms of the contract dated February 05, 2015 entered into between the Company and Mr. Ali Sleiman are as under:

I. Period: From February 05, 2015 to September 30, 2017.

II. Mr. Ali Sleiman shall be in charge of the management of the Pharma Division Company and he will be a Key Managerial Personnel.

III. The total remuneration payable to Mr. Ali Sleiman shall be as follows:

   a) *Salary & Commission:* For the period of appointment as stated above, the aggregate remuneration payable to Mr. Ali Sleiman by way of salary and commission shall be a maximum of Rs. 15 million (Rupees fifteen 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 196 and 197, read with Schedule V of the Companies Act, 2013.

   b) *Perquisites:* In addition to the above remuneration he would also 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. 15 million (Rupees fifteen 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 196 and 197 read with Schedule V of the Act. For the purpose of calculating the above ceiling, perquisites shall be evaluated as per Income Tax Rules, wherever applicable.

   In addition, Mr. Ali Sleiman shall be entitled to encashment of earned/privilege leave as per Rules of the Company and the Company shall pay and reimburse to the Wholetime 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. If at any time, Mr. Ali Sleiman, Executive Director is disqualified/ceased to be Director of the Company, for any cause whatsoever, he will also vacate office of Wholetime Director of the Company.

The Agreement entered into by the Company with Mr Ali Sleiman is open to inspection by Members at the Registered Office of the Company between 11.00 am and 1.00 pm on all working days except Saturdays and Sundays and public holidays, up to and including the day of the Annual General Meeting.

Except Mr. Ali Sleiman, no other Director or Key Managerial Personnel or their respective relatives are concerned or interested in the Resolution.

A brief profile of Mr. Ali Sleiman, additional Director of the Company is placed in the Annexure attached hereto.

Notice of Annual General Meeting

The Board recommends the resolution set forth at Item No. 10 of the Notice for approval of the Members of the Company.

Item No. 11:

The Board of Directors in its meeting held on February 05, 2015, on the recommendation of the Audit Committee had appointed M/s. Joshi Apte and Associates, Cost Accountants and recommended a remuneration of Rs. 2 lacs (Rupees Two lacs only) plus applicable taxes and out of pocket expenses for conducting audit of the cost records of the Company as applicable to the Company for the year 2015. As per the provisions of Section 148 of the Companies Act, 2013 and the Rules made thereunder, the remuneration to be paid to the cost auditors is subject to approval by the members of the Company.

The Board therefore recommends the resolution under Section 148 of the Companies Act, 2013 as an ordinary resolution for your approval.

None of the Directors or Key Managerial Personnel of the Company or their relatives are concerned or interested, in this Resolution.

The Board recommends the resolution set forth at Item No. 11 of the Notice for approval of the Members of the Company.

Item No. 12:

The Company, inter-alia, is engaged in the business of manufacturing, marketing, trading, distribution, imports, exports of pharmaceutical and chemical products. The Company in its ordinary course of business purchase, sale, import, export various products and services from and to Merck KGaA and its various affiliates, subsidiaries, associates companies.

Merck KGaA is a 'Related Party' within the meaning of Section 2(76) of the Companies Act, 2013 and Clause 49 of the Listing Agreement.

The aggregate value of the total transaction of purchase, sale, import and export of products, services, technical consultancy services, intellectual property rights, royalty, IT services, reimbursement/ recovery cost or other obligations with Merck KGaA may exceed the materiality threshold i.e. 10% of the annual turnover of the Company, therefore, in terms of provisions of Clause 49(VII) of the Listing Agreement, the Company would require the approval of the members by way of a special resolution. The estimated aggregate value of the transactions with Merck KGaA is Rs. 200 crores in the financial year.

These transactions with Merck KGaA are in the ordinary course of business of the Company and will be on arms length basis, Audit Committee in its meeting held on February 05, 2015 has accorded omnibus approval for entering into such transactions.

None of the Directors or Key Managerial Personnel of the Company or their relatives are concerned or interested, financially or otherwise, in the Resolution.

The Board recommends the Special Resolution set forth at Item No. 12 of the Notice for approval of the Members of the Company.

By Order of the Board of Directors

Vikas R. Gupta
General Counsel & Company Secretary

Mumbai, February 05, 2015

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

CIN: L99999MH1967PLC013726

Annexure to the Notice of Annual General Meeting

BRIEF PROFILE OF DIRECTORS SEEKING APPOINTMENT/RE-APPOINTMENT AT THE 48th ANNUAL GENERAL MEETING

Particulars	Mr. S. N. Talwar	Mr. H. C. H. Bhabha	Mrs. Rani Ajit Jadhav IAS (retd.)
Date of Birth Age (Years)	21/11/1937 (77)	15/12/1955 (59)	02/06/1948 (66)
Appointed on	February 05, 2015	February 05, 2015	February 05, 2015
Qualifications	B. Com, L.L.B, Solicitor	B. Com, F.C.A., A.C.A. (England & Wales)	B.A. (Hons.), Politics & Economics. PG Diploma, Development Administration
Expertise in Specific Areas	Corporate Laws, Corporate Taxation, International issue of securities, Foreign Exchange laws & Commercial Documentation	Finance, Accounts & Administration	Public Administrator & Regulator. Worked as Head of various public sector organization including MAFCO, State textile Corp. etc
Directorships held in other Public Limited Companies	Rhodia Specialty Chemicals India Limited Biocon Limited Blue Star Infotech Limited Elantas Beck India Limited FCI OEN Connectors Limited Johnson and Johnson Limited Samson Maritime Limited Shrenij & Co. Limited Sonata Software Limited Sun Sheild Chemicals Limited	Exedy India Ltd. SICGIL India Ltd.	Nil
Memberships/Chairmanships of Committees other than Merck Limited	**Audit Committee:** Biocon Limited (Member) Blue Star Infotech Limited (Member) Elantas Beck India Limited (Member) FCI OEN Connectors Limited (Chairman)	**Audit Committee:** Exedy India Limited (Member)	Nil
Shareholding in the Company as on 31 December, 2014	5914	29656	Nil

Notice of Annual General Meeting

Annexure to the Notice of Annual General Meeting

BRIEF PROFILE OF DIRECTORS SEEKING APPOINTMENT/RE-APPOINTMENT AT THE 48th ANNUAL GENERAL MEETING

Particulars	Mr. Anand Nambiar	Mr. Brijesh Kapil	Mr. Ali Sleiman	Mr. N. Krishnan
Date of Birth Age (Years)	30/12/1974 (40)	22/10/1960 (54)	01/04/1975 (39)	03/12/1969 (45)
Appointed on	February 05, 2015	February 05, 2015	February 05, 2015	October 22, 2012
Qualifications	Master in Business Administration Bachelor of Science in Electrical Engineering	PGDBM – MBA, Ph. D (Business Administration) Consumer Behaviour Bachelor of Veterinary Science	MBA, Bachelor of Pharmacy & Science	B.Com, CWA
Expertise in Specific Areas	Business administration, Managing quality assurance and supply chain of large Multi-National Companies	General business administration including marketing and sales	Managing commercial operations of Multi-National pharmaceutical companies.	Finance, Taxation function of the Company.
Directorships held in other Public Limited Companies	Nil	Nil	Nil	Nil
Memberships/Chairmanships of Committees other than Merck Limited	Nil	Nil	Nil	Nil
Shareholding in the Company as on 31 December, 2014	Nil	Nil	Nil	Nil

Directors' Report

Dear Members,

We are pleased to present the report on business and operations for the year ended December 31, 2014.

FINANCIAL HIGHLIGHTS:

The financial performance of your Company for the year ended December 31, 2014 is summarized below:

(Rupees million)

Particulars		2014	2013
Income from Operations		**8,674.9**	7,977.8
Other Income		**203.3**	214.5
Profit before Interest, Depreciation and Tax		**792.4**	983.2
Depreciation		**126.8**	100.7
Provision for Taxation (net)		**233.4**	323.7
Profit after tax		**432.2**	558.8
Profit available for appropriations		**2,100.5**	1,889.3
Appropriations:			
Transfer to General Reserve		**43.2**	55.9
Dividend (including Tax on Dividend)		**119.5**	165.1
Balance carried to the Balance Sheet		**1,937.8**	1,668.3
EPS			
– Basic	(Rs.)	**26.0**	33.7
– Diluted	(Rs.)	**26.0**	33.7

COMPANY'S OPERATIONAL PERFORMANCE:

Details of operational working of your Company are given in the Management Discussion and Analysis Report forming part of this Report. During the financial year ended December 31, 2014, your Company achieved a turnover of Rs. 8,324.5 million as against a turnover of Rs. 7,729.6 million in the previous year, registering a growth of 7.7%. During the year under report, the Pharmaceuticals segment registered an increase in turnover of 5.1% and, the Chemicals segment registered an increase of 13.5% as compared to the respective segment turnover achieved during the previous financial year.

The export turnover of your Company during the year 2014 was Rs. 677.4 million as against Rs. 707.7 million achieved in the previous 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 Messrs Saraf and Associates, Practicing 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 your Company are listed. During the year ended December 31, 2014 there is no change in the issued and subscribed capital of your Company, the outstanding capital as on December 31, 2014 is Rs. 166.0 million comprising of 16 million equity shares of Rs. 10/- each.

DIVIDEND:

Your Board of Directors have recommended a dividend of Rs. 6/- (Rupees six) per equity share for the year ended December 31, 2014. This is subject to approval of the Members at forthcoming Annual General Meeting.

FIXED DEPOSITS:

Your Company has not accepted any public deposits from the public or the Members during the year 2014 and no amount on account of principal or interest on public deposits was outstanding as on the date of the balance sheet.

CORPORATE SOCIAL RESPONSIBILITY:

In terms of the provisions of Section 135 of the Companies Act, 2013 your Company has constituted a CSR Committee under the chairmanship of an Independent Director of the Company. The Company also adopted CSR policy which is available on its website www.merck.co.in

During the year under review the Company has initiated following projects to meet its corporate social responsibility obligations.

(a) *Narmada Samgara Project:* During the year your Company has collaborated and extended support for improving lives of the people living in inaccessible areas along the banks of river Narmada, Madhya Pradesh. These tribal people are not having access to healthcare facilities, clean drinking water, and education. The Company has provided assistance by way of provision of medicines, sponsorship of doctors and water test equipment. The Company has also provided cash assistance for running a river ambulance which travels to villages inhabited along the banks of the river Narmada. The ambulance carries medicines and medical staff for on-the-spot medical checkup and providing treatment to sick. During the current financial year the Company intends to provide a boat for extending this service to additional areas. The Company has spent Rs. 3.0 million on this project, in the current financial year.

Directors' Report

(b) *CSR activities at Goa:* The Company, in the villages close to its factory in Goa, distributed free school uniforms and note books to students, through village Panchayat. A medical camp was also organized for the benefit of villagers. During the year the Company has spent Rs. 0.12 million on these activities.

(c) *Scholarships to bright stars from weaker section of the Society:* During the year the Company, through Merck India Charitable Trust (MICT), continued to provide scholarships to students from the weaker sections of the society. A lump sum amount is given to selected students to meet their expenses on tuition fee, books and other education expenses. Student once selected gets the annual scholarship until she/he continues to perform well in studies and passes the graduation or equivalent examination.

During the year the Company could not spend 2% of its average profit for the last three years since during the year it used its managerial resources to lay the basic frame work for undertaking the CSR activities in accordance with the provisions of the Companies Act, 2013 including finalizing the CSR policy, constituting statutory and executive committees for undertaking CSR activities, identifying the CSR projects which meet the Company policy and statutory requirements.

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 judgment and estimates have been made so as to give a true and fair view of the state of affairs of the Company as at December 31, 2014 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:

Mrs. Rani Ajit Jadhav was appointed as an Additional Director with effect from February 05, 2015 who holds office up to the date of the ensuing Annual General Meeting. She was appointed as an Independent Director for a term of five years with effect from subject to the approval of the shareholders at the ensuing Annual General Meeting.

Mr. Anand Nambiar was appointed as an additional Director with effect from February 05, 2015 who holds office up to the date of the ensuing Annual General Meeting. He was also appointed as "Managing Director" for a period from February 05, 2015 to September 30, 2017 subject to the approval of the shareholders at the ensuing Annual General Meeting and approval of the Central Government.

Dr. Claus-Dieter Boedecker resigned as a Director and Managing Director of the Company with effect from January 31, 2015, due to his desire to re-locate to Germany, his home country. The Directors placed on record their appreciation of his valuable contributions as member of the Board during his tenure as Managing Director of the Company.

Mr. Brijesh Kapil was appointed as an additional Director with effect from February 05, 2015 who holds office up to the date of the ensuing Annual General Meeting. He was also appointed as Wholetime Director for a period of five years with effect from February 05, 2015 subject to the approval of the shareholders at the ensuing Annual General Meeting.

Mr. Ali Sleiman was appointed as an additional Director with effect from February 05, 2015 who holds office up to the date of the ensuing Annual General Meeting. He was appointed as Wholetime Director for a period from February 05, 2015 to September 30, 2017 subject to the approval of the shareholders at the ensuing Annual General Meeting and approval of the Central Government.

Mr. Pramod Pimplikar, Director (Technical Operations) resigned as Director and Wholetime Director of the Company with effect from January 13, 2015. The Directors placed on record their appreciation of his valuable contributions as member of the Board and senior member of the management team.

Mr. E.A. Kshirsagar, Independent Director resigned from the Board of Directors effective January 13, 2015 to create a vacancy for induction of a woman director on the Board of the Company in compliance with the provisions of the Companies Act, 2013 and to adhere to the Merck principle of keeping its board structure lean. The Directors placed on record their appreciation of his valuable contributions as member of the Board.

Directors' Report

In terms of the provisions of Section 149 of the Companies Act, 2013 and other applicable provisions, if any, the Board has recommended the appointment of Mr. S.N. Talwar and Mr. H.C.H. Bhabha, existing Independent Directors, as Independent Directors of the Company for a period of 5 years effective from April 08, 2015.

Mr. N. Krishnan, Director (Finance) will retire by rotation at the forthcoming Annual General Meeting of the Company and being eligible offers himself for re-appointment as Director of the Company. Board recommends his re-appointment.

AUDITORS:

Messrs BSR & Co. LLP, Chartered Accountants, retires as Statutory 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 2015, if re-appointed.

A certificate from them has been received to the effect that their appointment as Statutory Auditors if made would be in accordance to the provisions of Sections 139 and 141 of the Companies Act, 2013 and rules framed thereunder.

The Board and Audit Committee of your Company have recommended the re-appointment of Messrs BSR & Co. LLP, Chartered Accountants, as Statutory Auditors of your Company, to hold office as such from the conclusion of the forthcoming Annual General Meeting until the conclusion of subsequent Annual General Meeting to be held in 2016.

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 your Company concerning its bulk drugs and formulations divisions. To conduct the cost audit of these divisions, M/s. Sanghvi Randeria & Associates, a firm of Cost Accountants has been re-appointed as Cost Auditors of your Company for the year 2014 in the meeting of Board of Directors held on Friday, January 31, 2014, subject to the approval of the Central Government, required if any. The Cost Audit Report for the financial year ended December 31, 2013 was due to be filed on June 30, 2014 has been filed on June 29, 2014.

PERSONNEL:

As on December 31, 2014, the total number of employees on the payroll was 1515. Industrial relations with the employees at various levels generally continued to be cordial.

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 Reports 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 Agreement, is annexed to this Report.

GREEN INITIATIVE:

Your Company has taken the initiative of going green and minimising the impact on the environment. The Company has been circulating the copy of the Annual Report in electronic format to all those Members whose email address is available with the Company. Your Company would encourage other Members also to register themselves for receiving Annual Report in electronic form. Kindly refer the contact details and ways to register your email address given under the heading 'Request to the Members' at the end of the notice of the Annual General Meeting.

ACKNOWLEDGEMENTS:

Your Directors thank and express their gratitude to the Company's employees, customers, vendors, investors, and institutions for their continued support to the Company. Your Directors also thank the State Government and concerned Government Departments/ Agencies for their cooperation.

Your Directors also register sincere thanks and infinite appreciations to the contributions made by every Member of the Merck family globally.

On behalf of the Board of Directors

S. N. Talwar
Chairman

Mumbai, February 05, 2015

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. For briquette fired boiler, 75% cashew shell cake is used throughout the year as it is easily available in Goa & high Calorific Value as compared to briquettes at competitive price.
3. Regular maintenance is done to Steam condensate traps & safety valves to avoid leakages. Replaced faulty Steam Traps & PRV station for Vitamin E/TDS plant.
4. Preparation for annual inspection of Boiler done clubbing the 2 days of holidays to reduce the F.O. consumption.
5. Appropriate DGs loading done in second & third shift depending on load requirement.
6. 3 MW Captive power generation plant commissioned & put in operation successfully in November 2014 for CO2 reduction & provide uninterrupted power to Goa site for all plants. This is Merck Global initiative to reduce CO2. By this initiative we are using 95% green energy at Goa site by reducing the fossil fuels consumption directly & indirectly.
7. Fitted VFD for Bore well No. 1 & thus reduced the electrical consumption.
8. One ID blower eliminated from line of 6 TPH Boiler without effecting the working parameters, thus reduced the electrical consumption.
9. Continuous monitoring of power factor & maintenance of Capacitor banks.
10. Installation of DX coil for AHU 1 & 2 of QC sterile area/Softgelatin plant to maintain the temperature on Sundays & holidays without running high capacity water chiller.
11. New cooling tower installed at central utility.

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

1. Additional investment done in VFDs for Bore well pumps.
2. Investment done for Replacement of 1500 KVA Transformer with OLTC to maintain stable voltage to the user point.
3. 3 MW Project for captive generation project successfully commissioned & put in operation from November 2014 for reduction CO2 & provide uninterrupted power to Goa site for all plants.
4. Rain water harvesting project is completed for Government compliance, CSR & to improve the bore well yield.

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

1. Power factor improved & continued to be maintained to 0.99.
2. Water consumption to central utility cooling tower reduced by 50%.
3. Electrical power quality improved.
4. Improvement in provision of continuous power supply to all plants. From GED there was avg @1.5 times power failures per day. But due to power plant there will be @ 1 power failure per month.

   Bore well water yield is slightly increased for bore well No. 3.

FORM A

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

A. Power and Fuel Consumption at Goa Factory

Sr. No.	Description	Goa Factory Current Year 2014	Goa Factory Previous Year 2013
1.	**ELECTRICITY**		
	(a) Purchased Units (in '000 KWH)	**11,430.21**	12,304.95
	Total Amount (Rs. in million)	**53.11**	54.62
	Rate/Unit (Rs.)	**4.65**	4.44
	(b) Own Generation		
	(i) Through Diesel Generator Units (in '000 KWH)	**275.80**	230.43
	Units/Litre of Diesel Oil	**2.77**	2.78
	Cost/Unit (Rs.)	**23.28**	21.27
	Total Cost (Rs. in million)	**6.42**	4.90
	(ii) Generation from 3 MW Power Plant Units (in '000 KWH)	**1,548.90**	NA
	Units/Kgs of Solid Fuel	**0.65**	NA
	Cost/Unit (Rs.)	**8.53**	NA
	Total Cost (Rs. in million)	**13.20**	NA

Annexure to the Directors' Report

A. Power and Fuel Consumption at Goa Factory *(Contd.)*

		Goa Factory	
Sr. No.	Description	Current Year 2014	Previous Year 2013
2.	**BOILER FUELS**		
	(a) FURNACE OIL		
	Quantity (Kilo Litre)	**35.45**	28.05
	Total Amount (Rs. in million)	**1.79**	1.41
	Average Rate (Rs./Kilo Litre)	**50,482.00**	50,083.00
	(b) SOLID FUELS		
	Quantity (Tons)	**3,418.46**	3,327.76
	Total Amount (Rs. in million)	**17.55**	14.56
	Average Rate (Rs./Ton)	**5,134.00**	4,375.00

Note : All data is based on fuel cost for own generation & other costs are not considered.

B. Consumption per unit of production

	Standards (if any) Current Year (1) Previous (2)
Products 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.

(B) TECHNOLOGY ABSORPTION

FORM B

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

(a) RESEARCH AND DEVELOPMENT (R & D)

1. **Pharmaceutical sector in which Research has been carried out by the Company:**

   The Company's pharmaceutical R&D centre is situated at Shirwane, Nerul, Navi Mumbai. It is a recognized R&D Centre by Department of Scientific and Industrial Research (DSIR). The Company has undertaken R&D activities in various areas such as pharmaceuticals, vitamin premixes, cosmetics and packaging development.

   The Company continued its endeavour towards making more effective medicines, introducing new drugs for better and affordable treatment. This has been possible since we constantly evaluated alternate raw materials for improving the productivity keeping in mind the compliance of regulatory requirements.

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

   There were some formulations which were developed by using in-house R&D capabilities. Also some products of external vendors were technically evaluated with requisite Merck quality standards and then marketed by the Company.

   Products launched in year 2014:

   1. Prenone soft gelatine capsules
   2. Euthyrox 12.5 mcg tablets
   3. Euthyrox 25 mcg tablets
   4. Euthyrox 50 mcg tablets
   5. Euthyrox 75 mcg tablets
   6. Euthyrox 100 mcg tablets

3. **Future Plan of Action:**

   Following products are planned to be launched as an ongoing effort in the coming years:

   1. Rosuvastatin 5 mg tablets
   2. Rosuvastatin 10 mg tablets
   3. Rosuvastatin 20 mg tablets
   4. Rosuvastatin 40 mg tablets
   5. Rifaximin syrup and tablets- 200, 400, 550 mg
   6. Progesterone injection
   7. Prasugrel tablets 5, 10 mg
   8. Rosuvastatin + Fenofibrate tablets 5 + 160 mg
   9. Rosuvastatin + Fenofibrate tablets 10 + 160 mg
   10. Ecobion BC

   Focus will be placed to improvise CM1 of products by developing products internally which are launched under principle to principle basis. Several such products are under consideration for development in the year 2015.

Annexure to the Directors' Report

Manufacturing of some of the existing products will be initiated at some new locations to improve product availability.

4. **Expenditure on R & D:**

	(Rupees million)
Capital	1.9
Recurring	110.4
Total	112.3
Total R & D expenditure as a percentage of total turnover	1.3

(b) TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. **Efforts, in brief, made towards technology absorption, adaptation and innovation:**

   Efforts are made always to develop innovative products and improve acceptance by patients at affordable prices. The R&D centre under the guidance and support of Merck KGaA make endeavour to be up to date with quality systems and current good manufacturing practices.

2. **Benefits derived as a result of the above efforts, e.g., product improvement, cost reduction, product development, import substitution, improve product availability etc.:**

   i. In order to improve product profitability of some of the products purchased directly, Internal development was initiated in year 2014.

   ii. New manufacturing centers were introduced to improve product availability and support increasing marketing requirements. Technology of manufacturing and analytics was transferred successfully to new locations for some products.

   iii. Modified formulas for Cosome syrup and Emquin suspension was launched to improve quality, patient acceptance and also processing time.

   iv. Alternate vendors for 25 materials were developed to support sourcing department to improve availability of raw materials, improve quality and reduce costs.

3. **Data for imported technology (imported during the last 5 years reckoned from the beginning of the financial year):** This is not applicable.

(c) FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year, foreign exchange outgo was Rs. 2,383.7 million (which includes import of raw material to the extent of Rs. 947.6 million), while foreign exchange earned was Rs. 823.8 million, the details of which have been stated in the Notes to Accounts No. 37, 38, 39 and 40 annexed to the Financial Statement for the year ended December 31, 2014.

The total export during the year was Rs. 677.4 million. (Pharma exports Rs. 184.0 million and Chemical exports Rs. 493.4 million). The Company continues to make efforts to improve its export turnover by exporting to neighboring countries and other parts of world.

On behalf of the Board of Directors

S. N. Talwar
Chairman

Mumbai, February 05, 2015

Annexure to the Directors' Report

Corporate Governance Report for the year 2014

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

I. Company's philosophy on Code of Governance:

Merck is dedicated to conducting its business consistent with the highest standards of business ethics and values. We have an obligation towards our stakeholders including shareholders, employees, customers, suppliers and communities to be honest, fair and forthright in our business activities. We believe that the sound corporate governance practices help us realize our goals and meeting the desired highest standards.

The Company has legacy of strong corporate governance practices, we continue to strive establishing higher standards of corporate governance and compliance at Merck.

The Company is in compliance with the requirements of Clause 49 with regard to the Corporate Governance of the Listing Agreement entered into with the Stock Exchanges.

II. Board of Directors (the Board):

Board composition:

The composition of the Board of your Company is a fair mix of executive, non-executive and independent directors, which is appropriate with the size and operations of your Company and is compliant of applicable rules and guidelines. As on date of this report, the Board consists of eight Directors comprising of one Non-Executive Director, three Non-Executive Independent Directors including one Women Independent Director and four Executive Directors. The composition of the Board represents an optimal mix of professionalism, knowledge and experience and enables the Board to discharge its responsibilities and provide effective leadership to the business. The positions of the Chairman of the Board and the Chief Executive Officer of the Company are held by separate individuals, where the Chairman of the Board is a Non-Executive Independent Director.

As on the date of this report all directors of the Company meet the criteria of maximum number of directorship as laid down in Section 165 of the Companies Act, 2013 and revised Clause 49 of the Listing Agreement.

The details of composition of the Board and summary of other Directorship(s) and Committee Membership(s) of directors at the end of the financial year 2014 are as follows:

Name of the Director	*No. of Directorships	**No. of Committee memberships	**No. of Committee Chairmanships
Mr. S.N. Talwar [1,2]	10	3	1
Mr. H.C.H. Bhabha [1,3]	2	1	–
Mr. E.A. Kshirsagar [1,4]	7	3	4
Mr. N. Krishnan [10]	–	–	–
Mr. Pramod Pimplikar [10,11]	–	–	–
Dr. Claus D. Boedecker [7,8]	–	–	–
Dr. Peter-Ulrich Mannheimer [6]	–	–	–
Mr. Anand Nambiar [7, 9]	–	–	–
Mr. Brijesh Kapil [9, 10]	–	–	–
Mr. Ali Sleiman [9, 10]	–	–	–
Mrs. Rani Ajit Jadhav [1, 5]	–	–	–

Notes:

* excludes directorships held in private companies, foreign companies, Section 8 companies, Merck Limited and companies where a Director is an alternate director;

** excludes committee memberships/chairmanships of Merck Limited, private companies, foreign companies, Section 8 companies and companies where a Director is an alternate director. Only Audit Committees and Investors'/Shareholders' Grievances Committees are considered as per Listing Agreement.

1. Independent Director
2. Chairman of the Board and Audit Committee of the Company
3. Chairman of CSR Committee
4. Resigned as Director of the Company w.e.f. January 13, 2015
5. Appointed as Independent (Additional) Director w.e.f. February 05, 2015
6. Non–executive Director
7. Managing Director
8. Resigned w.e.f. January 31, 2015
9. Appointed w.e.f. February 05, 2015
10. Wholetime Director and Key Managerial Personnel
11. Resigned w.e.f. January 13, 2015

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, quarterly and annual financial results. The intervening period between any two Board Meetings were well within the maximum time gap of four months prescribed under Clause 49 of the Listing Agreement. Each time, a detailed agenda is prepared in consultation with the Chairman and the Managing Director of the Company. The members of the Board have complete access to all the information of the Company. To enable the Board to discharge its responsibilities effectively, the members of the Board are briefed at every Board Meeting on the overall performance of the Company. In case of a special and urgent business need, the Board's approval is taken by circulating the resolution, which is confirmed in the subsequent Board meeting. The Company has made arrangements for facilitating attendance of directors via Tele or Video Conference. As per their availability and convenience required arrangements were communicated and set up for them.

Annexure to the Directors' Report

During the year 2014, four Board Meetings were held on January 31, 2014, April 30, 2014, August 12, 2014 and November 13, 2014.

Attendance of directors at the Board and shareholder meetings during the year 2014:

Name of the Director	Meetings held during the year 2014	No. of Board Meetings attended	Attendance at shareholder meeting (March 18, 2014)
Mr. S.N. Talwar	4	4	Yes
Mr. H.C.H. Bhabha	4	3	Yes
Mr. E.A. Kshirsagar	4	4	Yes
Dr. Peter-Ulrich Mannheimer	4	2*	No
Dr. Claus-Dieter Boedecker	4	4	Yes
Mr. Pramod Pimplikar	4	3	Yes
Mr. N. Krishnan	4	4	Yes

* Attended one meeting via video conference

III. Board Committees:

A. Audit Committee:

Composition of the Audit Committee:

As on the date of this report, the Audit Committee comprises of four (4) Directors of whom three (3) are Independent Directors and one Managing Director. The committee is chaired by an Independent Director.

Mr. S.N. Talwar – Chairman

Mr. H.C.H. Bhabha

Mrs. Rani Ajit Jadhav

Mr. Anand Nambiar

Mr. E.A. Kshirsagar and Dr. Claus-Dieter Boedecker resigned as director of the Company with effect from January 13, 2015 and January 31, 2015 respectively and ceased to be members of the Committee.

Meetings and Attendance:

During the year 2014, the Audit Committee held four meetings on January 31, 2014, April 30, 2014, August 12, 2014 and November 13, 2014, attendance of the then members of the Committee is given below:

Name of the Director	Category of Director	No. of Committee Meetings held during tenure of director during 2014	No. of Committee Meetings attended
Mr. S.N. Talwar – Chairman	Non-Executive – Independent	4	4
Mr. H.C.H. Bhabha	Non-Executive – Independent	4	3
Mr. E.A. Kshirsagar[1]	Non-Executive – Independent	4	4
Dr. Claus-Dieter Boedecker[2]	Executive	4	4

1. Resigned with effect from January 13, 2015
2. Resigned with effect from January 31, 2015

The Audit Committee meetings are also attended by Director Finance, Internal Auditors and Statutory Auditors as invitees.

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, 2013 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 for approval, focusing *inter alia* on:
- Any change 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 financial statements;

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

(c) Related party transactions;

(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;

Annexure to the Directors' Report

(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, 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 Statutory Auditors in carrying out its responsibilities. It also uses external expertise, wherever required. Management is responsible for the preparation, presentation and integrity of the Company's financial reporting. Management is also responsible for internal control over financial reporting and all procedures are designed to ensure compliance with Accounting 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. Stakeholders Relationship Committee of Directors:

During the year under review, in terms of the provisions of Section 178(5) of the Companies Act, 2013 and Clause 49 of the Listing Agreement, the Board constituted Stakeholder Relationship Committee. This was constituted by amalgamating the existing committees of Share Transfer and Shareholders Grievance Committees. The terms of reference of this Committee are:

- Oversee and review all the matters connected with the transfer of Company's securities.
- Monitor redressal of investors'/ shareholders' grievances.
- Oversee the performance of the Company's Registrars and Transfer Agents.
- Recommend methods to upgrade the standard of services to the investors.

In order to serve the shareholders expeditiously, the Board delegated its powers to approve the transfers/transmissions/ dematerialisation/rematerialisation and address the shareholders complaints/requests, to the Managing Director or the Company Secretary of the Company.

The Company attends to the shareholders'/ investors' grievances/correspondence expeditiously. During the year under review 03 investor grievances were received and all of them were resolved.

Composition of the Stakeholder Relationship Committee:

As on the date of this report, the Stakeholders Relationship Committee comprises of four (4) Directors of whom three (3) were Executive Directors and one (1) Non-Executive Independent Director. The Committee is chaired by a Non-Executive Independent Director. Mr. Vikas R. Gupta, General Counsel & Company Secretary, is the Compliance Officer for the purpose of shareholders grievance redressals.

Mr. H.C.H. Bhabha – Chairman

Mr. N. Krishnan

Mr. Ali Sleiman

Mr. Brijesh Kapil

Meetings and Attendance:

During the year under review one meeting of the Committee was held on December 19, 2014, attendance of the then members of the Committee is given below.

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

*Resigned as director with effect from January 13, 2015 and ceased to be member of the Committee.

Annexure to the Directors' Report

C. Special Committee:

Composition:

The Committee comprises of two (2) 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.

Meetings and Attendance:

Four (4) Committee Meetings were held during the year 2014, on January 8, 2014, November 17, 2014, December 4, 2014 and December 19, 2014.

Name of the Director	Category of Director	No. of Committee Meetings held during tenure of director	No. of Committee Meetings attended
Mr. S.N. Talwar – Chairman	Non-Executive – Independent	4	4
Mr. H.C.H. Bhabha	Non-Executive – Independent	4	4

Scope of the Special Committee:

(a) To look into the requests received for issue of duplicate share certificates on account of loss/mutilated certificates, etc.;

(b) To look into the requests received for rematerialisations of share certificates from the shareholders;

(c) To issue share certificates upon consolidation or sub-division of shares of the Company.

IV. Nomination and Remuneration Committee:

In terms of the provisions of Section 178 of the Companies Act, 2013, the Board constituted a Nomination and Remuneration Committee on April 30, 2014. Terms of reference of the Committee are:

a) Formulation of the criteria for determining qualifications, positive attributes and independence of a director;

b) Formulate and recommend to the Board a policy, relating to the remuneration of the directors, key managerial personnel and other employees;

c) Formulation of criteria for evaluation of Independent Directors and the Board;

d) Devising a policy on Board diversity;

e) Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down and recommend to the Board their appointment and removal.

The Committee has formulated the remuneration policy. The Company's remuneration policy provides a framework to support the implementation of the Merck Total Rewards Philosophy, specifically, it is intended to provide more detailed clarification on the Guiding Principles so as to support their implementation; guidance as to design of reward programs; and explanation as to roles, responsibilities and governance for program design, administration and communication.

Composition of the Committee:

As on the date of this report, the committee comprises of four (4) Directors viz. Mr. S.N. Talwar, Mr. H.C.H. Bhabha and Mrs. Rani Ajit Jadhav, all Independent Directors and Dr. Peter-Ulrich Mannheimer, Non-Executive Director. The Committee Meeting is chaired by Mr. H.C.H. Bhabha, an Independent Director. Mrs. Rani Ajit Jadhav was appointed as member of the Committee on February 05, 2015 in place of Mr. E.A. Kshirsagar who resigned as director of the Company w.e.f. January 13, 2015.

Meetings and Attendance:

Two (2) Committee Meetings were held during the year 2014, on August 12, 2014 and December 18, 2014. The attendance of the then members of the Committee is given below:

Name of the Director	Category of Director	No. of Committee Meetings held during tenure of director	No. of Committee Meetings attended
Mr. S.N. Talwar – Chairman	Non-Executive – Independent	2	2
Mr. H.C.H. Bhabha	Non-Executive – Independent	2	2
Mr. E.A. Kshirsagar*	Non-Executive – Independent	2	2
Dr. Peter-Ulrich Mannheimer	Non-Executive	2	1

* Resigned with effect from January 13, 2015

V. 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's website **www.merck.co.in**. All Directors and Senior Management personnel 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.

VI. CEO/CFO Certificate:

A Certificate from the Managing Director and Director - Finance on the integrity of the financial

Annexure to the Directors' Report

statements and other matters of the Company for the financial year ended 31 December, 2014 was placed before the Board at its Meeting held on February 05, 2015.

VII. Risk Management:

Merck has established a 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 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.

VIII. Remuneration of Executive Directors:

The details of remuneration paid/payable to the Executive Directors for the year 2014 are given below:

(in rupees)

Name of the Director	Salary and Commission	Company's contribution to Funds [3]	Perquisites and allowances	Total
Mr. Pramod Pimplikar[1]	1,34,74,256	3,90,000	16,97,709	1,55,61,965
Mr. N. Krishnan	1,00,54,635	2,90,025	20,52,145	1,23,96,805
Dr. Claus D. Boedecker[2]	1,34,14,481	–	1,11,05,272	2,45,19,753

1. Resigned with effect from January 13, 2015
2. Resigned with effect from January 31, 2015
3. Aggregate of the Company's contribution to Superannuation Fund and Provident Fund

NOTES:

a. Commission paid is based on certain pre-agreed performance parameters including Company's overall and their individual performance including financial and operational indicators such as sales, profit, etc.

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

c. The above figures do not include charge for gratuity and leave encashment.

d. In terms of the agreements entered with Mr. Pramod Pimplikar, Mr. N. Krishnan and Dr. Claus-Dieter Boedecker the notice period for termination of the agreements is six months (for Mr. Pramod Pimplikar and Mr. N. Krishnan) and three months for Dr. Claus-Dieter Boedecker, there is no commitment of severance payment.

IX. Remuneration of Non-Executive Directors:

The details of remuneration paid/payable to Non-Executive Directors for the year 2014 are given below:

Name of the Director	Sitting fees (Rs.)	Commission (Rs.)
Mr. S.N. Talwar	2,00,000	9,00,000
Mr. H.C.H. Bhabha	1,80,000	6,50,000
Mr. E.A. Kshirsagar*	1,80,000	6,50,000

* Resigned w.e.f. January 13, 2015

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 is time spent by the Non-Executive Directors at the Audit Committee Meetings, Board Meetings, other Committee Meetings and advice given by them to the Management from time to time on strategic matters.

X. Report on shareholders' queries/grievances:

At present, there are no pending legal cases by or against shareholders, 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 implementation of the court order. A statement of the complaints received and cleared by the Company during the last two years is given below:

		2014		2013	
Sr.	Nature of complaint	Received	Cleared	Received	Cleared
1.	Non-receipt of share certificates duly transferred	–	–	–	–
2.	Non-receipt of dividend	1	1	5	5
3.	Non-receipt of Annual Report	2	2	–	–
4.	Letters from SEBI/ Stock Exchanges and Department of Corporate Affairs	3	3	–	–

General Body Meetings held during last three years:

Year	Venue	Day and Date	Time
2011	Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Haji Ali, Mumbai 400 034.	Monday 09.04.2012	3.00 p.m.
2012	Mayfair Banquets – South Hall, 254-C, Dr. Annie Besant Road, Worli, Mumbai 400 030.	Friday 15.03.2013	3.00 p.m.
2013	Sunville Banquets, 3rd Floor, Royal Room, Dr. A.B. Road, Worli, Mumbai 400 018	Tuesday 18.03.2014	3.00 p.m.

All 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 of special resolution passed
09.04.2012	No	Not applicable
15.03.2013	Yes	Payment to Non-Executive Directors (other than Managing Directors & Whole Time Directors) 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, for a period of five (5) years commencing from January 01, 2013 until December 31, 2017
18.03.2014	No	Not applicable

During the year 2014, no postal ballot voting process was carried out.

Annexure to the Directors' Report

XI. Disclosures:

All the transactions with related parties were in the ordinary course of business and on arms length basis. In terms of Clause 49 (VII) of the Listing Agreement the Company started obtaining prior approval of the audit committee for entering into any transaction with related parties. The audit committee granted omnibus approval for certain transactions to be entered with the related parties, during the year.

A qualified Practicing Company Secretary carried out a Share Capital audit to reconcile the total admitted equity share capital with the National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL) and the total issued and listed equity share capital. The said report confirms that the total issued/paid-up capital is in agreement with the total number of shares in physical form and the total number of dematerialised shares held with NSDL and CDSL. This report is sent to both the Stock Exchanges on a quarterly basis within 30 days from the end of every quarter.

In terms of the provisions of Section 177(9) of the Companies Act, 2013 the Company has implemented a vigil mechanism which includes implementation of the whistleblower policy. No employee has been denied access to the chairman of audit committee. The Company in conjunction with the Corporate Disclosure and Investigation policy of its ultimate majority holding Company has informed its employees that any non-compliant behavior of directors or employees including the non-compliance of its code of conduct to the notice of the management for investigation and necessary action, may be reported by them using the speak-up line number provided therein.

The Company has introduced the board and directors' performance evaluation criteria. All board members will be requested annually to provide their assessment of the performance of the Board and its Committees by way of response to a questionnaire. Additionally, all Board members will be asked to do a self-evaluation of their performance annually. The performance of executive directors will be evaluated by the Nomination and Remuneration Committee and the performance of independent directors will be evaluated by the Board. The director being evaluated will not participate in the meeting at the time of their respective evaluation.

During the year under review the Company has taken steps to familiarize its directors including Independent Directors about the Company operations, business model, industry in which the Company operates and their roles and responsibilities. The details of such programs is incorporated on the Company website http://www.merck.co.in/country.in/en/images/OUTLINE%20OF%20FAMILIARIZATION%20PROGRAM_tcm170_133678.PDF.

XII. 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 authorities. The Company has complied with and adopted the mandatory requirements of the Corporate Governance Code.

Status of compliance of Non-Mandatory requirements:

The Company has not set up a separate office for the Chairman or Independent Directors, however, they do have the access to the Company information whenever required.

The Company has published its quarterly, half year and annual accounts in three newspapers including one vernacular newspaper having wide circulation. The results are promptly put up on our websites besides being sent to the stock exchanges. The Company has not circulated separately half yearly financial reports to its shareholders.

There are no audit qualification in the auditor's report.

The offices of Chairman and Managing Director are held by separate individuals, Chairman is a Non-Executive Independent Director.

Internal auditor has direct access to the audit committee. the audit plan, their appointment and performance review is done by the audit committee.

XIII. 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 were published in leading newspapers. The financial results, press releases and other major events/developments concerning the Company were also posted on the Company's website: **www.merck.co.in**.

On behalf of the Board of Directors

S. N. Talwar
Chairman

Mumbai, February 05, 2015

Annexure to the Directors' Report

General Shareholder Information

Annual General Meeting:

The Forty-Eighth Annual General Meeting of the Members will be held on Wednesday, April 08, 2015 at 3.00 p.m.

Venue – Sunville Banquets & Conference Rooms,
3rd Floor, Royal Room,
9, Dr. Annie Besant Road,
Worli, Mumbai - 400 018

Agenda –

I. **Consideration and adoption of Financial Statements.**
II. **Declaration of dividend.**
III. **Re-appointment of Director retiring by rotation.**
IV. **Re-appointment and fixation of remuneration of Auditors.**
V. **Appointment of Mr. S.N. Talwar as an Independent Director.**
VI. **Appointment of Mr. H.C.H. Bhabha as an Independent Director.**
VII. **Appointment of Mrs. Rani Ajit Jadhav as an Independent Director.**
VIII. **Appointment of Mr. Anand Nambiar as a Director and Managing Director.**
IX. **Appointment of Mr. Brijesh Kapil as a Director and Wholetime Director.**
X. **Appointment of Mr. Ali Sleiman as a Director and Wholetime Director.**
XI. **Fixation of remuneration of Cost Auditors.**
XII. **Approval of Related Party transactions which may cross the materiality threshold as per Listing Agreement.**

The resolutions placed at Item No. I to XI are sought to be passed as Ordinary Resolutions and resolution placed at Item No. XII is sought to be passed as Special Resolution.

Company's financial year end: Company follows calendar year as its financial year which is in line with the financial year of the Company's overseas holding Companies. In terms of the provisions of Section 2(41) of the Companies Act, 2013 the Company has filed an application with Company Law Board to grant exemption for using the said period as its financial year.

Calendar of Financial Results – 2015:

(i)	First Quarter Results	–	April, 2015
(ii)	Second Quarter Results	–	July, 2015
(iii)	Third Quarter Results	–	October, 2015
(iv)	Results for the year ending December 31, 2015	–	January, 2016

Book Closure:

The Company's Register of Members and Share Transfer Books will remain closed from April 06, 2015 to April 08, 2015 (both days inclusive).

Dividend:

The Board of Directors have recommended a dividend at the rate of Rs. 6/- (Rupees Six) per equity share of Rs. 10/- each. This is subject to the approval of the Members at the ensuing Annual General Meeting. The dividend, if approved by the Members at the ensuing Annual General Meeting, will be paid/ credited on or before Thursday, May 7, 2015.

Listing on Stock Exchanges:

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.

Payment of Listing Fees:

The Annual Listing Fees have been paid by the Company to BSE and NSE.

Share Price Information on NSE and BSE for the year 2014:

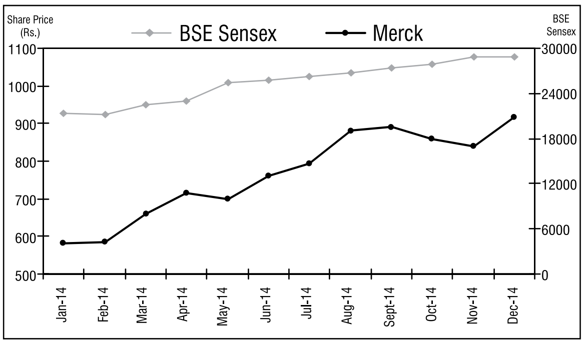
Month	BSE			NSE		
Year : 2014	High	Low	Volume	High	Low	Volume
January	582	547.1	81230	583.8	545.25	559014
February	583.8	536	63216	584.5	535	217750
March	659	570	139682	656	572	364090
April	714.8	632.6	120762	716	635.25	315223
May	699	615	137430	699	611.05	353747
June	762	638.05	169859	764	633.3	463549
July	794	691.05	126013	795	696	366068
August	880.6	711	448370	879	703.6	1171959
September	892.85	744.5	299751	894.4	743.4	995090
October	859.2	786.65	101275	859.1	787.4	284472
November	839.95	758.55	88866	836.9	759	315001
December	918.75	670	328290	918.85	761.1	973049

Closing share price of the Company on NSE as on December 31, 2014: Rs. 795.15

Closing share price of the Company on BSE as on December 31, 2014: Rs. 794.80

Annexure to the Directors' Report

Merck Share price movement (in Rs.) viz-a-viz SENSEX (2014):



Name and Address of the Registrar and Share Transfer Agents:

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

Transfer System:

Share Transfers in physical form shall be lodged with M/s. Sharepro Services (India) Private Ltd. at their above mentioned address.

Transfer/Transmission of shares held in physical mode and related matters are approved by the Managing Director/Company Secretary. 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.

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	2014	2013
Number of transfers	38	78
Number of shares processed	3,907	3,128

As on December 31, 2014, 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, 2014, a total of 1,62,49,952 shares of the Company which forms 97.89% of the total share capital of the Company stands dematerialized.

Distribution of shareholding as on December 31, 2014:

Range	No. of Shareholders	% to total shareholders	No. of shares held	% to total to paid-up capital
1 – 500	27,551	96.36	22,37,905	13.48
501 – 1,000	565	1.98	4,20,535	2.53
1,001 – 2,000	232	0.81	3,37,514	2.03
2,001 – 3,000	67	0.23	1,70,149	1.03
3,001 – 4,000	39	0.14	1,38,915	0.84
4,001 – 5,000	33	0.11	1,54,157	0.93
5,001 – 10,000	56	0.20	4,07,079	2.45
10,001 – and Above	48	0.17	1,27,33,128	76.71
Total	28,591	100.00	1,65,99,382	100.00

Shareholders' profile as on December 31, 2014:

Category of Shareholders	No. of Shares	% to total paid-up capital
Promoters/Foreign Collaborators	85,99,224	51.80
Banks	10,751	0.06
Financial Institutions	245	0.00
OCB	81	0.00
FII	1,57,415	0.95
Insurance Companies	15,93,157	9.60
Mutual Funds	14,13,592	8.52
Domestic Companies	5,88,630	3.55
Non-resident Indians	1,14,011	0.69
Directors & Relatives	35,570	0.21
Others	40,86,706	24.62
Total	1,65,99,382	100.00

Voting through electronic means:

Pursuant to Section 108 of the Companies Act, 2013 and the rules made thereunder, every listed company is required to provide its members facility to exercise their right to vote at general meetings by electronic means.

The Company has entered into an agreement with NSDL, the authorized agency for this purpose, to facilitate such e-voting for its members. The shareholders would therefore be able to exercise their voting rights on the items put up in the Notice of AGM, through such e-voting method. e-voting shall be open for a period of three days, i.e. from April 02, 2015 to April 04, 2015 (both days inclusive). Shri K.G. Saraf of M/s Saraf and Associates, Practising Company Secretaries shall act as the scrutinizer for the e-voting process.

Detailed procedure is given in the Notice of the AGM and also placed on the website of the Company.

Shareholders may get in touch with the Company Secretary for further assistance

Shares held by Non-Executive Directors of the Company as on December 31, 2014:

Mr. S.N. Talwar	:	5,914
Mr. H.C.H. Bhabha	:	29,656
Mr. E.A. Kshirsagar	:	Nil
Dr. Peter-Ulrich Mannheimer	:	Nil

Annexure to the Directors' Report

Insider Trading Regulations:

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

Outstanding GDRs/ADRs/warrants or any convertible instruments:

The Company has neither issued nor there are any outstanding GDRs/ADRs/warrants or any convertible instruments as on December 31, 2014.

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 R. Gupta,
General Counsel & 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, February 05, 2015

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, 2014.

For Merck Limited

Anand Nambiar
Managing Director

Mumbai
February 05, 2015

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 31 December 2014, 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. LLP
Chartered Accountants
Firm's Registration No.: 101248W/W-100022

Vikas R. Kasat
Partner
Membership No.:105317

Mumbai
5 February 2015

Annexure to the Directors' Report

Management Discussion and Analysis Report

The Indian economy was expected to grow by 7.4% in 2014, and the economic growth rate was expected to further scale up to 6.5% with renewed investment and various government measures. Inflation continues to be ticking lower, and softening of interest rates, coupled with stable Indian Rupee and lower oil prices, is bringing in higher growth expectations. India is expected to grow better than most of the BRIC countries. While the asset quality of banks remains a cause for concern, it is expected that lending will be cautious. The spirit of high growth expectations is highly dependent on the ability of private enterprises to take investment steps, than the government pouring in money.

The following table exhibits, in summary, the financial performance of the Company for the year 2014.

Key Parameters	2014	2013
Turnover (Rs. Mio.)	**8324.5**	7,729.6
Profit after Tax (Rs. Mio.)	**432.2**	558.8
Profit after Tax to Turnover (%)	**5.2**	7.2
Sales to Fixed Assets Employed (ratio)	**6 times**	8 times
Current assets (ratio)	**3.7**	4.3
Return on Capital employed (%)	**7.8**	10.7
Book Value of shares (Rs.)	**334**	315

The profit after tax for the year 2014 against 2013, decreased by 23%, to Rs. 432.2 Mio. The continued devaluation of the Indian Rupee vis-a-vis major currencies thereby increasing input costs, impairment of current assets, were key reasons for the dent in the operating margins. Accordingly, the Profit Before Tax % to revenue fell in year 2014 vis-a-vis 2013 by 3.4% points, to Rs. 665.6 Mio.

The Company's turnover, across two main segments, namely Pharmaceuticals and Chemicals, is split in the ratio of 67 : 33. Various regulatory controls and pricing legislations continue to challenge both the segments. Price reduction in some of the major pharmaceutical products bought down the margins. The material costs were severely impacted by foreign exchange fluctuations. Inability to pass on cost pressures due to regulatory price controls for some of the major products, led to dampened results. Additionally, the Company wrote off current assets that were no longer envisaged as possible to be utilised. The Company continues to invest in marketing campaigns to fight severe competition in some of the core products. The lead time for the sales performances to come through, post these activities as well, adds to lower profits for the year. Additionally, severe competition in the Vitamin E business from international players, including China, resulted in poor sales and under utilisation of capacity and higher inventory.

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. The performance for the two Business Divisions are highlighted below.

Merck Serono:

Merck Serono division accounted for 47% of the Total Company's turnover, registering a growth of 8% over the year 2013.

Dvion, the star performer, continued the high speed growth at 25% to cross Rs. 56.9 Mio in sales. *Livogen*, *Polybion* and *Concor* were growth drivers that continued their contribution to the sales growth of the Merck Serono Division. *Livogen* continued to feature in the top contributor brands with a growth of 16% and *Polybion* closed second with 11% growth. *Concor*, the key driving brand, was growing at 21% till July 2014; however due to price control notification by NPPA in July, it slowed down to 7% by end of 2014. A significant achievement was that the volume growth for the brand continued at 29% in the year.

Cosome Syrup & *Expectorant* and *Goutchek* for the painful disease of Gout have been the other contributors to the growth of the business. New introductions – *Argigest, Quitoria, TriOlmighty, Esofence* and *Starvog M* crossed Rs. 10 Mio mark. *Evion*, the key Vitamin E brand, lost customer support in urban markets and this lead to a negative growth of 8%. With focus on improving this gap, a comprehensive plan was developed and has been executed since October 2014. We are confident that the result will be visible in the next financial year.

Merck Serono is focused on growth and is constantly streamlining its processes and structure to be on this accelerated path. Towards this, the division continues to focus on talent management, training and development of its field force, and ensuring efficient coverage of our brands and businesses across the major metros and key rural markets. Partnering in improving the awareness and education levels of the medical communities to ensure access to health continues to be one of the key focus areas for the rural markets which hold a large part of the business. The division is also exploring further in the areas of Life Cycle Management and identification of potential new launches, which could facilitate as the next wave for growth in the coming year. The division will continue to focus on the strengthened team and portfolio of the General Medicine business, as well as evaluate every opportunity to drive efficient growth in the more specialist areas such as Cardio-Diabetic segments.

In 2014, the Merck Serono division built on its Multi-Channel Marketing (MCM) strategy which makes use of new media – in the digital and online space.

Annexure to the Directors' Report

The division strengthened its presence on social media and effectively utilized mediums like webinars and SMS campaigns to maximise the reach of its message to its vast audiences. These initiatives have amplified the outreach initiatives to medical practitioners both in concentrated metro areas and in spread out rural towns. Disease awareness websites for bone and joint health, vitamins and cardio protection were developed and have been very well accepted by the audience. This approach has proven beneficial, not only from a cost-ratio standpoint, but also has helped in ensuring consistency of message and wider reach of messages, thus complementing the traditional sales and marketing avenues helping the division reach out to the younger generation of medical practitioners who are now using the internet and digital media to access their medical information.

Consumer Health Division:

Consumer Health division accounted for 21% of the Company's turnover, having main brands like Neurobion, Nasivion, Seven Seas and Electrobion which grew by 9% (IMS ORG SSA YTD November '14).

The shift of Neurobion Forte in Consumer Heath from Merck Serono since January '14 enabled Consumer Health to enter into the Vitamin B market. Neurobion is the No. 1 unit selling Vitamin B brand with highest numbers of prescriptions. Consumer Health has taken Neurobion direct to consumers which made it the fastest growing vitamin brand as per IMS (IMS ORG SSA YTD November '14) 11%.

In the cough and cold category, Consumer Health has its presence through 'Nasivion' which is one of the leading brands in the category. Navision is the No.1 prescribed Nasal decongestant across India and which corroborates with the growth 19% (IMS ORG SSA YTD November '14) of Nasivion Paediatric range in 2014.

Everyday Health Protection and Children Health categories are being represented by the brand: Seven Seas and Maxepa. Seven Seas since the launch in 2012 overtook the competition and became the No. 1 Cod liver oil brand in 2014. Seven Seas also got the "Super Brand" Award in 2014 from an independent body.

The local brand Electrobion has seen strong growth of 36% (IMS ORG SSA YTD November '14) due to focused approach of sales and marketing support. Electrobion was awarded with "GOLD Award from AWACS" under the DPCO category.

Merck Consumer Health India took the unique business promotion model in UP and Bihar in the semi urban and rural markets under the banner of "Su-Swastha". In India 30% of the population does not have access to quality healthcare and medicines and depends on a sub-optimal government healthcare system. 87% of the population has to pay for medicine and healthcare out of their own pocket with 30% of India earning less than $1 a day. There is a need to establish quality healthcare with quality products to serve the remote areas. Improving access to health is imperative in India and we at Consumer Health feel that we can have a real impact.

The Su-Swastha project is part of Merck Consumer Health's efforts to raise awareness which is the empowerment of health workers, communities and consumers/patients with appropriate tools, knowledge, information and skills towards quality and informed decision making around the spectrum of prevention, diagnostics, treatment, care and support.

Objectives of Su-Swastha:

- Opening up new frontier markets and encouraging Rural Doctors to prescribe Quality Medicine
- Working with National & International NGOs as technical support partners and enhancing distribution reach
- Working with Dispensing Doctors & enabling them with modern medicinal Therapeutic Areas
- Worked with International Agencies like Clinton Foundation & FHI 360 on various project implementation and it is planned that by 2015 we will start working with Government of India as well.

Consumer Health division aims to grow further by adding line extensions on key brands by making a foray into participated segments and leveraging the local and global R&D capabilities.

Pharma Exports:

With Merck Group prevalent in more than 67 countries worldwide, the ability to export remains rather limited. However, the Company exports to some Asian and African countries, the major being Sri Lanka, Nepal, Lebanon, Kenya, Libya, among others. Pharma exports grew by 6% in the year 2014, and contributed 5% 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 manufacturing units. The Toll units are under regular supervision of the Company in regard to the manufacturing standards.

The Goa unit is well utilised and goes through self regulated productivity efficiency programs. Goa unit is going through an upgradation in Injectable production area to upgrade the facility and make it compliant to the applicable MSQ guidelines. In order to carry out the upgradation, we needed to shutdown the production activities for approximately four months. The activities for the shutdown have been started from December 01, 2014 and will be completed approximately by March 31, 2015. The upgradation will also result in increasing the capacity of the department from 180 Mio. per annum to 220 Mio. per annum.

Annexure to the Directors' Report

In order to reduce the CO2 produced, the site of Goa has developed the project of using bio-mass fuel available in the surrounding areas to power a 3 MW cogeneration plant. The project is expected to reduce the CO2 generation at Goa site from actual 13.5 tons/year to 2 tons/year, which represents a reduction of 85% of the CO2 emissions per year. Additionally, the power plant is expected to help to reduce the electricity cost which are currently increasing at a rate of 6%/year, obtain a reliable power supply independent from the national grid suffering frequent power failures and productivity improvement due to elimination of shutdown due to the power failures.

Chemicals Segment:

The Chemicals segment sales turnover grew by 13.5% in year 2014, to achieve Rs. 2,709.7 Mio. as against Rs. 2,387.1 Mio in year 2013. The Chemicals comprises two divisions: i.e. Pharma 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 Growth in Generic Exports and the need for regulatory compliance has driven the sales of this division above industry growth average. In addition, the Company enjoys the confidence and trust as a partner to the industry through its initiatives to advise the industry on latest regulatory trends. The expected surge in the launch of biosimilar molecules for the domestic and international markets will also boost the sales of this decision.

In line with the Global fall in prices of Vitamins, the activity of the Vitamin E business has been negatively impacted and price realisation and margins have been affected. However, your Company is exploring various avenues to stem this erosion.

Performance Materials:

Performance Materials division is mainly into the business of 'Effect' Pigments for the Automotive, Cosmetics, Plastics Printing and Security Industry and basket of 'Actives' for the Cosmetics Industry in addition to the Functional Pigments. While the Customer centric and consultative sales approach by the team pigments was continued, the external market factors like poor Automotive Industry performance, below average Industrial growth and severe competition from local and Chinese suppliers, and sluggish export markets resulted in de-growth in sales for year 2014 by 6.1% over year 2013.

Internal Controls:

The Company is equipped with adequate internal control system to ensure that its assets are protected against loss of unauthorised use and improper handling. The Company is subject to exhaustive budgetary and costing process, as well as monitoring and audit by Merck Germany, at regular intervals. Additionally, in order to supplement the internal control process, during the year under review 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 direct the Company to set up applicable control measures. Regular updates of the action taken to iron out audit issues are also tabled before the Audit Committee. In order to further implement the best corporate governance practices at Merck, during the current year 2015, the Company has decided to change the Internal auditors and has appointed Ernst & Young as its internal auditors.

Risk Management:

The Company is required to follow an orderly risk management system globally, due to legal regulations. Merck is exposed to various risks, which might threaten its business continuity if not identified and addressed in time. The Company therefore follows a proactive risk management policy, aimed at protecting its employees, assets and the environment, while at the same time ensuring growth and continuity of its business. Regular updates are made available to Executive Board and Independent Directors at the Board Meeting and in special cases on ad-hoc basis.

Business Related Risks:

The changed demand development of the Company's products, positively or negatively, due to changed 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 line extensions or 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 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 with high margins. However, there would be possibility of margin erosion due to inability to raise prices and successful product launches.

Annexure to the Directors' Report

The Company's 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 safeguard itself against any adverse events. However, business interruptions could happen, in case of untoward events taking place. As well, disagreements on contractual terms and conditions with the service provider can lead to stoppage of outsourced activities and business interruptions.

Information Technology Risks:

The Company uses varied IT systems and processes in order to have efficient data collection, monitoring and reporting. These are software related precautions like handling of data integrity, access rights, virus firewalls, data protection, etc. The Company's 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 manufacturing units, along with the distribution facilities, are subject to environmental and safety risks. While the Company is adhering to the local legislation on environment protection, such adherence is supported by Group standards, rules, guidelines and audits at regular intervals by experts, to ensure safety standards are put in place to safeguard people, environment and products.

Human Resource Initiative:

The Company had 1515 employees as on December 2014, as against 1496 employees as in previous year. The Company has various HR 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 talent management, succession planning, worklife balance, development opportunities, international career opportunities, training and the performance management plan. The HR team is working through various campus initiatives to position Merck as an employer of choice.

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

The Company has a development programme designed to safeguard against attrition, develop leaders and build a talent pipeline. The Human Resource team is structured in having independent dedicated support partners to each of the businesses and major support function in order to realise the optimum productivity. The Company has cordial relations with employees at all levels.

Outlook:

The Company has a well balanced portfolio in Pharmaceuticals and Chemicals and endeavours to growth comparable to the Industry. The Indian pharmaceutical industry is likely to face certain headwinds due to extension of list of drugs under price control; Government of India's initiative of providing drugs through its *Jan Aushidi* outlets; and growing conflict between the Indian Pharma Industry and Multi-National Companies over the Intellectual Property Rights. However, with the ambitious economic growth targets for the current fiscal year, higher public spending on healthcare and Government of India's impetus to the 'Make in India' concept, the Industry and your Company is expected to grow at higher growth rate than the GDP growth rate, thereby it looks forward for excelling the business results and improving shareholder value.

On behalf of the Board of Directors

S. N. Talwar

Mumbai, 05 February, 2015 Chairman

Independent Auditors' Report To the Members of Merck Limited

Report on the Financial Statements

1. We have audited the accompanying financial statements of Merck Limited ('the Company'), which comprise the Balance Sheet as at 31 December 2014, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 ("the Act") read with the General Circular 15/2013 dated 13 September 2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013.

3. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

4. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

7. 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:
   (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 December 2014;
   (b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and
   (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

8. 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 Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

9. As required by Section 227(3) of the Act, 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 read with the General Circular 15/2013 dated 13 September 2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013; and
   e. on the basis of written representations received from directors of the Company as at 31 December 2014 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 December 2014 from being appointed as a director in terms of sub-section (2) of Section 164 of the Companies Act, 2013.

For B S R & Co. LLP
Chartered Accountants
Firm's Registration No: 101248W/ W-100022

Vikas R Kasat
Partner
Membership No: 105317

Mumbai
5 February 2015

Annexure to the Independent Auditors' Report – 31 December 2014

(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 therefore, do not affect the going concern assumption.

(ii) (a) The inventory, except for goods-in transit and stock 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) According to the information and explanation given to us and on the basis of our examination of the records of the Company, the Company has neither granted nor taken any loans, secured or unsecured, to/from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956/ Section 189 of the Companies Act, 2013 (as applicable). Accordingly, paragraph 4(iii) (b), (c), (d), (e), (f) and (g) of the Order are 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 with regard to the 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 Companies Act, 1956/Section 189 of the Companies Act, 2013 (as applicable) have been entered in the register required to be maintained under relevant 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 purchase of inventories 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 Companies Act, 1956/Section 128 (1) read with Section 148 (1) of the Companies Act, 2013 (as applicable) and are of the opinion that prima facie, the prescribed accounts and records have been 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 2014 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, Service tax and Custom duty have not been deposited with appropriate authorities on account of any disputes. According to the information and explanations given to us,

Annexure to the Independent Auditors' Report — 31 December 2014 (continued)

the dues of Income-tax, Sales-tax 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 during the year.

(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. LLP
Chartered Accountants
Firm's Registration No: 101248W/W-100022

Vikas R Kasat
Partner
Membership No: 105317

Mumbai
5 February 2015

Appendix 1 as referred to in paragraph ix (b) of the Annexure to the Independent 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
		16.3	Assessment year 1998-99, 1999-00, 2002-03 and 2003-04	Income Tax Appellate Tribunal
		5.2	Assessment year 2004-05	Income Tax Appellate Tribunal
		25.6	Assessment year 2005-06	Commissioner of Income Tax (Appeals)
		34.2	Assessment year 2006-07	Income Tax Appellate Tribunal
		192.8	Assessment year 2007-08	High Court
		23.2	Assessment year 2008-09	Commissioner of Income Tax (Appeals)
		50.3	Assessment year 2009-10	Dispute Resolution Panel – I
		28.4	Assessment year 2010-11	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
		7.0	2001-02, 2003-04, 2006-07, 2009-10, 2010-11	Deputy Commissioner (Appeals)
		3.8	2001-02	Additional Commissioner
		19.2	2007-08, 2008-09, 2010-11	Joint Commissioner
		28.3	2006-07, 2009-10, 2011-12	Commercial Tax Officer
		0.3	1994-95, 1995-96, 1998-99, 2011-12	Appellate Assistant Commissioner
		0.4	2009-10	Assistant Commissioner
Central Excise Act, 1944	Duty and penalty	276.0	2009 to 2014	Assistant Commissioner
		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

Balance sheet

as at 31 December 2014

(Currency: Indian Rupees million)

	Note	2014	2013
Equity and liabilities			
Shareholders' funds			
Share capital	*3*	**166.0**	166.0
Reserves and surplus	*4*	**5,377.0**	5,064.3
		5,543.0	5,230.3
Non-current liabilities			
Deferred tax liabilities (net)	*5*	**–**	10.9
Long-term provisions	*6*	**187.1**	121.7
		187.1	132.6
Current liabilities			
Trade payables	*7*	**437.7**	364.6
Other current liabilities	*8*	**596.2**	434.9
Short-term provisions	*6*	**318.2**	320.2
		1,352.1	1,119.7
		7,082.2	6,482.6
Assets			
Non-current assets			
Fixed assets	*9*		
Tangible fixed assets		**1,095.2**	845.6
Intangible fixed assets		**1.9**	2.7
Capital work-in-progress		**276.3**	92.3
Deferred tax assets (net)	*5*	**21.7**	–
Long-term loans and advances	*10*	**700.7**	678.3
Other non-current assets	*11*	**–**	86.5
		2,095.8	1,705.4
Current assets			
Current investments	*12*	**238.7**	242.9
Inventories	*13*	**1,773.2**	1,518.2
Trade receivables	*14*	**1,045.3**	841.2
Cash and bank balances	*15*	**1,639.5**	1,876.9
Short-term loans and advances	*16*	**231.5**	228.1
Other current assets	*17*	**58.2**	69.9
		4,986.4	4,777.2
		7,082.2	6,482.6

Significant accounting policies	*2*	
Notes to the financial statements	*26-45*	

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. LLP
Chartered Accountants
Firm's Registration No. 101248W/W-100022

Vikas R Kasat
Partner
Membership No.: 105317

Mumbai,
5th February, 2015

Vikas R. Gupta
Company Secretary

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

S. N. Talwar — *Chairman*

A. Nambiar — *Managing Director*

H. C. H. Bhabha
N. Krishnan
Ali Sleiman
Brijesh Kapil
Rani A. Jadhav
Directors

Statement of profit and loss

for the year ended 31 December 2014

(Currency: Indian Rupees million)

	Note	2014	2013
Revenue from operations	18		
Sale of products (gross)			
Finished products		**6,398.6**	6,100.3
Traded products		**2,229.8**	1,912.4
Less: Excise duty		**303.9**	283.1
Sale of products (net)		**8,324.5**	7,729.6
Other operating revenue		**350.4**	248.2
Total		**8,674.9**	7,977.8
Other income	19	**203.3**	214.5
		8,878.2	8,192.3
Expenses			
Cost of materials consumed	20	**2,663.2**	2,403.1
Purchase of stock-in-trade	21	**1,501.8**	1,518.4
Changes in inventories of finished goods, work-in-progress and stock-in-trade	22	**(160.3)**	(291.5)
Employee benefits	23	**1,135.6**	1,009.6
Depreciation and amortisation	24	**126.8**	100.7
Other expenses	25	**2,945.5**	2,569.5
		8,212.6	7,309.8
Profit before tax		**665.6**	882.5
Income tax expense			
– Current tax		**266.0**	320.0
– Deferred tax (credit)/charge		**(32.6)**	3.7
Profit after tax		**432.2**	558.8
Earnings per equity share [nominal value of share Rs. 10/- each (2013: Rs. 10/- each)]			
Basic and diluted	26	**26.0**	33.7
Significant accounting policies	2		
Notes to the financial statements	26-45		

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. LLP
Chartered Accountants
Firm's Registration No. 101248W/W-100022

Vikas R Kasat
Partner
Membership No.: 105317

Mumbai,
5th February, 2015

Vikas R. Gupta
Company Secretary

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

S. N. Talwar *Chairman*

A. Nambiar *Managing Director*

H. C. H. Bhabha
N. Krishnan
Ali Sleiman
Brijesh Kapil
Rani A. Jadhav
Directors

Cash flow statement

for the year ended 31 December 2014

(Currency: Indian Rupees million)

			2014		2013
A. Cash flow from operating activities:					
Net Profit before taxation and exceptional items			**665.6**		882.5
Adjustments for:					
Depreciation and amortisation		**126.8**		100.7	
Loss on sale of fixed assets, (net)		**0.6**		1.4	
Profit on sale of current investments, (net)		*****		–	
Unrealised foreign exchange differences		**0.9**		(0.7)	
Dividend received on investments		**(20.5)**		(19.3)	
Interest income		**(155.0)**		(176.1)	
Bad debts written off (net)		**2.7**		10.7	
Provision for doubtful debts, deposits and advances (net)		**13.7**		8.2	
Write off/Provision for doubtful cenvat credit receivable		**114.9**		56.7	
Other provision		**69.8**		–	
Provision for employee benefits		**57.4**		22.4	
(Write back)/provision for inventory write down		**(0.3)**	**211.0**	25.7	29.7
Operating cash flow before working capital changes			**876.6**		912.2
Adjustments for:					
(Increase) in trade receivables		**(220.0)**		(214.6)	
(Increase) in loans and advances		**(115.1)**		(86.0)	
(Increase) in inventories		**(255.2)**		(234.3)	
Increase in liabilities and provisions		**105.0**	**(485.3)**	25.5	(509.4)
Cash generated from operations			**391.3**		402.8
Income tax paid (net of refunds)		**(341.8)**	**(341.8)**	(398.3)	(398.3)
Net cash generated from operating activities	(A)		**49.5**		4.5
B. Cash flow from investing activities:					
Purchase of fixed assets (including addition to capital work-in-progress)		**(403.8)**		(334.1)	
Sale of fixed assets		**2.4**		0.6	
Interest received		**171.2**		176.5	
Dividend received on investments		**20.5**		19.3	
Purchase of investments		**(9,113.3)**		(8,547.6)	
Loan recovered		**–**		220.0	
Sale of investments		**9,117.3**		8,541.1	
Bank deposits (having original maturity of more than three months), (net)		**311.4**		(5.4)	
Net cash generated from investing activities	(B)		**105.7**		70.4
C. Cash flow from financing activities:					
Dividend paid		**(142.2)**		(41.5)	
Dividend tax paid		**(24.0)**		(6.7)	
Net cash (used) in financing activities	(C)		**(166.2)**		(48.2)
Net (decrease)/increase in cash and cash equivalents	(A + B + C)		**(11.0)**		26.7
Cash and cash equivalents at the beginning of the year			**65.7**		39.0
Cash and cash equivalents at the end of the year			**54.7**		65.7

NOTES TO THE CASH FLOW STATEMENT

	2014	2013
1. Cash and cash equivalents includes		
– Cash balance	**0.1**	0.1
– Bank balances in current accounts	**54.6**	65.6
	54.7	65.7

2. Unpaid dividend of Rs. 11.6 million (2013: Rs. 12.7 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. LLP
Chartered Accountants
Firm's Registration No. 101248W/W-100022

Vikas R Kasat
Partner
Membership No.: 105317

Mumbai,
5th February, 2015

Vikas R. Gupta
Company Secretary

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

S. N. Talwar *Chairman*

A. Nambiar *Managing Director*

H. C. H. Bhabha
N. Krishnan
Ali Sleiman
Brijesh Kapil
Rani A. Jadhav
Directors

Notes to the financial statements

for the year ended 31 December 2014

(Currency: Indian Rupees million)

1. Company overview

Merck Limited ('the Company') is a public company domiciled and headquartered 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 in the business of 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 ('the Act') read with the General Circular 15/2013 dated 13 September 2013 of the Ministry of Corporate Affairs in respect of section 133 of the Companies Act, 2013 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 '*'.

(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 recognised 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 counter party, 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 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, if any.

Notes to the financial statements

for the year ended 31 December 2014

(Currency: Indian Rupees million)

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 Act 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 of the Act except in the following cases where the straight line method rates used, are greater than the corresponding minimum rates prescribed in Schedule XIV of the Act:

Description	Depreciation rate %
Buildings and Flats	1.63, 3.34, 5.00, 6.67, 9.09, 12.00, 20.00
Plant and Machinery	4.75, 5.15, 7.42, 8.09, 10.34, 11.31, 12.50, 20.00, 25.00, 33.33
Furniture, Fixtures, Electrical Fittings and Office Equipment	12.00, 20.00, 25.00, 33.33
Vehicles	20.00

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 Rs. 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/amortisation 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 unamortised 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 Statement of profit and loss. Impairment loss recognised 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.

Notes to the financial statements

for the year ended 31 December 2014

(Currency: Indian Rupees million)

Assets given by the company under operating lease are included in fixed assets. Lease income from operating lease is recognised in Statement of profit and loss on a straight line basis. Cost's including depreciation, incurred in earning the lease income are recognised as expenses.

(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, 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 recognised as and when services are rendered and related costs are incurred, in accordance with the terms of the contractual agreement.

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 recognised as an expense as the related service is rendered by employees.

(b) Post-employment benefits:

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays specified contributions to a separate entity and has no obligation to pay any further amounts. The Company makes specified monthly contributions towards superannuation fund to scheme which is a defined contribution plan. The Company's contribution is recognised as an expense in the Statement of profit and loss during the period in which the employee renders the related service.

Defined benefit plans

The Company's gratuity benefit scheme and provident fund scheme is defined benefit plan. The Company's net obligation in respect of a defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service cost and the fair value of any plan assets are deducted. The calculation of the Company's obligation under each of the two plans is performed annually by a qualified independent actuary using the projected unit credit method.

The Company recognises all actuarial gains and losses arising from defined benefit plans immediately in the Statement of profit and loss. All expenses related to defined benefit plans are recognised in employee benefit expenses in the Statement of profit and loss. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in the Statement of profit and loss on a straight-line basis over the average period until the benefits become vested.

The Company recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs.

(c) Compensated absences:

The employees can carry forward a portion of the unutilised accrued compensated absences and utilise it in future service periods or receive cash compensation on termination of employment. Since the compensated absences do not fall due wholly within twelve months after the end of the period in which the employees render the related service and are also not expected to be utilised wholly within twelve months after the end of such period, the benefit is classified as a long-term employee benefit. The Company records an obligation for such compensated absences in the period in which the employee renders the services that increases this entitlement. The obligation is measured on the basis of independent actuarial valuation using the projected unit credit method.

(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 recognised in the Statement of profit and loss for 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 breakage and expiries in the year of sale of goods.

Contingencies

Provision in respect of loss contingencies relating to claims, litigations, assessments, 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 the Statement of profit and loss except that tax expense related to items recognised directly in reserves is also recognised 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 back 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 2014

(Currency: Indian Rupees million)

	2014	2013
3. Share capital		
Authorised		
18,000,000 (2013: 18,000,000) equity shares of Rs. 10 each	**180.0**	180.0
Issued, subscribed and paid-up		
16,599,382 (2013: 16,599,382) equity shares of Rs. 10 each	**166.0**	166.0

A. Reconciliation of number of shares outstanding:

	2014 Number	2014 Amount	2013 Number	2013 Amount
Number of 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

	2014 Number	2014 Amount	2013 Number	2013 Amount
Emedia Export Company mbh, Germany	**3,534,559**	**35.4**	3,534,559	35.4
Merck Internationale Beteligungen 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

	2014 Number	2014 %	2013 Number	2013 %
Subsidiaries of holding company Merck KGaA				
Emedia Export Company mbh, Germany	**3,534,559**	**21%**	3,534,559	21%
Merck Internationale Beteligungen GmbH, Germany	**3,091,224**	**19%**	3,091,224	19%
Chemitra GmbH, Germany	**1,973,441**	**12%**	1,973,441	12%
Others				
Life Insurance Corporation of India	**1,161,021**	**7%**	1,162,049	7%
SBI Contra Fund	**812,138**	**5%**	–	–
SBIMF Magnum Sector Fund	**–**	**–**	1,160,862	7%

	2014	2013
E. Aggregate number of shares bought back during the period of five years immediately preceding reporting date	**–**	261,842

	2014	2013
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	**3,279.5**	3,223.6
Add: Transfer from surplus (Profit and Loss balance)	**43.2**	55.9
	3,322.7	3,279.5

Notes to the financial statements

as at 31 December 2014

(Currency: Indian Rupees million)

	2014	2013
Surplus (Profit and Loss balance)		
At the commencement of the year	**1,668.3**	1,330.5
Add: Profit for the year	**432.2**	558.8
Less: Appropriations		
Transfer to general reserve	**43.2**	55.9
Proposed equity dividend [Rs. 6.00/- per equity share (2013: Rs. 8.50/- per equity share)]	**99.6**	141.1
Tax on proposed equity dividend	**19.9**	24.0
	1,937.8	1,668.3
	5,377.0	5,064.3

5. Deferred tax (asset)/liability (net)

Deferred tax liability included in the balance sheet comprises of:

	2014	2013
Deferred tax liability:		
Arising on account of timing differences in:		
Excess of depreciation as per Income Tax Act, 1961, over book depreciation	**76.7**	78.1
	76.7	78.1
Deferred tax asset:		
Arising on account of timing differences in:		
Provision for doubtful trade receivables, deposits and advances	**13.1**	9.1
Personnel and other related provisions	**36.8**	17.3
Provision for sales tax matters	**23.5**	22.7
Other provisions	**25.0**	18.1
	98.4	67.2
	(21.7)	10.9

6. Provisions

	Long-term		Short-term	
	2014	2013	**2014**	2013
Provision for employee benefits:				
Provision for employee benefits:				
Gratuity [refer note 28]	**38.8**	3.6	**–**	–
Compensated absences [refer note 28]	**53.7**	34.6	**15.8**	12.7
Other employee benefits [refer note 41]	**25.4**	16.6	**75.8**	105.1
Other provisions:				
Provision for sales tax [refer note 41]	**69.2**	66.9	**–**	–
Others [refer note 41]	**–**	–	**69.8**	–
Proposed equity dividend	**–**	–	**99.6**	141.1
Tax on proposed equity dividend	**–**	–	**19.9**	24.0
Provision for tax [net of advance tax paid for certain years Rs. 1,242.5 million (2013: Rs. 1,245.5 million)]	**–**	–	**37.3**	37.3
	187.1	121.7	**318.2**	320.2

	2014	2013
7. Trade payables		
Acceptances	**13.3**	2.8
Dues to Micro, Small and Medium Enterprises [refer note 35]	**0.7**	4.3
Others	**423.7**	357.5
	437.7	364.6
8. Other current liabilities		
Advances from customers	**56.9**	45.0
Creditors for capital purchases	**120.4**	12.5
Employee benefits payable	**51.7**	55.1
Statutory dues		
– Tax deducted at source	**15.9**	19.8
– Sales tax	**29.4**	26.9
– Service tax	**5.8**	4.2
– Provident fund	**7.8**	6.1
– Staff Insurance/benefit schemes	**0.4**	0.5
Payable towards services received	**296.3**	252.1
Investor Education and Protection Fund shall be credited by the following amounts (not due as at the year end):		
Unpaid dividend	**11.6**	12.7
	596.2	434.9

Notes to the financial statements

as at 31 December 2014

(Currency: Indian Rupees million)

9. Fixed assets

Tangible Fixed Assets

	Freehold Land	Buildings and Flats	Plant and Machinery	Hardware	Furniture and Fixtures	Vehicles	Office Equipment	Total
Gross Block								
Balance as at 01 January 2013	5.0	420.4	970.0	52.1	104.2	0.4	101.9	1,654.0
Additions	–	8.9	147.7	11.7	8.9	–	19.6	196.8
Disposals	–	–	(5.5)	(3.5)	(0.9)	–	(4.0)	(13.9)
Balance as at 31 December 2013	5.0	429.3	1,112.2	60.3	112.2	0.4	117.5	1,836.9
Balance as at 01 January 2014	**5.0**	**429.3**	**1,112.2**	**60.3**	**112.2**	**0.4**	**117.5**	**1,836.9**
Additions	**–**	**70.9**	**265.2**	**13.3**	**14.2**	**–**	**14.4**	**378.0**
Disposals	**–**	**–**	**(23.2)**	**(3.2)**	**(2.3)**	**–**	**(2.0)**	**(30.7)**
Balance as at 31 December 2014	**5.0**	**500.2**	**1,354.2**	**70.4**	**124.1**	**0.4**	**129.9**	**2,184.2**
Depreciation								
Balance as at 01 January 2013	–	178.1	592.2	28.3	54.3	0.1	50.8	903.8
Depreciation for the year	–	12.5	58.2	7.1	9.8	0.1	11.8	99.5
Accumulated depreciation on disposal	–	–	(4.8)	(2.7)	(0.9)	–	(3.6)	(12.0)
Balance as at 31 December 2013	–	190.6	645.6	32.7	63.2	0.2	59.0	991.3
Balance as at 01 January 2014	**–**	**190.6**	**645.6**	**32.7**	**63.2**	**0.2**	**59.0**	**991.3**
Depreciation for the year	**–**	**13.3**	**74.8**	**7.9**	**16.3**	**0.1**	**13.1**	**125.5**
Accumulated depreciation on disposal	**–**	**–**	**(21.1)**	**(2.6)**	**(2.3)**	**–**	**(1.8)**	**(27.8)**
Balance as at 31 December 2014	**–**	**203.9**	**699.3**	**38.0**	**77.2**	**0.3**	**70.3**	**1,089.0**
Net Block								
As at 31 December 2013	5.0	238.7	466.6	27.6	49.0	0.3	58.5	845.6
As at 31 December 2014	**5.0**	**296.3**	**654.9**	**32.4**	**46.9**	**0.1**	**59.6**	**1,095.2**
Capital work-in-progress								
Balance as at 31 December 2013								92.3
Balance as at 31 December 2014								**276.3**

Intangible Fixed Assets

	Brands/Trade-marks	Computer Software	Total
Gross Block			
Balance as at 01 January 2013	86.9	42.9	129.8
Additions	–	2.6	2.6
Balance as at 31 December 2013	86.9	45.5	132.4
Balance as at 01 January 2014	**86.9**	**45.5**	**132.4**
Additions	**–**	**0.6**	**0.6**
Balance as at 31 December 2014	**86.9**	**46.1**	**133.0**
Amortisation			
Balance as at 01 January 2013	86.9	41.6	128.5
Amortisation for the year	–	1.2	1.2
Balance as at 31 December 2013	86.9	42.8	129.7
Balance as at 01 January 2014	**86.9**	**42.8**	**129.7**
Amortisation **for the year**	**–**	**1.4**	**1.4**
Balance as at 31 December 2014	**86.9**	**44.2**	**131.1**
Net Block			
As at 31 December 2013	–	2.7	2.7
As at 31 December 2014	**–**	**1.9**	**1.9**

Notes to the financial statements

as at 31 December 2014

(Currency: Indian Rupees million)

10. Long-term loans and advances

	Non-Current portion		Current portion*	
	2014	2013	**2014**	2013
To parties other than related parties				
Capital advances (Unsecured and considered good)	**10.3**	61.0	**–**	–
Security deposits (Unsecured)				
considered good	**98.1**	97.4	**–**	–
considered doubtful	**4.0**	4.0	**–**	–
	102.1	101.4	**–**	–
Less: Provision for doubtful deposits	**4.0**	4.0	**–**	–
	98.1	97.4	**–**	–
Other loans and advances: (Unsecured)				
Cenvat credit receivable				
considered good	**80.7**	91.4	**24.0**	71.5
considered doubtful	**24.3**	56.7	**–**	–
	105.0	148.1	**24.0**	71.5
Less: Provision for doubtful cenvat credit receivable	**24.3**	56.7	**–**	–
	80.7	91.4	**24.0**	71.5
Others (Unsecured and considered good)				
Loans to employees	**5.3**	6.1	**2.6**	3.4
Customs duty receivable	**11.1**	2.2	**–**	–
Advance sales tax/Value added tax	**5.2**	10.5	**–**	–
Prepaid expenses	**3.5**	0.8	**34.4**	30.6
Other advances				
considered good	**16.2**	14.3	**99.3**	64.7
considered doubtful	**–**	–	**1.6**	1.6
	16.2	14.3	**100.9**	66.3
Less: Provision for doubtful advances	**–**	–	**1.6**	1.6
	16.2	14.3	**99.3**	64.7
Advance Income tax [net of provision for tax for certain years Rs. 3,735.9 million (2013: Rs. 3,469.9 million)]	**470.1**	394.3	**–**	–
To related parties (Unsecured and considered good)				
Loan to directors	**0.2**	0.3	**0.1**	0.1
*** Amount disclosed under short-term loans and advance**				
	700.7	678.3	**160.4**	170.3

	2014	2013
11. Other non-current assets (unsecured and considered good)		
Bank deposits [due to mature after 12 months from the reporting date] (refer note 15)	**–**	85.0
Interest accrued but not due on term deposits	**–**	1.5
	–	86.5
12. Current investments		
(Valued at lower of cost or fair value)		
Non-Trade, current (Unquoted)		
In mutual funds:		
– LIC NOMURA MF Liquid Fund – Dividend Plan	**85.1**	–
– Canara Robeco Liquid Fund – Regular Daily Dividend	**89.6**	146.7
– SBI Premier Liquid Fund – Regular Plan – Daily Dividend	**21.4**	44.0
– UTI – Money Market Fund – Institutional Plan – Daily Dividend Re-investment	**42.6**	33.7
– LIC NOMURA MF Liquid Fund – DIRECT – Dividend Plan	**–**	18.5
	238.7	242.9
13. Inventories		
(Valued at lower of cost and net realisable value)		
Raw materials	**491.3**	403.7
Packing materials	**96.0**	90.3
Work in process	**91.2**	101.6
Finished products	**610.5**	426.8
Stock-in-trade [Includes stock-in-transit Rs. 79.4 million (2013: Rs. 108.6 million)]	**478.4**	491.4
Stores and spares	**5.8**	4.4
	1,773.2	1,518.2

Inventory of finished products and stock-in-trade includes inventory of samples aggregating Rs. 43.3 million (2013: Rs. 34.1 million)

In the year ended 31 December 2014, the write down of inventories on account of net realisable value amounted to Rs. 4.7 million (2013: Rs. 5.8 million)

Notes to the financial statements

as at 31 December 2014

(Currency: Indian Rupees million)

		2014	2013
14. Trade receivables			
(Unsecured)			
Debts outstanding for a period exceeding six months from the due date of payment			
considered good		35.1	23.2
considered doubtful		31.6	19.3
		66.7	42.5
Less: Provision for doubtful receivables		31.6	19.3
	(a)	35.1	23.2
Other trade receivables			
considered good		1,010.2	818.0
considered doubtful		3.8	2.1
		1,014.0	820.1
Less: Provision for doubtful receivables		3.8	2.1
	(b)	1,010.2	818.0
	(a+b)	1,045.3	841.2
15. Cash and bank balances			
Cash and cash equivalents:			
Cash on hand		0.1	0.1
Balances with banks			
– Current accounts		43.0	52.9
		43.1	53.0
Other bank balances:			
– Unpaid dividend		11.6	12.7
– Deposit accounts*		1,584.8	1,811.2
		1,639.5	1,876.9
Details of bank balances/deposits			
* Bank deposits due to mature within 12 months of the reporting date included under "Other bank balances"		1,584.8	1,811.2
* Bank deposits due to mature after 12 months of the reporting date included under "Other non-current assets" [refer note 11]		–	85.0
Unpaid Dividend of Rs. 11.6 million (2013: Rs. 12.7 million), included in Bank balances, is not available for use by the Company.			
16. Short-term loans and advances			
Current portion of long-term loans and advances [refer note 10]			
To parties other than related parties		160.3	170.2
To related parties		0.1	0.1
Other short-term loans and advances			
To parties other than related parties			
Advances to employees (Unsecured)			
considered good		17.2	14.8
considered doubtful		1.2	1.2
		18.4	16.0
Less: Provision for doubtful advances		1.2	1.2
		17.2	14.8
Others (Unsecured and considered good)			
Advance for supply of goods		3.1	10.0
Excise duty refund		47.4	30.4
Value added tax receivable		3.4	2.6
		231.5	228.1
17. Other current assets			
(Unsecured, considered good)			
Interest accrued but not due on term deposits		49.8	64.5
Drawback receivable		8.4	5.4
		58.2	69.9

Notes to the financial statements

for the year ended 31 December 2014

(Currency: Indian Rupees million)

	2014	2013
18. Revenue from operations		
Sale of products		
Finished goods	**6,398.6**	6,100.3
Traded goods	**2,229.8**	1,912.4
Sale of products (gross)	**8,628.4**	8,012.7
Less: Excise duty	**303.9**	283.1
Sale of products (net)	**8,324.5**	7,729.6
Break-up of revenue from operations		
Finished goods (net of excise duty):		
Tablets/Capsules	**3,037.9**	2,969.5
Nasal Drops/Injections	**861.5**	802.0
Syrups/Ointments	**1,178.9**	1,036.3
Bulk Drugs	**1,016.4**	1,009.4
	6,094.7	5,817.2
Traded goods:		
Tablets/Capsules	**289.4**	286.4
Nasal Drops/Injections	**158.6**	195.6
Reagents/Pigments	**1,693.9**	1,378.1
Syrups/Ointments	**87.9**	52.3
	2,229.8	1,912.4
Other operating revenue:		
Income from shared services	**329.6**	212.9
Duty drawback on exports	**6.5**	11.0
Sale of scrap	**11.3**	11.0
Indenting commission	**2.0**	1.4
Other income	**1.0**	11.9
	350.4	248.2
19. Other income		
Interest on:		
– Loans and bank deposits	**155.0**	176.1
– Delayed payments from customers	**9.8**	5.3
Dividend income on current investments	**20.5**	19.3
Net gain on account of foreign exchange fluctuations	**12.4**	8.7
Miscellaneous income [refer note 27]	**5.6**	5.1
	203.3	214.5
20. Cost of materials consumed (including packing materials)		
Inventory of materials at the beginning of the year	**494.0**	577.2
Add: Purchases	**2,756.5**	2,319.9
Less: Inventory of materials at the end of the year	**587.3**	494.0
	2,663.2	2,403.1
Break-up of cost of materials consumed		
Isophytol	**282.3**	297.6
Vitamins	**389.9**	368.2
Active Ingredients	**388.8**	318.4
Organic Chemicals	**151.1**	189.9
Inorganic Chemicals	**57.3**	66.1
Others	**1,393.8**	1,162.9
	2,663.2	2,403.1
Break-up of inventory - materials		
Isophytol	**149.8**	115.3
Vitamins	**110.4**	83.1
Active Ingredients	**89.1**	71.7
Organic Chemicals	**58.5**	47.0
Inorganic Chemicals	**4.0**	7.3
Others	**175.5**	169.6
	587.3	494.0

Notes to the financial statements

for the year ended 31 December 2014

(Currency: Indian Rupees million)

	2014	2013
21. Purchase of stock-in-trade		
Purchase of stock-in-trade	**1,501.8**	1,518.4
	1,501.8	1,518.4
Break-up of purchases of stock-in-trade		
Tablets/Capsules	**131.6**	147.4
Nasal Drops/Injections	**78.2**	71.9
Reagents/Pigments	**1,235.9**	1,246.9
Syrups/Ointments	**56.1**	52.2
	1,501.8	1,518.4

22. Changes in inventories of finished goods, work-in-process and stock-in-trade

		2014			2013		
		Opening Inventory	**Closing Inventory**	**(Increase)/ Decrease in inventory**	Opening Inventory	Closing Inventory	(Increase)/ Decrease in inventory
Stock-in-trade							
Tablets/Capsules		**49.2**	**41.7**	**7.5**	39.0	49.2	(10.2)
Nasal Drops/Injections		**12.8**	**23.3**	**(10.5)**	14.4	12.8	1.6
Reagents/Pigments		**408.1**	**398.7**	**9.4**	273.2	408.1	(134.9)
Syrups/Ointments		**21.3**	**14.7**	**6.6**	3.3	21.3	(18.0)
	(a)	**491.4**	**478.4**	**13.0**	329.9	491.4	(161.5)
Manufactured Goods							
Tablets/Capsules		**148.4**	**201.4**	**(53.0)**	145.5	148.4	(2.9)
Nasal Drops/Injections		**109.3**	**208.7**	**(99.4)**	44.8	109.3	(64.5)
Reagents/Pigments		**-**	**-**	**-**	0.1	–	0.1
Syrups/Ointments		**71.2**	**83.4**	**(12.2)**	63.8	71.2	(7.4)
Bulk Drugs		**97.9**	**117.0**	**(19.1)**	56.5	97.9	(41.4)
	(b)	**426.8**	**610.5**	**(183.7)**	310.7	426.8	(116.1)
Work-in-progress	**(c)**	**101.6**	**91.2**	**10.4**	87.7	101.6	(13.9)
Total	**(a+b+c)**	**1,019.8**	**1,180.1**	**(160.3)**	728.3	1,019.8	(291.5)

	2014	2013
23. Employee benefits		
Salaries, wages, bonus and allowances	**923.7**	859.4
Contribution to provident fund and other funds [refer note 28]	**68.2**	51.6
Gratuity [refer note 28]	**45.6**	24.7
Compensated absences [refer note 28]	**21.7**	9.1
Staff welfare expenses	**76.4**	64.8
	1,135.6	1,009.6
24. Depreciation and amortisation		
Depreciation on tangible fixed assets	**125.4**	99.5
Amortisation on intangible fixed assets	**1.4**	1.2
	126.8	100.7

Notes to the financial statements

for the year ended 31 December 2014

(Currency: Indian Rupees million)

	2014	2013
25. Other expenses		
Stores and spare parts consumed	**35.9**	30.0
Power and fuel	**98.9**	74.8
Excise duty (net)	**45.9**	38.2
(represents excise duty paid on free replacements, samples, bonus issues and net excise duty impact on opening/closing stocks)		
Third party processing charges	**396.7**	365.4
Repairs and maintenance:		
Building	**0.5**	1.4
Plant and Machinery	**19.0**	8.0
Others	**50.1**	40.6
Rates and taxes	**240.2**	107.9
Rent [refer note 27]	**112.1**	104.6
Printing, stationery, postage, telephone and electricity expenses	**65.2**	60.7
Legal and professional expenses [refer note 42]	**239.6**	253.4
Directors sitting fees	**0.6**	0.5
Travelling, conveyance and vehicle expenses [refer note 27]	**414.7**	373.7
Insurance	**6.7**	9.1
Research and development expenses	**110.4**	86.2
Donations	**6.0**	0.1
Loss on sale of fixed assets (net)	**0.6**	1.4
Packing, forwarding and freight	**225.4**	164.6
Clearing and forwarding agents commission	**70.2**	62.9
Selling agents commission	**12.4**	8.3
Sales promotion expenses	**621.8**	579.6
Provision for doubtful debts, deposits and advances (net)	**13.7**	8.2
Bad Debts written off (net)	**2.7**	10.7
Royalty (net)	**124.2**	145.5
Miscellaneous expenses	**32.0**	33.7
	2,945.5	2,569.5

		2014	2013
26. Earnings per share (EPS)			
Profit after tax attributable to equity shareholders	A	**432.2**	558.8
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	**26.0**	33.7
Face value per share (Rs.)		**10.00**	10.00

27. Lease accounting

The Company has entered into cancellable operating lease agreements for vehicles and office premises/godowns. The lease charges of Rs. 16.9 million (2013: Rs. 17.0 million) and Rs. 112.1 million (2013: Rs. 104.6 million) for vehicles and office premises/godowns respectively have been included under the sub-head Travelling, conveyance and vehicle expenses and Rent respectively, under the head "Other Expenses" [refer note 25] in the Statement of profit and loss.

Operating Lease as Lessor:

The Company has leased out its flat. The lease term is twenty-four months. There is no escalation or renewal clause in the lease agreement and sub-letting is not permitted. The carrying amount of flat given on operating lease and depreciation thereon for the period are:

	2014	2013
Gross carrying amount	**12.3**	12.3
Accumulated depreciation	**2.9**	2.7
Net carrying amount	**9.4**	9.6
Depreciation for the period	**0.2**	0.2
The future minimum lease payments under non-cancellable operating leases are as follows:	**2.6**	0.3
Receivable within one year	**2.2**	0.3
Receivable between one and five years	**0.4**	–
Total	**2.6**	0.3

During the year, an amount of Rs. 2.0 million (2013: Rs. 2.0 million) has been recognised as rental income and has been included in other income under the head "Miscellaneous Income" [refer note 19] in the Statement of profit and loss.

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28. Employee Benefits:

(i) Defined Benefit Plans:

The Company operates two post employment defined benefit plans that provide Gratuity and Provident fund benefits. The gratuity plan entitles an employee, who has rendered at least five years of continuous 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.

		Gratuity	
		2014	2013
I.	**Change in benefit obligation**		
	Liability at the beginning of the year	**148.0**	122.3
	Interest cost	**11.1**	9.3
	Current service cost	**10.6**	8.9
	Benefit paid	**(8.3)**	(10.6)
	Actuarial loss on obligations	**34.8**	18.1
	Liability at the end of the year	**196.2**	148.0
II.	**Fair value of plan assets**		
	Fair Value of Plan Assets at the beginning of the year	**144.4**	131.8
	Expected return on plan assets	**11.7**	12.4
	Contributions	**10.4**	11.6
	Benefit paid	**(8.3)**	(10.6)
	Actuarial (loss) on plan assets	**(0.8)**	(0.8)
	Fair value of plan assets at the end of the year	**157.4**	144.4
III.	**Actual return on plan assets**		
	Expected return on plan assets	**11.7**	12.4
	Actuarial (loss) on plan assets	**(0.8)**	(0.8)
	Actual return on plan assets	**10.9**	11.6
IV.	**Amount Recognised in the Balance Sheet**		
	Liability at the end of the year	**(196.2)**	(148.0)
	Fair value of plan assets at the end of the year	**157.4**	144.4
	(Liabilities) recognised in the balance sheet	**(38.8)**	(3.6)
V.	**Expenses recognised in the Statement of profit and loss**		
	Current service cost	**10.6**	8.9
	Interest cost	**11.1**	9.3
	Expected return on plan assets	**(11.7)**	(12.4)
	Net actuarial loss to be recognised	**35.6**	18.9
	Expense recognised in income statement	**45.6**	24.7
VI.	**Balance sheet reconciliation**		
	Opening liabilities/(asset)	**3.6**	(9.5)
	Expense as above	**45.6**	24.7
	Employers contribution	**(10.4)**	(11.6)
	Liabilities recognised in balance sheet	**38.8**	3.6

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28. Employee Benefits (continued)

		2014	2013
VII.	**Actuarial assumptions : For the year**		
	Discount rate current	**8.2%**	8.7%
	Rate of return on plan assets current	**9.4%**	9.4%
	Salary escalation current	**9.0%**	9.0%

Note: Employer's contribution includes payments made of Rs. 8.3 million (2013 Rs. 10.6 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, promotion 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.

(ii) Five-year information:

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

	2014	2013	2012	2011	2010
Gratuity					
Present value of defined benefit obligation	**196.2**	148.0	122.3	127.7	111.8
Fair value of plan assets	**157.4**	144.4	131.8	119.6	108.7
(Deficit)/Surplus in plan	**(38.8)**	(3.6)	9.5	(8.1)	(3.1)
Experience adjustments on					
Plan liabilities loss/(gain)	**27.5**	20.6	(1.8)	4.1	8.6
Plan assets (loss)/gain	**(0.8)**	(0.8)	0.1	0.4	(0.2)

(iii) Broad category of plan assets relating to 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.

(iv) Disclosure for defined benefit plan (Provident fund):

(i) Contribution to Provident and Superannuation fund:

Amount of Rs. 45.0 million (2013: Rs. 36.2 million) is recognised as an expense and included in "Personnel costs" (refer note 23) in the Statement of profit and loss.

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 issued 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 2014.

As per the report of the independent actuary, there is no shortfall as at 31 December 2014 (2013: shortfall of Rs. Nil) that needs to be recorded by the Company.

(ii) The details of benefit obligation and plan asset position are:

Particulars	**2014**	2013
Present value of benefit obligation	**581.6**	500.0
Plan Assets at period end, at fair value	**598.3**	515.0
Liability recognised in Balance Sheet	**–**	–

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

Particulars	**2014**	2013
Discount rate	**8.1%**	8.8%
Expected rate of return on assets	**8.9%**	8.8%

(v) 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. 21.7 million (2013: Rs. 9.1 million) is expected to be paid in the exchange for the services rendered by employees and is recognised as an expense during the year.

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29. Segment information

Information about primary business segments

Particulars	2014				2013			
	Pharmaceuticals	Chemicals	Eliminations	Total	Pharmaceuticals	Chemicals	Eliminations	Total
Revenue from Operations								
External revenue	5,851.4	2,823.5	–	8,674.9	5,462.2	2,515.6	–	7,977.8
Inter-segment revenue	–	124.5	(124.5)	–	–	147.7	(147.7)	–
Total revenue	5,851.4	2,948.0	(124.5)	8,674.9	5,462.2	2,663.3	(147.7)	7,977.8
Result								
Segment result before allocation of corporate expenses	426.3	301.0	–	727.3	600.8	259.7	–	860.5
Less: corporate expenses	158.8	51.2	–	210.0	85.6	26.6	–	112.2
Net segment result	267.5	249.8	–	517.3	515.2	233.1	–	748.3
Other unallocated income (net)	–	–	–	148.3	–	–	–	134.2
Income taxes	–	–	–	(233.4)	–	–	–	(323.7)
Profit after tax	–	–	–	432.2	–	–	–	558.8
Other information								
Segment assets	2,505.0	2,149.5	–	4,654.5	1,982.4	1,825.2	–	3,807.6
Unallocated corporate assets	–	–	–	2,427.7	–	–	–	2,674.9
Assets	–	–	–	7,082.2	–	–	–	6,482.6
Segment liabilities	1,033.9	317.6	–	1,351.5	722.7	279.3	–	1,002.0
Unallocated corporate liabilities	–	–	–	187.7	–	–	–	250.3
Liabilities	–	–	–	1,539.2	–	–	–	1,252.3
Capital expenditure — additions	477.8	84.7		562.5	190.8	83.4	–	274.2
Non-cash expenses other than depreciation	158.8	52.2	–	211.0	42.0	33.6	–	75.6
Depreciation and amortisation	71.7	55.1	–	126.8	51.8	48.9	–	100.7

Geographical segments information

	2014			2013		
	Domestic	Export	Total	Domestic	Export	Total
Revenue from operations	7,756.9	917.9	8,674.9	7,217.9	756.7	7,977.8
Segment asset	6,873.2	209.0	7,082.2	6,417.9	64.6	6,482.5
Capital expenditure	562.5	–	562.5	274.2	–	274.2

(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.

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 of 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 transaction with other segments.

Inter-segment transfers: Segment revenue, segment expense and segment result include transfers between business segments and between geographical segments. Those transfers are eliminated in preparing company-wide results.

(d) Revenue comprises of:

	2014	2013
Sales of products (Net)	8,324.5	7,729.6
Other operating revenue	350.4	248.2
	8,674.9	7,977.8

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30. (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% (2013: 51.8%) of the equity share capital, as at 31 December 2014.

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:

- Ares Trading S.A., Switzerland
- Ares Trading, Uruguay
- EMD Millipore Corporation, USA
- Heipha Dr. Müller GmbH, Germany
- Merck & Cie., Switzerland
- Merck (Private) Limited, Pakistan
- Merck (Pty) Limited, South Africa
- Merck Chemicals (Shanghai) Co., Limited, China
- Merck Inc., Philippines
- Merck KGaA & Co. Werk Spittal, Austria
- Merck Limited, Japan
- Merck Limited, Taiwan
- Merck Limited, Thailand
- Merck Pte Ltd, Singapore
- Merck Sdn Bhd, Malaysia
- Merck Selbstmedikation GmbH, Germany
- Merck Serono (Beijing) Merck Pharmaceutical Consulting Ltd., China
- Merck Serono Co., Limited, Japan
- Merck Serono Middle East FZE, United Arab Emirates
- Merck Serono S.A., Switzerland
- Merck Specialities Private Limited, India
- Merck spol. s r.o., Czech Republic
- Millipore India Private Limited, India
- P.T. Merck Indonesia, Indonesia
- Seven Seas Limited, United Kingdom
- Suzhou Taizhu Technology Development Co., China

Key Managerial Personnel:

- Dr. Claus Boedecker (Managing Director)
- Mr. N Krishnan (Director)
- Mr. P.H. Pimplikar (Director)

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30. (b) Related party disclosures

	Transactions	Ultimate Holding Company	Investing Associates	Fellow Subsidiaries	Executive Directors & Relatives	Total
1.	Purchase of goods	**788.5**	**–**	**289.1**	**–**	**1,077.6**
		(852.0)	(–)	(273.2)	(–)	(1,125.2)
2.	Purchase of capital goods	**–**	**–**	**–**	**–**	**–**
		(–)	(–)	(0.1)	(–)	(0.1)
3.	Sale of goods	**130.4**	**–**	**375.4**	**–**	**505.8**
		(56.7)	(–)	(456.7)	(–)	(513.4)
4.	Services received	**268.9**	**–**	**70.2**	**–**	**339.1**
		(315.1)	(–)	(72.4)	(–)	(387.5)
5.	Services rendered	**2.0**	**–**	**185.5**	**–**	**187.5**
		(1.4)	(–)	(175.9)	(–)	(177.3)
6.	Reimbursement of expenses	**17.0**	**–**	**131.9**	**–**	**148.9**
		(16.2)	(–)	(20.7)	(–)	(36.9)
7.	Advances given	**388.2**	**–**	**85.4**	**–**	**473.6**
		(237.1)	(–)	(37.9)	(–)	(275.0)
8.	Loan recovered	**–**	**–**	**–**	**–**	**–**
		(–)	(–)	(220.0)	(–)	(220.0)
9.	Interest income on loan	**–**	**–**	**–**	**–**	**–**
		(–)	(–)	(6.3)	(–)	(6.3)
10.	Dividend paid	**–**	**73.1**	**–**	**–**	**73.1**
		(–)	(21.5)	(–)	(–)	(21.5)
11.	Managerial remuneration*	**–**	**–**	**–**	**52.5**	**52.5**
		(–)	(–)	(–)	(46.6)	(46.6)
12.	Balances payable as at year-end	**98.8**	**–**	**39.6**	**–**	**138.4**
		(117.0)	(–)	(18.5)	(–)	(135.5)
13.	Balances receivable as at year-end	**3.7**	**–**	**60.5**	**–**	**64.2**
		(6.4)	(–)	(6.6)	(–)	(13.0)

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:

	2014	2013
1. Purchase of goods		
Merck KGaA, Germany	**788.5**	852.0
2. Purchase of capital goods		
Millipore (India) Private Limited, India	**–**	0.1
3. Sale of goods		
Merck KGaA & Co. Werk Spittal, Austria	**212.9**	147.1
Merck KGaA, Germany	**130.4**	56.7
EMD Millipore Corporation, USA	**70.3**	255.1
4. Services received		
Merck KGaA, Germany	**268.9**	315.1
Merck Serono S.A., Switzerland	**26.8**	53.4
5. Services rendered		
Merck Specialities Private Limited, India	**165.2**	169.3

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30. (b) Related party disclosures (continued)

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

	2014	2013
6. Reimbursement of expenses		
Merck KGaA, Germany	**17.0**	16.2
Merck Selbstmedikation GmbH, Germany	**88.5**	18.2
Ares Trading, Uruguay	**34.1**	–
7. Advances given		
Merck KGaA, Germany	**388.2**	237.1
EMD Millipore Corporation, USA	**39.2**	28.5
8. Loan recovered		
Millipore (India) Private Limited, India	**–**	220.0
9. Interest on loan		
Millipore (India) Private Limited, India	**–**	6.3
10. Dividend paid		
Emedia Export Company mbh, Germany	**30.0**	8.8
Merck Internationale Beteiligungen GmbH, Germany	**26.3**	7.7
Chemitra GmbH, Germany	**16.8**	4.9
11. Managerial Remuneration		
Dr. Claus Boedecker	**24.5**	28.2
Mr. N. Krishnan	**12.4**	7.7
Mr. P.H. Pimplikar	**15.6**	10.7
12. Balances payable		
Merck KGaA, Germany	**98.8**	117.0
EMD Millipore Corporation, USA	**18.5**	9.1
13. Balances receivable		
Merck KGaA, Germany	**3.7**	6.4
Merck Selbstmedikation GmbH, Germany	**46.0**	6.3
EMD Millipore Corporation, USA	**13.9**	–

31. Contingent liabilities

(to extent not provided for)

Summary of disputed statutory demands not accepted by the Company are given below:

	2014	2013
Income tax	**504.2**	554.1
State and Central Sales Tax, Entry Tax	**62.0**	35.8
Excise duty	**5.7**	5.7
	571.9	595.6

32. (a) During previous year, the Company had received a show cause notice from National Pharmaceutical Pricing Authority (NPPA) alleging that the Company had sold product Polybion L Syrup 250ml without price approval from the period January 2008 until June 2009. The notice calculates Rs. 128.0 million as the value of over charge equivalent to the entire sale value of said product for the referred period. The Company, based on the legal opinion believes that no provision is required to be made in the books of account.

(b) During the year, the Company has made a provision of Rs. 69.8 million towards a possible liability which may accrue to the Company due to a recent judgement passed by the Supreme Court impacting the Pharmaceutical industry in India including the Company.

(c) National Pharmaceutical Pricing Authority (NPPA) issued the price fixation orders for about 350 drugs on June 21, 2013 including Metformin, a formulation used by us in our product Carbophage 500 SR. The orders do not clarify whether the prices so fixed are applicable only for plain tablet or innovative dosages as well. The Company sought clarification from NPPA, however, no clear response has been received. Pending this clarification NPPA has sent us a notice dated June 6, 2014, claiming the differential pricing charged by the Company for Carbophage 500 SR over the prices notified.

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(d) Central Excise show cause cum demand raised on the Company covering the period of five years for alleged wrong classification of the products, Vitamin E Acetate min. 92% for Poultry/Cattle/Pig-feed, Vitamin E Liquid for Animal Nutrition (for Pig/Cattle/Poultry) and Vitamin E Dry Powder 50% for Animal Nutrition – total demand Rs. 276.0 million including penalty and interest.

Earlier also on the same issue the demand was raised on the Company to the tune of Rs. 18.0 million which was then contested before the lower authorities. On the representation made by the Company the demand was dropped after considering various decisions pronounced by judicial and quasi-judicial authorities at the relevant time.

Management feels that the Company has a good case on merits as well as on limitations. If the Company succeeds on merits the entire duty demand including penalty and interest would be dropped. However, if the Company does not succeed on merits the Company has still chances of succeeding on limitations as the matter was known to the authorities and there was no suppression or mis-declaration of facts by the Company. In such an eventuality the duty demand would be restricted to one year with interest and the penalty would be dropped.

33. Commitments

Estimated amount of contracts remaining to be executed on Capital Account (net of capital advance Rs. 5.3 million; 2013 Rs. 78.6 million) and not provided for Rs. 72.1 million (2013: Rs. 50.2 million).

34. Unhedged foreign currency exposure

Foreign Currency exposure on account of receivable and payable not hedged by derivative instruments are as follows:

	2014 (Foreign Currency)	**2014 (Rupees)**	2013 (Foreign Currency)	2013 (Rupees)
Payables				
USD	**1.0**	**62.8**	0.6	39.3
EUR	**1.9**	**149.8**	1.4	124.2
GBP	*	**0.2**	*	0.2
AED	**0.2**	**4.0**	–	–
		216.8		163.7
Receivables				
USD	**1.4**	**88.7**	0.9	51.5
EUR	**1.4**	**107.2**	0.2	12.7
		195.9		64.2

35. 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 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:

	2014	2013
Principal amount remaining unpaid to any supplier as at the year end	**0.7**	4.3
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	*	*

36. Details of imported and indigenous materials, components and spare parts consumed during the year

	2014		2013	
	Value	**% of Total consumption**	Value	% of Total consumption
Raw materials/Packing material				
Imported	**683.1**	**26%**	914.6	38.1%
Indigenous	**1,980.1**	**74%**	1,488.5	61.9%
	2,663.2	**100%**	2,403.1	100.0%
Spare parts				
Imported	**1.7**	**5%**	0.3	1.0%
Indigenous	**34.2**	**95%**	29.7	99.0%
	35.9	**100%**	30.0	100.0%

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37. Value of Imports (On C.I.F. basis)

	2014	2013
Raw materials	**947.6**	789.5
Finished goods	**974.2**	1,030.6
Components, Stores and Spare Parts	**1.8**	0.6
Capital goods	**48.9**	63.8
Others	**8.5**	3.1
	1,981.0	1,887.6

38. Expenditure in foreign currency

	2014	2013
Royalty	**124.2**	145.5
Legal and professional fees	**137.4**	161.4
Others (travelling, commission, employee benefits, etc.)	**68.0**	86.4
	329.6	393.3
Amounts disclosed above are on accrual basis		

39. Earnings in foreign exchange

	2014	2013
Exports of goods on F.O.B. basis	**677.4**	707.7
Indenting commission	**2.0**	1.4
Income from shared services	**144.4**	37.0
	823.8	746.1

40. Dividend remittances in foreign currency

	2014	2013
Year to which the dividend relates	**2013**	2012
Amount remitted during the year	**73.1**	21.5
Number of non-resident shareholders	**3**	3
Number of shares on which dividend was due	**8,599,224**	8,599,224

41. 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	Utilization	Reversals	Closing balance
Personnel and other related provisions	**121.7**	**88.9**	**84.7**	**24.7**	**101.2**
	(122.0)	(116.7)	(94.6)	(22.4)	(121.7)
Provisions in respect of sales tax matters	**66.9**	**5.0**	**2.7**	**–**	**69.2**
	(68.4)	(8.6)	(10.1)	–	(66.9)
Other provision [refer note 32b]	**–**	**69.8**	**–**	**–**	**69.8**
	(–)	(–)	(–)	(–)	(–)
	188.6	**163.7**	**87.4**	**24.7**	**240.2**
	(190.4)	(125.3)	(104.7)	(22.4)	(188.6)

Notes to the financial statements

for the year ended 31 December 2014

(Currency: Indian Rupees million)

42. Remuneration to Auditors

	2014	2013
Audit fees	**1.5**	1.5
Taxation matters	**0.8**	0.8
Other matters	**1.3**	1.7
Out of pocket expenses	**0.2**	0.2
	3.8	4.2

43. Transfer pricing

Transactions with related parties are governed by transfer pricing regulations of the Indian Income-tax Act, 1961. The Company's international and domestic transactions with related parties are at arm's length as per the independent accountants report for the year ended 31 March 2014. Management believes that the Company's international transactions with related parties post March 2014 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.

44. 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.

45. 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. LLP
Chartered Accountants
Firm's Registration No. 101248W/W-100022

Vikas R Kasat
Partner
Membership No.: 105317

Mumbai,
5th February, 2015

Vikas R. Gupta
Company Secretary

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

S. N. Talwar — *Chairman*

A. Nambiar — *Managing Director*

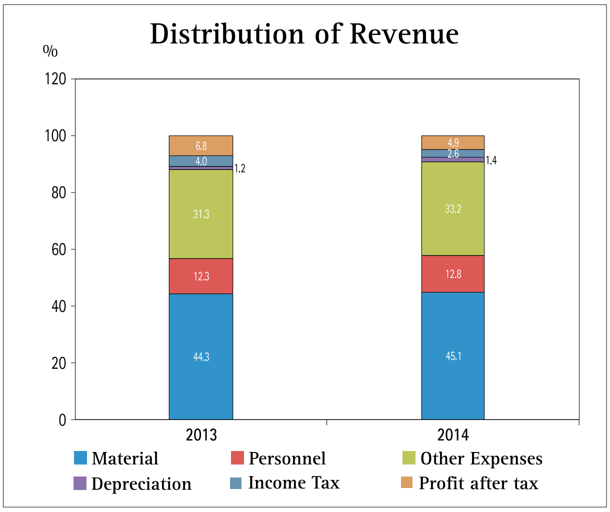
H. C. H. Bhabha
N. Krishnan
Ali Sleiman
Brijesh Kapil
Rani A. Jadhav
} *Directors*

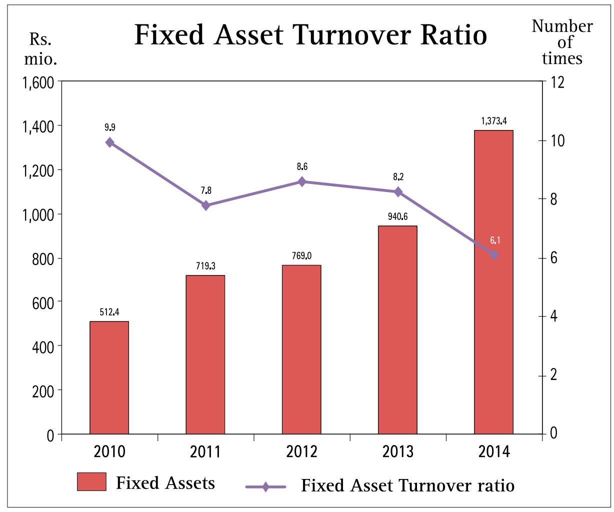
Financial Highlights : 2005-2014

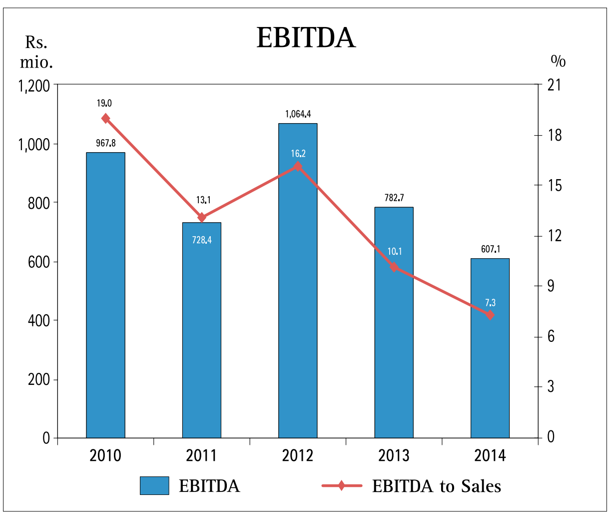
		2005	2006	2007	2008	2009	2010	2011	2012 ##	2013 ##	Change +/- in %	2014 ##
PROFIT & LOSS ACCOUNT SUMMARY												
Turnover	Rs. Mio.	3,964.6	3,294.9	3,148.3	3,894.6	4,731.1	5,090.8	5,575.7	6,580.7	7,729.6	7.7%	**8,324.5**
Operating and Other Income	"	183.7	967.2	395.0	477.1	432.1	433.7	488.8	494.1	462.7	19.7%	**553.7**
	"	**4,148.3**	**4,262.1**	**3,543.3**	**4,371.7**	**5,163.2**	**5,524.5**	**6,064.5**	**7,074.8**	**8,192.3**	**8.4%**	**8,878.2**
Costs & Expenses												
Materials Cost	"	1,797.1	1,393.2	1,264.9	1,599.9	2,060.9	2,078.7	2,427.8	2,990.2	3,630.0	10.3%	**4,004.7**
Personnel Expenses	"	310.0	339.3	332.0	477.6	570.2	684.6	811.0	853.0	1,009.6	12.5%	**1,135.6**
Operating and Other Expenses	"	791.1	768.2	881.9	1,319.5	1,492.5	1,590.3	1,933.1	1,974.7	2,569.5	14.6%	**2,945.5**
Depreciation/Impairment loss (reversal)	"	77.5	64.4	65.9	57.3	75.1	213.8	(63.3)	89.0	100.7	25.9%	**126.8**
	"	**2,975.7**	**2,565.1**	**2,544.7**	**3,454.3**	**4,198.7**	**4,567.4**	**5,108.6**	**5,906.9**	**7,309.8**	**12.4%**	**8,212.6**
Profit Before Taxation	"	1,172.6	1,697.0	998.6	917.4	964.5	957.1	955.9	1,167.9	882.5	(24.6%)	**665.6**
Provision for Taxation	"	384.7	363.5	310.4	287.3	309.7	325.3	319.1	383.9	323.7	(27.9%)	**233.4**
Profit after Taxation	"	787.9	1,333.5	688.2	630.1	654.8	631.8	636.8	784.0	558.8	(22.7%)	**432.2**
BALANCE SHEET SUMMARY												
Assets Employed												
Fixed Assets (Gross)	Rs. Mio.	1,152.2	1,153.9	1,168.2	1,405.8	1,482.9	1,536.0	1,679.4	1,783.8	1,969.3	17.7%	**2,317.2**
Fixed Assets (Net)	"	447.4	403.1	405.0	622.1	640.3	512.4	719.3	769.0	940.6	46.0%	**1,373.4**
Investments	"	1,406.7	2,480.7	2,339.7	1,529.3	238.2	201.8	227.4	236.4	242.9	(1.7%)	**238.7**
Current and Non-Current Assets (Net)	"	1,152.6	1,092.4	1,532.3	2,386.3	3,815.6	2,715.4	3,162.5	3,838.4	4,057.7	(3.7%)	**3,909.2**
Deferred Tax Assets (Net)	"	–	–	–	–	–	34.6	–	–	–	–	**21.7**
		3,006.7	**3,976.2**	**4,277.0**	**4,537.7**	**4,694.1**	**3,464.2**	**4,109.2**	**4,843.8**	**5,241.2**	**35.1%**	**5,543.0**
Financed by												
Share Capital	Rs. Mio.	168.6	168.6	168.6	168.6	166.0	166.0	166.0	166.0	166.0	–	**166.0**
Reserves and surplus	"	2,812.7	3,761.7	4,060.4	4,345.3	4,506.9	3,298.2	3,934.8	4,670.6	5,064.3	6.2%	**5,377.0**
Shareholders' Funds	"	2,981.3	3,930.3	4,229.0	4,513.9	4,672.9	3,464.2	4,100.8	4,836.6	5,230.3	6.0%	**5,543.0**
Deferred Tax Liability (Net)	"	25.4	45.9	48.0	23.8	**21.2**	**–**	**8.4**	7.2	10.9	(100.0%)	**–**
	"	**3,006.7**	**3,976.2**	**4,277.0**	**4,537.7**	**4,694.1**	**3,464.2**	**4,109.2**	**4,843.8**	**5,241.2**	**5.8%**	**5,543.0**
OTHER INVESTOR INFORMATION												
Earnings per share	Rs.	46.7	79.1	40.8	37.4	39.0	38.1	38.4	47.2	33.7	(22.8%)	**26.0**
Dividend	%	150.0	200.0	200.0	175.0	200.0	950.0	–	25.0	85.0	(29.4%)	**60.0**
Book value per share	Rs.	176.8	233.1	250.8	267.7	281.5	208.7	247.0	291.4	315.1	6.0%	**333.9**
Market value of share	High Rs.	590	639	500	460.0	634	1,006	760	714	689	33.3%	**919**
	Low Rs.	375	425	372	260.0	293	566	553	555	523	2.5%	**536**
No. of Shareholders		25,235	24,805	25,718	26,096.0	24,083	27,284	27,313	26,857	27,257	4.9%	**28,591**
No. of Employees		952	860	922	1,072	1,245	1,257	1,257	1,277	1,496	1.3%	**1,515**

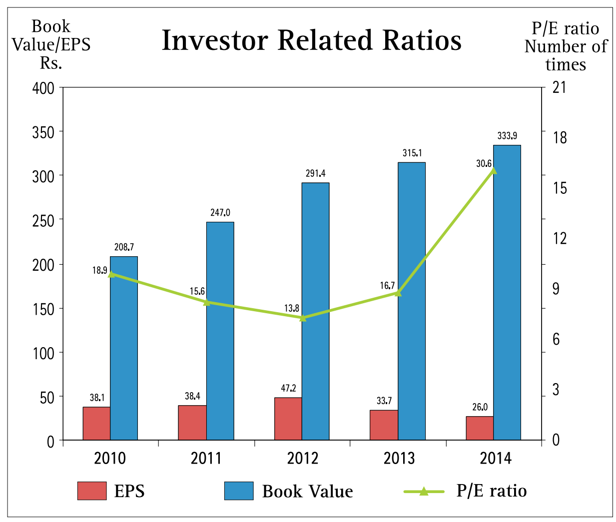
as per revised Schedule VI

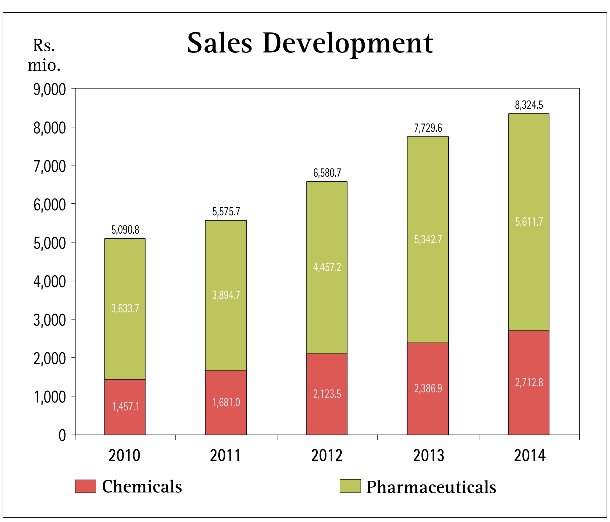
PERFORMANCE INDICATORS

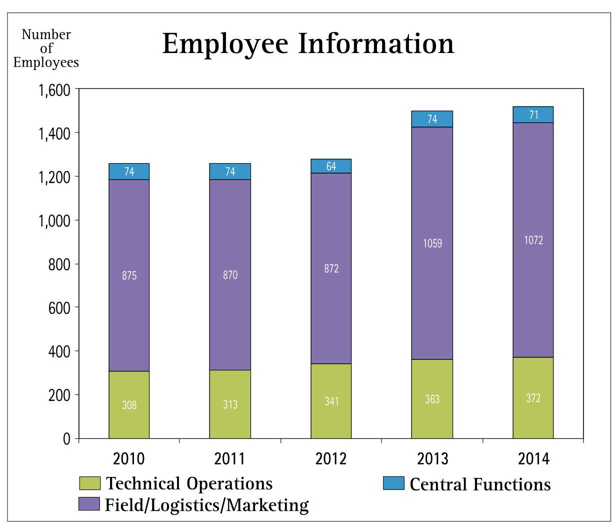












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