



Text of the speech delivered by Mr. Dilip Shanghvi, Chairman and Managing Director of the Sun Pharmaceutical Industries Ltd., at the 15th Annual general meeting of the company held on Sept 5, 2007 in Vadodara

Ladies and Gentlemen:

On behalf of the Board of Directors I take pleasure in welcoming all of you to the 15th AGM of your company.

SPARC listing

Our innovative research business was demerged into a separate company, SPARC Ltd. and this company was listed on the exchanges on 18 July 2007. As you know, the innovative R&D business comprises research programs involving new chemical entity (or NCE) and novel drug delivery system (or NDDS) which means existing drugs with better delivery system to improve its efficacy, with several active projects in development. This demerger and listing is a first for any pure research company in the Indian pharma sector.

I'd like to share select highlights of 2006-07 for the consolidated entity:

- Net Sales up 30%
- Net profit is up 37% to Rs. 7,843 million.
- International operations accounted for 43% of sales
- Formulations were 85% of sales, which is in line with our objective of remaining a formulations driven company
- Net margins at 38%, continued to be amongst the highest in the sector

Environment and challenges

I believe the past year continued to align the Indian pharma sector closer to international developments, as legal, regulatory, product and market-related issues continued to impact the way we run our business as well as the speed of our international business roll-out.

India

The Rs.29,000 crore pharmaceutical market in India continues to be competitive with multiple challenges unique to the country. A 14% growth rate places it amongst the fastest growing markets in the world. The market continued to attract new players, mainly through licensing deals for companies that do not have a presence in India as yet. The government continues to work on a new drug policy that would focus on affordable delivery of basic healthcare for all, across micro-interiors. As we move into the third year of the newly implemented patent regime, we have yet to see any major impact in the Indian market, although there have been some test case attempts to claim patent protection for products that do not qualify under the Indian law, and these have been successfully contested in the courts.



International

Tighter regulatory requirements and a close watch on healthcare costs will remain the norm going ahead. In most markets this watch on costs is balanced with government moves to promote the growth of indigenous industry. For instance, the recent moves in Brazil and Mexico to impose substantially higher import duties, where as local manufacturers have no such hikes and are able to offer better prices. Or the substantially higher registration fees in China and longer waiting periods of more than 18 months. I believe such non-tariff barriers will likely increase in the future.

Cost control seems to be the common thread across world markets, though this takes different forms across markets. In Europe, we've seen sudden changes in reimbursement systems in some markets, particularly in Germany. I think we're likely to see this cost control wave happen all around the world.

The USD 28 billion US generic market has also begun to see the first of election-year positions from the candidates, on healthcare. As you know, the US is the largest generic market, with over 55% of all prescriptions filled by generics. Severe price erosion continues to affect product pricing, even for the so perceived difficult to replicate or make products.

Since several US generic companies have set up R&D operations or bought manufacturing bases in India, over time, these companies will compete with more or less the same advantage as Indian companies. Hence in the long run, higher productivity, efficient operations, better customer service and the ability to differentiate on products will be important levers. Para 4 challenges continued to be extremely demanding, with a company's legal and regulatory capabilities as important as manufacturing. Branded companies continued to bring authorized generics to market, or settle with generic companies to extend their product life. While we understand that government authorities such as the FTC continue to watch these settlements which potentially limit competition, they are not viewed by all as necessarily anti-consumer.

Performance

This year, we renewed our intent of being an international speciality pharma company as we rolled out our products across geographies. As you know, in India we offer a basket of speciality products including those with a tech advantage, and these are the same brands that we sell across several markets. Backward integration into API helps us introduce several products that would otherwise be difficult to source, or difficult to compete in without a cost advantage. International markets now account for 43% of our sales. The US market moved to 23% of sales, and delivered strong margins in a tight market. We expect international business to exceed 50% of revenues in the next 3 years.

India formulations

The domestic formulation business, at 53% of our consolidated sales offers solid, dependable growth with speciality prescriptions. We are confident about growing revenues at a pace faster than industry growth. We posted sales of Rs 11,810 mill, up 23% from the previous year. Market share as per IMS ORG is at 3.3% for 12 months upto July 2007.



As a speciality prescription company, our ranking with speciality customers is an all important indicator that we track. We continue to be ranked number 1 with 6 classes of customers: Psychiatrists, Neurologists, Cardiologists, Ophthalmologists, Diabetologists and Orthopedicians. Technically complex dosages such as octreotide, desmopressin and other complex peptides may not offer large volumes, but continue to offer a marketplace advantage. Such products help us differentiate as an Indian multinational in the other markets that we compete in.

US generics

As you know, we now have six formulation plants that cater to the US market, three of which are on US mainland and the other three in India. One plant in India is capable of handling injectables and sprays in addition to the usual products, and one specialized for cephalosporins.

We've also announced our intent to raise Rs35,000 million for further acquisitions in the US market. As you are aware, we've signed definitive agreements for acquiring share of Taro, and we think further consolidation is likely in the generic space, that would offer several interesting opportunities. Our capital raising will enable us to be ready for any such opportunity.

ANDA approvals from our site in Halol continue. We've also begun to get the first set of approvals from the Cranbury site. At our Bryan site, we've received USFDA approval for controlled substances, which is an important advance as we file for products in this area. All approved Sun Pharma ANDAs are currently marketed through Caraco in the US. Some of the recent approvals are for injectables, especially in the anticancer and peptide areas, and we expect a good market for these products.

Between Sun Pharma and Caraco we now have 73 products awaiting approval. This ranges across a mix of products: Para 3s, select Para 4's, complex products as well as competitive products which we can make more sensibly in India. Our intent is to offer a baseline stability for our generics business.

Caraco had revenues of USD 117 million for the year ending March 31, 2007, up 41% from last year. On this it had a cash profit of USD 39 million. This is a strong performance in a market with continuing pricing pressure. Caraco now markets 24 products of its own, 10 from Sun Pharma, and has another 19 products pending approval with the USFDA. For 18 of its products, it is among the top 3 by prescription share.

International formulations (non US)

Our ex-US international finished dosage presence, currently 9% of our business, continues to grow, and we were able to overcome some currency impact with our pricing. These markets across SE Asia, China, CIS, some countries in Latin America such as Brazil and Mexico, offer strong sales opportunities as well as decent local competition. Some of our complex products like Lupride Depot and Lipodox have begun to be promoted and prescribed in these markets.



Speciality API

We have 91 filings received or awaiting approval for US/ Europe. This includes the filings we have at Alkaloida, Hungary, where we're busy with upgradations, streamlining operations, fine-tuning our customer list so that we can reach larger customers, or those in regulated markets.

Currently at 15% of turnover, a large part of our API production is used in-house, or at our subsidiaries, although we also market to large, quality conscious companies in Europe and US.

R&D

The most important change in your company and one that redefines what we do as a business, took place with the demerger of the innovative business with the listing of SPARC. This clearly separates out the innovative projects in new molecules and delivery systems along with the scientific team working in these areas. With this, Sun Pharma is back to becoming a pure generic company with speciality products across markets. This redefining of focus will help us make the most of opportunities across international markets.

We have a strong and efficient research team for the development of generics. Every year we scale up about 20 APIs, do a large number of international product filings and bring more than 30 formulations to the Indian market.

Growth and Team Sun Pharma

Sun Pharma is building a reputation as an international speciality generic company, with a twenty-five year old history of dependable revenue streams. Our guidance for the current year is a growth of 15-18% in sales. Caraco has shared 30% growth guidance. This year we intend to file 30 ANDAs in the US across the two companies. Even as we continue to grow organically, and while we take ahead the process of acquiring Taro Pharma and integrating it with our operations, we have put into place a capital raising program that will fund our next acquisition.

As Sun Pharma's seven thousand-plus strong team across four continents and seventeen manufacturing sites moves from strength to strength, we will continue to create a work environment that is challenging yet rewards individual initiative. Thank you.