

Excerpts from the speech delivered by **Mr. Dilip Shanghvi**, Chairman and Managing Director of the Company, at the 13th Annual General Meeting, held on September 30, 2005 at Vadodara



Regd. Office :
SPARC, Tandajla, Vadodara -390020
Corporate Office:
Acme Plaza, Andheri Kurla Road,
Andheri (East)
Mumbai - 400 059

Ladies and Gentlemen

On behalf of the board of directors, I take pleasure in inviting you to the 13th AGM of your company.

ENVIRONMENT AND CHALLENGES

The domestic market is fiercely competitive with challenges like a new patent system and VAT. The US generic market continues to witness significant price erosion, para 4 challenges continue to be demanding, and branded companies continue to launch authorized generics.

BALANCING OPPORTUNITY AND RETURNS

Sun Pharma, in the last 5 years has seen a large change in the product mix. International markets account for 40% in turnover, as against 25% in 2000. Bulk actives, which were 33% of turnover, now account for 18%, with most sales to regulated markets, and to large specialty companies rather than trade. Our aim over the next two years is to attain 50% of a much larger turnover from international markets.

INDIA FORMULATIONS

Domestic formulation sales is over Rs.6800mill, with a 3.45% market share. With key specialty customers, we continued to gain market share. We are among the top 3 companies with 8 customer classes. 177 of the 330 products that we sell are ranked among the top 3 by drug. Strong product portfolios and technically complex products power our 'more than twice industry' rate of growth.

US GENERICS

The most important part of our international strategy is the US generic market where we continue to file for simpler para 3 products, products with patent challenge and complex products where an understanding of science is critical. Up from 2% in 2000, the US business is now 22% of turnover.

Caraco, our US subsidiary, which is 72% owned by Sun Pharma, has turned the corner. Its turnover has risen from \$2.3mill in 2000 to \$60mill in 2004.

Caraco has 17 products approved, and 12 more filings awaiting approval, several of which are based on bulk active sourced in-house. Despite being late entrants, 3 of Caraco's key products have reached a top 3 market share ranking.

EUROPE GENERICS

Our stated strategy for the Europe market is to seek European approvals with a local partner in 3 key markets of UK, Germany and France. We recently acquired the Hungarian operations of Valeant Pharma.

(All numbers are consolidated numbers 2002 and onwards and standalone for the prior period. Excerpts edited. This does not purport to be a record of the proceedings of the Annual General Meeting of the Company.)

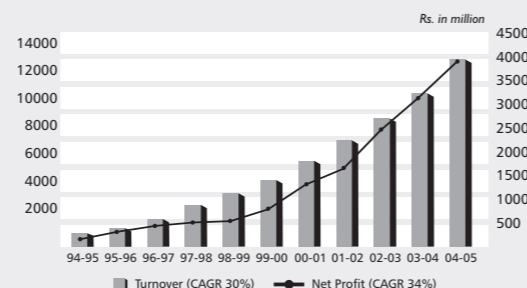


A DECADE OF OUR LISTING

2004-05 marks a decade of our listing on the stock exchanges in India.

Throughout we continue to remain a specialty focused company.

The company has grown significantly from Rs.320mill annual turnover in 1992-93 to monthly profit of Rs.450mill in the first quarter of 2005-06.



- We are now ranked number 1 with Psychiatrists, Neurologists, Cardiologists and Ophthalmologists.
- From 870 employees, primarily in India, we have grown to 5000 employees.

From 1994-95 to 2004-05

- Domestic market share up from 0.8% to 3.45%.
- From 34th to 5th rank in the last 5 years.
- From manufacturing in India to plants in 3 continents.
- Net income grew 14 times to Rs. 12301 mill.
- Net profit grew 19 times to Rs. 3962mill.
- More or less, every four years we doubled turnover and tripled profit.
- Across the decade our operating and net margins have been double that of the industry.
- Market cap is up from Rs.3.4bill to over Rs. 120bill.
- Caraco's market cap is at \$238mill, versus \$4.0mill in 2000.
- An investor who held one share saw it increase to 12 shares after two bonus issues and a share split.
- Total shareholder returns, measured as increase in market cap and dividends, increased 44% per year. One of the companies that is most efficient with the use of capital.
- An investor who had invested Rs.20,000 in the public issue in 1994 and held onto his investment, has seen it exceed Rs. 1 million now.

RESEARCH & DEVELOPMENT

An important milestone was the inauguration last December of our research center in Baroda at the hands of His Excellency Dr. APJ Abdul Kalam, the President of India. This 200,000 sq ft site spread over 16 acres, houses 355 scientists and offers world-class facilities for drug discovery and delivery systems, with 137 labs over 4 floors. Till date we have invested about Rs.4000mill in R&D. In 2004-05 we invested Rs1440 mill, for 2005-06 we have earmarked a budget of 10-11% of turnover. We expect to spend 50% of the R&D budget, up from current 40% on long-term projects in new chemical entity and delivery systems. We have a strong intellectual property library, with 35 patents granted, 364 more patents awaiting approval.

We also set up a new research facility in Mumbai, with 50,000 sq ft floor area and space for 65 scientists. This team supports Caraco with generic market filings.

Several of our innovation-based projects are moving a step closer to market. One of our lead molecules has completed phase I trials in Europe, and preparations are underway for subsequent stage filings. We also expect to begin trials for two delivery systems over the next two quarters.

Our bulk active list has increased from just two products in 1995 to over 100 today, all developed in-house. Every year we bring over 40 products to market, over half of which have a technological advantage or a complexity.

VISION At Sun Pharma, we are working to create an international research based pharma company. These key points-international focus, research outlook, and people, have the potential to take us to a different level altogether.



SPECIALITY BULK ACTIVES

60% of our bulk active turnover now comes from regulated markets, mostly to large customers in the Americas and Europe. Three of our bulk active plants hold approvals for US or Europe. All sites hold ISO 9002 certification. In the last few years, we have enhanced capacity to make complex material like peptides, anticancers, steroids, as well as added a dedicated site for cephalosporins.

INTERNATIONAL FORMULATIONS (NON US)

International formulations, at 7% of turnover, have shown 40% growth over the last 2 years. This was made possible by priority

brands, regular customer visits and a 260 strong, dedicated field force. We are working to bring tech intensive products such as Lipodox and Lupride to these markets.

GROWTH AND TEAM SUN PHARMA

On the threshold of growth that is qualitatively and quantitatively different, growth from international markets, research; we realize that these are the results of direction as much as of world-class minds.

Dilip Shanghvi
Chairman and Managing Director
September 30, 2005

Vadodara