

**Speech delivered by
Mr. Hasmukh Shah on behalf of Mr. Dilip Shanghvi,
Chairman and Managing Director of the company,
at the 10th Annual General Meeting,
held on August 28, 2002, at Vadodara**

Ladies & Gentlemen

On behalf of the board of directors, I am glad to welcome you to the 10th Annual General Meeting of your company.

I am excited to share with you news about the Express Pharma Pulse award for outstanding performance for 2002. This is an important honor that rates Sun Pharma as the best among the top ten companies in India. This award is based on clearly defined, quantifiable data from the IMS such as market share, growth, new products etc. The criterion in all fairness ensures we are compared with companies that have similar strengths. Sun Pharma won the award for group A- that is, companies that have market share over 2.5%, and I should like to think that this award rates Sun Pharma the first among equals.

Last year I had spoken to you about our presence in the prestigious Forbes list of best 200 small companies- a list that is built after evaluating 20,000 qualifying companies. The Express Award too, highlights that we are building on a solid foundation, designed for growth and sustainable revenue streams.

At Sun Pharma, our domestic formulation business is the backbone of our growth- marked by prescription share increases and ranking increases from key customer groups. We expect this part of our business to continue showing healthy, faster than industry growth. As we continue to add to turnover and profit, our domestic business will produce sizable and reliable cash flows. These funds will be reinvested in research and in the international business, across the regulated and unregulated markets.

At several times in the past, I have used this platform to outline our plans in the context of industry level perspective shifts. The Indian pharma industry is in the midst of massive change, and as markets continue to open up, a section of our companies will participate in and earn sizable revenues from global opportunities.

Today, I shall take a few moments to outline how we are readying for the future on 3 key parameters, a kind of "preparedness rating scale". These changes have the potential to catapult us onto a vast global platform.

1. Building an international speciality business
2. Building technical credentials with drug discovery and novel drug delivery systems
3. Developing the team

I shall now briefly touch upon each of these areas.

To begin with, the first in this list of 3: An identity as an International speciality pharma company; What does this mean, and how exactly is Sun Pharma gearing up?

Sun Pharma is structured and designed to meet the needs of the speciality customer. Our rankings in key therapy areas are based on the generation of long term prescriptions from the consultant and the relationship we have with him. As we gain market share, we shall continue seek innovative ways to build on this equation.

This speciality strategy is one we are working to replicate in new therapy areas and across new geographical markets.

In the potentially high growth areas such as gynecology, oncology, respiratory, appropriate structure, people and strategy are now in place and we are working to establish similar levels of customer trust.

India currently participates in a microscopic less than 2% of the \$397 billion worldwide pharma market. Given the small size of the participated market, one sees scope for a tremendous upside for the sector.

Currently, at Sun Pharma, international markets account for 20% of our turnover, with the export of bulk actives to Latam and Europe making up the majority.

We expect global markets, driven by formulation exports to account for 30%+ of our turnover in the next 3-4 years.

We've always viewed speciality bulk actives as a separate profit center. We see a distinct opportunity to increase our international presence by being the supplier of bulk actives both to large end user companies and generic companies. This business builds on our chemistry expertise, and to this effect, all our bulk plants have been designed and built to

international regulatory requirements.

The infrastructure is well in place. All our plants have been built to international specifications right from the design stage. Ahmednagar plant holds US FDA approval, ISO 9002, and ISO 14001 approval. Panoli holds ISO 9002 approval and is being submitted for USFDA approval. Chennai recently completed the inspection process for ISO 9002 approval. These plants will be used to supply speciality bulk active to innovator companies/end users in the international markets.

Strategy corrections have been made for dosage form exports to developing markets. We have put a 90 person strong team in the field, and prioritized into three classes the 36 markets that we have a presence in. Specific therapy areas for focus in each market have been shortlisted. The first part of this promotional plan is in place.

Now for a quick recap of our strategy for the regulated market in North America. The US generic market accounts for \$14bill and expected to grow quickly as products with brand market of \$40bill go off patent by 2004. As we begin to better understand the dynamics of regulated markets we expect to quickly move from being a plain vanilla generic manufacturer playing on the cost advantage, to product strategies that are more complex. Sun Pharma participates in the US generic opportunity through the investments made in Caraco Pharm. Caraco now has 7ANDAs approved, 6 more filings awaiting clearance, and we expect a continuous stream of filings to be made. In our view Caraco should breakeven this year with a turnover of \$16-18mill.

Beginning this year we will seek dosage form regulatory approvals for Europe from an Indian base. We intend to make a start in carefully selected markets in Europe, working with a local partner who knows these markets well. The Indian plant will be also submitted for USFDA approval this year, with ANDA filings to begin one year down the line. Once these approvals are in place, we will be able to take advantage of a second manufacturing front for US and Europe.

Opening a second front for dosage forms is a prudent strategy in terms of opportunity addressed, leveraging the cost advantage differential and sheer staying power to address vast regulated markets.

These plans, tailor-made to address specific markets, will help us establish an identity as an international speciality pharma company.

And this brings me to the next step - research.

Worldover, new treatments/products based on research have been the most important accelerator of growth for the pharma industry. As we've seen several times this year, quality of the research pipeline and their expected timing have prompted merger actions, often between giants.

An important starting point for our research ideas is often the interaction with speciality customers - product development ideas can be identified based on real life patient needs. Routine issues like "the medication is too bitter" or "it needs to be taken too frequently.." or "the medication does not seem to work for a few hours every day", can be an important starting point for drug delivery system ideas or new molecules. Lupride Depot, a once a month medication used to treat advanced prostate cancer and female gynecological problems was developed based on patient needs to avoid repeat injections. Surfact, an emergency medication that helps premature babies to breathe without choking, was based on specialist recommendations that no product was available and that the imports were uncertain. Product identification is one area where we have an advantage because of customer proximity.

At Sun Pharma, we've always believed in the difference that sensible research investments can make, and have believed that know how and know when are equally important. Over the years our research investments have exceeded Rs120cr, with Rs35-40cr earmarked for investment in each of the next two years.

We are in the process of substantially expanding our research facilities. A new 16 acre research campus in Baroda, with facilities for drug discovery and drug delivery projects over 150,000 sq. ft area, will be partially operational by this time next year. Over the next few years, this will be manned with 150 additional scientists, which will double the current scientific strength.

In Mumbai, we have added a new site in Mahakali with additional 50,000 sq. ft floor area. This 40 person strong team will continue to work on product development for the regulated markets, but in a larger facility.

I have also gone on record saying that the % spend on innovation- currently 30-35% of the total R&D expense will exceed 60-70% in the next two years. The extent of management time invested in research is also increasing. Currently 101 patents have been filed for the work done at SPARC, up from 76 when I last shared the number with you in March.

In the three therapy areas that we have identified in the area of drug discovery, we have quickened the pace of screening and continue to take our projects forward. We are taking confident steps towards our research objective: to have 1 new molecule and 3 delivery system based products in human trials over the next two years.

Drug discovery is one area where I would rather be working towards the next milestone, instead of being satisfied with the work so far.

You will find that this sense of measured prudence and logical step by step progression is characteristic of our research effort as we increase familiarity with new technologies such as combinatorial chemistry, HTS, bioinformatics, and novel bioprocessing methods.

As these projects move through successive stages- search, discovery and development, I expect the quantum of investments to increase.

And this brings me to the next point: developing the team. These ambitious plans need wholehearted commitment from a charged team. One of the reasons for our longstanding customer relationships is the fact that we have a largely homegrown team, one that has learnt and grown with the company. At Sun Pharma, we consciously try and create a supportive work environment conducive to growth. Cross-functional training, opportunities for progress up the hierarchy, and career opportunities across markets have been an effective motivational tool, one that has helped create an enthusiastic team of self starters. As we continue to enter new markets and in research take new ideas from lab to market, we will find ways to ensure that the team continues to learn and grow together.

As Sun Pharma continues to notch points on this rating scale towards greater preparedness, I expect the team to continue to show the same enthusiasm as we gradually evolve to a research based international pharma company. Thank you

Dilip Shanghvi Vadodara
Chairman and Managing Director
August 28,2002

Note: this does not purport to be a record of the proceedings of the Annual General Meeting of the Company.