Your Directors take pleasure in presenting the Fourteenth Annual Report and Audited Accounts for the year ended 31st March, 2006.

<table>
<thead>
<tr>
<th>Financial Result</th>
<th>Year ended 31st March, 2006</th>
<th>Year ended 31st March, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>18060</td>
<td>12468</td>
</tr>
<tr>
<td>Profit after Tax</td>
<td>4613</td>
<td>3057</td>
</tr>
<tr>
<td>Dividend on Preference Shares</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Dividend on Equity Shares - Final</td>
<td>1023</td>
<td>696</td>
</tr>
<tr>
<td>Corporate Dividend Tax</td>
<td>144</td>
<td>99</td>
</tr>
<tr>
<td>Transfer to various Reserves</td>
<td>2137</td>
<td>1641</td>
</tr>
<tr>
<td>Rate of dividend on equity shares</td>
<td>110%</td>
<td>75%</td>
</tr>
<tr>
<td>Book value per equity share (Rs. 5 paid up)</td>
<td>79</td>
<td>60</td>
</tr>
</tbody>
</table>

**Dividend**
Your Directors are pleased to recommend a preference share dividend of 6% p.a. on paid up amount of outstanding preference shares which are still not redeemed, and equity dividend at the rate of 110% (previous year 75%) for the year ended 31st March, 2006 on the equity share capital.

**Voluntary Delisting of your Company’s Equity Shares from the Calcutta Stock Exchange**
Your Company’s shares have been delisted voluntarily from the Calcutta Stock Exchange, Kolkata. Your Company’s equity and preference shares continue to remain listed on Bombay Stock Exchange Limited (BSE) and The National Stock Exchange of India Limited (NSE).

**Management Discussion and Analysis**
The management discussion and analysis of the operations of your company is provided in a separate section on page one, and forms a part of this report.

**Demerger of Innovative Research & Development Unit of the Company**
Your Company has undertaken demerger of its unit of Innovative Research & Development activities and New Drug Delivery systems effective from 1st April, 2006, which is presently pending before the Honourable High Court of Gujarat for its approval.
Human Resources
Over the years, we've grown to a company with over 5000 people, 16 plants (including associate companies) across 3 continents. The consistent growth we've shown year after year is a pointer to the remarkable team at Sun Pharma- their productivity, potential and capability to deliver. Your Company recognizes the importance of this resource and the need to keep it prepared and ready for new opportunities and challenges. In house, external programs and on the job training are used to upgrade technical, marketing, management and related skill levels. The work environment and opportunities help attract and retain talent.

Your Directors recognize the team's valuable contribution and place on record their appreciation for Team Sun Pharma.

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, is available at the registered office of your Company. However, as per the provisions of Section 219(1)(b)(iv) of the said Act, the Report and Accounts are being sent to all shareholders of the Company and others entitled thereto excluding the aforesaid information. Any shareholder interested in obtaining a copy of this statement may write to the Company Secretary/Compliance Officer at the Corporate office or Registered office address of the Company.

The additional information relating to energy conservation, technology absorption, foreign exchange earning and outgo, pursuant to 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 Annexure and forms part of this Report.

Internal Control Systems and their Adequacy
Your Company has adequate internal controls for its business processes across departments to ensure efficiency of operations, compliance with internal policies and applicable laws and regulations, protection of resources and assets and accurate reporting of financial transactions. Your Company also has a system of internal audit conducted by an independent firm of Chartered Accountants so as to cover various areas of operations on continuous basis. The summarized Internal Audit Observations/Reports are reviewed by the Audit Committee on a regular basis. The finance and accounts functions of your Company are well staffed with qualified and experienced members.

Corporate Governance
Report on Corporate Governance and Certificate dated 26th July, 2006 of the auditors of your Company regarding compliance of the conditions of Corporate Governance as stipulated in Clause 49 of the listing agreement with stock exchanges, are enclosed.

Consolidated Accounts
In accordance with the requirements of Accounting Standard AS-21 prescribed by the Institute of Chartered Accountants of India, the Consolidated Accounts of your Company and its subsidiaries is annexed to this Report.

Finance
The banks in consortium continue to offer their highest rating to your Company enabling it to source funds from banks at attractive rate of interest. CRISIL continued to reaffirm their highest rating of “P1 +”, for your Company’s Short Term Borrowing Program throughout the year.

Your Company does not offer any Fixed Deposit scheme.

Issue of Shares on Part Conversion of FCCB
During the year ended 31st March, 2006, your Company received notices from Foreign Currency Convertible Bond (FCCB) holders for exercising the conversion option in respect of 3500 FCCBs of US $ 1000 each out of 350,000 (Three Hundred and Fifty Thousand) FCCBs. Accordingly, your Company allotted during the year ended 31st March, 2006, 216,007 equity shares of Rs. 5 each to these bondholders at the conversion price of Rs. 729.30 per share.
Your company has defined health and education as areas of priority with a local emphasis. It has been periodically assisting organizations, schools and hospitals near its plants.

Donations in cash and medicines have been made to several hospitals in Vapi and Silvassa. Lab equipment have been donated to a local pharmacy college, and a primary school supported with expenses. A mobile van has been arranged for an NGO that tours villages in South Gujarat with educational aids. Schools near the plants in Ahmednagar and Panoli have been assisted with infrastructural support every year, for the last few years.

Your company has also contributed to relief events and camps during calamities such as the floods in Gujarat and Maharashtra. Donations of select medicines which could be used in an acute therapy setting, were handed over to the authorities at the time of the massive quake in Jammu.

Our idea here is to identify problems on a local level, and step in with local resources and a practical approach to resolve issues in education and healthcare.

Shri Hasmukh S. Shah and Shri Keki M Mistry retire by rotation and being eligible offer themselves for reappointment.

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors’ Responsibility Statement, it is hereby confirmed:

- that in the preparation of the annual accounts for the financial year ended 31st March, 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- that the Directors have selected appropriate accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and on the profit of the Company for the year under review;
- that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and,
- that the Directors have prepared the annual accounts for the financial year ended 31st March, 2006 on a 'going concern' basis.

Your Company’s auditors, M/s. Deloitte Haskins & Sells, Chartered Accountants, Mumbai, retire at the conclusion of the forthcoming Annual General Meeting. Your Company has received a letter from them to the effect that their re-appointment, if made, will be in accordance with the provisions of Section 224(1-B) of the Companies Act, 1956.

Your Directors wish to thank all stakeholders and business partners-your Company’s bankers, financial institutions, medical profession and business associates for their continued support and valuable co-operation. The Directors also wish to express their gratitude to investors for the faith that they continue to repose in the Company.

For and on behalf of the Board of Directors

Dilip S. Shanghvi
Chairman & Managing Director

Mumbai,
26th July, 2006
Summary

- Revenues for the year ending March 31, 2006 up 36%.
- Formulations were 84% of the revenues, in line with our objective of being a formulations driven company.
- Domestic formulations, the sales of speciality prescription brands in India, at 55% of revenues, with 41% growth.
- International formulations were 29% of revenues, a growth of 37%.
- The export of speciality API was 11% of revenues, backed by increasing sales of APIs to regulated markets.
- Exports of branded prescription products (non-US markets) grew 54%, across 26 markets.
- US: Sales at Caraco for the year ending March 31, 2006, up 29%, with increasing sales of its key product lines, and its first-ever para 4 win, Ultracet.
- Plans at an advanced stage to demerge innovative R&D projects into a separate company. This company will be listed.

<table>
<thead>
<tr>
<th>Sales Breakup by type</th>
<th>Mar 06</th>
<th>Mar 05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Formulations</td>
<td>9596</td>
<td>6799.8</td>
</tr>
<tr>
<td>Domestic Bulk</td>
<td>815</td>
<td>908.2</td>
</tr>
<tr>
<td>Domestic Others</td>
<td>3</td>
<td>8.3</td>
</tr>
<tr>
<td>Export Formulations</td>
<td>5036</td>
<td>3680.7</td>
</tr>
<tr>
<td>Export Bulk</td>
<td>1888</td>
<td>1344.7</td>
</tr>
<tr>
<td>Export Others</td>
<td>34</td>
<td>2.0</td>
</tr>
</tbody>
</table>

All financial numbers are for the consolidated results unless otherwise mentioned specifically.

- 31 APIs were developed and scaled up. With this, in all, a total of 35 filings await approval, including filings in the areas of anticancers, steroids, hormones and peptides.
- At our Karkhadi site (the erstwhile Phlox Pharma), expansions completed to create a cephalosporins facility that is FDA compliant and can make both sterile and non-sterile API and dosage forms.
A 170 acre site in Tiszavasvari, Hungary, acquired from Valeant Pharma in end 2005 for vertical integration in controlled substances. This 600KL manufacturing capacity, in one shot, doubles the API capacity at Sun Pharma.

A site at Cranbury, NJ, USA, acquired to manufacture controlled substance dosage forms, bringing in state of the art manufacturing suites meeting international regulatory standards.

A site at Bryan, Ohio, USA, acquired to make semi-solids, pastes and liquids, and work begun on capacity increases and streamlining operations.

<table>
<thead>
<tr>
<th>Divisionwise representative strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sun</td>
</tr>
<tr>
<td>Ortus</td>
</tr>
<tr>
<td>Azura LS</td>
</tr>
<tr>
<td>Arian</td>
</tr>
<tr>
<td>Azura CC</td>
</tr>
<tr>
<td>Avior</td>
</tr>
<tr>
<td>Symbiosis</td>
</tr>
<tr>
<td>Synergy</td>
</tr>
<tr>
<td>Sirius</td>
</tr>
<tr>
<td>Onco</td>
</tr>
<tr>
<td>Spectra</td>
</tr>
<tr>
<td>Inca</td>
</tr>
<tr>
<td>Solares</td>
</tr>
<tr>
<td>Radiant</td>
</tr>
<tr>
<td>Milmet</td>
</tr>
<tr>
<td>Avesta</td>
</tr>
<tr>
<td>Inst. Sales</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C-MARC Ranks</th>
<th>NOV 02 to FEB 03</th>
<th>MAR 04 to JUN 04</th>
<th>MAR 04 to JUN 05</th>
<th>NOV 05 to FEB 06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Psychiatrists</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Neurologists</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Cardiologists</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Ophthalmologists</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Diabetologists</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Gastroenterologists</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Orthopedics</td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Oncologists</td>
<td>6</td>
<td>8</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Chest Physicians</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Consultant Physicians</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Gynaecologists</td>
<td>11</td>
<td>7</td>
<td>8</td>
<td>5</td>
</tr>
</tbody>
</table>

Therapy wise break-up (%)

Core therapy areas continue to show double-digit growth

Refers to the no. of reps. other than in divisions that directly have FLMs.

(Mar 2006 MAT data from IMS-ORG Retail Store Audit)
Domestic formulations, the sales of speciality prescription brands in India, were 55% of revenues, with 41% growth. This year, 32 products were brought to market, topping our product baskets across divisions. 11 of these products used difficult technologies or had complex drug delivery technology to make them more patient-friendly.

CMARC’s speciality list

In core therapy areas where we are ranked at number 1 - psychiatry, neurology, cardiology, diabetology, ophthalmology, diabetology (a new addition to this list) - we continue to retain top rank with specialists and add market share in fairly competitive markets. In seven of the twelve therapy areas that we are present in, we rank among the top 3 companies. These rankings continue to endorse the advantage of focus on customers in specific therapy areas. Market share increase was also seen in therapy areas of relatively recent presence like gynecology and oncology. This increase in rankings is supported by strong execution on the ground, patient friendly products, and the introduction of products with technical complexity.
Looking Beyond: from product development to innovation

This year too, there was a continuation of early-stage outlicensing deals that involved Indian companies and the transfer of intellectual property. In recognition of the high quality skill base available in India, and flexibility to shift parts of large projects across continents as also reduce costs substantially, a large number of European and US companies set up R&D centers in India. This move, with the other emergent trend of buying existing API units or setting up greenfield API units in India, will offer companies from the regulated markets an opportunity to compete on the same cost base and access the same expertise. This also implies that the competition for talent is increasing as also the pressure on resources required to remain world-class.

Last year, in our report to you, we had highlighted about the addition of about 250,000 sq ft of research floor area across two high capability sites, SPARC or the Sun Pharma Advanced Research Center, in Baroda and in Mumbai. As more labs were commissioned, the number of labs has increased from 137 last year, to 161.

This year, a new state-of-the-art 25,000 sq ft bioequivalence center with a well established clinical pharmacology unit, equipped with 78 beds was set up at the R&D campus in Baroda. This has specially demarcated areas for clinical investigation, emergencies, sample processing, diagnostics, and archives as required as per GLP practices.

Our focus for the short term is on projects for India and the neighboring markets. This year, SPARC helped to bring to market 32 products in India, of which 11 were based on a delivery system advantage or complex development technology.

In addition, as we slowly ramp up in international markets, new filings were made in international markets to offer a pipeline that supports our current product basket. The number of active registrations stood at 463, with 730 products being marketed.

Some of these international filings are for complex delivery system based products, like the anticancer liposomal doxorubicin Lipodox, and Lupride, the one and three-month depot injectable used in cancer and fertility treatments.
As we roll out these products across select international markets, we stay prepared to take them to the US market over the next few years. We have several similar delivery-system based products in our development pipeline. We expect that registering these complex products across markets will help us differentiate our product offering and help build customer relationships.

Between Sun Pharma and Caraco, 44 products have been filed with the USFDA and are awaiting approval, building a strong pipeline that will drive our US business going ahead. A strong intellectual property cache has been built up, with 56 patents received, another 339 filed and awaiting approval.

Significant advances on filings for the API business were also made during the year, with 24 approvals and 35 filings awaiting approval for US and Europe. Some of these filings support our ANDA plans and will enable us to compete as an integrated company in the injectable/peptide/steroid/anticancer areas, in which we have identified several opportunities.

We have good progress to report on our innovation-based projects. One new chemical entity or new molecule (NCE) has successfully completed Phase 1 and will enter Phase 2 over the next few months. Two NDDS projects will also enter phase 2 trials shortly. A decent pipeline of research projects is in place, and these projects will be transferred to the demerged research company, that is, Sun Pharma Advanced Research Company Ltd.

This year, on account of innovation-based projects going into trials, higher costs associated with complex ANDAs, and the sustained pace of new product introductions in India, the R&D spend was 11.7% of turnover.

**Demerger of R&D**

In a revolutionary step in the Indian Pharma industry, and in a step that does not have too many parallels worldwide, we recently announced the demerger of the innovative part of our R&D, pending regulatory and legal clearances. This move would effectively place the NCE and NDDS projects, resources, and the teams working on these, in a separate company. This company would be listed on the stock exchanges in India. The current shareholders of Sun Pharma would receive the same number of shares in the new company, of paid up value of Rs 1 each in the resulting company (as against paid up of Rs 5 each in Sun Pharma). We believe our projects in these areas have reached a stage where with the right attention and resource commitment, they can reach their potential. Innovation based projects have longer timeframes, require extensive funding and the style of working of the scientists too, tends to be more open ended, unlike the time bound approach for generics. The likelihood of these projects reaching market is also very different compared to the certainty associated with product development or process development-based projects. While we hive off these projects into a separate company with resources, funding and people, we expect to increase investments in projects for generic markets including India and the US.
The Rs. 26,000 cr. market for prescription products in India is growing at 16%. As this market moves from a developing nation market where the larger therapy segments are those of antibiotics, tonics and vitamins to a more mature market, where lifestyle and chronic therapy areas are the larger segments (table 1), it is likely that speciality areas will continue to grow at above market growth rates.

Table 1: **Top therapeutic areas globally (March 2006 MAT)**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Therapeutic Area</th>
<th>Rank</th>
<th>Therapeutic Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cholest/Trigly Reducers</td>
<td>6</td>
<td>Anti-Epileptics</td>
</tr>
<tr>
<td>2</td>
<td>Anti-ulcerants</td>
<td>7</td>
<td>Oral Antidiabetics</td>
</tr>
<tr>
<td>3</td>
<td>Antidepressants</td>
<td>8</td>
<td>Angiotensin Antagonists</td>
</tr>
<tr>
<td>4</td>
<td>Anti-Psychotics</td>
<td>9</td>
<td>Platelet Agg Inhibitors</td>
</tr>
<tr>
<td>5</td>
<td>Calcium Antagonists</td>
<td>10</td>
<td>Narcotic Analgesics</td>
</tr>
</tbody>
</table>

Improving socioeconomic demographics have had a direct impact on the market size, affordability, and awareness of chronic ailments in India as in other developing markets. A change is likely in the current pricing control policy in the country. As per the draft policy, the parameters for inclusion from mass consumption or monopoly drugs may change to include drugs that are essential in nature such as chronic therapy area drugs. This move will also increase the number of drugs that are under price control from the current 74 to over 350. Such a move could be a major threat to the sector, as more than 50% of the market could then be under price control, though we believe it is unlikely this will be implemented as proposed.

In the Indian market, there has been increasing competitive interest in chronic therapy areas, from large Indian and multinational as well as regional companies. There have been some signs of growth from multinationals as they begin to introduce new products in India. For some multinational companies, the introduction of new products in India was fairly close to international launch, unlike their approach earlier, which in our view indicates a new seriousness from these companies. Increasing competition translates into higher promotional costs across the sector, and impacts margins. Smaller and regional companies that are not adequately covered by the IMS-ORG continued to make their presence felt, and some of these brands made inroads in larger markets too, particularly for acute therapy products. We continue to take the challenge posed by both these segments multinationals and smaller companies, seriously.
The year 2006 was the second year with the same intellectual property protection in India as in other world markets. In 2005, a new patent act was put in place to make India TRIPS compliant, with safeguards that protect patient interest and prevent evergreening on nonsubstantial grounds. In a country where healthcare costs are borne by the patient, and the public healthcare system is largely ineffective or inadequate, we believe it is in the country’s best interests to create a patent system that complies with international requirements but does not exceed its brief. The recent stand taken by the government on data protection and the requirement that a patent apply to a new product—not to a crystalline form or a variation of an already existing product, is a step towards ensuring fair access for people.

With patent norms in India now similar to those globally, there is a concern that new products based on post-1995 research may not be available for introduction in the Indian market going ahead. We believe we have an adequate number of interesting new products lined up introduction for the next few years, based on pre-1995 patents. Since new chemical entity patents filed after 1995 would be the property of the patent holder or licensee, it is possible that going ahead, this pipeline would slowly dry out. However, we expect to use our standing with specialists to license-in products while we work to bring the products of our own research to market.

On the whole, speciality brands continued to witness higher than industry growth, although there were product-specific exceptions. Increasing awareness of treatments and the availability of medication, especially in the areas of mental health and neurology, have helped address some of the fears/stigma associated with treatment. During the course of the year, a number of news items that have received much attention have helped to highlight some of these psychiatric ailments and the dangers of leaving them undiagnosed and untreated.
In our expectation, the $27 billion US generic market will continue to remain competitive, with pricing pressure/ cost containment, and increasing market size on account of the new Medicare Bill. The year witnessed tactics by larger pharma companies to limit the entry of generics for important products- tightly contested patent challenges, out of court settlements and the entry of authorized generics. We expect the competition for blockbuster molecules that will go off patent this year, to be quite intense. We believe an ability to compete with the right product mix across dosage forms, with vertical integration for some important products, will strengthen a company’s ability to compete in the US generic market. This ability to source APIs in-house will also translate into a cost and time advantage. We believe that the rush of filings and the entry of new competitors, several of which are integrated into API, will translate into intense pricing pressure, as companies try to build market share.

Caraco closed the year ending 31 March 2006 with sales of $82.8 mil, growing at 29%, one of the few in the sector to show strong numbers despite continuing pricing pressure in key products.

Our US presence continues to be one of the fastest growing parts of our business, and one that we strengthened considerably in the past year by acquiring two more facilities in mainland USA.
US generics is a high priority market, and between Caraco and Sun Pharma, we reach this market with 21 products, with over 44 filings awaiting approval. This is an interesting mix of para 3 and para 4 filings, and offers a fair mix of dosage forms, across tablets, capsules and injectables. As we add complex technology based products such as depot formulations and targeted liposomal products, we expect to be able to sustain a profitable US business.

During the course of the year, 5 ANDA approvals were received between Sun Pharma and Caraco. Of special significance was the first para 4 approval received at Caraco for Ultracet, which was introduced in end-December after summary judgment and final FDA approval was received. We expect Ultracet to be a good opportunity for Caraco.

2005 was important for filings made from our Indian site, too. A dosage form-manufacturing site in India received approval for injectables and sprays, and we began to get product approvals from the USFDA, out of this site. The flexibility to manufacture in India or in the US, with the advantages of total integration helps us to compete with a better cost structure in the US generic space.

This year, we commenced on a series of acquisitions that would bring considerable strengths to our US strategy. Under the aegis of Sun Pharma Inc, a facility was purchased in Bryan, Ohio, to make creams, ointments and lotions. Another facility was acquired in Cranbury from Able Labs to make solid oral dosage forms for controlled substances such as codeine and morphine, a technically difficult and tightly regulated market, where we expect the margins to hold better. Our intention over the long term, is to source the API from our recently acquired plant in Hungary. We expect that this will remain a reasonably profitable business, largely on account of the stringent regulatory requirements and limited competition.

At these new sites, staffing and streamlining of operations with some capacity creation, has begun. New filings are actively being made, and we expect the pace of filings to increase going ahead.

With the completion of these acquisitions, we have begun to put into place parts of our long term growth strategy, with close to $450 mill waiting to be deployed for international acquisitions. We are looking for acquisition opportunities in the US that meet our criteria—a synergy with our business, an opportunity to effect a correction, and earn a decent return on our investment.
International Markets (Non US)

Looking Beyond: maximizing speciality registrations across markets

India comprises 1.5% of a $602 billion world market for pharmaceuticals. The world market for pharmaceuticals is growing at 7%, but emerging markets including China, Korea, India, Mexico, Russia and Turkey, have shown double-digit growth, outpacing global performance.

In 2005, North America, which accounts for 47% of global pharmaceutical sales, grew 5.2%. Latin America grew 18.5% to $24 billion, while Asia Pacific (outside of Japan) and Africa grew 11%. China grew 20.4% to $11.7 billion in 2005, the third consecutive year of 20%+ growth.

Across these markets, competition is fierce, from international companies as also from local companies. With harmonization of quality across markets, dossiers that are filed have to meet increasingly stringent quality standards. Stringent norms for filing, tightening trade and non-trade tariff barriers to protect local interests, even as governments open up market access are some of the characteristics of the markets that we operate in.

Many of these emerging markets are experiencing significant GDP growth which helps finance improvements in healthcare systems, increase patient access, and fuel double-digit growth.

(IMS health)
For instance, in Vietnam, which is a $660 mill market, bilateral trade agreements with WTO members were recently put into place allowing for market access, yet this is tempered by the government’s stated objective of taking local production to 60% of the nation’s requirements. In Belarus, a 5 year program of import substitution was recently announced, in order to take the share of the local industry for reimbursed products to over 50%.

The specialty products that we market in India have much larger markets in the developing world. For the last few years, as we continue to roll out our specialty products template across international markets, this market has been growing well in excess of 40% annually, with a business that is well distributed across continents and countries.

In 26 markets across South East Asia, Russia, China, the Middle East and Africa, we are increasingly recognized as an international company with technologically advanced high quality brands that can be prescribed with trust. As regulatory requirements become harmonized across these markets, and with dossiers of international quality, we have an ability to simultaneously file across markets. A well trained field force of 250, in addition to agent’s representatives, helps promote our brands to specialist consultants in these markets. Some of our technically complex products like Lupride Depot and Lipodox, in addition to several products launched successfully in the Indian market, such as controlled release products, are being prepared for the international markets. We believe these differentiated products will help the company create an identity as a technically capable international company with a portfolio of specialty products.

While we make these investments in registration and marketing, we remain watchful of the resources that we commit to each market, taking into account both the likely potential and the current revenues from a market. In international markets too, we continue to apply the same conservatism and respect for consistent margin that drives the rest of our business.

**Europe**

We are taking a slightly different approach for Europe, where we intend to partner. The acquisition this year, of an API manufacturing site in Hungary does not greatly change this strategy. Our 170-acre Hungary site is one of the few sites globally that is authorized to make APIs for controlled substances. As indicated above, we expect to, over time, integrate this plant into the site manufacturing controlled substance dosage forms at Cranbury and gain advantages competing as an integrated player.

*All market data is from IMS-Health*
Looking Beyond: from vertical integration to a trusted partner

With several important products going off patent, increasing tonnage on the back of approvals from international markets, specially for complex products where the competition is not as high, API remains an interesting business opportunity. Additionally, this back-end support for our business offers cost and time advantages. The market for single enantiomer APIs was about $8.2 billion in 2004, and drugs with combined annual sales of $160 billion will come off patent by 2015. With governments the world over promoting the use of low cost generics, it is estimated that these sales will move to generic markets, implying a good scope for API supply. Reacting to intense competition from API manufacturers in India and China, a large number of international companies are moving production to these nations—buying units or setting up production bases in order to take advantage of lower costs. With this shift likely to continue going ahead, it is expected that API markets will continue to show margin pressure.

Our speciality API list has grown from less than 5 products a decade ago, when we first entered this part of the business to over a hundred speciality products now.

We use some of this API internally, and sell most of it to large innovator or generic companies in the US and Europe. In addition to speciality API, in the recent past we have begun to add API for anticancers, peptides, steroids and hormones, all made in plants that meet international regulatory standards, and some of which hold international approvals.

Recent acquisitions have strengthened our ability to compete in interesting new API markets. One such opportunity is the controlled substance market, through our subsidiary’s Hungarian plant. Another opportunity is in third generation cephalosporins with our plant in Baroda, an acquired site which has been recently upgraded.

As we continue to address opportunities in the regulated markets with complex products, we expect to continue being a good partner for companies that source API from us.
The acquisitions last year significantly add to the manufacturing base. We now have 16 plants in all. Seven of these plants make API and nine make formulations. In addition to streamlining and corrections at the newly acquired plants over the last year, there was some capacity expansion at the existing plants too.

**API Manufacturing**

Of our 7 API plants, the plants in Ahmednagar and Panoli hold USFDA and European approvals. From these sites, 24 API filings have been approved and total of 35 filings await approval, some of these tap into interesting product opportunities, specially in the anticancer/ steroids/ hormones space where we believe we'd have a cost advantage.

The Hungarian site, specialized to make controlled substances, is approved for Europe. With the receipt of requisite regulatory approvals, this plant is expected to be used to tap the US generic market.

Last year, we had shared about doubling the area of our plant at Panoli, which manufactures API for the regulated markets and holds several important DMF approvals. On an adjoining 6.2 acre area, a new plant has been built in addition to a new warehouse and utilities building; the new plant offers 81 KL capacity with 18 reactors. Construction for a stand-alone plant, dedicated for sex hormones is ongoing and likely to be completed this quarter.

At Ahmednagar, a large plant has been planned for the next year, to make anticancers such as cisplatin, caboplatin, oxaliplatin, gemcitabine, imatinib, letrozole.

At Karkhadi (Phlox Pharma site), significant streamlining for API manufacture was carried out to make the plant approvable for sterile and non-sterile cephalosporins API that we intend to file out of this plant. This in addition to the new formulations plant that was put up to make sterile and non-sterile dosage forms to international regulatory standards.

An ability to scale up important API has greatly aided our business in India and the US. Over time, we have increased the number of projects that we handle as well as their complexity. For some of the APIs like irinotecan and budesonide, we would be amongst a handful of producers globally.
Formulation Manufacturing

One formulation plant in India (the one in Halol) holds USFDA approval. On the US mainland, in addition to Caraco's plant in Detroit, we now have plants in Cranbery, NJ, and Bryan, Ohio.

Major developments took place at our Halol plant during the course of the year. This plant which earlier held USFDA approvals for tablets, received approvals for its injectables and nasal spray areas. In our last report we had detailed the addition of an injectable plant spread over 36,000 sq ft manufacturing floor area, with 9 integrated filling lines, which has been recently inspected and approved by the USFDA. With some ANDAs already approved, we hope to address some interesting opportunities in this area.

Our Halol plant’s QC department was expanded to handle increasing loads and provide adequate record and documentation facility. In addition to Halol, which is approved for US, Europe and several other markets, we are preparing our Dadra site for submission for regulated markets this year.

At Jammu, a plant that we commissioned a few years ago to meet domestic market requirements, a dedicated facility was set up to manufacture dosage forms for sex hormones. Extra lines for granulation and packaging are also being put up.

At the Phlox Pharma site, a large dosage form plant meeting international regulatory requirements has been built to manufacture non-sterile forms such as tablets, capsules, dry syrups, as well as sterile dry powder injectables. This plant is currently under qualification, with manufacturing to begin shortly.

Considerable work has begun at the site in Hungary after we took over the plant in the second half last year. Some of the tablet manufacturing areas have been streamlined, and the product processing areas are being upgraded to make them compliant with cGMP requirements. Manufacturing areas are being upgraded and the production processes are being fine-tuned to control costs and the number of steps for some existing products that can be sold in regulated markets.

In the blending area, Silvassa Formulations plant
Caraco

Caraco’s site, which is in Detroit, has areas for production, R&D and the corporate office. During 2006, approximately 10,000 sq ft of manufacturing space was added, taking the total to 80,000 sq ft. Caraco leased approx. 55,000 sq ft facility near its site for finished goods distribution, storage of inventory and office space. Another 7000 sq ft office space was leased for administrative, sales, marketing and accounting offices.

Caraco invested about $3.6 mill during 2006 as compared to $3.3 mill for the previous twelve-month period to upgrade its facilities. These facilities, it believes, are adequate for US current level of operations.

Bryan

Prior to our purchase, this facility ran on a single shift and produced one oral liquid, a few topical lotions and several semi-solids. This site is seeing extensive modification now and new equipment is being added to accommodate greater volumes and multiple shifts.

New equipment, that would allow handling of larger volumes, is either being shifted from the Cranbury site or purchased. The manufacturing section is being reconfigured to accommodate larger production vessels.

Cranbury

At this large site with special suites for the manufacture of controlled substances, along with extensive recruitment, work has begun on evaluating and revalidating products for development. Once these products are launched subsequent to their approval, they are expected to make a significant addition to the company's US generic business.
In all, across plants, 13 international approvals have been received including those from the USFDA and UKMHRA.

At our Halol plant, over the years, regulatory approvals have been received from a number of agencies, such as the USFDA, UKMHRA, ANVISA, IMVIMA, South African MCC, to name a few. The USFDA approval last year of the injectable and spray areas points to the high level of quality compliance - at the time of writing, this is the only site in India with injectable approval. Our Dadra formulations plant is being prepared for submission to the USFDA this year.

These approvals point to an accomplished quality team, which contributes to a product right from the process development stage, and a team that regularly updates its skills to ensure that the latest standards are complied with.

In addition to a central quality team that holds overall responsibility, at each site there are dedicated teams that have the responsibility for the quality function on site.

The central quality team works closely with other partners such as vendors, suppliers of material, packaging and machinery to ensure that quality standards are met. All quality policies are duly detailed and upgraded periodically. Ongoing training programs ensure that these policies are understood across the manufacturing chain. A quick response system that updates quality procedures in line with changing regulatory requirements is in place.
New products

Symbiosis
Levipil
Pramipex

Sun Oncology
Lupride Depot 3 months
Imalek

Sun
Etoshine fast disintegrating
Budez CR
Thymoliv
Mesacol Suppositories
Cartishine

Spectra
Maxtib

Sirius
Galamer
Maxgalin

Milmet
Millfox Eye Drop
Brimolol
Ketur plus

Avesta
Careprost
Hyvisc Eye drops
Ketur plus

Inca
Ulozet

Cernos Gel
Lupride Depot 7.5mg/1month

Synergy
Duzela
-syncapone 50
Syndopa MD range

Solares
Dulane

Sompraz IV
Terlyz
Panlipase

Arian
Prolomet XL
Ortu
Ortospray
Azura
Gemер Forte
Avior
Volibo

Anti-Depressant,
Stress incontinence in Women,
Low testosterone production
Endometriosis

Anti-Depressant,
Stress incontinence in Women,
Acid peptic disease
Acute esophageal variceal bleeding

Antihypertensive
Osteoporosis
Oral antidiabetic
Antidiabetic

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