Directors’ Report


Dividend

An interim preference share dividend on pro-rata basis @ 6% p.a. had been declared on 25th Oct, 2007 on outstanding preference shares and was paid on Nov 1, 2007. Your Directors recommend that the interim dividend on preference paid be treated as final. Your Directors are pleased to recommend a equity dividend of 210% (previous year 135%) for the year ended 31st March, 2008 on the equity share capital.

Management Discussion and Analysis

The management discussion and analysis on the operations of the Company is provided in a separate section and forms part of this report.

Human Resources

At Sun Pharma, we have grown to a committed workforce of over 8000 multi-cultural employees pursuing a shared vision of excellence across our corporate office, two R&D centres & seventeen plants (including associate companies) across three continents. Our consistent growth firmly establishes our remarkable team, their potential and capabilities to deliver. The company recognizes the importance of human capital and search for this intellectual capital and to enrich professional and technical skill is an ongoing process. Relentless efforts to develop and nurture through in-house, external professional development programs and on-job training are used to upgrade technical, marketing and management skills. Performance orientation and ethics are a high priority area. The work environment and development opportunities help to retain talent. Your Directors recognize the team’s valuable contribution, nurtures with joy their more than 8000 people 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...

Dividend

An interim preference share dividend on pro-rata basis @ 6% p.a. had been declared on 25th Oct, 2007 on outstanding preference shares and was paid on Nov 1, 2007. Your Directors recommend that the interim dividend on preference paid be treated as final.

Your Directors are pleased to recommend a equity dividend of 210% (previous year 135%) for the year ended 31st March, 2008 on the equity share capital.

Management Discussion and Analysis

The management discussion and analysis on the operations of the Company is provided in a separate section and forms part of this report.

Human Resources

At Sun Pharma, we have grown to a committed workforce of over 8000 multi-cultural employees pursuing a shared vision of excellence across our corporate office, two R&D centres & seventeen plants (including associate companies) across three continents. Our consistent growth firmly establishes our remarkable team, their potential and capabilities to deliver. The company recognizes the importance of human capital and search for this intellectual capital and to enrich professional and technical skill is an ongoing process. Relentless efforts to develop and nurture through in-house, external professional development programs and on-job training are used to upgrade technical, marketing and management skills. Performance orientation and ethics are a high priority area. The work environment and development opportunities help to retain talent. Your Directors recognize the team’s valuable contribution, nurtures with joy their more than 8000 people 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.

Corporate Governance

Report on Corporate Governance and Certificate dated 30th May, 2008 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 the Company and its subsidiaries is annexed to this Report.

Subsidiaries

Ministry of Corporate Affairs, Government of India, vide order No. 47/461/2008-CL-III dated July 11, 2008 has granted approval that the requirement to attach various documents in respect of subsidiary companies, as set out in sub-section (1) of Section 212 of the Companies Act, 1956, shall not apply to the Company. Accordingly, the Balance Sheet, Profit and Loss Account and other documents of the subsidiary companies are not being attached with the Balance Sheet of the Company. Financial information of the subsidiary companies, as required by the said order, is disclosed in the Annual Report. The Company will make available the Annual Accounts of the subsidiary companies and the related detailed information to any member of the Company and its subsidiaries who may be interested in obtaining the same. The annual accounts of the subsidiary companies will also be kept open for inspection by any investor at the Registered Office & Corporate / Head Office of the Company and that of the respective subsidiary companies. The Consolidated Financial Statements presented by the Company include financial results of its subsidiary companies.

Financial Result

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>32767</td>
<td>24067</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>10140</td>
<td>6289</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>2175</td>
<td>1300</td>
</tr>
<tr>
<td>Corporate Dividend tax</td>
<td>372</td>
<td>182</td>
</tr>
<tr>
<td>Transfer to various Reserves</td>
<td>3014</td>
<td>2000</td>
</tr>
<tr>
<td>Rate of dividend on equity shares</td>
<td>210</td>
<td>135</td>
</tr>
<tr>
<td>Book value per equity share</td>
<td>203</td>
<td>126</td>
</tr>
</tbody>
</table>

(Rs. in million except book value)
Finance
The banks in consortium continue to offer their highest rating to your Company enabling it to source funds from banks at attractive rates of interest. CRISIL continued to reaffirm their highest rating of “P1+” for your Company's Short Term Borrowing Program throughout the year.

The Company does not offer any Fixed Deposit scheme.

Issue of Shares on Full Conversion of FCCB
During the year ended 31st March, 2008, the Company received notices from Foreign Currency Convertible Bond (FCCB) holders for exercising the conversion option in respect of full balance 222,214 FCCBs of US$ 1000 each (which were outstanding at the beginning of the year) Out of total of 350,000 FCCBs thus leaving no FCCBs outstanding as on 31st March, 08. Accordingly, the Company allotted during the year ended 31st March, 2008, 13,714,271 equity shares of Rs.5 each to these Bondholders at the conversion price of Rs. 729.30 per share.

Corporate Social Responsibility (CSR)
Your organization has identified health, education, disaster relief and periodically, patient awareness as areas of priority. Our emphasis is assistance on a need basis and preferably at a local level, working with a local body, NGO or existing organization.

One person's education can make a difference to an entire family. Your organization continues to support tribal education, at village schools called ashram pathshalas across several states. We have often stepped in to support infrastructure in the village schools around our plants and offices. We helped Adarsh Kanyashala, near our R&D center in Baroda, with computer facilities. In Ahmednagar, support is extended to Gramin Vikas Mandal, which runs a primary school in the MIDC area, for children whose parents are employed in the industrial area. We have helped the school management in the high school in Karkhadi with financial assistance for science fair, school day, etc. A mobile van project has been sponsored for education in the rural and tribal areas near Panoli and this is organized by Ankleshwar Industrial Development Society.

Another important activity was assistance at the primary and university levels, including support to students of the MS University of Baroda. Last year, we donated a 150-seater hostel for the post graduate students of SSG Medical College, MS University. For years now, we have been helping students work towards their doctorates using the facilities at SPARC. Your company regularly sponsors symposia, laboratory equipments and some production machines for local colleges.

Amongst important medical support activities was the donation of machines and medicines to general hospital near our plants. For instance, the Panoli plant gave financial assistance to Smt. Jayaben Modi Hospital for its rural and tribal medical checkup programs.

In Bangladesh last year, we helped a group of psychiatrists with the development of an IQ rating scale. We also assisted health checkup camps in remote rural areas. We donated a calorimeter to a hospital. Donations were made to a fund for acid survivors. Spot painting competitions were organized for school children in different cities/towns to an enthusiastic response.

At our Silvassa plant, employees volunteered for a blood donation camp. Lifeline Foundation, working for highway rescue and accident treatment, continues to be supported with funds for communication.

We have helped the local government with infrastructure development from time to time, for instance, the Karkhadi panchayat with the construction of panchayat office, the Dadra gram panchayat for the construction of a road.

Directors
Shri S. Mohanchand Dadha and Shri Sailesh T. Desai retire by rotation and being eligible offer themselves for re-appointment.
The terms of appointment of Shri Sudhir V. Valia and Shri Sailesh T. Desai as Whole-Time Director will expire on 31st March, 2009. Both of these Directors have contributed well for all round growth of the Company's business. Your Directors recommend the re-appointment of both directors for a further period of 5 years.

**Directors’ Responsibility Statement**

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

(i) that in the preparation of the annual accounts for the financial year ended 31st March, 2008, the applicable accounting standards have been followed along with proper explanation relating to material departures;

(ii) 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;

(iii) 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,

(iv) that the Directors have prepared the annual accounts for the financial year ended 31st March, 2008 on a ‘going concern’ basis.

**Auditors**

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.

**Acknowledgements**

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

14th July, 2008
Mumbai
Managment Discussion & Analysis

Indian Market

The Indian prescription market is Rs. 324 bill; with a 15% growth rate at stockist level, based on market data for companies with a national presence (IMS ORG Stockist Audit MAT April 08).

Prosperity, lifestyle changes, upward mobility continued to be themes for India, and held true for the pharma market as well. Growth of the chronic segments was significantly higher than acute therapy areas, a trend we’ve seen in previous years. Acute therapy products continued to grow at a pace that was higher than in the previous years.

A continuing area of concern that affected pharma companies this year as well, was the pricing policy and the numerous price changes brought about by the price monitoring body, the NPPA. Excise was reduced as a part of the budget proposals. To recap, the previous drug price policy is based on essentiality and covered 74 molecules used as antibiotics, painkillers or were used in national health care programs such as tuberculosis eradication or blindness prevention. The government has to walk a thin line between affordable costs and availability, given the lack of infrastructure for healthcare delivery in the country, where only a small fraction of the population has access to modern healthcare, particularly in rural areas and smaller towns; healthcare insurance is as yet, minimal, and current polices do not cover ailments that are treated with outpatient visits such as hypertension or diabetes (and are generally limited to post surgery or hospitalization care), and the patient pays for most healthcare.

Changes in the healthcare policy now require drugs used in the treatment of chronic or lifestyle areas to be added to the list as well. This change would increase the span of medicines under control to 350. This move, in a nation where medicine prices are amongst the lowest worldwide, may lead to lower growth in the pharma sector and at the end of the day may not possibly be in the best interests of the consumer. After concerns raised by the various industry associations, the draft policy is being examined by one of the highest bodies in the country, the Group of Ministers. The time horizon and the final form that this authoritative policy reaches the patient in, is open to conjecture.

MAT IMS-ORG For Apr ’08

<table>
<thead>
<tr>
<th>Total Indian Pharma Market*</th>
<th>Value in Rs. Billion</th>
<th>MS%</th>
<th>Growth%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gastroenterology, Diabetes</td>
<td>80</td>
<td>24.6</td>
<td>14</td>
</tr>
<tr>
<td>Antiinfectives (oral, injectables)</td>
<td>65</td>
<td>20.1</td>
<td>15</td>
</tr>
<tr>
<td>Cardiology</td>
<td>33</td>
<td>10.2</td>
<td>22</td>
</tr>
<tr>
<td>Respiratory System</td>
<td>29</td>
<td>8.9</td>
<td>12</td>
</tr>
<tr>
<td>Pain, Muscles and joints</td>
<td>24</td>
<td>7.4</td>
<td>8</td>
</tr>
<tr>
<td>Psychiatry and Neurology</td>
<td>22</td>
<td>6.9</td>
<td>14</td>
</tr>
<tr>
<td>Skin</td>
<td>18</td>
<td>5.4</td>
<td>12</td>
</tr>
<tr>
<td>Blood and Blood forming organs</td>
<td>13</td>
<td>4.1</td>
<td>18</td>
</tr>
<tr>
<td>Urology, Sex-Hormones</td>
<td>12</td>
<td>3.8</td>
<td>20</td>
</tr>
</tbody>
</table>

(* therapy areas have been renamed for understanding)

Chronic therapy areas continued to appear attractive to companies across the spectrum, as they entered the area, created additional marketing divisions & introduced new products. The first of biotech-based or technically-difficult products from multinationals reached market shortly after international launch. Small regional companies continued their effort to create a foothold in larger cities. Some large companies began to expand their field force for rural markets, more seriously than they did before.

Patent challenges continued this year as well, testing the boundaries of what is patentable in the country despite the Indian Patent law leaving little room for incremental innovation to get protection. Since 2005, a new Patent Act has been in place in the country offering international levels of intellectual property protection, but with safeguards to protect patient interest. Yet cases continued to be tried & products filed in the judicial system that would test the patentability.

As yet, the products that have reached market are therapeutic analogues or products where current treatments are available, or high value biotech based products that address a limited market, such as specific kinds of cancer. We are open to licensing these kinds of products should we feel we require to.
Division-wise Representative Strength & Therapy Areas

<table>
<thead>
<tr>
<th>Division</th>
<th>Representative</th>
<th>Therapy Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sun</td>
<td>272</td>
<td>Gastroenterology, Orthopedics, products for Physicians</td>
</tr>
<tr>
<td>Solares</td>
<td>237</td>
<td>Gastroenterology, Orthopedics, products for Physicians</td>
</tr>
<tr>
<td>Spectra</td>
<td>229</td>
<td>Gynecology</td>
</tr>
<tr>
<td>Arian</td>
<td>218</td>
<td>Cardiology, Diabetology</td>
</tr>
<tr>
<td>Azura Life Sciences</td>
<td>216</td>
<td>Cardiology, Diabetology</td>
</tr>
<tr>
<td>Avior</td>
<td>196</td>
<td>Cardiology, Diabetology</td>
</tr>
<tr>
<td>Synergy</td>
<td>156</td>
<td>Psychiatry, Neurology</td>
</tr>
<tr>
<td>Radiant</td>
<td>140</td>
<td>Asthma, COPD</td>
</tr>
<tr>
<td>Symbiosis</td>
<td>136</td>
<td>Psychiatry, Neurology</td>
</tr>
<tr>
<td>Inca Life Sciences</td>
<td>131</td>
<td>Fertility, Gynecology, Urology</td>
</tr>
<tr>
<td>Sirius</td>
<td>130</td>
<td>Psychiatry, Neurology</td>
</tr>
<tr>
<td>Ortus</td>
<td>110</td>
<td>Rheumatology, Dermatology</td>
</tr>
<tr>
<td>Avesta</td>
<td>103</td>
<td>Ophthalmology</td>
</tr>
<tr>
<td>Milmet</td>
<td>102</td>
<td>Ophthalmology</td>
</tr>
<tr>
<td>Sun Oncology A *</td>
<td>26</td>
<td>Oncology</td>
</tr>
<tr>
<td>Sun Oncology B *</td>
<td>25</td>
<td>Oncology</td>
</tr>
<tr>
<td>Azura Critical Care*</td>
<td>23</td>
<td>Interventional Cardiology</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2450</strong></td>
<td></td>
</tr>
</tbody>
</table>

(As of March 31, 2008. For Azura Critical Care and Sun oncology teams, the number is that of first line managers)
<table>
<thead>
<tr>
<th>Team Name</th>
<th>Division-wise Representative</th>
<th>Therapy Areas</th>
<th>Strength &amp; Therapy Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sun Solares</td>
<td></td>
<td>Sun Oncology A</td>
<td>272</td>
</tr>
<tr>
<td>Spectra</td>
<td></td>
<td>Gastroenterology, Orthopedics</td>
<td>237</td>
</tr>
<tr>
<td>Arian</td>
<td></td>
<td>Gastroenterology, Orthopedics</td>
<td>229</td>
</tr>
<tr>
<td>Azura Life Sciences</td>
<td></td>
<td>Gynecology</td>
<td>218</td>
</tr>
<tr>
<td>Avior</td>
<td></td>
<td>Cardiology, Diabetology</td>
<td>216</td>
</tr>
<tr>
<td>Synergy</td>
<td></td>
<td>Psychiatry, Neurology</td>
<td>196</td>
</tr>
<tr>
<td>Radiant</td>
<td></td>
<td>Psychiatry, Neurology</td>
<td>156</td>
</tr>
<tr>
<td>Symbiosis</td>
<td></td>
<td>Psychiatry, Neurology</td>
<td>140</td>
</tr>
<tr>
<td>Inca Life Sciences</td>
<td></td>
<td>Psychiatry, Neurology</td>
<td>136</td>
</tr>
<tr>
<td>Sirius</td>
<td></td>
<td>Psychiatry, Neurology</td>
<td>131</td>
</tr>
<tr>
<td>Ortus</td>
<td></td>
<td>Psychiatry, Neurology</td>
<td>130</td>
</tr>
<tr>
<td>Avesta</td>
<td></td>
<td>Gynecology</td>
<td>110</td>
</tr>
<tr>
<td>Milmet</td>
<td></td>
<td>Gynecology</td>
<td>103</td>
</tr>
<tr>
<td>Sun Oncology B</td>
<td></td>
<td>Gynecology</td>
<td>102</td>
</tr>
<tr>
<td>Azura Critical Care</td>
<td></td>
<td>Gynecology</td>
<td>26</td>
</tr>
</tbody>
</table>

(As of March 31, 2008. For Azura Critical Care and Sun Oncology teams, the number is that of first line managers)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue Standalone (Rs. In Million)</th>
<th>Net Profit Standalone (Rs. In Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>99-00</td>
<td>4,445</td>
<td>5,682</td>
</tr>
<tr>
<td>00-01</td>
<td>7,023</td>
<td>9,598</td>
</tr>
<tr>
<td>01-02</td>
<td>7,330</td>
<td>12,468</td>
</tr>
<tr>
<td>02-03</td>
<td>18,070</td>
<td>24,067</td>
</tr>
<tr>
<td>03-04</td>
<td>32,767</td>
<td>32,767</td>
</tr>
<tr>
<td>04-05</td>
<td>837</td>
<td>837</td>
</tr>
<tr>
<td>05-06</td>
<td>1,352</td>
<td>1,352</td>
</tr>
<tr>
<td>06-07</td>
<td>2,314</td>
<td>2,314</td>
</tr>
<tr>
<td>07-08</td>
<td>4,613</td>
<td>4,613</td>
</tr>
</tbody>
</table>
Domestic Formulations continue to be a large part of our business at 43% of our turnover, with a three year 29% GR.

This year, 37 new products were brought to market & 16 used a technology-based differentiation or were complex, 15 were integrated to API.

The local market continues to be competitive.

**Therapywise Break-up**

The market continued to be extremely competitive, with new entrants in these therapy areas, additional divisions from companies that already have a presence, and forays into urban markets by companies that have a regional presence. Companies have been making disproportionate investments in marketing to establish relationships with doctors. Several companies have begun to in-license molecules that are difficult-to-make, in order to establish a pro-technology image.

We hold no. 1 rank with 6 specialities, which is the same position as last year, and we gained market share in psychiatry, neurology, cardiology, diabetology, ophthalmology & orthopedics. Gradual rank increases also continue to be seen in areas like gynecology, urology, nephrology which are chronic therapy areas in which we are gradually building up market share.

We continued to invest in activities that project the company as a knowledge provider. Across divisions, we used opportunities to align with internationally reputed universities or acclaimed bodies to create interactive learning situations, workshops and update sessions for specialist consultants across the country.

Seminars to share the latest advances in therapy were also arranged. Interdisciplinary lectures, to help specialists in one therapy recognize and treat presenting symptoms related to a different speciality area, were also widely appreciated. For instance, movement disorder clinics for the clinical
practitioner, updates for gynecologists in detecting cancer of the cervix and breast etc.

In Oncology, which is an intensely competitive area which has over 60 companies competing, our emphasis has been on knowledge sharing, for instance with knowledge updates on the latest advances for post graduate students.

For psychiatry and neurology, in addition to these initiatives and international lectures, camps for diagnosis and treatment of epilepsy, bipolar mood disorders, parkinsons’ disease, etc. have also helped build mindshare with doctors.

Educational and knowledge sharing programs with bodies like American Diabetic Association and American College of Cardiology have helped reach out to top notch specialists. Workshops for practicing doctors as well as post graduate students, using discussions and tests with actual case histories have reinforced the image we have built over the years.

At the end of the day, strong execution by our field force continues to be the most important part of our strategy, and one that sets us apart from our competitors. An enthusiastic team that executes strategies and a strong product team that looks for ideas that have a clear practical bent, are two complementary sides that ensure that our initiatives convert into sales in a highly competitive market.

<table>
<thead>
<tr>
<th>C-MARC Ranks</th>
<th>Nov 02- Feb 03</th>
<th>Mar 04- Jun04</th>
<th>Mar 05- Jun 05</th>
<th>Nov 05- Feb 06</th>
<th>Nov 06- Feb 07</th>
<th>July 07- Oct 07</th>
<th>Nov 07- Feb 08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Psychiatrists</td>
<td>1</td>
<td>1</td>
<td>1</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>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Diabetologists</td>
<td>3</td>
<td>4</td>
<td>2</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>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Consultant Physicians</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Nephrologists</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Chest Physicians</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Gastroenterologists</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Ophthalmologists</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
Managment Discussion & Analysis

Research & Development

For the year, R & D spend was Rs. 2859 million, or 9% of net sales. For the standalone entity, the spend was 6% of turnover.

Our teams at the R&D centers continue their task of building pipelines-developing cost effective & efficient processes for dosage forms as well as APIs, scaling these up from the labs to the plants, working on product development for demanding international markets, developing ANDAs for a strong pipeline in the US. The team also develops & scales up complex generics to offer heft to our branded generic business in India & ex-US markets. As can be expected in competitive markets, speed to market is critical. Hence these teams are always under pressure to multitask on parallel product development and bring these to market. In the past years a number of interesting product opportunities such as Cernos (testosterone cyprionate) & Ovurelix (Cetrorelix acetate) have made it to market in India, in addition to Lipodox (a targeted anticancer) and Lupride (a once a month or three month depot anticancer and fertility drug) which we have detailed extensively in the past.

We will work to scale up the pace of filings and rush them to high value international markets as generics. These complex product opportunities help us prepare for a competitive future.

This year saw the first of technology based ANDA filings from Sun Pharma, with technology sourced from SPARC Ltd. For Effexor XR, an antidepressant on which we had filed a para 4 with a FTF, the wrap matrix technology used to create this tablet has been sourced in from SPARC Ltd. and we expect to reach market on product approval.

Between Sun Pharma & Caraco, ANDAs for 89 products await approval at the end of March 08, up from 65 in the previous year. 70 of these pending filings are for Sun Pharma and its subsidiaries, 19 are from Caraco. These products are an interesting mix of simple generics, complex generics (including a few with a technology advantage), and a few para 4 challenges. This pipeline, one of the strongest from Indian companies, will drive growth at Caraco, our plants in the US at Bryan & Cranbury, as well as our USFDA - approved Indian sites.

API continues to be a source of great support for our dosage form business. Entry into closely held markets, cost leadership, quick entry into interesting formulation markets, are some of the advantages of integration. In all, we have 101 filings for DMF and CEP, based on the work done by the chemistry teams at our research center, of which 50 API are approved from two sites in India and one in Hungary.

Our technical skills & dedicated manufacturing capability in areas such as peptides, anticancers, steroids and hormones will enable us differentiate in a competitive marketplace and power our generic growth plans.
For the year, R & D spend was Rs. 2859 million, or 9% of net sales. For the standalone entity, the spend was 6% of turnover.

Our teams at the R&D centers continue their task of building pipelines - developing cost effective & efficient processes for dosage forms as well as APIs, scaling these up from the labs to the plants, working on product development for demanding international markets, developing ANDAs for a strong pipeline in the US. The team also develops & scales up complex generics to offer heft to our branded generic business in India & ex-US markets. As can be expected in competitive markets, speed to market is critical. Hence these teams are always under pressure to multitask on parallel product development and bring these to market. In the past years a number of interesting product opportunities such as Cernos (testosterone cyprionate) & Ovurelix (Cetrorelix acetate) have made it to market in India, in addition to Lipodox (a targeted anticancer) and Lupride (a once a month or three month depot anticancer and fertility drug) which we have detailed extensively in the past.

We will work to scale up the pace of filings and rush them to high value international markets as generics. These complex product opportunities help us prepare for a competitive future.

This year saw the first of technology based ANDA filings from Sun Pharma, with technology sourced from SP ARC Ltd. For Effexor XR, an antidepressant on which we had filed a para 4 with a FTF, the wrap matrix technology used to create this tablet has been sourced in from SP ARC Ltd. and we expect to reach market on product approval.

Between Sun Pharma & Caraco, ANDAs for 89 products await approval at the end of March 08, up from 65 in the previous year. 70 of these pending filings are for Sun Pharma and its subsidiaries, 19 are from Caraco. These products are an interesting mix of simple generics, complex generics (including a few with a technology advantage), and a few para 4 challenges. This pipeline, one of the strongest from Indian companies, will drive growth at Caraco, our plants in the US at Bryan & Cranbury, as well as our USFDA - approved Indian sites.

API continues to be a source of great support for our dosage form business. Entry into closely held markets, cost leadership, quick entry into interesting formulation markets, are some of the advantages of integration. In all, we have 101 filings for DMF and CEP, based on the work done by the chemistry teams at our research center, of which 50 API are approved from two sites in India and one in Hungary.

Our technical skills & dedicated manufacturing capability in areas such as peptides, anticancers, steroids and hormones will enable us differentiate in a competitive marketplace and power our generic growth plans.
Managment Discussion & Analysis

US Generics

In 2007, generics accounted for 67% of the US market, up from 63% in 2006 according to IMS data shared by the generics industry association, GPhA. In 2008, drugs with over $20 billion in sales lose patent protection, augmenting the pipeline substantially. Generics accounted for 20% of dollars spent as prescription drugs last year, up from 17% in 2003. At Patient Benefit Managers such as Costco, overall drug costs increased 2% in 2007, compared with 5.4% in 2005. This was largely due to the huge pipeline of generic drugs that began to come off patent and this pipeline extends to 2015.

Healthcare (after the economic situation) is one of the topmost priorities for candidates for the Presidential elections. Although the stance taken differs marginally, it continues to be pro-generic. One of the democrat candidates has gone on record saying that if elected President, they would increase funding for FDA’s Office of Generic Drugs to speed reviews of new medicines and eliminate loopholes in US law that allow Big Pharma to block generic copies.

Another Democrat candidate has said he would prevent brand name pharma from blocking copies and would encourage wider use of generics in US health programs including Medicare for the elderly & Medicaid for the poor.

The leading Republican candidate, has briefly mentioned that he would support laws that would allow Americans to buy drugs from Canada and other countries. He has also proposed improvements in the approval process for generics & biotech medicines.

As more generics come off patent, brand name companies began to increase the price on commonly used medicines in order to protect margins. For example, AARP, an advocacy group pointed out that Big Pharma raised the price of 220 branded medicines most commonly used by senior citizens as part of Medicare part D prescription drug plans.

Annual growth in the generic market was 3.8% according to IMS after years of 10-20% increases, due to pricing pressure on generics shortly after patent expiry, larger number of players, some impact of large chains like Wal-Mart & Target offering generics at substantially reduced prices such as $4/mo. However, this decrease in prices was not matched by an increase in volumes.

The 3-4% growth rate for a market previously growing at double digit rates, despite several important patent expiries, is indicative of the pricing pressure that continues in the market. Technically complex products including several anticancers that went off patent saw approvals for as many as six filers on the day of launch, commoditising these generics.

With increasing competition, companies continued to seek first to file opportunities or at risk launches. We expect this trend to continue now that the likelihood of triple damages is much lower than it was earlier. According to some estimates, such at-risk launches could account for $22 billion expiry revenue in 2008.

Medicare & Generics growth:

Last year we’d written about how the new prescription drug benefit, part of the Medicare Reform Act of 2003, had expanded the market by extending coverage for basic medication to the previously uncovered. An IMS study of Medicare Part D at the end of the first year offered significant insights. Of the estimated 29.3 million enrollees, 23.9 million or 75% had joined the plan. The previously uninsured benefited the most from Part D, saving 60% of their cost & increasing pharmaceutical use 26%. Induced demand (new patient starts & improved compliance from Part D) was the highest among non-dual eligible beneficiaries, highest in classes that treat chronic & asymptomatic conditions.

Medicare part D enrollees filled 15% of the total retail Rx in 2006, mostly for hypertension, lipid regulating agents, antidepressants. Among Part D beneficiaries, seniors previously uninsured received the greatest benefit, paying 60% less per Rx than they did earlier. Many Part D beneficiaries appear to have changed their usage pattern of Rx drugs, measured by new therapy starts, and changes in compliance level.

Unbranded generics accounted for 58% of Part D scripts as versus 57% share of all retail Rx.

2007 may see some uptake from the 4-5 million eligibles still not insured and over 2 million new Medicare beneficiaries entering the system.

In our view their leveling off would continue as the majority of beneficiaries are now covered.
In 2007, generics accounted for 67% of the US market, up from 63% in 2006 according to IMS data shared by the generics industry association, GPhA. In 2008, drugs with over $20 billion in sales lose patent protection, augmenting the pipeline substantially. Generics accounted for 20% of dollars spent as prescription drugs last year, up from 17% in 2003. At Patient Benefit Managers such as Costco, overall drug costs increased 2% in 2007, compared with 5.4% in 2005. This was largely due to the huge pipeline of generic drugs that began to come off patent and this pipeline extends to 2015.

Healthcare (after the economic situation) is one of the topmost priorities for candidates for the Presidential elections. Although the stance taken differs marginally, it continues to be pro-generic. One of the democrat candidates has gone on record saying that if elected President, they would increase funding for FDA's Office of Generic Drugs to speed reviews of new medicines and eliminate loopholes in US law that allow Big Pharma to block generic copies. Another Democrat candidate has said he would prevent brand name pharma from blocking copies and would encourage wider use of generics in US health programs including Medicare for the elderly & Medicaid for the poor. The leading Republican candidate, has briefly mentioned that he would support laws that would allow Americans to buy drugs from Canada and other countries. He has also proposed improvements in the approval process for generics & biotech medicines.

As more generics come off patent, brand name companies began to increase the price on commonly used medicines in order to protect margins. For example, AARP, an advocacy group pointed out that Big Pharma raised the price of 220 branded medicines most commonly used by senior citizens as part of Medicare part D prescription drug plans.

Annual growth in the generic market was 3.8% according to IMS after years of 10-20% increases, due to pricing pressure on generics shortly after patent expiry, larger number of players, some impact of large chains like Wal-Mart & Target offering generics at substantially reduced prices such as $4/mo. However, this decrease in prices was not matched by an increase in volumes.

The 3-4% growth rate for a market previously growing at double digit rates, despite several important patent expiries, is indicative of the pricing pressure that continues in the market. Technically complex products including several anticancers that went off patent saw approvals for as many as six filers on the day of launch, commoditising these generics.

With increasing competition, companies continued to seek first to file opportunities or at risk launches. We expect this trend to continue now that the likelihood of triple damages is much lower than it was earlier. According to some estimates, such at-risk launches could account for $22 billion expiry revenue in 2008.

Medicare & Generics growth:

Last year we’d written about how the new prescription drug benefit, part of the Medicare Reform Act of 2003, had expanded the market by extending coverage for basic medication to the previously uncovered. An IMS study of Medicare Part D at the end of the first year offered significant insights. Of the estimated 29.3 million enrollees, 23.9 million or 75% had joined the plan. The previously uninsured benefited the most from Part D, saving 60% of their cost & increasing pharmaceutical use 26%. Induced demand (new patient starts & improved compliance from Part D) was the highest among non-dual eligible beneficiaries, highest in classes that treat chronic & asymptomatic conditions. Medicare part D enrollees filled 15% of the total retail Rx in 2006, mostly for hypertension, lipid regulating agents, antidepressants. Among Part D beneficiaries, seniors previously uninsured received the greatest benefit, paying 60% less per Rx than they did earlier. Many Part D beneficiaries appear to have changed their usage pattern of Rx drugs, measured by new therapy starts, and changes in compliance level.

Unbranded generics accounted for 58% of Part D scripts as versus 57% share of all retail Rx.

2007 may see some uptake from the 4-5 million eligibles still not insured and over 2 million new Medicare beneficiaries entering the system. In our view their leveling off would continue as the majority of beneficiaries are now covered.
Non-US International Markets:

Management Discussion & Analysis

Sun Pharma in the US

Our US sales is the second largest part of our business and the fastest growing part. This year, our US operations accounted for 41% turnover, a number expected to increase, as we continue to bring important products from our pipeline to the market.

This was a year of stellar US sales on account of exclusivities received on Trileptal, Protonix and at the end of the fiscal, Ethylol. Caraco reported sales of $350 million up 200%, and other than these products, with much the same product basket as competition. When we receive approval for Effexor XR after patent expiry the sales numbers would reflect this growth. Our generic formulation is a tablet form of Wyeth’s $2.6 billion antidepressant originally marketed as a capsule. We have a "will-not-sue" covenant on this product.

This year witnessed 2 approvals from the Cranbury site, the first of filings from this site to be thus approved.

Caraco received 11 approvals during the course of the year, Sun Pharma received 13 approvals.

Competition & pricing continue to be intense in the US even for products that are considered to be complex, limiting the pricing flexibility available.

Manufacturing flexibility is one of the advantages that have been built into our US business-across our sites we have the ability to handle all kinds of dosage forms, from simpler tablets and capsules to more complex injectables & sprays. A large part of our US generic production utilizes API that has been scaled up inhouse for speed to market and tighter cost controls.

At our Cranbury & Bryan sites, product development & filing continue to be the primary activity. We expect to have news flow about approvals and subsequent sales over the next 2 years.

As we have shared earlier, our Hungary API site is expected to feed the Cranbury site for controlled substances, allowing greater value addition. Alkaloida, Hungary, continues to manufacture and market API for customers in Europe. In view of both the stringent manufacturing controls required and the restrictions governing free movement of controlled substances that are abuse prone, we believe this will remain an interesting market going ahead.
Managment Discussion & Analysis

Non-US International Markets:

According to IMS, emerging markets are expected to become an even larger part of global growth in the years ahead. Annual pharma sales in emerging markets is expected to cross $400 billion by 2020, equivalent to current sales in the US & five other major European markets. Currently, emerging markets account for 13% of worldwide market growth, and are expected to reach 50% market growth by 2020. Countries like India, China, Brazil, Russia, Mexico are expected to grow 12-13% whereas mature markets are likely to grow at low single digit rates.

Emerging market needs are quite different in terms of product portfolio and competition is fairly intensive.

For Sun Pharma, our markets across China, Russia, Brazil, Mexico & neighboring countries continued to be the fastest growing part of our business. In most of these, the race is to emerge as the first branded generic and build up prescription share.

In several markets such as Brazil and Mexico, there have been internal compulsions that have resulted in preference for local industry over imports and in some cases even a re-examination of licenses. On a positive note, in some countries like Mexico, branded generics from internationally approved sites in India have been gaining acceptance and prescriptions, at times at a preference over locally made generics. With inflation and an increasing need for cost containment, one can expect increasing preference for branded generics or locally manufactured generics. In some countries like Sri Lanka, years of civil strife have put pressures on the economy, and resulted in a preference for generics/branded generics over the long term. Companies with strong political affiliations have emerged as strong competitors in some countries. Structural changes in some markets, for instance in the way medication budgets are administered in a now-decentralized Russia, have necessitated a change in the way we market brands in that country.
Our origins as a developing country company with strong product promotion skills and a ready portfolio of brands in speciality areas to choose from, strengthens our international plans. We pick & choose products from the range that we market in India, depending on country-specific requirements. Encorate chrono, a seizure medication, and Pantocid, an antiulcerant, continue to be amongst the largest brands we market internationally.

In the thirty - odd countries of our focus, we continue to build a presence with speciality brands. Across markets, our emphasis is on prescription based trade sales. We continue to bring to market important products like Prolomet XL, Octride injection as well as Lupride injection, where the technological complexity means that competition is limited.

Lipodox, our formulation of targeted doxorubicin is under registration in 7 countries; Octride (injectable octreotide) is marketed in 9 countries. Lupride depot, the one & three-month formulation of the peptide luteoliode, is now in 6 markets. In addition, complex products like Prolomet XL are under registration in several markets, including those where these are expected to be the only generic. Several complex products that have been successfully marketed in India are under registration across interesting markets.

The marketing model that we follow in these countries is fairly similar to our relationship building approach in India. Our well-trained 450 person team, (including agent’s representatives exclusive to Sun Pharma), makes doctor calls in these markets. Activities such as doctor group meetings, conference participation and symposia have helped us establish a presence.

We continue to be watchful of investments & profits across markets.

**Europe:**
In the key markets of Europe such as UK, France & Germany, we continued with our efforts to register products selectively and look for an appropriate partner to bring these our generics to market. We expect to have more newsflow to share going ahead.
Management Discussion & Analysis

API Markets

The world market for APIs is estimated to be $46 billion by 2010, with higher growths forecast for India & China, and annual growth of 14%.

India is uniquely positioned to compete for a chunk of this global market, with 2005 sales of $2 billion and forecast sales of $4.8 billion by 2010, an average yearly growth rate of 19.3%. An expertise in chemistry skills, reasonable labor & environment costs, energy controls and competitive domestic sector are likely to make the country one of the top API manufacturers globally, outstripping China & Italy.

API sales of Indian companies are geared to highly regulated markets such as the US, supported by strong DMF documentation, GMP compliance etc. India & China accounted for 57% of the western European generic market in 2005 and were expected to hold 67% market share by 2010.

According to a Frost & Sullivan report, API market in Europe is highly competitive with large number of small & medium sized suppliers. European API suppliers face issues such as lack of capability differentiation, overcapacity, limited new product launches & a number of opportunity limiting M & A’s. 80% of Europe’s API were exported to the US, a market in which India & China have made inroads and are affected by efforts to streamline supply chain economics by large companies in order to rationalize costs.

At Sun Pharma, 10% of current turnover is from API sales to external customers and this does not take into account the API we use inhouse. We are able to compete with speed to market & sensible costs not only in the US generic market, but in India as well, on account of sourcing advantages. We continue to use our facilities to file interesting ANDAs including those for peptides, steroids, and hormones.
Management Discussion & Analysis

Manufacturing

Worldclass sites, 17 plants in all, across three continents enables us to compete with a tight handle on cost and time to market across the geographies we are present in, and compete with interesting products that are difficult to replicate. During the course of the year we completed projects in streamlining, upgradation and expansion across several of our plants.

API Manufacturing:
Our expertise in API manufacturing enables us to work with innovative companies as a sourcing partner & benefit from the advantages of integration with a tight handle on cost & delivery. Our API filings strengthen our presence worldwide & specially in the US where it enables us to source API for ANDA opportunities. In addition to sourcing for very large products (like pantoprazole) we expect to use the dossier development & filing capability for anticancers, steroids, hormones as well.

Alkaloida, our Hungarian manufacturing site that we'd acquired in 2005, is a facility that can make API of controlled substances like morphine, codeine and their derivatives from the initial stages. Over time, we intend to integrate the sourcing of API from this plant to our controlled substance formulations factory in Cranbury, US. In readiness for filing, extensive engineering changes were carried out over the previous year, GMP standards enforced & utilities upgraded significantly.

At our Panoli API plant which we commissioned in 1995 & expanded several times over the course of the last decade, we doubled our plant size with an expansion. The new site houses plants for anticancer and steroid API manufacture, a large warehouse, utility block, tank farm & solvent storage.

Plant 6 is large multiproduct API facility for regulated markets such as the US, plant 7 is dedicated for making sex hormones, and includes a sterile facility. Since these hormones are effective in minute quantities, the plant has stringent controls and the highest checks on utilities.

At Ahmednagar, an oncology plant over four floors with 18 reactors and 8.21 kilolitre capacity with separate air handling systems and restricted material movement was commissioned. We expect to scale up complex anticancers such as oxaliplatin, capcetabine, gemicitabine at this plant, which has been built to USFDA specifications.

At our Karkhadi plant, a plant to manufacture formulations has been made operational and the area for non-sterile formulations such as liquids & tablets has since received USFDA approval for cefuroxime axetil. We expect our API business to continue to feed our dosage form business, and strengthen our ability to compete internationally.

Formulation manufacturing:
We have a solid manufacturing base now across continents, with international grade, approved or approvable plants that can handle a range of dosage forms in India or elsewhere, specifically in the US. Our plants in Halol, India hold approvals from a large number of regulatory authorities including the USFDA, UK MHRA. On the US mainland, we have three plants, through our subsidiary Caraco, plants in Cranbury (for controlled substances) and Ohio (for topicals such as lotions & creams).

Halol has witnessed increase in area from 14,000 sq. mt. as recently as 2004, to 29,500 sq. mt. now. Our Halol plant holds USFDA approval for tablets, capsules, injectables & nasal sprays, and in the course of the past year we received several injectable ANDA approvals out of this site. A separate solid dosage form area for anticancer tablets & capsules, equipped with totally different air handling units, was commissioned, this area meets international regulatory standards. The area for injectable oncologicals was expanded and the lyophilization capacity was enhanced with two large lyophilizers installed.

A team from the UKMHRA inspected the plant including the injectable area, and we passed this audit with flying colors as no observations were received even for complex injectables. Manufacturing area to handle the production of non-sterile formulations was increased from 3300 sq. mt. to 10,000 sq. mt. in order to support increased production. QC area was expanded almost three times and a state of the art warehouse built. These areas will support our plans for the US market.

At our Silvassa formulations plant a pellet manufacturing area spread over 4800 sq. ft. and supporting QC was built. This will enable us to compete for important products such as Pantocid, Panlipase, Duloxetin.

At the close of the year our Dadra plant also received approval from the US FDA.

Caraco:
To cater to US growth plans, Caraco has been expanding manufacturing considerably, shifting distribution and storage of finished goods to an independent facility. An expansion project to create new manufacturing capacity has begun, adjacent to the current plant. This plant will be built at a cost of $17 million and add 140,000 sq. ft. area. Last year, Caraco had acquired a small packaging facility for $ 1.7 million to improve bottling and packaging costs. The analytical area has been expanded, and space for inventories, offices, administrative and sales offices leased.

Bryan:
Sun Pharma Inc.’s Bryan site makes oral liquids, semisolids & topicals. We continue to develop & file products for US FDA approval.

Cranbury:
With its 80 person strong staff the site continues to develop & file products including those containing controlled substances. In addition to nimodipine, approvals for hydroxyzine and benzonatate were received from this plant.
Management Discussion & Analysis

We have a solid manufacturing base now across continents, with international grade, approved or approvable plants that can compete internationally. Formulation manufacturing: feed our dosage form business, and strengthen our ability to compete internationally. We expect our API business to continue to such as liquids & tablets has since received USFDA approval for cefuroxime axetil. We expect to scale up complex anticancers such as oxaliplatin, capcetabine, gemicitabine at this plant, which has been built to reactors and 8.21 kilolitre capacity with separate air handling systems and restricted material movement was commissioned. At our Karkhadi plant, a plant to manufacture formulations has been made operational and the area for non-sterile formulations has since received USFDA specifications. At our Panoli API plant which we commissioned in 1995 & expanded several times over the course of the last decade, we can manufacture considerably, shifting distribution and storage of finished goods to an independent facility. An expansion project to create new manufacturing capacity has begun, adjacent to the US FDA. At the close of the year our Dadra plant also received approval forANDA approvals out of this site. A separate solid dosage form area for anticancer tablets & capsules, equipped with totally enclosed areas will support our plans for the US market. In Cranbury, US. In readiness for filing, extensive engineering changes were carried out over the previous year, GMP standards were enforced & utilities upgraded significantly. Our expertise in API manufacturing enables us to work with innovative companies as a sourcing partner & benefit from the advantages of integration with a tight handle on cost & delivery. In addition to nimodipine, approvals for hydroxyzine and Alkaloida, our Hungarian manufacturing site that we'd acquired recently as 2004, to 29,500 sq. mt. now. Our Halol plant holds approvals from a large number of regulatory authorities including the USFDA, UK MHRA . On the US mainland, we have three plants, through our subsidiary Caraco, plants in Cranbury (for controlled substances) and Ohio (for topicals such as lotions & creams). Caraco has witnessed increase in area from 14,000 sq. mt. as the US, plant 7 is dedicated for making sex hormones, plant 6 is large multiproduct API facility for regulated markets, doubled our plant size with an expansion. The new site houses warehouses, utility block, tank farm & solvent storage. Anticancer Manufacturing area, Ahmednagar
Quality

The worldover, quality is reaching a mean with increasingly stringent requirements. An expert quality team, international level quality processes and documentation and top level commitment to quality are the pillars of our quality system.

Emphasis on quality alertness is a starting point. Corporate QA has trained our plant teams to handle areas such as equipment/utility breakdown, impact analysis, incidence investigation, walk through observations and effective audits.

Our central quality team works closely with partners such as vendors, material and machinery suppliers. To ensure GMP compliance regular CQ audits are conducted covering all manufacturing locations.

Internal Control Systems and their Adequacy

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