



Text of the speech delivered by Mr. Dilip Shanghvi, Chairman and Managing Director of the Sun Pharmaceutical Industries Ltd., at the 16th Annual general meeting of the company held on Sept 6, 2008 in Vadodara

Dear Fellow Shareholders, Ladies and Gentlemen:

On behalf of the Board of Directors I take pleasure in welcoming all of you to the 16th AGM of your company.

Over the next few minutes, I will attempt to provide a roundup of the key challenges and opportunities that our business faces, and also, how we as a Company plan to remain prepared for a successful journey. To begin with, I would like to first recap the performance highlights of 2007-08.

- Net sales increased by 57% over that achieved in 2006-07, crossing Rs. 3,350 crores
- Net profit grew by 90% to Rs. 1487 crores. Resulting net margin of 44% is one of the highest for your company in its listed history and also the highest among all Indian pharmaceutical companies. Just to put into perspective, the average profit we made every week in 2007-08 is more than the total profit we made in the entire year of 1994-95, the year of our public issue.
- International operations now account for 55% of sales. Another perspective on how this has grown. Since 1999-2000, our international business that was just 25% of our revenues has grown over 15 times. Within this, our international formulation business has grown over 45 times.
- Formulations were 90% of sales, which is in line with our objective of remaining a formulations driven company

I would like draw the attention of all my fellow shareholders that this performance in 2007-08 has been achieved partly as a result of sales from products that enjoyed limited duration exclusivity in the US. To that extent, this performance is not strictly comparable to the preceding year, 2006-07, and is also not something that will get repeated.

Environment and challenges

As Sun Pharma continues to expand its international presence and international markets account for even larger parts of turnover, people, quality and processes have emerged as key factors that differentiate us from the rest. Events related to product quality that took place in distant lands have increased the onus on us to ensure that our methods of working and quality levels are top notch, consistent and dependable.

India

The key trends we see:

- The Rs.33,000 crore pharmaceutical market in India continues to be one of the fastest growing markets of this size in the world, and yet offers most reasonably priced medicines for patients owing to competition. This competition, if anything, is likely to only intensify.
- In several deals last year, more international companies have reached our shores. Multinational companies have set up operations in India with the purpose of creating a low cost sourcing base for their global operations. Others have bought out companies, or entered into marketing deals



with Indian companies with the idea of creating a presence in the fast growing Indian pharma market.

- On the regulatory front, several drafts of the new drug policy have been proposed, and continue to be under discussion; these propose affordable delivery of basic healthcare for all, including cost effective medication.
- The new patent regime, which was introduced in 2005, is yet to have a deep impact. A few patented products have been introduced in the Indian market, but the market acceptance for such products still remains inconclusive. In terms of new generic products that reach the Indian market, going forward we expect the pipeline of new drugs available for launch to gradually shrink owing to this new patent regime.

International

On the international side, again we observe a few key trends.

- In several countries, particularly in the developed world, which also happen to be the largest pharmaceutical markets, citizens, politicians and governments continue to be concerned with high cost of healthcare and are working hard to lower or contain this cost. Preference for generics, over patented products, is one of their means of achieving this.
- While the above concern on affordability can be partly addressed by stimulating competition through global sourcing, there are a set of countries which believe that long term strategy of affordable medicines for its citizens necessitates a stronger local industry. This preference is often evident through explicit and implied protectionist measures favouring local manufacturers.
- Above all, regulatory agencies like the FDA remain on a constant vigil about the quality of medicines reaching their citizens. In the face of several highly publicized recent events, significant tightening of regulatory requirements across markets is visible, further adding to the business overhead.

In such a scenario, companies that can offer a basket of products, including technically complex yet affordable products, of consistent high quality have a clear advantage.

The USD 30 billion US generic market, the largest generic market in the world, is of great interest to all pharmaceutical companies with global aspirations. In 2007, generics accounted for 67% of the US pharma market by prescription, a number that has been steadily rising. A 10-15% price erosion has been witnessed across several existing products, even as new generic products witness a price fall of over 90% compared to the brand price, soon after launch. Crowding with the US generic market is also obvious from the number of companies that file complicated patent challenges. All of this is likely to keep the generic product prices under pressure in the US market.

Performance

We have crossed an important milestone in our journey as an international pharma company. As I mentioned earlier, this year international markets accounted for 55% of our turnover, helped by couple of large products in the US.



India and the US, 2 of our largest markets, together accounted for 86% of our turnover. Our capability in product selection, speedy development of technically complex speciality products, as well as backward integration into API have helped us compete across these and several other markets.

India formulations

Our domestic formulation business, at 43% of our consolidated sales offers a solid, dependable base which has grown at a compounded annual growth rate of 29% over the last three years. We remain confident about growing at a rate higher than industry growth rate. We posted sales of Rs 1476 crores, up 25% from the previous year. Market share as per IMS ORG is at 3.4% for 12 months to June 2008.

We continue to be ranked number 1 with 6 key classes of customers: Psychiatrists, Neurologists, Cardiologists, Ophthalmologists, Diabetologists and Orthopedicians. We continue to bring technically complex dosages and products that fill a gap and offer a better quality of life such as Cernos, Ovurelix, Qutipin SR. Such products help us offer a complete product basket in India and differentiate us as an Indian international company with high quality product alternatives in the other markets that we compete in.

We should shortly commission a plant in Sikkim to meet the growing demands of the market.

US generics

Caraco had revenues of USD 350 million for the year ending March 31, 2008, up 200% from last year. On this it had a cash profit of USD 35 million. As you probably know, we have two generics with a patent challenges that we have launched "at risk", and this has caused some out of turn growth. Caraco markets 57 products, of which 22 are from Sun Pharma and between Sun Pharma and Caraco, 88 products are pending approval with the USFDA. For more than half of the products it markets, it is among the top 3 by prescription share. Caraco has commenced major expansion, which over the next year or so, will take its area from 80,000 sq.ft. to 140,000 sq.ft.

Between Sun Pharma and our subsidiary Caraco, 76% of which is owned by Sun Pharma, of the pipeline of 88 products awaiting approval, 72 are from Sun Pharma, and these filings range across a mix of products: Para 3's, select Para 4's, complex products as well as larger generics which we can make at a competitive costs with inhouse API.

We now have six formulation plants that can cater to the US market, three of which are on US mainland and the other three in India. This gives us the flexibility to manufacture on the US mainland or offshore.

Our Dadra plant, originally designed to cater to the domestic market has now secured approval for the US generic market, and almost doubles the manufacturing capability we have for this vital market.

International branded generics

Our international branded generics presence, currently 6% of our business, continues to grow steadily, as we continue to roll out and build brands across markets. We are now present in over 30



markets across SE Asia, China, CIS, some countries in Latin America such as Brazil and Mexico. Our presence with a strong offering of brands including several technically complex ones and an expert field force on the ground have set us in a different slot from the competition.

Across these markets, we have 1973 products filed, of which 1262 are approved.

Speciality API

Our API offering continues to grow rapidly. We now have 101 filings received or awaiting approval for US/ Europe.

Currently our API business is 10% of turnover, which largely reflects the sales of API to large companies, including those in Europe and US.

R&D

Our 473 person strong R&D team that works on product development for Sun Pharma possibly has one of the highest productivity amongst all Indian companies. This year, we spend Rs. 3 bill or 9% of net sales on R&D.

Every year we scale up more than 20 APIs, develop and file over 30 ANDAs in addition to filings for non US markets, and bring more than 30 formulations to the Indian market. The current number of patents is at 215 patents filed of which 59 have been received.

Our team ensures that the product offering across all the markets we are present in, is continually replenished.

Taro

In the past few months there has been a flurry of news about our merger agreement with Taro, Taro's purported termination of this merger agreement after a year's delay in meeting the terms of the agreement and the resulting litigation in Israel and the US.

Currently, we are in the process of acquiring all the shares held by the promoter of Taro. The open offer launched to comply with the provisions of the agreement to buy the promoters stake is currently pending, due to an injunction granted by the Israeli Supreme Court. Taro and its some of its directors had appealed to the Supreme Court after the lower court verdict that went against them. All I can say is that we will take all steps necessary to protect our shareholder's interests.

Growth and Team Sun Pharma

Our guidance for the year is a growth of 18-20% in sales outside of the US. Caraco has shared 25% growth guidance. This year too, we intend to file 30 ANDAs in the US across the two companies. As you would have seen from the results of the first quarter of this year, we are well placed to meet this guidance.

As our international business increases, our team, too, is becoming more international, assimilating people across different cultures and countries. At Sun Pharma and all its subsidiaries, the eight thousand-plus strong team works in cohesion to lead the company to new challenges across markets, we will continue to create a rewarding and achievement-enthusing work environment.

Thank you.