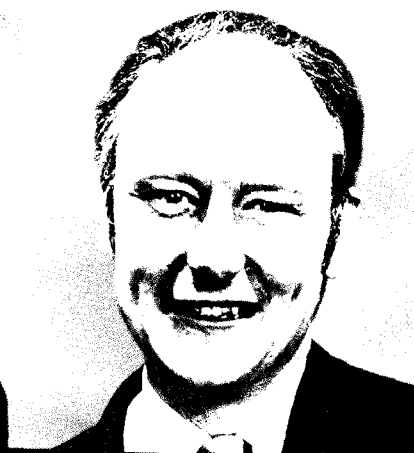


AGAINST ALL ODDS

A tribute to the
pathfinders' spirit
in these challenging times.

Zy us
dedicated
to





Christopher Columbus



Sir Edmund Hillary



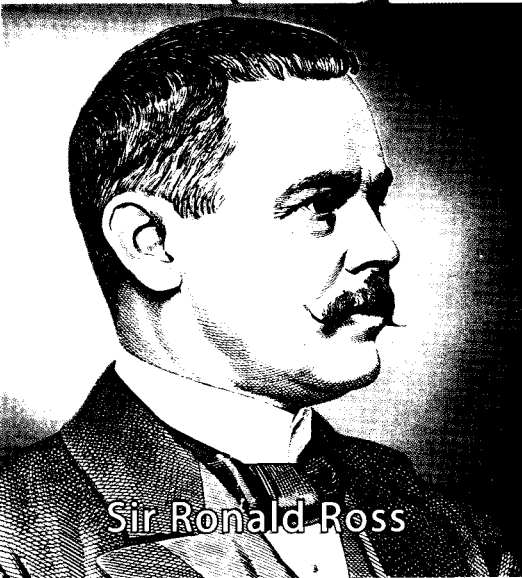
Mahatma Gandhi



Amelia Earhart



Marie Curie



Sir Ronald Ross



Watson & Crick

Some shook the world by arriving: Christopher Columbus in North America, Sir Edmund Hillary on Mt. Everest. Others by refusing to depart: Mahatma Gandhi from the path of non-violence, which mobilised every class of the society to achieve an independent India. Some took the road less travelled and realised their dream: Amelia Earhart became the first aviatrix to fly solo across the Atlantic Ocean; Marie Curie's contribution to science made her the first person to win two Nobel Prizes. And there were those whose discoveries threw new light on crucial subjects: Sir Ronald Ross discovered the life cycle of the malarial parasite; Watson and Crick gave to the world the model of DNA.

All these pathfinders have one thing in common - the indomitable spirit to challenge the odds and open up new paths. At Zydus, we identify and pay tribute to this spirit that is latent in all of us. In our own humble way, we have imbibed this spirit of converting challenges into opportunities with the will to succeed. The unwavering focus on goals and the zeal to move beyond and make things happen has helped us defy the odds and post successes.

The year 2008-09, the year of the global meltdown was a challenging one for us too. But, at Zydus, the resoluteness, the will to succeed and the ability to raise the bar of performance came shining through, delivering yet another year of consistent growth. As this journey of growth continues towards the end-of-the-decade goal of the Healthy Billion - achieving sales of over \$ 1 bn by 2010-11, driving growth by thinking differently will unfurl new routes to success and profitability.

Contents

FOUNDER Late Mr. Ramanbhai B. Patel

BOARD OF DIRECTORS Pankaj R. Patel
Chairman & Managing Director

Dr. Sharvil P. Patel
Deputy Managing Director

Directors Mukesh M. Patel
Pranlal Bhogilal
H.K. Bilpodiwala
H. Dhanrajgir
A.S. Diwanji

CHIEF FINANCIAL OFFICER Nitin D. Parekh

CHIEF ACCOUNTS OFFICER Jyotindra B. Gor

COMPANY SECRETARY Upen H. Shah

BANKERS Bank of Baroda
BNP Paribas
Calyon
Citibank N.A.
Corporation Bank
Exim Bank
HDFC Bank Limited
ICICI Bank Limited
IDBI Bank
State Bank of India
Standard Chartered Bank

AUDITORS Mukesh M. Shah & Co.
Chartered Accountants

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REGISTRAR AND SHARE TRANSFER AGENTS M/S Pinnacle Shares Registry Pvt. Ltd.
Near Asoka Mills, Naroda Road,
Ahmedabad - 380 025.

WORKS Formulation Units S.No. 417, 419 & 420, Village Moraiya,
Taluka Sanand, District Ahmedabad.

Kundaim Industrial Estate, Ponda,
Goa - 403 401.

Village Saraj Mujra
P.O. - Baddi
Tehsil - Nalagarh
Dist. Solan (HP)

API Units GIDC Estate, Ankleshwar, Gujarat.
Dabhasa, Tal. Padra, Dist. Vadodara

Zydus Research Centre Zydus Research Centre
S.No. 396/403, Village Moraiya, Taluka Sanand,
District Ahmedabad.

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Safe Harbour Statement

In this Annual Report we have disclosed forward-looking information (within the meaning of various laws) to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make, contain forward-looking statements that set out anticipated results based on the Management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Breaking New Grounds in 2008 - 09

Nine jewels shine despite stock market volatility

Five cos deliver double-digit returns over one year

Aman Dhall
NEW DELHI

THEY ARE the crash performers of Indian stock market. Even as the Indian equities market almost halved in value since touching an all-time high on January 10, 2008, there were five stocks among India's top 500 companies which delivered gains to their shareholders over a period of one year.

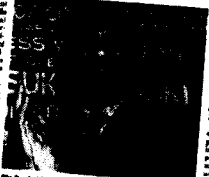
While there are three stocks each from defensive sectors, pharmaceuticals and growing consumer among them.

Cadila's anti-depression tablet launched in US

Drug-maker Cadila Healthcare on Monday said that it has launched venlafaxine hydrochloride tablets, used in the treatment of depression, in the US markets. The company is marketing the products in 25, 37.5, 50, 75 and 100 mg variants in a filing in the US Food and Drug Administration (FDA) market. Cadila Healthcare said in a filing in the New York Stock Exchange. Last year, the company received US Food and Drug Administration (FDA) approval for marketing the product.

Zyudus Cadila buys 70% in S. Africa's Simayla Pharma

Acquisition amount not known; co sees opportunity to grow its business



Dr. P. N. Chatterjee, Managing Director, Zyudus Cadila

Zyudus buys Spain's Combix

Acquisition amount not known; co sees opportunity to grow its business

Combix is a Spanish pharmaceutical company with a portfolio of 17 molecules. It has a range of products that are marketed in Spain and other European countries. The company is looking for strategic partnerships and acquisitions to expand its global presence. Zyudus Cadila's acquisition of Combix is part of its strategy to diversify its product portfolio and enter new markets.

Zyudus 2nd co in world to get WHO accreditation for rabies vaccine

The World Health Organization (WHO) has granted accreditation to Zyudus Cadila for its rabies vaccine. This is the second company in the world to receive such accreditation. The accreditation is a testament to the quality and safety of Zyudus Cadila's vaccine and its manufacturing processes.

Cadila to strengthen US reach with fresh approvals

The company has received FDA approvals for several new drugs, including an anti-depression tablet and a rabies vaccine.

Cadila to rejig consumer biz

The company is restructuring its consumer business to improve efficiency and focus on core products.

Zyudus, Eli Lilly sign pact

The pact is for the development and commercialization of a new drug for the treatment of a rare disease.

Etna

Etna Biotech is a leading pharmaceutical company in Italy, specializing in the development and production of innovative drugs.

Zyudus Cadila acquires Etna Biotech

The acquisition is expected to strengthen Zyudus Cadila's presence in the European market and expand its product portfolio.

Zyudus acquires

Zyudus has acquired a company that specializes in the development and production of pharmaceuticals, further enhancing its capabilities in the industry.

Prescription for buy: Keep doses si

The article discusses the importance of maintaining appropriate dosages for various medications to ensure their effectiveness and safety.

CADILA WHO TO DEVELOP RABIES DRUG

Cadila Healthcare is collaborating with the World Health Organization (WHO) to develop a new rabies vaccine, aiming to improve global health and safety.

Zyudus Cadila JV to manufacture pharma ingredients

The joint venture between Zyudus and Cadila is set up to manufacture pharmaceutical ingredients, providing a cost-effective solution for both companies.

Zyudus gets USFDA approval to market benzepiril tablets

The US Food and Drug Administration (FDA) has approved Zyudus Cadila's application to market benzepiril tablets, a significant milestone for the company.

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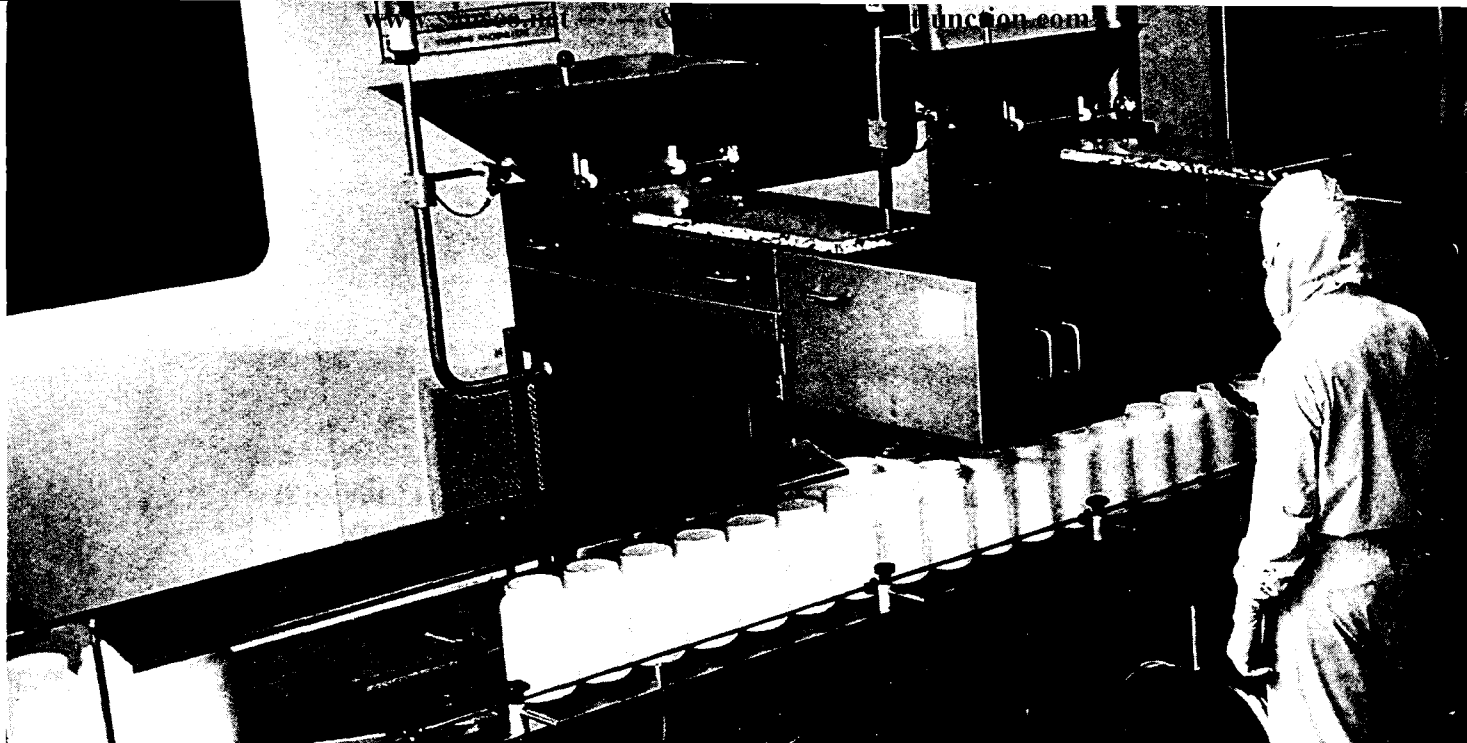
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Highlights 2008-09

Highlights – Global Formulations

- US business posted a strong performance with continued thrust on its "Customer Focus Model" and launched nine new products including three 'Day One' launches. Registered sales of Rs. 3,984 Mio., up 55 % y-y. Rated as one of the fastest growing US generic companies by IMS for the third consecutive year.
- French business continued robust performance, with launch of ten new products and strengthening of position in key products. Posted sales of Rs. 1,980 Mio., up 20 % y-y.
- Brazil business registered sales of Rs. 1,628 Mio., up 32 %, with launch of four new in-licensed products in the branded space.
- Launched twenty in-licensed products in Japan.
- Forayed into two key markets with the strategic acquisition of Laboratorios Comibx in Spain and majority stake in Simayla Pharmaceuticals in South Africa.
- Exports to other emerging markets of Asia Pacific, Africa, Middle East and CIS regions grew by 81 % and posted sales of Rs. 1,750 Mio. and maintained leading positions in Sri Lanka, Myanmar, Uganda and Sudan.
- Became the 1st Pharma company in India and 2nd Pharma company in the world to receive WHO accreditation for Lyssavac N - the Purified Duck Embryo Rabies Vaccine, which will provide distinct edge to market the product internationally.

Highlights – India Formulations

- Strengthened presence in the nutraceuticals market, with the launch of a new division 'Nutriva' with addition of 250 people in the field and in the rheumatology market, with the launch of the new division 'Synovia' with 50 people.
- Launched a hospital focused division, 'Topcare' by leveraging strengths of the diagnostic product portfolio and became the only company in India to have a specialty team focused on the COPD segment.
- Launched over 25 new products and over 30 line extensions in the formulations market, of which, 15 were first in India.
- Three brands, viz. 'Ocid' (Omeprazole), 'Pantodac' (Pantoprazole) and 'Atorva' (Atorvastatin) crossed sales of Rs. 500 Mio. each.
- Retained leading positions in the cardiology and diabetology, gastro intestinal, women's healthcare and respiratory segments in the participated market.
- Overall, the domestic formulations business posted sales of Rs. 12,889 Mio., up 10%.

Highlights – Other Businesses

- The consumer business of Cadila Healthcare Ltd. was integrated under a composite scheme of arrangement into Carnation Nutra Analogue Foods Ltd., which is now renamed as Zydus Wellness Ltd., to leverage strengths of both the businesses and thereby create long term value for shareholders.



- Zydus Wellness registered a robust performance with a healthy growth of 27% and posted sales of Rs. 1,947 Mio.
- API business (other than Nycomed JV) also registered sales of Rs. 2,487 Mio., up 17 %, with exports posting growth of 27 %. Introduced 7 new API products in the domestic and regulated markets.
- Zydus Nycomed JV posted a strong performance with sales of Rs. 1,998 Mio. and profit of Rs. 1,365 Mio.
- Zydus Hospira JV has successfully completed inspection by EU regulatory authority, MHRA and has plans to start commercial operations from Q1 of FY 09-10.
- Filed 19 ANDAs with the USFDA, including 2 ANDAs each for pulmonary and nasal products and 5 ANDAs for parenteral products, taking the total to 92 ANDA filings. Also filed 14 US DMFs with the USFDA, taking the cumulative filings to 76 DMFs.
- Received 10 ANDA approvals from the USFDA, taking the total to 42 product approvals, of which, 23 products have been launched so far.
- Filed 15 new product dossiers for the EU market, including 8 for the Spanish market, taking the cumulative filings to 54. The cumulative site transfer applications for EU market has reached 44.
- Received 13 new product approvals for the French market, taking the cumulative to 28 approvals and received 10 site transfer approvals, taking the cumulative total to 41 approvals.

Highlights – Mfg. and R&D Operations

- The tablet and injection mfg. facilities at Moraiya were successfully audited by the USFDA and Brazil - ANVISA without any adverse remarks.
- Majority of the domestic products have been shifted to the Sikkim facility from the Baddi facility, which is now going to cater to the US market.
- Filed 6th IND application for ZYT1, a novel lipid lowering molecule, with the DCGL. ZYT1 also became the first IND to be filed with the USFDA.
- Signed a new drug discovery and development agreement with Eli Lilly and Company, USA, focused in the area of cardiovascular research, which seeks to increase productivity in drug discovery and development by synergising the unique strengths of both the companies.
- Acquired Etna Biotech, Italy, a subsidiary of Dutch biopharma co., Crucell, NV, which marks the Company's first acquisition in the research space.
- Zydus Research Centre in Ahmedabad became only the second facility in India to receive full accreditation from AAALAC International, (Association for Assessment and Accreditation of Laboratory Animal Care).

- Filed over 100 patents in the US, Europe and other countries during the year 2008-09, taking the cumulative filings to over 450.

Consolidated Financial Highlights

- Total operating income up by 26 % y-y to Rs. 29.3 bn from Rs. 23.2 bn last year.
- EBITDA up by 32 % y-y to Rs. 6,058 Mio. from Rs. 4,582 Mio. last year. EBITDA margin was up by 1 % to 20.7 % against 19.7 % last year.
- Net profit excluding exceptional items up by 23% y-y to Rs. 3,234 Mio. from Rs. 2,633 Mio. last year.
- Return on capital employed increased to 17.8% vis-à-vis 16.7% last year, while return on adjusted net worth increased to 28.4% from 27.6% last year.



Chairman's Message

"The unrelenting focus on extending the growth curve, making vital growth investments that yield value and maintaining a robust business health by pruning costs — have all helped your Company in keeping its balance in these unsteady times and maximising performance."

Delivering robust performance in challenging times

The year 2008-09 was a year unlike any other. Caught in the spiralling economic downturn which swept across the global economies, the world faced tough conditions and considerable market uncertainty. In these tough times, your Company reinforced its credentials of being resilient, proactive and driving performance despite the odds.

The unrelenting focus on extending the growth curve, making vital growth investments that yield value and maintaining a robust business health by pruning costs – have all helped your Company in keeping its balance in these unsteady times and maximising performance.

As the year 2009-10 unfolds, we do not yet know the full extent of the economic challenge that businesses will face. I believe, however, that your Company is well positioned to shape positive responses and will continue to grow, compete and explore winning pathways, globally.

Over the years, your Company has been complementing its aggressive growth strategy with a constant flow of new approaches and ideas, tempered by experience. We have been learning and gaining from past responses to challenges and successes and more importantly, developing a tested view towards what works versus what doesn't. In challenging times, this works as a weather shield in more ways than one. Here's how we delivered a robust performance in 2008-09:

Being proactive rather than reactive

While fast growth is the order of the day, it's also equally essential to forecast trends and be proactive. At the first signs of the downturn, we took some important decisions early on. We firmly resolved to focus on growth because where there is growth there can never be blight. There can never be situations to even consider lay-offs. So our first response to the slowdown was to step up the growth momentum. Secondly, we initiated several cost saving measures that enabled us to be better prepared for the slowdown. Our timely and prudent measures buffered the impact and added to the group's profitability in what has generally been seen as a lean year.

The three-pronged focus was on :

- aggressively growing the business and increasing revenues and margins
- identifying cost optimisation opportunities through new initiatives and ideas
- tightening the control over spends and optimising return on investment

A concerted effort on all three fronts helped boost our Total Income by 26% and increase our Net Profit (before exceptional items) by 23% in 2008-09.

Business Health considerations have always been a priority not just in lean times but even in good times. We have initiated several programmes that have focussed on improving efficiencies and reducing costs. PRISM which looked at trimming non-labour spends was launched in 2003. SLIM, which looked at lean manufacturing initiatives, was launched in 2006. Last year, we institutionalised a structured programme of cost identification and improvement in our supply chain processes. Project SPEED (Supply Planning – Effective, Efficient to meet Demand) has been quite effective with nearly 100 Zydans from across functions and geographies involved in more than 20 task forces.

The focus on rationalising costs and improving productivity through SPEED resulted in an initiative that reduced costs and enhanced efficiencies across the value chain. Streamlining our supply chain processes, we set up the Global Demand and Supply Organisation (GDSO) to synergise and create cost optimal and seamless supply chain operations.

Besides this, the various rationalisation measures that were initiated across the organisation helped in improving the EBITDA margin by 1% from 19.7% to 20.7%.

A business model that balances stability with agility

I strongly believe that our business model is one that sustains us through challenging times and firmly places us on the path of balanced growth. Our execution skills — the ability to deliver on our commitments, is fundamental to our business approach. We work proactively to achieve our goals, nurture long-term relationships that grow deeper over time and move well beyond the usual conventional business models. This creates a differentiated approach that enables us to demonstrate tangible value. Our intense focus on the Healthy Billion goal of achieving sales of over \$ 1 bn by 2010-11 continues with a full range of new initiatives. Here is the business model which has successfully leveraged our strengths and capabilities and maximised opportunities.

Challenges/Opportunities		The Zydus Way
Generics Opportunity	<ul style="list-style-type: none"> • Burden of soaring healthcare costs • Increasing patent expiries • Ageing population • Governments increasingly favouring genericisation 	<ul style="list-style-type: none"> • Targeting high growth, less penetrated markets, both regulated and emerging markets • Driving competitive edge through continuous cost reduction • Developing a robust product pipeline with a focus on difficult to develop generics • Customer-centric approach
Discovery Research	<ul style="list-style-type: none"> • Rising drug development costs • Diminishing product pipelines • Stricter regulations • Challenges to R&D efforts by MNCs 	<ul style="list-style-type: none"> • Leveraging strengths in discovery capabilities • Leveraging cost advantage • Creating a strong platform for innovation • Entering collaborative research options • Partnering WHO, Karo Bio, Prolong & Eli Lilly in various research programmes
New Dimensions in India Business	<ul style="list-style-type: none"> • Slowdown in new product introductions as a result of the patent regime • Price regulations 	<ul style="list-style-type: none"> • Developing niche therapies and NDDS products • Improving customer connect through specialty segments • Managing a balanced product portfolio with mass and chronic therapies • Expanding reach to rural markets • Exploring in-licensing opportunities

On course with our global expansion plans

As a part of our global strategy, we have often side-stepped big ticket acquisitions and instead, looked at value-accruing acquisitions which provide strategic market access in prioritised markets. In line with this strategy, this year, we made a foray into Spain with the acquisition of Laboratorios Combix. Alongwith France, operations in Spain now strengthen our base in the European generic market.

Another key focus market for us is South Africa and we have been looking at opportunities to unlock value by consolidating operations. We have now been able to do this, by acquiring a majority stake of 70% in Simayla Pharmaceuticals. The acquisition opens up new avenues of growth in a market that is estimated to cross US\$ 4 bn at consumer prices over the next three years. Our third acquisition for the year was Etna Biotech of Italy. This, infact, was our first acquisition in the research space.

When we had embarked on our global expansion plans in 2002, we knew that to be a successful global company, we had to compete on two fronts: in mindset as well as in geography. We knew that we must go further than we have ever gone and create an inclusive environment with a leadership team comprising people with versatile capabilities from different global backgrounds and global experience. Each step forward in our global business provides a new dimension for growth and profit.

Yet, for all of our breadth and size, we remain a company with a singular focus: healthcare. We are an integrated, global healthcare company. That is our identity and that is our purpose. We are here to create healthier communities globally.

Making innovation count

We live in an age where healthcare has been intrinsic to well being and good health. Innovation in life sciences and advancements in pharmaceutical technology continue to alter the way we treat diseases, making possible what once seemed impossible.

As the horizon of healthcare expands, so does our commitment of supporting the medical fraternity with innovative, need-based therapies. Our research pipeline has shaped up into a very promising one with 7 NMEs in various stages of clinical trials. NME - ZYT1, which was filed with the DCGI and the USFDA during the year has now moved into Phase I clinical trials. We have also filed an IND application with the DCGI for ZYD1, a novel candidate in the class of antidiabetic agents. Besides this, there are several other candidates in late stage preclinical development which augurs well for us. Secondly, we have entered into a new drug discovery and development alliance with Eli Lilly and Company, USA, for a collaborative research programme. Together, we will be working on a drug discovery and development programme in the area of cardiovascular research. We have also undertaken a research programme on monoclonal antibodies with the WHO.

These initiatives take us closer to realising our vision of becoming a research-driven pharmaceutical company by 2020.

Championing new ideas and initiatives

We're in an era that's driven by the sheer power of ideas - it's ideas, knowledge and information that is impacting change and transformation. They are changing the way we live, our perceptions and our responses. So, exploring new facets, asking the right questions and coming up with new ideas that can change the way we work for the better, forms the core of the transformation process at Zydus.

We ask ourselves – Where will the next fast-growing markets come from? How can we be trendsetters? What can we do differently than our competitors? Is there a need to re-position ourselves inspite of fairing well in the segment? How can we create synergies to maximise reach? What are the ways in which we can connect better with the customers? What are the niche product ideas that can open up new opportunities for us and create a new market? Posing these questions and many more threw up several new ideas, some of which we implemented during the year.

We now have dedicated teams for marketing nutraceuticals and rheumatology therapies in India, which we believe have a tremendous potential for growth. We have also instituted the Topcare division which will service the major hospitals across the country.

Strengthening the market position by leveraging technology and cost-competitive manufacturing capabilities has also been one of the focus areas. We broke new grounds by receiving the WHO accreditation for Lyssavac N – the Purified Duck Embryo Rabies Vaccine (PDEV). With this, we became the 1st Pharma company in India and 2nd Pharma company in the world to receive this accreditation.