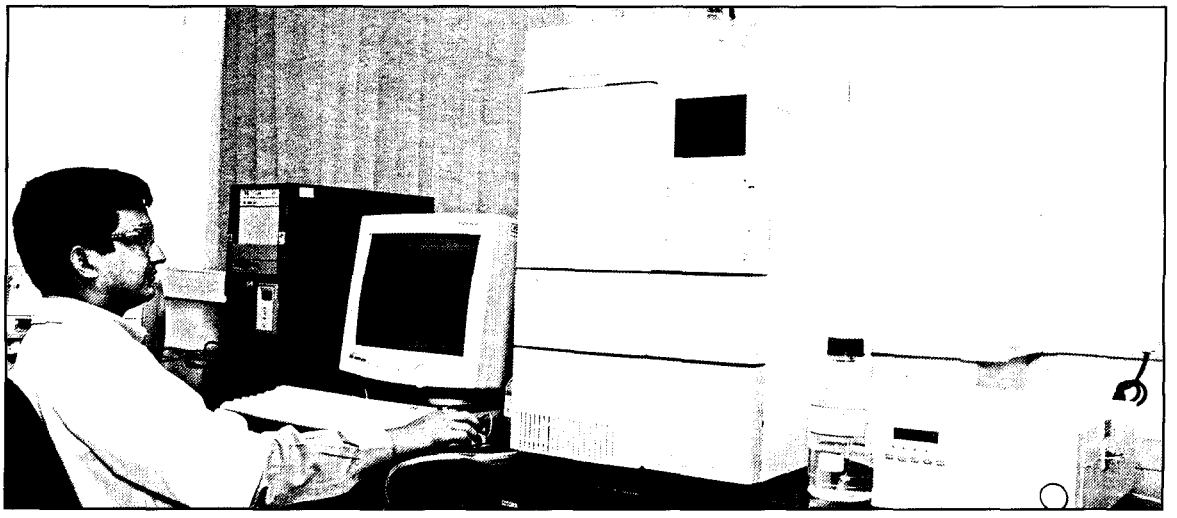
Metamorphosis
1994-2004

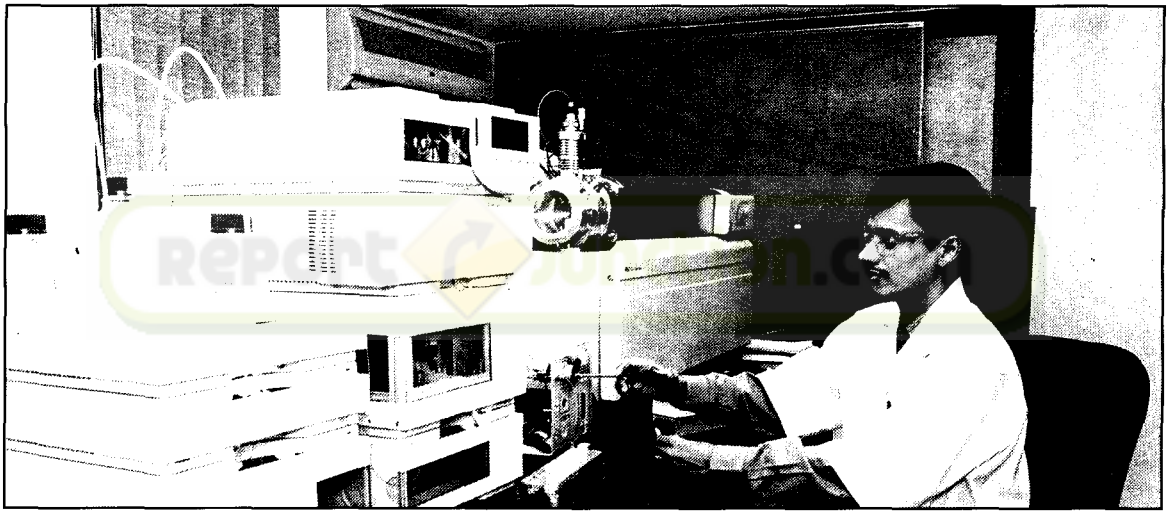
14th Annual Report 2002-03

Suven Pharmaceuticals Limited

SUVEN R&D FACILITY



Method development Lab



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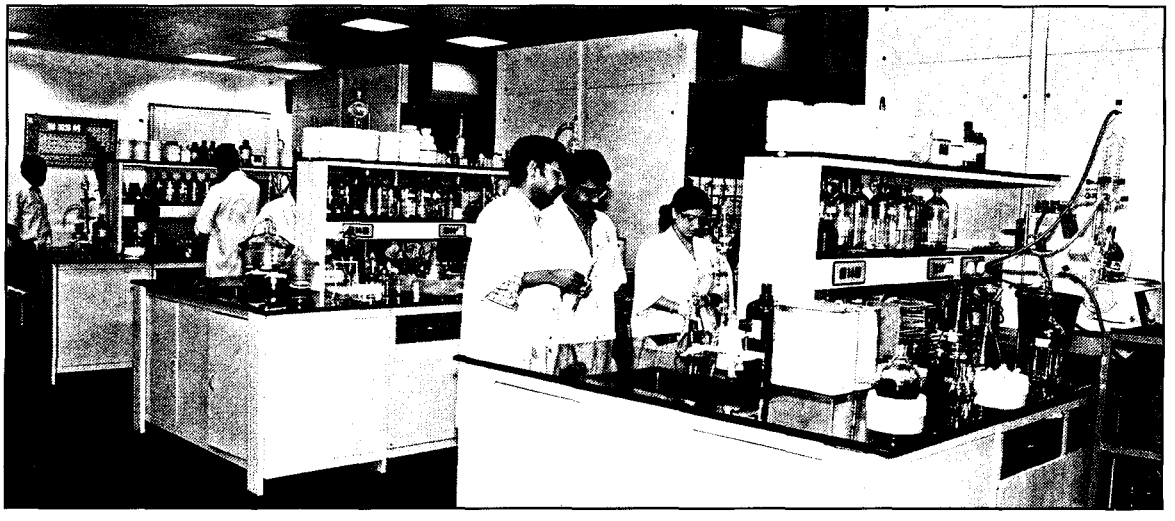
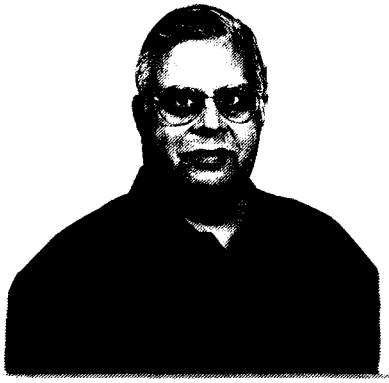


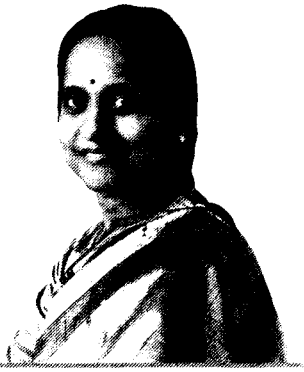
Synthesis Lab

BOARD OF DIRECTORS

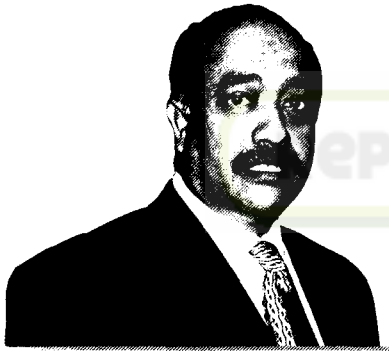


Bodhishwar Rai
Chairman

Venkat Jasti
Managing Director

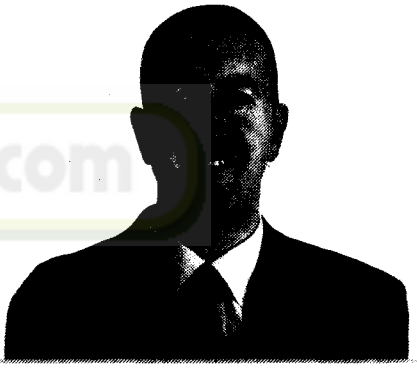


Sudha Jasti
Wholetime Director



Dr Hargovind Rathore
Director

Dr M R Naidu
Director



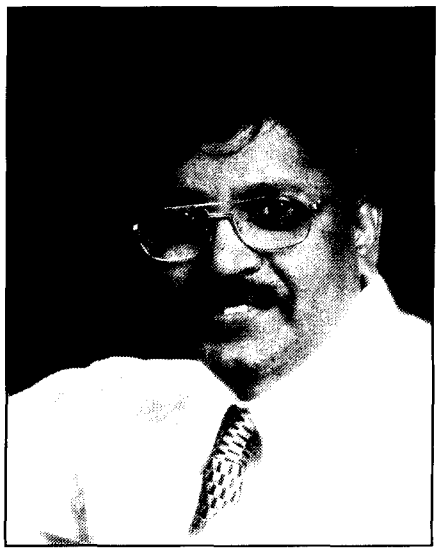
Michael O'shea
Director

Dr Ramaiah Muthyala
Director

Dr S.Ramachandran
Director

Anand Chatorikar
Director

MANAGING DIRECTOR'S COMMUNIQUE



Dear Shareholders,

METAMORPHOSIS

Suven is entering a very strategic phase of its long-planned business strategy; the cover page gives the first glimpse of this Metamorphosis which forms the theme for this year's annual report. It has been almost 9 years ago that the foundation of your company was laid, a company was born whose foundation was to be slowly but surely laid over these 9 years. Apart from being among a handful of Intellectual property Rights (IPR) compliant companies, Suven has stood for quality and values which has formed the backbone of our strategy. Being a participant in a very dynamic business world, Suven has had to gradually adjust to the changing business dynamics. Looking back at the scenario 9 years ago and as we stand on the thresh-hold of a major opportunity on which we have steadfastly focused, the evolutionary traits are obvious. It is this transformation or metamorphosis that forms the theme of current year's report.

SUVEN PHARMA TO SUVEN LIFE SCIENCES

The metamorphosis has been both on qualitative as well as quantitative fronts. The business model too had metamorphosed significantly to warrant a re-look at our name. Part of the repositioning of this evolving Suven merited a rethink on the name itself. Subject to your approval, Suven would now be re-christened as Suven Life Sciences to reflect its entire spectrum of activities as envisioned way back in 1994.

NEW LOGO

Our proposed logo comprises of a gray hexagon which denotes the opportunity and the resident form depicts our strategy and capability while the head denotes our values.....both business ethics and human values. We believe the new logo will strongly augment our positioning for customers, employees and stakeholders.

EMERGING AS PARTNER OF CHOICE IN C-R-A-M-S

As has been mentioned over the past several years, our prime focus has been to emerge as a partner of choice in providing R&D and manufacturing services to global pharmaceutical companies (post 2005, when India accepts product patents). We have always believed that India could leverage its knowledge pool of qualified manpower, scientific skill sets and a huge labour arbitrage that could provide a strong competitive advantage to serve global pharma companies. Aside of cutting costs, Indian expertise could help significantly 'compress' the "discovery cycle". As one looks closer, the

similarities between Contract Research and Manufacturing services and IT and IT Enabled opportunities are strikingly similar. This opportunity which Indian companies will be able to address has been estimated at upwards of $13 bn/year by renowned consultants like McKinsey and Arthur D'Little. Our IPR compliant past, strong relationships and track-record with several global pharma companies coupled with strategic backward and forward integrations make us well positioned to address this opportunity

The financial year 2002-2003 was a very crucial year for Suven as it was the year when significant investments were done without unduly affecting the profits. The lull in business which was seen after 9/11 continued well into the 1st half of FY03. The business outlook began to improve in the second half and the progress till date is quite re-assuring. The largely inward looking attitude of most European and US companies seem to be changing for the better and now appear to be business as usual.

As mentioned earlier the year gone by showed that Suven could manage growth, even after investing upwards of 22% of sales income in R&D related activity both Capital & Revenue and writing it off revenue expenditure in the same year, the profits appear reasonable. After spending nearly 7 years in building a solid foundation through carefully articulated moves, the time to aggressively invest began in late 2001 and is expected to continue into 2004. The reputation and relationships that Suven has been able to build and nurture has positioned it as a partner of choice in contract research and manufacturing services for NCE related activities... Synergistic backward and forward integrations which have been undergoing since the past 2 years will enable Suven address the entire spectrum of drug discovery related services.

Our IPR compliant strategy since inception has seen some ups and downs, yet our focus has remained steadfast. Short term gains of entering into bulk drugs and formulations have been sacrificed for long term returns when the IPR regime is finally in place by 2005. Along the way events like 9/11 and the subsequent impact on our user industry had increased the gradient for us, but we remain confident of long term success. The strength of our foundation remains the relations that we have been able to nurture and grow with over 20 leading global life sciences companies over the past 9 years. The Suven family too has grown in size in the past few years. The need to increase the management band-width has been the foremost which has been gradually addressed. Our base of R&D scientists too has grown from 57 to 108 and our manufacturing facilities have been upgraded significantly.

I am also pleased to inform members that our 100% subsidiary US FDA compliant plant is under validations with trial runs which would play a strategic role in commercializing the captive pipeline from custom synthesis and also in IPR attached API's. This API business targeted towards regulated markets would contribute significantly to our top line and bottom-line from FY05 onwards, when the requisite approvals from USFDA are received by the end of current year. You will be glad to know that Suven has filed its first DMF during August 2003 and also plans to file next set of DMF's with the USFDA in 2004. This would rapidly scale-up and also provide stability to our business model.

With an outlay of $ 1 mn, Suven Life Sciences, USA LLC was formed as a wholly owned subsidiary of Suven, which in turn has acquired all the assets of Synthon Chiragenics Corporation. This would employ 4-6 Ph.D.'s in addition to a small scientific/technical staff. Existence of this front-end would enhance exposure of Suven's R&D capabilities in the most lucrative North American market and offers a significant boost to our

Metamorphosis 1994-2004

IMPROVING BUSINESS OUTLOOK

SUBSTANTIAL INVESTMENT IN R & D AND INFRASTRUCTURE

GEARING FOR THE PATENT REGIME

USFDA COMPLIANT PLANT

SYNTHON TO BE THE FRONT END IN USA

chances of bagging R&D projects leading to backward integration into Indian operations eventually

SYNTHON ADDS CHIRAL CAPABILITY

Synthon Chiragenics (www.synthoncorp.com) is the leader in carbohydrate based chiral technology enabling discovery, development and manufacture of pharmaceuticals. Synthon Chiragenics breakthrough technology, based on the chiral pool approach, starts with inexpensive readily available raw materials and transforms them into building blocks and advanced intermediates with 99% + chiral purity. This is a significant step forward for Suven in its ambition to emerge as a leading full spectrum provider of Drug Discovery related services by 2005. Existence of this front-end would enhance exposure of Suven's R&D capabilities in the most lucrative North American market and seamless transition of R&D projects from USA with forward and backward integration in India, thus leading to substantial expansion of the Suven's product portfolio.

3-WAY ALLIANCE FOR OUTSOURCING

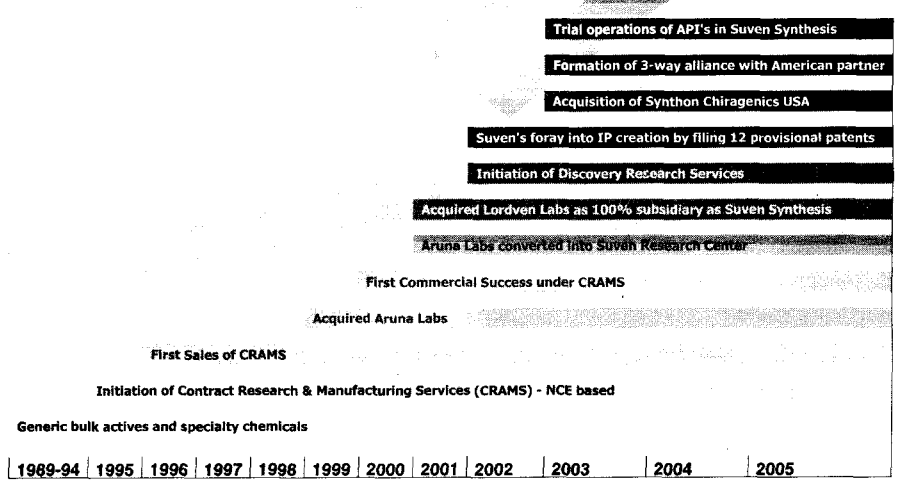
One more significant step was our recently announced alliance with Shasun and Innovasynth with Austin, one of the leading pharmaceutical resource augmenter for global pharma majors as a project management partner. In a 3-way alliance Austin has tied up with Suven, Shasun and Innovasynth to outsource a wide range of pharmaceuticals related services. We believe this alliance will emerge as a bench-mark and would be followed by a host of similar alliances in the future.

PATENTS

Aside of being an IPR company since inception and always positioned in the high end of value chain, post 2005 Suven would be positioned as a partner of choice for providing the entire spectrum of services including discovery, development through manufacturing. In order to attain the goal of becoming a discovery oriented pharmaceutical company, a small beginning has been made and you will be glad to know that during the year Suven has filed 12 provisional patents.

I would also like to take this opportunity to express my gratitude for your support and considerable amount of patience. As 2005 nears, we hope the patience of share holders would be commensurately rewarded.

VENKAT JASTI



EVOLUTION OF SUVEN'S BUSINESS MODEL

POST-2005 - OUTSOURCING OPPORTUNITY

"The vast proliferation of technologies and approaches has made self sufficiency a thing of the past"

..... D.Vasella President Novartis

Changing dynamics of global pharma market is opening up a huge opportunity for IPR compliant Indian companies with proven and demonstrated reverse engineering, contract research in NCE's as well as in generics and custom synthesis skills.

A combination of resources viz. largest pool of trained personnel in analytical and developmental chemistry, excellent track record of innovation, availability of USFDA approved manufacturing production facilities enables India to offer 30% to 50% cost savings in CRAMS.

...the C R A M S Opportunity

Outsourcing in contract research and manufacturing in the broader sense of the term represents a huge opportunity which is becoming increasingly realizable. A recent study of top 36 global life sciences companies suggests that 69% of the respondents favoured more of their developmental activities which are growing at an annualized rate of 16%. The reach for this opportunity has improved on relative basis due to several reasons like;

- Improved image of India - largely due to the track record of Indian companies in IT space. Being one of the few countries globally to maintain its 5%+ GDP growth rates for several years and more importantly likely to sustain it for the next few years.
- Improving telecom and physical infrastructure.
- Exploiting the demonstrated advantage of outsourcing to India. The customers have been 'pro-active' as never before, reflecting their urgency to cut costs, improve efficiencies.
- After passing through a highly satisfying outsourcing experience in IT many companies have gradually begun to realize and leverage the cost advantage the knowledge resource pool India offers.

However it should be borne in mind that certain events like 9/11, US led Iraq war or Indo-Pak events and other such acts could lead to temporary 'dilution' of advantage.

C R A M S - Contract Research and Manufacturing Services

CRAMS - Contract Research and Manufacturing Services as the name implies represents a significant external opportunity for focused and competent companies in Patented / Generic bulk actives, intermediates and fine chemicals.

Increasing tilt towards CRAMS

It was not until the early 90's that the top global pharmaceutical companies started feeling competitive pressures from generics and biotechs. As we enter the 21st century, majority of erstwhile leaders in pharma are faced with uncertain times.....the reasons for which are not too far to see.

- More than $70 bn worth of US prescription market is going off-patent in the next 4 years. The quality of NCE's in pipeline currently seemed highly unlikely to recoup the losses.
- Global pharma companies spend upwards of $ 35 bn per year on R&D and are increasingly becoming open to outsourcing. Custom Synthesis companies have already shown the way in US and EU by providing quality outsourced support.
- Spiraling costs of drug development, estimated at $ 800 mn per successful product.
- Intense pressure from generic companies and a large number of para IV wins in the last 3-4 years has hit most blockbusters.
- Increased pressure from HMO's to opt for 'available' generics'.
- 'Pro-generics' stance and recent announcements from the White House.
- Impending McCain Schumer amendment for GAAP (Greater Access to Affordable Pharmaceuticals) will open up greater opportunities for generics.

In response to these challenging times, leading pharma companies are looking at various options like:

1. Get into strategic deals to "lay claims" on research being done by R&D boutiques. Novartis and Novo-Nordisk tying up with Dr.Reddys illustrates the point.
2. Increase strategic focus on research and marketing while being open to outsource manufacturing.
3. Tie-up with focused players who will help in contract reserach & custom synthesis and in effect playing a vital role in reducing the 'time to market' for NCE's. This is likely to be a very lucrative segment for Indian companies who are able to provide 'comfort' on IPR and ethics to MNC's. Custom synthesis and services, especially for NCE's represents the biggest opportunity for Indian companies.
4. Increased outsourcing, especially in generics where raw material costs could be a significant part of selling price.

How competitive advantages were developed in India?

Often overlooked by many, absence of patent protection has contributed to emergence of thoroughbreds in the Indian pharmaceutical industry. In an industry where dogfights are the order of the day and margins get increasingly thinner due to intense competition, the survivors (especially in bulk actives) have emerged very efficient and resilient. Very high quality reverse engineering skills have been developed to survive in this field, which is now proving to be a major asset

The unique structure of Indian pharma business involving cut-throat competition has thrown up a set of challenges with unique characteristics.

- Exceptional analytical and developmental skills to chemistry skills and to stay focused have demonstrated remarkable resilience in this period. IPR compliance is an added virtue.
- Most of the survivors in the past 3 - 5 years have started tailoring their manufacturing facilities and channeling their skills to focus on the huge external opportunity in the US and EU markets.
- Apart from getting their manufacturing facilities USFDA or EU certified, most players have learnt the ropes well in the past 3 - 4 years. 50% + exports (and increasing share to US & EU) are a part of a strategic and crucial learning curve.
- Akin to the IT industry, CRAMS companies too have realized the importance of going the "Alliances way" Offering strategic stakes is also seen as in the case of your company where Borregaard picked up a strategic stake or the recently announced 3-way alliance.
- Strategic decision of a few focused players in API manufacture to resist the temptation of foraying into formulations. We believe this will offer significant amount of 'comfort' to MNC's who would be testing waters.
- Availability of a range of pharmaceutical intermediates of required purity at very competitive prices is another positive.

Scope of contract manufacturing

1. **Contract manufacturing of intermediates for NCE's**

   Contract manufacturing of intermediates for NCE's involves the concerned company offering custom synthesis and synthetic chemistry capabilities for NCE's which could be in various phases of clinical trials. Chemistry skills and process development skills where a multi-step synthesis is devised, optimized with route selection. This forms the core of business models of companies in USA and EU. Suven Pharmaceuticals in India along with a handful of companies has steadfastly stayed focused on the same business model since 1994.The business model gains increasing levels of potency as the number of products in the pipeline builds up with improving odds of commercialization. In spite of inherent risks associated with NCE research, companies can build a very lucrative business if a strategic mix of products in various phases of clinical trials is maintained. Margins upwards of 50% are not uncommon upon commercialization of R&D products, Unless the pipeline is filled to optimum levels, huge quarterly variations are fairly common.

2. **Contract manufacturing for products which are under patent / generics.**

   The second option of contract manufacturing of API's of products under patent / generics offers greater stability, albeit at margins which could be lower than in earlier option. The biggest opportunities exist in being contract manufacturer for a company which has filed the ANDA under Para IV or first to file for a molecule under patent or going generic. Steady base load filling opportunities are also available in supplying API's for off-patent generics, an option which has been profitably adopted by many Indian companies.

Can't have the cake and eat it too! The China factor

Traditionally China has been perceived as the global factory and extending the same analogy to bulk drugs would not be very in-appropriate. Areas where China scores over India are capacities and 'unbeatable prices' for slightly older products. Earlier Chinese short-coming pertaining to lower purity has also been addressed to by many serious players. Despite being eased out of high volume business, Indian companies score over Chinese in being more nimble, innovative and substantially higher competency levels. Going by the skill-sets, experts believe India is expected to emerge as a strategic player in small to medium complex molecules. Custom Synthesis of intermediates for NCE's would also remain a very lucrative opportunity where the Chinese threat does not appear to be serious for the next few years in addition to the large scale activity in generic API's.

Contract Research (CR) - Scope and Opportunity

Here again one could draw parallels between the IT industry and CR. Put simply, CR at the 1st step of value chain equates to offshore body-shopping of R&D personnel. Suven's business model is more research oriented than manufacturing. At Suven we have 108 scientists working in research, which is more than the people working in manufacturing. However, the key differentiating factor as compared with IT industry is much higher level of R&D infrastructure cost.

The Indian company which undertakes CR would initially set up a laboratory to exacting requirements of customer,

procurement of requisite equipment and getting approvals. This would then be followed up by recruiting personnel and providing requisite training. Thus in a nutshell CR involves setting up of laboratories, manning them with personnel of required skill-sets and most importantly doing the project management. It is in the last link that maximum value addition can be done and companies with good project management skills would be able to scale up to seize the opportunity.

Starting at the 1st step is also very lucrative

Getting involved in this opportunity is easier said than done, with high entry barriers involving familiarity and with complex learning curves. Companies with the right mindset can leverage the huge cost arbitrage that India's low cost skill-pool offers. With costs which are barely a fraction of US and EU rates, assured utilization enables a margin band of 30-70% depending on the nature of services offered and position in the value chain.

Past 18 months according to industry sources has seen keen interest from most leading global pharma companies, with a few pilots already underway, though increasing competition will see margins tapering off in plain vanilla offerings, Focused and innovative players will be able to retain their competitive advantage for several years to come and emerge as extended R&D arm of global pharma majors.

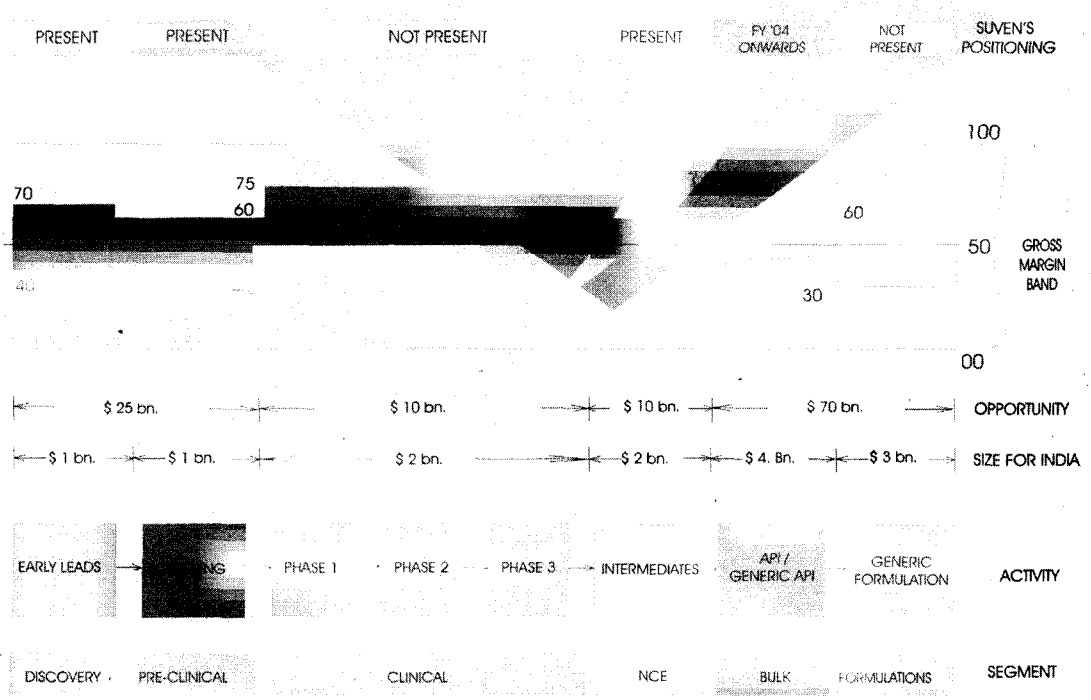
What could go wrong from here?

The outsourcing opportunity which hitherto was restricted to IPR compliant countries would also be available in certain areas post 2005 when India starts accepting product patents. Though chances of this not happening are very remote, any delays or significant dilution of IPR regime would significantly restrict a large-scale participation by a host of non-IPR compliant countries. However we believe chances of IPR regime being implemented are very bright due to:

- Negligible political costs as short to medium term impact on domestic pharmaceutical prices would be insignificant.
- Considerable flexibility is available to nations in overriding the patent regime in times of national calamity as per recent Doha round of talks.

As we go ahead to exploit this opportunity, akin to the IT sector a host of MNC's would set shop in India to leverage the advantages India offers. This is likely to lead to HR challenges similar to those faced by IT companies; this remains a weak link in strategy of many Indian companies who should make judicious use of ESOPs and other employee retention schemes.

POST-2005 - OUTSOURCING OPPORTUNITY & SUVEN'S POSITIONING



FREQUENTLY ASKED QUESTIONS

- **What are the opportunities in CRAMS model and which parts of the opportunity does Suven target?**

  As has been discussed in detail elsewhere in the annual report, shareholders would recall that we had chosen to stay focussed on CRAMS model. In the past 8 years we have made significant progress and the inherent revenue and profit volatility associated with CRAMS model is also set to come down in next couple of years. Aside of CRAMS and custom synthesis, Suven is comfortably positioned as one of the leading players in India to take on the Discovery research services because of its IPR compliance and relationships with global life science companies. Initiatives which have been taken in past couple of years will help in being competitively positioned in contract research, manufacturing of NCE based products and ANDA based API's. Thus by 2005 the entire spectrum of drug discovery services ranging from contract research to custom synthesis to API's would be offered to global pharmaceutical companies.

- **How is Suven positioned to exploit this huge external opportunity?**

  Being one of the earliest companies to focus on discovery related services in addition to CRAMS, Suven enjoys a significant early mover advantage which has experienced a complex learning curve. This learning has provided exposure to various facets of drug discovery R&D activities. Other key advantages include an unwavering focus and strong relationships built over several years; this is backed by an excellent track record and strong client referrals.

- **What are the differentiators for Suven as it addresses the post 2005 discovery related services opportunity?**

  Suven targets emerging as a niche R&D driven and 100% IPR compliant company offering the entire discovery related spectrum of services including manufacturing that would be required by global innovator pharmaceutical companies. NCE would remain the focus area and selective API work that would be done would necessarily be IPR linked. After putting the foundation in place and undergoing a complex learning curve over the past 8 years, Suven will be the preffered partner for global life science companies.

- **How does Suven plan to scale and climb the value chain in discovery related services?**

  Good progress has been made from being a pure Contract Research and Manufacturing Services company to offering almost the entire spectrum of discovery related services. The acquisition of Synthon Chiragenics will serve as a front end to showcase our services which would be supported by the Indian backend. Onsite presence in the lucrative North American market would help Suven climb up the value chain significantly faster and accelerate acquisition of R&D projects.

- **What was the need to get into an overdrive as far as investments are concerned?**

  The need to widen its coverage over areas of focus to reinforce the business model necessitated additional investments. The investments are needed to upgrade the facilities to meet the global regulatory requirements, for Research & Development and for attaining critical mass in all areas. In the past couple of years Rs. 21 crores have already been spent, out of which Rs. 12.8 crores for upgradation of facilities and Rs. 8.3 crores as a capex for R&D. The investments made on R&D provides excellent tax breaks, 150% weighted deduction.

- **What kind of positioning is Suven aiming for post 2005?**

  Suven aims to emerge as a partner of choice for global 'Innovator' pharmaceutical companies. Its biggest differentiation would be its offerings which cover the entire/full spectrum of discovery related services through manufacturing. The strong domain expertise that Suven would offer to potential customers would take business far away from leveraging / exploiting the pure labour arbitrage.

- **On a scale of 1-10 where would Suven's business model be placed on qualitative and quantitative parameters?**

  As shareholders would be aware, Suven has been working towards a deadline of 2005. With the recent initiatives the business model will be complete by the end of this year and hence a score of around 8 would be appropriate.

- **What are the future challenges for Indian Companies and Suven in particular, while addressing this global opportunity?**

  This being largely knowledge based business; the challenges would be similar to those faced by the IT industry viz. attracting and retaining talent. We plan to increase our HR focus and would soon introduce an ESOP scheme. All along we would ensure to be in