SUN
PHARMACEUTICAL
INDUSTRIES LTD.

at work

Annual Report 2009-10

Contents

At work

The cover depicts an artist's representation of a gyroscope.

Encyclopedia Britannica says the 19th C French physicist Foucault gave the name gyroscope to a wheel or rotor mounted in gimbal rings. Such a spinning wheel maintained its original orientation in space regardless of the Earth's rotation, which made it ideal as a direction indicator.

Gyroscopes are used in compasses and automatic pilots on ships and aircraft, in the steering mechanisms of torpedoes, and in the inertial guidance systems installed in space launch vehicles, ballistic missiles, and orbiting satellites.

The steadfastness of the gyroscope is quite like the philosophy we work by at Sun Pharma.

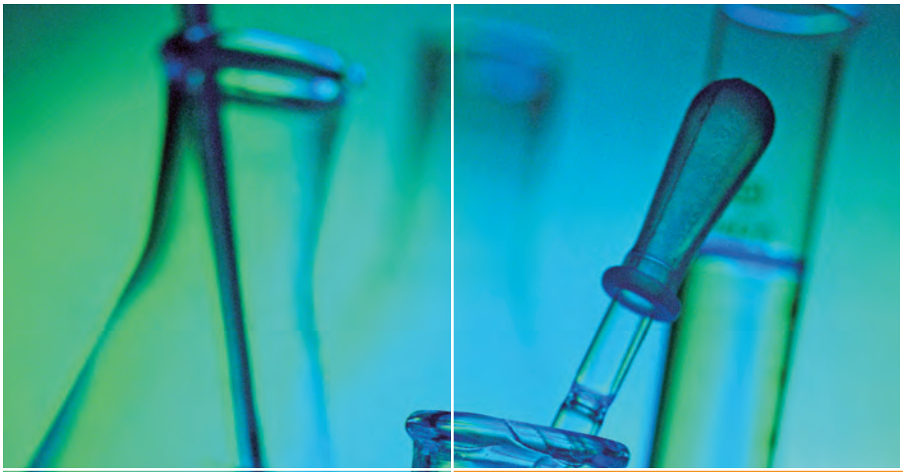
Staying the course, steady and consistent, despite external challenges.

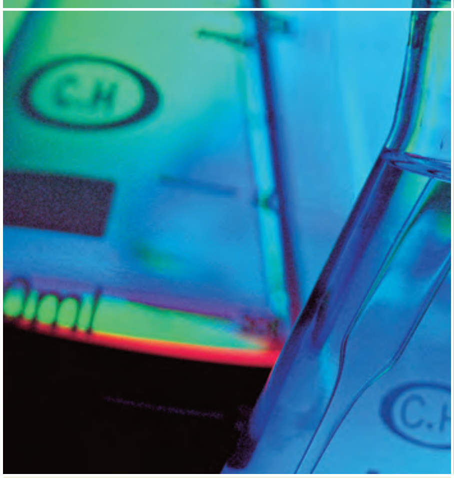
Staying steadfast to our values, that of service to the customer, focus on quality and innovation, of delivering value to the shareholder.

We've stayed the course, true to the tasks at hand, affecting corrections and putting into place plans for the longer term even as we balance priorities for the short, medium and long term.

Staying loyal to our own true north.

Disclaimer





MANAGEMENT DISCUSSION AND ANALYSIS

Operational review

Annual consolidated sales were Rs. 39,040 million.

International branded generic sales across 40 markets grew 29% to Rs. 4,883 million, one of our fastest growing business areas.

2009-10 was an unusual year in that for the time in our listed history there was a decline in sales - 9%. Profit before interest and tax reduced 29% and profit after tax stood at Rs. 13,511 million compared with Rs. 18,177 million in 2008-09.

As we had previously indicated, the primary reason for this shortfall was that Caraco, our 75% US-based subsidiary, stopped manufacturing operations from June 2009, resulting in a sales decline to US$ 22 million compared to US$ 112 million from manufactured products in the previous full year of operations.

Our ex-US business segments continued to perform well, delivering strong sales and profit growth, while increasing their market share across geographies. Excluding Caraco, our 2009-10 sales were Rs. 27,978 million with a growth of 3% over the previous year.

Key performance indicators for 2009-10

- Annual consolidated sales for 2009-10 of Rs. 39,040 million, a decline of 9% over the previous year
- Sales in India were Rs. 19,334 million, down 6%.
- International branded generic sales across 40 markets grew 29% to Rs. 4,883 million. This remains one of the fastest growing parts of our business.
- Sales at Caraco were down 31% to US$ 234 million.
- We continue to hold reserves in excess of Rs. 77,200 million, earmarked for suitable acquisition opportunities.
- Our R&D expense was Rs. 2,242 million, taking our cumulative R&D expense to Rs. 18,073 million.
- Between Sun Pharma and Caraco, 84 ANDAs are approved and 123 await approval by the USFDA. Fifteen more ANDAs received approval this year.
- Branded generic registrations received crossed 1,500.
- 246 patents were filed so far, of which 81 were received based on the work by our research team

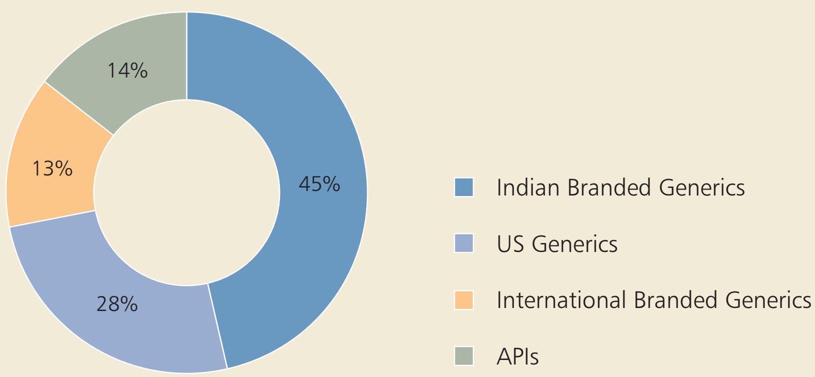
Halol plant

Business overview

Our business can be divided into four segments: Indian branded generics, US generics, international branded generics (ROW) and Active Pharmaceutical Ingredients (API).

Indian Branded Generics continued to be the largest contributor to our revenue, at 45%, followed by US Generics (28%) and International Branded Generics (13%). API sales contributed 14%, a larger number than in the previous years, largely on account of APIs that would usually be consumed by Caraco but are now available for sale.

Our international business contributed 52% of our total turnover. By the year-end, the total ANDA approvals stood at 84 with 123 more filings pending approval with the US FDA. During the year, we invested Rs. 2,242 million in R&D. Our investments in capital expenditure were at Rs. 2,956 million, including our Sikkim formulations plant, which was commissioned during the year under review.



According to the WHO, cardiovascular diseases will be the largest cause of deaths and disabilities in India by 2020. The number of people with hypertension is expected to increase to 213.5 million in 2025, from 118.2 million in 2000.

(Source: Mint, July 8, 2010)

Industry outlook

IMS Health estimates the global pharmaceutical market in 2010 at over US$ 825 billion, expected to grow 4-6%. Emerging markets, which accounted for US$ 84 billion in 2008, are estimated to reach US$ 155-185 billion in 2013, with a CAGR of 13-15% *(IMS Health and Morgan Stanley estimates)*. In 2009, the US generics market was valued by IMS at US$ 31 billion. BCC Research estimates the US generics market in 2009 at US$ 34 billion. All the business areas that we are present in offer attractive opportunities, and we are well positioned to maximise sales and profit growth that these opportunities offer.

India

The Indian pharmaceutical market continued to register a healthy growth of 18% during 2009-10 to Rs. 417 billion (IMS MAT March 2010). While acute care still dominates the market with over 60% share, chronic care continues to outgrow the acute care segment and gain market share. Prescriptions written by General Practitioners (GPs) account for 40% of the overall Rx and are growing at 2%. In contrast, specialist Rx are growing at more than 5-6% per annum *(Source: Morgan Stanley)*.

It is anticipated that India's specialty and super specialty therapies are likely to account for 45% of the market by 2015 (36% in 2006) *(Source: India Pharma 2015, McKinsey)*. Socio-economic factors such as rising incomes, increasing affordability of quality health care, steady increase in health insurance penetration and a continued rise in chronic diseases
will drive the growth of the pharmaceutical market in India. IMS forecasts suggest that the Indian pharmaceutical market will continue to register double-digit growth and has high potential to double its size in five years.

In addition, the government's emphasis on providing healthcare for the under privileged with initiatives like the health insurance policy for the poor, the Rashtriya Swasthya Bima Yojana and emphasis on improving the delivery mechanism is expected to result in better volumes across the industry.

The Indian pharmaceutical industry continues to witness a consolidation, with MNCs continuing to acquire some Indian companies to benefit from the attractive growth that this market offers. On the other end of the scale, some of the regional companies are also gaining share, albeit from a low base. Together with attractive market opportunities, competitive intensity will increase.

In the analytical lab,Caraco

A report published by the International Diabetes Federation projects the number of diabetics in the age group 20-79 in 2010 to be around 50.7 million - the highest among all countries.

(Source: Mint, July 8, 2010)

Companies with capabilities to launch innovative medicines at affordable prices, build strong brands, offer high quality medical information to doctors and assist patients to manage their conditions better, will continue to perform well.

While product patent protection offers newer opportunities to innovator pharmaceutical companies, the Indian pharmaceutical market will continue to be substantially dominated by branded generics across the foreseeable future.

The US

Total market: At an estimated US$ 300 billion dollars in size (January 2010 MAT), the US pharmaceutical market remains the world's largest, though it registered only 6% growth. U.S. market growth in 2010 is expected to be 3-5 %. With US$ 74 billion worth products (sales) forecast to go off-patent between 2009 and 2012, the US pharmaceutical market is likely to remain sluggish across the foreseeable future.

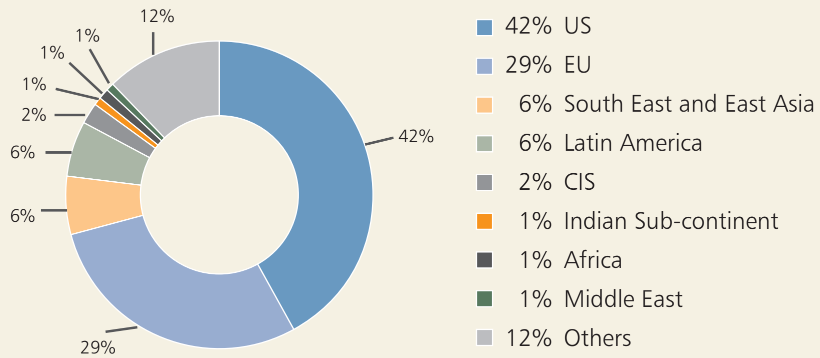
Generics market: With an estimated size of US$ 34 billion, the US generics market is one of the largest in the world. In terms of prescription share, generics continued to increase their share and accounted for 72% at the end of 2009 (from 55% in 2004). The growing preference for generics is also reflected in the increase in generic drug penetration in the US from 47% in 1999 to 72% in 2009. However, generics still only account for 17% of total sales by value.

In 2009, the US government implemented policy changes that extended cost-effective healthcare coverage and are expected to be pro-generic. More affordable insurance will reduce premium costs and enable more than 31 million previously uninsured Americans to afford healthcare. In addition, the new competitive health insurance market will provide Americans a wider insurance choice. Greater healthcare accountability is expected to keep the premia down.

Emerging markets

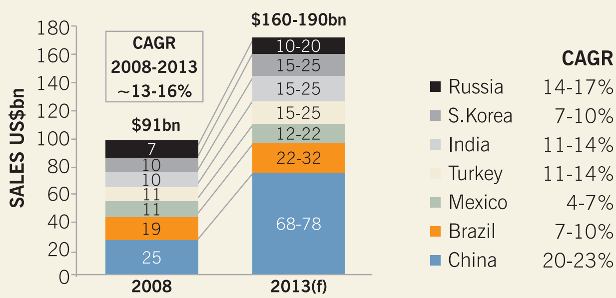
The estimated size of the pharmaceutical market in emerging markets (excluding USA, Canada, EU, Japan and Australasia) is over US$ 90 billion, registering double-digit growth and accounting for a majority of the global pharmaceutical market growth in 2009. China stands out with a size of US$ 32 billion and forecasted growth of 20-23%. All these markets are expected to sustain a double digit-growth across the foreseeable future on the back of a strong economic growth, rising population and an increasing affordability for quality healthcare in these countries. IMS forecasts suggest that the pharmaceutical market in emerging market countries will be US$ 155-185 billion in 2013 *(CSFB, Morgan Stanley and IMS data)*.

Regional share of global generics market



(Source: IMS Health, Industry, brokerage reports)

Expected growth of various markets



(Source: IMS Health, Industry, brokerage reports)

Japan: Japan's stringent quality standards tend to deter global entrants. On the other hand, it is a fast-emerging generic market at US$ 3.5 billion, with generic penetration at 15% by volume and likely to rise to 30% by volume by 2012 *(CSFB Pharma far marts, March 2010).*

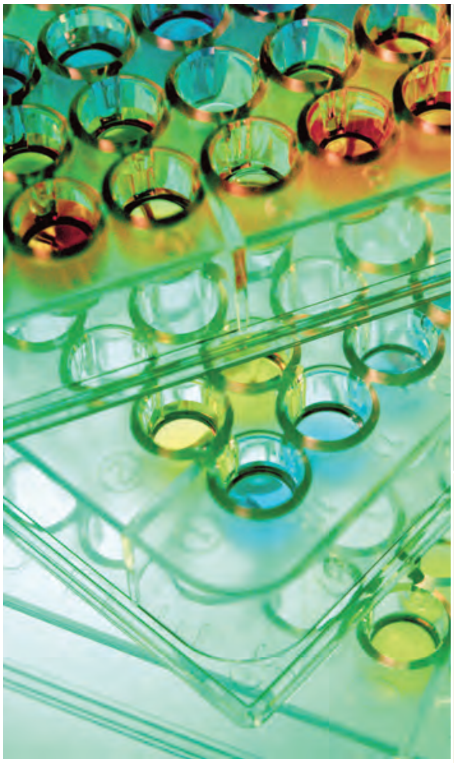
Europe: The European market for generics in 2009 was US$ 33 billion *(IMS data)*. Although generic medicines now fulfill over 50% of the demand for medicines in Europe, they still only represent 18% of the total medicine bill.

In the API plant, Ahmednagar

APIs

India is a significant player in the global active pharmaceutical ingredient (API) market, being one of the world's largest API manufacturers. It ranks fourth by volume and thirteenth by value. It is expected to generate sales worth US$ 6 billion in 2010, growing around 19%. A bulk of the API production is exported to Europe *(Source: Pharmabiz).* India is also recognised as one the world's lowest-cost producers of small molecule APIs.

With an increasing pressure on global economies, especially advanced nations, to reduce healthcare costs, India is set to play a significant role in this space.



Business performance

1 Indian branded generics

Snapshot

Domestic revenue: Rs. 18,301 million

Growth: 22% (5 year CAGR leading to 2009-10)

Manufacturing locations: Six

WHO estimates that India will lose US$ 237 billion during 2006-2015, due to coronary heart disease, stroke and diabetes

(Source: Mint, July 8, 2010).

Overview

Sun Pharma is India's sixth largest branded generics player, with a product basket comprising 537 formulations and covering chronic therapy segments. Several of our products are technically complex products with relatively lower competition. We commanded a market share of 3.7% in 2009-10.

In 1995, we pioneered a therapy-focused marketing strategy where products from different therapeutic segments were marketed by separate divisions. Currently we market products through 18 divisions, facilitated by a strong field force of more than 2,500 members covering more than 130,000 specialist doctors.

Almost 50% of our brands feature among the top three brands in their specific spaces in India. Our top 10 brands contributed 20% to domestic revenues while the top 50 brands contributed 53% in 2009-10, de-risking our growth from an excessive dependence on a handful of blockbuster products. Besides, our growth was balanced between established products launched before 2006 accounting for 67% of our growth, and a continued launch of differentiated products in the therapy areas of our focus.