

Seventieth Annual General Meeting

Tuesday, 5th September 2006

Address by **Dr. Y.K. Hamied**
Chairman and Managing Director

Ladies and Gentlemen,

Welcome to the Seventieth Annual General Meeting of your Company. I join my fellow Directors on the Board to extend our warm greetings to all of you. For the year ended 31st March 2006, I take as read the Audited Statement of Accounts and the Directors' Report.

This has been another satisfying year for your Company and it gives me great pleasure to share the key financial highlights with you. The turnover of your Company crossed Rs. 3000 crore with a growth of nearly 30 per cent over the previous year. Net profit for the year was over Rs. 600 crore, a growth of more than 45 per cent over the previous year. The export turnover is over 50 per cent of the overall sales of the Company. A decade ago, this ratio was about 10 per cent.

Your Company's performance during the first five months of the current year continues to be impressive with an increase in sales in excess of 30 per cent. Once again, exports has been the mainstay of this growth which has improved by 48 per cent over the corresponding period last year.

You will recall that only last year, I expressed my deep satisfaction on having reached a turnover of Rs. 2300 crore, a figure virtually unthinkable a few years ago. I had even expressed the hope that we would reach a figure of Rs. 3000 crore within a few years. It is a testament to the strong fundamentals, hard work and team spirit epitomised by your Company and all of its 7000 plus employees, that this significant milestone was reached in the very next year. Your Company has been on a rapid growth path during the past decade. To make just one comparison, less than ten years ago in 1998, we achieved a turnover of Rs. 500 crore and today our turnover exceeds Rs. 3000 crore. As we step into our 72nd year, we all have reason to feel proud of our Company's hard earned and well deserved success.

We have from our very humble beginnings in 1935, recognised the extreme importance of having a well-entrenched, dynamic and accountable research and

development strategy. This has been our traditional strength, unpublicised and discreet. In addition, we have in recent years, been proactive to the business environment and its opportunities at all times, and have gone on to produce Active Pharmaceutical Ingredients (API's) and drug formulations of high quality conforming to all safety standards. At the same time, we have not compromised on our basic commitment to promote national interest and humanitarian causes for the poor not only in India but throughout the world. We are today, specialists in a range of medications and API's and reputed the world over for our quality and reliability. Currently, we are exporting API's and drug formulations to nearly 170 countries.

Upgrading of our manufacturing units as well as commissioning of new state-of-the-art plants, has been another policy we have adhered to during our recent growth phase. We have launched a very concerted modernisation effort in the last few years and now have major plants at various sites to provide a boost to our output and expanding focus on meeting the timely needs of the domestic as well as the export market in both API's and drug formulations. The Company has made substantial investments in capital expenditure. In fact, in the last two years alone, the aggregate amount spent was in the region of Rs. 700 crore. Your Company has been able to spot business opportunities and has made aggressive plans to expand its manufacturing capacities, particularly for the regulated export markets. The proposed plants are also essential for the manufacture of tablets, capsules and, in the near future, aerosols, to cater to the expanding needs of the domestic market. Manufacturing at our plant at Baddi, Himachal Pradesh, commenced in April 2005 and the unit has been extremely successful. A new Export Oriented Unit (EOU) for API's and drug formulations has gone on stream this week at Patalganga, Maharashtra.

Your Company set up a new R&D facility at Vikhroli, Mumbai which was recently commissioned. Among the projects on the anvil, one is to set up a large EOU facility for the manufacture of API's and drug formulations at Kurkumbh. The construction work for setting up another EOU for the manufacture of API's has also just commenced at Bangalore. In addition, the Company will be setting up a new manufacturing facility in a Special Economic Zone (SEZ) in Goa for the manufacture of drug formulations covering all major dosage forms. The Company expects that the aggregate capital expenditure for these projects may well exceed Rs. 600 crore over the next few years. In order to meet the above expenditure, the Company had raised USD 170 million through an issue of Global Depository Receipts (GDRs) in April 2006. In addition, the Company will also view with

interest any acquisition opportunities particularly in niche business segments, not necessarily for the purpose of adding to sales but to enhance and expand the Company's newer business segments such as biotechnology.

This is consistent with our strategy of expanding our presence in international markets both in the developed and developing world. I would like to take this opportunity to give you an overview of the work that we are doing currently, particularly on the international business front. We continue to focus on the existing and off-patent drugs in the US and Europe. In the US market alone, we have entered into partnerships for 125 projects with about 8 partners. Furthermore, the Company has filed over 80 Drug Master File (DMF's) for API's in the US and over 60 DMF's in Europe. Although it is not possible to disclose specific product related information at this stage, due to confidentiality agreements, we see opportunities for the Company from several of these generic products in the years to come. As regards the European market, in addition to the approval of Budesonide inhalers in Germany and Portugal, the Company has also obtained regulatory approval for Salbutamol metered dose inhalers in Denmark. Further, nine additional inhaler products are in various stages of regulatory submission. Your Company is in the process of initiating clinical trials on multi-dose Dry Powder Inhalers (DPI's) for the European market.

As regards other export markets, your Company has established strategic partnerships across the globe and has registered over 4000 products worldwide. These successes can be attributed to the effort and teamwork from all departments within your Company.

On the R&D front, the Company is developing new drug delivery systems for existing and newer active drug substances. In addition, the Company is focussing on development of new medical devices mainly in the area of respiratory medicine. The Company has also developed a unique transdermal delivery system and has already launched a testosterone spray patch. The Company has developed a novel, dry powder inhaler device and is in the process of launching yet another unique single action unit dose inhaler device.

Cipla has also entered into a research agreement with Avesthagen with the objective of working on a collaborative biopharmaceutical development program. The partnership is focusing on a range of products in the area of autoimmune disorders and other categories such as cardiovascular diseases and oncology.

In the past, I have vehemently questioned the government's insistence on draconic price control for drug formulations especially at a time when most sectors of the economy were being opened up in a liberalised manner. The only way prices for drug formulations can be reduced is via free competition. We now understand that a new pricing policy is being formulated by the government and a committee has been formed to examine, among other things, whether drug prices can be contained through competition and whether price monitoring can replace price control. The pharmaceutical industry is keenly awaiting the outcome of these deliberations.

We have always stressed that the government should use their own public sector factories to produce affordable life saving drugs. There are a number of public drug manufacturing units controlled by the government both at the centre and the state level. Apart from this, the government research laboratories under Council of Scientific and Industrial Research (CSIR) have a wealth of scientific knowledge. The government also has extensive distribution channels such as primary health care centres, medical hospitals and public health institutions. I would like to reiterate that the government needs to put this infrastructure to work and make available essential medicines at fair and reasonable prices. This will not only meet the objective of the Drugs (Prices Control) Order (DPCO) of providing essential medicines of good quality at reasonable prices, but also make these public sector organisations economically viable.

The reintroduction of product patents and its impact on the Indian pharmaceutical sector will no doubt manifest itself in the form of monopolies in the future. In the past, your Company has faced many adversities with fortitude and emerged stronger. We will endeavour to do this once again but I have no hesitation in saying that we are now faced with our most difficult problem. Certainly, our strategy should and will consist in concentrating our efforts on the overseas generic market for off-patent drugs. The expansion and modernisation efforts in our manufacturing units are a positive step in this direction. If we are to rise above these hurdles and continue to grow, we will need to call upon the determination, hard work and support of our directors, shareholders, employees, partners and associates in full measure. Your continued and collective understanding will be a crucial factor in the coming years. Thank you all for your ongoing support.

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