Sixty-Seventh Annual General Meeting – Wednesday, 10 September 2003

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

Ladies and Gentlemen,

On behalf of the Board of Directors and myself, I welcome you all to the 67th Annual General Meeting of your Company. With your permission, I take as read the Directors' Report and the Audited Statement of Accounts for the year ended 31st March 2003.

You will have seen from our Annual Report that the year under review was a rather interesting one for the Company. The turnover only rose by 12 percent over the previous year, but in quantum terms the increase was Rs.164 crore. Profitability was maintained, with net profit after tax rising to Rs.248 crore. Two years ago we crossed an important milestone. Our Company turnover passed the Rs.1000 crore mark for the first time. This year, we crossed another milestone by going past the Rs.1500 crore mark. God willing, in a few years time, we will achieve sales exceeding Rs.2000 crore.

At the last AGM, we had projected an annual sales growth of 20 percent. However, due to many factors beyond your Company's control the actual growth was below our expectations. On the domestic front, during the fourth quarter, traders did not lift stocks due to confusion pertaining to the implementation of Value Added Tax (VAT). Side by side, there was a prolonged strike by truckers, which did not improve the overall adverse situation.

On the International front, rulings in several patent litigations went against some of our customers in the USA, Europe and Canada. This had a negative impact on our exports.
Legal problems associated with patent protection represent a major challenge for the international generic drug industry. Drug patents are meant to preserve the monopoly of their manufacturers during the tenure of the patent. However, some multinational corporations use every possible means to extend the patent life for as long as they can - citing different formulations, different salt forms, different crystalline structures, etc. The generic industry has only recently started to fight back aggressively by challenging the validity of patent extensions. The future will see more litigations on this major issue that will, unfortunately, also extend to India in due course. However, your Company's approach in forming strategic alliances and partnerships in all overseas markets has protected the Company from the high cost of patent litigation.

Nevertheless, exports were at an all time high at Rs.566 crore - an increase of 15 percent over the previous year. During the first five months of the current year, your Company's overall growth has been in the region of 12 percent. This is ahead of most pharmaceutical companies and in line with our current plans. Hopefully, barring any unforeseen development during the remainder of the year, our sales should cross Rs.1700 crore.

Presently, our ratio of exports to domestic sales is around 37 percent. This should move up to over 40 percent. We strongly believe that we should concentrate our efforts in the regulated global markets. Presently, we export to 140 countries and, worldwide, we have over 3500 product registrations of both drug formulations and active pharmaceutical ingredients (APIs). The emphasis is shifting rapidly towards an increase in export of drug formulations. Your Company is fully geared for this. All our facilities including the most recent state-of-the-art complex in Goa have been inspected and approved by various international regulatory agencies.

In August 2003, the Supreme Court set aside an earlier judgement of the Bombay High Court and directed the High Court to

consider afresh the relevant aspects concerning the criteria laid down in paragraph 22.7.2 of the Drug Policy, 1994 with regard to inclusion of seven drugs in question under price control. The Supreme Court also granted liberty to the concerned statutory authorities to recover 50 percent of the "over-charged" amounts pending fresh determination by the High Court.

Following this court order, the Company has recently received demand notices from the National Pharmaceutical Pricing Authority (NPPA). The notices require Cipla to deposit Rs.103.61 crore, being 50 percent of the claim raised by NPPA for the period up to June 2000. The Company is examining the legal implications of these notices.

The Doha Declaration of November 2001 was in reality a small achievement for all third world countries including India. In August 2003, the World Trade Organisation (WTO) negotiators had put together an accord on the issue of compulsory licensing by the poor countries for affordable medicines, in case of public health crisis. It remains to be seen how effectively the same can be actually implemented. The developed countries have been given the leeway to exercise their discretionary power and this may well pose some serious hurdles in effective implementation.

Today in Cancun, the WTO is meeting to ratify the rules for implementation of the Doha Declaration of November 2001. Hopefully, India and other third world countries will get a fair and reasonable hearing. The Indian delegation must take a strong stand on the two most pressing issues - one, India should be declared a least developed country (LDC) specifically for the purpose of trade-related intellectual property rights (TRIPS) and two, there must be a workable provision for compulsory licensing.

In June, the United Nations Development Program (UNDP) published a Human Development Report 2003 in which India was ranked 127 on the basis of adjusted income, education and life expectancy. Countries such as Sri Lanka are placed above us. There is no doubt in my mind that for all intents and purposes, India is an LDC. Hence, India should be eligible for all concessions given by WTO to LDCs. The WTO has ruled that 49 LDCs will not come under the Draconian provisions of TRIPS until 2016. If India is included in this list, it will provide a big boost to our national pharmaceutical industry and other industries allied to health, agriculture and food.

Pardon me for repeating, but this point cannot be stressed enough. Health in India is in permanent crisis. A country like ours with a population exceeding 1.2 billion simply cannot afford to grant monopolies to patent holders in the specific areas of health and food. We need a simple system of automatic licensing and a fixed payment of two to four percent royalty on net sales to the inventor. Canada had a similar system until 1992, under Bill S-91, that allowed them to manufacture any drug on payment of two to four percent royalty to the inventor. India should not compromise on these issues. If we do, it will undoubtedly have an adverse effect on our future and the continued growth of the domestic pharmaceutical industry.

The world seems to have finally woken up to the high incidence of HIV/AIDS, particularly in sub-Saharan Africa. Over 8000 die per day in Africa alone and the pandemic is growing even in India. I am sorry to say that India has neglected to tackle this problem seriously. Currently, it is estimated that India has close to five million HIV/AIDS cases. Within the last one year, the number of cases increased by 15 percent.

Cipla continues to be among the leaders in providing affordable drugs for HIV/AIDS not only to patients in India, but also to those in other parts of the world. From the point of view of successful control and treatment, it is essential that the medicines offered should be effective and affordable, their supply should be sustainable. The World Health Organisation (WHO) has approved our Company for the supply of anti-retroviral drugs (ARVs). We have registered our ARVs in 65 countries worldwide. We work closely with many non-government organizations (NGOs), and international foundations and institutions in the global mission to fight HIV/AIDS.

I would again like to stress most emphatically that we need a renewed strategy and vision to combat the HIV/AIDS pandemic. For this, I would like everyone concerned to consider the following. We have to prevent the spread of HIV on a war footing. For the sake of the people afflicted with HIV/AIDS and their families, we must enhance awareness and provide counselling to ensure care, proper treatment, comfort and support. We must regard HIV/AIDS not as a death sentence but as a chronic illness. We must work to minimise the social and economic impact of HIV/AIDS on the individual and the society. We must not relax our efforts to find effective therapies, preventive vaccines and, ultimately, a cure for the infection.

HIV/AIDS should be a priority on the Indian government's public agenda - indeed, it should be a priority for the entire developing world. In fact, some of the countries in the African subcontinent have initiated programmes to make available AIDS drugs to their patients either free of cost or at substantially subsidised prices. India should follow the Brazilian example and make available ARVs free of charge. Cipla is at all times willing to extend all cooperation and support to the government to achieve this objective. We are willing to share our technology free of charge, so that the public sector undertakings can manufacture these drugs at economic prices. The government already has a public distribution infrastructure in place, which can be effectively used for distribution of these ARVs.

Your Company strongly believes that we should respect, protect and promote the human rights of people living with HIV/AIDS and those who are at risk and vulnerable. We must strengthen our partnerships with governments, NGOs, the WHO, and other national and international agencies. We must revitalise and integrate various preventive measures with our efforts to counsel, treat and support the affected people. We must establish better linkage among all aspects of detection, testing, prevention and treatment. We must redefine the present and future roles of everyone involved in HIV/AIDS containment.

As a Company that has been involved in healing since 1935, Cipla's concerns go beyond HIV/AIDS. We also continue to help terminally ill cancer patients. The Cipla Foundation's Palliative Care Centre in Pune has already provided care and comfort to nearly 3000 patients.

Your Company is working closely with the group DNDi (Drugs for Neglected Diseases), a division of MSF (Medicines Sans Frontier) to develop drugs for orphan diseases such as kala azar. We are also stepping up our involvement in developing drugs for malaria, both for India and Africa.

As always, your Company's research and development team has been making a major contribution to the development and improvement of drugs, devices and processes for humanitarian as well as business needs. As far as our business is concerned, our R&D focus is clear. We are interested in accountable research where the results can be reasonably translated into commercial gain. During the year, we launched over 100 formulations in the domestic market and a number of new bulk drugs were taken up for commercial production.

We commit ourselves to capitalise on new business opportunities. We have a strong dedicated technical team and an enviable presence in a wide range of therapeutic areas. Our manufacturing base is spread over many locations with a highly skilled work force. More and more, we are gearing up to meet the demand of the regulated markets outside India. Our humanitarian missions will continue to provide care and comfort to the suffering millions throughout the world.

Before I close, I would like to convey my sincere thanks to my fellow Directors and the entire Cipla team for their contribution. We are grateful to the medical profession and the trade for their cooperation. And, of course, I thank you, my fellow shareholders, for your continued support.

Thank you.