

Chairman and Managing Director Mr. Pankaj R. Patel's Speech
9th ANNUAL GENERAL MEETING

Dear Shareholders and Friends,

I welcome you to the 9th Annual General Meeting of the company. I am pleased to report a year of remarkably strong financial results. Three years ago our Late Founder Chairman, Shri Ramanbhai B. Patel in his first address to you had said and I quote "The process of value creation that we have together initiated holds unlimited possibilities. It will go from strength-to-strength driven by your Company's reflexes to stay ahead of change, capabilities to energise and accelerate growth and will be guided as always by the Promise of Performance." Nothing describes our achievements of 2003-4 more aptly.

The year 2003-04 has been a defining year mainly for three reasons.

Firstly, we generated impressive results: The highest sales ever in the history of the group and a whopping 87% growth in net profit that has been the highest in the last six years inspite of spending in development of new markets.

Secondly, we have made further progress in our efforts to leverage our strengths globally. Your company is now positioned to become a global pharmaceutical provider with a competitive edge.

And thirdly, we set ourselves the task of looking at where we wish to be in the future and defining a clear vision and focus to get there.

John Galsworthy, a Nobel-winning novelist, once said, "If you do not think about the future, you cannot have one." At Zydus Cadila we have been thinking lot about the future and the picture that is shaping up certainly looks a healthy one. My aim today is to share with you some of the underlying drivers of business performance, which underpin our growth so far and our vision for the future.

In doing so I want to deliver two important messages:

- Firstly, that Zydus Cadila is most attractively positioned to take advantage of the opportunities that are emerging globally
- Secondly, the company is transforming itself and would continue to shape its business processes, strategies, create leaders and build teams, which can drive its growth in this new competitive environment.

Let me first begin with our impressive results for the year 2003-04.

It was a year of sound financial results.

- Sales revenue was the highest ever at Rs 1172 cr, up 14% from Rs 1028 cr in 2002-3
- Operating profit of Rs 249cr, increasing 29% from Rs 192 cr in 2002-3
- Net profit of Rs 143 cr, up 86% from Rs 77 cr in 2002-3
- Net margin improved to 12.2%, from 7.4% last year
- EPS of Rs 22.75 was up 86% from Rs 12.2 last year

Broadly during the year –

- We continued to globalise our business operations
- Consolidated our domestic operations
- Improved operating efficiencies
- Reset our vision and mission and
- Flagged off several organisational transformation initiatives

On the international front ~

- We entered the French market with the acquisition of Alpharma France now renamed as Zydus France SAS. In the current year we will be launching a large number of generic markets.
- We set up Zydus Pharmaceuticals (USA) Inc. for generics formulations business in the USA. With this we now have two subsidiaries and a strong team to drive our business in the world's largest generics market.
- We filed 12 ANDAs during the year with the USFDA – the largest number of filings by any Indian company in the very first year of filing
- We prioritised Brazil and CIS for future thrust. In CIS, where we have been present for over a period of time, we restructured the business with a new team and wider geographic spread.
- Total exports emerged as a major growth driver up by 62% y-y.

On the domestic front ~

- The domestic formulations business grew by 11.9%, outpacing the market growth rate of 7.3%
- Retained the No.1 position in CVS, GI and Women's Healthcare participated segments (ORG-MAT March 2004)
- Launched 69 new products

- Crystallised in-licensing arrangements with Schering AG and Boehringer Ingelheim

During the year we also addressed an area, which I believe is very important for our organisational health. Its about improving operating efficiency and one that can result in a trimmer, fitter organisation. In 2003-04, we flagged off two programmes ‘Prism’ and ‘Delta’ that look at every possible way to improve operating efficiency and initiating steps to realise our strengths and potential. The success of both ‘Delta’ and ‘Prism’ stems from the fact that they have been powered by people from across the organisation. As a part of Prism we improved operating efficiency across the organisation by saving on non-labour spend. We identified over a thousand cost saving ideas and large number of these have already been implemented resulting in quantum savings for the organisation.

‘DELTA’ a value creation programme looks at near-term as well as long-term strategic opportunities. So, from strengthening domestic operations to globalising operations and long term value creation through research and bringing about an organisational transformation – we are addressing a gamut of initiatives.

It was collective thoughts of people from across the organisation that helped us deliberate on where we wished to be in the future and how we plan to get there. We also looked at our business philosophy, the issues close to our heart and the responses that drive us. The result was a new vision and mission for the organisation.

Our new vision ~

“One of India's leading healthcare players, we aim to be a global-research driven company by 2020.

-We shall achieve sales of \$400 million by 2006 and,
-We shall be a top ten global generic company with a strong R&D pipeline and sales in excess of \$ 1 billion by 2010.”

In order to compete globally with success, we need to have unique competitive strengths that stand up against an array of competitors in other countries. We also need to employ

every unique resource and every edge we have as a company. Our global strategy is in line with our strategic intent to be one of the top ten global generic companies by 2010.

It's a tremendous growth opportunity that the global generic markets represent with several blockbuster multi- billion-dollar drugs going off patent over the next few years. The other factor that favours growth of generic markets is the rising healthcare costs in the developed countries, leading to a perceptible shift towards generics.

India is uniquely placed to benefit from this opportunity in terms of marketing generics formulations, intermediates and APIs. The advantage lies in the combination of immense talent pool that it possesses, the process chemistry capabilities, the competitive cost structure and world class manufacturing base that can deliver high quality products at a much lower cost. Having decided on making the most of these opportunities, we are now looking to convert each of them and the task has begun in earnest. I would like to share an important development in this regard. Our formulations manufacturing plant at Moraiya has received approvals from the USFDA. This will now hasten our exports to the world's largest generics market place – the USA.

While we have set a long-term goal of becoming a global research-driven company by 2020, the process of innovation has already taken root in the organisation. I believe that there cannot be a quick-fix approach to innovation and research. And that is why I use the word process because it evolves and can never be an end in itself.

We are working to strengthen our discovery research capabilities to develop newer drug-discovery targets. Of the five NCEs that we are working on, three are in the pre-clinical stage and two are under various stages of development. Besides this we have developed several NDDS and are also actively engaged in discovery biology research.

I believe that our research applications, business strategies, success in new markets or the process of creating value does not really reach fruition if it does not address a higher need. It is important to know what drives our business goals and objectives. And for us it is a very clear mission. We will succeed and grow to create healthier communities

globally and by making people's lives better. That's what makes our goals, our vision and all the steps that we take relevant to you and I alike. That is why we have made it an integral part of our new mission statement.

Our new mission ~

"We are dedicated to life... in all its dimensions. Our world is shaped by a passion for innovation, commitment to partners and concern for people in an effort to create healthier communities, globally."

As we embark on the process of creating value there are several challenges that we face. We have got off to a great start in globalising our operations, particularly in Europe and the USA and we will have to maintain this momentum for the strategy to yield favourable results. We have also opened a new route to growth with the setting up of the Global Contract Manufacturing Cell to tap insourcing opportunities. This is a new area of operation for us but one that can be a profitable, as it would effectively leverage our considerable manufacturing strengths. It's a brave new world that we face in the post-2005 era with the patents coming into force in the domestic market. Managing the growth amidst constraints is also one of the issues that we are addressing. I have always believed that challenges have opportunities lurking in them. It is up to us to be pro-active and zero in on the right responses that can convert these opportunities for growth and profitability.

To address the challenges of the future, we have begun to fundamentally transform the way we organize ourselves. We have begun to set the wheels in motion by triggering off a transformational process that can take us on to a higher plane. The entire process at Zydus Cadila rests on five pillars of direction, leadership, accountability, co-ordination and control and capability. We have begun to undertake initiatives on each of these fronts and the overall focus is on leadership and people development.

The success of Zydus Cadila stems from the collective power of its people. People create value. Resources, products even ideas are inert and lie fallow until people do something

with them. It is how this is done and with what attitudes, values and focus they do it which really makes the difference and adds the value.

In conclusion, the goals that we have set for ourselves and what we aspire to achieve, are all part of the changing culture at Zydus Cadila. It is a great, active and visible culture - being driven by some excellent, talented and innovative people, of whom I am immensely proud. They have the know-how and desire necessary to meet the challenges we face in the process of globalisation. This more than anything else gives me the confidence about the future. Ladies and Gentlemen, your company is a dynamic enterprise that is growing, innovating and fashioning new responses to change. At this juncture, I would like to thank the employees at Zydus Cadila, our shareholders and financial institutions, business partners and all the other stakeholders for being a part of this exciting growth process. I look forward to further pursuit of this path to success, together with you.

Thank you.

Pankaj R. Patel
Chairman and Managing Director

Note: This does not purport to be a record of the proceedings of the 9th Annual General Meeting of the company held on 20th of July, 2004.