



SUN PHARMA BOARD APPROVES DEMERGER OF INNOVATIVE R&D

On 9 February, 2006, the Board of Directors of Sun Pharma approved a scheme of demerging its innovative R&D business (covering the NCE and NDDS programs) into a new company. The management has scheduled a conference call on 10 February, 2005 at 9:00 am for investors, analysts and other stakeholders for an interaction on the need and likely impact of this change.

In order to ensure an efficient call, in this note we have made an effort to answer the more commonly expected questions. This we believe will help all the participants to seek more specific information.

What is the business rationale of this demerger proposal?

Over the last few years, the Company has been making substantial investments in R&D activities including innovative Research & Development activities and new drug delivery systems. These investments in Innovative R&D carry higher risk and often generate higher returns, but over a longer term when compared to investments in generic pharma business.

We believe that our Innovative R & D business has tremendous potential for growth and long term profitability. After having nurtured it for these initial years, it has reached a stage where it requires a focused organization. Hence, SPIL intends to re-organise both the businesses and undertakings.

Additionally, the demerger will also provide scope for independent collaboration and expansion without committing the existing organization in its entirety.

Why is this demerger being proposed now?

Sun Pharma has always focused on the long term potential with predictable revenue streams and consistent profitability. With significant acceleration expected in the innovative business over the next few years, the growth in the R&D spend may be much faster than the growth of the generic business. Keeping this in view, we believe this demerger is timely and should help create shareholder value. It offers investors an option to separately hold investments in businesses with different investment and return characteristics, depending on what matches their risk and return expectations.

Will this new company be listed on the stock exchanges? When?

Yes. We will work towards an early listing of the new company.

Would the assets, resources and people be split between the two companies? If yes, how and when?

Assets, resources and people primarily used or engaged in innovative R&D will be part of the new company. It is estimated that 100 scientists will to the new company. The demerger will be effective from 1 April, 2006, subject to receiving all the necessary approvals. Details of the split are being worked out and will be shared in due course.

What will be the ownership structure of the new company?



The new company will be owned by existing shareholders of the Sun Pharma (as on the decided record date) in the same proportion as their stake in Sun Pharma. Shareholders of Sun Pharma will be allotted 1 equity share of Re.1/- each of the new company for every 1 equity share of Rs.5/- each of Sun Pharma. The new company will not be a subsidiary of Sun Pharma.

What will be the composition of the Board of Directors and Management of the new company?

The new company will have a new Board of Directors the composition of which will be decided in due course. Eventually, there will be an independent management team for the new company. Mr. Dilip Shanghvi will continue to be the Chairman for both the companies.

Where will it source its funding?

During the asset split, some cash available with Sun Pharma will go to the new company which will enable them to sustain their operations for some time. Depending on its investment needs, it would decide on the timing and source of funding. Funds may be raised through equity, debt, or even out-licensing of its pipeline candidate, among several other options.

How much will this reduce the R&D spend of Sun Pharma?

Our estimate is that around 35-40% of R&D spend (which is 10—11% of sales) of Sun Pharma is on innovative R&D. This will now shift to the new company. We feel that spend on generic R&D may increase from current levels over the next few years.

What will be the corresponding impact on the tax rate (in view of the weighted deduction availed on R&D spend)?

We expect a marginal climb in the tax rate of Sun Pharma.

What nature of relationship (tie-up, partnership, alliance, sharing) will the new company have with Sun Pharma?

Sun Pharma and the new company may have some asset or resource sharing arrangements to begin with. In the future, depending on the business needs, the two companies may evaluate partnerships or alliances, including marketing rights for specific geographies. Both the companies will independently evaluate all options of such partnerships or alliances with other companies too.

How will the new company be valued?

Closer to the formation of the new company, we will share some details of the innovative R&D pipeline and activities to help in the valuation of the business. Valuation is not required for the purpose of the demerger exercise as the shareholders of Sun Pharma will hold similar stake in the new company.

Now that the proposal has been approved by the Board, what are the next steps and how much time will it take for the demerger to take effect?

A High Court approval and shareholders approval to the demerger scheme are the next important steps. We hope to effect the demerger within the next 4-5 months.

17/B, Mahal Industrial Estate,
Mahakali Caves Road,
Andheri (East), Mumbai 400 093 India
Tel.: (91-22) 5645 5645
Fax.: (91-22) 5645 5685



Does this have any impact on the acquisition plans announced by Sun Pharma?

Sun Pharma continues to look for suitable acquisition opportunities in the US.

Conference Call

A conference call to discuss the demerger has been scheduled for 9 a.m. tomorrow, Friday 10th Feb. The dial in numbers for the call are (+91 22) 2781 2277 and (+91 22) 5591 7977. A replay will be available at (+91 22) 2788 0506 ,Standby Number: (+91 22) 5591 7979 for three days, and the transcript would be put on the company's website as soon as possible.

About Sun Pharma

Established in 1983, listed since 1994 and headquartered in India, Sun Pharma (Reuters: SUN.BO, Bloomberg: SUNP IN, NSE: SUNPHARMA, BSE: 524715) is an international, integrated, speciality pharmaceutical company. It manufactures and markets a large basket of pharmaceutical formulations as branded generics as well as generics in India, US and several other markets across the world. In India, the company is a leader in niche therapy areas of psychiatry, neurology, cardiology, diabetology, gastroenterology, and orthopedics. The company has strong skills in product development, process chemistry, and manufacturing of complex API, as well as dosage forms. The company is pursuing NCE and NDDS programs with the aim to bring products based on proprietary technology to market. More information about the company can be found at www.sunpharma.com

Contact

Uday Baldota
Tel : +91 22 5645 5645, Ext 225
E mail: uday.baldota@sunpharma.com

Mira Desai
Tel : +91 22 5645 5645, Ext 184
E mail : miradesai@sunpharma.com,
corpcomm@sunpharma.com

Disclaimer : It would be appropriate to mention that the Q&A above as well as the discussion in the conference call may include certain forward-looking statements and these must be viewed in conjunction with the risks that our business faces.