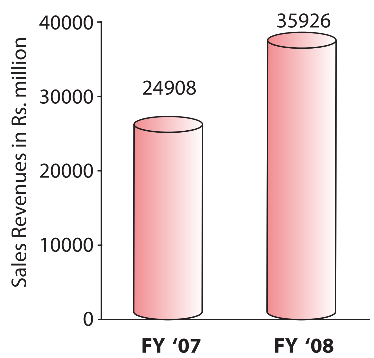
MANAGEMENT DISCUSSION AND ANALYSIS REPORT

2008 was a year of Integration and growth for Wockhardt, which continued to power ahead by investing for the future. Acquisitions of the last two years started adding to the top line and profitability in 2008. This, along with the organic growth, and continuous investment in R&D, manufacturing, marketing and human resources saw the Company posting an impressive 44.2% increase in its revenues.

Strengthening Wockhardt's business in existing markets, developing new geographies, leveraging new acquisitions, creating wider technical capabilities, building infrastructure to drive greater production and optimizing efforts across the entire Company through proactive and seamless information technology networks helped the Company acquire momentum across all its businesses and markets.

The predominant theme was integration & gains from synergy. On a consolidated basis, Sales grew by 44.2% to achieve consolidated topline of Rs. 35,926 million (US$ 738 million); EBITDA grew 23.2% to Rs. 8,438 million (US$ 173 million); however the Company registered a net loss of Rs. 1,389 million (US$ 28 million) in 2008 due to high interest cost and MTM losses.

Sales Revenues



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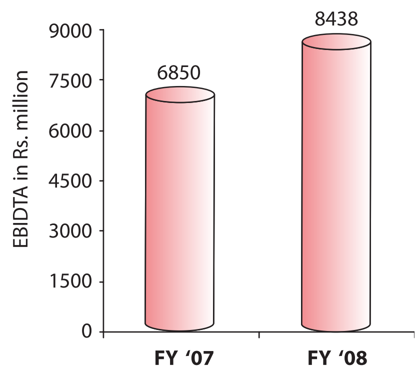
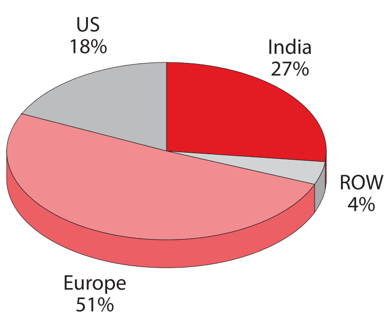
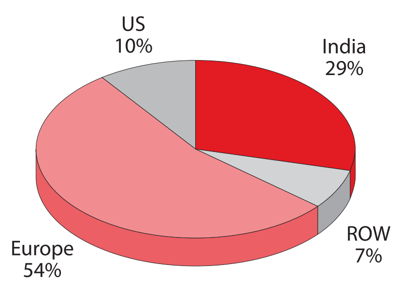


Wockhardt's core businesses recorded consistent growth – and the acquisition of Negma Lerads in France and Morton Grove Pharmaceuticals in US widened the Company's market presence and customer portfolio. Displaying innovative deal making capabilities, the Company's strategic focus ensured that Europe business contributed 51% of the revenues in 2008, growing by 30%.

Global Sales Distribution



FY '08



FY '07

Key business highlights:

- The European business at Rs. 18,287 million grew 30%. The year captured the effect of annual consolidation of Negma, the Company's acquisition in France in May' 07.
- The Indian business at Rs. 9,659 million grew 24%; largely on account of new product launches and in-licensing arrangements in fast-growing areas of dermatology, nutraceuticals and osteoarthritis and API business.
- The US business at Rs. 6,534 million, grew 140% due to new product launches and the acquisition of Morton Grove Pharmaceuticals in October'07.
- The ROW business at Rs. 1,446 million showed de-growth of 24% due to slow off take in CIS, and African countries.

Synergies from Integration

Last year the Company focused on integrating its acquired businesses and restructuring operations across the globe. This led to synergies in Sourcing of raw material, cross selling opportunities in EU & USA, reduction in manufacturing and R&D costs due to rationalization of capacities. Today Wockhardt has emerged truly as a global entity with leading positions in Europe and is steadily growing its market presence in the US. With this we have supplemented our organic growth plans in upcoming markets, such as Brazil, Mexico and CIS countries to create an avenue in the high potential therapy segments of Anti-diabetic, Dermatology, Oncology and Bio-generics.

Corporate Debt Restructuring

In early 2000, IDBI in consultation with RBI and other banks and financial institutions designed a financial restructuring scheme called as Corporate Debt Restructuring (CDR), whereby corporate can restructure the debts availed by them. The scheme is generally applicable to the corporate which, in 3 to 5 years can repay the existing debts from the cash flows generated through its business operations. For smooth operations of the corporate as well as safety of the money lent by the banks, timely support through restructuring of debts in genuine cases is done through Corporate Debt Restructuring (CDR).

The CDR mechanism is a voluntary non-statutory system based on the principle of approvals by Super-majority of 75% lenders (by value) which makes it binding on the remaining 25% to fall in line with the majority decision.

A preliminary report (Flash Report) prepared by the CDR Cell in consultation with the Company is submitted to the CDR Empowered Group. After the Empowered Group decides that restructuring is prima-facie feasible, the detailed restructuring package is worked out.

The Company has approached the CDR Cell through ICICI Bank. The Empowered Group (EG) of CDR Cell has admitted the Company to the CDR Scheme. Since the term loans, FCCB loan of USD 108.50 million are falling due and the Company requires additional time to meet these requirements, the Company has approached the CDR Cell.

US business – Branded Generics the new driver

The US business continued to keep track with its fast growth of about 140%. This has been a result of the continued focus on the region through the established business of Wockhardt USA LLC, the acquired entity of Morton Grove and due to new product launches and increased market share of products.

Building on the "branded generic" Lindane business, the Company has formed a Pediatric division with 30 sales representatives to successfully launch Bromfed DM for cough & cold treatment. In 2009, the Company has plan to launch another 5-6 branded generic products.

The Company received 23 ANDA approvals this year from the US FDA. Wockhardt is one of the only three companies to have received approval for Ceftazidime. Both the API and the formulation were developed in-house and are manufactured in the US FDA approved facilities of the Company at Ankleshwar, Gujarat and at Waluj, Maharashtra, respectively. The product required significant R&D activity in both API and injections. This achievement is a reflection of the multi-faceted capabilities of the Company to meet the challenges of the US markets.

Wockhardt today markets over 60 products in the US and expects the healthy growth to continue. This along with other initiatives like building the private-level OTC business will drive the growth in the future.

Biotechnology

We believe India is at the helm of grabbing opportunities thrown by the global biopharmaceutical industry, particularly of contract research & manufacturing. The Company has been one of the earliest movers in the biosimilar space from India and has world class R&D and manufacturing capabilities. We already have 3 products in the Indian market and a strong pipeline is under development. Recently we launched, Glaritus, a recombinant long acting human insulin analogue, glargine and became the 1st Company in the world after the innovator (Sanofi Aventis) to launch this new insulin that works slowly for over 24 hours. The product has a worldwide market of over US$2 billion; the Indian market size is Rs. 120 crores growing at 37% per annum.

In the near term biosimilar exports to RoW markets (US$ 750 million potential) will gain traction and the more regulated markets of US & EU (US$ 5.2 billion) are already under the radar. US FDA has cleared IND for Wosulin (recombinant human insulin) filed by Wockhardt and Clinical trial have been initiated in US. With these achievements the Company is uniquely positioned to exploit the biotechnology opportunity. *(Source: IMS data)*

In-licensing Strategy

In-licensing has been one of the key growth drivers of our business. These in-licensing deals fulfill our aim to develop breakthrough products in India and also strengthen our existing portfolios. We have in-licensing agreements with number of US and Europe based companies through which we will market 19 products 11 of these have already been introduced during 2008. These belong to therapeutics like dermatology, osteoarthritis and derma-cosmetology, the sectors on which Wockhardt is focusing.

Opportunities

India is one of the few markets in the world where most of the medicines consumed are manufactured locally, mostly by Indian companies. Last year, Indian companies received/filed more ANDAs in the US than companies based in US. The industry (US$ 800 billion) grew by 6% and out of this new business, 85% came from emerging markets. Presently emerging markets contribute 20-25%, however by 2025 it is estimated that they will account for more that 50% of global pharmaceutical sales and India can become a major player in emerging markets given its scientific manpower and established credentials.

Wockhardt has been a part of the growing process of the Indian pharmaceutical industry and has been a source of several innovations. We wish to play a significant role in making “Made-in-India” products world-renowned. Going ahead, Wockhardt intends to capitalize its global synergies and accelerate the growth momentum both on revenue as well as profit front. The Indian IT story can happen to pharmaceutical in the next 10-15 years.

CRAMS

Wockhardt entered the contract manufacturing space recently. This move will allow optimum utilization of our manufacturing capacity and enable us to position ourself across the entire drug process to MNC pharmaceutical companies. Most of our plants are USFDA-approved and hence we can offer contract manufacturing service for pharmaceutical companies. The global market for contract manufacturing was estimated to be US$ 19 billion and is likely to expand to US$ 31 billion by 2010. Our UK operation is already undertaking significant work in CRAMS. Currently the focus is on sterile manufacturing and in the next few years it will be an integral part of our business. Sterile injectibles represent the fastest growing product segment of the pharmaceutical contract manufacturing industry. This segment was valued at US$ 3 billion. It is anticipated that there will be massive demand for manufacturing sterile syringes, cartridges and vials as biopharmaceutical companies continue to make R&D investments. Asia-Pacific is expected to emerge as the fastest growing region. Market in this region was estimated to be US$ 2 billion and projected to reach US$ 3 billion by 2010 (CAGR of 16%). *(Source: Pharmaceutical Contract Manufacturing GIA Report)*

Research

In drug discovery, we are focusing on anti-infective mainly due to the fact that very few anti-infective have come into the market in the past few years. Also some antibiotics are developing resistance and in next five to six years, this resistance will grow. Even though anti-infective is third largest market in developed countries, in emerging markets it is one of the largest segments. In India & China, it accounts for more than 25%. If the future of global pharmaceutical industry is in emerging markets, then anti-infectives will provide huge growth opportunity for us. We have a number of lead molecules that are currently in various stage of development. WCK 771, a broad spectrum antibiotic for difficult to treat MRSA, has entered phase II human clinical trials stage. Similarly, WCK 2349, a promising lead molecule to treat respiratory tract infection, is undergoing phase I clinical trials. Besides this, there are three molecules in advanced stages of pre-clinical trials.

Challenges

A conducive environment for enhancing the industry's capabilities is imperative. Supporting R&D is one of the driver's for adding value to the business, relaxing price control regime will be the other driver. A price-control mechanism which is cost-plus method was introduced 50 years ago and has now outlived its relevance. To determine the prices of new drugs, Europe uses a value-based system, which is based on the value that medicine provides patient with. We have to do away with price control, especially when there is immense competition in the market and the prices of drugs in India are the most affordable in the world. Today Indian companies are applying for patents and there is need for value-based pricing model in patented products so that it encourages research and innovation. By price control, the government will severely impact the sector's ability to invest in R&D, hurt its competitiveness and retard its expansion in the global generics market.

Global trends and Indian Scenario

Even in these difficult times, there have already been three large M&As in the global pharma industry. Pfizer acquired Wyeth in a $68-billion deal, Merck bought out Schering-Plough for $41.1 billion and Roche got hold of Genentech in a protracted takeover saga. The key driver is the search for future growth engines. Big pharmaceutical companies are set to lose nearly $100 billion in sales as many blockbuster drugs will lose patent protection over the next five years. And the pipeline of drugs to replace them looks very thin. Through M & As, companies are aiming to acquire potential drugs of the future and also to cut costs, particularly in research. Drug trails have in general become more extensive with regulators becoming more demanding. In such a situation, size increases the chances of success.

The large number of drugs going off patents in the coming years is a big opportunity for Indian generic players. Through their low-cost but quality manufacturing they can corner a sizeable portion of the market. But beyond these few years, this business model is likely to face stress. Indian drug companies have to invest in R&D, more so given the competitive edge the country has in carrying out research at a fraction of the cost incurred in the developed world. Indeed, clinical research for third parties is rapidly gaining ground. But the idea should be to leverage this expertise to develop new drugs, particularly for tropical or third world diseases. That requires size and balance-sheet strength, which most Indian companies' lack. Indian pharmaceutical companies would do well to explore the opportunities for inorganic growth or to acquire niche skills. The attractive valuations and somewhat easier availability of capital for the largely recession-proof sector provides the right backdrop.

Segment-Wise Performance

The Company is exclusively into pharmaceutical and biopharmaceutical business segment.

Internal Control Systems and Adequacy

The Company has set up internal control procedures commensurate with its size and nature of the business. These business procedures ensure optimum use and protection of the resources and compliance with the policies, procedures and statutes. The internal control systems provide for well-defined policies, guidelines, authorizations and approval procedures. The prime objective of such audits is to test the adequacy and effectiveness of the internal controls laid down by management and to suggest improvements.

Human Resources

The context in which Wockhardt operates today thus demands new and dynamic leadership and management responses. Leadership development is therefore a strategic priority for Wockhardt. Alongside our other initiatives to build a learning organization and leverage people potential, we have embarked on a systematic process of developing global leadership capabilities. There is no greater joy for us at Wockhardt than to nurture our more than 7,000 people at the threshold of the opportunities that lie ahead.

At Wockhardt, employee initiatives are constantly updated and modified to mark newer beginnings. Our professional development programs are designed to cover every spectrum of individual development. A competency-based model has been adopted which defines the required competencies and employee development initiatives at various levels and functions.