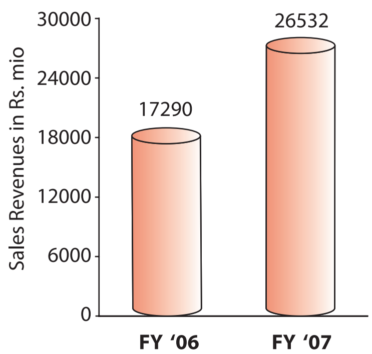
Management Discussion and Analysis Report

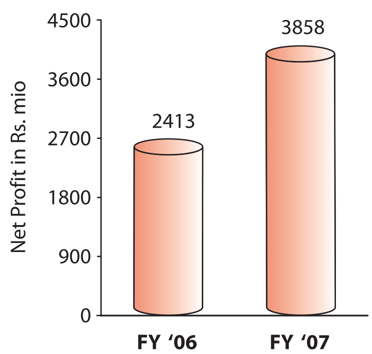
2007 was a very fast paced year for Wockhardt, which continued to power ahead by investing for the future. This was achieved by organic and inorganic growth, through investment in R & D, manufacturing, marketing and human resources.

The year under review saw Wockhardt acquiring a new growth momentum across all its businesses and markets. The predominant story has been a 53% topline growth to achieve consolidated revenues of Rs. 26,532 million (US$ 673 million). Profit after tax increased by 60% to Rs. 3,858 million (US$ 98 million) in 2007.

Sales Revenues



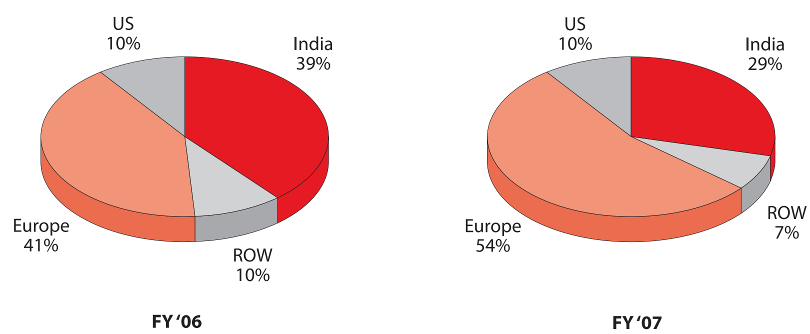
Net Profit



An interplay of various factors have contributed towards this performance – strengthening Wockhardt's business in existing markets and in 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.

Wockhardt's core businesses recorded consistent growth – and the acquisition and 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 contributes 54% of the revenues in 2007 compared to 41% of revenues in 2006, growing by 97%.

Regional contribution of Revenues



Key business highlights:

- The European business was at Rs. 14,095 million growing at 97% and thus exceeded € 250 million. The year captured the effect of full annual consolidation of Pinewood, the Company's acquisition in Ireland and Negma Lerads, the Company's acquisition in France in May 2007.
- The Indian business was at Rs. 7,812 million growing at 15%. This was largely on account of new product launches and in-licensing arrangements in fast-growing areas of dermatology, nutraceuticals and osteoarthritis.
- The US business was at Rs. 2,718 million growing at 64%. This was backed by new product launches and the acquisition of Morton Grove Pharmaceuticals in October 2007.
- The ROW business was at Rs. 1,906 million growing at 11% on back of strong formulation sales and biotech registrations in South East Asian markets, Africa, GCC countries and Latin America.

Consolidation drive

The hectic pace of M&A activity witnessed over the last two years has clearly been the most significant trend shaping the pharmaceuticals industry, including generics. We have taken this opportunity to strategically drive our inorganic growth plans and strengthen all aspects of business. Our consistent endeavor across all our inorganic activities through financially viable and EPS accretive opportunities, are aimed at enhancing shareholder value. These acquisitions have significantly expanded our presence in US and European markets. 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.

Trends in global markets

In a year of transition, the global pharmaceutical market grew by 6-7% to over US$ 680 billion. Declining costs of drug treatment in major therapy areas, increases uncertainty over safety, pricing and market access and intellectual property issues. There has been a visible shift in growth from mature to emerging markets, and from primary care classes to biotech and specialist-driven therapies. Generics represented more than half of the volume of pharmaceutical products sold in seven key world markets — the U.S., Canada, France, Germany, Italy, Spain, and the UK and is expected to witness a double-digit growth, well supported by pipeline of products going off-patent. This trend reflects the changing balance between new and old products, and the growing 'genericization' of many primary care categories.

Despite continued expansion of global pharmaceutical markets, underlying dynamics continue to alter the landscape. In 2007, products with sales in excess of US$ 18 billion lost their patent protection in seven key markets. With lower-cost therapies replacing branded products in classes such as lipid regulators, antidepressants, platelet aggregation inhibitors, anti-emetics and respiratory agents, generics will assume a more central role, as payers seek to restrict the growth of healthcare expenditures. Another factor influencing the market is the increasingly active role of patients and insurance funds, as they take charge of their health and demand greater access to therapies that will improve or prolong their lives.

With critical business size in the developed markets, our Company is well poised to harness the existing market potential.

Trends in India

India was one of the fastest growing markets in 2007, with pharmaceutical sales increasing 13% to over US$ 7 billion, which transformed it from a 'developing' market to an emerging one. Several factors, including the acceptance of intellectual property rights, a robust economy and the country's burgeoning healthcare needs have contributed to accelerated growth in India.

There are unprecedented opportunities to expand in a number of fields. The domestic industry's long established position as a world leader in the production of high quality generic medicines is set to reap significant new benefits as the patents on a number of blockbuster drugs are scheduled to expire over the next few years.

In addition, India's long established position as a preferred manufacturing location for multinational drug manufacturers is quickly spreading into other outsourcing activities. Souring costs of R & D and administration are persuading drug manufacturers to move more and more of their discovery research and clinical trials activities to the subcontinent or to establish administrative centers there, capitalizing on India's high levels of scientific expertise as well as low wages.

Outlook on Opportunities & Challenges

Global pharma companies are experiencing an ever shifting landscape, ripe with challenges and opportunities. In this challenging environment, Wockhardt is enhancing its reach and leveraging its competitive advantages to become a leading global player.

More and more governments worldwide are seeking to curb their soaring prescription drug costs through greater use of generics. These opportunities are presenting themselves not only India's traditional wealthy client markets such as the U.S. and European Union nations but also in emerging economies with vast populations such as Africa, South America, Asia and Eastern and Central Europe.

The global market for contract manufacturing was estimated to be US$ 19 billion and is likely to expand to US$ 31 billion by 2010. Asia – Pacific is expected to emerge as the fastest growing region. This region was estimated to be US$ 2 billion and projected to reach US$ 3 billion by 2010 (CAGR of 16%). Sterile injectables 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.

Wockhardt has substantial investment in manufacturing facilities and a very broad range of capabilities, with 9 plants in India, 4 in Europe and 1 in US. Most of these plants have got approval for either MHRA or US FDA or both as well as other national and international bodies. Given this and its experience in contract research and manufacturing services (CRAMS) via Wockhardt UK's contract with Amyln, the Company has taken a decision to develop and implement a plan to become a significant player in this large and growing market.

Both multinational and local drug manufacturers could eventually benefit from the market potential of India's population of over one billion. A large market will likely open up as the result of a projected boom in health insurance, an area in which the country is currently woefully underdeveloped. New government initiatives seek to enable the majority of the population to access the life saving drugs they need, while even greater opportunities may be presented by the rise of the new Indian consumer. This group-urban, middle class and wealthy-live fast-paced, Western-style lives and, as a result, they are beginning to suffer from Western, lifestyle-related illnesses, for which they want, and can afford, innovative drug treatments.

The domestic industry is still spending far too little on R & D, which must change quickly if it is to begin to address the new opportunities and challenges. On the international front, the industry still has some catching up to do in terms of quality assurance while, on the local market, pricing remains a problem.

Wockhardt invests heavily in R & D with a robust NCE (New Chemical Entity) program with 5 molecules in various stages of development. Our lead molecule, WCK 771, is currently undergoing phase IIb clinical trials.

Segment-wise Performance

The Company is exclusively into pharmaceutical 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 optimuim 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

At Wockhardt, change is the only constant in the process of constantly reinventing ourselves. The changing Indian pharmaceutical industry, the evolution of biotechnology and global competition, call for new strategy and organizational responses. At Wockhardt, our global acquisitions, expansion into overseas markets and increasing efforts in biotechnology research and marketing, have market the beginning of a revolution in the organization.

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 6000 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.