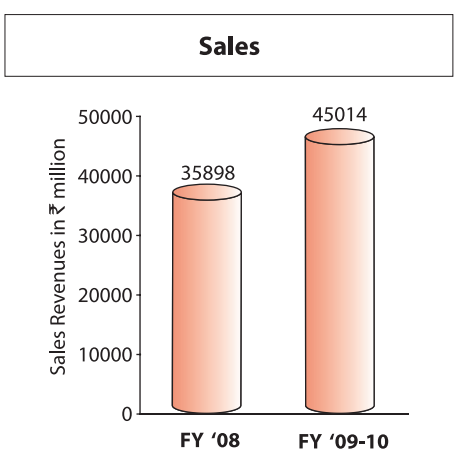
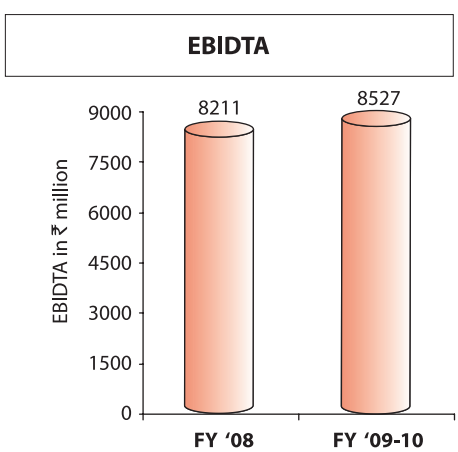
MANAGEMENT DISCUSSION AND ANALYSIS REPORT

2009 was indeed a challenging year for the Company. The predominant theme in 2009 was and will continue to be "More and More with Less and Less". Strengthening business in existing markets, developing new geographies, creating wider technical capabilities, enhancing productivity and optimizing efforts across the entire company through proactive and seamless information technology networks helped the Company maintain its position across all its businesses and markets.

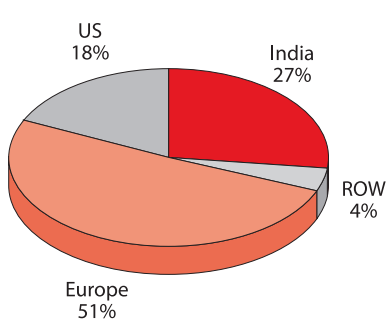
Despite a slow growth environment across global markets, the company put in significant efforts to keep business on track. Severe liquidity crisis due to forex losses, recession in our core international markets of Europe and enhanced management focus on getting the CDR approved & restructuring the business did not prevent the company from investing in R&D, manufacturing, marketing and human resources and post a 25% increase in its revenues.

To have a common Financial Year (FY) under the Companies Act as well as Income Tax Act, the current FY of the Company ending on 31st December, 2009 has been extended for a further period of 3 months; thus the current FY of the Company is from 1st January, 2009 to 31st March, 2010; thereafter the FY will be 1st April to 31st March. Thus the numbers for the current FY are for a period of 15 months, hence not comparable with FY 2008.

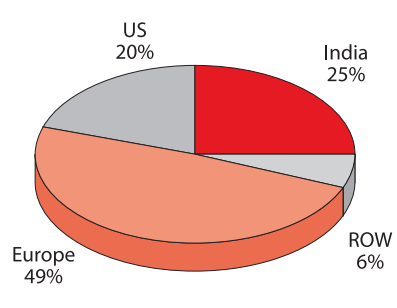




On a consolidated basis sales for FY' 09-10 grew by 25.4% (15 months sales) to achieve a topline of ₹ 45,014 million (US$ 1,001 million); EBITDA was 4% higher at ₹ 8,527 million (US$ 190 million); however the Company registered a net loss of ₹ 10,023 million (US$ 223 million) in 2009-10 due to MTM losses.



FY '08



FY '09-10

Key business highlights:

- The European business at ₹ 21,883 Million (₹ 17,506 Million on annualized basis) grew 20%. Negma & Pinewood were impacted due to recession in EU and other local issues; Esparma business was divested in June, 2009.
- The Indian business at ₹ 11,412 Million (₹ 9,129 Million on annualized basis) grew 18%; Animal Health Care Division was divested in August, 2009.
- The US business at ₹ 9,139 Million (₹ 7,311 Million on annualized basis) grew 40% due to new product launches and the start of new pediatric division selling branded generics.
- The ROW business at ₹ 2,581 Million (₹ 2,065 Million on annualized basis) showed 78% growth due to good performance of export divisions of India & UK business entities.

Synergies from Integration

Last year's focus on integrating the acquired businesses and restructuring operations across the globe 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. This helped the company during the year to maintain its leading positions in Europe and steadily grow its market presence in the US. With this we 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 (CDR)

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

About CDR

- The CDR mechanism, was launched in February, 2002 under the aegis of RBI, is a voluntary and non-statutory arrangement to ensure timely and transparent mechanism for restructuring the corporate debts of potentially viable entities, outside the preview of legal proceedings.
- Banks and FIs participating in CDR System became member and formed a self-empowered body, which lay down policies and guidelines, and monitors the process of the CDR. At present there are 56 members such as State Bank of India, Life Insurance Corporation of India, Bank of Baroda, Bank of India, ICICI Bank etc.
- CDR system is based on Debtors Creditor Agreement and Inter Creditor Agreement and this provide the legal basis to the CDR mechanism.
- Further, if 75 per cent of creditors by value and 60 per cent creditors by number agree to a restructuring package of an existing debt, the same would be binding on the remaining creditors.
- CDR considers all the preliminary reports for restructuring. However, the detailed package will be worked out with the help of Lead institution for the potentially viable companies.

Wockhardt filed its preliminary report for restructuring through ICICI Bank and the case was admitted on April 22, 2009. CDR Empowered Group in its meeting held in June, 2009 approved the restructuring package of the company and the same was conveyed to the Company on July 4, 2009.

The salient feature of our restructuring proposal is as under:

The key elements of the Restructuring Package as approved by CDR are as under:

- The existing loans will continue at concessional rate of interest @ 10% p.a. which has two parts 8% & 2%. While 8% p.a. shall be paid on monthly basis, 2% p.a. shall be converted into Preference share capital redeemable in 2018.
- Priority loans will be made available to the company to meet the dues of pressing creditors, operational requirements, and settlement of crystallized derivative losses. These will be repaid in 8 equal quarterly installments commencing September 15, 2010.

- Management has committed to sale/divestment of non-core business estimated over a stipulated schedule from 2009 to 2015.
- Promoters shall bring in their contribution over the next one year in addition to the divestment proceeds.
- The existing Rupee term loans will be paid in 24 quarterly installments commencing July 15, 2010.
- Working capital facilities to be enhanced.
- Secured Working capital loans outside the consortium are proposed to be converted into a working capital term loan (WCTL) will be paid in 24 quarterly installments commencing July 15, 2010.
- Short-term loans will be paid in 20 quarterly installments commencing January 15, 2014.
- The Foreign Currency Convertible Bondholders (FCCBs) and the Wockhardt EU Operations (Swiss) AG (EU) loan will also be restructured.
- The Company shall not execute any new derivative transaction (excluding forwards strictly for hedging purposes for a maximum period of 180 days) without prior approval of CDR EG.

Present Status on Implementation of CDR Package:

- The Company and the CDR lenders have executed Master Restructuring Agreement (MRA). Accordingly, the terms and conditions of MRA shall be binding upon and effective between the borrower and the lenders.
- Some Non-CDR lenders have also executed the MRA.
- Entire Cash flow of the Company is routed through Trust & Retention Account (TRA) maintained with ICICI Bank.
- Promoters have brought in their contribution.
- Company divested its Animal Healthcare Business.
- Some lenders have sanctioned priority loan to the Company.
- The company has settled/is in the process of settling ₹ 5,000 million, derivatives related losses @ 25%.
- FCCB and EU Loan restructuring is under progress.

US business - Branded Generics the new driver

The US business continued to do well. For the fifteen months period ended March 31, 2010 the US business has shown a growth of 29%. The restructuring of the acquired entity of Morton Grove, new product launches and increased market share of products helped the business scale up. This has been a result of the continued focus on the region through the established business of Wockhardt USA LLC.

Last year the Company had formed a Pediatric division with 30 sales representatives to successfully launch Bromfed DM for cough & cold treatment. In 2009 the Company consolidated its position and gained market share of 12% in this segment.

The Company received **21 ANDA** approvals during the period under review from the US FDA. 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 70 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

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 4 products in the Indian market and a strong pipeline is under development. 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 continued to be 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 are currently marketing 19 products – 11 of these were launched till 2008; 4 launched in 2009 and another 4 in 2010. These belong to therapeutics like dermatology, osteoarthritis, derma-cosmetology, orthopedics and dental; the sectors on which Wockhardt is focusing.

Opportunities

In 2009 the global pharmaceutical industry (US$ 800 billion) grew by 6% of which 85% came from emerging markets. Presently emerging markets contribute 20-25%, however by 2025 it is estimated that they will account for more than 50% of global pharmaceutical sales and India can become a major player in emerging markets given its scientific manpower and established credentials.

The vision for New Wockhardt is “More & More with Less & Less”. We have enormous strength in the organization, in technology, in people, in our manufacturing facility and in our geographical reach. This year and in the years ahead, we are determined to use our strengths to the utmost and create a new future and a New Wockhardt for all of us.

In India we have planned to add more than 1,000 Territory Managers in the next two years. We are setting up a state-of-the-art sterile manufacturing facility in Shendra, which will be completed during the year. This and other initiatives will be a forerunner to our thrust into Contract Manufacturing activity for global biotechnology and pharmaceutical companies. In Europe, we will be reaching out our products and our manufacturing capacity to the entire Europe through our B2B model. In US, we have an excellent range of products and some of the ANDAs of the near future are going to be blockbusters. In Biotechnology, we have great opportunity to be amongst the leaders in Bio-similar Insulin and its Analogues. Above all, we have the management competency and proven track record to create this future.

CRAMS

Wockhardt entered the contract manufacturing space last year. This move will allow optimum utilization of our manufacturing capacity and enable us to position our self 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 is estimated to be US$ 3 billion by end 2010. *(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 completed phase II human clinical trials stage. WCK 2349, a promising lead molecule to treat respiratory tract infection, has completed human phase I study. Both these have also received US IND approval. Of the three molecules in advanced stages of pre-clinical trials mentioned in 2008, WCK 4873 has been identified as a new molecule which has emerged as a front runner Regulatory toxicity study candidate.

Challenges

The Company generates 50% of its revenues from EU. The markets are facing tremendous challenges at a fiscal level. With most of the EU still under recession and having an ageing population, governments across EU have been exploring several options for containing pharmaceutical expenditure; The Irish healthcare system is financed by a mix between public (75%) and private (25%) expenditure. In France Social Security is by far the largest financier of health spending – 77%. In UK Public expenditure on healthcare is about 86%. The steps taken by governments include medical control of prescription; promotion of the use of generic preparation and introduction of a system of generic reference pricing.

The direct impact of these initiatives will be on the business margins of the generic pharmaceutical companies operating there including our company. Competitive pricing pressure, margin erosion and reference pricing will impact the capacity of pharmaceutical industry to generate robust cash flow in an environment where growth in value will be difficult to achieve. This has already impacted the valuation of business and the appetite for M&A activity.

Here in India, a conducive environment for enhancing the industry's capabilities is imperative. Supporting R&D is one of the drivers for adding value to the business and relaxing price control regime will be the other driver. 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

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. 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 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.