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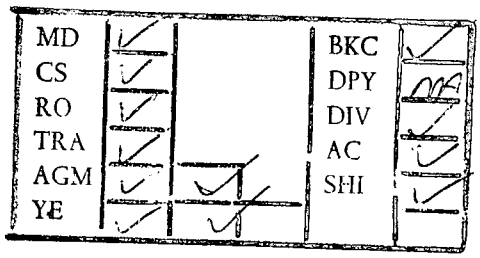
Dr. Reddy's Laboratories Limited



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Annual 97/98 Report

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The square, the circle, and the triangle. According to Zen philosophy these fundamental shapes symbolise the Earth, Universe, and Intellect.

At Dr. Reddy's Laboratories, you will find this relationship very much at home – intellectual assets driven to discover and deliver new molecules, new medicines to improve human health and extend human life.

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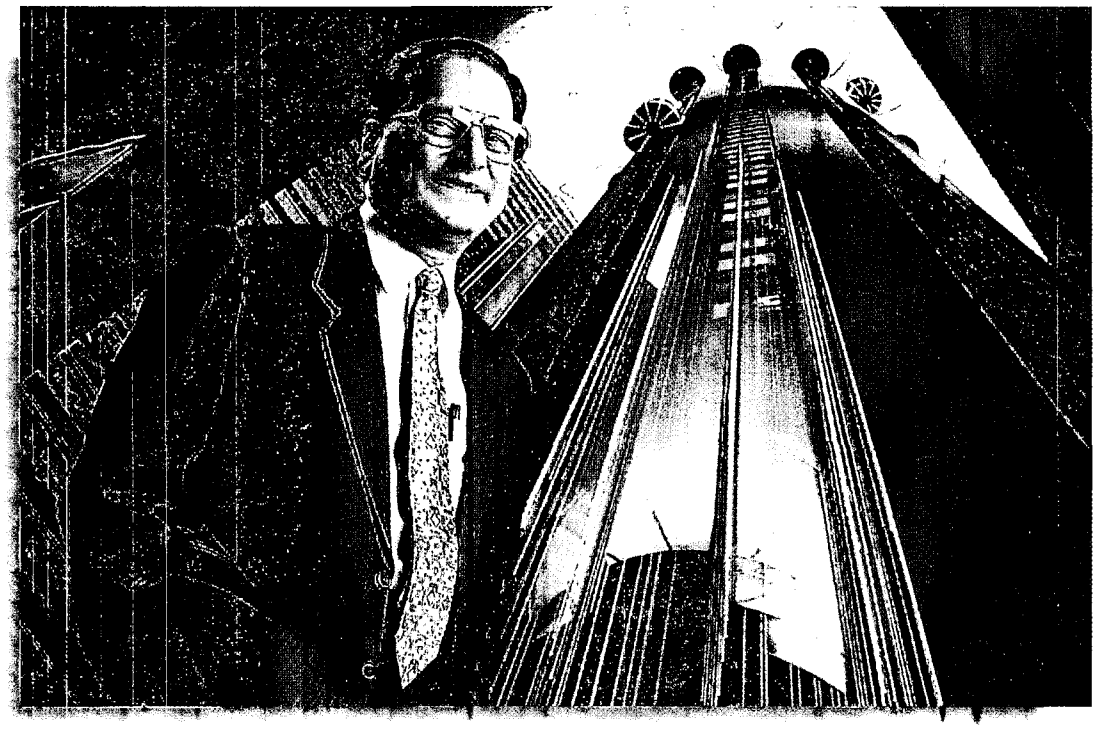
Founder's Vision



"Smart Company..."

1998 will remain a memorable year for most Indians. It is the year that India conducted nuclear explosions in Pokhran and signalled strongly its disapproval of the discriminatory terms of the Comprehensive Test Ban Treaty. The American response was swift and predictable. Sanctions were imposed triggering a sudden devaluation of the rupee. Gloom was the dominant mood on the economic front. Amidst all this, one sector of Indian industry struck a defiantly positive note. Indian software companies notched a record turnover of Rs.100,000 million, with exports alone accounting for Rs. 65,000 million. Growing at an average rate twice that of the software industry in the US, the other leading software developing nation, the Indian software industry is emerging rapidly as a force to reckon with.

Software and pharmaceuticals have several things in common. For one, in both cases, the product itself is simple to make. In one case, it is information encoded in zeroes and ones. In the other it is a pill containing a few milligrams of a pure chemical. And yet, both products are extremely powerful and capable of a variety of wonderful and life-saving uses. It is not the substance of the product but the knowledge that has gone into its creation that so powerfully manifests itself when the product is used. When you see something on four wheels you can guess its functions. It will move and probably be useful for transportation. When you see the coding on a CD-ROM or the white powder in a pill, you have no clue to its function until it is used. The human intellect is what goes into the hidden power of these inventions.

If Indians are so good at writing software, can they also be good at discovering new medicines? The answer is yes, with the caveat that, unlike the development of software, the discovery of new medicines is a much more resource intensive process requiring large capital investments and the collaboration of individuals with diverse talents and skills. So, while qualitatively the challenge remains the

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same, the magnitude of the challenge is several fold higher. If a company of our size is to succeed in this task then we have to be *smart* in leveraging to the maximum extent, every possible resource at our command.

We have attempted this and succeeded to some extent at Dr. Reddy's Research Foundation (DRF). Several strategies have worked in our favour. Some of these strategies have been mulled over and adopted while others we have serendipitously stumbled onto. For example, we have intensely focussed on a few therapeutic segments where we felt we had some competitive advantage. We have also actively sought partners for licensing and drug development so as to realise some of the value inherent in our discoveries much earlier in the cycle of product development. We also maintain an open and outwardly directed research programme. We do not ignore the flow of ideas from outside and we actively seek external collaborations and expertise. We have bright people, but even the brightest person cannot achieve much working alone. We work in multi-disciplinary teams where communication and sharing is instantaneous and open.

All this has yielded results that are tangible and quantifiable. We have one compound in clinical development and another ready to enter clinical trials in August 1998. Our licensing agreement with Novo Nordisk has already earned us revenues of US$ 4.25 million. The import of the two discoveries we have can be looked at in quite different ways also. It is estimated that it costs US$ 450 million to bring a drug to the market. One third of this cost is the pre-clinical development work, which DRF has already completed on the two compounds. By this measure, our two products are already equal to the cost equivalent of about US$ 150 million apiece. In comparison, the cost to DRF has been US$ 4 million apiece. The difference reflects not merely the fact that we operate in a low cost environment, but also efficiencies of our research programme that derive directly from the Intellectual Capital within it.

This year may also be remembered as the year that Indian corporates discovered Intellectual Capital. The hype surrounding it threatens to muffle the true value of this simple and elegant concept. We have always recognised the importance of people and the synergies that result when there is sharing of knowledge within a group. We also realise the distinctive advantage this can provide in an intellect scarce environment. In fact, the concept of Intellectual Capital tells only half the story. The other half is the manner in which Intellectual Capital that exists within all companies, great and not so great, is harnessed and put to use. The management of Intellectual Capital is potentially a greater source of competitive advantage than its mere possession. Smart companies know how to manage Intellectual Capital. That is how they uncover the value hidden within every transaction and relationship.

For a company such as ours, with ambitions of becoming a global player, the game has just begun. There are several challenges to be faced and overcome in this endless voyage. We are acutely aware of the changes such as the revolution in genomics, we have mapped and are responding to. Others, we can only see as hazy outlines. Lack of detailed knowledge of this future, however, is no excuse not to prepare for it. Our skills in innovation are still nascent and we see the need to build upon it to face these numerous and unnamed challenges.

In last year's annual report I discussed my dreams for the future of our Company. Since then, we have come further along the way to realising those dreams. This year I would like to add a new element to that dream. I dream that our Company, your Company, will be transformed into a company that leverages Intellectual Capital in a superior way, so as to realise fully the enormous potential inherent in us. I dream that our Company will be transformed into a Smart Company. We have the resources to make this happen, and we will.

Dr. K Anji Reddy
Chairman

Novo Nordisk entered a licensing agreement with Dr. Reddy's Research Foundation, India, providing the company with the rights to several novel compounds, one of which is a potential insulin sensitizer.

Extract from Novo Nordisk's Annual Report 1997. Website: http://www.novo.dk

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To the Stakeholders

It has been a successful year for all of us at Dr. Reddy's in reinforcing our stakeholders confidence in a company where innovation is nurtured and forms an integral part of its core activities.

You may recall that since its inception, your Company has been at the forefront of innovation, having pioneered introduction of affordable medicines of high quality in India, largely due to its efforts in process development. As India braces itself for the new millennium, your Company is at the frontier of yet another milestone - putting a product from our drug discovery programme into the world market.

Your Company has shown excellent results for the year 1997-98. Net sales have gone up by 33% to Rs. 3.32 billion (US$ 90 million). Profits have gone up by 46% to Rs. 488 million (US$13 million). Earnings per share has increased to Rs.18.44.

We have set ourselves clear targets for sales growth in the future - 30% every year for the next three years. Finished Dosages sales will lead the growth through a consolidated effort in brand promotion. Bulk Actives will support the growth while moving into more value added areas. Emerging Businesses in diagnostic kits and recombinant products will also significantly contribute to the growth.

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Our strong performance in 1997-98 was led by the continued emphasis on our marketing of our finished dosages forms. In India, sales from finished dosages were Rs.1.36 billion, a 285% increase over sales in 1995. Market share has gone up from 0.8% in 1995 to 1.4% in 1998. With the further launch of innovative products and consolidation through existing products, your Company is poised to reach a leadership position in the Indian market for finished dosages forms.

Another important contribution to our excellent performance was from our international markets. Sales from the CIS countries were US$ 15.21 million, an increase of 100% over last year. Sales from Brazil, China and SE Asia were US$ 2.95 million. We are confident of expanding our international presence in the coming years through aggressive marketing efforts, introduction of high value products and efficient distribution management systems.

An important milestone for your Company this year has been the revenue generation from the drug discovery programme of DRF which was sponsored by DRL. Further milestone payments and additional leads from basic research will significantly enhance the profitability of your Company in the future.

The spirit of innovation is reflected in every effort put in by the Company. The enormous talent of our work force, systems, and processes, all contribute to the Intellectual Capital of the Company, a theme you will find throughout this report.

We wish to acknowledge the medical community in India and abroad for the tremendous faith they have reposed in prescribing our medicines. We also thank the people for the support and confidence they have placed with us. We place our appreciation for our team of committed and energetic work force who have been the backbone of your Company. We pledge to continue innovating for a healthier life.

K Satish Reddy
Managing Director

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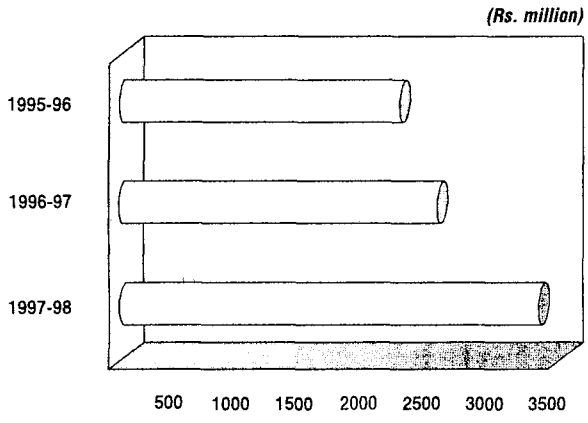
Turnover



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Drug Discovery

From a research standpoint, 1997-98 proved to be a good year for Dr. Reddy's Laboratories (DRL). The research arm of DRL, Dr. Reddy's Research Foundation (DRF), made a major breakthrough: the discovery of a new molecule to combat diabetes.

The discovered molecule is superior to known insulin sensitizers. This insulin sensitizer molecule, DRF 2593, was licensed to Novo Nordisk of Denmark and is in clinical development.

Dr. Reddy's Laboratories received from Novo Nordisk a milestone payment and other payments totalling Rs. 151.50 million towards its Intellectual Property Rights. As per the terms of agreement, the Company will continue to receive further milestone payments as DRF 2593 progresses through the clinical development cycle.

Dr. Reddy's Laboratories commitment to a strong research and development base is shown in the total annual investment of Rs. 147 million (4.4 per cent of sales) in DRF.

Indeed, with a growing resource support and 85 discovery scientists, DRF is poised to discover new molecules in the areas of inflammation, infection, and acid-peptic diseases in the coming year. DRF is also set to initiate a Phase I clinical trial of DRF 1042, an orally effective anticancer drug.

The estimated worldwide sales from the new molecules is pegged at US$ 700 million for the antidiabetic drug (DRF 2593), and US$ 100 million for the anticancer drug. Taking into account the agreements concluded by the foundation, the Company is expected to receive substantial amounts from the worldwide sales of DRF's discoveries.

"Today if we are able to sustain a higher level of innovation in drug discovery, it is primarily due to the creation of an enormous knowledge base and intellectual asset management thereof."

Dr. A Venkateswarlu
President, DRF

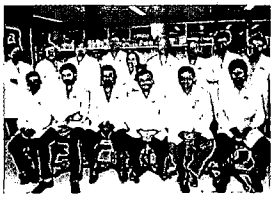
June 1997

US Patent Application No. 08/884, 816 filed for the invention of novel compounds in the therapeutic area of diabetes and related disorders.

1997 APR | MAY | JUN | JUL | AUG | SEPT

May 1997

- US Patent Application No. 08/851, 447 filed for the invention of novel compounds in the therapeutic area of diabetes and related disorders.
- US Patent Application No. 08/851, 448 filed for the invention of novel compounds in the therapeutic area of diabetes and related disorders.



- US Patent Application No. 08/851, 450 filed for the invention of novel compounds in the therapeutic area of diabetes and related disorders.

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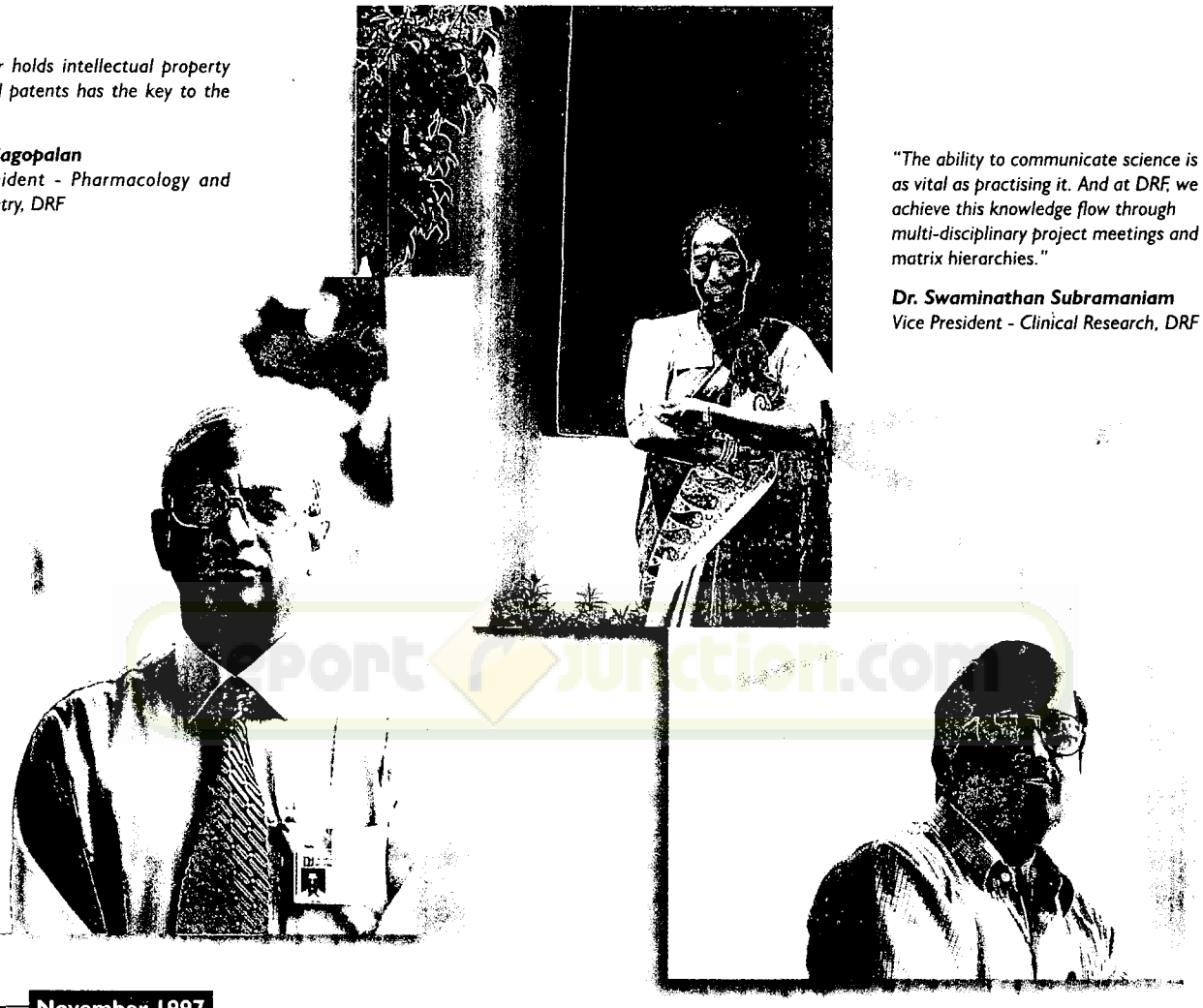
"We have shown that imagination, involvement and a harmonious work environment bring success in drug discovery research."

Dr. Vidya B Lohray
Vice President - Medicinal Chemistry, Drug Discovery Research, DRF

"Whoever holds intellectual property rights and patents has the key to the future."

Dr. R Rajagopalan
Vice President - Pharmacology and Biochemistry, DRF



"The ability to communicate science is as vital as practising it. And at DRF, we achieve this knowledge flow through multi-disciplinary project meetings and matrix hierarchies."

Dr. Swaminathan Subramaniam
Vice President - Clinical Research, DRF

November 1997

Prime Minister I K Gujral presents the FICCI Award (1996-97) in recognition of DRF's institutional initiative in Research in Science and Technology to Chairman Dr. K Anji Reddy.

January 1998

US Patent Application No. 09/012, 585 filed for the invention of novel compounds in the therapeutic area of diabetes and related disorders.

March 1998

US Patent Application No. 09/041, 191 filed for the invention of novel compounds in the therapeutic area of acid-peptic diseases.

OCT | NOV | DEC | 1998 JAN | FEB | MAR

December 1997

- Chairman Dr. K Anji Reddy receives the Lifetime Achievement Award for Research and Industry from Indian Analytical Instruments Association, Mumbai.
- The US Patents and Trademarks Office grants the first patent to DRF for the discovery of Troglitazone Polymorphs, a molecule with antidiabetic property.
- US Patent Application No. 08/982, 911 filed for the invention of novel compounds in the therapeutic area of diabetes and related disorders.
- US Patent Application No. 08/982, 962 filed for the invention of novel compounds in the therapeutic area of diabetes and related disorders.

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Finished Dosages/India

Dr. Reddy's Laboratories made great strides in 1997-98 by turning in a significant performance on the finished dosages side. Sales were up Rs. 1,360.78 million as against Rs. 976.72 million in 1996-97.

The finished dosages (India) business accounted for 41 per cent of DRL's turnover compared to 39 per cent over the previous year.

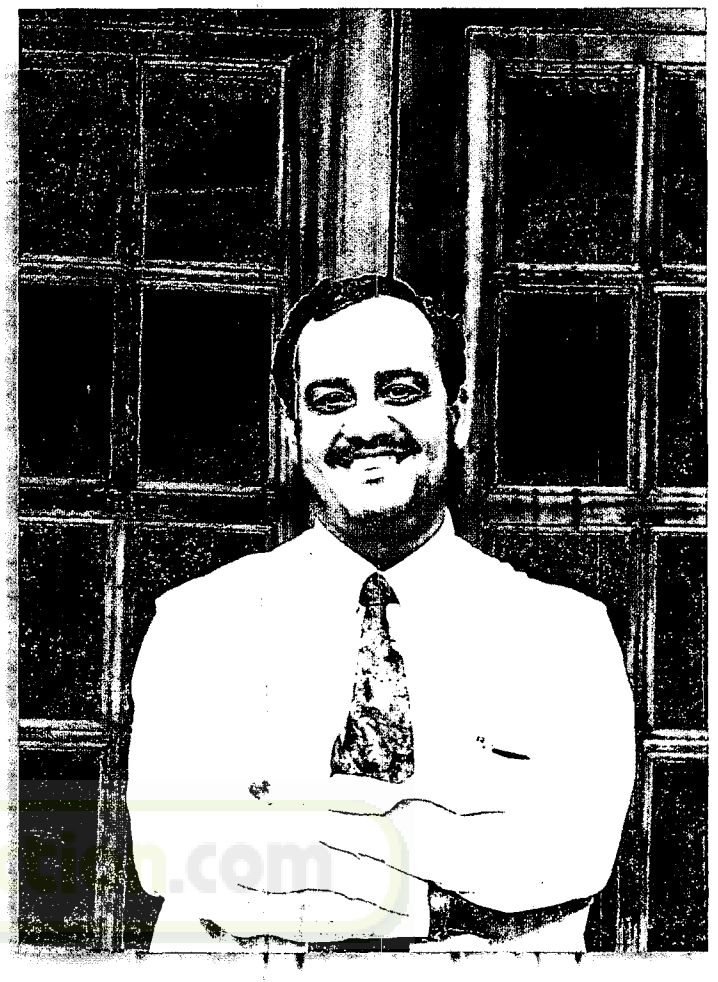
For a second consecutive year DRL recorded the highest growth amongst the 30 leading pharmaceutical companies in India. The 38 per cent growth posted can be attributed to the healthy performance of a balanced product portfolio.

		(Rs. million)
	1997-98	***1996-97***
Gastro-intestinals	402.80	242.10
Anti-infectives	277.40	322.59
Cardiovasculars	258.70	212.23
Pain Control	305.00	165.89
Speciality Group	116.88	33.91
Total	**1,360.78**	**976.72**

In 1997-98, DRL reached the top league in two important national surveys. ORG-MARG Retail Sales Audit ranked DRL among the 'Top 25' while CMARC placed the Company in the 'Top 10' in its Prescription Research Audit.

In addition, other highlights for the year include:

* A rise in 'purchase %' and 'repurchase %' (ORG-MARG) from 41 per cent to 49 per cent and 76 per cent to 81 per cent over the previous year.
* A rise in 'prescriber base' (CMARC) from 72 per cent to 80 per cent. The 'per capita' also evidenced a progressive trend.



"Quality of 3Ps (People, Products, and Processes) is the basis for our customer capital. This focus has given us a solid base on which we are confident of building a sustainable business in the future."

Arvind Vasudeva
GM - Marketing

May 1997
Nise attains 'Brand Leader' status in its category.

1997 APR | MAY | JUN | JUL | AUG | SEPT

June 1997
Launch of acquired brand - Riflux.

August 1997
Launch of acquired brands - Clamp and Becelac.

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