

Dr. Reddy's Laboratories Limited



Annual Report 1999 - 2000

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Be it the
vibrant hues of nature...
or individuals...
or enterprises...
The coming together of two
or more forces represents a
result infinitely greater than
the sum of its parts.



Each lending its unique
shade yet retaining its
individuality.
Like the consolidated
Dr. Reddy's Laboratories,
offering on its palette
innovative solutions for a
healthier millennium.



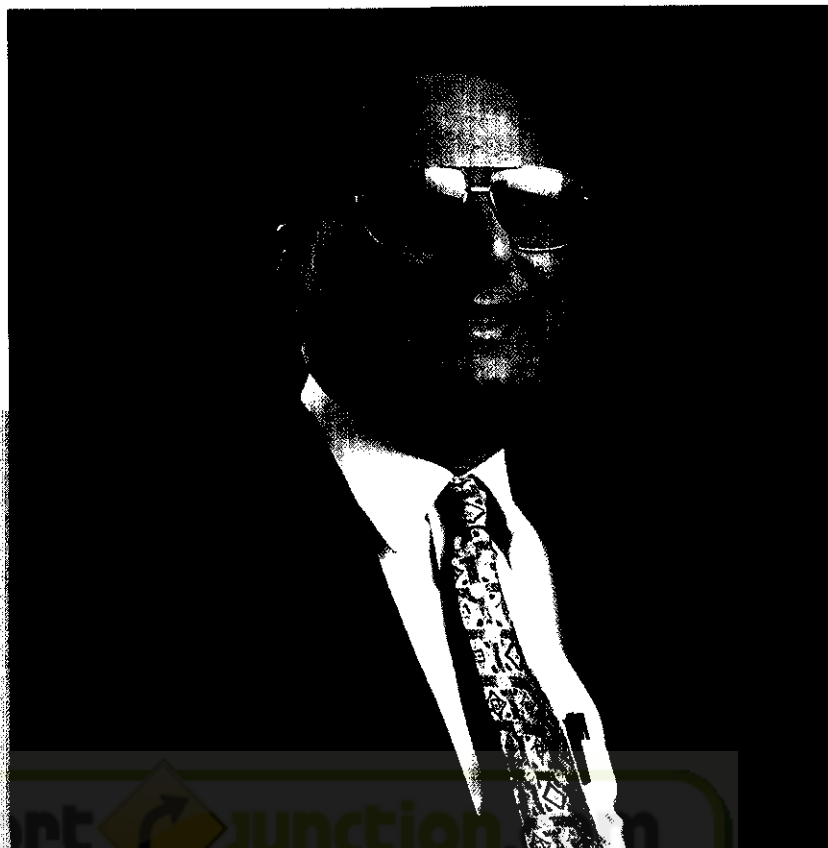
This Annual Report can be accessed at www.drreddys.com

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FOUNDER'S VISION



Dr. Anil Reddy
Chairman

Never sitting still

Sixteen years ago, in 1984, Dr. Reddy's Laboratories (DRL) started operations as a manufacturer of active pharmaceutical ingredients (API or bulk drugs), the drug substance that goes into the making of finished medicines. Dr. Reddy's was in the vanguard of Indian companies that mastered the technology of API manufacture to make high quality medicinal ingredients. Soon afterwards, sister company Cheminor Drugs Limited (CDL) was acquired with the primary aim of supplying APIs to the technically demanding markets of North America and Europe. Indeed, very soon we were exporting our APIs to these markets. Within a few years, both DRL and CDL had established an international reputation as reliable manufacturers of high quality medicinal ingredients. This reputation was further enhanced by the successful inspection of CDL's manufacturing facilities by the USFDA (United States Food and Drug Administration) in the 80s. Having established for ourselves a reputation as a manufacturer of APIs, it made sound economic sense for us to integrate forwards into making the higher margin finished medicines. This required the learning of a new set of skills in formulation

development, formulation manufacturing and medical marketing. By the early 90s we were well on our way to becoming a major Indian formulator. We were clocking among the fastest growth rates in the Indian markets while establishing a strong foothold in international markets, starting with Russia. By the mid to late 90s several brands in our portfolio were market leaders in India, as well as several markets overseas.

The 90s were also a remarkable period in our history for at least two other reasons. In the early 90s we commenced construction of CDL's generic finished medicine facility. This modern state-of-the-art facility was built to manufacture finished medicines for the North American and European markets. Formulation development carried out here led to the filing of our first application to register our finished medicines for marketing in the US (ANDA) and Europe. These filings triggered successful inspection of the facility by the respective regulatory agencies. This year we crossed an important milestone with the commercial launch of a product manufactured at this facility.

The early 90s also saw us initiate work on the construction of the facilities for Dr. Reddy's Research Foundation, a stand alone company with the specific purpose of carrying out research in the area of new drug discovery. Within one year of commencing operations, in 1995, we filed our first US patent application in the area of diabetes. By 1997 we had bagged our first licensing agreement, with the licensing of our lead antidiabetes compound to Novo Nordisk, one of two major international players in the area of diabetes treatment. By the time 2000 arrived we had two of our antidiabetes molecules in clinical development through Novo and several more in the pipeline. Several of these molecules have a powerful lipid lowering profile that is unique among the drugs that are currently marketed. In addition, we have an anticancer compound undergoing toxicology studies that is scheduled to enter clinical development in Europe next year. This compound will be a landmark for us since this is the first time we will be undertaking the challenging task of entering a molecule into clinical development ourselves.

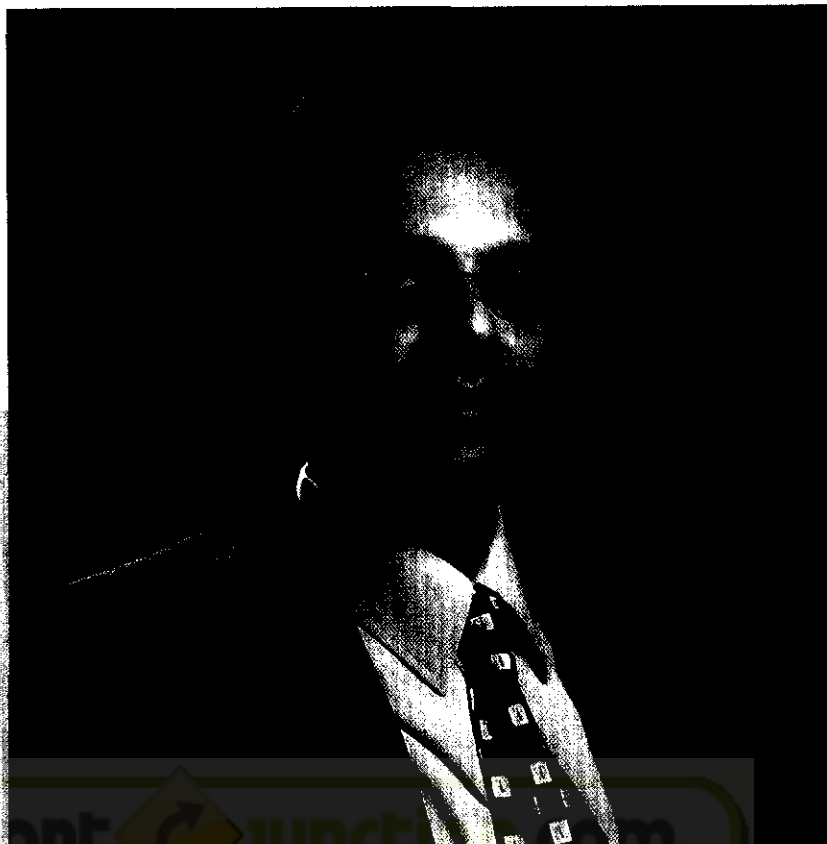
Including other molecules for cancer and inflammation, our discovery pipeline today boasts a depth and breadth that many larger companies could be proud of. Our scientists patent their inventions globally and publish their research findings in some of the foremost peer reviewed scientific periodicals in the world. The year 2000 has also been busy with the establishment of our research subsidiary in Atlanta, Georgia, USA. This beachhead in the most scientifically advanced country in the world will help us obtain greater value for our innovations even as we tap into the scientific expertise available locally.

These early days of the 21st century see us poised on the cusp of tremendous opportunity. The fact that we are in pole position to exploit these opportunities is not a result of some accident. It is the result of lots of hard work and perseverance by some very talented and motivated people. People who work for Dr. Reddy's Laboratories and Cheminor Drugs. These are the people who have fuelled the corporate restlessness that characterised the last decade - at no point were we sitting still!

Our achievements thus far illustrate a broad range of technological, marketing and more recently, scientific skills. These achievements are all the more remarkable considering our relatively recent origin as a manufacturer of APIs, the earliest stage in the pharmaceutical value chain. To some extent these achievements have been made possible by the cooperation between DRL and CDL, which were established to address different market segments. While the focus that was enabled by having two separate companies concentrating on distinct market segments was critical for our initial growth, the increasing convergence of the markets we operate in makes the merger of CDL and DRL a logical next step. In a globalising pharmaceutical marketplace this will also give us the critical mass of capabilities and resources to enable us to be a credible competitor in the markets we operate in.

Going forward we see acquisitions as playing a key role in our corporate strategy. However, this does not mean that we have abandoned the potential for growth through a leveraging of our internal capabilities, particularly in the area of product innovation. We see acquisitions as supplementing and not supplanting organic growth through innovation and we will continue to invest substantial efforts and resources in our drug discovery programme. The merger of DRL and CDL will free up resources that will enable us to bring a sharper and stronger focus to our investments in innovation. We see this as being critical to our continued success and emergence as a truly global pharmaceutical company. We also do not see any change in our philosophy of corporate restlessness. The philosophy that leads us to continuously experiment with the way we do things and the businesses we are in. An example is our ongoing efforts in the area of biotechnology, one of our youngest ventures, which we expect will bear fruit in the near future. With all this activity, the coming together of DRL and CDL is well timed. It enables us to set our aspirations higher. Even as separate companies, DRL and CDL cooperated for mutual advantage. But, while in the past we merely added up, now with our combined size we are also beginning to count in the increasingly important global marketplace.

TO THE STAKEHOLDERS



Satish Reddy
Managing Director

Dear Stakeholders,

It has been yet another eventful year for us here at Dr. Reddy's, in our goal of attaining a leadership position in the pharmaceutical industry.

Your company has registered a 16% growth in turnover and 16% in net profit. EPS stands at Rs.22.77 as compared to Rs.19.54 in the previous year.

The growth in turnover is a modest one compared to the growth over the previous years, on account of flat sales growth from the bulk drugs segment that has been subjected to intense price competition within and outside India. However, our attempts at driving growth through the value added formulations segment has met with significant success with the finished dosages segment recording 34% growth over the previous year.

The finished dosages business within India has witnessed a rapid growth over the last couple of years and your company has shown a growth this year more than thrice that of the industry. With the entry of a sixth brand into the elite list of the top 300 brands in the country, we have an enviable portfolio of products now spanning high potential therapeutic areas. Our foray into the oncology segment has met with tremendous success and we will continue to build on it. Launch of ten new products and several line extensions of existing brands have fuelled the growth in the formulations business. With innovative marketing practices, your company has the potential to emerge as the leader in the Indian formulations market.

M&A activity has led to the much awaited consolidation in this highly fragmented pharmaceutical industry in India and your company has made a beginning in this arena as part of its stated strategy of growth through acquisitions. With the acquisition of

American Remedies, a widely respected pharmaceutical company, your company now ranks No.5 as per ORG as a combined entity.

With our proposed merger with group company Cheminor Drugs, your company would have achieved the long awaited critical mass. Your company will rank No.3 among the pharma companies in India with global operations in regulated and unregulated markets.

The drug discovery activity sponsored by your company has made further progress. With two anti-diabetic products in clinical development and more products now in the pipeline in various stages of preclinical development, your company has established a firm footing in this field with its pioneering effort.

Our international operations are expanding with entry into the emerging markets of Brazil and China through joint ventures. With operations in over 65 countries, we are well on our way to emerging as a major global player in the pharmaceutical industry.

The technological strengths that have been the backbone of the company have now been further strengthened with the development of new capabilities in the area of biotechnology. Commercialisation of products developed in this area during the current year will add significantly to our growth plans in the future.

In order to gain and sustain a competitive advantage, we have taken up several initiatives within the company including Supply Chain Management and Competency Development Programmes which will improve productivity in the company going forward.

Finally, your company's success was made possible all these years due to the dedication and commitment of all employees. The continued enthusiasm and enormous efforts that they put in, gives us confidence in achieving much higher shareholder value in the future.



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The need of the hour was to move from being just a domestic success
to a position of power in the global arena.
To be able to chart courses globally rather than just nationally...

Worldwide, pharmaceutical companies are under pressure to consolidate – largely driven by the need to fund innovative R & D while gaining critical mass.

The consolidation activity at Dr. Reddy's Laboratories in 1999-2000 echoes this global trend. The merger of group company, Cheminor Drugs with the flagship and the acquisition of American Remedies were moves in this direction.

The unified company has emerged as India's third largest pharmaceutical player with revenues expected to reach Rs.1000 crores in the financial year 2000-01.

The competencies of Dr. Reddy's Laboratories now cover the entire pharmaceutical value chain from basic research to bulk actives to branded formulations and generics, and on to emerging areas such as custom chemical synthesis, diagnostics and biotechnology. Further it has helped the company acquire a global reach, with presence in all major world markets and form an extensive product portfolio.

Having the size, strength and services, Dr. Reddy's Laboratories is ready to face the challenges of a fiercely competitive business in the 21st century...

