Helping people lead healthier lives

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Dear Stakeholders,

The true beginning of the new millennium, that is, 2001, has been truly significant for all of us at Dr. Reddy's. The Indian government honored me with the Padmasree, one of the country's most prestigious awards, and the first in 30 years for the Indian pharmaceutical industry. On April 11, 2001, our stock (symbol RDY) was listed on the New York Stock Exchange (NYSE). The ADS opened at US$ 10.04, representing one half of the Dr. Reddy's share. Just three months later, on July 20, 2001, the ADS was quoted at US$ 20.50, among the top 10 performers on the exchange for the year.

This impressive performance on the NYSE is a result of many factors. Among them: robust financial results in 2000-2001; the licensing of our insulin sensitizer molecule to Novartis; and the marketing exclusivity for fluoxetine granted to us in the US.

We are proud of our Company's performance this year; as always, we are conscious of the tasks ahead of us. We are focused on establishing ourselves in the fiercely competitive global pharmaceutical industry. We are sure the innovative spirit that pervades the entire organization will help us do just that.

Our achievements in drug discovery are testimony to our belief that there is little correlation between innovation and size. We have licensed three PPAR agonists (anti-diabetic drugs); in the US, Novartis will market two of these products. While DRF-2725 will be among the first to reach the market in its class, DRF-4158 will be a second-generation compound in its class. All this on a relatively modest budget but with a lot of determination. We also aim at taking our drugs through clinical development till the establishment of clinical proof of concept in humans (Phase II trials), before licensing them out. As part of this strategy we have appointed Simbec, a well-known Clinical Research Organization in the UK, to conduct clinical trials on DRF-4832, an HDL elevator drug.

Our branded formulations business has witnessed a healthy growth of 23% over last year. As much as 60% of this has come from the overseas markets. Besides large, emerging markets such as China, Brazil and Russia, we have focused on opening newer markets in the Asia Pacific region, Africa and Latin America. Combined with the introduction of high-value, specialty products to our portfolio, this strategy should help us grow aggressively in the years to come.

As you must be aware, the first 6 months of 2000-01 were tough for the Indian pharmaceuticals market. The erosion in market value was caused by 2 factors:

- A steep decline in anti-infectives, a major portion of the market, as a result of general improvement in hygiene, especially in urban and semi-urban India.
- Rampant substitution of unbranded generics in the ethical prescription segment.

However, certain segments such as cardiovascular, pain management and diabetes have enjoyed high, double-digit growth rates. We have a significant presence in these segments that has been built steadily over the years and will provide a solid foundation for the future. Our oncology division doubled its turnover from last year and now enjoys a leading position in the market. With a sharper focus on therapeutic segments, we are poised to reach a leadership position in the Indian market.

We have crossed a major milestone in our biotechnology division through the successful completion of clinical trials and the approval for our first biotech product, Grastim (hG-CSF), in India. With several more products under development, we aim to tap the lucrative biogenerics markets in developed countries.

Products worth nearly US$ 53 billion will go off-patent by 2008. This means that the generics formulations market will expand significantly. Again, we hope that our success in filing the first ANDA for fluoxetine capsules 40 mg is the harbinger of many more such wins.

The bulk actives market too holds a promise of large volumes and exciting growth. We believe that we have a strong base from which to address this market. Our long standing expertise, investment in cutting-edge facilities, and strong marketing initiatives should help us secure a larger share in the expanding business.

Finally, I would like to say the Company's heartening performance this year reflects in no small way the efforts and commitment of our people, the engine of all our successes. The Board and I are grateful to them for their dedication. We would also like to thank our business associates for their support and you, our stakeholders, for your confidence. We believe that the strategic initiatives carried out in 2000-01 will help us enhance value for all stakeholders in the future. We look forward to your support as we gain momentum towards our goals.

Dr. Anji Reddy
Chairman

Life . Resea

Our new corporate identity is a sunny abstraction of a person with outstretched arms, expressing joy, warmth, vitality and boundless possibilities in the search for a healthier life. The new form sums up our essential driving force in the words: Life . Research . Hope

Gaining Momentum

Profiting from synergy

The year saw the formal merger of Dr. Reddy's Laboratories and Cheminor Drugs Limited, with retrospective effect from April 1, 2000. Part of the Dr. Reddy's Group since 1984, Cheminor has been a leader in the bulk actives and intermediates field. All its bulk actives plants have been inspected by the US Food and Drug Administration (FDA) and its finished dosage facility is a 100% EOU that caters to regulated markets.

The acquisition of American Remedies Limited (ARL) and its merger with your Company, too, was completed. ARL's strong portfolio improves the efficacy of co-prescribed drugs and is a valuable addition to our product basket.

These mergers provide us the critical mass necessary to address the global market. We are now a powerful organization that participates in every link of the pharmaceutical value chain. In the past year, we have focused on the management and financial restructuring coming from this consolidation. The transition has been smooth, an indication, we believe, of our ability to grow through change.

As an organization gains momentum on a fast growth track, making changes is vital. We've had our fair share of change this year – carefully planned, far reaching changes that we hope will speed us on our way to our goals.

Enhancing stakeholder value

Dr. Reddy's (RDY) began trading on the New York Stock Exchange (NYSE) on April 11, 2001, after completing a US$ 132.78 million American Depository Shares (ADS) offering. We are the first Asia-Pacific pharmaceutical company outside Japan to list on the NYSE.

The ADS opened at US$ 10.04. On July 20, 2001, just three months later, it stood at US$ 20.50, representing an increase of 100% in your share and placing it among the top 10 performers in the NYSE for the year. We hope that our emphasis on performance, excellence and good corporate governance will enable us to continue enhancing stakeholder value.

Our competitive advantage

End to end vertical integration provides

- Lower costs
- Increased reliability
- Increased flexibility
- Reduced timing for regulatory filings

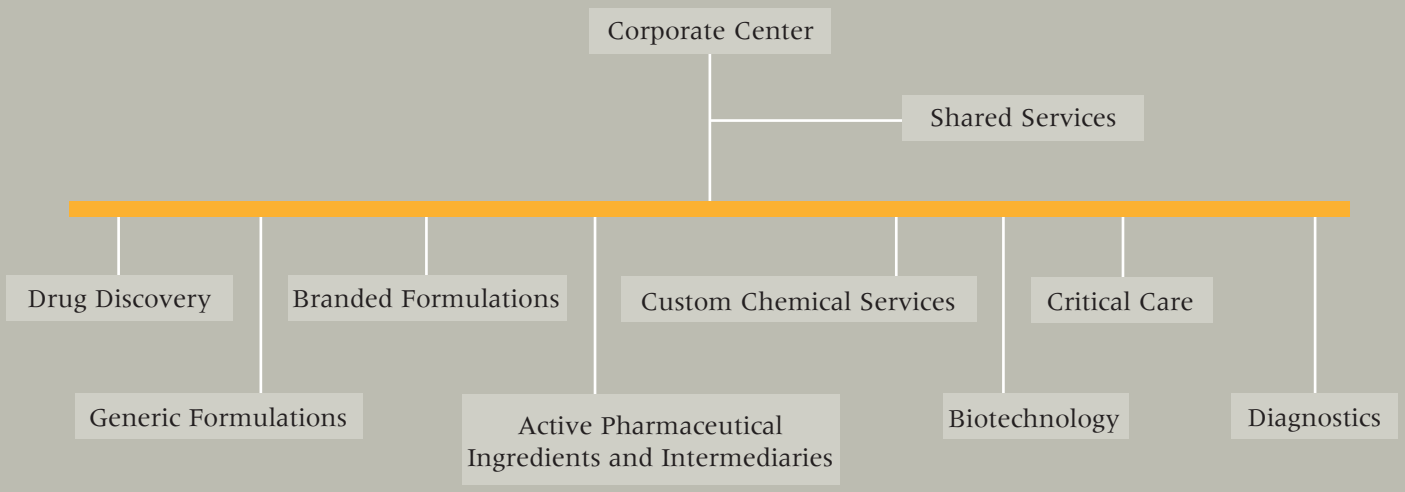
Discovery R&D | Process Chemistry | Active Pharmaceutical Ingredients Production | Analytical Development | Formulations Development | Formulations Manufacture | Regulatory Support

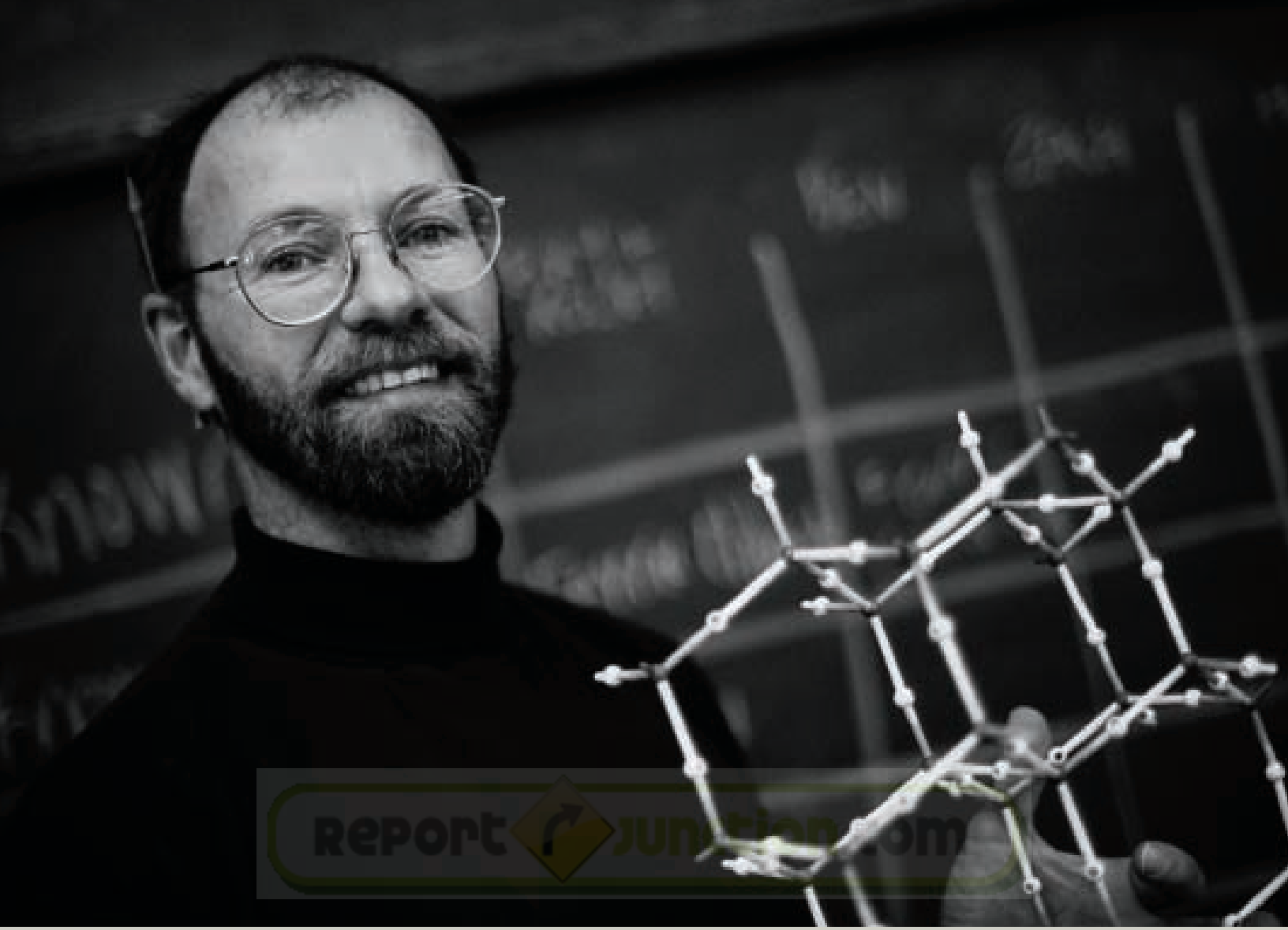
Restructuring for agility

We are constantly examining our management structures and processes to ensure that they are in sync with our long-term objectives. This year has witnessed a major restructuring exercise, with the formation of eight Strategic Business Units, that is, drug discovery, generic formulations, branded formulations, bulk actives, custom chemical synthesis, critical care, biotechnology and diagnostics.

Each SBU is a separate profit center with single point accountability. The SBUs are supported by a set of shared corporate services that include Finance, Human Resources, Corporate Communications, Strategic Planning and Information Technology. A corporate center plays the role of a 'strategic controller'. It focuses on developing individual SBU specific strategies and managing financial performance, while participating only in critical operational decisions. We have also developed management processes to ensure smooth coordination between the SBUs. This disaggregated structure will allow us to maximize benefits across our operations and provide an efficient framework for superior performance.

Organizational structure





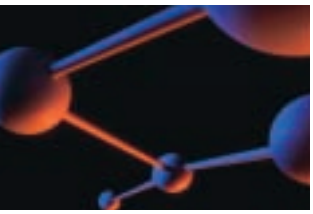
Moving up the value chain

Since our inception in 1984, we have consciously charted a growth path that will enable us to add greater value in all our areas of operation.

Research is a critical component in our long-term business vision. The risks may be high; the rewards, we believe, justify them. Our success with our insulin sensitizer molecules, two licensed to Novo Nordisk and one to Novartis Pharma AG, strengthens our belief. We will focus increasingly on the research and development of patentable drugs. The outsourcing of our HDL elevator molecule to Simbec, UK, for clinical trials is a step in this direction.

In all our other areas of operation as well, we have taken initiatives that will help us add value consistently. One such critical initiative is marketing. We plan to set up a global marketing organization that will help us take our products directly to market. This year, we have also focused on relationship management efforts towards becoming the preferred outsourcing partner of key innovator companies.

Research

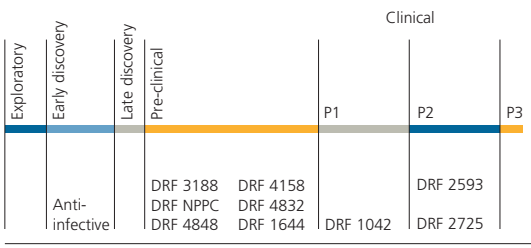


Dr. Reddy's Research Foundation (DRF) is the research arm of your Company. It focuses on early phase discovery and pre-clinical studies of newly synthesized compounds for the treatment of cancer, diabetes, dyslipidemia, inflammation and infections.

Backed by the infrastructure required for an internationally competitive effort, DRF has a robust product pipeline that includes nine New Chemical Entities (NCEs). Of these, two anti-diabetic molecules have been licensed to Novo Nordisk and are currently in Phase II clinical trials. We have also granted Novartis Pharma AG worldwide exclusive rights for the development and commercialization of our insulin sensitizer DRF 4158 in type 2 diabetes in return for up to US$ 55 million in upfront and milestone payments for specific clinical and regulatory endpoints, as well as royalties. As a first step towards taking our molecules through clinical development on our own, we will partner with Simbec Research Limited, a well-known Clinical Research Organization (CRO) based in the UK. Simbec will conduct clinical trials for DRF 4832, a PPAR agonist for treatment of cardiovascular complications.

We see drug discovery as a critical part of our long-term business strategy. To this end, we will work to both, leverage our strengths in organic synthesis and explore the therapeutic potential of natural resources. In November 1999, we set up a research subsidiary Reddy US Therapeutics in Atlanta, US, for discovering novel therapeutics that address unmet medical needs in diabetes, inflammation, lipid metabolism, oncology and cardiovascular disease. This is a bio-pharmaceutical company dedicated to molecular target development and testing.

Product Pipeline



Product Pipeline Highlights

DRF 2725 and DRF 2593 (anti-diabetic) – Phase II clinical trials
DRF 1042 (anti-cancer) – Phase I clinical trials
DRF 1644 (anti-cancer) – pre-clinical development completed
DRF 4832 (HDL elevator) – late pre-clinical development
DRF 4158 (anti-diabetic) – pre-clinical development completed