



**CONSOLIDATING
FOR THE FUTURE**

After a year of exceptional performance on the back of strong launches, this year has been one of consolidation. We have focussed on strengthening our assets – intellectual property assets, technology, people and infrastructure – to prepare ourselves for the future. These will add substantially to our competitive muscle and make us a globally sustainable organization.

This year we have commissioned an integrated R&D facility, the “Innovation Plaza” and scaled up our generics infrastructure to become one of the largest such manufacturing facilities in Asia. We have also enhanced our manufacturing capabilities for cytotoxic formulations and dedicated blocks for our custom pharmaceutical business.

We have built various new partnerships, alliances and collaborations to add teeth to our own internal R&D capabilities. We have acquired new facilities and businesses to gain strategic strengths, the value of which will reveal itself in time. We have continued to work at institutionalizing the principles of Lean management to drive Execution excellence, thus, improving the effectiveness of the company. We have also executed further on our plans to become a talent factory, where we build and develop human capability across businesses and functions.

As we emerge into a strong vertically integrated global pharmaceutical company, we shall recall this year as one of focussed consolidation for the leap forward.

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 DR. REDDY'S
IPDO - Innovation Plaza

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CONTENTS

2

CHAIRMAN'S
LETTER

4

KEY
HIGHLIGHTS

6

HUMAN
RESOURCES

10

SAFETY, HEALTH AND
ENVIRONMENT

12

CORPORATE SOCIAL
RESPONSIBILITY

16

MANAGEMENT
DISCUSSION AND
ANALYSIS

32

BOARD OF
DIRECTORS

36

MANAGEMENT
COUNCIL

38

CORPORATE
GOVERNANCE

50

ADDITIONAL
SHAREHOLDERS'
INFORMATION

60

FIVE YEARS
AT A GLANCE

61

RATIO
ANALYSIS

62

INTANGIBLE
ACCOUNTING

64

DIRECTORS'
REPORT

77

IGAAP STANDALONE
FINANCIALS

121

IGAAP CONSOLIDATED
FINANCIALS

165

U.S. GAAP CONSOLIDATED
FINANCIALS

211

INFORMATION ON
THE FINANCIALS OF
SUBSIDIARY COMPANIES

212

STATEMENT PURSUANT
TO SECTION 212

213

NOTICE OF ANNUAL
GENERAL MEETING

Dear Shareholders

In 2008-09, we will complete 25 years of being in business. It is a significant milestone. I ask my fellow employees to continue delivering affordable and superior medicines to cure various diseases — and in doing so, provide consistently high growth and excellent long-term shareholder value

> As you know, 2006-07 was a phenomenal year for your Company. Thanks to the US launch of Simvastatin and Finasteride as authorized generics of Merck's Zocor® and Proscar®, the 180-days exclusivity launch of Ondansetron, the generic version of Zofran®, and Fexofenadine, the generic version of Allegra®, we became the largest pharmaceutical player in India. In 2006-07 our consolidated revenue was Rs. 65,095 million (U.S.\$ 1.51 billion) and profit after tax was Rs. 9,327 million (U.S.\$ 216 million).

It is not typical for pharmaceutical companies to have four successful US generic launches in a single year. In that respect, 2006-07 was exceptional. So, too, has been 2007-08, but in the other direction. During the current year, we had no authorized generics or 180-days exclusivity Para IV launches in the US market. Not surprisingly, therefore, your Company's consolidated revenue for 2007-08 has reduced to Rs. 50,006 million (U.S.\$ 1.25 billion) and profit after tax to Rs. 4,678 million (U.S.\$ 117 million).

Yes, 2007-08 has been a worse year financially compared to

2006-07, and as your Chairman I would be the first to state it. Equally, I would ask you to consider three facts.

First, despite no upsides whatsoever from US generics, your Company has achieved a consolidated revenue (net of excise duties and sales returns) of over U.S.\$ 1.2 billion. In other words, we have become a U.S.\$ 1 billion plus entity only on account of our base businesses: Active Pharmaceutical Ingredients (APIs), branded formulations (BFRoW), Custom Pharmaceutical Services (CPS) and the existing US and European generics play. In fact, even these businesses would have done better had the Company not faced temporary problems with third-party suppliers to both its German subsidiary, betapharm and its CPS operations in Mexico — problems that are now things of the past.

Second, between 1999-2000 and 2007-08, your Company has increased its revenues at an exponential trend rate of growth (i.e. trend CAGR) of 27 per cent per year, measured in US dollars. I submit to you that such a robust trend rate reflects the inherent business strengths and growth potential of your Company.



Third, we expect some significant upsides in 2008–09. Let me share with you about one such. In the third quarter of 2008–09, your Company will exclusively distribute in US 25 mg, 50 mg and 100 mg strengths of Sumatriptan succinate, an authorized generic of GlaxoSmithKline's Imitrex® tablets. Sumatriptan is used for the treatment of acute migraine, and enjoys widespread market acceptability.

I see other upsides as well. My belief is that the worst in Germany is probably over in terms of further margin

Let me give you a few examples of how these initiatives are coming into play. During 2007–08, your Company successfully launched Reditux™ in India, a monoclonal antibody used in the treatment of cancer, and thus demonstrated its technological prowess in manufacturing a product in the biologics space. As of 31 March 2008, Dr. Reddy's has filed a total of 122 Abbreviated New Drug Applications (ANDAs); and 281 Drug Master Files (DMFs). In Discovery Research, it has one significant molecule, DRF 2593 for the treatment of Type II diabetes, in Phase III clinical trials in association with Rheoscience.

Your Company has also completed three acquisitions in April 2008. These are:

- A part of the DowPharma's small molecules business located in Mirfield and Cambridge, in the UK, with customer contracts, associated products, process technologies, intellectual property rights and trademarks
- Jet Generici Srl in Italy, which gives access to an essential product portfolio, a pipeline of registration applications and a sales and marketing organization
- BASF's pharmaceutical manufacturing business and facility in Shreveport, Louisiana, USA, which does contract manufacturing of solid, semi-solid and liquid dosage forms of generic prescription and OTC products for companies in the US.

During 2007–08, your Company invested Rs. 6,293 million on manufacturing, R&D facilities and other capital expenditure. This is the highest level of investment in a single financial year up to date. They will create the capacity to support Dr. Reddy's strategic growth agenda.

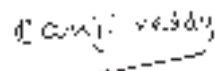
I am, therefore, confident of your Company's growth prospects in 2008–09 and thereafter.

In February 2009, Dr. Reddy's will have completed 25 years of its life. It will be a significant milestone and deserves celebrations, which undoubtedly shall happen at the time. To me, however, milestones are not about the journey completed, but guideposts to the voyage ahead. Therefore, I ask my fellow employees to re-dedicate themselves to develop and deliver affordable and superior medicines to cure various diseases for patients worldwide — and in doing so, provide consistently high growth and excellent long-term shareholder value.

As always, thank you for your support to Dr. Reddy's Laboratories. Many of you have stayed with us for almost 25 years and gained in the process. I say to you, "Stay with us for the next 25, and gain a great deal more."

25 years of existence. And 25 per cent growth. That is not a bad way to be!

Thank you
Yours sincerely



Dr. K Anji Reddy
Chairman

> DURING 2007–08, YOUR COMPANY successfully launched Reditux™ in India, a monoclonal antibody used in the treatment of cancer and thus demonstrated its technological prowess in manufacturing a product in the biologics space.

pressures. By migrating production of an increasing number of formulations to facility in India, we should generate higher profits from betapharm in 2008–09. Similarly, the problems of securing raw material from other suppliers for the CPS facility in Mexico has been addressed with the Company setting up its dedicated raw material plant at Miryalaguda, near Hyderabad, at a cost of U.S.\$ 16 million.

In what was a difficult year, 2007–08 saw outstanding performance of the Branded Formulations business, with revenues increasing by 16 per cent to Rs. 15,241 million in 2007–08. Incidentally, this 16 per cent growth was achieved both in India as well as international markets. I am also delighted that your Company's Branded Formulations business in Russia has now comfortably crossed the U.S.\$ 100 million mark.

Modern norms of corporate governance require listed companies to desist from making 'forward-looking' statements, especially in their Management Discussion and Analysis. While conscious of such rectitude, I must share with you what my expectations are for your Company in 2008–09. In rupee terms, I expect your Company as a whole to increase its topline by at least 25 per cent.

This is a do-able target, and I expect it to be achieved because of changes that have been brought about across your Company over the last few years — changes that are now primed to deliver superior financial results. I shared these with you last year. But they bear repetition.

Over the past few years, your Company has been developing the different building blocks of future growth. Some of these have been: creating a lean manufacturing organization; strengthening Dr. Reddy's position in existing markets and developing new geographies; building more infrastructure to drive higher levels of output; creating a faster and more focused product development process; building wider technical capabilities; leveraging the new acquisitions; optimizing efforts across the Company through best-in-class IT and ERP systems; and, most importantly, bringing all these together by creating a commonly aligned organization.

> Financial Highlights

Consolidated Revenues

Consolidated revenues decreased by 23% to Rs. 50,006 million, or U.S.\$ 1.25 billion in 2007-08 from Rs. 65,095 million in 2006-07.

Operating Income

Operating Income decreased by 70% to Rs. 3,358 million in 2007-08 from Rs. 11,331 million in 2006-07.

Profit Before Tax and Minority Interest

Profit before tax and minority interest decreased by 67% to Rs. 3,438 million in 2007-08 from Rs. 10,500 million in 2006-07.

Profit After Tax

Profit after tax decreased by 50% to Rs. 4,678 million in 2007-08 from Rs. 9,327 million in 2006-07.

Fully Diluted Earnings Per Share

Fully diluted earnings per share decreased to Rs. 27.73 in 2007-08 from Rs. 58.56 in 2006-07.

> ANDAs, DMF, Product Registration and NCEs

ANDAs in U.S.

In 2007-08, Company filed 19 ANDAs in US including 10 Para IV filings. These ANDAs address innovator revenues of about U.S.\$ 7.9 billion (IMS MAT, December 2007). Dr. Reddy's has filed 122 cumulative ANDAs as of 31 March 2008.

Highest number of Approvals for ANDA Filings

2007-08 also saw the highest number of approvals for the Company's ANDA filings: 13 final approvals from the US and 4 from Canada, in addition to 7 tentative approvals from the US. As of 31 March 2008, the Company's US Generic pipeline comprises 70 ANDAs pending with the USFDA, including 10 tentative approvals.

DMFs

Regarding APIs, the Company filed 54 DMFs in 2007-08. Of these, 23 were filed in US, 9 in Canada, 13 in Europe and 9 in other countries. As on 31 March 2008, the Company has made cumulative filings of 281 DMFs, with 127 in the US.

Formulations

In Branded Formulations, a total of 307 dossiers have been filed for product registrations in various countries.

New Chemical Entities (NCEs)

As on 31 March 2008, Dr. Reddy's had three molecules or New Chemical Entities (NCEs), of which two are in clinical development and one is in the pre-clinical stage.

> Revenues from Different Businesses

Revenue from API

Revenues slightly decreased by 1% to Rs. 11,805 million in 2007-08 from Rs. 11,883 million in 2006-07. International revenues accounted for 80% of API revenues. Revenues in 2006-07 included the benefit of upsides in sertraline & rabeprazole.

Formulations Revenues

Revenues at Rs. 15,241 million in 2007-08 an increase of 16% over 2006-07. This growth was primarily driven by the performance of India, Russia, Romania, Venezuela & Other CIS markets.

- Revenues in India grew by 16% to Rs. 8,060 million in 2007-08.
- Revenue from International markets grew by 17% to Rs. 7,181 million in 2007-08.

Revenues from Generics

Revenues decreased by 46% to Rs. 17,782 million in 2007-08 from Rs. 33,224 million in 2006-07.

North American revenues at Rs. 8,024 million in 2007-08 as against Rs. 23,617 million in 2006-07.

- Revenues grew by 14% to Rs. 5,581 million in 2007-08 from Rs. 4,914 million in 2006-07 excluding the benefit of upsides from Authorized Generics & ondansetron exclusivity.

- Commencement of own OTC business with the launch of ranitidine and cetirizine, revenues for 2007-08 at Rs. 263 million.

- Europe Generics revenues grew by 1.2% to Rs. 9,715 million in 2007-08 from Rs. 9,603 million in 2006-07.

- Revenues from betapharm grew by 2% to Rs. 8,189 million in 2007-08 from Rs. 8,004 million in 2006-07.

CPS Revenue

Revenues decreased by 27% to Rs. 4,818 million in 2007-08 from Rs. 6,600 million in 2006-07.

> HR Awards

Won 4 Awards and Accolades for its HR Initiatives

- Ranked 10th in 'The Best Companies to work for in

India' survey conducted by Business Today, Mercer Human Resource Consulting and TNS India.

- Won the Amity Leadership Award for best HR practices in the Pharmaceutical Sector at the 4th HR Summit.

- Received the Recruitment and Staffing Best in Class (RASBIC) award for the third time in a row in the Asia-Pacific HRM Congress.

- Adjudged by the ISTD for the Certificate of Merit for Innovative Training Practices among Indian organizations.

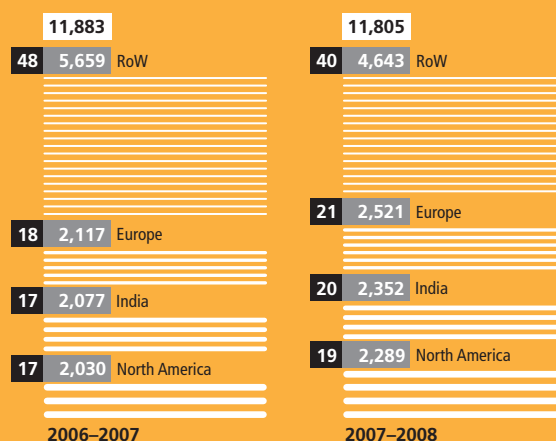
01 Consolidated Revenue

IN RS MILLION



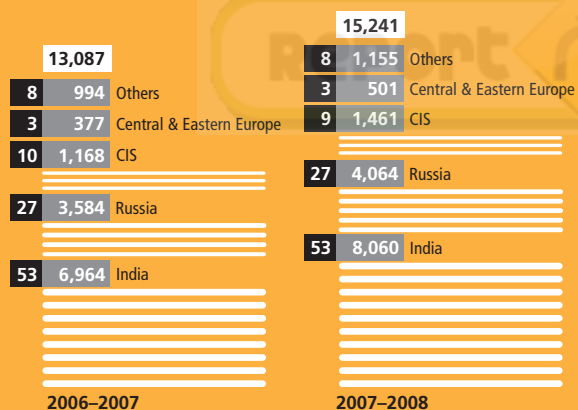
02 Geographic Mix of APIs

00% IN RS MILLION



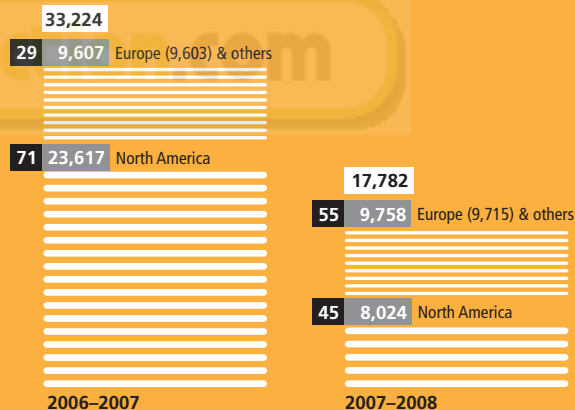
03 Geographic Mix of Formulations

00% IN RS MILLION



04 Geographic Mix of Generics

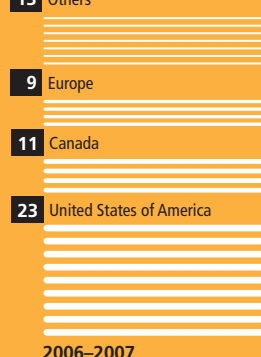
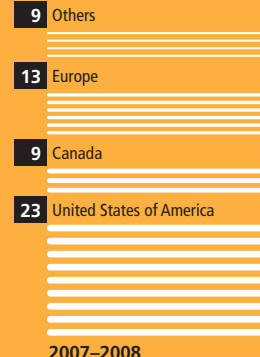
00% IN RS MILLION




05 Geographic Mix of ANDAs In U.S.

33
26 Non Para IV19
9 Non Para IV
10 Para IV

06 Geographic Mix of DMFs

56
13 Others54
9 Others



If we think of our company as a living organism, then people are the heart that keeps Dr. Reddy's ticking and growing. Our people are our pride and our greatest asset. We are proud of the talent we have been able to attract and of the important and innovative ways in which we have nurtured, motivated and engaged them

> POISED FOR FUTURE GROWTH

Dr. Reddy's has come a long way over the years and we intend to go a lot further in the next five. Our high aspirations demand that we accelerate our growth and ready our organization for the future. We want to achieve sustainable future growth and that means we must focus on refreshing our talent pipeline and creating the organizational bench strength that will propel us forward.

We are moving steadily in this direction, ensuring that the right people are in the right places. Our global presence has continued to grow, spurred on by significant new acquisitions in North America and Europe which will not only impact our

core businesses, but have the added advantage of bringing fresh talent on board. Today, our employee strength globally has crossed 9,500 and comprises over 40 nationalities. More than 2,000 employees are at international locations.

One of our top priorities has been to add key talent at the leadership level across several businesses as well as in corporate functions. We have also injected talent in areas such as peptides, polymers, bio-catalysis, material sciences, purification and fermentation, with a number of new employees bringing critical skills from overseas. More than 70 PhD candidates were hired during the year, significantly ramping up our R&D capabilities. This is in addition to various specific project hiring across such areas as Biologics, Pharmaceutical Services & Active Ingredients (PSAI) and Generics.



We are justly proud of our revised maternity benefit policy—which now includes 4 month maternity leave, two hour flexibility for the first year and a flexible work schedule

We also built a support organization around our Global Oncology business, which is fast growing across various businesses and geographies. This core team will provide high quality and high impact support in line with our strategic aspirations.

wellness fields spoke on the subject of work-life balance. Our initiatives have borne fruit, with a significant increase in hiring from campuses, where almost a third of all hires were women.

EMBRACING DIVERSITY

As a people-centric organization, we believe in fair employment opportunities for all. We participated in job fairs for differently abled candidates, including career fairs by the Ability Foundation, strengthening our Diversity Program. Our efforts to build a truly inclusive organization are also visible in new women-friendly policies and initiatives in the workplace.

We are justly proud of our revised maternity benefit policy which has a number of additional benefits, including 4-month maternity leave, two-hour flexibility for the first year from the date of the child's birth and a flexible work schedule. We also instituted a comprehensive sexual harassment policy which includes a process for filing a complaint and launching an investigation. One of our big initiatives was the establishment of day care centers at three locations which are supervised by trained caregivers and Montessori school teachers and serve a significant number of our women employees with young children. We are also supporting the career development of women associates by providing mentors in every

TALENT MANAGEMENT

We continue to tap into the campus talent pool, attracting the best and brightest from the country's top universities. This year we recruited 13 management trainees and laterals from prestigious B-Schools including IIMs, XLRI, ISB & NMIMS as well about 200 Technical Trainees, including a number of IIT graduates. This year, we also launched a Technical Internship Program as part of our Global Internship Program.

In line with our thinking on lean processes and simplification, we have leveraged technology to optimize the recruitment process. We have developed an e-recruitment module which is hosted on our internal portal that serves as a platform for applicant tracking starting from application creation to on-boarding. Going a step further, we also developed an interactive e-joining module, called Connexion, which has considerably reduced the time spent on the on-boarding process, while giving prospective employees wide access to information about the organization and to transition-related subjects. Many of our policies and processes have been revisited and redone to unleash greater empowerment, faster turnaround and more accountability in our various HR transactions.

> OUR COMMITMENT TO OUR PEOPLE has won us the notice and respect of institutions worldwide. We were ranked among the 10 Best Companies to Work for in India as per the Business Today – Mercer study for 2007 and among the 25 Best Employers in India in the Hewitt Associates – Economic Times survey for 2007.

business unit. Our quarterly women's meets draw large crowds and serve as a forum for discussion and self-expression. At the latest meeting held on Women's Day, a number of eminent speakers from the business and

SIMPLIFYING PROCESSES

Lean thinking was also implemented successfully in our HR organization as part of our ongoing efforts to simplify our processes while adopting global best practices. We have fully automated our HR and employee processes, thereby improving productivity and reducing turnaround time. In line with this, we also benchmarked HR processes and policies across the



Today, our employee strength globally has crossed 9,500 and comprises over 40 nationalities. More than 2,000 employees are at international locations

industry and simplified our own in order to eliminate redundancy and waste. In the course of one of these exercises, we saw the need to revise our Code of Business Conduct and Ethics (COBE). The new, reader-friendly COBE simplifies our Ombudsman procedure, provides clear and specific guidelines with respect to our behavior and strongly reinforces our commitment to all of our stakeholders.

RECOGNITIONS IN HR

We have continued to be recognized by numerous external agencies for our people practices. We won the Recruiting and Staffing Best in Class Award (RASBIC)

EFFECTIVE COMMUNICATION THROUGH a variety of high-impact channels ensures that all our employees worldwide are kept abreast of the ups and downs, strategies, plans and performance of our organization. We have a communication cascade procedure which ensures information reaches every single employee in the organization within the shortest time possible.

2007-08 in the 'Best Use of Technology for Recruiting' category. This is the third year in a row we have won this accolade. We also took home the Amity Leadership Award for best HR practices in the Pharmaceutical Sector at the 4th HR Summit. Our commitment to our people has won us the notice and respect of institutions worldwide. We were ranked among the 10 Best Companies to Work for in India as per the Business Today – Mercer study for 2007 and among the 25 Best Employers in India in the Hewitt Associates – Economic Times survey for 2007.

However, external recognition is not enough. We check our internal barometer every alternate year through the Organizational Climate Survey (OCS), a diagnostic survey which gauges employee motivation, satisfaction and commitment and helps us identify areas for improvement. In the OCS 2007, we received an

Employee Satisfaction Score that put Dr. Reddy's in the Top 10-33 % in India.

LEADERSHIP DEVELOPMENT

Leadership development has gained a new urgency within our organization. Knowing we will need high potential leaders to achieve the aggressive growth trajectory we have charted out, we have launched a Leadership Development initiative with the twin agenda of enhancing our leadership bandwidth and bench and building a distinctive culture of leadership.

We are also focusing our energies on building leadership skills and giving potential leaders the tools and challenges to perform at their optimal levels. Executive Coaching Services were provided to many of our senior managers, where intensive one-on-one interactions with an outside 'coach' sought to improve performance at work and in life.

We held our fifth Technical Conclave on the theme of Unit Processes – Lab Scale to Commercialization, where about 400 people across Business Units benefited from interactions with experts from India and abroad. We also continue to strengthen our long-term education efforts with Birla Institute of Technology & Science (BITS), giving our employees the opportunity to learn while they earn. This year, we focused on building organizational technical capability by starting two new batches in MSc (Pharmaceutical Chemistry) and MS (Pharmaceutics), which together have more than 70 takers.

We developed customized training programs to meet business needs throughout the organization. A major undertaking this year was to facilitate understanding of the 5S and Lean thinking concepts that were introduced across the organization through targeted workshops and training sessions in different business units.