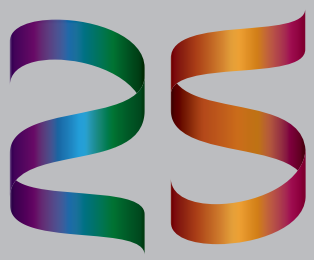
DR. REDDY'S

25 YEARS OF INNOVATION AND AFFORDABILITY

DR. REDDY'S LABORATORIES LIMITED | ANNUAL REPORT | 2008–2009



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CHAIRMAN'S LETTER

Dear Shareholders

In February 2009, your Company completed 25 years of its life. It is a significant milestone. We have grown from a small establishment located in Hyderabad to a – 10,000 strong global company with facilities in India, Europe, the USA, Russia and China — earning a net revenue of Rs. 69.4 billion (Rs. 6,944 crore or U.S.$. 1.37 billion) in 2008-09. And with this growth, your Company has created significant shareholder value

As I ref ect on the 25-year of your Company, I remember 1984, when Dr. Reddy's Laboratories was established with an initial capital outlay of Rs. 25 lakh. Two years later, in 1986, it got listed on the Bombay Stock Exchange. For the next 11 years, we worked on providing bulk drugs and formulations, while focusing on our R&D. In 1997, we licensed an anti-diabetic molecule, DRF 2593 (Balaglitazone), to Novo Nordisk — thus becoming the first Indian pharmaceutical company to out-license an original molecule. That year, we also filed our first abbreviation new drug application for Ranitidine with the United States Food and Drug Administration.

Four years later, on 11 April 2001, your Company became the first Asia Pacific pharmaceutical company, outside Japan, to list on the New York Stock Exchange. And also the first Indian pharmaceutical company to obtain a 180-day exclusive marketing rights for a generic drug in the US market with the launch of its f uoxetine 40mg capsules.

Five years thereafter, in 2006, the Company's revenues crossed U.S.$. 1 billion. In the same year Dr. Reddy's became the first manufacturing company in India to be compliant with Section 404 of the Sarbanes Oxley Act of 2002, well in advance of the mandatory deadline of 31 March 2007. In 2007, we launched Reditux™ (rituximab), the world's first biosimilar of a monoclonal antibody. Today, we are a U.S.$. 1.37 billion global entity, all set for even higher growth.

If any shareholder purchased 100 shares during your Company's IPO in August 1986, plus the 60% rights issue in August 1989, and held on to these till date, the person would be owning a total of 5,760 shares of Dr. Reddy's Laboratories at a face value of Rs. 5 per share. Against a total outlay of Rs. 2,500 (Rs. 1,000 during the IPO and Rs. 1,500 to purchase 60 shares of the rights issue at Rs. 25 per share) that investor will have earned a total of Rs. 1.95 lakh as dividends, including the proposed total dividend of Rs. 6.25 per share for 2008-09. On 31 March 2009, your Company's share on BSE was being quoted at Rs. 488.65. Thus, the value of this investor's portfolio would have been Rs. 28.15 lakh.

You will agree that this represent a track record of providing very good long term shareholder value.

I am happy with the numbers. But I am happier still with the fact that, throughout the growth process, your Company has never forgotten the basic reason for its existence — to provide affordable and innovative medicines to patients across the world. And that it has the - strategy to leverage research and development, product offerings and customer services to be - a leading global pharmaceutical company.

Let me now quickly brief you of the key elements of your Company's performance in 2008-09, followed by how I see its growth in 2009-10.

Your Company has been steadily building capabilities and resources over the years, and strengthened these further with initiatives at improving productivity and reducing costs. I expect these initiatives delivering value in 2009-10.

- We launched sumatriptan — the authorized generic version of Imitrex® in the USA ahead of other competitors. This alone has contributed to Rs. 7,188 million or 10% of your Company's total revenues for 2008-09.
- Dr. Reddy's Global Generics revenue increased by 51% to Rs. 49,790 million, primarily on account of the launch of sumatriptan in North America and strong performance in Russia and CIS. Sixteen new products were launched in the US generics market in 2008-09, including two over-the-counter (OTC) products.
- The Pharmaceutical Services and Active Ingredients (PSAI) business grew by 13% to Rs. 18,758 million; and revenues from the emerging markets grew by 20%.
- We made three new acquisitions: DowPharma's Small Molecules facilities in the UK, located at Mirfield and Cambridge (Chirotech); BASF Corporation's manufacturing facility at Shreveport in Louisiana, USA; and Jet Generici SRL, a company engaged in the sale of generic finished dosages in Italy. These acquisitions are already paying dividends, and will act as building blocks for future growth of your Company.
- On a consolidated basis, your Company's revenues (net of excise duties and sales returns) increased by 39% over the previous year to Rs. 69,441 million in 2008-09 — or U.S.$. 1.37 billion.
- EBIDTA stood at Rs. 14,529 million in 2008-09, or U.S.$. 286 million.

I am happy with your Company's continued commitment to build a robust generics and API pipeline. In 2008-09, Dr. Reddy's filed 23 abbreviated new drug applications (ANDAs), of which 20 were in the US and 3 in Canada. Among these were 7 Para IV filings. Thus, your Company has filed 159 cumulative ANDAs as of 31 March 2009. The year also saw the highest number of approvals for our ANDA filings: 23 final approvals from the US and 4 from Canada, in addition to 4 tentative approvals from the US.

The API pipeline is also strong. Your Company filed 55 DMFs in 2008-09. Of these, 21 were filed in US, 5 in Canada, 19 in Europe and 10 in other countries. As on 31 March 2009, there have been cumulative filings of 351 DMFs, with 148 in the US.

Regarding discovery research, your Company has several molecules or New Chemical Entities (NCEs), which are under active development in pipeline. These cover metabolic, respiratory and cardiovascular disorders.

I need to now share the facts about the betapharm impairment that you may have read in the financial press. The German generics market is rapidly transiting to a lowest-price tender model. State Healthcare Insurance Fund companies are issuing tenders for generics supply, where the lowest bidder for each generic in each local geography wins. This has led to a rapid decline in generics prices. With this change in external business conditions, accounting standards dictated that your Company tests the carrying value of betapharm intangibles for possible impairment. This was done, and resulted in a non-cash write-down of intangible assets amounting to Rs. 317 crore. In addition, the betapharm goodwill on the balance sheet was also tested for impairment — on the ground that it existed due to the earlier branded nature of the German market, which was being impaired by the move to tender-based supplies. This test was also carried out, resulting in a non-cash charge of Rs. 1,086 crore. In the aggregate, therefore, the non-cash impairment charge was around Rs. 1,402 crore.

Two things need to be emphasized here. First, this is a pure non-cash entry. Second, your Company has done significant work with betapharm to optimize costs and streamline the supply chain in a milieu of tender-based pricing. These initiatives are yielding results. Thus, you should see stronger performance from betapharm in 2009-10 and thereafter.

Your Company has been steadily building capabilities and resources over the years, and strengthened these further with initiatives at improving productivity and reducing costs. I expect these initiatives delivering value in 2009-10.

If you will recollect, last year I had exhorted your Company to grow its top-line by at least 25%. It has done much better — by increasing its revenues by 39% in 2008-09. Given the superior performance in 2008-09, I am asking your Company to grow its revenues by another 10% in 2009-10, with the return on capital employed in middle to high teens. This is not a modest target, for it implies more than a 50% growth in revenues over two years. I am sure that your Company will achieve this objective.

My thanks to all employees of the Dr. Reddy's group everywhere in the world for the excellent work that they have done, and their dedication to furthering the cause of affordable medicine. Also my sincere thanks to you for being with us in all times.

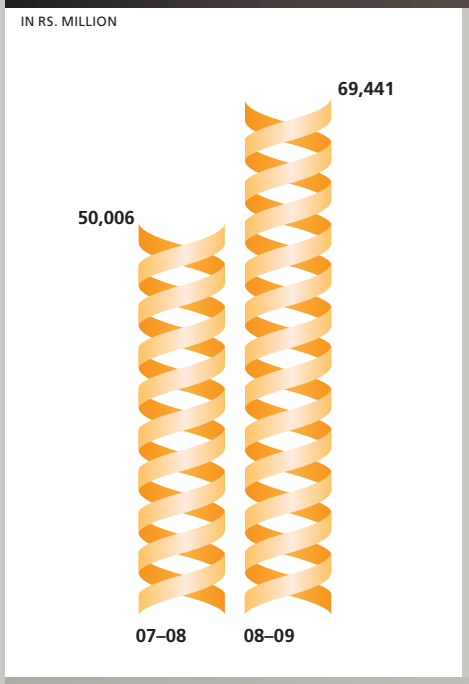
Stay with us for another 25 years. I am sure they will be more rewarding!

Thank you
Yours sincerely,
Dr. K. Anji Reddy
Chairman

25TH YEAR HIGHLIGHTS

BASED ON IFRS FINANCIALS

CONSOLIDATED REVENUE



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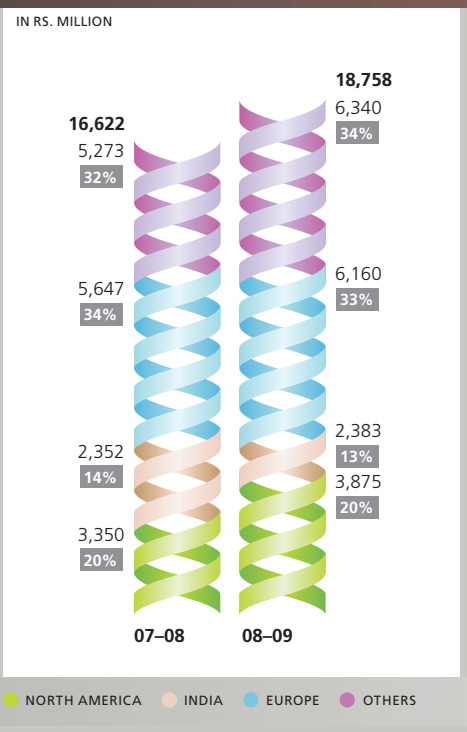


FINANCIAL HIGHLIGHTS

Consolidated Revenues

Consolidated revenues increased by 39% to Rs. 69,441 million, or U.S.$. 1.37 billion in 2008-09 from Rs. 50,006 million in 2007-08.

Gross Profit

Gross profit increased by 44% to Rs.36,500 million in 2008-09. As a percentage of revenue, gross profit stood at 53% in 2008-09, versus 51% in 2007-08.

EBIDTA

EBIDTA stood at Rs.14,529 million in 2008-09, compared to 9,661 million in 2007-08, showing a growth of 50%.

Profit After Tax

Net loss of Rs. 5,168 million in 2008-09 as against net profit of Rs. 3,836 million in 2007-08.

Excluding impact of one time write down of betapharm intangibles from the current year as well as from the previous year, adjusted net income increased by 44% to Rs. 8,855 million in 2008-09 from Rs. 6,937 million in 2007-08.

Fully Diluted Earnings Per Share

Fully diluted earnings per share decreased to (Rs. 30.69) in 2008-09 from Rs. 22.80 in 2007-08.

ANDAs, DMFs, PRODUCT REGISTRATION AND NCEs

ANDAs In North America

In 2008-09, the Company filed 23 ANDAs in US and Canada including 7 Para IV filings. These ANDAs address innovator revenues of about U.S.$. 12 billion (IMS MAT, December 2008). Dr. Reddy's has filed 159 cumulative ANDAs as of 31 March 2009.

Highest number of Approvals for ANDA Filings

2008-09 also saw the highest number of approvals for the Company's ANDA filings: 23 final approvals from the US and 4 from Canada, in addition to 4 tentative approvals from the US. As of 31 March 2009, the Company's US Generic pipeline comprises 68 ANDAs pending with the USFDA including 9 tentative approvals.

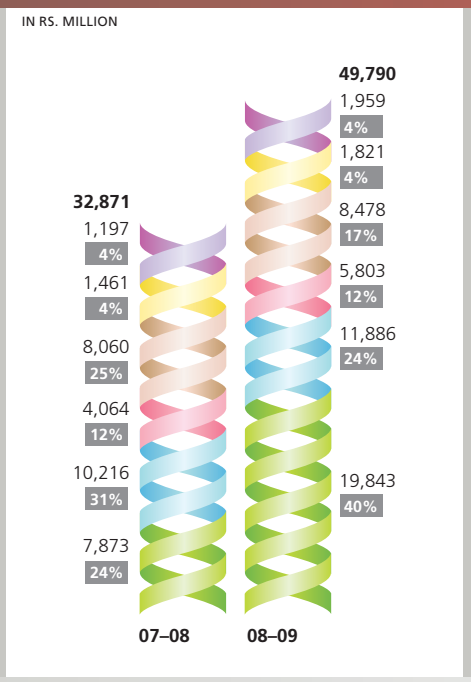
DMFs

Regarding APIs, the Company filed 55 DMFs in 2008-09. Of these, 21 were filed in US, 5 in Canada, 19 in Europe and 10 in other countries. As on 31 March 2009, the Company had cumulative filings of 351 DMFs, with 148 in the US.

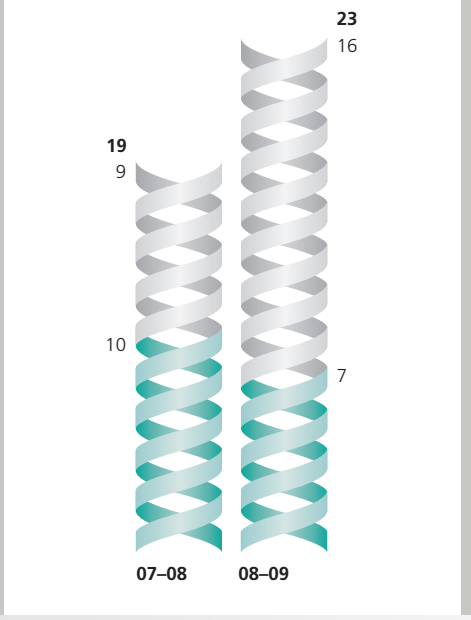
New Chemical EntitieS (NCEs)

As on 31 March 2009, Dr. Reddy's had several molecules or New Chemical Entities (NCEs), under active developement in pipeline covering metabolic, respiratory and cardiovascular disorders.

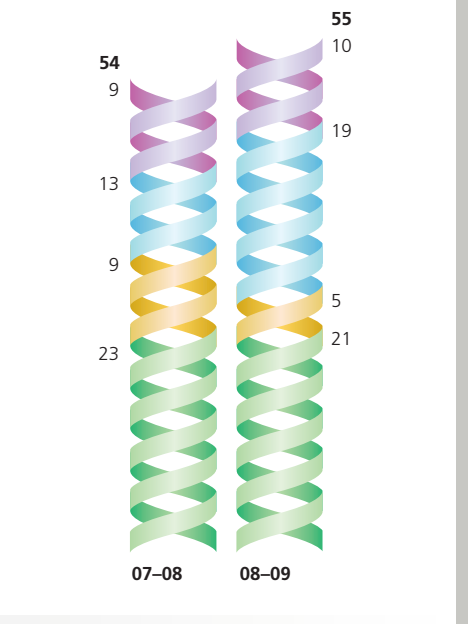
GEOGRAPHICAL MIX OF GLOBAL GENERICS



MIX OF ANDAs IN NORTH AMERICA



GEOGRAPHICAL MIX OF DMFs



REVENUES FROM DIFFERENT BUSINESSES

Pharmaceutical Services and Active Ingredients (PSAI)

Revenues grew by 13% to Rs. 18,758 million in 2008-09 from Rs. 16,622 million in 2007-08. International revenues accounted for 87% of PSAI revenues. 2008-09 saw the company posting significant sales of gemcitabine, naproxen, clopidogrel, montelukast, rabeprazole sodium, ropinirole hydrochloride and sumatriptan succinate.

Revenues from Global Generics

Global Generics has outperformed in 2008-09, with revenues increasing by 51% to Rs. 49,790 million from Rs. 32,871 million in 2007-08.

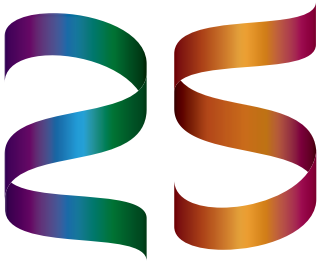
- In 2008-09, the company was able to launch sumatriptan, the authorized generic version of Imitrex® ahead of others. The launch of sumatriptan in the US contributed Rs. 7,188 million, or 14% of Global Generics revenues.
- Revenues from North America increased by 152% to Rs. 19,843 million in 2008-09 from Rs. 7,873 million in 2007-08, growth being largely driven by the launch of Sumatriptan. Excluding Sumatriptan, North America revenues grew by 61%.
- Revenues in India grew by 5% to Rs. 8,478 million in 2008-09.
- Revenues from Russia and CIS countries grew by 38% to Rs. 7,623 million in 2008-09 from Rs. 5,526 million in 2007-08. Revenues in Russia grew by 43% – out-performing market growth in both value and volume terms.
- Revenues from Europe grew by 16% to Rs. 11,886 million in 2008-09 from Rs. 10,216 million in 2007-08.
- Revenues from betapharm grew by 20% to Rs. 9,854 million in 2008-09 from Rs. 8,189 million in 2007-08.

HR AWARDS

Won 3 awards and accolades for its HR initiatives

- Received the Recruiting and Staffing Best in Class Award (RASBIC) 2008-09 for the 'Best Overall Recruiting & Staffing Organization' and 'Best Recruiting Evaluation Techniques'.
- Received three Employer Branding awards at the World HRD Congress for 'Best HR Strategy in line with Business', 'Excellence in HR though Technology' and 'Best Talent Management'.
- Received the Global HR Leadership Award for 2008-09 at the Asia-Pacific HR Congress.

THE HISTORY OF COMMITMENT



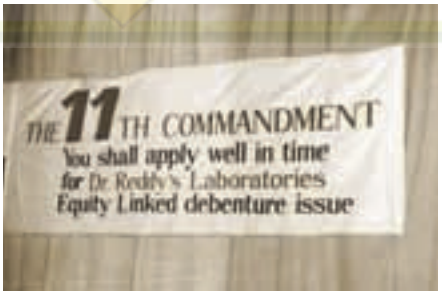
YEARS OF DR. REDDY'S LABORATORIES

"If the world's burden of disease is to be diminished, it needs science that is both good and cost-effective. I have great confidence in our army of chemists and biologists. And I firmly believe that walking on the trail of innovation will lead to creating a great company — a company that doctors, patients, investors and the public will admire" DR. ANJI REDDY

When Acharya Prafulla Chandra Ray, India patriot and chemist extraordinaire, returned from England with a PhD in chemistry in 1888, he waited a year before being offered a temporary assistant professorship by the colonial government in India. Four years later, P.C. Ray established The Bengal Pharmaceutical and Chemical Works. Charged with the surging nationalism of his times, Ray wrote in his autobiography, "the very idea of locally manufacturing pharmaceutical preparation, which hitherto had to be imported, acted like a tonic." More than a century later, when Dr. Kallam Anji Reddy was honoured with the P.C. Ray Award, he echoed more or less a similar nationalistic sentiment – he was proud to have enabled India in pioneering the technology and production of the drug Sulfamethoxazole. The history of pharmaceuticals in India is a story of bold pioneers who demonstrated that they could master processes that could be used to manufacture chemicals and molecules that would help India progress towards a sustainable twenty-first century.

Yet, even until the second half of the twentieth century, 85% of India's drug market was controlled by multi-national companies. India's new patent law which was introduced in 1970 made it possible for Indian pharmaceutical companies to produce branded drugs by creating new manufacturing processes. The 1970s marked a period of rapid transition that saw Dr. K. Anji Reddy setting up Uniloids Ltd which produced the active pharmaceutical ingredients for drugs such as Metronidazole, used for the treatment of infections caused by anaerobic bacteria and protozoa. In 1980, Dr. Reddy left Uniloids to start Standard Organics Limited which made sulphur-based pharmaceutical ingredients. In 1984, Dr. Reddy sold his share of Standard Organics and started Dr. Reddy's Laboratories by the end of the year there were 100 employees. The rented building which would remain the office when the company went public in 1986 was also shared with a few other companies that Dr. Reddy started or purchased. Dr. Reddy's was the flagship company among a group of companies: Benzex, Stangen, Cheminor, Standard Equity Fund, Stangen Immunodiagnostics, the nearly forgotten Compkeys and the Standard Research Centre. This group of companies produced many firsts which included electronics based medical equipment and diagnostic kits – demonstrating that the company nurtured a vision far ahead of its times.

Between 1985 and 1986, Dr. Reddy's Laboratories created 'Methyldopa', a hypertension drug which was unavailable in India. Although international manufacturer Merck had its own Methyldopa, its Indian subsidiary had no access to it. The government of India would not import because it was expensive; although the Government had tried to import the drug from Hungary, it was clear that that would not pass the specifications set down by Merck. Dr. Reddy took that as a challenge and produced Methyldopa within three months. The drug was qualitatively equal to and acceptable by Merck. Dr. Reddy's entry into the international market with



Methyldopa was greeted with surprise by some; for fellow travelers from India it fetched appreciation in the form of the Indian Chemical Manufacturers Award.

The same year Dr. Reddy's went public. The photographs from the event show a confident banner with an eleventh commandment: "You shall apply well in time for Dr. Reddy's Laboratories Equity Linked debenture issue". The Public Issue opened on 24-May-1986 for NRIs and on 05-June-1986 for Indian public. Dr. Reddy's was listed on Bombay Stock Exchange and on four regional exchanges for selling 1.1 million shares to the public. That year, Dr. Reddy's made a profit of 5.8 million rupees on sales of 63.5 million rupees. The first AGM of the company after it went public was held on 3 April 1987. Dr. Reddy's paid 20% in dividends to all its shareholders.

The story of Dr. Reddy's exemplifies that science is as much about the breakthrough as the dead ends, as much about success as about that crucial teacher – failure. The Dr. Reddy story, as history will show is about the ability to chase after a dream and make it come true.

1984 — **Dr. Reddy's Laboratories established** by Dr. Anji Reddy with Rs. 25 lakh capital outlay

1986 — **Bombay Stock Exchange listing**

25

YEARS OF INNOVATION AND AFFORDABILITY

TREATMENT AT AFFORDABLE PRICES

"I will live to see my son's and daughter's weddings"

— says Ramesh Kumar, 50, afflicted by NHL cancer, and treated with a combination of drugs, including Dr. Reddy's rituximab.

Introduced in 2007 at less than half the price prevailing under the innovator's monopoly, our biogeneric rituximab spelled hope to thousands who could not have afforded it.

Generic versions are available for less than a quarter biopharmaceuticals on the market today. The availability of generic alternatives across this entire basket would be transformational in several therapeutic areas, most notably oncology, hematology and rheumatology.