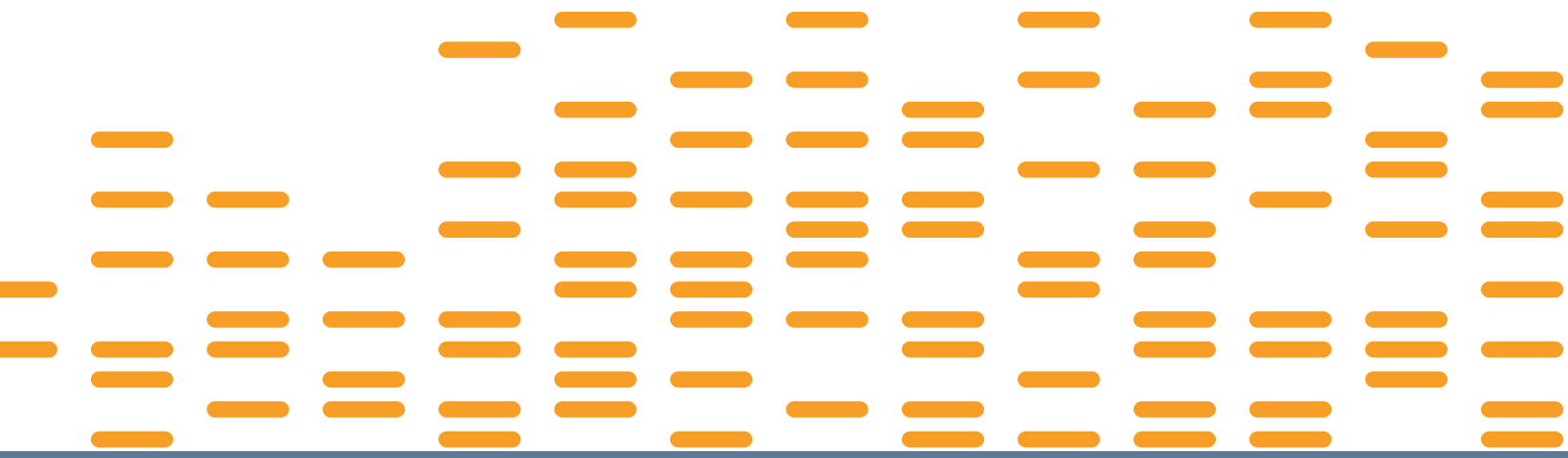
DR. REDDY'S

DR. REDDY'S LABORATORIES LIMITED • ANNUAL REPORT • 2010–11

LIFE. RESEARCH. HOPE



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chairman's letter

DEAR SHAREHOLDERS > 2010-11 has been a very good year for your Company. Here are the key consolidated financial results.

- Consolidated revenue for 2010-11 grew by 6% to ₹ 74,693 millions, or US$ 1.7 billion. In the ten years between 2000-01 and 2010-11, your Company's revenue has been rising at a CAGR of 21%.
- Your Company's EBITDA in 2010-11 was ₹ 16,789 millions, which was higher than the previous year's EBITDA of ₹ 15,828 millions.
- Profit after tax at ₹ 11,040 millions in 2010-11 was also significantly greater than what it was in the previous year.

The year has seen several notable developments, of which four give me great satisfaction. I want to share these with you.

The first is your Company's rapid presence in biosimilars. Let me briefly explain what are biosimilars. Cloning of human genetic material coupled with the development of in vitro biological production systems has allowed the production of most recombinant DNA based biological substances for eventually developing tailor-made and targeted medicines.

Recombinant therapeutic proteins are complex in nature and are made in living cells such as bacteria, yeast, or animal and human cell lines. The most well known recombinant drug is insulin, used for treating diabetes. The fascinating aspect of any biologic — a drug containing a recombinant therapeutic protein — is that it is largely determined by the process of production, namely the choice of the cell type, the development of genetically modified cell for production, the production and purification processes, and how it is eventually formulated into a drug. It is a wonderful combination of science and art. Biosimilars are officially approved versions of innovator biologics that have come off patent. Unlike the more commonly manufactured small-molecule drugs, biologics exhibit much higher molecular complexity, and are quite sensitive to manufacturing process changes. A biosimilar manufacturer neither has access to the originator's molecular clone and the original cell bank; nor to the exact fermentation and purification process and the active drug substance. Thus, biosimilars involve the art of de-constructing how the innovator made the product and, having done so, how to create the 'similar' through different non-patent infringing methods.

Biosimilars are, therefore, not just difficult to engineer and produce, but are also very important in meeting life threatening therapeutic needs. Not surprisingly, these are extremely valuable products.

I am proud that your Company has made its mark in biosimilars, three years ago by launching the first MAB biosimilar in the world. Reditux™, the biosimilar of rituximab used in the treatment of certain lymphomas, leukemia and rheumatoid arthritis, has been a great success. In 2010-11, it grew by 75% over the previous year and ranks among your Company's Top Five brands in India. This year, Dr. Reddy's launched Cresp® in India, the first generic darbepoetin alfa in the world for treating nephrology and oncology indications.

Your Company also launched Peg-grafeel™, an affordable form of pegfilgrastim, which is used to stimulate the bone marrow to fight infection in patients undergoing chemotherapy. Your Company has sold some 1.4 million units of its biosimilars, which have treated almost 97,000 patients across 12 countries.

Second, I am happy with the robustness of your Company's revenues. I believe that it has now reached a stage in its evolution where it can predict a steady growth of baseline revenue, and enjoy the upsides of periodically successful Para IV 'first-to-file' launches in the USA either with 180-days exclusivity or as an authorized generic supplier to the innovator. With many innovator drugs getting off patent in the years to come, I hope that your Company will be able to leverage as many upsides as possible. Indications are that it should.

Third, I am delighted to see research and development (R&D) spends increasing—not just absolutely but as a share of revenue. It shows up in the success of biosimilars. In 2010-11, your Company's investments in R&D grew by 33% to ₹ 5,060 millions. This represents 7% of overall sales, versus 5% in the previous year. We filed 21 abbreviated new drug applications (ANDAs) in 2010-11, taking the cumulative total to 179 ANDAs (including partnered ANDA's). Of these, 38 are Para-IV filings, and among these 10 are in the category of 'first to file'. We have also filed 56 drug master files (DMFs) in 2010-11; our cumulative record is 486 DMFs, which makes us one of the global leaders in this category.

My fourth source of satisfaction is your Company's strategic partnership with GlaxoSmithKline Plc (GSK) — which I had touched upon last year. Dr. Reddy's is developing and marketing key products for GSK across emerging markets outside India. The products will be manufactured by your Company, and will be licensed and supplied to GSK in Latin America, Africa, the Middle East, and Asia Pacific. In addition, your Company has acquired GSK's penicillin facility in Tennessee, USA, which will allow it to enter the US penicillin-based anti-bacterial market segment.

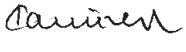
At Dr. Reddy's, we must never forget our basic aim. It is to provide affordable and innovative medicines for healthier lives. We can do this if we forever excel in four aspects of our business:

- Excellence in science, intellectual property and R&D, because these constitute the DNA of any pharmaceutical enterprise worth the name.
- Excellence in anticipating what patients need — where and how — and being able to provide affordable variants of such medicine more often than not.
- Excellence in processes — quality, manufacturing, logistics, supply chain, marketing, customer relations and safety — to be the first to occupy pharmaceutical bridgeheads in various parts of the world.
- Excellence in financial and operating discipline, because at the end we can never be accountable to our patients by losing sight of our shareholders.

I am confident that your Company has all these attributes. Some exist in large measure. Others are being scaled up. When they all 'fire together', Dr. Reddy's will be a difficult act to beat. We represent an idea whose time has come. And we will deliver.

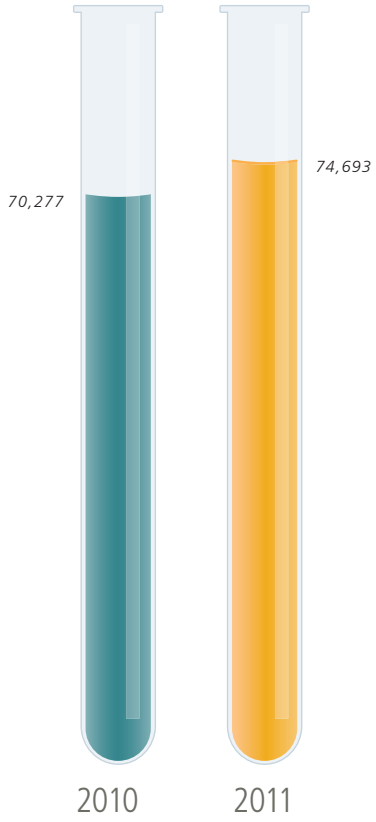
Thank you for your support.

As always, with warm regards,



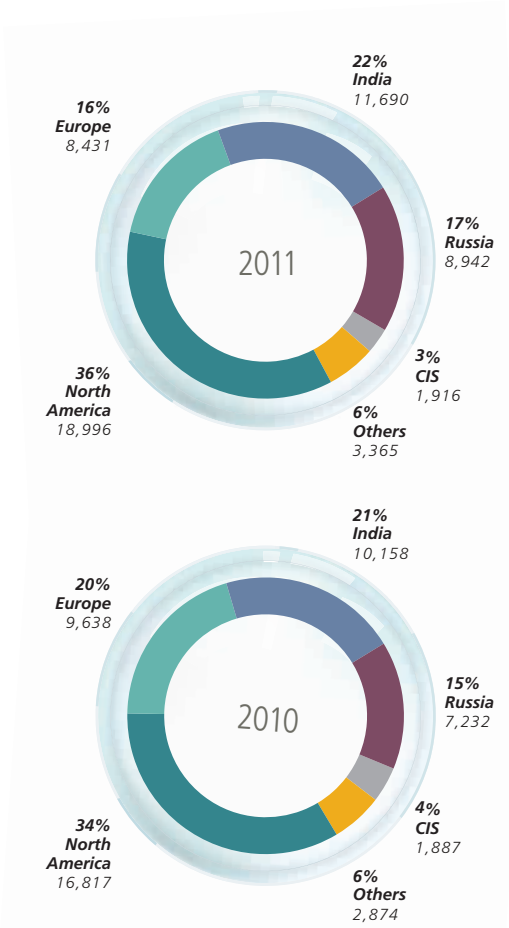
DR. K ANJI REDDY
Chairman

Key Financial Highlights 2010-11



CONSOLIDATED REVENUE

IN ₹ MILLIONS



GLOBAL GENERICS REVENUES

GEOGRAPHICAL MIX, IN ₹ MILLIONS

FINANCIAL HIGHLIGHTS

Consolidated Revenues

Consolidated revenues increased by 6% to ₹ 74,693 millions, or US$ 1.7 billion in 2010-11 from ₹ 70,277 millions in 2009-10.

EBITDA

EBITDA increased by 6% to ₹ 16,789 millions in 2010-11 from ₹ 15,828 millions in 2009-10.

Profit After Tax

Net profit of ₹ 11,040 millions in 2010-11 as against ₹ 1,068 millions in 2009-10.

Fully Diluted Earnings per Share

Fully diluted earnings per share increased to ₹ 64.95 in 2010-11 from ₹ 6.30 in 2009-10.

ANDAs in US

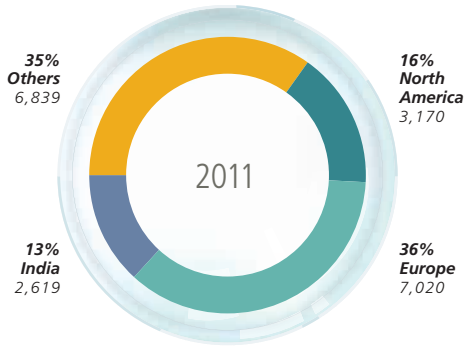
Dr. Reddy's filed 21 ANDAs in 2010-11. As of 31 March 2011, the Company has 179 cumulative ANDAs (including partnered ANDAs). The company's North America generics pipeline comprises 76 ANDAs pending with the USFDA as of 31 March 2011. Of these, 38 are Para-IV filings with 10 in the category of 'first to file'.

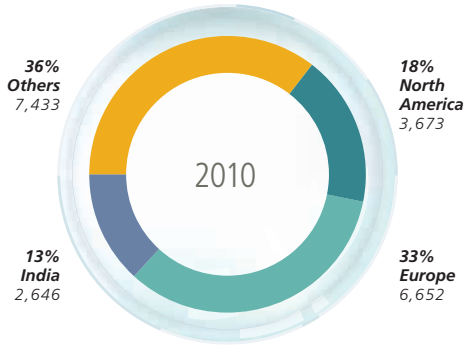
DMFs

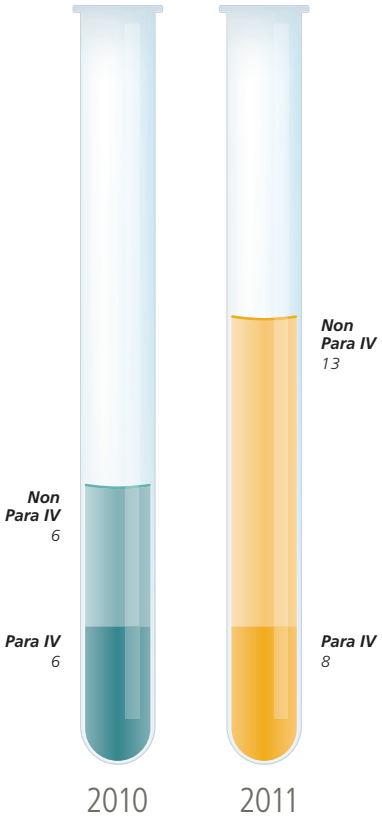
The Company filed 56 DMFs in 2010-11. Of these, 19 were filed in US, seven in Europe and 30 in other countries. As on 31 March 2011, the Company had cumulative filings of 486 DMFs.

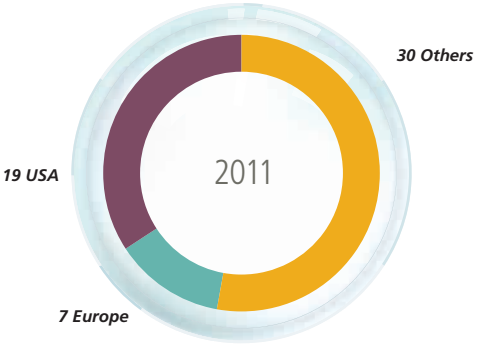
Proprietary Products

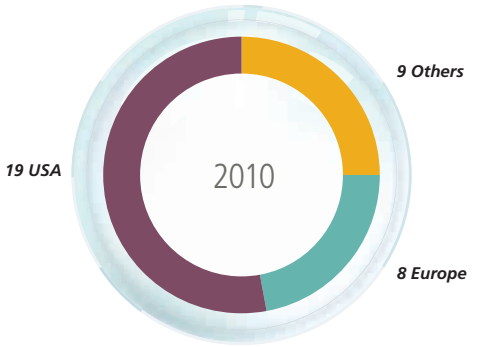
As on 31 March 2011, Dr. Reddy's had 27 products in the pipeline, of which seven are in clinical development. These R&D products are a











PSAI REVENUES
GEOGRAPHICAL MIX, IN ₹ MILLIONS

ANDA FILINGS IN THE UNITED STATES OF AMERICA

DMFs
GEOGRAPHICAL MIX

mix of New Chemical Entities (NCEs) and novel Differentiated Formulations (DFs).

BUSINESS PERFORMANCE

Global Generics

Global Generics grew by 10% to ₹ 53,340 in 2010-11 from ₹ 48,606 in 2009-10.

- Revenues from North America increased by 13% to ₹ 18,996 millions in 2010-11 from ₹ 16,817 millions 2009-10. Significant portion of this growth was led by the company's presence in products with limited competition.
- Eleven new products were launched in US in 2010-11, of which five products experienced limited competition which includes amlodipine benazepril, tacrolimus, lansoprazole, zafirlukast and fexofenadine pseudoephedrine.
- Revenues in India grew by 15% to ₹ 11,690 millions in 2010-11 from ₹ 10,158 millions in 2009-10. Growth driven by volume growth of 11%, new product led growth of 4%.
- Revenues from Russia and CIS countries grew by 19% to ₹ 10,858 millions from ₹ 9,119 millions in 2009-10.
- Revenues from Europe decreased by 13% to ₹ 8,431 millions in 2010-11 from ₹ 9,638 millions in 2009-10.

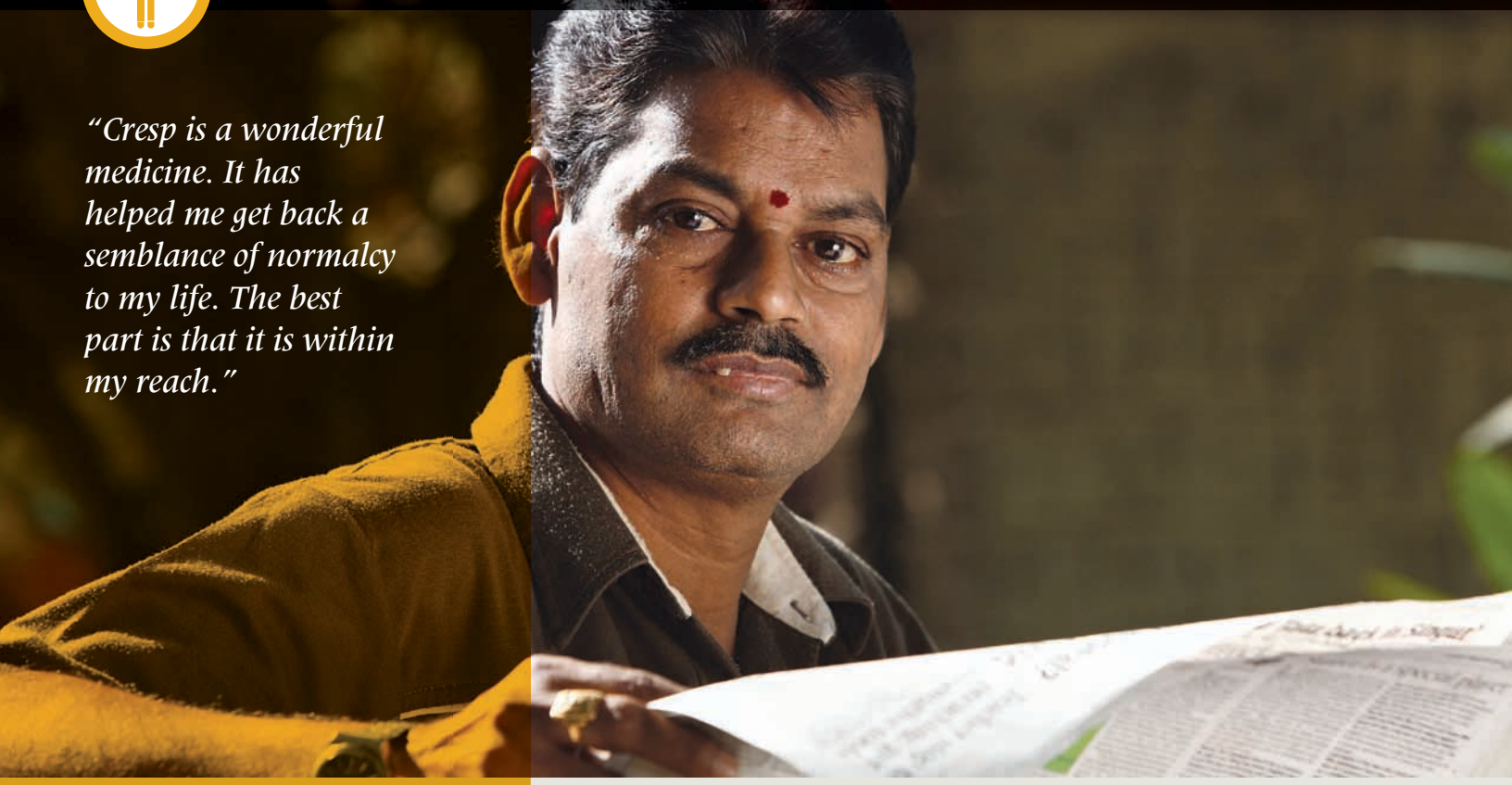
Revenue from Pharmaceutical Services and Active Ingredients (PSAI)

Revenues de-grew by 4% to ₹ 19,648 millions in 2010-11 from ₹ 20,404 millions in 2009-10. International revenues accounted for 87% of PSAI revenues.

OUR PURPOSE

providing affordable & innovative medicines for healthier lives

PATIENT | S LAKSHMI NARASIMHA MURTHY | HYDERABAD | INDIA



"Cresp is a wonderful medicine. It has helped me get back a semblance of normalcy to my life. The best part is that it is within my reach."

Cresp® – the world's first generic darbepoetin alfa (only one in India) was launched in July 2010. It is a modified version of erythropoetin alfa, the current standard of care in India. It is engineered to have a longer half life, increasing (up to 3 times) the time it remains in the blood. This reduces frequency of doses, providing a convenient treatment option for patients suffering from anemia due to CKD. If a patient spends ₹ 5,000 – ₹ 7,000 for a treatment cycle with a leading brand of erythropoetin, by using Cresp he could reduce costs up to ₹ 3,500 – ₹ 4,500.

S. Lakshmi Narasimha Murthy is a happy man today. But he wasn't always as happy. Since 2000, when Narasimha got diagnosed with diabetes, it was like living life on the edge. In 2005, he got a stent implanted in his heart, followed by another in 2006. In 2007, he was put on medication for high creatine levels. When he got his third stent in January 2010, his creatine levels became unmanageable; he was diagnosed with Chronic Kidney Disorder (CKD) and had to be put on dialysis.

Due to ill health, in July 2010 Narasimha took voluntary retirement. His life began to revolve around four-hour sessions of dialysis twice a week, and a monthly visit to the cardiologist and nephrologist. Weakness set in; even walking became an ordeal. A man of limited means, he found it extremely difficult to pay for eight erythropoetin injections a month, costing around ₹ 10,000 – the dealer's price. Added to that was the cost of dialysis – ₹ 1,200 per session. It was hard to sustain good health and well being.

In July 2010, Narasimha's nephrologist introduced him to Cresp®. As against erythropoetin, Cresp® had to be taken only twice a month and immediately cut his monthly expenditure by over ₹ 7,000. He was also given a couple of injections, free of cost, under Dr. Reddy's 'Sparsh' program. Narasimha's body also responded well to the change and his life began to return to near normalcy. Today, Narasimha can afford to feel better – and even drive by himself to the dialysis center on his scooter.

Yes, it is a question of affordability.

Millions of people like Narasimha Murthy embrace the fate attributed by their illness. They suffer helplessly and lead painful lives because of the high cost of many medicines that puts them beyond their reach. Medicines should be affordable, because human life is more important than business. Cutting-edge innovation and scientific progress is critical too, because there will always be a dearth of accessible means to nurture life and good health.

We are lucky to be in the pharmaceutical business because it is an important contributor to the health and welfare of people across the globe. What we make directly impacts the quality and length of human life. Our purpose of providing affordable and innovative medicines for healthier lives comes with this deep understanding of our responsibility – which is to help reduce the burden of disease on individuals.

At Dr. Reddy's, we take pride in the work we do because our focus is on lowering healthcare costs, improving access to medicine and developing innovative medicines for unmet medical needs. By leveraging our proficiency in science and technology, we innovate at every stage of the process of drug production. Our Global Generics business, which makes generic small-molecule drugs and generic biopharmaceuticals, helps to reduce the cost of the drugs by bringing them to market as early as possible. Our Biologics business offers more affordable and equally effective generic biopharmaceuticals or biosimilars in markets with guidelines for approval. Our API arm of the PSAI business supplies pharmaceutical ingredients to other generic companies, which directly contributes to the goal of providing affordable medicine.

To help patients like Narasimha and many others in the future who are suffering from other diseases, we will continue to promote affordability in significant ways and work to expand our product offerings in generics. We will also continue our focus on increasing access to products with significant entry barriers. We are committed to looking for new opportunities to take generics to more patients across the world, directly and in collaboration with other companies.

Yes, affordable and innovative medicines that bring health and hope to people worldwide are very important to us. It is what gives Dr. Reddy's its direction.

G V PRASAD
Vice-Chairman & CEO

Over 12 millions new cancer cases are detected and 7.6 millions cancer deaths occur worldwide every year. 70% of those happen in developing countries like India (IARC Globocan 2002 data). According to the 'India Pharma 2015' report by McKinsey & Company, there is a long-awaited need of connecting Oncologists and General Practitioners (GP).

DOCTOR | DR PURVISH PARIKH | CONVENOR | INDIAN CO-OPERATIVE ONCOLOGY

"ICON is extremely grateful to Dr. Reddy's for giving an unrestricted educational grant which has enabled PromOTE India to expand across India over the last three and a half years. It has helped doctors in delivering better cancer care to patients across the country."

DRFHE tries to improve the healthcare delivery system in India by conducting programs for all stakeholders of the healthcare delivery chain thereby helping them provide better patient care. While PromOTE is aimed at making a difference to the cancer landscape of India, Swasthyagraha tries to spark a healthcare revolution in rural India by providing value added – information to rural practitioners. www.drfhe.com

Picture taken at BSES Hospital, Mumbai