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Destination Discovery...


RANBAXY

Annual Report 2004

A man in a dark t-shirt and pants is walking outdoors, carrying a young child on his shoulders. The child has their arms around the man's neck. They are both smiling and looking towards the right. The background is a blurred natural setting with trees and a path. A semi-transparent dark banner is overlaid across the middle of the image, containing the logo and text.

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... towards **New Horizons** of Wellness



Ranbaxy's mission is to become a Research-based International Pharmaceutical Company, committed to constantly pushing new frontiers of knowledge in pursuit of new horizons of science.

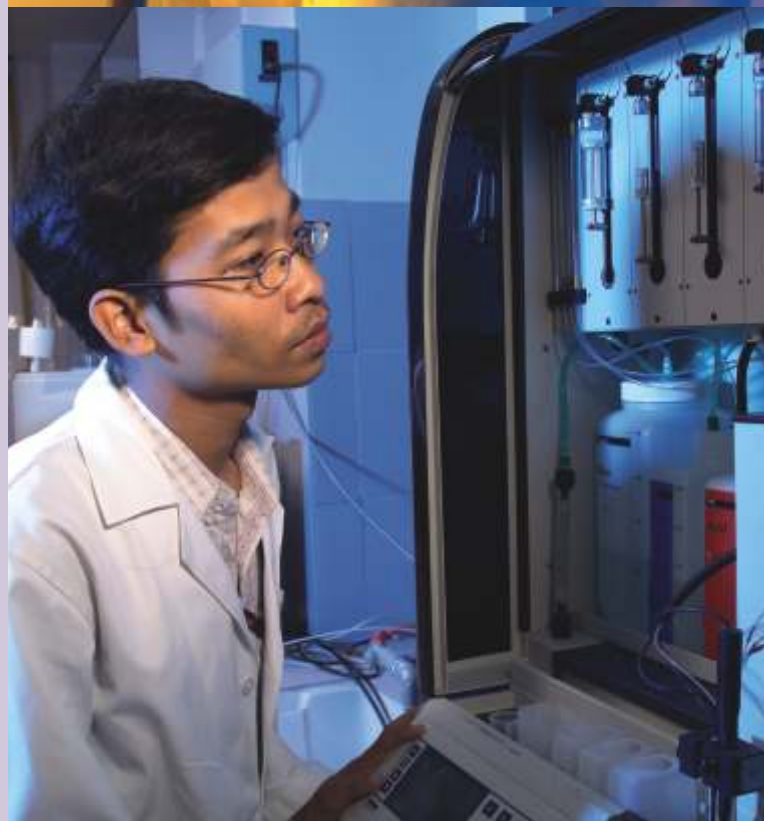
Ranbaxy, India's largest pharmaceutical Company and one of the Top 10 generic pharma players worldwide, is also one of the largest ANDA (Abbreviated New Drug Application) filers with the US FDA. USA is the world's most developed pharmaceutical market and the largest market for Ranbaxy. The Company continues to forecast global sales of US\$ 5 Bn in 2012.

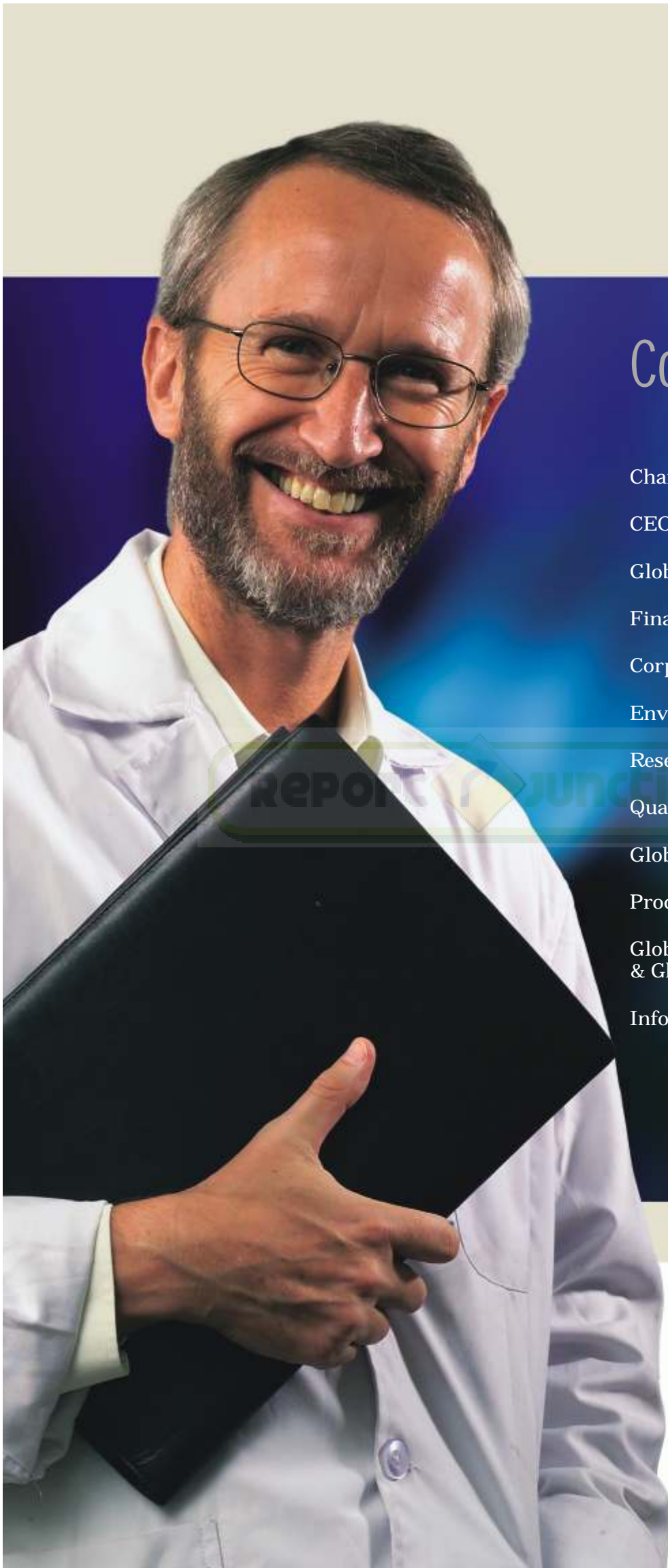
Ranbaxy is committed to increase its R&D spend of over 7% of US\$ 1 Bn in 2004, to around 10% of its targeted turnover of US\$ 2 Bn by 2007. With a state-of-the-art fully operational R&D center housing close to 1000 scientists in three blocks, and a fourth underway, Ranbaxy is fortifying its capabilities in drug discovery, on course towards destination discovery.

Highlights

- Ranbaxy began operations in France as a Top 10 generic company, after acquiring a wholly-owned subsidiary, RPG (Aventis) SA
- The Company joined the elite club of Billion Dollar Companies, achieving global sales of US\$ 1 Bn (on MAT basis) in February 2004
- Ranbaxy received the status of a Five Star Export House by the Directorate General of Foreign Trade (DGFT), India
- Ranbaxy was ranked 9th amongst BT 500 – India's Most Valuable Companies (source : Business Today – November 2004, a leading business magazine)
- Ranbaxy was listed amongst the Top 100 Pharma Companies in the World, and was rated as the 15th Fastest Growing Company (IMS)
- The Company extended the scope of its agreement with the William Jefferson Clinton Foundation to provide drugs for HIV/AIDS to more countries
- Ranbaxy made its first Anti-retroviral (ARV) filing with the US FDA under US President's Emergency Plan for AIDS Relief (PEPFAR)
- The Company implemented Radio Frequency Identification Device (RFID) technology on some of its USA product packs to strengthen its global supply chain and meet customer expectations
- Andrx Corporation in USA, entered into a transfer agreement with Ranbaxy Pharmaceuticals Inc. (RPI), whereby Andrx waived its marketing exclusivity rights to Ranbaxy, in exchange for a share of Ranbaxy's profits resulting from the sales of Fosinopril Sodium and Hydrochlorothiazide (Tablets, 10 mg / 12.5 mg and 20 mg / 12.5 mg)
- During the year, 29 ANDA filings were made with the US FDA, including 3 PEPFAR ANDA filings, and 16 approvals were obtained
- The first respiratory branded prescription product, Visclair (Mecysteine HCL 100 mg Tablets) was launched in UK
- Ranbaxy (UK) Limited successfully launched immediate-release Clarithromycin (Tablets, 250 mg and 500 mg and suspension 125 mg / 5 ml & 250 mg / 5 ml) in the UK market
- Ranbaxy Global Consumer Healthcare, the Consumer Healthcare division of Ranbaxy, launched its 'New Age Herbals' range with a basket of 3 new herbal products
- Ranbaxy brands Storvas (Atorvastatin) and Volini entered the list of Top 100 brands of the industry in India
- Revital, the flagship OTC brand of Ranbaxy in India, was ranked No. 16 and captured the highest ever market share of 71.6% (source : ORG-IMS, MAT December 2004)

- RBx 11160, an Anti-malarial molecule being developed in collaboration with Medicines for Malaria Venture (MMV), successfully completed Phase I studies, subsequent to filing of an Investigational New Drug (IND) application in UK and India
- Ranbaxy signed a collaborative research agreement in the area of New Drug Discovery Research with Avestha Gengraine Technologies Pvt. Ltd. (Avesthagen)
- The collaborative research program with GlaxoSmithKline plc (GSK) progressed well, with two research programs in different therapeutic areas being identified which are now underway
- Ranbaxy expanded its NDDR (New Drug Discovery Research) facility with an additional block (R&D III), to be operational from Q2, 2005
- The Company received a favorable ruling for Atorvastatin from the Austrian Patent office, invalidating Pfizer's patent claims for enantiomeric form
- The total number of patent applications filed by the Company with PCT / US PTO which could potentially have been filed as mailbox applications in India, presently stand at 338
- The post Cefuroxime Axetil era in USA was managed well





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Bringing new possibilities to life

Chairman's Message

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Dear Shareholders,

I am happy to share with you some highlights of the developments in your Company during the business year ended December 31, 2004.

2004 was, above all, a year of significant changes. Mr. D. S. Brar, who had been the CEO & Managing Director since July 1999, completed his five-year tenure on July 4, 2004, and was succeeded in this capacity on July 5, 2004, by Dr. Brian W. Tempest. In the interest of a smooth transition, Dr. Tempest, who had previously held the position of President, Pharmaceuticals, was designated as Joint Managing Director w.e.f. January 1, 2004. In turn, Mr. Malvinder Mohan Singh, who had led the India Region as Regional Director, and had earlier held charge as Director, Global Licensing, took Dr. Tempest's place as President, Pharmaceuticals, from January 1, 2004. In June 2004, Dr. Rashmi Barbhaiya, President, R&D, who had held this position since April 15, 2002, left the services of the Company to pursue other professional options, followed a few



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months later by his successor, Dr. Rajinder Kumar, who left on account of unforeseen personal problems. In the resulting situation, Dr. Tempest, CEO & MD, took it upon himself to closely oversee the R&D activities directly, with separate Heads for New Drug Discovery Research on the one hand, and for Novel Drug Delivery Systems (NDDS) and Generic Drugs Development on the other, reporting to him. Certain other changes also took place at the level of Vice President. Mr. Ramesh Adige, formerly Whole-time Director (Corporate Affairs), Fiat-India, joined the Company in February 2004 as Vice President, Corporate Affairs & Corporate Communications, while Mr. R. Sundar Rajan, General Counsel & Vice President (Legal) with Wipro, joined Ranbaxy as Vice President & Head, Global Legal & Secretarial Services, in November 2004. The Vice President level in the Company was also strengthened via internal promotions from amongst a number of candidates of high merit. Such changes are inevitable in dynamic organizations. However, it is worth mentioning that various functional responsibilities in the Company are being shouldered with a high degree of ethical and professional commitment, in the backdrop of the Company's overall professional competencies.

Business Trends

For the period under review, we were able to grow our top line significantly to US \$ 1.174 Bn (an increase of over 21% in comparison to last year). Our margins however came under pressure, primarily on account of heightened competition and a consequent softening of prices in some of our major markets including the US. There has also been the impact of capital expenditure undertaken on account of expansion and setting up of new manufacturing and R&D facilities. Higher expenses were also incurred for patent litigation and for new product filings.

Many of these expenses indeed position the Company favorably for the future and should enable us to capitalize on emergent opportunities.

Although we see competition intensifying, the Company is looking at significant new product flows – a move towards differentiated products for better margins and the opening up of new markets and geographies – as a means of mitigating pricing pressure.

Our intent is to significantly expand our presence in Europe, where we have seen new demand and heightened acceptability of our products. Clearly,



there is also the opportunity to introduce a wide variety of generics in our therapeutic areas of Anti-infectives, Urology, Metabolic disorders and Inflammatory/Respiratory diseases. We are examining possibilities of both organic and inorganic growth as a means to expand in the region.

We are confident that the strategy we have adopted is prudent, carefully crafted and designed to propel the Company into its next trajectory of growth. It will ensure that we meet our target of US\$ 2 Bn in sales revenues by the year 2007, on the way to the target of US\$ 5 Bn for the year 2012.

Research & Development

A special point to which I would like to draw the attention of our shareholders is that R&D revenue expenditure, which had been US\$ 52 Mn in 2003, rose to US\$ 75 Mn in 2004, showing an increase of 43%. In USA, Ranbaxy has by now cumulatively filed about 150 Abbreviated New Drug Applications (ANDAs) and has received approval of about 100 ANDAs. During the year, a number of additional scientists were recruited to support the increasing focus on New Drug Discovery Research (NDDR). We have recently completed the R&D III building, which has 250,000 sq. ft. of space to meet the augmented needs of our Drug Discovery Team. The number of personnel in the Company's R&D function rose from approx. 900 at the end of 2003, to over 1100 at the end of 2004.

Besides the substantial step-up in R&D expenditure, keeping in view the large growth in sales targeted by your Company, both in the medium term and up to 2012, as a part of its ten-year vision articulated in 2002, a capital expenditure of US\$ 117 Mn has been incurred during 2004, for establishing additional production capacities at a number of locations in India and overseas, compared to a corresponding capital expenditure of US\$ 64 Mn incurred during 2003.

The expansion of production capacities is a pointer to the significantly expanded product flow which the Company is preparing to put out in the future. These investments will, no doubt, yield long-term benefits to the Company on a sustained basis in the years to come, and their relevance and usefulness need to be viewed in the longer-term perspective.

I would also like to apprise our shareholders that a small fire incident occurred in October 2004, in the drying section of one of Ranbaxy's Bulk Drug facilities in Mohali, which sadly resulted in the loss of life of a diligent and dedicated worker who had apparently rushed into that area to douse the fire. Our sincere condolences go out to the next of kin. Apart from providing them financial compensation, the bereaved family has also been assured that the spouse will be offered a suitable job in Ranbaxy as an additional measure of rehabilitation. Your Board of Directors has mandated the operating management to spare no efforts to continue the upgrade of plant safety systems at all locations to the best of class that is technologically feasible, to avoid such unfortunate mishaps to the maximum possible extent. The Company's safety protocols and mechanisms have been inspected by international consultants, such as DuPont of USA and Chilworth of UK, and their recommendations are being implemented very carefully, in a time-bound manner.

2004 marked the last year of the ten-year transition time afforded by WTO to developing countries, to bring their patent laws in line with the provision of the TRIPS (Trade Related Intellectual Property Rights) Agreement. In the last week of December 2004, an ordinance was issued by the Government of India introducing product patents for pharmaceuticals, agro-chemicals, etc., w.e.f. January 1, 2005. This means that, hereafter, no Indian pharma company will be able to make a generic copy of a drug patented by a WTO member country after January 1, 1995, for which the patent is still subsisting, without obtaining a licence from the patent holder, or unless a Compulsory Licence is granted in its favor by the Government under Article 27 of the TRIPS Agreement. Ranbaxy's product portfolio has been carefully reviewed with regard to the new product patent regime in India and we have concluded that our portfolio will not be affected by the changed patent environment to any significant extent. In order to continue their manufacture and sale, in-licensing arrangements