



RANBAXY

TOWARDS GLOBAL
LEADERSHIP

CONTENTS

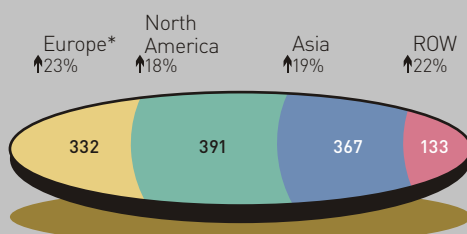
Chairman's Message	2
CEO & MD's Message.....	4
COO's Message	8
Key Markets Review	10
Therapy Focus.....	14
Research & Development.....	16
Financial Review	18
Corporate Social Responsibility &	19
Environment, Health & Safety	



Corporate Governance	21
CEO & CFO Certificate.....	28
Board of Directors.....	29
Report of the Directors.....	30
Ten Years at a Glance	42
Auditors' Report	43
Financial Statements of Ranbaxy	
Standalone	46
Consolidated Indian GAAP	71
Consolidated US GAAP	93

Key Markets - Dosage Form Sales (2006)

US \$ Mn

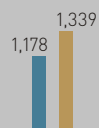


*Including CIS

ROW : Rest Of The World

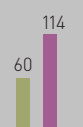
Global Sales

US \$ Mn



Profit After Tax

US \$ Mn



FOOTPRINT ACROSS 49 COUNTRIES



TOWARDS GLOBAL LEADERSHIP

Report Junction.com

During the year 2006, we consolidated our position as a key global player. Our strategic acquisitions and expansions in different parts of the world provided momentum to our aspiration to achieve a turnover of US \$ 5 Bn by 2012. Growing ahead of the market, we achieved the No. 1 position in the Indian market. We successfully leveraged our inherent skills to deliver a winning performance with global sales of over US\$1.3 Bn.

Our trajectory towards global leadership was reinforced through our investments in emerging markets. Accordingly, our focus has been on enhancing operational efficiencies, cost competitiveness, market reach and the dedication to offer the best-in-class products. Our business philosophy, based on delivering value to our stakeholders, constantly inspires us to innovate, achieve excellence and set new global benchmarks.

With globalization, innovation and excellence as a part of our DNA, we are expanding our global footprint and challenging every leadership paradigm.

Our foundations rooted in our value system and strong ethics, inspire us to deliver value consistently. Driven by the passion of a highly committed Team at Ranbaxy, we are moving rapidly towards attaining global leadership.



THE GOAL IS IN SIGHT



Global pharma companies are experiencing an ever-shifting landscape, ripe with challenges and opportunities. In this challenging environment, Ranbaxy is enhancing its reach and leveraging its competitive advantages, to become a top global player.

CHAIRMAN'S MESSAGE

Dear Shareholders,

I am happy to report that your Company has shown a significantly improved performance during 2006. Your Company recorded global sales of US \$ 1339 Mn, with a net profit of US \$ 114 Mn. The Company realigned its strategies to combat the pressure on margins in its key markets and also embarked on major cost-reduction initiatives across all functions, which have had a positive impact on the performance of the Company.

As will be seen in the messages from the Chief Executive Officer & Managing Director, and the Chief Operating Officer, which follow this message, the Company's top line and bottom line have both shown substantial improvement in 2006, relative to the preceding year. Important markets, notably India, US, Eastern Europe, Russia, Africa and South East Asia, have recorded encouraging performances. Some markets however, experienced pricing pressures due to changing dynamics witnessed by the global healthcare industry.

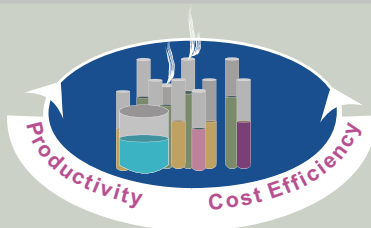
During the year, the R&D function has shown distinct improvement in terms of productivity and cost efficiency, as well as the development of generic equivalents of new molecules which will be coming off patent. More focused effort is also underway, vis-à-vis New Drug Discovery Research (NDDR). Inclusion of the Oncology segment in the NDDR agenda of your Company, reflects a desire to be present in a very important and fast-growing therapeutic segment. Seeking synergies from discovery alliances with

other leading pharmaceutical research organizations, reflects your Company's growing commitment towards drug discovery.

The Company is focusing on nurturing its human resources optimally. Thus, attention is being given to not only the development of high performers, but also to the career needs and aspirations of every single person working in the Company, irrespective of their hierarchical position. We believe, only when a person perceives that the Company wants to specifically promote his or her welfare by providing appropriate guidance, training and growth opportunities, in line with that person's potential, will a sense of deeper staff commitment to the Company ensue.

Your Company is engaged in promoting a caring and receptive culture of open communication, that encourages sharing of ideas and constructive criticism to bring about innovation and positive change.

As a Corporate leader aiming at becoming a respected player in the global pharmaceutical space, based on its vertically integrated production and research competencies, your Company constantly strives towards benchmarking its internal work processes against global best practices. This will have to be a continuing effort, since the global benchmarks tend to become more stringent with technological advances, on the one hand, and increase in transparency and reporting requirements, on the other.



During the year, the R&D function has shown distinct improvement in terms of productivity and cost efficiency.

As a Corporate leader aiming at becoming a respected player in the global pharmaceutical space, your Company constantly strives towards benchmarking its internal work processes against global best practices.



Board of Directors

Standing (left to right) : Mr Ramesh Adige, Mr Vinay K Kaul, Mr Ravi Mehrotra, Dr Brian W Tempest, Mr Vivek Bharat Ram, Dr PS Joshi, Mr Malvinder M Singh, Mr Surendra Daulet-Singh, Mr Shivinder M Singh, Mr Atul Sobti

Sitting (left to right) : Mr Nimesh Kampani, Mr Harpal Singh, Mr Tejendra Khanna, Mr Vivek Mehra, Mr Gurcharan Das

I wish to thank Ranbaxy staff at all levels, from the shop-floor up to the top management, for their value-based commitment to duty and the proper and diligent discharge of their assigned functions, which have contributed collectively to the Company's substantially improved performance in 2006. I offer them my best wishes for their continued, ethical,

energetic and diligent application to their duties, while maintaining a happy and healthy work-life balance.

I would like to take this opportunity to also thank all stakeholders, including financial institutions, institutional and retail investors and other stakeholders, for supporting the Company through both good and difficult times. I have no doubt that their confidence and support will be well redeemed by the Company's Management, in the years ahead.

Tejendra Khanna

*Chairman**

March 29, 2007



* Mr. Tejendra Khanna has been appointed as the Lt. Governor of Delhi (India). As a consequence, he stepped down from the position of the Chairman and Director on the Board of the Company, on April 8, 2007.



Your Company is engaged in promoting a caring and receptive culture of open communication that encourages sharing of ideas and constructive criticism, to bring about innovation and positive change.



BUSINESS BEYOND BENCHMARKS



Our unwavering determination to achieve excellence leads us to new global benchmarks. Our continued endeavor to deliver value, coupled with our compelling ambition to be a global leader, propels us on the path of leveraging innovation each day.

CEO & MD's MESSAGE

Dear Shareholders,

The year 2006 has been an important milestone in the steady progress of our Company towards global leadership. We took significant strides towards accentuating our competitive position as a leading generic pharmaceuticals company. We have successfully executed a balanced and optimized growth strategy by capitalizing on a mix of organic and inorganic opportunities. Simultaneously, we are investing and focusing on all aspects of innovation, delivery and costs, so as to sharpen our fundamental strengths to lend further momentum to the growth of the businesses in the future.

The environment of the global generics business remained dynamic, punctuated equally by opportunities and challenges across the globe. The Company, in 2006, witnessed a strong all-round performance across geographies. It was an exciting period for us as our concerted efforts resulted in global sales in excess of US \$ 1.3 Bn, reflecting a growth of 17%. We met expectations set out at the beginning of the year and the profitability of our business rebounded strongly over

2005, with an 8% expansion in operating margins, and a doubling of the Profit after Tax for the year. Our business has progressed well with R&D delivering a strong pipeline, enabling future growth. We have ensured that our costs remained flat after absorbing the sales expansion. The nine M&A deals we concluded since the beginning of 2006, encompassing the front and back ends of the business, have helped to accentuate our strategic and operating advantages. During the course of the year, a significant growth momentum has been built into our operations across all facets of the organization.

Global Generics Market

The market growth over the last year has been driven by a number of key patent expiries of a sizable value. At the same time many markets remained dynamic on account of changing healthcare regulations and policies.

Looking ahead in the medium term, the outlook on generics



4

Left to right : Mr Atul Sobti, Chief Operating Officer; Mr Ramesh Adige, Executive Director, Corporate Affairs & Global Corporate Communications; Mr Pushpinder Bindra, President & Chief Technical Officer; Mr Peter Burema, President, Global Pharmaceutical Business; Mr Dipak Chattaraj, President, Corporate Development

Sales

17%

US \$ 1.3 Bn

It was an exciting period for us as our concerted efforts resulted in global sales of over US \$ 1.3 Bn, reflecting a growth of 17%.

We concluded nine M&A deals, amounting to a value close to US \$ 450 Mn. These acquisitions have significantly expanded our presence in emerging and profitable markets, such as Romania and South Africa.

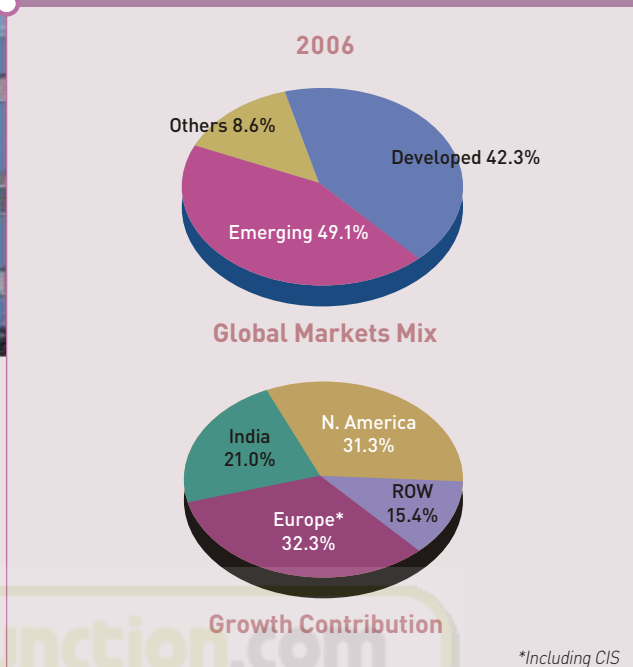


remains positive and strong. The generics segment in the top eight pharma markets, is expected to witness double digit growth, well supported by the pipeline of products going off patent. Also, we expect the emerging markets to assume a larger role in the overall growth of pharmaceuticals, driven by growing per capita income, better availability of healthcare and the need for treatment associated with chronic and lifestyle diseases.

These trends augur well for us. With critical business size in the developed markets, our Company is well poised to harness the existing market potential. Simultaneously, our strong presence and greater focus on the emerging markets, enables us to leverage the upcoming growth prospects in these markets.

Consolidation Drive

The hectic pace of M&A activity witnessed over the last two years has clearly been the most significant trend shaping the pharmaceuticals industry, including generics. We have taken



this opportunity to strategically drive our inorganic growth plans and strengthen all aspects of business. We concluded nine M&A deals, amounting to a value close to US \$ 450 Mn. Our consistent endeavor across all our inorganic activities through financially viable and EPS accretive opportunities, are aimed at enhancing shareholder value. These acquisitions have significantly expanded our presence in emerging and profitable markets, such as Romania and South Africa. We have supplemented our organic growth plans in upcoming markets, such as Spain, Italy and Belgium, through the acquisition of product baskets and created an avenue in the high potential therapy segments of Oncology



Dosage Form sales constitute 91% of global sales. The overseas markets constitute 79% of the total sales.

Left to right : Mr Ram S Ramasundar, President & CFO; Dr Himadri Sen, President, R&D (Generics & NDDS); Mr Jay Deshmukh, Sr Vice President, Intellectual Property; Dr Pradip Bhatnagar, Sr Vice President, New Drug Discovery Research; Mr Satish Chawla, Vice President, Global Internal Audit; Mr Bhagwat Yagnik, Vice President, Global Human Resources



Our people have consistently risen above all challenges, maximized opportunities and positioned Ranbaxy as a leader in the global generics industry.

and Bio-generics. We have further strengthened our vertical integration capabilities and our fermentation capacities, through the acquisition of Cardinal Drugs and a strategic stake in Krebs Biochemicals, both in India. We also invested in a specialized delivery technology, during the year.

Strengthening Innovation

Innovation is the life force that drives our organization; its pursuit is enshrined in our mission and is fundamental to value generation and growth in our business. Our efforts on this front have been targeted at extending the



productivity of our innovation cycle, while optimizing cost structures. Thus, during the year, we ensured a robust product flow into our key markets and lowered R&D costs by 20% over last year. We continued to work towards new alliances with big pharma companies to expand and leverage our New Drug Discovery Research (NDDR) program. To this effect, we entered into a new multiyear R&D agreement with GSK, which provides Ranbaxy expanded drug-development responsibilities and the prospects of significant financial returns, in terms of milestones and royalties, going forward.

Responsible Corporate Citizen

We remain cognizant of the increasing burden of neglected diseases and are committed to reducing their impact on mankind. We have worked tirelessly to create greater access to affordable and new generation HIV / AIDS drugs, and have developed and filed the first set of medicines for pediatric use. Today, Ranbaxy is providing to patients in over 50 countries across the world, a wide range of generic ARVs, at one-hundredth the cost at which branded medicines were available less than 10 years ago. Our Anti-malaria molecule under development is also progressing well in Phase II clinical trials.

Human Capital

Our people have been our most enduring strength. As a result of their dedication, determination and passion, our Company has consistently risen above all challenges, maximized opportunities and positioned itself as a leader in the global

generics industry. Over the years we have grown into a family of over 11,000 employees, across 49 countries, representing 51 nationalities and multiple cultures. We have ensured that our ethos flows consistently and seamlessly across boundaries and diversity, to bind us together as one. During the year we infused fresh vigor in our efforts towards engaging with our people, undertaking activities aimed at appreciating, recognizing and motivating them, and creating a vibrant environment that promotes learning, development and overall growth.

Going forward, the operating environment will become more complex and therefore recruiting, retaining and nurturing the best talent will become even more challenging. We will be focusing on developing managers with global competencies and leaders with the vision and mettle to take us beyond our aspirations for tomorrow.

An important development during the year was the introduction of the position of the Chief Operating Officer, as the head of global operations. This position is intended to consolidate and synergize the entire operating structure, to ensure greater interaction and seamless interface amongst all facets of the value chain, starting from the lab right down to the market place. A well-integrated and streamlined operating setup should enable us to optimize our resources and costs, and improve the overall 'speed to market' of the business.

Looking Ahead

I would like to share with you my strong sense of confidence and excitement as I look at our future over the next five years. We are pursuing a well strategized plan to strengthen and develop our business. Several initiatives aligned to our objectives are currently underway. We have ensured that the imperatives for organic growth – robust and quality product flow, and a strong market position – are well in place across markets. We are moving towards a well-balanced mix of revenues from developed and emerging markets, and will be well positioned to maximize and leverage their varied growth potential. We will continue to actively pursue our inorganic strategy in order to accentuate our presence and competitiveness on the front and back end of our business. We will continue to



We are moving towards a well-balanced mix of revenues from developed & emerging markets and will be well positioned to maximize and leverage their varied growth potential.

Our focus on innovation, delivery and cost will become higher than ever, as we endeavor to reinforce and strengthen our position of global leadership in the generics industry.



evaluate all opportunities with a view to add strategic, synergistic and value-accretive assets to our organization.

Our focus on innovation, delivery and cost will become higher than ever, as we endeavor to reinforce and strengthen our position of global leadership in the generics industry. Our efforts will be directed at speeding up innovation, achieving excellence in delivery and enhancing productivity of costs and people across our business.

New Opportunities

A number of special projects in high-potential segments and therapies are underway and are expected to be the key growth drivers in the future. The Oncology therapy business having crossed US \$ 30 Bn* in worldwide sales in 2006, is expected to become the dominant segment in the pharmaceuticals market by 2010. Ranbaxy has recently initiated itself into this segment through a partnership with Zenotech in India, and is actively pursuing its plans for product filings. Through this partnership, we have also committed ourselves to another high potential segment - Bio-generics. The Bio-tech market stands at US \$ 50-60 Bn# in terms of global sales and is expected to cross US \$ 100 Bn# by 2010. We are also progressing well towards realizing our 'First-to-Launch' position in complex and specialty injectibles, such as Penems, Limuses, etc., products with a market potential of over US \$ 3 Bn.*

Given that our operating environment in the future will progressively become complex and dynamic, our success critically depends on our ability to constantly re-invent ourselves, pre-empt competition and proactively address opportunities.

I would like to close by reiterating that our Company today is well positioned and fully-gearred to strive towards its aspirations for 2012. Our actions and decisions will continue to be most centrally guided by the objective of value creation for our shareholders.

I thank all my colleagues in Ranbaxy for their commendable efforts over the past year. In addition, I thank you, our Shareholders, for your constant support and commitment to Ranbaxy, and I wish you all the best for the future.

Malvinder M Singh
CEO & Managing Director
March 29, 2007

* Source : IMS, Sales at innovator prices

Source : Ernst & Young, Sales at innovator prices



Over the years we have grown into a family of over 11,000 employees, across 49 countries, representing 51 nationalities and multiple cultures.



SETTING A GLOBAL PACE



We have grown well, and set ourselves up for a global play. The early mover advantage, and the home base, needs to be consistently leveraged, both for revenues, and cost competitiveness. We can also never lose sight of opportunities and alliances in this dynamic industry. Specially as a key generics global player.

COO's MESSAGE

2006 has been a good growth year. We have achieved revenues of over US \$ 1.3 Bn (over Rs. 6000 crores), and a net profit of US \$ 114 Mn (over Rs. 500 crores). Our **Global Pharmaceutical Business** performed admirably in many key markets. We achieved market leadership in India for the first time – a landmark achievement. The US team ensured an effective **Simvastatin** 80 mg launch, and an aggressive market share; CIS (esp. Russia and Ukraine) continued with its very consistent, high growth performance; in Asia (outside India), the business grew remarkably well, with a steady growth in Japan; and our Australia operations were launched. We, however, continue to be challenged in some key European Union (EU) markets.

Our **Global Consumer Healthcare** business continued to scale up, registering sales of US \$ 35 Mn globally; while the business garnered sales of US \$ 19 Mn in India, it clocked in US \$ 16 Mn internationally. **Revital**, our power brand, achieved exemplary growth (45%), and became a dominant product in its category.

We successfully pursued our strategy of leveraging growth even through inorganic means - and concluded nine strategic acquisitions since the beginning of 2006. This very effectively complemented our organic growth achieved across markets. Specific reference must be made to the acquisition of Terapia in Romania; and towards the year-end, a move towards acquisition of Be-Tabs Pharma in South Africa. In Romania, in a very short time, we have put in place various cross-functional initiatives to harness the immense potential of 'Terapia Ranbaxy.' With good local

manufacturing potential, the entity offers a strategic advantage for us to service the EU market efficiently, and cost-effectively. Romania has entered the EU in January 2007.

The Company's global reach extends to over 125 Countries, where we sell our products through multiple channels. 49 countries across the world house Ranbaxy offices, which are manned by a diverse cross-cultural workforce. The Company's world-class manufacturing facilities are spread across nine countries. Our R&D setup in India is the best-in-class, where over 1100 scientists are engaged in path-breaking research and development. Our range of products covers a wide band of therapies, with a total of over 5,000 SKUs* globally. Propelled by our performance, we would continue to effectively leverage our width of reach and products in the future.

Encashing many opportunities efficiently, our **Global Supply Chain** supported our business very well. The SAP APO (Advance Planner and Optimizer) system was installed, to manage the increasingly complex Supply Chain.

In order to derive a more effective cost base, as well as to develop on the unique mid-term Active Pharmaceutical Ingredients (APIs) opportunities, we created an **API Global Business Unit** comprising API Research, Manufacturing and Business.

Our emphasis on and strength in **Research and Development** is the manifestation of our belief in innovation, and our commitment to expeditiously help reduce the impact

* Stock Keeping Units