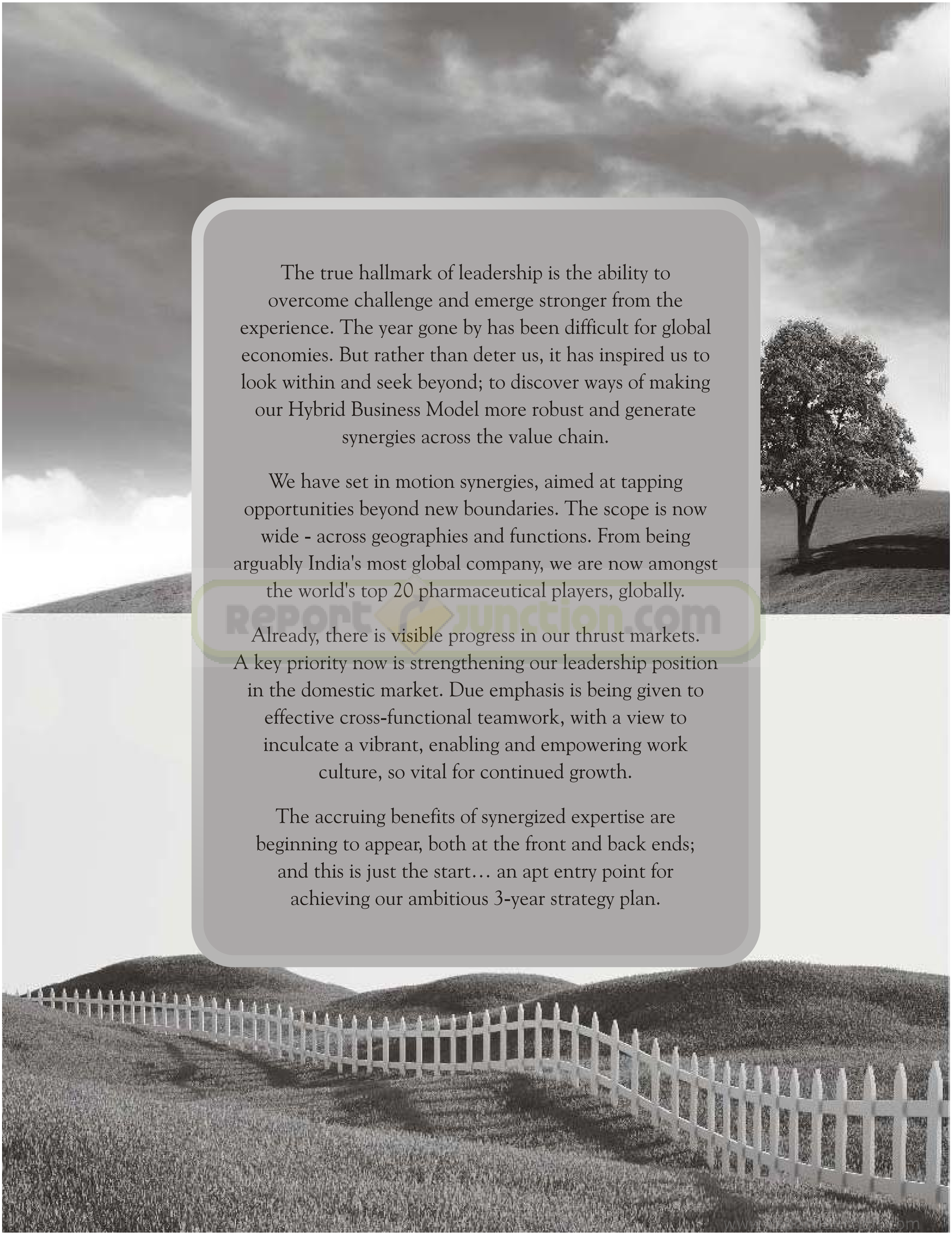
New Boundaries. New Horizons.

RANBAXY

Annual Report 2009



The true hallmark of leadership is the ability to overcome challenge and emerge stronger from the experience. The year gone by has been difficult for global economies. But rather than deter us, it has inspired us to look within and seek beyond; to discover ways of making our Hybrid Business Model more robust and generate synergies across the value chain.

We have set in motion synergies, aimed at tapping opportunities beyond new boundaries. The scope is now wide - across geographies and functions. From being arguably India's most global company, we are now amongst the world's top 20 pharmaceutical players, globally.

Already, there is visible progress in our thrust markets. A key priority now is strengthening our leadership position in the domestic market. Due emphasis is being given to effective cross-functional teamwork, with a view to inculcate a vibrant, enabling and empowering work culture, so vital for continued growth.

The accruing benefits of synergized expertise are beginning to appear, both at the front and back ends; and this is just the start… an apt entry point for achieving our ambitious 3-year strategy plan.

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CHAIRMAN'S MESSAGE

READY FOR THE NEXT LEVEL

Dr. Tsutomu Une
Chairman

Dear Shareholders,

On behalf of the Ranbaxy family, may I extend our best wishes to all of you.

As the Chairman of the Board of Ranbaxy, I feel it is an honour and privilege to be associated with one of the top global generic pharmaceutical companies which has leadership position in India.

The year 2009 was very significant for your Company, as it witnessed many important and strategic changes. The most significant was the change in Management, that is leading to the institutionalisation of a transformed culture, with a strong orientation on quality, professionalism, organisational values and stakeholder relationships.

In May 2009, the executive leadership of Ranbaxy was reconstituted. I was elected as the Chairman of the Board and Mr. Atul Sobti took over as CEO and Managing Director. This was done with a view to accelerate the realisation of the Hybrid Business Model of Ranbaxy and Daiichi Sankyo. In recognition of the rapid changes in the business environment evident in both developed and emerging countries, the integration of the respective strengths of both Companies has already been set in motion.

In the past year, I along with other Board members have been working ceaselessly to integrate the best functionalities of both Companies, in a corporate culture that is

L to R: Dr. Tsutomu Une, Mr. Atul Sobti, Mr. Takashi Shoda, Dr. Anthony H. Wild, Mr. Rajesh V. Shah, Mr. Akihiro Watanabe, Mr. Percy K. Shroff

responsive and focused on realising the immense value inherent in this unique transformation. We fully support the leadership of Mr. Sobti, who has abundant corporate experience in successfully handling similar leadership roles. Under his guidance, I am confident Ranbaxy will achieve excellence in providing future strategy & stability, operational execution, transparency and reliability.

The Board has taken some strategic decisions that are aimed at securing the future growth of Ranbaxy. In doing so, we have revisited operations in some specific countries, to consolidate our presence and create value through further efficiencies and cost synergies. One of the key focus areas has been cost containment. This will be an ongoing process.

We believe that the Innovator - Generics model is revolutionary and is best suited to cater to the changing dynamics of the global pharmaceutical industry. Unleashing the power of the Hybrid Business Model, various synergies have been announced, both at the front and back end. The fundamental aim is to secure sustainable growth in mature developed markets, while accelerating expansion in the high growth emerging markets.

A start has already been made in this direction. Ranbaxy has introduced Daiichi Sankyo's innovator products in some markets, starting with India. This benefits both Companies. Ranbaxy gains as its product portfolio gets widened, while Daiichi Sankyo gets a launch pad in those markets where it is not present. In April 2009, Ranbaxy began marketing Daiichi Sankyo's flagship product, Olmesartan (Olvance), in India. Thereafter both Companies have announced partnerships in Romania, Mexico and Africa. It will be our constant endeavour to leverage each other's strengths, by identifying new synergies, so that we can maximise the strategic benefits of our innovative model.

In 2009, Ranbaxy continued to show marked improvement on all financial parameters, surpassing the guidance given by the Company, both on revenue and profit. Although the global fiscal environment remained challenging, Ranbaxy, due to its vast global presence in developed and emerging markets, was able to face up to the economic storm.

In line with our commitment to spearhead the early introduction of affordable quality generic medicines, so that medication is accessible and made available to all, the Company launched three important First-To-File (FTF) products, viz Sumatriptan 100 mg, Valacyclovir Hydrochloride 500 mg and 1000 mg and Oxcarbazepine Suspension, in the US.

I strongly believe that your Company is ready for the next level of growth, with the right business model. While there will be challenges, there are also plenty of opportunities that lie ahead. While growth rates in the global pharmaceutical market are expected to remain in low single digits, emerging markets, in contrast, are likely to witness strong growth. I am referring here to markets like Brazil, Russia, India, China, South Africa, among others. These markets are likely to sustain double digit growth momentum during the period 2010 through 2013. With Ranbaxy's strong presence in many of the high growth markets, the Company is well poised to capitalise on the growing generics opportunity.

During the year, we were also faced with some regulatory actions by the U.S. Food and Drug Administration (FDA). We continue to fully cooperate with the FDA and other authorities and have specially formed a task force that comprises people from Ranbaxy, Daiichi Sankyo and outside specialists. We are doing our utmost to resolve the regulatory issues at the earliest. US is a key market for Ranbaxy and we are committed in our efforts of being fully compliant with the US regulatory standards and to provide affordable quality generic medicines to customers and patients in the US.

Your Company is constantly guided by the institutionalised framework of Corporate Governance and Code of Conduct, to strengthen decision making and compliance with ethical integrity and reliability. The Independent Directors on the Ranbaxy Board, who are well known professionals in their respective fields, guided the management throughout the year to take strategic decisions for achieving higher levels of efficiency and productivity.

The Code of Conduct for employees, aimed at strengthening the organisation through building a culture based on shared values was reviewed and updated during the year. It has been instrumental in promoting guidelines for employees to ensure ethical conduct and business integrity. We strongly believe the Code will continue to play a key role in building a culture that is critical for your Company's long term sustainable growth, profitability and business reputation.

Ranbaxy also made sincere efforts to promote good health and social development through its social initiatives. The Company's apex CSR vehicle, Ranbaxy Community Healthcare Society (RCHS), launched several initiatives to achieve positive health for the underprivileged. The programs were based on the integrated approach of preventive, promotive and curative healthcare services, covering areas of maternal child health, family planning, reproductive and adolescent health, health education and AIDS awareness.

The 13000 strong multi-cultural work force of Ranbaxy is one of its biggest strengths. I appreciate the efforts by Team Ranbaxy, that displayed exemplary spirit and seized every possible opportunity for growth and overcame several challenges. The Management undertook several new initiatives to redefine the work culture and people management processes. This has positively impacted people practices, to foster a new culture, based on empowerment and transparency.

The Management team at Ranbaxy is committed to guide your Company to emerge as a truly global entity. Ranbaxy will remain as a prestigious Company, listed on the Indian stock market, creating shareholder value.

I would like to take this opportunity to thank you for supporting Ranbaxy in all these years and look forward to your continued support and encouragement.

As the Chairman of the Board, I wish to contribute to establish Ranbaxy as an admirable and irreplaceable company in the global arena.

Best Wishes,

Dr. Tsutomu Une
Chairman

CEO & MANAGING DIRECTOR'S MESSAGE

ENVISIONING THE FUTURE

Atul Sobti
CEO & Managing Director

Dear Stakeholders,

2009 has been a historic year for Ranbaxy. It was a year of great change, challenge, and opportunity. A year when we re-defined the scope and focus of our business. A year that provided a glimpse of the enormous potential that lies on our horizon – with the pioneering Hybrid Business Model alongside Daiichi Sankyo, and with the impending patent expiries in the US; as also with our broader new horizon of Bio-therapeutics.

At an operational level, amidst the challenges of the global economic environment, change of ownership, foreign exchange impact, and compliance, Ranbaxians across the world have responded with strong character and resilience, and performance.

Sales for 2009 were US $ 1.52 Bn (Rs. 7,344 crores); Profit Before Tax (PBT) was US $ 209 Mn (over Rs. 1,000 crores); Profit After Tax (PAT) was US $ 64 Mn (Rs. 311 crores).

Ranbaxy had a change in ownership, in late 2008; and a change in the MD/CEO in May 2009. In 2008, the Company had incurred a loss of over Rs. 900 crores (over Rs. 9 Bn), in no small measure due to a

foreign exchange impact. Our Paonta Sahib facility was put under the Application Integrity Policy (AIP) by the US FDA in Feb 2009; and the Gloversville facility in the US was issued a warning letter in December 2009.

We of course continue to co-operate with the US FDA and the Department of Justice, for an effective resolution of all outstanding issues.

During the year, Ranbaxy's Toansa facility, CPU and CPP, in India, and the New Jersey facilities in the US, had successful FDA inspections; and all our facilities, including Dewas and Paonta Sahib in India, had successful inspections from many regulators across the world.

To strengthen Ranbaxy's manufacturing capacities, a new facility was set up at the Special Economic Zone in Mohali (Punjab). We expect to commence production in 2010, after receiving regulatory approvals.

Despite the very high impact challenges, the Company has over-achieved on the guidance given at the start of 2009. We have improved quarter on quarter in 2009, culminating in an excellent 4th quarter, with the launch of Valacyclovir, (a First-To-File product with "exclusivity" benefit), in the US. The exclusivity continues into 2010. We also commenced Phase III clinical trials for our anti-malaria combination drug.

We harnessed the change to define some clear objectives and priorities, within a 3 year pathway. This has culminated in the development of our Mid Term Plan for 2010 to 2012. We also remained focused and committed in our investment for tomorrow, especially in the US and India – in manufacturing, and business operations.

In the US, for 2009, we felt the full year impact of the import alert on products from Paonta Sahib and Dewas. However, we were able to launch three First-To-File (FTF) products successfully, from our US facilities; as also an Authorized Generic.

The Company's business in India continued to grow at a healthy pace. Eighteen of our brands featured amongst the Top-300 brands in the industry. Revital, a flagship brand, emerged as the 7th largest product in the Indian Pharmaceutical Market (IMS MAT Nov 2009).

We have taken a bold step in ramping up for a big market share play in India, through Project "VirAAt". We will stay the course, with resources to back it. It has started well, under new leadership.

"VirAAt" is a key initiative to strengthen the Company's domestic leadership position. The initiative will augment new product flow, while increasing extra-urban/rural footprint, and customer and therapy coverage.

Our wide business presence across the globe has always been a good source of business opportunity and de-risk. In 2009, despite the global slowdown, we did well in many countries. We also took the opportunity to re-model some of our country businesses, for best future value (eg. in the UK, China, Japan, and Vietnam). And we undertook a most comprehensive management of cost.

In terms of alternative/new growth areas, we had identified the Biologics space as strategic, a couple of years ago, and invested in a company in India, Zenotech Labs. With an