DR REDDYS LABORATORIES LTD
Form 20-F
August 10, 2005

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2005

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 1-15182

DR. REDDY S LABORATORIES LIMITED

(Exact name of Registrant as specified in its charter)

Not Applicable	**ANDHRA PRADESH, INDIA**
(Translation of Registrant s name into English)	(Jurisdiction of incorporation or organization)

7-1-27, Ameerpet
Hyderabad, Andhra Pradesh 500 016, India
+91-40-23731946

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on which Registered**
American depositary shares, each representing one equity share	**New York Stock Exchange**
Equity Shares*	**New York Stock Exchange**

*** Not for trading, but only in connection with the registration of American depositary shares, pursuant to the requirements of the Securities and Exchange Commission**.

Securities registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

76,518,949 Equity Shares

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 þ

Table of Contents

Currency of Presentation and Certain Defined Terms

In this annual report on Form 20-F, references to $ or U.S.$ or dollars or U.S. dollars are to the legal currency of the United States and references to Rs. or rupees or Indian rupees are to the legal currency of India. Our financial statements are presented in Indian rupees and translated into U.S. dollars and are prepared in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP). References to Indian GAAP are to Indian Generally Accepted Accounting Principles. References to a particular fiscal year are to our fiscal year ended March 31 of such year. References to our ADSs are to our American Depositary Shares.

References to U.S. or United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. All references to we, us, our, DRL, Dr. Reddy s or the Com mean Dr. Reddy s Laboratories Limited. Dr. Reddy s is a registered trademark of Dr. Reddy s Laboratories Limited in India. Other trademarks or trade names used in this annual report on Form 20-F are trademarks registered in the name of Dr. Reddy s Laboratories Limited or are pending before the respective trademark registries.

Except as otherwise stated in this report, all translations from Indian rupees to U.S. dollars are based on the noon buying rate in the City of New York on March 31, 2005, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was Rs.43.62 per $1.00. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate.

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Information contained in our website, www.drreddys.com, is not part of this Annual Report and no portion of such information is incorporated herein.

Forward-looking and Cautionary Statement

IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTIONS ENTITLED RISK FACTORS AND OPERATING AND FINANCIAL REVIEW AND PROSPECTS AND ELSEWHERE IN THIS REPORT. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT S ANALYSIS ONLY AS OF THE DATE HEREOF. IN ADDITION, READERS SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS ANNUAL REPORT AND IN OUR PERIODIC REPORTS AND OTHER DOCUMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION (SEC) FROM TIME TO TIME.

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A. *Selected financial data summary of selected consolidated financial data*

The selected consolidated financial data should be read in conjunction with the consolidated financial statements, the related notes and operating and financial review and prospects, which are included elsewhere in this annual report. The selected consolidated statements of income data for the five years ended March 31, 2005 and selected consolidated balance sheet data as of March 31, 2001, 2002, 2003, 2004 and 2005 have been derived from our audited consolidated financial statements and related notes, which have been prepared and presented in accordance with U.S. GAAP.

	Fiscal Year Ended March 31,					
	2001	2002**	2003**	2004	2005	
	(Rs. in millions, U.S.$ in thousands, except share data)					
						Convenience translation into U.S.$ (unaudited)
Income Statement Data:						
Product sales	Rs.10,974.8	Rs.16,408.8	Rs.18,069.8	Rs.20,081.2	Rs.19,126.2	U.S.$438,473
License fees		124.8			345.7	7,926
Services		89.1				
Total revenues	10,974.8	16,622.7	18,069.8	20,081.2	19,471.9	446,399
Cost of revenues	5,735.8	6,869.0	7,847.6	9,346.1	9,385.8	215,172
Gross profit	5,239.0	9,753.7	10,222.2	10,735.1	10,086.1	231,227
Operating expenses, net:						
Selling, general and administrative expenses	2,818.9	3,674.1	5,103.2	6,562.9	6,810.5	156,131
Research and development expenses, net	508.8	742.4	1,411.8	1,991.6	2,803.3	64,267
Amortization expenses	482.3	487.7	419.5	382.9	350.0	8,024
Foreign exchange (gain)/loss	(62.1)	(209.0)	70.1	(282.4)	488.8	11,206
Total operating expenses	3,747.9	4,695.2	7,004.6	8,655.0	10,452.6	239,627
Operating income/(loss)	1,491.1	5,058.5	3,217.6	2,080.1	(366.5)	(8,400)
	(31.5)	(130.5)	(92.1)	(44.4)	(58.1)	(1,332)

Equity in loss of affiliates						
Other (expense) / income, net	(387.0)	154.5	683.2	504.2	531.6	12,186
Income before income taxes and minority interest	1,072.6	5,082.5	3,808.7	2,540.0	107.0	2,454
Income taxes (expense)/benefit	(321.4)	(153.8)	(398.1)	(69.2)	94.3	2,161
Minority interest	(9.3)	(14.9)	(6.7)	3.4	9.9	228
Net income	Rs.741.9	Rs.4,913.8	Rs.3,403.9	Rs.2,474.2	Rs.211.2	U.S.$4,843
Earnings per equity share:						
Basic	Rs.11.74	Rs.64.63	Rs.44.49	Rs.32.34	Rs.2.76	U.S.$0.06
Diluted	Rs.11.74	Rs.64.53	Rs.44.49	Rs.32.32	Rs.2.76	U.S.$0.06
Weighted average number of equity shares used in computing earnings per equity share:*						
Basic	63,177,560	76,027,565	76,515,948	76,513,764	76,518,949	76,518,949
Diluted	63,177,560	76,149,568	76,515,948	76,549,598	76,559,801	76,559,801
Cash dividend per share (excluding dividend tax)	Rs.1.75	Rs.7.00	Rs.2.50	Rs.5.00	Rs.5.00	U.S.$0.11

* Each ADR represents one equity share. Historical figures have been adjusted to reflect the two for one stock split effected in October 2001.

** Effective as of fiscal 2003, we selected the retroactive modified method of adoption described in Statement of Financial

Accounting Standards No. 148 *Accounting for Stock Based Compensation Transition and Disclosure.* Accordingly, the operating results for the year ended March 31, 2002 and 2003, which are the only prior periods impacted, have been modified in accordance with the retroactive modified method of adoption.

Table of Contents

	Fiscal Year Ended March 31,					
	2001	2002	2003	2004	2005	
	(Rs. in millions, U.S.$ in thousands, except share data)					
						Convenience translation into U.S.$ (unaudited)
Other Data:						
Net cash provided by / (used in):						
Operating activities	Rs.617.1	Rs.4,652.8	Rs.4,366.7	Rs.3,999.2	Rs.2,291.6	U.S.$52,536
Investing activities	(689.4)	(1,532.9)	(1,954.7)	(6,506.1)	632.9	14,509
Financing activities	(87.7)	1,421.8	(153)	(376.1)	1,931.3	44,276
Effect of exchange rate changes on cash	81.5	88.8	(95)	(14.2)	55.8	1,279
Expenditures on property, plant and equipment	(489.0)	(1,090.3)	(1,515.7)	(2,415.6)	(1,749.2)	(40,100)
Balance Sheet Data:						
Cash and cash equivalents	Rs.478.9	Rs.5,109.4	Rs.7,273.4	Rs.4,376.2	Rs.9,287.9	U.S.$212,927
Working capital	795.4	9,518.6	12,023.5	11,103.3	10,770.9	246,926
Total assets	11,882.9	18,967.0	23,091.7	26,619.3	29,288.4	671,443
Total long-term debt, excluding current portion	1,003.4	47.0	40.91	31.0	25.1	576
Net Assets	5,240.5	15,457.4	18,831.8	21,039.4	20,953.2	480,357
Total stockholders equity	5,240.5	15,457.4	18,831.8	21,039.4	20,953.2	480,357

Exchange Rates

The following table sets forth, for the fiscal years indicated, information concerning the number of Indian rupees for which one U.S. dollar could be exchanged based on the average of the noon buying rate in the City of New York on the last business day of each month during the period for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The column titled Average in the table below is the average of the daily noon buying rate on the last business day of each month during the year.

Fiscal Year Ended March 31	Period End	Average	High	Low
2001	46.85	45.88	46.90	43.70
2002	48.83	47.80	48.83	46.88
2003	47.53	48.43	49.07	47.53
2004	43.40	45.96	47.46	43.40

2005	43.62	44.86	46.45	43.27

The following table sets forth the high and low exchange rates for the previous six months and are based on the average of the noon buying rate in the City of New York on the last business day of each month during the period for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

Month	**High**	**Low**
February 2005	43.73	43.28
March 2005	43.70	43.44
April 2005	43.72	43.48
May 2005	43.62	43.21
June 2005	43.71	43.44
July 2005	43.59	43.05

On August 8, 2005, the noon buying rate in the city of New York was Rs.43.44 per U.S. dollar.

3.B. ***Capitalization and indebtedness***

Not applicable.

3.C. ***Reasons for the offer and use of proceeds***

Not applicable.

3.D. ***Risk factors***

Table of Contents

You should carefully consider all of the information set forth in this Form 20-F and the following risk factors that we face and that are faced by our industry. The risks below are not the only ones we face. Additional risks not currently known to us or that we presently deem immaterial may also affect our business operations. Our business, financial condition or results of operations could be materially or adversely affected by any of these risks. This Form 20-F also contains forward-looking statements that involve risks and uncertainties. Our results could materially differ from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face as described below and elsewhere. See Forward-Looking Statements.

RISKS RELATING TO OUR COMPANY AND OUR BUSINESS

If our research and development efforts do not succeed, this may restrict our introduction of new products, which is critical to our business.

Our future results of operations depend, to a significant degree, upon our ability to successfully commercialize additional products in Active Pharmaceutical Ingredients and Intermediates, Generics and Formulations, Specialty and Drug Discovery businesses. We must develop, test and manufacture generic products as well as prove that our generic products are the bio-equivalent of their branded counterparts. All of our products must meet and continue to comply with regulatory and safety standards and receive regulatory approvals; we may be forced to withdraw a product from the market if health or safety concerns arise with respect to such product. The development and commercialization process, particularly with respect to innovative products, is both time consuming and costly and involves a high degree of business risk. Our products currently under development, if and when fully developed and tested, may not perform as we expect, necessary regulatory approvals may not be obtained in a timely manner, if at all, and we may not be able to successfully and profitably produce and market such products.

To develop our products pipeline, we commit substantial efforts, funds and other resources to research and development, both through our own dedicated resources and our collaborations with third parties. Our ongoing investments in new product launches and research and development for future products could result in higher costs without a proportionate increase in revenues. Our overall profitability depends on our ability to continue developing commercially successful products.

Our dependence on research and development makes it highly important that we recruit and retain high quality researchers and development specialists. We commit substantial efforts and funds to this effort. Should we fail in our efforts, this could adversely affect our ability to continue developing commercially successful products and, thus, our overall profitability.

If we cannot respond adequately to the increased competition we expect to face in the future, we will lose market share and our profits will go down.

Our products face intense competition from products commercialized or under development, by competitors in all our business segments based in India and overseas. Many of our competitors have greater financial resources and marketing capabilities than we do. Some of our competitors, especially multinational pharmaceutical companies, have greater experience than we do in clinical testing and human clinical trials of pharmaceutical products and in obtaining regulatory approvals. Our competitors may succeed in developing technologies and products that are more effective, more popular or cheaper than any we may develop or license. These developments could render our technologies and products obsolete or uncompetitive, which would harm our business and financial results. We believe some of our competitors have broader product ranges, stronger sales forces and better segment positioning than us, which enables them to compete effectively.

Selling prices of active pharmaceutical ingredients and generic drugs typically decline, sometimes dramatically, as additional companies receive approvals for a given product and competition intensifies. To the extent that we succeed in being the first to market a generic version of a significant product, and particularly if we obtain the 180-day period of market exclusivity provided under the Hatch-Waxman Act of 1984, as amended, our sales and profit can be substantially increased in the period following the introduction of such product and prior to a competitor s introduction of the equivalent product or the launch of an authorized generic. Our ability to sustain our sales and profitability on any product over time is dependent on both the number of new competitors for such product and the timing of their approvals.

Table of Contents

Our generics business is also facing increasing competition from brand-name manufacturers, who do not face any significant regulatory approvals or barriers to entry into the generics market. These brand-name companies sell generic versions of their products to the market directly or by acquiring or forming strategic alliances with our competitor generic pharmaceutical companies or by granting them rights to sell authorized generics . Moreover, brand-name companies continually seek new ways to delay generic introduction and decrease the impact of generic competition, such as filing new patents on drugs whose original patent protection is about to expire, developing patented controlled-release products, changing product claims and product labeling, or developing and marketing as over-the-counter products those branded products which are about to face generic competition.

If we cannot maintain our position in the Indian pharmaceutical industry in the future, we may not be able to attract co-development, outsourcing or licensing partners and may lose market share.

In order to attract multinational corporations into co-development and licensing arrangements, it is necessary for us to maintain the position of a leading pharmaceutical company in India. Multinational corporations have been increasing their outsourcing of both active pharmaceutical ingredients and generic formulations to highly regarded companies that can produce high quality products at low cost that conform to standards set in developed markets. If we cannot maintain our current position in the market, we may not be able to attract outsourcing or licensing partners and may lose market share.

If we fail to comply fully with government regulations applicable to our research and development activities or regarding the manufacture of our products, it may delay or prevent us from developing or manufacturing our products.

Our research and development activities are heavily regulated. If we fail to comply fully with applicable regulations, then there could be a delay in the submission or approval of potential new products for marketing approval. In addition, the submission of an application to a regulatory authority does not guarantee that a license to market the product will be granted. Each authority may impose its own requirements and/or delay or refuse to grant approval, even when a product has already been approved in another country. In the U.S., as well as many of our international markets, the approval process for a new product is complex, lengthy and expensive. The time taken to obtain approval varies by country but generally takes from six months to several years from the date of application. This registration process increases the cost to us of developing new products and increases the risk that we will not succeed in selling them successfully.

Also, governmental authorities, including the U.S. Food and Drug Administration (U.S. FDA), heavily regulate the manufacture of our products. If we or our third party suppliers fail to comply fully with such regulations, then there could be a government-enforced shutdown of production facilities, which in turn could lead to product shortages. A failure to comply fully with such regulations could also lead to a delay in the approval of new products.

If there is a change in government regulations regarding the amount of revenue that we may be able to derive from a particular product, our revenues may decrease.

Governments throughout the world heavily regulate the marketing of our products. Most countries also place restrictions on the manner and scope of permissible marketing to physicians and to other health care professionals. The effect of such regulations may be to limit the amount of revenue that we may be able to derive from a particular product. In addition, if we fail to comply fully with such regulations, then civil or criminal actions could be brought against us. In addition to normal price competition in the market place, the prices of our pharmaceutical products are restricted by price controls imposed by governments and health care providers in several countries. Price controls operate differently in different countries and can cause wide variations in prices between markets. Currency fluctuations can aggravate these differences. The existence of price controls can limit the revenues we earn from our products.

If a regulatory agency amends or withdraws existing approvals to market our products, this may cause our revenues to decline.

Regulatory agencies may at any time reassess the safety and efficacy of our products based on new scientific knowledge or other factors. Such reassessments could result in the amendment or withdrawal of existing approvals to market our products, which in turn could result in a loss of revenue, and could serve as an inducement to bring lawsuits against us.

If we are sued by consumers for defects in our products, it could harm our reputation and thus our profits.

Table of Contents

Our business inherently exposes us to potential product liability. From time to time, the pharmaceutical industry has experienced difficulty in obtaining desired amounts of product liability insurance coverage. Although we have obtained product liability coverage with respect to products that we manufacture, if any product liability claim not covered by insurance or exceeding the policy limits were sustained against us, it could harm our business and financial condition. This risk is likely to increase as we develop our own new-patented products in addition to making generic versions of drugs that have been in the market for some time.

If we are unable to patent new products and processes, unable to protect our intellectual property rights or proprietary information, or if we infringe on the patents of others, our business may be adversely impacted.

Our overall profitability depends, among other things, on our ability to continuously and timely introduce new generic as well as innovative products. Our success will depend, in part, on our ability in the future to obtain patents, protect trade secrets, intellectual property rights and other proprietary information and operate without infringing on the proprietary rights of others. Our competitors may have filed patent applications, or hold issued patents, relating to products or processes that compete with those we are developing, or their patents may impair our ability to successfully develop and commercialize new products.

Our success with our innovative products depends, in part, on our ability to protect our current and future innovative products and to defend our intellectual property rights. If we fail to adequately protect our intellectual property, competitors may manufacture and market products similar to ours. We have been issued patents covering our innovative products and processes and have filed, and expect to continue to file, patent applications seeking to protect our newly developed technologies and products in various countries, including the United States. Any existing or future patents issued to or licensed by us may not provide us with any competitive advantages for our products or may even be challenged, invalidated or circumvented by competitors. In addition, such patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products.

We also rely on trade secrets, unpatented proprietary know-how and continuing technological innovation that we seek to protect, in part by confidentiality agreements with licensees, suppliers, employees and consultants. It is possible that these agreements will be breached and we will not have adequate remedies for any such breach. Disputes may arise concerning the ownership of intellectual property or the applicability of confidentiality agreements. Furthermore, our trade secrets and proprietary technology may otherwise become known or be independently developed by our competitors or we may not be able to maintain the confidentiality of information relating to such products.

Changes in the regulatory environment may prevent us from utilizing the exclusivity periods that are important to the success of our generic products.

The policy of the U.S. FDA regarding the award of 180 days of market exclusivity to generic manufacturers who challenge patents relating to specific products continues to be the subject of extensive litigation in the United States. The U.S. FDA s current interpretation of the Hatch-Waxman Act of 1984 is to award 180 days of exclusivity to the first generic manufacturer who files a Paragraph IV certification under the Hatch-Waxman Act challenging the patent of the branded product, regardless of whether that generic manufacturer was sued for patent infringement.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 amended the Hatch-Waxman Act and provides that the 180-day market exclusivity period provided under the Hatch-Waxman Act is triggered by the commercial marketing of the product. However, the Medicare Prescription Drug Act also contains forfeiture provisions, which, if met, will deprive the first Paragraph IV filer under section 505(j) of the Hatch-Waxman Act of exclusivity. As a result, under certain circumstances, we may not be able to exploit our 180-day exclusivity period since it may be forfeited prior to our being able to market the product.

In addition, legal and administrative battles over triggering dates and shared exclusivities may also prevent us from fully utilizing the exclusivity periods.

If we are unable to defend ourselves in patent challenges, we could be subject to injunctions preventing us from selling our products, resulting in a decrease in revenues, or we could be subject to substantial liabilities that would lower our profits.

Table of Contents

There has been substantial patent related litigation in the pharmaceutical industry concerning the manufacture, use and sale of various products. In the normal course of business, we are regularly subject to lawsuits and the ultimate outcome of litigation could adversely affect our results of operations, financial condition and cash flow. Regardless of regulatory approval, lawsuits are periodically commenced against us with respect to alleged patent infringements by us, such suits often being triggered by our filing of an application for governmental approval, such as a new drug application. The expense of any such litigation and the resulting disruption to our business, whether or not we are successful, could harm our business. The uncertainties inherent in patent litigation make it difficult for us to predict the outcome of any such litigation.

If we are unsuccessful in defending ourselves against these suits, we could be subject to injunctions preventing us from selling our products, resulting in a decrease in revenues, or to damages, which may be substantial. An injunction or substantial damages resulting from these suits could adversely effect our consolidated financial position, results of operations or liquidity.

If we elect to sell a generic product prior to the completion of all appellate level patent litigation, we could be subject to liabilities for damages if a lower court judgment upon which we are relying is reversed.

At times we seek approval to market generic products before the expiration of patents for those products, based upon our belief that such patents are invalid, unenforceable, or would not be infringed by our products. As a result, we often face significant patent litigation. Depending upon a complex analysis of a variety of legal and commercial factors, if we win a lower court decision in such patent litigation, we may, in certain circumstances, elect to market a generic product even though an appeal of the lower court decision is pending. Should we elect to proceed in this manner, we could face substantial patent liability damages were a higher court to overturn the trial court s decision.

If we do not maintain and increase our arrangements for overseas distribution of our products, our revenues and net income could decrease.

We market our products in 86 countries. Our products are marketed in most of these countries through our subsidiaries as well as joint ventures. As we do not have the resources to market and distribute our products ourselves in all our export markets, we also market and distribute our products through third parties by way of marketing and agency arrangements. These arrangements may be terminated by either party providing the other with notice of termination or when the contract regarding the arrangement expires. We may not be able to successfully negotiate these third party arrangements or find suitable joint venture partners in the future. Any of these arrangements may not be available on commercially reasonable terms. Additionally, our marketing partners may make important marketing and other commercialization decisions with respect to products we develop without our input. As a result, many of the variables that may affect our revenues and net income are not exclusively within our control when we enter into arrangements like these.

If we fail to comply with environmental laws and regulations or face environmental litigation, our costs may increase or our revenues may decrease.

We may incur substantial costs in compliance with requirements of environmental laws and regulations. In addition, we may discover currently unknown environmental problems or conditions. We are subject to significant Indian national and state environmental laws and regulations, which govern the discharge, emission, storage, handling and disposal of a variety of substances that may be used in or result from our operations. If any of our plants or the operations of such plants are shut down, we may continue to incur costs in complying with regulations, appealing any decision to close our facilities, maintaining production at our existing facilities and continuing to pay labor and other costs which may continue even if the facility is closed. As a result, our overall operating expenses may increase and our profits may decrease.

Our equity shares and our ADSs may be subject to market price volatility, and the market price of our ADSs may decline disproportionately in response to adverse developments that are unrelated to our operating performance.

Market prices for the securities of Indian pharmaceutical companies, including our own, have historically been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Factors such as the following can have an adverse effect on the market price of our ADSs and equity shares:

- general market conditions,

Table of Contents

- speculative trading in our shares and ADSs,
- changes in the weight given to our shares in Stock Exchange, Mumbai (BSE) and National Stock Exchange (NSE) indices, and
- developments relating to our peer companies in the pharmaceutical industry.

If the world economy is affected due to terrorism or wars, it may adversely affect our business and results of operations.

Several areas of the world have experienced terrorist acts and retaliatory operations recently. If the overall economy of the world is affected by such acts, our business and results of operations may be adversely affected as a consequence.

If we have difficulty in identifying acquisition candidates, obtaining satisfactory acquisition financing or integrating companies that we merge with or acquire, our business may be harmed.

We may acquire or make strategic investments in complementary businesses or products, or enter into strategic partnerships or alliances with third parties in order to enhance our business. It is possible that we may not identify suitable acquisition, strategic investment or strategic partnership candidates, or if we do identify suitable candidates, we may not complete those transactions on terms commercially acceptable to us or at all. Our acquisition strategy may require us to obtain additional debt or equity financing, resulting in additional leverage, or increased debt obligations as compared to equity, and dilution of ownership. We may not be able to finance acquisitions on terms satisfactory to us. The inability to identify suitable acquisition targets or investments or the inability to complete such transactions may affect our competitiveness and our growth prospects.

Acquisitions may involve a number of risks, including diversion of management s attention, failure to retain key acquired personnel and clients, unanticipated events or circumstances, legal liabilities and amortization of acquired intangible assets, some or all of which could harm our results of operations and financial condition. Our inability to successfully integrate companies that we have acquired or merged with, or companies that we acquire or merge with in the future, could harm our business.

Our principal shareholders control us and, if they take actions that are not in your best interests, the value of your investment in our ADSs may be harmed.

Our full time directors together with members of their immediate families, in the aggregate, beneficially own 26.3% of our issued shares. As a result, these people, acting in concert, are likely to have the ability to exercise significant control over most matters requiring approval by our shareholders, including the election and removal of directors and significant corporate transactions. This control by these directors and their family members could delay, defer or prevent a change in control of us, impede a merger, consolidation, takeover or other business combination involving us, or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, even if that was in our best interest. As a result, the value of your ADSs may be adversely affected or you might be deprived of a potential opportunity to sell your ADSs at a premium.

If we improperly handle any of the dangerous materials used in our business and accidents result, we could face significant liabilities that would lower our profits.

We handle dangerous materials including explosive, toxic and combustible materials like sodium azide, acrolein and acetyl chloride. If improperly handled or subjected to the wrong conditions, these materials could hurt our employees and other persons, cause damage to our properties and harm the environment. This, in turn, could subject us to significant litigation, which could lower our profits in the event we were found liable.

If there is delay and/or failure in supplies of materials, services and finished goods from third parties, it may adversely affect our business and results of operations.

In some of our key business operations, such as the manufacture, formulation and packaging of products, we rely on third parties for the timely supply of specified raw materials, equipment, contract manufacturing, formulation or packaging services and maintenance services. Although we actively manage these third party relationships to ensure continuity of supplies on time and to our required specifications, some events beyond our control could result in the complete or partial

Table of Contents

failure of supplies or in supplies not being delivered on time. Any such failure could adversely affect our results of business and results of operations.

If we do not effectively manage our operations in our foreign subsidiaries and review equity investees, these operations may incur losses or otherwise adversely affect our business and results of operations.

Currently, we operate our business through subsidiaries and equity investees in other countries. Because of our limited experience in operating subsidiaries and reviewing equity investees outside of India, we are subject to additional risks related to our international expansion strategy, including risks related to complying with a wide variety of national and local laws, restrictions on the import and export of certain intermediates, drugs, technologies and multiple and possibly overlapping tax structures. In addition, we may face competition in other countries from companies that may have more experience with operations in such countries or with international operations generally. We may also face difficulties integrating new facilities in different countries into our existing operations, as well as integrating employees that we hire in different countries into our existing corporate culture. If we do not effectively manage our operations in these subsidiaries and review equity investees effectively we may lose money in these countries and it may adversely affect our business and results of operations.

Fluctuations in exchange rates may adversely affect our business and results of operations.

Our principal subsidiaries are located in the United States, United Kingdom and Russia and each has significant local operations. A significant portion of our revenues are in other currencies, especially the U.S. dollar, Euro and Pound sterling, while a significant portion of our costs are in Indian rupees. As a result, if the value of the Indian rupee appreciates relative to these other currencies, our revenues will decrease.

If there is a change in tax regulations, it may increase our tax liabilities and thus adversely affect our financial results.

Currently, we enjoy various tax benefits and exemptions under Indian tax laws. Any changes in these laws, or their application in matters such as tax exemption on export income and transfer pricing, may increase our tax liabilities and thus adversely affect our financial results.

If there is a change in accounting standards, it may affect our reported results of operations.

New or revised accounting standards and rules promulgated from time to time by United States or Indian accounting standard boards may significantly affect our reported results of operations. Any change in accounting standards may affect our reported results of operation. The preparation of financial statements in accordance with U.S.GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets (including intangible assets), liabilities and related reserves, revenues, expenses and income. Estimates, judgments and assumptions are inherently subject to change in the future, and any such changes could result in corresponding changes to the amounts of assets (including goodwill and other intangible assets), liabilities, revenues, expenses and income. Any such changes could have a material adverse effect on our financial position and results of operations.

If we were to experience a supply interruption, we might be unable to meet the active pharmaceutical ingredients needs of our generics and formulations segments, and our needs might conflict with those of our active pharmaceutical ingredients customers.

Many of the active pharmaceutical ingredients and formulations that we manufacture, distribute and sell are dependent on highly specialized raw materials. In the event that we experience a shortage in our supply of raw materials, we might be unable to fulfill all of the active pharmaceutical ingredients needs of our generics and formulations segments, which could result in a loss of production capacity for these segments. In addition, this could result in a conflict between the active pharmaceutical ingredients needs of our generics and formulations segments and the needs of customers of our active pharmaceutical ingredients segment, some of whom are also our competitors in the formulations segment. In either case, we could potentially lose business from adversely affected customers and, we could be subjected to lawsuits.

Compliance with new and changing corporate governance and public disclosure requirements diverts management time and attention from revenue-generating activities to compliance activities, which may adversely affect our business.

Table of Contents

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations, NYSE rules, Securities and Exchange Board of India rules and Indian stock market listing regulations, are creating uncertainty for companies like ours. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such governance standards. We are committed to maintaining high standards of corporate governance and public disclosure, and our efforts to comply with evolving laws, regulations and standards in this regard have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. The new laws, regulations and standards regarding corporate governance may make it more difficult for us to obtain director and officer liability insurance. Further, our board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with their performance of duties. As a result, we may face difficulties attracting and retaining qualified board members and executive officers, which could harm our business.

Employees are vital for the continuous growth of our business

The single greatest advantage of any company is its people. Their skills and intellect are critical to the successful achievement of our business goals and objectives. If we are unable to retain our key personnel, it may adversely affect our business operations.

RISKS RELATING TO INVESTMENTS IN INDIAN COMPANIES

We are an Indian company and a substantial part of our operations are conducted, and most of our assets are located, in India. In addition, approximately 34.4% of our total revenues for fiscal 2005 were derived from sales in India. As a result, the following additional risk factors apply.

A slowdown in economic growth in India may adversely affect our business and results of operations.

Our performance and the quality and growth of our business are necessarily dependent on the health of the overall Indian economy. The Indian economy has grown significantly over the past few years. Any future slowdown in the Indian economy could harm us, our customers and other contractual counterparties. In addition, the Indian economy is in a state of transition. The share of the services sector of the economy is rising while that of the industrial, manufacturing and agricultural sector is declining. It is difficult to gauge the impact of these fundamental economic changes on our business.

A significant change in the Indian government or in its economic liberalization and deregulation policies may adversely affect the Indian economy, the health of which our business depends upon.

The Indian government has traditionally exercised and continues to exercise a dominant influence over many aspects of the economy. Any significant change in its economic policies could have a significant effect on private-sector entities, including us, and on market conditions and prices of Indian securities, including our shares and our ADSs. India s trade relationships with other countries can also influence Indian economic conditions, which in turn can affect our business.

If communal disturbances or riots erupt in India, or if regional hostilities increase, this would adversely affect the Indian economy, the health of which our business depends upon.

India has experienced communal disturbances, terrorist attacks and riots during recent years. If such disturbances continue or are exacerbated, our operational, sales and marketing activities may be adversely affected. Additionally, India has from time to time experienced hostilities with neighboring countries. The hostilities have continued sporadically. The hostilities between India and Pakistan are particularly threatening, because both India and Pakistan are nuclear powers. Hostilities and tensions may occur in the future and on a wider scale. These hostilities and tensions could lead to political or economic instability in India and harm our business operations, our future financial performance and the price of our shares and our ADSs.

Table of Contents

If inflation continues to rise in India, we may not be able to increase the prices of our products in order to pass the costs along to our customers and our profits may decline.

According to the monthly report for April 2005 released by the Indian Ministry of Finance, the annual inflation rate in India, as measured by the benchmark wholesale price index (Base 1993-94=100), was6.7% in fiscal 2005 as compared with 5.5% in fiscal 2004 The rate of inflation may continue to rise. We may not be able to pass these costs on to our customers by increasing the price we charge for our products. If this occurs, our profits may decline.

If environmental conditions in India including drought, floods and earthquakes, affect our main facilities, our revenues could decline.

Our main facilities are situated around Hyderabad, in India. This region has experienced earthquakes, floods and droughts in the past and has experienced droughts in recent years In the event of a drought so serious that the drinking water in the region is limited, the government could cut the supply of water to all industries including our facilities and this would adversely affect our production operations and reduce our revenues. Even if we take precautions to provide back-up support in the event that a natural disaster occurs in parts of India affecting our main facilities, environmental conditions may affect our facilities, harming production and ultimately our business.

Wage pressures in India may increase our costs and reduce our profit margins.

Wage costs in India have historically been significantly lower than wage costs in developed countries and have been one of our competitive strengths. However, wage increases in India may increase our costs, reduce our profit margins and adversely affect our business and results of operations.

Indian law imposes certain restrictions that limit a holder s ability to transfer the equity shares obtained upon conversion of ADSs and repatriate the proceeds of such transfer, which may cause our ADSs to trade at a premium or discount to the market price of our equity shares.

Under certain circumstances, the Reserve Bank of India must approve the sale of equity shares underlying ADSs by a non-resident of India to a resident of India. The Reserve Bank of India has given general permission to effect sales of existing shares or convertible debentures of an Indian company by a resident to a non-resident, subject to certain conditions, including the price at which the shares may be sold. Additionally, except under certain limited circumstances, if an investor seeks to convert the rupee proceeds from a sale of equity shares in India into foreign currency and then repatriate that foreign currency from India, he or she will have to obtain an additional approval from the Reserve Bank of India for each such transaction. Required approval from the Reserve Bank of India or any other government agency may not be obtained on terms favorable to a non-resident investor or at all.

There are limits and conditions to the deposit of shares into the ADS facility.

Indian legal restrictions may limit the supply of ADSs. The only way to add to the supply of ADSs will be through a primary issuance because the depositary will not be permitted to accept deposits of outstanding shares and issue ADSs representing those shares. However, an investor in ADSs who surrenders an ADS and withdraws shares will be permitted to redeposit those shares in the depositary facility in exchange for ADSs. In addition, an investor who has purchased shares in the Indian market will be able to deposit them in the ADS program, but only in a number that does not exceed the number of underlying shares that have been withdrawn from and not re-deposited into the depositary facility. Moreover, there are restrictions on foreign institutional ownership of shares as opposed to ADSs.

There may be less company information available in Indian securities markets than securities markets in developed countries.

There is a difference between the level of regulation and monitoring of the Indian securities markets over the activities of investors, brokers and other participants, as compared to the level of regulation and monitoring of markets in the United States and other developed economies. The Securities and Exchange Board of India is responsible for improving disclosure and other regulatory standards for the Indian securities markets. The Securities and Exchange Board of India has issued regulations and guidelines on disclosure requirements, insider trading and other matters. There may, however, be less publicly available information about Indian companies than is regularly made available by public companies in developed countries, which could affect the market for our equity shares.

Table of Contents

Indian stock exchange closures, broker defaults, settlement delays, and Indian government regulations on stock market operations could affect the market price and liquidity of our equity shares.

The Indian securities markets are smaller than the securities markets in the United States and Europe and have experienced volatility from time to time. The regulation and monitoring of the Indian securities market and the activities of investors, brokers and other participants differ, in some cases significantly, from those in the United States and some European countries. Indian stock exchanges have at times experienced problems, including temporary exchanges closures, broker defaults and settlement delays and if similar problems were to recur, they could affect the market price and liquidity of the securities of Indian companies, including our shares. Furthermore, any change in Indian government regulations on stock markets could affect the market price and liquidity of our shares

Financial instability in other countries, particularly emerging market countries in Asia, could affect our business and the price and liquidity of our shares and our ADSs.

The Indian markets and the Indian economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia. Although economic conditions are different in each country, investors reactions to developments in one country can have adverse effects on the securities of companies in other countries, including India. Any worldwide financial instability or any loss of investor confidence in the financial systems of Asian or other emerging markets could increase volatility in Indian financial markets or adversely affect the Indian economy in general. Either of these results could harm our business, our future financial performance and the price of our shares and ADSs.

If you are not able to exercise preemptive rights available to other shareholders, your investment in our securities may be diluted.

A company incorporated in India must offer its holders of shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any shares, unless these rights have been waived by at least 75.0% of the company s shareholders present and voting at a shareholders general meeting. U.S. investors in our ADSs may be unable to exercise preemptive rights for the shares underlying our ADSs unless a registration statement under the Securities Act of 1933 is effective with respect to the rights or an exemption from the registration requirements of the Securities Act is available. Our decision to file a registration statement will depend on the costs and potential liabilities associated with a registration statement as well as the perceived benefits of enabling U.S. investors in our ADSs to exercise their preemptive rights and any other factors we consider appropriate at the time. We might choose not to file a registration statement under these circumstances. If we issue any of these securities in the future, such securities may be issued to the depositary, which may sell them in the securities markets in India for the benefit of the investors in our ADSs. We cannot assure you as to the value, if any, the depositary would receive upon the sale of these securities. To the extent that you are unable to exercise preemptive rights, your proportional interests in us would be reduced.

ITEM 4. INFORMATION ON OUR COMPANY

4.A. *History and development of our company*

Dr. Reddy s Laboratories Limited was incorporated in India under the Companies Act, 1956, by its promoter, Dr. K. Anji Reddy as a Private Limited Company on February 24, 1984. We were converted to a Public Limited Company on December 6, 1985 and listed on the Indian Stock Exchanges in August 1986 and on the New York Stock Exchange on April 11, 2001. We are registered with the Registrar of Companies, Andhra Pradesh, Hyderabad, India as Company No. 01-4507. Our registered office is situated at 7-1-27, Ameerpet, Hyderabad 500 016, Andhra Pradesh, India and the telephone number of our registered office is +91-40-23731946. The name and address of our registered agent in the United States is Dr. Reddy s Laboratories, Inc., 200 Somerset Corporate Boulevard (Bldg II), Bridgewater, New Jersey 08807.

Key business developments:

In April 2004, we acquired Trigenesis Therapeutics, Inc., a U.S. based privately owned dermatology company. This acquisition provided us with access to certain products and proprietary drug delivery technology platforms for developing a pipeline of differentiated specialty products in the dermatology prescription segment. The total consideration for this

Table of Contents

transaction was U.S.$11.0 million. In connection with this transaction, we assumed certain future milestone and royalty payment obligations of Trigenesis Therapeutics, Inc.

In November 2004, Novo Nordisk decided to terminate further clinical development of balaglitazone (DRF 2593), which is an insulin sensitizer that acts as a partial Peroxisome Proliferator Activated Receptor (PPAR) gamma agonist and is an oral treatment for patients with type 2 diabetes. Novo Nordisk decided to terminate further clinical development of balaglitazone, as the preclinical results did not suggest a sufficient competitive advantage for balaglitazone compared to similar marketed products within this therapeutic category. We licensed this molecule to Novo Nordisk in 1997.

Pursuant to an agreement entered into with Novartis Pharma AG (Novartis), we agreed to provide Novartis with an exclusive license to develop, promote, distribute, market and sell certain products to be further developed into drugs for the treatment of specified diseases. Pursuant to the terms of this agreement, during fiscal 2002, we received Rs.235,550 (U.S.$5 million) as an up-front license fee. As the up-front license fee did not represent the culmination of a separate earning process, the up-front license fee had been deferred to be recognized in accordance with our accounting policy proportionately upon the receipt of stated milestones. Under the terms of the agreement, Novartis had the rights for an additional dual acting insulin sensitiser compound (the backup compound). In June 2003, Novartis decided to discontinue further development of the primary compound licensed from us but continued its collaboration with us for the backup compound. The agreement with Novartis for the further development of the backup compound expired on May 30, 2004 and, accordingly, we recognized the amount of Rs.235.6 million as revenue during the three months ended June 30, 2004.

In February 2005, we initiated Phase I clinical trials for our cardiovascular drug candidate RUS 3108. The clinical trials are being conducted in Belfast, Ireland and will explore the safety and pharmacokinetic profiles of this drug candidate in humans. This is the first time we are testing a drug in Europe. RUS 3108 is being developed for the treatment of atherosclerosis, the major cause of cardiovascular disorders such as heart attacks and stroke. Cardiovascular disease is a leading cause of death worldwide. To our knowledge, there are currently no drugs on the market that directly treat atherosclerosis.

During fiscal 2005, we entered into an agreement with I-VEN Pharma Capital Limited (I-VEN) for the joint development and commercialization of generic drug products. The agreement gives I-VEN the right to fund up to fifty percent of the project costs (development, registration and legal costs) related to these products and the related U.S. Abbreviated New Drug Applications (ANDA) filed or to be filed in 2004-05 and 2005-06, subject to a maximum funding right of U.S.$56.0 million. The terms of the arrangement do not require us to repay the funds or purchase I-VEN s interest in the event that we are not able to develop or commercialize one or more of the products subject to this agreement. However, upon successful commercialization of these products, we will be required to pay I-VEN a royalty on net sales for a period of 5 years from the date of commercialization of each product, which royalty rate is determined by the development, registration and legal costs that we actually incur to commercialize such product. The first tranche advanced by I-VEN of U.S.$22.5 million (Rs.985.4 million) was received on March 28, 2005. I-VEN has an option to further invest U.S.$33.5 million (Rs.1,465.5 million) by March 31, 2006. The amounts received from I-VEN will be recognized in the income statement as a credit to research and development expenses upon completion of specific milestones as detailed in the agreement. Accordingly, an amount of U.S.$2.2 million (Rs.96.2 million) has been recognized in the current year representing the proportionate costs relating to the completion of specified ANDA filings.

During fiscal 2005, we filed 13 ANDAs, including 6 Paragraph IVs. As of March 31, 2005, we had 45 ANDAs pending at the U.S. FDA. During fiscal 2005, we filed 9 Drug Master Files (DMFs) with the U.S. FDA. We also filed 306 dossiers in various international markets.

On March 24, 2005, we completed the sale of our remaining 49% equity stake in Compact Electric Limited for Rs.82,000. We had previously sold 51% of our equity stake in this company in fiscal 2004.

As of March 31, 2005, the capital work-in-progress was Rs.568.0 million, primarily in India. Our capital work-in-progress is financed entirely through internally generated funds. We are in the process of expanding our existing formulations and active pharmaceutical ingredients and intermediates (API) facilities. We are in the process of establishing new facilities in our formulations and critical care businesses. Expenditures related to specific assets

incurred during the project implementation period are carried as capital work-in-progress . These will be transferred to specific assets as and when these assets are available for use.

Table of Contents

During fiscal 2004 and fiscal 2005, no third party made any public takeover offers in respect of our shares and we did not make any public offers to takeover any other company.

4.B. ***Business overview***

We are an emerging global pharmaceutical company with proven research capabilities. We produce active pharmaceutical ingredients and finished dosage forms and biotechnology products and market them globally, with a focus on India, the United States, Europe and Russia. We conduct basic research in the areas of cancer, diabetes, cardiovascular disease, inflammation and bacterial infection.

Our revenues for fiscal 2005 were Rs.19,471.9 million (U.S.$446.4 million). We derived 34.4% of these revenues from sales in India, 22.3% from the United States and Canada (North America), 14.3% from Russia and other countries of the former Soviet Union, 14.7% from Europe and 14.3% from other countries. Our net income for fiscal 2005 was Rs.211.2 million (U.S.$4.8 million).

OUR STRATEGY

Our vision is to build a discovery-led global pharmaceutical company, with a strong pipeline of generics as well as innovative products. Our core businesses of active pharmaceutical ingredients and intermediates and formulations are well established with a track record of growth and profitability. In our generics business, we are building a pipeline of products that will help us drive growth in the medium-term. In addition, we are focusing our investments on innovation led businesses, including specialty pharmaceuticals and drug discovery. These businesses, while being investment intensive and with long lead times, have the potential to provide significant growth as well as sustained revenues and profitability for much longer periods due to patent protected franchises. As a result, we believe that over the next few years, our fully established core businesses will fund the growth of our generics business and the establishment of our innovation businesses.

OUR PRINCIPAL AREAS OF OPERATIONS

The following table shows our revenues and percentage of total revenues of our formulations, active pharmaceutical ingredients and intermediates, generics, critical care and biotechnology and drug discovery segments for fiscal 2003, 2004 and 2005 respectively:

	Fiscal Year Ended March 31,						
Segment	**2003**		**2004**		**2005**		
	(Rs. in millions, U.S.$ in thousands)						
Formulations	Rs.6,860.4	38.0%	Rs.7,507.5	37.4%	Rs.7,822.9	40.2%	U.S.$179,342.3
Active pharmaceutical ingredients and intermediates	6,340.7	35.1	7,628.5	38.0	6,944.5	35.7	159,205.1
Generics	4,284.2	23.7	4,337.5	21.6	3,577.4	18.4	82,013.3
Critical care and biotechnology	428.2	2.4	411.0	2.0	527.1	2.7	12,084.1
Drug discovery					288.4	1.4	6,611.2
Other	156.3	0.8	196.7	1.0	311.6	1.6	7,143.0
Total revenues	Rs.18,069.8	100.0%	Rs.20,081.2	100.0%	Rs.19,471.9	100.0%	U.S.$446,399.0

Formulations Segment

Formulations, also referred to as branded finished dosages, are finished pharmaceutical products ready for consumption by the patient. Branded means we package the formulations for sale under our brand name. We sell branded formulations in India and other emerging markets. Formulations accounted for 40.2% of our revenues in fiscal 2005.

We export our branded formulations to over 36 countries worldwide. Our major markets in this segment are India, Russia and other countries of the former Soviet Union, Central Eastern Europe, Southeast Asian countries and Latin

America. We have also expanded our presence in emerging markets, such as Romania, Albania, South Africa, Peru and in the Middle East region. We have progressively increased the number of countries in which we market our formulations by registering our products in various markets around the world. During fiscal 2005, we filed 306 new product dossiers in various countries around the world. Between March 31, 2005 and June 30, 2005, we filed an additional 159 new product

Table of Contents

dossiers in various countries around the world.

The following table sets forth formulations revenues by geographic area for fiscal 2003, 2004 and 2005 respectively:

	Fiscal Year Ended March 31,						
	2003		2004		2005		
Country	Revenues (in millions)	% Total(1)	Revenues (in millions)	% Total(1)	Revenues (in millions)		% Total(1)
India	Rs. 4,303.2	62.7%	Rs. 4,729.3	63.0%	Rs. 4,360.2	U.S.$ 100.0	55.7%
Russia	1,660.8	24.2	1,781.8	23.7	2,107.2	48.3	26.9
Ukraine	157.1	2.3	184.2	2.5	257.8	5.9	3.3
Kazakhstan	145.5	2.1	154.5	2.1	183.7	4.2	2.3
Belarus	106.8	1.6	100.2	1.3	140.1	3.2	1.8
Romania	55.8	0.8	82.0	1.1	102.6	2.4	1.3
Venezuela	63.0	0.9	70.4	0.9	96.0	2.2	1.2
Vietnam	62.4	0.9	56.7	0.8	73.5	1.7	0.9
Myanmar	45.6	0.7	47.6	0.6	68.1	1.6	0.9
Sri Lanka	49.7	0.7	62.3	0.8	67.0	1.5	0.9
Others	210.5	3.1	238.5	3.2	366.6	8.4	4.7
Total	Rs. 6,860.4	100.0%	Rs. 7,507.5	100.0%	Rs. 7,822.9	U.S.$ 179.3	100.0%

(1) Refers to our revenues from formulations sales in the applicable country expressed as a percentage of our total revenues from formulations sales throughout the world.

Emerging markets India and Russia

India. Our revenues from sales of formulations in India were 55.7% of our total formulations sales in fiscal 2005. In India, our formulations business focuses mainly on the therapeutic categories of cardiovascular, diabetes management, gastro-intestinal and pain management. As of March 31, 2005, we had a total of 117 brands. Our top ten brands together accounted for 50.7% of our formulations revenues in India in fiscal 2005. Our sales of formulations in India declined 7.8% in fiscal 2005 as compared to the industry average growth of 4.2% according to Operations Research Group International Medical Statistics (ORG IMS), a market research firm, in its March Moving Annual Total report for the 12-month period ending March 2005. This decline was primarily due to the slowdown in the growth of our key brands as well as inventory reduction by stockists, retailers and other trade channels due to uncertainty relating to the implementation of the new value added tax system in India. According to ORG IMS, as of March 2005, we had 32 brands that were ranked either first or second in terms of sales in India in their respective product categories. According to the Center for Marketing and Advertising Research Consultancy (CMARC) report

for the period November 2004 to February 2005, which measures doctors prescriptions, we were the seventh most prescribed company in India.

New product launches during fiscal 2005 accounted for 5.8% of our revenues from sales of formulations in India. Key product launches included Retoz, our brand of etoricoxib, and Dutas, our brand of dutasteride. According to the ORG IMS March Moving Annual Total report for the 12 month period ended March 2005, we are ranked fourth among Indian pharmaceutical companies in terms of the revenues derived from new product sales launched in the previous 24 months.

Table of Contents

The following table provides a summary of our sales in India in our therapeutic categories for fiscal 2003, 2004 and 2005 respectively:

	Fiscal Year Ended March 31,									
	2003			2004			2005			
Therapeutic Category (1)	Number of our Products	Revenues (in millions)	% (2)	Number of our Products	Revenues (in millions)	% (2)	Number of our Products(3)	Revenues (in millions)		% (2)
Cardiovascular	33	Rs.768.8	17.9%	35	Rs.928.3	19.6%	35	Rs.937.6	U.S.$21.5	21.5%
Gastro-intestinal	43	846.2	19.7	36	1,015.0	21.5	38	902.0	20.7	20.7
Pain management	32	823.3	19.1	36	783.6	16.6	19	713.7	16.4	16.4
Anti-infectives	39	433.5	10.1	30	439.1	9.3	19	324.1	7.4	7.4
Diabetes Management	17	274.8	6.4	23	301.1	6.4	21	297.9	6.8	6.8
Neutraceuticals	21	371.7	8.6	20	301.3	6.4	16	243.9	5.6	5.6
Dermatology	19	156.9	3.6	19	206.1	4.4	16	206.5	4.7	4.7
Respiratory	23	207.9	4.8	19	206.6	4.4	14	177.5	4.1	4.1
Dental	20	131.4	3.1	23	173.2	3.7	22	177.3	4.1	4.1
Urology	9	83.5	1.9	10	96.6	2.0	17	131.5	3.0	3.0
Gynecology	8	55.6	1.3	10	116.0	2.5	7	110.9	2.5	2.5
Others	21	149.7	3.5	14	162.4	3.4	10	137.3	3.1	3.1
Total	285	Rs.4303.2	100.0%	275	Rs.4,729.3	100.0%	234	Rs.4,360.2	U.S.$100.0	100.0%

(1) The categorization into therapeutic segments is based on current marketing practice and focuses on therapies.

(2) Refers to the therapeutic category s revenues from sales in India expressed as a percentage of our total revenues from sales in all of

our therapeutic categories in India.

(3) Products of the same strength sold in different packs have been re-grouped as one product in fiscal 2005.

The following tables summarize the position of our top 10 brands in the Indian market for fiscal 2003, 2004 and 2005 respectively:

Brand	Therapeutic Category	Therapeutic Sub-category	Fiscal Year Ended March 31, 2005 (in millions)		% Total[1][3]
Nise	Pain management	Non-steroidal anti-inflammatory	Rs. 537.9	U.S.$ 12.3	12.3%
Omez	Gastro-intestinal	Anti-ulcerant	528.1	12.1	12.1
Stamlo	Cardiovascular	Anti-hypertensive	298.2	6.8	6.8
Stamlo Beta	Cardiovascular	Anti-hypertensive	186.7	4.3	4.3
Enam	Cardiovascular	Anti-hypertensive	162.1	3.7	3.7
Atocor	Cardiovascular	Lipid lowering agent	115.8	2.7	2.7
Clamp	Anti-infectives	Anti-infectives	100.6	2.3	2.3
Mintop	Dermatology	Alopecia	98.4	2.3	2.3
Ciprolet	Anti-infectives	Anti-bacterial	96.3	2.2	2.2
Reclide	Diabetes Management	Sulphonylurea	85.5	2.0	2.0
Total			Rs. 2,209.5	U.S.$ 50.7	50.7%

(1) Refers to the brand s revenues from sales in India expressed as a percentage of our total revenues from sales in all of our therapeutic categories in India.

Table of Contents

Brand	Rank of our Brand Within Product Category [1]	Market Share of Our Brand Within Product Category [1]	Brand Growth %[2]	Fiscal Year Ended March 31, 2004	2003
				(in millions)	
Nise	1	23.2%	(4.3%)	Rs.655.6	Rs.654.5
Omez	1	42.5	2.2	622.6	467.4
Stamlo	1	24.0	6.5	293.2	253.8
Stamlo Beta	2	15.2	3.1	187.7	154.2
Enam	2	25.8	0.7	163.9	144.5
Atocor	3	8.7	19.7	100.6	56.2
Clamp	4	11.7	13.5	106.5	83.5
Mintop	1	91.0	4.6	99.1	76.8
Ciprolet	7	3.6	30.6	134.9	169.2
Reclide	3	17.4	(5.5)	90.1	85.1
Total				Rs.2,454.2	Rs.2,145.2

(1) Therapeutic sub-categories are the specific groups within each therapeutic category and product categories are the compound groups within each therapeutic sub-category. Source: Operations Research Group March 2005.

(2) Revenue growth determined based on retail sales over the corresponding 12-month period for the previous year. Source: Operations Research Group

March 2005.

Russia. Russia is our largest export market in this segment and our sales of formulations in this market accounted for 26.9% of our revenues in the formulations segment in fiscal 2005. Pharmexpert, a market research firm, ranked us number 16 in sales in Russia in fiscal 2005 in its December 2004 report. Pharmexpert also reported that our market share of sales in Russia has increased from 1.26% in calendar 2003 to 1.31% in calendar 2004.

The following table provides a summary of our revenues in Russia by therapeutic category for fiscal 2003, 2004 and 2005 respectively:

	Fiscal Year Ended March 31,					
	2003			2004		
Therapeutic Category	Number of Products	Revenues (in millions)	% Total(1)	Number of Products	Revenues	% Total(1)
Pain Management	9	Rs.268.9	16.2%	9	Rs.477.4	26.8%
Anti-Infectives	7	398.6	24.0	7	435.4	24.4
Gastro-Intestinal	2	355.0	21.3	2	400.2	22.5
Cardiovascular	4	331.7	20.0	4	338.2	19.0
Dermatology	2	101.4	6.1	2	92.7	5.2
Others	10	205.2	12.4	8	38.0	2.1
Total	34	Rs.1,660.8	100.0%	32	Rs.1,781.8	100.0%

	Fiscal Year Ended March 31, 2005			
Therapeutic Category	Number of Products	Revenues (in millions)		% Total(1)
Pain Management	9	Rs.660.3	U.S.$ 15.1	31.3%
Anti-Infectives	7	505.1	11.6	24.0
Gastro-Intestinal	2	493.0	11.3	23.4
Cardiovascular	4	306.2	7.0	14.5
Dermatology	2	96.4	2.2	4.6
Others	9	46.2	1.1	2.2
Total	33	Rs.2,107.2	U.S.$ 48.3	100.0%

(1) Refers to the therapeutic category s revenues from sales in Russia expressed as a percentage of our total revenues from sales in all of our therapeutic categories in

Russia.

Table of Contents

The following table provides a summary of our principal products in the Russian market for fiscal 2003, 2004 and 2005 respectively:

		Fiscal Year Ended March 31,						
		2003		2004		2005		
Brand	Therapeutic Category	Revenues (in millions)	%Total(1)	Revenues (in millions)	%Total(1)	Revenues (in millions)		%Total(1)
Omez	Gastro-intestinal	Rs.352.2	21.2%	Rs.394.6	22.1%	Rs.488.7	U.S.$ 11.2	24.0%
Ciprolet	Anti-infectives	336.4	20.2	385.0	21.6	450.2	10.3	22.1
Ketorol	Pain management	166.4	10.0	263.1	14.8	339.3	7.8	16.7
Enam	Cardiovascular	354.2	21.3	338.2	19.0	306.2	7.0	15.1
Total		Rs.1,209.2	72.7%	Rs.1,380.9	77.5%	Rs.1,584.5	U.S.$ 36.3	75.2%

(1) Refers to the brand s revenues from sales in Russia expressed as a percentage of our total revenues from all formulation sales in Russia.

Our top four brands, Omez, Ciprolet, Ketorol and Enam, accounted for 75.2% of our formulation revenues in Russia in fiscal 2005. Omez, our anti-ulcerant product and Ciprolet, our product in the anti-infective segment, are ranked as the 26th and 42nd best selling formulation brands, respectively, in the Russian market according to the Pharmexpert December 2004 report. Nise has entered Pharmexpert s top 100 rankings ranked at number 98 and has become the top selling non steroidal anti-inflammatory drug on the Russian pharmaceutical market for the year ended December 2004, according to the Pharmexpert December 2004 report.

Growth during the year was driven by marketing initiatives such as targeting the hospital segment, greater penetration in the key cities of Moscow and St. Petersburg and marketing campaigns for key products

Our strategy in Russia is to focus on the therapeutic areas of gastro-intestinal, pain management, anti-infectives and cardiovascular. Our focus is on building brand leaders in these therapeutic segments. Omez, Ciprolet, Enam and Nise continued to be brand leaders in their respective categories, as reported by the Pharmexpert December 2004 report.

Other Emerging Markets. We have operations in former Soviet Union countries other than Russia, including Ukraine, Kazakhstan and Belarus. We also have operations in other emerging markets, such as Venezuela, Vietnam, Sri Lanka, Romania and Myanmar. Our export of formulations to these countries accounted for 12.6% of the revenues in our formulations segment in fiscal 2005.

We are also focusing on expanding our presence in China. In China, we market through our equity investee, Kunshan Rotam Reddy Pharmaceuticals Co. Limited (KRRP). As of March 31, 2005, we held a 51.2% equity interest in KRRP. We currently market eight products through KRRP in China and have six products pending registration. During fiscal 2005, KRRP sold one product license and also obtained approval for three new product licenses. The products made through these new product licenses had not yet launched as of March 31, 2005.

Sales, marketing and distribution network

India. We generate demand for our products by promoting them to doctors who prescribe them, and meeting with pharmacists to see that the pharmacists stock our brands. Our focus on brand building is, therefore, primarily driven through efforts to build relationships with the medical community. While we do not sell directly to doctors or pharmacists, our approximately 1,360 field personnel frequently visit doctors and pharmacists throughout the country to promote our products. In addition, we sponsor medical conferences in different parts of the country and conduct seminars for doctors.

We sell our formulations primarily through clearing and forwarding agents to approximately 2,000 stockists who decide which brands to buy based on demand. The stockists pay for our products pursuant to an agreed credit period and in turn sell these products to retailers. Our clearing and forwarding agents are responsible for transporting our products to the stockists and ensuring that the stockists maintain adequate supplies of our products. We pay our clearing and forwarding agents on a commission basis. We have insurance policies that cover our products during shipment and storage at clearing and forwarding locations.

Russia. In Russia, we sell directly to some of the principal national distributors. We also distribute our products through our wholly owned subsidiary located in Russia, OOO Dr. Reddy s Laboratories Limited, Russia. Our sales and marketing efforts are driven by a team of 100 marketing representatives, 11 regional managers, 4 zone managers and 8 key account managers to promote our products to doctors in 48 cities in Russia.

Table of Contents

In the Russian market, credit is generally extended only to customers after they have established a satisfactory history of payment with us. The credit ratings of these customers are based on turnover, payment record and the number of the customers branches or pharmacies and are reviewed on a periodic basis.

Other Emerging Markets. In other emerging markets, our key focus markets are China, Kazakhstan, Uzbekistan, Ukraine Belarus, Vietnam, Romania and Sri Lanka where we have our own sales personnel to promote our products. In China, where we market through KRRP, we have 94 marketing representatives covering hospitals. In several of these emerging markets, we market and distribute through local agents. We also have representative offices in several of these countries.

Manufacturing

We have four facilities for the manufacture of formulation products, all of which are situated in India. We also use third-party manufacturing facilities. The main difference between active pharmaceutical ingredients as compared to formulations and generics is the form in which they are produced and the way they are packaged. Active pharmaceutical ingredients are manufactured and distributed in bulk. In formulations and generics, these bulk ingredients are converted into finished dosages by adding other ingredients, called excipients, and packaged into individual doses that are ready for consumption by the patient. In fiscal 2005, our active pharmaceutical ingredients operations provided 48.0% of the active pharmaceutical ingredients and intermediates requirements of our formulations business, with the balance coming from various other suppliers.

Our manufacture of formulations is subject to strict quality and contamination controls throughout the manufacturing process. Each production line consists of a series of rooms through which the product passes at different stages of its conversion to a finished dosage. In our facilities, we manufacture formulations in various dosage forms including tablets, capsules, injections and liquids. These dosage forms are then packaged and quarantined to be tested for quality and contamination. The Ministries of Health of Sudan, Brazil, Latvia and Romania have inspected some of our manufacturing plants. One of our facilities also has the approval of the U.K. Medicines and Health Care Products Regulatory Agency (MHRA). During fiscal 2005, we initiated the construction of a new facility at Baddi in the state of Himachal Pradesh, India to take advantage of certain financial benefits, which include exemption from income tax and excise duty for a specified period, offered by the government of India to encourage industrial growth in the state of Himachal Pradesh.

Competition

We compete with different companies in different countries, depending upon therapeutic and product categories, and within each category upon dosage strengths and drug delivery. On the basis of sales, we are the seventh largest pharmaceutical seller in India, with a market share of 2.4% according to the ORG IMS March Moving Annual Total report for the 12 month period ending March 2005. Of the top ten participants in the Indian formulations market, three are multinational corporations and the rest are Indian corporations.

The business opportunities in India are on the rise and the Indian pharmaceutical business environment underwent considerable changes in fiscal 2005. Some of the most significant changes in the industry are as follows:

- Introduction of the product patent regime, effective as of January 1, 2005;
- Implementation of the Value Added Tax (VAT) system, effective as of April 1, 2005;
- Introduction of the Maximum Retail Price (MRP)-based excise duty structure for the pharmaceutical industry;
- Higher investments by Indian companies in research and development, as well as an increase in the number of new product launches by Indian companies; and
- Improvement in sales of multinational corporations and increasing interest of global multinationals in India.

Our formulation segment s principal competitors in the Indian market are Cipla Limited, Glaxo SmithKline Pharmaceuticals Limited, Ranbaxy Laboratories Limited, Nicholas Piramal India Limited, Sun Pharmaceuticals Industries Limited and Zydus-Cadila.

In our export markets, we compete with local companies, multinational corporations and players from other emerging markets. In Russia and in most of our export markets, we believe our products occupy a niche position between the less expensive local products and the more expensive products of the multinational corporations.

Table of Contents

Government regulations

All pharmaceutical companies that manufacture and market products in India are subject to various national and state laws and regulations, which principally include the Drugs and Cosmetics Act, 1940, the Drugs (Prices Control) Order, 1995 (DPCO), various environmental laws, labor laws and other government statutes and regulations. These regulations govern the testing, manufacturing, packaging, labeling, storing, record keeping, safety, approval, advertising, promotion, sale and distribution of pharmaceutical products.

In India, manufacturing licenses for drugs and pharmaceuticals are generally issued by state drug authorities. Under the Drugs and Cosmetics Act, 1940, the state drug administrations are empowered to issue manufacturing licenses for drugs if they are approved for marketing in India by the Drug Controller General of India (DCGI). Prior to granting licenses for any new drugs or combinations of new drugs, DCGI clearance has to be obtained in accordance with the Drugs and Cosmetics Act, 1940.

Pursuant to the amendments in May 2005 to the Schedule Y of the Drugs and Cosmetics Act, 1940, manufacturers of finished dosages are required to submit additional technical data to the DCGI in order to obtain a no-objection certificate for conducting clinical trials as well as to manufacture new drugs for marketing.

All pharmaceutical manufacturers that sell products in any country are subject to regulations issued by the ministry of health (MoH) of the respective country. These regulations govern or influence the testing, manufacturing, packaging, labeling, storing, record-keeping, safety, approval, advertising, promotion, sale and distribution of products.

Our facilities and products are periodically inspected by various regulatory authorities such as the U.K. MHRA, the South African Medicines Control Council, the Brazilian National Agency of Sanitary Surveillance (also known as ANVISA), the Romanian National Medicines Agency, and the World Health Organization, all of which have extensive enforcement powers over the activities of pharmaceutical manufacturers operating within their jurisdiction.

MoH approval of an application is required before a generic equivalent of an existing or referenced brand drug can be marketed. When processing a generics application, the MoH waives the requirement of conducting complete clinical studies, although it normally requires bioavailability and/or bioequivalence studies. Bioavailability indicates the rate and extent of absorption and levels of concentration of a drug product in the blood stream needed to produce a therapeutic effect. Bioequivalence compares the bioavailability of one drug product with another, and when established, indicates that the rate of absorption and levels of concentration of the active drug substance in the body are the equivalent for the generic drug and the previously approved drug. A generic application may be submitted for a drug on the basis that it is the equivalent of a previously approved drug. Before approving a generic product, the MoH also requires that our procedures and operations conform to Current Good Manufacturing Practice (cGMP) regulations, relating to good manufacturing practices as defined by various countries. We must follow the cGMP regulations at all times during the manufacture of our products. We continue to spend significant time, money and effort in the areas of production and quality testing to help ensure full compliance with cGMP regulations.

The timing of final MoH approval of a generic application depends on various factors, including patent expiration dates, sufficiency of data and regulatory approvals.

The government of India established the National Pharmaceutical Pricing Authority (NPPA) to control pharmaceutical prices. Under the DPCO, the NPPA has the authority to designate a pharmaceutical product as a specified product and fix the maximum selling price for such product. At present, 74 drugs and their formulations are categorized as specified products by NPPA. A limited number of our formulation products fall in this category.

On March 22, 2005, the government of India passed the Patents (Amendment) Bill 2005 (the Amendment), introducing a product patent regime for food, chemicals and pharmaceuticals in India. The Amendment specifically provides that new medicines (patentability of which is not specifically excluded) for which a patent has been applied for in India on or after January 1, 1995 and for which a patent is granted cannot be manufactured or sold in India by other than the patent holder and its assignees and licensees. This will result in a reduction of the new product introductions in India, as well as other countries where a similar legislation has been introduced, for all Indian pharmaceutical companies engaged in the development and marketing of generic finished dosages and APIs. Processes for the manufacture of APIs and formulations were patentable in India even prior to the Amendment, so no additional impact is anticipated from patenting of such processes.

Table of Contents

Active Pharmaceutical Ingredients and Intermediates (API) Segment

Our active pharmaceutical ingredients and intermediates business contributed 35.7% of our total revenues for fiscal 2005. Active pharmaceutical ingredients are the principal ingredients for finished dosages and are also known as bulk actives or bulk drugs. Active pharmaceutical ingredients become formulations when the dosage is prepared for human consumption in the form of a tablet, capsule or liquid using additional inactive ingredients. Intermediates are the compounds from which active pharmaceutical ingredients are prepared. We produce and market more than 100 different active pharmaceutical ingredients and intermediates in several markets. We export active pharmaceutical ingredients to emerging as well as developed markets covering over 70 countries. Our principal markets in this business segment include North America and Europe, which together contributed 42.3% of the segment s revenues. Our active pharmaceutical ingredients business is run independently from our formulations and generics businesses and, in addition to supplying API to the formulations and generics businesses, we sell products to third parties for use in creating generic products. Our active pharmaceutical ingredients business also supports our custom pharmaceutical services business by way of manufacture of required API. The research and development group within the active pharmaceutical ingredients and intermediates division contributes to our business by creating intellectual property (principally with respect to novel and non-infringing manufacturing processes and intermediates), providing research intended to reduce the cost of production of our products and developing approximately 15-20 new products every year.

The following table sets forth active pharmaceutical ingredients and intermediates revenues by geographic area for fiscal 2003, 2004 and 2005 respectively:

	Fiscal Year Ended March 31,						
	2003		2004		2005		
	Revenues (in millions)	% Total (1)	Revenues (in millions)	% Total(1)	Revenues (in millions)		% Total(1)
Emerging markets							
India	Rs. 1,749.1	27.6%	Rs. 2,115.1	27.7%	Rs. 1,972.1	U.S.$45.2	28.4%
Bangladesh	88.6	1.4	94.1	1.2	127.4	2.9	1.8
Other countries	1,582.6	24.9	1,847.5	24.3	1,841.8	42.2	26.5
Total emerging markets	3,420.3	53.9	4,056.7	53.2	3,941.3	90.4	56.8
Developed markets							
North America	2,397.7	37.8	1,902.9	24.9%	1,849.0	42.4	26.6
Europe	465.9	7.4	1,626.9	21.3	1,091.1	25.0	15.7
Japan	56.8	0.9	42.0	0.6	63.1	1.4	0.9
Total developed markets	2,920.4	46.1	3,571.8	46.8	3,003.2	68.8	43.2%
Total	Rs. 6,340.7	100.0%	Rs. 7,628.5	100.0%	Rs. 6,944.5	U.S.$159.2	100.0%

(1) Refers to our revenues from API sales in the

applicable country expressed as a percentage of our total revenues from API sales throughout the world.

Table of Contents

The following table sets forth the sales of our key active pharmaceutical ingredients and intermediates for fiscal 2003, 2004 and 2005 respectively:

			Fiscal Year Ended March 31,						
			2003		2004		2005		
Product	Therapeutic Category	Therapeutic Sub-category	Revenues	%Total (1)	Revenues	%Total(1)	Revenues		%Total(1)
			(in millions)		(in millions)		(in millions)		
Ramipril	Cardiovascular	Anti-hypertensive	Rs.53.1	0.80%	Rs. 1,314.2	17.20%	Rs. 783.4	U.S.$ 18.0	11.3%
Ranitidine HCL	Gastro-intestinal	Anti-ulcerant	697.3	11.0	711.4	9.3	734.3	16.8	10.6
Ciprofloxacin HCL	Anti-infective	Anti-bacterial	773.2	12.2	959.8	12.6	619.1	14.2	8.9
Naproxen sodium	Pain management	Anti-inflammatory	400.8	6.3	437.3	5.7	470.0	10.8	6.8
Ibuprofen	Pain management	Analgesic	455.8	7.2	394.6	5.2	460.5	10.6	6.6
Atorvastatin	Cardiovascular	Lipid-lowering agent	88.3	1.4	211.2	2.8	252.5	5.8	3.6
Naproxen	Pain management	Anti-inflammatory	160.1	2.5	233.8	3.1	229.6	5.3	3.3
Nizatidine	Gastro-intestinal	Anti-ulcerant	658.7	10.4	159.6	2.1	216.8	5.0	3.1
Terbinafine HCL	Anti-infective	Anti-fungal	94.0	1.5	124.9	1.6	194.5	4.5	2.8
Losartan potassium	Cardiovascular	Anti-hypertensive	125.5	2.0	214.2	2.8	180.5	4.1	2.6
Dextromethorphan	Respiratory	Anti-allergic	190.4	3.0	182.8	2.4	165.8	3.8	2.4
Sertraline HCL	Cardiovascular	Anti-hypertensive	143.1	2.3	178.4	2.3	138.2	3.2	2.0
Sparfloxacin	Anti-infective	Anti-bacterial	175.8	2.8	197.1	2.6	117.5	2.7	1.7
Doxazosin mesylate	Cardiovascular	Anti-hypertensive	181.4	2.9	117.9	1.5	111.6	2.6	1.6
Amlodipine maleate	Cardiovascular	Calcium channel blockers	12.4	0.2	13.4	0.2	105.4	2.4	1.5

(1) Refers to our revenues from key API sales expressed as a percentage of our total API revenues.

Sales, Marketing and Distribution

Emerging Markets. India is the single largest market in this region, contributing 28.4% to the segment s revenues in fiscal 2005. In India, we market our active pharmaceutical ingredients to Indian and multinational companies who are also our competitors in the formulations segment.

In India, our top six products are ciprofloxacin, ranitidine, losartan potassium, ibuprofen, atorvastatin and sparfloxacin. The market in India is highly competitive with severe pricing pressure and competition from cheaper Chinese imports in several products.

In India, our sales team works closely with our sales agents to market our products. We market our products through these sales agents, commonly referred to as indenting agents, with a focus on regional sales and marketing. The sales are made directly from the factory and to a limited extent through clearing and forwarding agents. Distribution through clearing and forwarding agents is done to give better service to the customer.

Our sales to other emerging markets were at Rs.1,941.6 million for fiscal 2005. Our key emerging markets include South Korea, China, Taiwan, Argentina, Brazil, Mexico, Turkey, Egypt, Saudi Arabia, South Africa and Kenya. While we work through our agents in these markets, our zonal marketing managers also interact directly with our key customers in order to service their requirements. Our strategy is to build relationships with top customers in each of these markets and partner with them in product launches by providing timely technical and analytical support.

Developed Markets. Our principal markets are North America and Europe. In the United States and Europe, over the next five years, a large number of products are expected to lose patent protection, providing growth opportunities for our active pharmaceutical ingredients business. We have been marketing APIs in the United States for over a decade. We market through our subsidiaries in the United States and Europe. These subsidiaries are engaged in all aspects of marketing activity and support our customers pursuit of regulatory approval for their products.

As of June 30, 2005, we had 77 DMFs on file in the United States. As of June 30, 2005, we had filed 39 DMFs in Europe and had 14 certificates of suitability granted by European authorities. For most of these, we are either already supplying commercial quantities or development quantities to various generic formulators.

Manufacturing and Raw Materials

Table of Contents

We have seven facilities for the manufacture of our APIs. These facilities have been inspected by the U.S. FDA and follow cGMP. All of these facilities are situated in the state of Andhra Pradesh, India. Each of these facilities has ISO 9000 certification. With over 500 reactors of different sizes offering 1.8 million litres of reaction volume annually, we have the flexibility to produce quantities that range from a few kilograms to several metric tons. The manufacturing process consumes a wide variety of raw materials that we obtain from sources that comply with the requirements of regulatory authorities in the markets to which we supply our products. We procure raw materials on the basis of our requirement planning cycles. We utilize a broad base of suppliers in order to minimize risk arising from dependence on a single supplier. Where possible, we have also entered into annual quantity and price contracts to reduce possible supply risks and minimize costs. Our formulations and generics businesses source approximately 48.0% and 69.6% respectively, of their API purchases from our API segment. We also outsource the manufacturing of some of our APIs to third-party manufacturers. The API segment also sources several APIs from third party suppliers for the emerging markets to optimally utilize the in-house manufacturing capacities for the developed markets, which are more profitable relative to the emerging markets. During fiscal 2005, 11.3% of our total revenues resulted from sale of APIs procured from third-party suppliers. We maintain stringent quality controls when procuring materials from third-party suppliers.

Competition

The global API market can broadly be divided into regulated and less regulated markets. The less regulated markets offer low entry barriers in terms of regulatory requirements with respect to the qualification process and intellectual property rights. The regulated markets, like the United States and Europe, have high regulatory entry barriers in terms of cGMP and approved facilities. As a result, there is a premium for quality and regulatory compliance along with relatively greater stability for both volumes and prices.

During fiscal 2005, the competitive environment for the API industry underwent significant changes. These changes included increased competition from companies based in India and China and increasing trends of consolidation in the global generic industry, with some of the key generics companies beginning to strengthen their in-house API development capabilities.

We compete with a number of manufacturers within and outside India, which vary in size. Our main competitors in this segment are Hetero Drugs Limited, Divi s Laboratories Limited, Shasun Chemicals and Drugs Limited, Aurobindo Pharma Limited, Ranbaxy Laboratories Limited, Cipla Limited, Matrix Laboratories Limited and Biocon India Limited, all based in India. In addition, we experience competition from European and Chinese manufacturers, as well as from Teva Pharmaceuticals Industries Limited, based in Israel.

Government regulations

All pharmaceutical companies that manufacture and market products in India are subject to various national and state laws and regulations, which principally include the Drugs and Cosmetics Act, 1940, the Drugs (Prices Control) Order, 1995, various environmental laws, labor laws and other government statutes and regulations. These regulations govern the testing, manufacturing, packaging, labeling, storing, record keeping, safety, approval, advertising, promotion, sale and distribution of pharmaceutical products.

In India, manufacturing licenses for drugs and pharmaceuticals are generally issued by state drug authorities. Under the Drugs and Cosmetics Act, 1940, the state drug administrations are empowered to issue manufacturing licenses for drugs if they are approved for marketing in India by the DCGI. Prior to granting licenses for any new drugs or combinations of new drugs, the DCGI clearance has to be obtained in accordance with the Drugs and Cosmetics Act, 1940.

The government of India established the National Pharmaceutical Pricing Authority (NPPA) to control pharmaceutical prices. Under the DPCO, the NPPA has the authority to designate a pharmaceutical product as a specified product and fix the maximum selling price for such product. At present, 74 drugs and their formulations are categorized as specified products by NPPA. A limited number of our API products fall in this category.

On March 22, 2005, the government of India passed the Patents (Amendment) Bill 2005 (the Amendment), introducing a product patent regime for food, chemicals and pharmaceuticals in India. The Amendment specifically provides that new medicines (patentability of which is not specifically excluded) for which a patent has been applied for in India on or after January 1, 1995 and for which a patent is granted cannot be manufactured or sold in India by

other than the patent holder and its assignees and licensees. This will result in a reduction of the new product introductions in India, as well as other countries where a similar legislation has been introduced, for all Indian pharmaceutical companies engaged in the development and marketing of generic finished dosages and APIs. Processes for the manufacture of APIs and formulations were patentable in India even prior to the Amendment, so no additional impact is anticipated from patenting of such processes.

Table of Contents

We submit a DMF for active pharmaceutical ingredients to be commercialized in the United States. Any drug product for which an Abbreviated New Drug Application (ANDA) is being filed must have a DMF in place with respect to a particular supplier supplying the underlying active pharmaceutical ingredient. The manufacturing facilities are inspected by the U.S. FDA to assess cGMP compliance. The manufacturing facilities and production procedures utilized at the manufacturing facilities must meet U.S. FDA standards before products may be exported to the United States. Six of our manufacturing facilities have been inspected by the U.S. FDA and found Acceptable . For European markets, we submit a European DMF and, where applicable, obtain a certificate of suitability from the European Directorate for the Quality of Medicines.

Generics Segment

Generic drugs are the chemical and therapeutic equivalents of reference brand drugs, typically sold under their generic chemical names at prices below those of their brand drug equivalents. These drugs are required to meet governmental standards that are similar to those applicable to their brand-name equivalents and must receive regulatory approval prior to their sale in any given country.

Our generics operations started in the second half of fiscal 2001. Our generic products are marketed principally in North America and Europe.

This segment accounted for 18.4% of our total revenues for fiscal 2005, contributing Rs.3,577.4 million. Revenues from sales of fluoxetine capsules in North America accounted for 26.0% of our total revenues in this segment in fiscal 2005. Significant product launches in fiscal 2005 included citalopram HBr tablets and ciprofloxacin tablets in the U.S. and pravastatin tablets in the U.K.

In fiscal 2005, revenues from this segment from sales in Europe were Rs.1,339.6 million, Rs.2,230.1 million from sales in North America and Rs.7.7 million from sales in the rest of the world.

The following table sets forth the sales of our principal generics finished dosages for fiscal 2003, 2004 and 2005 respectively:

			Fiscal Year Ended March 31,						
			2003		2004		2005		
Region / Product	Therapeutic Category	Therapeutic Sub-Category	Revenues (in millions)	% Total(1)	Revenues (in millions)	% Total(1)	Revenues (in millions)	Revenues (in million)	% Total(1)
North America									
Fluoxetine capsules	Central nervous system	Anti-psychotic	Rs. 2,007.4	46.9%	Rs. 1,898.4	43.8%	Rs. 928.5	U.S.$ 21.3	26.0%
Tizanidine tablets	Spasticity	Muscle relaxant	777.8	18.2%	591.1	13.6%	206.2	4.7	5.8%
Citalopram tablets	Central nervous system	Anti-psychotic		0.0%		0.0%	201.6	4.6	5.6%
Ibuprofen tablets	Pain management	Analgesic	31.6	0.7%	184.0	4.2%	198.7	4.6	5.6%
Ranitidine tablets	Gastro-intestinal	Anti-ulcerant	225.1	5.3%	205.8	4.7%	194.0	4.4	5.4%
Ciprofloxacin tablets	Anti-infective	Anti-bacterial		0.0%	1.6	0.0%	166.1	3.8	4.6%
Famotidine tablets	Gastro-intestinal	Anti-ulcerant	170.4	4.0%	143.4	3.3%	141.1	3.2	3.9%
Ranitidine capsules	Gastro-intestinal	Anti-ulcerant	196.5	4.6%	167.3	3.9%	84.9	1.9	2.4%
Europe									
Omeprazole capsules	Gastro-intestinal	Anti-ulcerant	283.0	6.6%	325.3	7.5%	434.1	10.0	12.1%
Amlodipine maleate tablets	Cardiovascular	Anti-hypertensive		0.0%	17.7	0.4%	219.9	5.0	6.1%

(1)

	Refers to our revenues from generics sales in the applicable region expressed as a percentage of our total revenues from generics sales throughout the world.

Generic drugs may be manufactured and marketed only if relevant patents on their brand name equivalents and any additional government-mandated market exclusivity periods have expired, been challenged and invalidated, or otherwise validly circumvented.

Table of Contents

Generic pharmaceutical sales have increased significantly in recent years, due in part to an increased awareness and acceptance among consumers, physicians and pharmacists that generic drugs are the equivalent of brand-name drugs. Among the factors contributing to this increased awareness are the passage of legislation permitting or encouraging substitution and the publication by regulatory authorities of lists of equivalent drugs, which provide physicians and pharmacists with generic drug alternatives. In addition, various government agencies and many private managed care or insurance programs encourage the substitution of generic drugs for brand-name pharmaceuticals as a cost-savings measure in the purchase of, or reimbursement for, prescription drugs. We believe that these factors, together with the large volume of branded products losing patent protection over the coming years, should lead to continued expansion of the generic pharmaceuticals market as a whole. We intend to capitalize on the opportunities resulting from this expansion of the market by leveraging our product development capabilities, manufacturing capacities inspected by various international regulatory agencies and access to our own APIs, which offer significant supply chain efficiencies.

Through the coordinated efforts of our teams in the U.S., Europe and India, we constantly seek to expand our pipeline of generic products. As of March 31, 2005, our U.S. generic pipeline comprised 45 ANDAs pending approval. Of these ANDAs, 29 were submitted as Paragraph IV filings under the Hatch-Waxman Act. As of March 31, 2005, we had received final approval for 15 ANDAs. Between March 31, 2005 and June 30, 2005, we filed 2 additional ANDAs with the U.S.FDA.

In the European Union, during fiscal 2005 we submitted product license applications for 6 generic drugs to the U.K. Medicines and Healthcare products Regulatory Agency (MHRA). In addition, we have also completed Mutual Recognition Procedures for one generic drug in several countries in Europe. Between March 31, 2005 and June 30, 2005, we submitted additional product license applications for 2 products to the MHRA.

In South Africa, we have filed five product dossiers with the Medicine Control Council (MCC), of which four have been approved and one is under review.

In Canada, we have filed three product dossiers with the Therapeutic Product Programme (TPP), of which two have been approved and the remaining one is under review.

Table of Contents

The following is a table containing applications filed with and approved by the appropriate regulatory authorities as of March 31, 2005:

Product [1]	Therapeutic Category	Therapeutic Sub-Category	Patent Expiry
United States			
Ranitidine (75 mg t,150/300 mg c)	Gastro-intestinal	Anti-ulcerant	Expired
Famotidine (10 mg t, 20/40 mg t)	Gastro-intestinal	Anti-ulcerant	Expired
Fluoxetine (10 mg t, 10/20/40 mg c)	Central nervous system	Anti-psychotic	Expired
Oxaprozin (600 mg t)	Pain management	Anti-inflammatory	Expired
Enalapril maleate & hydrochlortiazide (5-12.5 /10-25 mg t)	Cardiovascular	Anti-hypertensive	Expired
Ibuprofen (200/400/600/800 mg t)	Pain management	Analgesic	Expired
Tizanidine (2 / 4 mg t)	Spasticity	Muscle relaxant	Expired
Nefazodone HCl (50/100/150/200/250 mg t)	Central nervous system	Anti-psychotic	Expired
Ciprofloxacin (100/250/500/750 mg t)	Anti-infective	Anti-bacterial	Expired
Citalopram HBr (10/20/40 mg t)	Central nervous system	Anti-psychotic	Expired
Fluconazole (50/100/150/200 mg t)	Anti-infective	Anti-fungal	Expired
Europe[2]			
Ranitidine (150/300 mg t)	Gastro-intestinal	Anti-ulcerant	Expired
Ciprofloxacin (100/250/500/750 mg t)	Anti-infective	Anti-bacterial	Expired
Omeprazole (10/20/40 mg c)	Gastro-intestinal	Anti-ulcerant	Expired
Nizatidine (150 /300 mg c)	Gastro-intestinal	Anti-ulcerant	Expired
Amlodipine maleate (5/10 mg t)	Cardiovascular	Anti-hypertensive	Expired
Fluoxetine (20 mg c)	Central nervous system	Anti-psychotic	Expired
Terbinafine (125/250 mg t)	Anti-infective	Anti-fungal	August 2005
South Africa			
Omeprazole (10/20/40 mg c)	Gastro-intestinal	Anti-ulcerant	Expired
Ranitidine (75 mg t)	Gastro-intestinal	Anti-ulcerant	Expired
Enalapril maleate (2.5/5/10/20 mg t)	Cardiovascular	Anti-hypertensive	Expired
Ciprofloxacin (100/250/500/750 mg t)	Anti-infective	Anti-bacterial	Expired
Canada			
Fluoxetine (10/20/40 mg c)	Central nervous system	Anti-psychotic	Expired
Ciprofloxacin (100/250/500/750 mg t)	Anti-infective	Anti-bacterial	Expired
Australia			
Norfloxacin (400mg t)	Anti-infective	Anti-bacterial	Expired
New Zealand			
Norfloxacin (400mg t)	Anti-infective	Anti-bacterial	Expired

(1) c = capsule, t = tablet

(2) Applications were filed in

one or more of the United Kingdom, Germany or France. Once approval for a generic drug is obtained in one of these countries, approvals can be obtained in other European Union countries upon expiration of the patent in that other country.

Sales, Marketing and Distribution Network

North America. Dr. Reddy s Laboratories, Inc., our wholly-owned subsidiary in the U.S., is engaged in the marketing of our generic products in North America. In early 2003, we commenced sales of generic products under our own label. We have our own sales and marketing team to market these generic products. During fiscal 2005, we launched naproxen tablets, citalopram Hbr tablets, ciprofloxacin tablets and fluconazole tablets under our label. Key account representatives for generic products call on purchasing agents for chain drug stores, drug wholesalers, health maintenance organizations and pharmacy buying groups. They also contact retail pharmacy chains and support the retailer s selling efforts with exhibits at key medical and pharmaceutical conventions.

Strategic Alliances. In 2001, we entered into a profit sharing marketing alliance with Par Pharmaceuticals, Inc. to market certain prescription generic formulations, none of which are over-the-counter products. We currently market 6 generic products through Par Pharmaceuticals, Inc. We market famotidine tablets 10 mg and ranitidine tablets 75 mg through Leiner Health Products, LLC (Leiner). In 2002, we entered into a 15-year exclusive agreement with Leiner to

Table of Contents

market additional over-the-counter products in the United States. We have not launched any product under this agreement. In Canada, we entered into a profit sharing arrangement with Cobalt Pharmaceuticals Inc. and Pharmascience Inc. to market certain of our generic products.

European Union. We believe that the evolving European Union generics market has the potential to provide us with opportunities for substantial growth in our sales. The European Union generics market varies considerably from country to country. The Netherlands and U.K. have well-established markets for generic drugs sold under their chemical name. In other European Union countries, there is a market for branded generics, but not for products sold under their chemical name. In France, generics have begun to take a firmer hold on the pharmaceutical market. In Italy, within the last few years legislation that permits generic substitution has been enacted. In July 2002, a law became effective in Germany, which for the first time allows generic substitution by pharmacists under certain prescribed circumstances.

Dr. Reddy s Laboratories (U.K) Limited, which we acquired in fiscal 2003, is engaged in the marketing of our generic products in the U.K. and other European Union countries. We currently market approximately 41 generic products representing over 85 dosage strengths. New product launches in fiscal 2005 included the generic versions of simvastatin, cetrizine, ramipril, fluoxetine and ketoconazole liquid. We also seek to expand our presence to the other European countries either directly or through strategic alliances. Consistent with this strategy, during fiscal 2005, we commenced sales of generic amlodipine maleate in certain European markets through an out-licensing arrangement with a partner.

Manufacturing & Materials

As with formulations, generics are packaged in individual doses for consumption by the patient. In fiscal 2005, our generics segment procured 69.6% of its API requirements from our API segment

We manufacture most of our finished products at our plant in Andhra Pradesh, India. We have also acquired manufacturing facilities in the U.K. to supplement our capacities in India. The facility in Andhra Pradesh, India is designed for the manufacture of tablets, hard gelatin capsules and soft gelatin capsules. We added large batch size tableting and pellets capabilities in this facility during fiscal 2003. We are dependent on third parties for the supply of the inactive pharmaceutical ingredients used in our products.

For our manufacturing operations in India, we source most of the raw material requirements with respect to the active pharmaceutical ingredients internally from our API division. We are required to identify the supplier(s) of all the raw materials for our products in the drug applications that we file with the U.S. FDA. If raw materials for a particular product become unavailable from an approved supplier specified in a drug application, we would be required to qualify a substitute supplier with the U.S. FDA, which would likely interrupt manufacturing of the affected product. To the extent practicable, we attempt to identify more than one supplier in each drug application. However, some raw materials are available only from a single source and, in some of our drug applications, only one supplier of raw materials has been identified, even in instances where multiple sources exist. In addition, we obtain a significant portion of our inactive pharmaceutical ingredients from foreign suppliers. Arrangements with international raw material suppliers are subject to, among other things, U.S. FDA regulation, various import duties and other government clearances.

Our facilities in the U.K. are located at Battersea and Beverley. These facilities currently serve the requirements of the U.K. market. These facilities are designed for the manufacture and packaging of pharmaceutical products in a variety of dosage forms, including tablets, capsules, liquids and creams. All of our U.K. manufacturing operations are subject to stringent regulatory controls with both facilities subject to regular inspections from the U.K. regulatory bodies. The facilities hold all relevant licenses and authorizations required to conduct all necessary activities, including the supply of materials for use in clinical studies. In addition, the quality systems for ensuring product quality planning and control are ISO 9000 accredited.

For our manufacturing operations in the U.K, we are dependent on third parties for the supply of all pharmaceutical ingredients and packaging materials used in manufactured products. Supply agreements are in place with all of our suppliers. We are required to identify the suppliers of key raw materials, including all active materials used in our products, within our applications to market products within the U.K. and Europe. If we wish to change to an alternative supplier, then we are required to substantiate the suitability of the alternative raw materials and seek prior

approval from the health authority in each market where our products using the alternative raw materials are marketed.

Competition

Table of Contents

Revenues and gross profit derived from the sales of generic pharmaceutical products are affected by certain regulatory and competitive factors. As patents and regulatory exclusivity for brand name products expire, the first off-patent manufacturer to receive regulatory approval for generic equivalents of such products is generally able to achieve significant market penetration. As competing off-patent manufacturers receive regulatory approvals on similar products, market share, revenues and gross profit typically decline, in some cases significantly. Accordingly, the level of market share, revenues and gross profit attributable to a particular generic product is normally related to the number of competitors in that product s market and the timing of that product s regulatory approval and launch, in relation to competing approvals and launches. Consequently, we must continue to develop and introduce new products in a timely and cost-effective manner to maintain our revenues and gross margins. In addition, the other competitive factors critical to this business include price, product quality, prompt delivery, customer service and reputation. Many of our competitors seek to participate in sales of generic products by, among other things, collaborating with other generic pharmaceutical companies or by marketing their own generic equivalent to their branded products. Our major competitors for the U.S. market include Ranbaxy Laboratories Limited, Teva Pharmaceutical Industries Limited, Barr Laboratories Inc., Mylan Laboratories Inc., Andrx Corporation, IVAX Corporation and Sandoz, a division of Novartis Pharma A.G. Our major competitors for generic products in the European Union include Ranbaxy Laboratories Limited, Teva Pharmaceutical Industries Limited, IVAX Corporation, Sandoz, a division of Novartis Pharma A.G., Alpharma Inc., Merck Generics, Pliva d.d., Ratiopharm GmbH, and STADA Arzneimittel A.G.

Brand-name manufacturers have devised numerous strategies to delay competition from lower cost generic versions of their products. One of these strategies is to change the dosage form or dosing regimen of the brand product prior to generic introduction, which may reduce the demand for the original dosage form as sought by a generic ANDA dossier applicant or create regulatory delays, sometimes significant, while the generic applicant, to the extent possible, amends its ANDA dossier to match the changes in the brand product. In many of these instances, the changes to the brand product may be protected by patent or data exclusivities, further delaying generic introduction. Another strategy is the launch by the innovator or its licensee of an authorized generic during the 180-day generic exclusivity period, resulting in two generic products competing for the market rather than just the product that obtained the generic exclusivity. This may result in reduced revenues for the generic company, which has been awarded the generic exclusivity period.

Government regulations

U.S. Regulatory Environment

All pharmaceutical manufacturers that sell products in the U.S. are subject to extensive regulation by the U.S. federal government, principally pursuant to the Federal Food, Drug and Cosmetic Act, the Hatch-Waxman Act, the Generic Drug Enforcement Act and other federal government statutes and regulations. These regulations govern or influence the testing, manufacturing, packaging, labeling, storing, record keeping, safety, approval, advertising, promotion, sale and distribution of products.

Our facilities and products are periodically inspected by the U.S. FDA, which has extensive enforcement powers over the activities of pharmaceutical manufacturers. Non-compliance with applicable requirements can result in fines, criminal penalties, civil injunction against shipment of products, recall and seizure of products, total or partial suspension of production, sale or import of products, refusal of the U.S. government to enter into supply contracts or to approve new drug applications and criminal prosecution. The U.S. FDA also has the authority to deny or revoke approvals of drug active ingredients and dosage forms and the power to halt the operations of non-complying manufacturers. Any failure by us to comply with applicable U.S. FDA policies and regulations could have a material adverse effect on the operations in our generics business.

U.S. FDA approval of an ANDA is required before a generic equivalent of an existing or referenced brand drug can be marketed. The ANDA process is abbreviated because when processing an ANDA, the U.S. FDA waives the requirement of conducting complete clinical studies, although it normally requires bio-availability and/or bio-equivalence studies. An ANDA may be submitted for a drug on the basis that it is the equivalent of a previously approved drug or, in the case of a new dosage form, is suitable for use for the indications specified.

An ANDA applicant in the United States is required to review the patents of the innovator listed in the U.S. F.D.A. publication entitled *Approved Drug Products with Therapeutic Equivalence Evaluations*, popularly known as the

Orange Book, and make an appropriate certification. There are several different types of certifications that can be made. A

Table of Contents

Paragraph IV filing is made when the ANDA applicant believes its product or the use of its product does not infringe on the innovator s patents listed in the Orange Book or where the applicant believes that such patents are not valid or enforceable. The first generic company to file a Paragraph IV filing may be eligible to receive a six-month marketing exclusivity period from the date a court rules the patent is invalid or not infringed. A Paragraph III filing is made when the ANDA applicant does not intend to market its generic product until the patent expiration. A Paragraph II filing is made where the patent has already expired. A Paragraph I filing is made when the innovator has not submitted the required patent information for listing in the Orange Book. Another type of certification is made where a patent claims a method of use, and the ANDA applicant s proposed label does not claim that method of use. When an innovator has listed more than one patent in the Orange Book, the ANDA applicant must file separate certifications as to each patent. Generally, Paragraph IV and Paragraph III filings are made before the product goes off patent, and Paragraph II and Paragraph I filings are made after the patent has expired.

Before approving a product, the FDA also requires that our procedures and operations conform to Current Good Manufacturing Practice (cGMP) regulations, relating to good manufacturing practices as defined in the U.S. Code of Federal Regulations. We must follow cGMP regulations at all times during the manufacture of our products. We continue to spend significant time, money and effort in the areas of production and quality testing to help ensure full compliance with cGMP regulations.

The timing of final U.S. FDA approval of an ANDA depends on a variety of factors, including whether the applicant challenges any listed patents for the drug and whether the brand-name manufacturer is entitled to one or more statutory exclusivity periods, during which the U.S. FDA may be prohibited from accepting applications for, or approving, generic products. In certain circumstances, a regulatory exclusivity period can extend beyond the life of a patent, and thus block ANDAs from being approved on the patent expiration date. For example, in certain circumstances the U.S. FDA may now extend the exclusivity of a product by six months past the date of patent expiry if the manufacturer undertakes studies on the effect of their product in children, a so-called pediatric extension.

In June 2003, the U.S. FDA announced reforms in its generic drug review program with the goal of providing patients with greater and more predictable access to effective, low cost generic alternatives to brand name drugs.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act of 2003) has modified certain provisions of the Hatch-Waxman Act. In particular, significant changes have been made to provisions governing 180-day exclusivity and forfeiture thereof. The new statutory provisions governing 180-day exclusivity may or may not apply to an ANDA, depending on whether the first Paragraph IV certification submitted by any applicant for the drug was submitted prior to the enactment of the Medicare Amendments on December 8, 2003.

Where the first Paragraph IV certification was submitted on or after December 8, 2003, the new statutory provisions apply. Under these provisions, 180-day exclusivity is awarded to each ANDA applicant submitting a Paragraph IV certification for the same drug with regard to any patent on the first day that any ANDA applicant submits a Paragraph IV certification for the same drug. The 180-day exclusivity period begins on the date of first commercial marketing of the drug by any of the first applicants. However, a first applicant may forfeit its exclusivity in a variety of ways, including, but not limited to (a) failure to obtain tentative approval within 30 months after the application is filed or (b) failure to market its drug by the later of two dates calculated as follows: (x) 75 days after approval or 30 months after submission of the ANDA, whichever comes first, or (y) 75 days after each patent for which the first applicant is qualified for 180-day exclusivity is either (1) the subject of a final court decision holding that the patent is invalid, not infringed, or unenforceable or (2) withdrawn from listing with the U.S. FDA (court decisions, including settlements, qualify if either the first applicant or any applicant with a tentative approval is a party; a final court decision is a decision by a court of appeals or a decision by a district court that is not appealed). The foregoing is an abbreviated summary of certain provisions of the Medicare Act, and accordingly it should be consulted for a complete understanding of both the provisions described above and other important provisions related to 180-day exclusivity and forfeiture thereof.

Where the first Paragraph IV certification was submitted prior to enactment of the Medicare Act, the statutory provisions governing 180-day exclusivity prior to the Medicare Act still apply. The U.S. FDA interprets these statutory provisions to award 180-day exclusivity to each ANDA applicant submitting a Paragraph IV certification for

the same drug on the same day with regard to the same patent on the first day that any ANDA applicant submits a Paragraph IV certification for the same drug with regard to the same patent. The 180-day exclusivity period begins on the date of first commercial marketing of the drug by any of the first applicants or on the date of a final court decision holding that the patent is invalid, not infringed, or unenforceable, whichever comes first. A final court decision is a decision by a court of

Table of Contents

appeals, a decision by a district court that is not appealed, or a decision by a district court prior to the enactment date of the Medicare Act.

The U.S. FDA s interpretation of the pre-Medicare Act statutory provisions has been the subject of judicial challenge. One district court rejected the agency s interpretation and held that, under the pre-Medicare Act statutory provisions, 180-day exclusivity is not determined for each patent but is rather determined for all patents based on the first submission of a Paragraph IV certification for any patent for the same drug, as is now the case under the Medicare Act provisions governing 180-day exclusivity. This ruling was dismissed as moot upon appeal and the U.S. FDA has indicated that it does not intend to change its interpretation.

European Union Regulatory Environment

The activities of pharmaceutical companies within the European Union are governed by Directive 2001/83EC as amended. This Directive outlines the legislative framework, including the legal basis of approval, specific licensing procedures, and quality standards including manufacture, patient information and pharmacovigilance activities.

Our U.K. facilities are licensed and periodically inspected by the U.K. MHRA Inspectorate, which has extensive enforcement powers over the activities of pharmaceutical manufacturers. Non-compliance can result in product recall and closure. In addition, the U.K. MHRA Inspectorate has approved and periodically inspected two of our manufacturing facilities based in Andhra Pradesh, India for the manufacture of generic tablets and capsules for supply to Europe.

Prior approval of a Marketing Authorization is required to supply products within the European Union. Such Marketing Authorizations may be restricted to one member state then recognized in other member states or can cover the whole of the European Union, depending upon the form of registration elected.

Generic or abridged applications are abridged by the omission of full non-clinical and clinical data but may contain limited non-clinical and clinical data, depending upon the legal basis of the application or to address a specific issue. The majority of our generic applications are made on the basis of essential similarity although other criteria may be applied. In the case of an essentially similar application, the applicant is required to demonstrate that its generic product contains the same active pharmaceutical ingredients in the same dosage form for the same indication as the innovator product. Specific data is included in the application to demonstrate that the proposed generic product is essentially similar to the innovator product with respect to quality, safe usage and continued efficacy. The applicant is also required to demonstrate bioequivalence with the referenced product. Once all these criteria are met then a Marketing Authorization may be considered for grant.

Unlike the U.S., there is no regulatory mechanism within the European Union to challenge any patent protection. Nor is any period of market exclusivity conferred upon the first generic approval. In situations where the period of exclusivity given to the branded product expires before their patent expiry, the launch of our product would then be delayed until patent expiry.

Canada and South Africa Regulatory Environment

In Canada and South Africa, we are required to file product dossiers with the particular country s regulatory authority for permission to market the generic formulation. The regulatory authorities may inspect our manufacturing facility before approval of the dossier.

Table of Contents

Critical Care and Biotechnology Segment

The critical care and biotechnology businesses were started in 1998 to focus on and create a strong technology base in these areas. While this area of our business generates low sales volume, the products are generally high value. Our critical care products are formulations used in hospitals to treat cancer and for supportive care. Our biotechnology products cover recombinant protein therapeutics development. The trading operations of our diagnostics division were discontinued in fiscal 2004.

The following table provides revenues for this segment for fiscal 2003, 2004 and 2005 respectively:

	Fiscal Year Ended March 31,						
	2003		2004		2005		
Division	Revenues (in millions)	% Total	Revenues (in millions)	% Total	Revenues (in millions)		% Total
Critical Care	Rs. 235.5	55.0%	Rs. 325.2	79.1%	Rs. 407.9	U.S.$9.3	77.4%
Diagnostics	136.8	31.9	9.1	2.2			
Biotechnology	55.9	13.1	76.7	18.7	119.2	2.7	22.6
Total	Rs. 428.2	100.0%	Rs. 411.0	100.0%	Rs. 527.1	U.S.$12.0	100.0%

The following table sets forth revenues of our critical care and biotechnology segment by geographic area for fiscal 2003, 2004 and 2005 respectively:

	Fiscal Year Ended March 31,						
	2003		2004		2005		
Division	Revenues (in millions)	% Total (1)	Revenues (in millions)	% Total (1)	Revenues (in millions)		% Total (1)
India	Rs. 378.0	88.3%	Rs. 259.5	63.1%	Rs. 360.7	U.S.$8.3	68.4%
Russia	14.4	3.4	39.5	9.6	62.3	1.4	11.8
Other CIS(2)	1.2	0.2	12.2	3.0	19.4	0.4	3.7
Other	34.6	8.1	99.8	24.3	84.7	1.9	16.1
Total	Rs. 428.2	100.0	Rs. 411.0	100.0	Rs. 527.1	U.S.$12.1	100.0

(1) Refers to our revenues from market sales in the applicable country expressed as a percentage of our total revenues throughout the world.

(2)

Other CIS refers to other countries in the Commonwealth of Independent States, countries of the former Soviet Union.

Critical care. This business accounted for 77.4% of the segment s revenues in fiscal 2005, contributing Rs.407.9 million. We focus on high margin, low volume products for niche markets in India in the area of critical care. Our main products are Mitotax (paclitaxel), Cytogem (gemcitabine), Docetere (docetaxel) and Irinocam (irinotecan). We also market Dacotin (oxaliplatin), which is licensed and imported from Debiopharm S.A. of Switzerland. In fiscal 2005 we launched 3 new products Capiibine (capecitabine), Blaztere (zoledronic acid) and Thaangio (thalidomide).

The following table sets forth the sales of our key products in fiscal 2003, 2004 and 2005:

		Fiscal Year Ended March 31,						
	Therapeutic	2003		2004		2005		
Product	Category	Revenues (in millions)	% Total(1)	Revenues (in millions)	% Total(1)	Revenues (in millions)		% Total(1)
Mitotax	Ovarian/breast/lung cancer	Rs.83.0	35.3%	Rs. 123.8	38.0%	Rs. 178.8	U.S.$4.1	43.8%
Docetere	Breast/lung cancer	37.6	15.9	77.0	23.7	73.2	1.7	17.9
Cytogem	Lung/pancreatic cancer	38.2	16.2	63.3	19.5	59.1	1.4	14.5
Dacotin	Colorectal cancer	27.3	11.6	16.4	5.0	25.9	0.6	6.3
	Total	Rs.186.1	79.0%	Rs. 280.5	86.2%	Rs. 337.2	U.S.$7.8	82.7%

(1) Refers to our revenues from sales of the applicable product expressed as a percentage of the total revenues of our critical care and biotechnology segment.

Biotechnology. Our biotechnology portfolio is currently comprised of Grastim, the bio-generic version of filgrastim, the human Granulocyte Colony Stimulating Factor (hG-CSF). Filgrastim is a recombinant protein used in chemotherapy-induced neutropenia and in bone marrow transplantation. We were the first company in India to fully develop in-house, from the molecular biology stage to production, the biogeneric Grastim. We developed Grastim for launch in India followed by other international markets.

Table of Contents

Our biotechnology pipeline consists of biogenerics and variants of existing molecules, including several recombinant proteins in mammalian cell culture as well as E.Coli, all in various phases of development.

We view biotechnology as a business with significant potential. Our commitment to the business is reflected in our investments in building the research and development infrastructure as well as scientific teams. Our research and development facility caters to the highest development standards, including cGMP, Good Laboratory Practices and bio-safety level IIA. We are in the process of building our bio-generics pipeline. We have an agreement with a U.S. based biotechnology company for the development of bio-generics.

Sales, Marketing and Distribution Network.

The marketing of our critical care and biotechnology products is handled by a dedicated sales and marketing team. We sell our products through clearing and forwarding agents in India. In India, the marketing team promotes our products to medical specialists and focuses on sales to hospitals, government agencies, non-government institutional organizations and pathology laboratories.

We also have a partnership agreement with Pliva d.d., an Eastern European generics company, for the development and marketing of a group of oncology products for the European markets.

Manufacturing and Materials

For our critical care products, we manufacture most of the active pharmaceutical ingredients. The manufacturing of the formulation is undertaken at our formulations facility. We source some of the products from third party suppliers. We have commissioned a completely contained API facility for the manufacture of cytotoxic products. We are in the process of establishing an API facility for hormonal products. We are also in the process of establishing a facility in Visakhapatnam, India for the manufacture of oral solid dosage form and injectable forms of cytotoxic as well as hormonal products.

We have a facility at Bachupalli, Andhra Pradesh, India for the manufacture of our biotechnology products. The manufacture of our biotechnology products involves cloning proteins in bacteria and then extracting the proteins from the bacteria by fermentation and purification. The facility is equipped with a cell culture laboratory for evaluation of products as well as a facility for studies of compounds and provision for the safe disposal of wastes and effluents.

Competition

For our critical care products, our main competitors in the oncology market in India are Dabur Pharma Limited, Cipla Limited, Eli Lily & Co. and Aventis India Limited. For the range of oncology products currently under development, our main competitors include generics companies in India, Europe and the U.S. with a focus on development of oncology products, including Mayne Group Limited (Australia), Zydus Cadila Group (India) and Pliva d.d. (Croatia).

In our biotechnology business, our marketed product faces competition primarily from the innovator company. Given the significant potential of the biogenerics market, several companies are focused on the development of biogenerics, including Barr Laboratories Inc. and Pliva d.d.

Government Regulations

For critical care products, the regulations are similar to those as discussed in the formulations, API and generics segments.

The biotechnology sector in India is governed by the guidelines/rules formulated by the Department of Biotechnology (DBT), under the Indian government s Ministry of Science & Technology. The guidelines cover the entire requirements of various other related ministries/statutory departments of the government of India.

A business which intends to manufacture and market biotechnology products is required to form an Institutional Bio Safety Committee (IBSC) consisting of internal experts on related fields as well as a nominee of the DBT and Central Pollution Control Board (CPCB). The IBSC reviews, verifies and approves the product application before submitting it to the Review Committee of Genetic Manipulation (RCGM) under the Indian government s Ministry of Science &

Table of Contents

Technology. The RCGM verifies and approves all the data included in the application including the protocol and final reports on animal toxicity and human clinical trials.

Once clearance on all the related issues is obtained from RCGM, the business needs to obtain clearance from the Genetic Engineering Approval Committee (GEAC) under the Ministry of Environment and Forest, Government of India. The GEAC forwards its recommendation to the DBT and DCGI. Based on receipt of a No Objection Certificate from DCGI, the business has to obtain manufacturing license from the State Drugs Authority and thereafter can commence commercial marketing.

Drug Discovery Segment

Drug discovery is a key segment of our business. In this segment, we are actively pursuing discovery and development of Novel Chemical Entities (NCEs). Our research programs focus on the following therapeutic areas:

- Metabolic disorders
- Cardiovascular disorders
- Cancer
- Bacterial infections

Our research laboratories are based in Hyderabad, India and Atlanta, Georgia, U.S. As of March 31, 2005, we employed a total of 310 scientists, including approximately 59 scientists who held Ph.D. degrees. We pursue an integrated research strategy with our laboratories in the United States focusing on discovery of new molecular targets and designing of screening assays to screen for promising lead molecules followed by selection and optimization of lead molecules and further clinical development of those optimized leads at our laboratories in India. By establishing a research facility in the United States, we have better access to research scientists in the United States, enhancing our screening abilities for new molecular targets and access to high technology platforms

While we continue to seek licensing and development arrangements with third parties to further develop our pipeline products, we also conduct clinical development of some of the candidate drugs ourselves where it is economically and technically feasible. Our long-term strategy for drug discovery is to increasingly undertake clinical testing ourselves, as we believe that this will enable us to derive higher value for our compounds. Our goal is to balance internal development of our own product candidates with in-licensing of promising compounds that complement our strengths. We also pursue licensing and joint development of some of our lead compounds with companies looking to implement their own product portfolio. DRF 10945 is our drug candidate in the metabolic disorder segment, which is being developed for the treatment of high triglycerides and low HDL cholesterol. We have completed Phase I studies in Canada and are preparing to move this compound forward into Phase II-a trials in Canada. RUS 3108 is our drug candidate in the cardiovascular segment, which is being developed for the treatment of atherosclerosis. We have completed Phase I single ascending dose trials in Belfast, Ireland for RUS 3108 and we plan to initiate Phase I multiple ascending dose studies in Belfast, Ireland.

As part of our research program, we pursue collaborations with leading institutions and laboratories all over the world. We enter into these collaborations to utilize the expertise and facilities these institutions and laboratories provide. We have collaborated with the National Cancer Institute in Maryland, which is a part of the United States National Institutes of Health. We have also entered into collaboration agreements with the National Cancer Institute for the screening of anti-cancer compounds.

Our investments into research and development of NCEs have been consistently focused towards developing promising therapeutics. In fiscal 2003, 2004 and 2005, we spent Rs.480.1 million, Rs.729.4 million and Rs.868.9 million respectively, towards drug discovery activities. In fiscal 2003, 2004 and 2005, we received Rs.0, Rs.0, and Rs.288.4 million respectively in revenues from drug discovery activities.

As of March 31, 2005, the compounds under development in our pipeline included:

Compound	Therapeutic Area	Development Status
DRF 2593	Metabolic disorders	Phase II completed

DRF 10945	Metabolic disorders	Phase I clinical trials in Canada completed
DRF 11605	Metabolic disorders	Pre-clinical; Good Laboratory Practice toxicity studies in progress
DRF 1042	Cancer	Phase II clinical trials in progress in India (Diastereomeric mixture) Phase I clinical trials in progress in India (single isomer)

Table of Contents

Compound	Therapeutic Area	Development Status
RUS 3108	Cardiovascular	Phase I clinical trials in progress in Europe
DRF 13792	Bacterial infections	Pre-clinical; Good Laboratory Practice toxicity studies in progress

Patents. The status of patents filed and issued as of March 31, 2005 is summarized below:

	Metabolic Disorders	Cancer	Bacterial Infections	Inflammation	Cardiovascular	Others	Total
U.S. filed	60	12	7	2	0	0	81
U.S. issued	32	7	0	2	0	0	41
PCT filed[1]	56	12	7	2	0	3	80
India filed	97	41	20	11	1	22	192
India issued	16	10	0	0	0	8	34

(1) PCT means the Patent Cooperation Treaty, an international treaty that facilitates foreign patent filings for residents of member countries when obtaining patents in other member countries.

Stages of Testing / Development. The stages of testing required before a pharmaceutical product can be marketed in the United States are generally as follows:

Stage of Development	Description
Preclinical	Animal studies and laboratory tests to evaluate safety and efficacy, demonstrate activity of a product candidate and identify its chemical and physical properties.
Phase I	Clinical studies to test safety and pharmacokinetic profile of a drug in humans.
Phase II	Clinical studies conducted with groups of patients to determine preliminary efficacy, dosage and expanded evidence of safety.
Phase III	Larger scale clinical studies conducted in patients to provide sufficient data for statistical proof of efficacy and safety.

For ethical, scientific and legal reasons, animal studies are required in the discovery and safety evaluation of new medicines. Preclinical tests assess the potential safety and efficacy of a product candidate in animal models. The results of these studies must be submitted to the U.S. FDA as part of a NDA before human testing may proceed.

U.S. law further requires that studies conducted to support approval for product marketing be adequate and well controlled. In general, this means that either a placebo or a product already approved for the treatment of the disease or condition under study must be used as a reference control. Studies must also be conducted in compliance with good clinical practice requirements, and adverse event and other reporting requirements must be followed.

The clinical trial process can take five to ten years or more to complete, and there can be no assurance that the data collected will be in compliance with good clinical practice regulations, will demonstrate that the product is safe or effective, or, in the case of a biologic product, pure and potent, or will provide sufficient data to support U.S. FDA approval of the product. The U.S. FDA may place clinical trials on hold at any point in this process if, among other reasons, it concludes that clinical subjects are being exposed to an unacceptable health risk. Trials may also be terminated by institutional review boards, who must review and approve all research involving human subjects. Side effects or adverse events that are reported during clinical trials can delay, impede, or prevent marketing authorization.

Table of Contents

Scientific Advisory Board. Our Scientific Advisory Board is composed of seven leading professionals in the field of healthcare and chemical sciences. These professionals contribute to the strategic definition and implementation of pre-clinical development plans for our products. Members of the advisory committee meet individually and as a group with our management on an annual basis.

Dr. K. Anji Reddy	Chairman, Dr. Reddy s Laboratories Limited
Dr. R. Rajagopalan	President, Discovery Research, Dr. Reddy s Laboratories Limited
Dr. V. Mohan	Managing Director, M.V. Diabetes Specialties Center (P) Limited, Madras
Dr. K. Janardhan Reddy	Professor and Chairman, Department of Pathology, Northwestern University Medical School, Chicago, Illinois, U.S.A.
Dr. Sampath Parthasarthy	Director, Division of Research, Emory University School of Medicine, Atlanta, Georgia, U.S.A.
Dr. Henry Ginsberg	Herbert Irving Professor of Medicine, Division of Preventive Medicine, Presbyterian Hospital, New York, U.S.A.
Dr. Ira J. Goldberg	Professor of Medicine, Division of Preventive Medicine and Nutrition Columbia University College of Physicians and Surgeons, New York, U.S.A.
Dr. Uday Saxena	Chief Scientific Officer, Dr.Reddy s Laboratories Limited
Dr. Daniel Rader	Faculty in the Department of Medicine and the Director of Cardiovascular Metabolism unit at the Institute for Diabetes, Obesity and Metabolism, University of Pennsylvania

Competition

The pharmaceutical and biotechnology industries are highly competitive. We face intense competition from organizations such as large pharmaceutical companies, biotechnology companies and academic and research organizations. The major pharmaceutical organizations competing with us have greater capital resources, larger overall research and development staff and facilities and considerably more experience in drug development. Biotechnology companies competing with us may have these advantages as well. In addition to competition for collaborators and investors, these companies and institutions also compete with us in recruiting and retaining highly qualified scientific and management personnel.

Government regulations

Virtually all pharmaceutical and biotechnology products that we or our collaborative partners develop will require regulatory approval by governmental agencies prior to commercialization. The nature and extent to which these regulations apply varies depending on the nature of the products and also vary from country to country. In particular, human pharmaceutical products are subject to rigorous pre-clinical and clinical testing and other approval procedures by the relevant regulatory agency. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary widely from country to country.

In India, under the Drugs and Cosmetics Act, 1940, the regulation of the manufacture, sale and distribution of drugs is primarily the concern of the state authorities while the Central Drug Control Administration is responsible for approval of new drugs, clinical trials in the country, laying down the standards for drugs, control over the quality of imported drugs, coordination of the activities of state drug control organizations and providing expert advice with a view of bringing about the uniformity in the enforcement of the Drugs and Cosmetics Act, 1940.

For marketing a drug in the United States, we or our partners will be subject to regulatory requirements governing human clinical trials, marketing approval and post-marketing activities for pharmaceutical products and biologics.

Various federal and, in some cases, state statutes and regulations also govern or influence the manufacturing, safety, labeling, storage, record-keeping and marketing of these products. The process of obtaining these approvals and the subsequent compliance with applicable statutes and regulations is time consuming and requires substantial resources, and the approval outcome is uncertain.

Generally, in order to gain U.S. FDA approval, a company first must conduct pre-clinical studies in the laboratory and in animal models to gain preliminary information on a compound s activity and to identify any safety problems. Pre-clinical studies must be conducted in accordance with U.S. FDA regulations. The results of these studies are submitted as a part of an Investigational New Drug (IND) application that the U.S. FDA must review before human clinical trials of an investigational drug can start. If the U.S. FDA does not respond with any questions, a drug developer can commence clinical trials thirty days after the submission of an IND.

In order to eventually commercialize any products, we or our collaborator first will be required to sponsor and file an IND and will be responsible for initiating and overseeing the clinical studies to demonstrate the safety and efficacy that are necessary to obtain U.S. FDA marketing approval. Clinical trials are normally done in three phases and generally take several years, but may take longer to complete. The clinical trials have to be designed taking into account the applicable

Table of Contents

U.S. FDA guidelines. Furthermore, the U.S. FDA may suspend clinical trials at any time if the U.S. FDA believes that the subjects participating in trials are being exposed to unacceptable risks or if the U.S. FDA finds deficiencies in the conduct of the trials or other problems with our product under development.

After completion of clinical trials of a new product, U.S. FDA marketing approval must be obtained. If the product is classified as a new pharmaceutical, we or our collaborator will be required to file a New Drug Application (NDA), and receive approval before commercial marketing of the drug. The testing and approval processes require substantial time and effort. NDAs submitted to the U.S. FDA can take several years to obtain approval and the U.S. FDA is not obligated to grant approval at all.

Even if U.S. FDA regulatory clearances are obtained, a marketed product is subject to continual review. If and when the U.S. FDA approves any of our or our collaborators products under development, the manufacture and marketing of these products will be subject to continuing regulation, including compliance with cGMP, adverse event reporting requirements and prohibitions on promoting a product for unapproved uses. Later discovery of previously unknown problems or failure to comply with the applicable regulatory requirements may result in restrictions on the marketing of a product or withdrawal of the product from the market as well as possible civil or criminal sanctions. Various federal and, in some cases, state statutes and regulations also govern or influence the manufacturing, safety, labeling, storage, record keeping and marketing of pharmaceutical products.

Our research and development processes involve the controlled use of hazardous materials and controlled substances. We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of these materials and waste products.

4.C. ***Organizational structure***

Dr. Reddy s Laboratories Limited is the parent company in our group. We had the following subsidiary companies as of March 31, 2005:

Name of Subsidiary	Country of Incorporation	Percentage of Direct/ Indirect Ownership Interest
DRL Investments Limited	India	100%
Reddy Pharmaceuticals Hong Kong Limited	Hong Kong	100%
OOO JV Reddy Biomed Limited	Russia	100%
Reddy Antilles N.V.	Netherlands	100%
Reddy Netherlands B.V.	Netherlands	100%(1)
Reddy US Therapeutics, Inc.	U.S.A.	100%(1)
Dr. Reddy s Laboratories, Inc.	U.S.A.	100%
Dr. Reddy s Farmaceutica do Brasil Ltda	Brazil	100%
Cheminor Investments Limited	India	100%
Aurigene Discovery Technologies Limited	India	100%
Aurigene Discovery Technologies, Inc.	U.S.A.	100%(3)
Kunshan Rotam Reddy Pharmaceutical Co. Limited	China	51.2%(4)
Dr. Reddy s Laboratories (EU) Limited	United Kingdom	100%
Dr. Reddy s Laboratories (U.K.) Limited	United Kingdom	100%(5)
Dr. Reddy s Laboratories (Proprietary) Limited	South Africa	60%
Reddy Cheminor S.A.(2)	France	100%(2)
OOO Dr. Reddy s Laboratories Limited	Russia	100%
AMPNH Inc.	U.S.A.	100%(6)
Dr. Reddy s Bio-sciences Limited	India	100%
Reddy Pharmaceuticals, Inc.	U.S.A.	100%(6)
Trigenesis Therapeutics, Inc.	U.S.A.	100%

(1) Indirectly owned through Reddy Antilles N.V.

(2) Subsidiary under liquidation.

(3) Indirectly owned through Aurigene Discovery Technologies Limited.

(4) Kunshan Rotam Reddy is a subsidiary as we hold a 51.2 % stake in it; however, we account for this investment by the equity method and do not consolidate it in our financial statements.

(5) Indirectly owned through Dr. Reddy s Laboratories (EU) Limited

(6) Indirectly owned through Dr. Reddy s Laboratories Inc.

4.D. ***Property, plant and equipment***

Table of Contents

The following table sets forth current information relating to our principal facilities:

Location	Approximate Area (Square feet)	Built up Area (Square feet)	Certification
Active Pharmaceutical Ingredients and Intermediates			
Bollaram, Andhra Pradesh, India	734,013	172,879	U.S. FDA
Bollaram, Andhra Pradesh, India	648,173	282,220	U.S. FDA
Bollaram, Andhra Pradesh, India	285,235	210,630	U.S. FDA
Jeedimetla, Andhra Pradesh, India	228,033	74,270	U.S. FDA
Miryalguda, Andhra Pradesh, India	2,787,840	261,734	U.S. FDA
Pydibheemavaram, Andhra Pradesh, India	8,523,466	717,886	U.S. FDA
Pydibheemavaram, Andhra Pradesh, India (5)	737,134	53,854	
Formulations			
Bollaram, Andhra Pradesh, India	217,729	116,197	(1)
Bachupalli, Andhra Pradesh, India	1,306,372	175,388	(2)
Yanam, Pondicherry, India	457,000	26,226	None
Goa, India	295,336	183,202	(3)
Generics			
Bachupalli, Andhra Pradesh, India	783,823	200,134	(4)
Battersea, London, United Kingdom (6)	17,000	10,000	U.K. Medicine Control Agency
Beverley, East Yorkshire, United Kingdom	64,904	15,179	U.K. Medicine Control Agency, ISO 9001: 2000
Critical Care and Biotechnology			
Bachupalli, Andhra Pradesh, India	174,183	98,981	None
Drug Discovery			
Miyapur, Andhra Pradesh, India	576,941	234,591	None
Georgia, United States (6)	24,733	24,733	None

(1) Ministry of Health, Sudan; Ministry of Health, Uganda; ANVISA, Brazil; National Medicines Agency, Romania.

(2)

Medicine Control Council, Republic of South Africa; The State Company for Marketing Drugs and Medical Appliances, Ministry of Health, Iraq; Sultanate of Oman, Ministry of Health, Muscat; Ministry of Health, Sudan; Ministry of Health, State of Bahrain; State Pharmaceutical Inspection, Republic of Latvia; Pharmaceutical and Herbal Medicines, Registration and Control Administrations, Ministry of Health, Kuwait; National Medicines Agency, Romania; ANVISA, Brazil; Medicines and Health Care Products Regulatory Agencies (MHRA), U.K.

(3) National Medicines Agency, Romania; National Drug Authority, Uganda.

(4) U.S. FDA; Medicines and Healthcare Products Regulatory Agency, U.K.; Ministry of Health, UAE; Medicines Control Council, South Africa; ANVISA, Brazil ; Environmental Management System ISO 14001; Occupational Health and Safety Management System OHSAS 18001; Quality Management System-ISO 9001:2000.

(5) Export Oriented Unit.

(6) Leased facilities.

Except as indicated in the notes above, we own all of our facilities. All properties mentioned above including leased properties are either used for manufacturing and packaging of pharmaceutical products or for research and development activities. In addition, we have sales, marketing and administrative offices, which are leased properties. We believe that our facilities are optimally utilized.

We are in the process of establishing a facility to manufacture hormonal oncology APIs at Visakhapatnam, Andhra Pradesh, India. We are also in the process of establishing a facility to manufacture oral solid and injectable forms of cytotoxic and hormonal formulations at a Special Economic Zone located in Visakhapatnam.

During fiscal 2005, we initiated the construction of a new facility for the manufacture of formulations at Baddi, Himachal Pradesh, India to take advantage of certain financial benefits, which include exemption from income tax and excise duty for a specified period, offered by the government of India to encourage industrial growth in the state of Himachal Pradesh.

We have working capital facilities with banks and, in order to secure those facilities, we have created encumbrance charges on certain of our immovable and movable properties.

Table of Contents

We are subject to significant national and state environmental laws and regulations which govern the discharge, emission, storage, handling and disposal of a variety of substances that may be used in or result from our operations at the above facilities. Non-compliance with the applicable laws and regulations may subject us to penalties and may also result in the closure of our facilities.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

We are an emerging global pharmaceutical company with proven research capabilities. We produce active pharmaceutical ingredients and finished dosage forms and biotechnology products and market them globally, with a focus on India, the United States, Europe and Russia. We conduct basic research in the areas of cancer, diabetes, cardiovascular disease, inflammation and bacterial infection.

Our revenues for fiscal 2005 were Rs.19,471.9 million (U.S.$446.4 million). We derived 34.4% of these revenues from sales in India, 22.3% from North America, 14.3% from Russia and other countries of the former Soviet Union, 14.7% from Europe and 14.3% from other countries. Our net income during the same period was Rs.211.2 million (U.S.$4.8 million).

As of March 31, 2005, our business segments are as follows:

Formulations;

Active pharmaceutical ingredients and intermediates;

Generics;

Critical care and biotechnology; and

Drug discovery.

We discontinued the trading operations in our diagnostics division in fiscal 2004.

5.A. *Operating results*

Financial Data

The following table sets forth, for the periods indicated, our consolidated net operating revenues by segment:

Segment	2003	Fiscal Year Ended March 31, 2004	2005	2005
		(Rs. in millions, U.S.$ in thousands)		
Formulations	Rs.6,860.4	Rs.7,507.5	Rs.7,822.9	U.S.$ 159,205.1
Active pharmaceutical ingredients and intermediates	6,340.7	7,628.5	6,944.5	179,342.3
Generics	4,284.2	4,337.5	3,577.4	82,013.3
Critical care and biotechnology	428.2	411.0	527.1	12,084.1
Drug discovery			288.4	6,611.2
Others	156.3	196.7	311.6	7,143.1
Total revenues	Rs.18,069.8	Rs.20,081.2	Rs.19,471.9	U.S.$ 446,399.0

The following table sets forth, for the periods indicated, financial data as percentages of total revenues and the increase (or decrease) by item as a percentage of the amount over the previous year. Cost of revenues and gross profit by segment are shown as a percentage of that segment s revenues.

Table of Contents

	Percentage of Revenues Fiscal Year Ended March 31,			Percentage Increase (Decrease)	
	2003	2004	2005	2003 to 2004	2004 to 2005
Income Statement Data:					
Revenues by segment:					
Formulations	38.0%	37.4%	40.2%	9.4%	4.2%
Active pharmaceutical ingredients and intermediates	35.1	38.0	35.7	20.3	(9.0)
Generics	23.7	21.6	18.4	1.2	(17.5)
Critical care and biotechnology	2.4	2.0	2.7	(4.0)	28.2
Drug discovery			1.5		
Other	0.8	1.0	1.5	25.8	58.4
Total revenues	100.0	100.0	100.0	11.1	(3.0)
Cost of revenues by segment:					
Formulations	35.9	34.5	31.9	5.1	(3.6)
Active pharmaceutical ingredients and intermediates	62.1	66.9	72.2	29.5	(1.7)
Generics	24.8	30.5	45.3	24.9	22.3
Critical care and biotechnology	54.7	50.4	33.5	(11.7)	(14.7)
Drug discovery					
Other	98.3	63.9	26.5	(18.1)	(34.4)
Total cost of Revenues	43.4	46.5	48.2	19.1	0.4
Gross profit by segment:					
Formulations	64.1	65.5	68.1	11.8	8.3
Active pharmaceutical ingredients and intermediates	37.9	33.1	27.8	5.2	(23.6)
Generics	75.2	69.5	54.7	(6.5)	(35.0)
Critical care and biotechnology	45.3	49.6	66.5	5.3	71.8
Drug discovery			100		[Nm]
Other	1.7	36.1	73.5	2556	222.9
Total gross profit	56.6	53.5	51.8	5.0	(6.0)
Operating expenses:					
Selling, general and administrative expenses	28.2	32.7	35.0	28.6	3.8
Research and development expenses	7.8	9.9	14.4	41.1	40.8
Amortization expenses	2.4	1.9	1.8	(8.7)	(8.6)
Foreign exchange (gain)/loss	0.4	(1.4)	2.5	[Nm]	[Nm]
Total Operating Expenses	38.8	43.1	53.7	23.6	20.8

Operating income	17.8	10.4	(1.9)	(35.3)	Nm
Equity in loss of affiliates	(0.5)	(0.2)	(0.3)	(51.8)	31.0
Other (expense) / income, net	3.8	2.6	2.7	(26.2)	5.4
Income before income taxes and minority interest	21.1	12.6	0.5	(33.3)	(95.8)
Income tax benefit / (expenses)	(2.2)	(0.3)	0.5	(82.6)	[Nm]
Minority interest	0.1	0.0	0.1	[Nm]	195.6
Net income	18.8	12.3	1.1	(27.3)	(91.5)

Fiscal Year Ended March 31, 2005 Compared to Fiscal Year Ended March 31, 2004

Revenues

Total revenues decreased by 3.0% to Rs.19,471.9 million in fiscal 2005, as compared to Rs.20,081.2 million in fiscal 2004, primarily due to a decrease in revenues in our generics and active pharmaceutical ingredients and intermediates segments. In fiscal 2005, we received 22.3% of our revenues from the United States and Canada, 34.4% from India, 14.3% from Russia and other former Soviet Union countries, 14.7% from Europe and 14.3% from other countries.

Revenues from sales in Russia and other former Soviet Union countries increased by 21.7% to Rs.2,782.2 million in fiscal 2005, as compared to Rs.2,285.8 million in fiscal 2004. The increase was primarily due to an increase in sales of our major brands of formulations such as Nise, our brand of nimesulide, Keterol, our brand of ketorolac tromethamine, and Omez, our brand of omeprazole. Revenues from sales in Europe increased by 2.9% to Rs.2,868.2 million in fiscal 2005,

Table of Contents

as compared to Rs.2,788.6 million in fiscal 2004, primarily as a result of an increase in revenues from our generics segment largely offset by a decrease in revenues from our active pharmaceutical ingredients and intermediates segment. Revenues from sales in North America decreased by 18.2% to Rs.4,349.2 million in fiscal 2005, as compared to Rs.5,319.2 million in fiscal 2004, primarily due to a decrease in revenues in our generics segment. Revenues from sales in India decreased by 6.3% to Rs.6,693.0 million in fiscal 2005, as compared to Rs.7,143.4 million in fiscal 2004, primarily due to a decrease in revenues in our formulations and active pharmaceutical ingredients and intermediates segments. We made allowances for sales returns of Rs.105.2 million and Rs.169.5 million in fiscal 2005 and fiscal 2004, respectively.

Formulations. In fiscal 2005, we received 40.2% of our total revenues from the formulations segment, as compared to 37.4% in fiscal 2004. Revenues in this segment increased by 4.2% to Rs.7,822.9 million in fiscal 2005, as compared to Rs.7,507.5 million in fiscal 2004.

Revenues from sales in India constituted 55.7% of our total formulations revenues in fiscal 2005, as compared to 63.0% in fiscal 2004. Revenues from sales of formulations in India decreased by 7.8% to Rs.4,360.2 million in fiscal 2005, as compared to Rs.4,729.4 million in fiscal 2004. New products launched in India in fiscal 2005 accounted for 6% of the total revenues. These additional revenues were more than offset by a decrease in revenues from sales of our key brands (such as Omez, our brand of omeprazole, and Nise, our brand of nimesulide), as well as inventory reduction by stockists, retailers and other trade channels in March 2005 due to uncertainty relating to the implementation of the Value Added Tax (VAT) system in India.

Revenues from sales of formulations outside India increased by 24.6% to Rs.3,462.7 million in fiscal 2005, as compared to Rs.2,778.1 million in fiscal 2004. Revenues from sales of formulations in Russia accounted for 60.9% of our formulation revenues outside India in fiscal 2005, as compared to 64.1% in fiscal 2004. Revenues from sales of formulations in Russia increased by 18.3% to Rs.2,107.2 million in fiscal 2005, as compared to Rs.1,781.8 million in fiscal 2004. The increase was driven by increased revenues from sales of our key brands such as Nise, our brand of nimesulide, Ketorol, our brand of ketorolac tromethamine, Omez, our brand of omeprazole, and Ciprolet, our brand of ciprofloxacin. Revenues from other former Soviet Union countries increased by 31.2% to Rs.593.3 million for fiscal 2005, as compared to Rs.452.3 million for fiscal 2004, primarily driven by an increase in revenues in Ukraine, Kazakhstan and Belarus. Revenues from the rest of the world increased by 40.4% to Rs.613.1 million in fiscal 2005, as compared to Rs.436.6 million in fiscal 2004. This increase was primarily due to higher revenues from sales in South Africa, Venezuela and new markets such as United Arab Emirates.

Active Pharmaceutical Ingredients and Intermediates. In fiscal 2005, we received 35.7% of our total revenues from this segment, as compared to 38.0% in fiscal 2004. Revenues in this segment decreased by 9.0% to Rs.6,944.5 million in fiscal 2005, as compared to Rs.7,628.5 million in fiscal 2004.

During fiscal 2005, revenues from sales in India accounted for 28.4% of our revenues from this segment, as compared to 27.7% in fiscal 2004. Revenues from sales in India decreased by 6.8% to Rs.1,972.1 million in fiscal 2005, as compared to Rs.2,115.1 million in fiscal 2004. This decrease was primarily due to a decrease in sales volumes of ciprofloxacin, sparfloxacin and gatifloxacin.

Revenues from sales outside India decreased by 9.8% to Rs.4,972.4 million in fiscal 2005, as compared to Rs.5,513.4 million in fiscal 2004. Revenues from sales in Europe decreased by 32.9% to Rs.1,091.2 million in fiscal 2005, as compared to Rs.1,626.9 million in fiscal 2004 primarily due to a decrease in revenues from ramipril. Ramipril, launched in Europe in fiscal 2004, accounted for Rs.753.3 million in revenue in fiscal 2005 compared to Rs.1,237.5 million in fiscal 2004. This decline was primarily due to a reduction in price due to additional competition. Revenues from sales in the United States and Canada decreased by 2.8% to Rs.1,849.0 million in fiscal 2005, as compared to Rs.1,902.9 million in fiscal 2004, primarily due to additional competition for our existing products.

Generics. In fiscal 2005, we received 18.4% of our total revenues from this segment, as compared to 21.6% in fiscal 2004. Revenues decreased by 17.5% to Rs.3,577.4 million in fiscal 2005, as compared to Rs.4,337.5 million in fiscal 2004. Revenues from sales in the United States and Canada decreased by 34.4% to Rs.2,230.1 million in fiscal 2005, as compared to Rs.3,398.6 million in fiscal 2004. This was primarily on account of increased competition with respect to sales of tizanidine and fluoxetine. Together these two products accounted for Rs.1,134.7 million in revenue in fiscal 2005 as compared to Rs.2,402.8 million in fiscal 2004. This decline was partially offset by revenues from

new product launches of ciprofloxacin (launched in June 2004) and citalopram (launched in October 2004). Revenues in Europe increased by 44.1%

Table of Contents

to Rs.1,339.6 million in fiscal 2005, as compared to Rs.929.9 million in fiscal 2004, primarily due to growth in sales volumes of omeprazole and amlodipine maleate (launched in March 2004).

Critical Care and Biotechnology. We received 2.7% of our total revenues from this segment in fiscal 2005, as compared to 2.0% in fiscal 2004. Revenues in this segment increased to Rs.527.1 million in fiscal 2005, as compared to Rs.411.0 million in fiscal 2004.

Revenues from our critical care division increased by Rs.82.7 million, primarily due to an increase in domestic revenues from sales of key products of Dacotin, our brand of oxaliplatin, Docetere, our brand of docetaxel, and Mitotax, our brand of paclitaxel. Revenues from our biotechnology division increased by Rs.42.6 million, primarily due to sales volume growth of Grastim, our brand of filgrastim.

Drug Discovery. Revenues from our drug discovery segment were at Rs.288.4 million for fiscal 2005, as compared to no revenue for fiscal 2004. In September 2001, we received Rs.235.6 million as an upfront license fee from Novartis Pharma A.G. in connection with our out-licensing of DRF 4158 to Novartis. During fiscal 2005, on expiration of the terms of the agreement with Novartis, we accounted for the upfront license fee as income, which was deferred in the year ended March 31, 2002 as the up-front license fee did not represent the culmination of a separate earning process, the up-front license fee had been deferred to be recognized in accordance with our accounting policy proportionately upon the receipt of stated milestones. During fiscal 2005, we recognized an amount of Rs.52.8 million towards DRF 2593 pursuant to the discontinuation of our agreement with Novo Nordisk.

Others. Revenues from our Custom Pharmaceutical Services segment were Rs.311.6 million in fiscal 2005, as compared to Rs.113.1 million in fiscal 2004. The increase is primarily on account of increases in both our customer base and our product portfolio.

Cost of revenues

Total cost of revenues increased by Rs.39.7 million to Rs.9,385.8 million for fiscal 2005, as compared to Rs.9,346.1 million for fiscal 2004. Cost of revenues as a percentage of total revenues was 48.2% for fiscal 2005, as compared to 46.5% for fiscal 2004.

Formulations. Cost of revenues in this segment decreased by 3.6% to Rs.2,492.8 million in fiscal 2005, as compared to Rs.2,586.5 million in fiscal 2004. Cost of revenues in this segment was 31.9% of formulations revenues for fiscal 2005, as compared to 34.5% of formulations revenues for fiscal 2004. The decrease in cost of revenues as a percentage of revenues was primarily due to a higher proportion of revenues from outside India, which generate relatively higher gross margins.

Active Pharmaceutical Ingredients and Intermediates. Cost of revenues in this segment decreased by 1.7% to Rs.5,013.6 million in fiscal 2005, as compared to Rs.5,102.4 million in fiscal 2004. Cost of revenues in this segment has increased to 72.2% of this segment s revenues in fiscal 2005, as compared to 66.9% of the segment s revenues in fiscal 2004. The increase in cost of revenues as a percentage of sales was primarily due to a decrease in revenues from sales of ramipril in Europe, which generates a higher gross margin compared to the segment s average gross margin, as well as a higher proportion of revenues from India, which generate lower gross margins, all as compared to fiscal 2004.

Generics. Cost of revenues in this segment increased by 22.3% to Rs.1,620.4 million in fiscal 2005, as compared to Rs.1,324.5 million in fiscal 2004. Cost of revenues was 45.3% of this segment s revenues in fiscal 2005, as compared to 30.5% in fiscal 2004. The cost of revenues as a percentage of revenues increased primarily due to a decline in revenues from sales of our key products fluoxetine and tizanidine, which generate a higher gross margin compared to segment s average gross margins.

Critical Care and Biotechnology. Cost of revenues in this segment decreased by 14.7% to Rs.176.5 million in fiscal 2005, as compared to Rs.207.0 million in fiscal 2004. Cost of revenues in this segment decreased to 33.5% of this segment s revenues in fiscal 2005, as compared to 50.4% in fiscal 2004. The decrease in cost of revenues is primarily due to a decrease in input costs of certain existing products.

Table of Contents

Gross profit and gross margin

As a result of the trends described in Revenues and Cost of revenues above, our gross profit decreased by 6.0% to Rs.10,086.1 million for fiscal 2005 from Rs.10,735.1 million during fiscal 2004. Gross margin was 51.8% in fiscal 2005, as compared to 53.5% in fiscal 2004.

The gross margin for our formulations segment increased to 68.1% in fiscal 2005, as compared to 65.5% in fiscal 2004. The gross margin for our active pharmaceutical ingredients segment decreased to 27.8% in fiscal 2005, as compared to 33.1% in fiscal 2004. The gross margin for our generics segment decreased to 54.7% in fiscal 2005, as compared to 69.5% in fiscal 2004. The gross margin for our critical care and biotechnology segment was 66.5% in fiscal 2005, as compared to 49.6% in fiscal 2004.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by 3.8% to Rs.6,810.4 million in fiscal 2005, as compared to Rs.6,562.9 million in fiscal 2004. Selling, general and administrative expenditures as a percentage of total revenues were 35.0% for fiscal 2005 as compared to 32.7% for fiscal 2004. This increase is largely due to an increase in employee costs, which was largely offset by a decrease in legal and professional expenses. Employee costs increased by 21.5% to Rs.2,062.5 million in fiscal 2005, as compared to Rs.1,697.0 million in fiscal 2004, primarily due to annual salary increases and market corrections as well as an increase in the number of employees in our international offices. Legal and professional expenses decreased by 24.1% to Rs.995.0 million in fiscal 2005, as compared to Rs.1,311.0 million in fiscal 2004, primarily due to lower legal and consultancy activity during fiscal 2005.

Research and development expenses

Research and development costs increased by 40.8% to Rs.2,803.3 million for fiscal 2005, as compared to Rs.1,991.6 million for fiscal 2004. As a percentage of revenue, research and development expenditure accounted for 14.4% of total revenue in fiscal 2005, as compared to 9.9% in fiscal 2004. The increase was primarily on account of a charge of Rs.277.0 million recorded against research and development in-process associated with our acquisition of Trigenesis Therapeutics, Inc., international clinical trials in our drug discovery segment and an increase in research and development activity in our active pharmaceutical ingredients and intermediates, formulations, generics and biotechnology businesses. During the year, we entered into a research and development partnership agreement with I-VEN Pharma Capital Limited (I-VEN) for the development and commercialization of ANDA s to be filed in the U.S. in 2004-05 and 2005-06. Under the terms of the agreement, we received U.S.$22.5 million in March 2005 of which U.S.$2.2 million was recorded as a reduction in research and development expense in fiscal 2005.

Amortization expenses

Amortization expenses decreased by 8.6% to Rs.350.0 million in fiscal 2005, as compared to Rs.382.9 million in fiscal 2004. The decrease was primarily on account of higher amortization of our acquired brands and other intangibles in fiscal 2004.

Foreign exchange gain/loss

Foreign exchange loss was Rs.488.8 million for fiscal 2005 as compared to a gain of Rs.282.4 million for fiscal 2004. The loss was mainly on account of losses resulting from marking to market of our forward derivative contracts partially offset by gains realized on maturity of these forward derivative contracts.

Operating income

As a result of the foregoing, our operating loss was at Rs.366.5 million in fiscal 2005, as compared to an operating gain of Rs.2,080.0 million in fiscal 2004. Operating loss as a percentage of total revenues was 1.9% in fiscal 2005, as compared to 10.4% in fiscal 2004.

Table of Contents

Other (expense)/income, net

For fiscal 2005 our other income was Rs.531.6 million, as compared to Rs.504.2 million for fiscal 2004. This includes net interest income of Rs.272 million in fiscal 2005 as compared to Rs.406.8 million in fiscal 2004. This decrease in net interest income was partially offset by an increase in income from sale of investments by Rs.90.4 million. There was also a loss resulting from the sale of fixed assets in Pondicherry, India in our formulations business and certain other assets during fiscal 2004. No such loss was recorded in fiscal 2005.

Equity in loss of affiliates

Equity in loss of affiliates increased by Rs.13.7 million to Rs.58.1 million for fiscal 2005 from Rs.44.4 million for fiscal 2004, primarily due to an increase in loss pick up in Kunshan Rotam Reddy Pharmaceuticals, which is accounted under the equity investee method.

Income before income taxes and minority interest

As a result of the foregoing, income before income taxes and minority interest decreased by 95.8% to Rs.107.0 million in fiscal 2005, as compared to Rs.2,540.3 million in fiscal 2004. As a percentage of revenues, income before income taxes and minority interest was 0.5% of revenues in fiscal 2005, as compared to 12.6% of revenues in fiscal 2004.

Income tax expense

We recorded a net income tax credit of Rs.94.3 million for fiscal 2005, as compared to an expense of Rs.69.2 million for fiscal 2004. The decrease was primarily on account of a decline in overall profits; higher research and development expenditures, which are eligible for weighted tax deductions partially offset by an increase in the enacted tax rate in India from 35.875% to 36.5925%.

Minority interest

Loss attributable to minority interest for fiscal 2005 was Rs.9.9 million, as compared to Rs.3.4 million for fiscal 2004. This represents the minority interest in the losses of Dr. Reddy s Laboratories (Proprietary) Limited, our 60% subsidiary in South Africa.

Net income

As a result of the above, our net income decreased by 91.5% to Rs.211.2 million in fiscal 2005, as compared to Rs.2,474.4 million in fiscal 2004. Net income as a percentage of total revenues decreased to 1.1% in fiscal 2005 from 12.3% in fiscal 2004.

Fiscal Year Ended March 31, 2004 Compared to Fiscal Year Ended March 31, 2003

Revenues

Total revenues increased by 11.1% to Rs.20,081.2 million in fiscal 2004, as compared to Rs.18,069.8 million in fiscal 2003, primarily due to an increase in revenues in our active pharmaceutical ingredients and intermediates and formulations segments. In fiscal 2004, we received 26.5% of our revenues from the United States and Canada, 35.6% of our revenues from India, 11.4% of our revenues from Russia and other former Soviet Union countries, 13.9% of our revenues from Europe and 12.6% of our revenues from other countries.

Sales to Russia and other former Soviet Union countries increased by 8.4% to Rs.2,285.8 million in fiscal 2004, as compared to Rs.2,107.9 million in fiscal 2003. The increase was primarily driven by formulations revenues, particularly with respect to the major brands Nise, our brand of nimesulide, Keterol, our brand of ketorolac tromethamine, and Omez, our brand of omeprazole. Sales to Europe increased by 99.0% to Rs.2,788.6 million in fiscal 2004, as compared to Rs.1,401.0 million in fiscal 2003, primarily as a result of the commencement of sales of ramipril in our active pharmaceutical ingredients and intermediates segment. Sales in India increased by 10.1% to Rs.7,143.8 million in fiscal 2004, as compared to Rs.6,488.6 million in fiscal 2003, primarily due to an increase in revenues in our formulations and

Table of Contents

active pharmaceutical ingredients and intermediates segments. Sales to North America decreased by 9.1% to Rs.5,319.2 million in fiscal 2004, as compared to Rs.5,852.6 million in fiscal 2003, primarily due to a decrease in revenues in our active pharmaceutical ingredients and intermediates segment and generics segment. We made allowances for sales returns of Rs.169.5 million and Rs.193.2 million in fiscal 2004 and fiscal 2003, respectively.

Formulations. In fiscal 2004, we received 37.4% of our total revenues from the formulations segment, as compared to 38.0% in fiscal 2003. Revenues in this segment increased by 9.4% to Rs.7,507.5 million in fiscal 2004, as compared to Rs.6,860.4 million in fiscal 2003.

Sales in India constituted 63.0% of our total formulations sales in fiscal 2004, as compared to 62.7% in fiscal 2003. Sales of formulations in India increased by 9.9% to Rs.4,729.4 million in fiscal 2004, as compared to Rs.4,303.2 million in fiscal 2003. The overall increase in sales was primarily due to an increase in sales of our key brands Omez, our brand of omeprazole, Nise, our brand of nimesulide, Stamlo Beta, our brand of amlodipine and atenolol, Stamlo our brand of amlodipine, and Enam our brand of enalapril maleate.

Sales of formulations outside India increased by 8.6% to Rs.2,778.1 million in fiscal 2004, as compared to Rs.2,557.2 million in fiscal 2003. Sales of formulations in Russia accounted for 64.1% of our formulation sales outside India in fiscal 2004, as compared to 65.0% in fiscal 2003. Sales of formulations in Russia increased by 7.2% to Rs.1,781.8 million in fiscal 2004, as compared to Rs.1,661.9 million in fiscal 2003. The increase was driven by key brands such as Nise, our brand of nimesulide, Ketorol, our brand of ketorolac tromethamine, and Omez, our brand of omeprazole. Sales to other former Soviet Union countries increased by 5.1% to Rs.452.3 million for fiscal 2004 as compared to Rs.430.4 million for fiscal 2003, primarily driven by an increase in sales in Ukraine and Kazakhstan, which increase has been partially offset by decrease in sales in Belarus, Uzbekistan and Kyrgyzstan.

Active Pharmaceutical Ingredients and Intermediates. In fiscal 2004, we received 38.0% of our total revenues from this segment as compared to 35.1% in fiscal 2003. Revenues in this segment increased by 20.3% to Rs.7,628.5 million in fiscal 2004, as compared to Rs.6,340.7 million in fiscal 2003.

During fiscal 2004, sales in India accounted for 27.7% of our revenues from this segment, as compared to 27.6% in fiscal 2003. Sales in India increased by 20.9% to Rs.2,115.1 million in fiscal 2004, as compared to Rs.1,749.1 million in fiscal 2003. This increase was primarily due to an increase in sales volumes of ciprofloxacin, atorvastatin, norfloxacin, losartan potassium, ibuprofen and ranitidine hydrochloride.

Sales outside India increased by 20.1% to Rs.5,513.4 million in fiscal 2004, as compared to Rs.4,591.6 million in fiscal 2003. Sales in Europe increased by 249.1% to Rs.1,626.9 million in fiscal 2004, as compared to Rs.466.0 million in fiscal 2003 primarily due to our launch of ramipril, which contributed Rs.1,238.0 million in revenue. Sales in North America decreased by 20.6% to Rs.1,902.9 million in fiscal 2004, as compared to Rs.2,397.7 million in fiscal 2003, primarily due to a decrease in sales of nizatidine by Rs.480.5 million. This decline was primarily on account of a decline in sales volumes.

Generics. In fiscal 2004, we received 21.6% of our total revenues from this segment, as compared to 23.7% in fiscal 2003. Revenues increased by 1.2% to Rs.4,337.5 million in fiscal 2004, as compared to Rs.4,284.2 million in fiscal 2003. Sales in North America decreased by 1.3% to Rs.3,398.6 million in fiscal 2004, as compared to Rs.3,444.9 million in fiscal 2003. This was primarily on account of increased competition for tizanidine and fluoxetine. Together, these products contributed Rs.2,402.8 million in revenue in fiscal 2004 compared to Rs.2,567.1 million in fiscal 2003. This decline was partially offset by the contribution from sales of new products such as ibuprofen (sales commenced in January 2003) and nefazodone (sales commenced in September 2003). Sales in Europe increased by 14.3% to Rs.929.9 million in fiscal 2004, as compared to Rs.813.9 million in fiscal 2003, primarily due to an increase in revenues from omeprazole capsules. This revenue increase was due to an increase in sales volumes for that product, which was partially offset by a reduction in its price. We commenced sales of amlodipine maleate in the U.K. in March 2004, and recorded revenues of Rs.17.7 million in fiscal 2004 for this product.

Diagnostics, Critical Care and Biotechnology. We received 2.0% of our total revenues from this segment in fiscal 2004 as compared to 2.4% in fiscal 2003. Revenues in this segment decreased to Rs.411.0 million in fiscal 2004, as compared to Rs.428.2 million in fiscal 2003.

Revenues in this segment decreased primarily due to a decrease in revenues from our diagnostics division to Rs.9.1 million for fiscal 2004, as compared to Rs.136.8 million for fiscal 2003, due to discontinuation of the trading operations of

Table of Contents

the diagnostics division in fiscal 2004. This decrease was partially offset by an increase in sales from our critical care division by Rs.89.7 million, primarily on account of an increase in exports. The increase in exports was primarily due to increases in sales volumes of Docetere (20 mg and 80 mg) and Mitotax (30 mg, 100 mg and 250 mg) and commencement of the sales of our oncology products in Brazil. The decrease in revenue in this division was also partially offset by an increase in revenues of the biotechnology division by Rs.20.8 million, primarily due to an increase in sales volumes of Grastim, our brand of filgrastim.

Others. Revenues from drug discovery and our other businesses constituted an insignificant portion of our total revenues for fiscal 2004 and fiscal 2003.

Cost of revenues

Cost of revenues increased by 19.1% to Rs.9,346.1 million for fiscal 2004, as compared to Rs.7,847.6 million for fiscal 2003. Cost of revenues as a percentage of total revenues was 46.5% for fiscal 2004, as compared to 43.4% for fiscal 2003.

Formulations. Cost of revenues in this segment was 34.5% of formulations revenues for fiscal 2004, as compared to 35.9% of formulations revenues for fiscal 2003. In absolute terms, cost of revenues increased by 5.1% to Rs.2,586.5 million in fiscal 2004, as compared to Rs.2,460.2 million in fiscal 2003. The decrease in cost of revenues as a percentage of sales was primarily attributable to a decrease in the cost of raw materials and a decrease in excise duty expenses. The decrease in excise duty expenses was due to a change in the method used to calculate the excise duties owed for products manufactured at third party manufacturing locations and product samples manufactured at our own plants. We changed from the selling price method of calculation of excise duties to the cost construction method, which is based upon the cost to us of materials and conversion to finished product. This change in calculation method was permitted as a result of a notice issued by the Indian Central Excise Authorities.

Active Pharmaceutical Ingredients and Intermediates. Cost of revenues in this segment has increased to 66.9% of this segment s revenues in fiscal 2004, as compared to 62.1% of the segment s revenues in fiscal 2003. In absolute terms, cost of revenues increased by 29.5% to Rs.5,102.4 million in fiscal 2004, as compared to Rs.3,938.7 million in fiscal 2003. The increase was primarily due to a decrease in sales to North America, on which we earn a higher margin as compared to the average gross margin of this segment.

Generics. Cost of revenues was 30.5% of this segment s revenues in fiscal 2004, as compared to 24.8% in fiscal 2003. In absolute terms, cost of revenues increased by 24.9% to Rs.1,324.5 million in fiscal 2004, as compared to Rs.1,060.7 million in fiscal 2003. The cost of revenues as a percentage of sales increased, primarily due to reduced sales of fluoxetine and omeprazole, on which we earn a higher margin as compared to the average gross margin of this segment.

Diagnostics, Critical Care and Biotechnology. Cost of revenues in this segment decreased to 50.4% of this segment s revenues in fiscal 2004, as compared to 54.7% in fiscal 2003. Cost of revenues decreased by 11.7% to Rs.207.0 million in fiscal 2004, as compared to Rs.234.4 million in fiscal 2003, primarily on account of discontinuation of trading operations of the diagnostics division and, to a lesser extent, a decrease in excise duties. This decrease in cost of revenues was partially offset by an increase in material consumption at our critical care and biotechnology divisions. The decrease in excise duties was primarily due to a change in central excise rules whereby the duties on four products (Irnotecan, Pamired, Cytogem and Grastim) were eliminated.

Gross profit

As a result of the factors described in Revenues and Cost of revenues above, our gross profit increased by 5.0% to Rs.10,735.1 million for fiscal 2004, as compared to Rs.10,222.2 million for fiscal 2003. Gross margin was 53.5% in fiscal 2004, as compared to 56.6% in fiscal 2003.

Gross margin of the formulations segment increased to 65.5% in fiscal 2004, as compared to 64.1% in fiscal 2003. The gross margin for our active pharmaceutical ingredients segment decreased to 33.1% in fiscal 2004, as compared to 37.9% in fiscal 2003. The gross margin for our generics segment decreased to 69.5% in fiscal 2004, as compared to 75.2% in fiscal 2003. The gross margin for our diagnostics, critical care and biotechnology segment was 49.6% in fiscal 2004, as compared to 45.3% in fiscal 2003.

Selling, general and administrative expenses

Table of Contents

Selling, general and administrative expenditures as a percentage of total revenues were 32.7% for fiscal 2004 as compared to 28.2% for fiscal 2003. Selling, general and administrative expenses increased by 28.6% to Rs.6,562.9 million in fiscal 2004, as compared to Rs.5,103.2 million in fiscal 2003. This increase was largely due to an increase in legal and consultancy expenses, insurance expenses, marketing expenses and employee costs. Legal and consultancy expenditures increased by Rs.357.4 million, primarily on account of expenses relating to various patent challenges as well as regulatory submissions coupled with consultancy expenses related to the amlodipine maleate product. These consultancy expenses were incurred as we were preparing to commence sales of amlodipine maleate as the initial product for our specialty products business in the U.S. Insurance expenditure increased by Rs.131.0 million primarily due to higher product liability insurance costs. Selling and marketing expenses increased by 30.6% to Rs.2,316.1 million for fiscal 2004 from Rs.1,806.4 million for fiscal 2003 due to an increase in carriage outwards (i.e., transportation) expenses, marketing expenses incurred for the amlodipine maleate product and a provision of Rs.183.6 million related to our dispute regarding the application of Indian price controls to our norfloxacin product). Employee costs have increased by 25.5% to Rs.1,699.6 million in fiscal 2004, as compared to Rs.1,353.9 million in fiscal 2003. This increase in employee costs was primarily due to an increase in the number of employees, including key recruitments at senior levels, and an increase in compensation costs attributable to market factors.

Research and development expenses

Research and development expenditures increased by 41.1% to Rs.1,991.6 million for fiscal 2004, as compared to Rs.1,411.8 million for fiscal 2003. As a percentage of revenue, research and development expenditure is at 9.9% of total revenue in fiscal 2004 as compared to 7.8% in fiscal 2003. The increase was primarily on account of an increase in expenses incurred in the generics segment (including the specialty area) relating to product development and bio-studies. We invested Rs.729.3 million in drug discovery in fiscal 2004 as compared to Rs.480.1 million in fiscal 2003. This increase was primarily on account of an increase in expenditures on clinical trials in drug discovery and an increase in employee costs.

Amortization expenses

Amortization expenses decreased by 8.7% to Rs.382.9 million in fiscal 2004, as compared to Rs.419.4 million in fiscal 2003. The decrease was primarily on account of higher amortization of our acquired dental brands in India and other intangibles in fiscal 2003.

Foreign exchange gain/loss

Foreign exchange gain was Rs.282.4 million for fiscal 2004 as compared to a loss of Rs.70.1 million for fiscal 2003. The gain was mainly due to gains from marking to market of our forward derivative contracts and gains realized on maturity of these forward derivative contracts, partially offset by losses due to exchange rate factors.

Table of Contents

Operating income

As a result of the foregoing, our operating income decreased by 35.3% to Rs.2,080.2 million in fiscal 2004, as compared to Rs.3,217.6 million in fiscal 2003. Operating income as a percentage of total revenues was 10.4% in fiscal 2004, as compared to 17.8% in fiscal 2003.

Other income, net

For fiscal 2004 our other income was Rs.504.2 million, as compared to Rs.683.1 million for fiscal 2003. Interest income increased by 23.1% to Rs.421.8 million in fiscal 2004, as compared to Rs.342.5 million in fiscal 2003. This increase is on account of an increase in interest income on fixed deposits and debentures of Rs.79.2 million. This increase in interest income was partially offset by a loss of Rs.58.4 million recognized upon our sale of 51% of the equity of Compact Electric Limited, which was previously a wholly owned subsidiary and is now only 49% owned by us.

Equity in loss of affiliates

Equity in loss of affiliates decreased by Rs.47.7 million to Rs.44.4 million for fiscal 2004 from Rs.92.1 million for fiscal 2003. This decrease was primarily due to a decrease in loss pick up in Kunshan Rotam Reddy Pharmaceuticals, our joint venture in China, and the absence of a loss pickup in Pathnet India Pvt. Limited, our equity investee in India, as occurred in fiscal 2003. The entire investment in Pathnet was written down to zero in fiscal 2003.

Income before income taxes and minority interest

As a result of the foregoing, income before income taxes and minority interest decreased by 33.3% to Rs.2,540.0 million in fiscal 2004, as compared to Rs.3,808.6 million in fiscal 2003. As a percentage of revenues, income before income taxes and minority interest was 12.6% of revenues in fiscal 2004, as compared to 21.1% of revenues in fiscal 2003.

Income tax expense

We recorded an income tax expense of Rs.69.2 million for fiscal 2004, as compared to Rs.398.0 million for fiscal 2003. Our effective tax rate has decreased to 2.7% for fiscal 2004 from 10.5% for fiscal 2003. This decrease was primarily on account of an increase in profits from units set up in backward areas, which have tax concessions; higher research and development expenditures, which are eligible for weighted tax deductions; and reduction of enacted tax rate in India from 36.75% to 35.875%. However the decreased income tax expense was partly offset by a reduction in tax concessions related to export earnings.

Minority interest

Loss attributable to minority interest for fiscal 2004 was Rs.3.4 million as compared to profit attributable to minority interest of Rs.6.7 million for fiscal 2003. In fiscal 2004, there was no minority interest attributable to OOO JV Reddy Biomed Limited, which is now a 100% subsidiary as a result of our acquisition of the remaining equity interests in fiscal 2003. In fiscal 2004, the minority interest represented a minority interest in the losses of Dr. Reddy s Laboratories (Proprietary) Limited, our 60% subsidiary in South Africa.

Net income

As a result of the above, our net income decreased by 27.3% to Rs.2,474.2 million in fiscal 2004, as compared to Rs.3,403.9 million in fiscal 2003. Net income as a percentage of total revenues decreased to 12.3% in fiscal 2004 from 18.8% in fiscal 2003.

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151, Amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4 on Inventory Costs. SFAS 151 amends and clarifies financial accounting and reporting for inventory costs. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We are evaluating the impact of adoption of SFAS 151 on our consolidated financial statements.

Table of Contents

In December 2004, the FASB issued SFAS No. 123R (revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R is an amendment of FASB statement No. 123, Accounting for Stock-Based Compensation. This statement also supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. Pursuant to the Securities and Exchange Commission Release No. 33-8568, we are required to adopt SFAS 123R effective as of April 1, 2006. Adoption of SFAS 123R will not have any material impact on our consolidated financial statements, as we have already adopted fair value accounting under SFAS 123.

Critical Accounting Policies

Critical accounting policies are those most important to the portrayal of our financial condition and results and that require the most exercise of our judgment. We consider the policies discussed under the following paragraphs to be critical for an understanding of our financial statements. Our significant accounting policies and application of these are discussed in detail in Note 2 to the Consolidated Financial Statements.

Accounting Estimates

While preparing financial statements we make estimates and assumptions that affect the reported amount of assets, liabilities, disclosure of contingent liabilities at the balance sheet date and the reported amount of revenues and expenses for the reporting period. Financial reporting results rely on our estimate of the effect of certain matters that are inherently uncertain. Future events rarely develop exactly as forecast and the best estimates require adjustments, as actual results may differ from these estimates under different assumptions or conditions. We continually evaluate these estimates and assumptions based on the most recently available information. Specifically, we make estimates of:

the useful life of property, plant and equipment;

impairment of long-lived assets, including identifiable intangibles and goodwill;

our future obligations under employee retirement and benefit plans;

allowances for sales returns;

allowances for doubtful accounts receivable; and

inventory write-downs.

We depreciate property, plant and equipment over their useful lives using the straight-line method. Estimates of useful life are subject to changes in economic environment and different assumptions. Assets under capital leases are amortized over their estimated useful life or lease term as appropriate. We review long-lived assets, including identifiable intangibles and goodwill, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We measure recoverability of assets to be held and used by comparing the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual outcomes could vary significantly from such estimates. Factors such as changes in the planned use of buildings, machinery or equipment or lower than anticipated sales for products with capitalized rights could result in shortened useful lives or impairment.

In accordance with applicable Indian laws, we provide a defined benefit retirement plan (Gratuity Plan) covering certain categories of employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment, in an amount based on the respective employee s last drawn salary and the years of employment with us. Liabilities with regard to the Gratuity Plan are determined by an actuarial valuation, based upon which we make contributions to the Gratuity Fund. In calculating the expense and liability related to the plans, assumptions are made about the discount rate, expected rate of return on plan assets, withdrawal and mortality rates and rate of future compensation increases as determined by us, within certain guidelines. The assumptions used may differ materially from actual results, resulting in a probable significant impact to the amount of expense recorded by

us.

Table of Contents

Allowances for sales returns are estimated and provided for in the year of sales. Such allowances are made based on our historical trends. We have the ability to make a reasonable estimate of the amount of future returns due to our large volume of homogeneous transactions and historical experience with similar types of sales of products. In respect of new products for which sales have commenced or are expected to commence, the sales returns are not expected to be different from the existing products as such products relate to the therapeutic categories where established products exist and are sold in the market. Further, we evaluate the sales returns of all products at the end of each reporting period and necessary adjustments, if any, are made. However, no significant revisions have been determined to be necessary to date.

We make allowance for doubtful accounts receivable, including receivables sold with recourse, based on the present and prospective financial condition of the customer and ageing of the accounts receivable after considering historical experience and the current economic environment. Actual losses due to doubtful accounts may differ from the allowances made. However, we believe that such losses will not materially affect our consolidated results of operations.

We provide for inventory obsolescence, expired inventory and inventories with carrying values in excess of realizable values based on our assessment of future demands, market conditions and our specific inventory management initiatives. If the market conditions and actual demands are less favorable than our estimates, additional inventory write-downs may be required. In all cases, inventory is carried at the lower of historical costs or realizable value.

Revenue Recognition

Product sales: Revenue is recognized when significant risks and rewards in respect of ownership of products are transferred to the customer, generally, the stockists or the formulations manufacturers, and when the following criteria are met:

Persuasive evidence of an arrangement exists;

The price to the buyer is fixed and determinable; and

Collectibility of the sales price is reasonably assured.

Revenue from domestic sales of formulation products is recognized on dispatch of the product to the stockist by our consignment and clearing and forwarding agent. Revenue from domestic sales of active pharmaceutical ingredients and intermediates is recognized on dispatch of products to customers from our factories. Revenue from export sales is recognized when significant risks and rewards are transferred to the customer, generally upon shipment of products.

Revenue from product sales includes excise duties and is shown net of sales tax and applicable discounts and allowances.

Sales of formulations in India are made through clearing and forwarding agents to stockists. Significant risks and rewards in respect of ownership of formulation products is transferred by us when the goods are shipped to stockists from clearing and forwarding agents. Clearing and forwarding agents are generally compensated on a commission basis as a percentage of sales made by them.

Sales of active pharmaceutical ingredients and intermediates in India are made directly to the end customers, generally formulation manufacturers, from the factories. Sales of formulations and active pharmaceutical ingredients and intermediates outside India are made directly to the end customers, generally stockists or formulations manufacturers, from us or our consolidated subsidiaries.

We have entered into marketing arrangements with certain marketing partners for the sale of goods. Under such arrangements, we sell generic products to the marketing partners at a price agreed in the arrangement. Revenue is recognized on these transactions upon delivery of products to the marketing partners as all the conditions under Staff Accounting Bulletin No.104 (SAB 104) are then met. Subsequently, the marketing partners remit an additional amount upon further sales made by them to the end customer. Such amount is determined as per the terms of the arrangement and is recognized by us when the realization is certain under the guidance given in SAB 104.

We have entered into certain dossier sales, licensing and supply arrangements that include certain performance obligations. Based on an evaluation of whether or not these obligations are inconsequential or perfunctory, we defer the upfront payments received towards these arrangements. Such deferred amounts are recognized in the income

statement in the period in which we complete our remaining performance obligations. Allowances for sales returns are estimated and provided for in the year of sales. Such allowances are made based on historical trends. We have the ability to make a

Table of Contents

reasonable estimate of the amount of future returns due to large volumes of homogeneous transactions and historical experience with similar types of sales of products. In respect of new products for which sales have commenced or are expected to commence, the sales returns are not expected to be different from the existing products as such products relate to the therapeutic categories where established products exist and are sold in the market. Further, we evaluate the sales returns of all the products at the end of each reporting period and necessary adjustments, if any, are made. However, no significant revisions have been determined to be necessary to date.

License fees: Non-refundable milestone payments are recognized in the statement of income when earned, in accordance with the terms prescribed in the license agreement, and where we have no future obligations or continuing involvement pursuant to such milestone payment. Non-refundable up-front license fees are deferred and recognized when the milestones are earned, in proportion that the amount of each milestone earned bears to the total milestone amounts agreed in the license agreement. As the upfront license fees are a composite amount and cannot be attributed to a specific molecule, they are amortized over the development period. The milestone payments during the development period increase as the risk involved decreases. The agreed milestone payments reflect the progress of the development of the molecule and may not be spread evenly over the development period. Further, the milestone payments are a fair representation of the extent of progress made in the development of these molecules. Hence, the upfront license fees are amortized over the development period in proportion to the milestone payments received. In the event the development is discontinued, the corresponding amount of deferred revenue is recognized in the income statement in the period in which the project is effectively terminated.

Stock Based Compensation

We use the Black-Scholes option pricing model to determine the fair value of each option grant. The Black-Scholes model includes assumptions regarding dividend yields, expected volatility, expected lives and risk free interest rates. These assumptions reflect our best estimates, but these assumptions involve inherent market uncertainties based on market conditions generally outside of our control. As a result, if other assumptions had been used in the current period, stock-based compensation expense could have been materially impacted. Furthermore, if we use different assumptions in future periods, stock based compensation expense could be materially impacted in future years.

The fair value of each option is estimated on the date of grant using the Black-Scholes model with the following assumptions:

	Fiscal Year Ended March 31,		
	2003	**2004**	**2005**
Dividend yield	0.4%	0.5%	0.5%
Expected life	42-78 months	42-78 months	12-78 months
Risk free interest rates	5.8-6.8%	5.2-6.8%	4.5-6.7%
Volatility	49.8-50.7%	45.7-50.7%	39.4-44.6%

At March 31, 2005, we had three stock-based employee compensation plans, which are described more fully in Note 21 to the Consolidated Financial Statements. Prior to April 1, 2003, we accounted for our plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost was reflected in previously reported results, as all options granted under those plans had an exercise price equal to the market value of the underlying equity shares on the date of grant. During the first quarter of fiscal 2004, we adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock- Based Compensation, for stock-based employee compensation. We have selected the retroactive method of adoption described in SFAS No. 148 Accounting for Stock Based Compensation Transition and Disclosure for all options granted after January 1, 1995. Consequently, for the years ended March 31, 2003, 2004 and 2005, an amount of Rs.128.5 million, Rs.122.2 million and Rs.144.0 million respectively, has been recorded as total employee stock based compensation expense.

During fiscal 2004, Aurigene Discovery Technologies Limited adopted two stock based employee compensation plans, which are described more fully in Note 21 to the Consolidated Financial Statements. We have accounted for these plans under SFAS No. 123, using the Black Scholes option pricing model to determine the fair value of each option grant.

Deferred Taxes

Table of Contents

Deferred taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of operations in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits the future realization of which is uncertain.

Functional Currency

Our foreign subsidiaries have different functional currencies, determined based on the currency of the primary economic environment in which they operate. For subsidiaries that operate in a highly inflationary economy, the functional currency is determined as the Indian rupee. Due to various subsidiaries operating in different geographic locations, a significant level of judgment is involved in evaluating the functional currency for each subsidiary.

In respect of our foreign subsidiaries which market our products in their respective countries/regions, the functional currency has been determined as Indian rupee, based on an individual and collective evaluation of the various economic factors listed below.

The operations of these foreign subsidiaries are largely restricted to importing finished goods from us in India, sale of these products in the foreign country and remitting the sale proceeds to us. The cash flows realized from sale of goods are readily available for remittance to us and cash is remitted to us on a regular basis. The costs incurred by these subsidiaries are primarily the cost of goods imported from us. The financing of these subsidiaries is done directly or indirectly by us.

In respect of other subsidiaries, the functional currency is determined as the local currency, being the currency of the primary economic environment in which they operate.

Income Taxes

As part of the process of preparing our financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. We are subject to tax assessments in each of these jurisdictions. A tax assessment can involve complex issues, which can only be resolved over extended time periods. Additionally, the provision for income tax is calculated based on our assumptions as to our entitlement to various benefits under the applicable tax laws in the jurisdictions in which we operate. The entitlement to such benefits depends upon our compliance with the terms and conditions set out in these laws. Although we have considered all these issues in estimating our income taxes, there could be an unfavorable resolution of such issues that may affect our results of operations.

We also assess the temporary differences resulting from differential treatment of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are recognized in our consolidated financial statements. We also assess our deferred tax assets on an ongoing basis by assessing our valuation allowance we consider the future taxable incomes and the feasibility of tax planning initiatives. If we estimate that the deferred tax assets cannot be realized at the recorded value, a valuation allowance is created with a charge to the statement of income in the period in which such assessment is made.

Litigation

We are involved in various lawsuits, claims, investigations and proceedings, including ANDA filings and other patent and commercial matters, which arise in the ordinary course of our business. However, we evaluate specific risks related to the foregoing based on current conditions and, at the balance sheet date, there are no such matters pending that we expect to be material in relation to our business.

5.B. ***Liquidity and capital resources***

Liquidity

Table of Contents

We have primarily financed our operations through cash flows generated from operations and, to a lesser extent, through short-term borrowings for working capital. Our principal liquidity and capital needs are for making investments, the purchase of property, plant and equipment, regular business operations and drug discovery.

Our principal sources of short-term liquidity are our existing cash and internally generated funds, which we believe are sufficient to meet our working capital requirements and anticipated capital expenditures over the near term. As part of our growth strategy, we continue to review opportunities to acquire companies, complementary technologies or product rights. To the extent that any such acquisitions involve significant cash payments, rather than the issuance of shares, we may need to borrow from banks or raise additional funds from the debt or equity markets.

The following table summarizes our statements of cash flows for the periods presented:

	Fiscal Year Ended March 31,			
	2003	2004	2005	2005
	(Rs. in million, U.S.$ in thousands)			
Net cash provided by /(used in):				
Operating activities	Rs.4,366.7	Rs.3,999.2	Rs.2,291.6	U.S.$52,536
Investing activities	(1,954.7)	(6,506.1)	632.9	14,509
Financing activities	(153.0)	(376.1)	1,931.3	44,276
Effect of exchange rate changes on cash	(95.0)	(14.2)	55.8	1,279
Net increase / (decrease) in cash and cash equivalents	Rs.2,164.0	Rs.(2,897.2)	Rs.4,911.6	U.S.$112,600

Cash Flow From Operating Activities

Net cash provided by operating activities decreased from Rs.3,999.2 million in fiscal 2004 to Rs.2,291.6 million in fiscal 2005. Net cash provided by operating activities consisted primarily of net income including adjustments for non-cash items and changes in working capital.

Our cash flow from operating activities decreased primarily due to a decrease in net income in fiscal 2005 to Rs.211.2 million, as compared to Rs.2,474.2 million in fiscal 2004. Our net working capital decreased by Rs.401.6 million, primarily due to inflows from higher collections from customers, receipt of Rs.985.4 million under the agreement with I-VEN Pharma Capital Limited and outflows on account of a decrease in trade payables and an increase in inventories by Rs.468 million. The reduction in trade payables was primarily due to the reduction in days of credit outstanding for trade creditors for fiscal 2005 and the increase in inventories was primarily due to higher purchases in anticipation of sales in our formulations and active pharmaceutical ingredients and intermediates businesses.

Cash Flow From Investment Activities

Cash inflow from investment activities was Rs.618.3 million for the fiscal year ended March 31, 2005, primarily due to redemption of investment securities amounting to Rs.2,225.3 million. This increase was partially offset by expenditures in property, plant and equipment amounting to Rs.727.2 million and the acquisition of Trigenesis Therapeutics Inc. for Rs.535.7 million.

Cash Flows From Financing Activities

Net cash provided by financing activities for the fiscal ended March 31, 2005 was Rs.1,931.3 million primarily due to short-term borrowings in foreign currency from banks amounting to Rs.2,520.0 million. This was partially offset by repayment of long-term debt amounting to Rs.157.5 million and dividends paid during the year amounting to Rs.431.6 million.

Principal obligations

The following table summarizes our principal debt obligations outstanding as of March 31, 2005:

Table of Contents

	Payments due by period (Rs. in millions)					
Financial Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**	**Annual Interest Rate**
Short-term borrowings from banks	2,796.3	2,796.3				LIBOR + 60 to 65bps for FC denominated loans and 10.25% for Indian Rupee borrowings
Long term debt	31.1	5.9	11.8	11.8	1.6	2%*
....current portion	5.9	5.9				
....Non current portion	25.2		11.8	11.8	1.6	

* Loan received at a subsidized rate of interest from Indian Renewable Energy Development Agency Limited promoting use of alternative sources of energy.

Subject to obtaining certain regulatory approvals, there are no legal or economic restrictions on the transfer of funds between us and our subsidiaries or for the transfer of funds in the form of cash dividends, loans or advances.

The maturities of our short-term borrowings from banks vary from one month to approximately six months. Our objective in determining the borrowing maturity is to ensure a balance between flexibility, cost and the continuing availability of funds. All of our debts except for short-term working capital loans from banks are at fixed rates of interest.

Cash and cash equivalents are held in Indian rupees, U.S. dollars, U.K. pounds sterling, Singapore dollars, Brazilian real, Euros, Russian roubles, Chinese yuan, South African rand and Hong Kong dollars.

As of March 31, 2004 and 2005, we had committed to spend approximately Rs.418.0 million and Rs.192.2 million, respectively, under agreements to purchase property and equipment and other capital commitments. These amounts are net of capital advances paid in respect of such purchases and we anticipate funding them from internally generated funds.

5.C. Research and development, patents and licenses, etc.

Research and Development

Our research and development activities can be classified into several categories, which run parallel to the activities in our principal areas of operations:

- Formulations, where our research and development activities are directed at the development of product formulations, process validation, bioequivalency testing and other data needed to prepare a growing list of drugs that are equivalent to numerous brand name products for sale in the emerging markets.
- Active pharmaceutical ingredients and intermediates, where our research and development activities concentrate on development of chemical processes for the synthesis of active pharmaceutical ingredients for use in our generics and formulations segments and for sales in the emerging and developed markets to third parties.
- Generics, where our research and development activities are directed at the development of product formulations, process validation, bioequivalency testing and other data needed to prepare a growing list of drugs that are equivalent to numerous brand name products whose patents and regulatory exclusivity periods have expired or are nearing expiration in the regulated markets of the United States and Europe.

During fiscal 2004, we integrated the product development capabilities in our API, generics and formulations segments to increase our focus on productivity and product delivery, by combining technical excellence with process excellence. We also strengthened our technical, intellectual property and legal skills to enhance our new product development process. This will help us leverage our core technology strengths in chemistry and formulation development with legal, regulatory and intellectual property management expertise to expand our product pipeline.

- Critical care and biotechnology, where research and development activities are directed at the development of oncology and biotechnology products for the emerging as well as regulated markets. Our new biotechnology research and development facility caters to the highest development standards, including cGMP, Good Laboratory Practices

Table of Contents

and bio-safety level IIA). We are in the process of building our bio-generics pipeline. During fiscal 2005, we entered into an agreement with a U.S. based biotechnology company for the development of a bio-generics portfolio.

Custom pharmaceutical services, where we intend to leverage the strength of our process chemistry and finished dosage development expertise to target innovator as well as emerging pharmaceutical companies. The research and development is directed toward providing services to support the entire pharmaceutical value chain from discovery all the way to the market.

Drug discovery, where we are actively pursuing discovery and development of NCEs. Our research programs focus on the following therapeutic areas:

- Metabolic disorders
- Cardiovascular disorders
- Cancer
- Bacterial infections

In fiscal 2003, 2004 and 2005, we expended Rs.1,411.8 million, Rs.1,991.6 million and Rs.2,803.3 million, respectively, on research and development activities.

Patents, Trademarks and Licenses

We have filed and been issued several patents in our principal areas of operations: drug discovery, active pharmaceutical ingredients and intermediates and generics. We expect to continue to file patent applications seeking to protect our innovations and novel processes in several countries, including the United States. Any existing or future patents issued to or licensed by us may not provide us with any competitive advantages for our products or may even be challenged, invalidated or circumvented by our competitors. In addition, such patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products. We have filed over 600 trademarks with the Registrar of Trademarks in India. We also have made application for registration for non-U.S. trademarks in other countries in which we do business. We market several products under licenses in several countries where we operate.

5.D. Trend information

Fiscal year 2006 will be another challenging year for us as we continue to implement our long-term strategy of being a discovery-led global pharmaceutical company.

Formulations. According to the Operations Research Group International Medical Statistics (ORG IMS) Annual Report 2004, the Indian retail pharmaceutical market, valued at Rs.205 billion for the twelve-month period ending December 31, 2004, grew by 6.4%. Much of this growth was driven by the contribution from new products launched in the 24 month period ending on December 31, 2004. Downward pressure on prices continues to negatively impact the market, although the magnitude of the resulting decline in prices has gone down to 0.2% as compared to 0.7% in 2003.

Some of the readily apparent changes in our industry are as follows:

- § Introduction of the product patent regime with effect from January 1, 2005
- § Implementation of the Value Added Tax (VAT) system with effect from April 1, 2005
- § Introduction of the Maximum Retail Price (MRP) based excise duty structure for the pharmaceutical industry
- § Higher investments of Indian companies in research and development as well as in new product launches
- § Improvement in performance of multi-national corporations (MNCs) and increasing interest of top global innovators as well as generic companies in India

In 2004, although Indian based companies dominated the Indian market with 77% of the market share, the MNCs improved their performance. The implementation of the product patent regime has triggered MNCs to enter or plan to

enter the market. The top global MNCs have established a direct or indirect presence in India either through product introduction for sales and marketing, establishment of manufacturing facilities or alliances with existing manufacturing facilities and entry into new segments like clinical research organizations and biotechnology. During fiscal 2005, key global generic players also evidenced greater interest in establishing manufacturing presence in India. The market is also undergoing a

Table of Contents

change in the way that Indian companies are operating. Indian companies have formed alliances with partners to leverage on their core strengths and consolidate operations. The results of the consolidation efforts are seen in the increased market share realized by the top ten Indian pharmaceutical companies in the last two years. Along with the changes in the competitive structure, the market has also shifted towards lifestyle disorders as the ailment pattern in India has migrated to lifestyle disorders. It is notable that chronic therapies now account for close to 24% of the market and was growing at the end of 2004 at 12% per year. While the growth of our revenues in India for fiscal 2005 was below industry average, in fiscal 2006, the momentum of our new product launches in the last three years including fiscal 2006 as well as the recovery from the loss of sales in March 2005 due to the implementation in India of the value added tax is expected to drive revenue growth.

On March 22, 2005, the government of India passed the Patents (Amendment) Bill 2005 (the Amendment), introducing a product patent regime for food, chemicals and pharmaceuticals in India. The Amendment specifically provides that new medicines (patentability of which is not specifically excluded) for which a patent has been applied for in India on or after January 1, 1995 and for which a patent is granted cannot be manufactured or sold in India by other than the patent holder and its assignees and licensees. This will result in a reduction of the new product introductions in India, as well as other countries where a similar legislation has been introduced, for all Indian pharmaceutical companies engaged in the development and marketing of generic finished dosages and APIs. Processes for the manufacture of APIs and formulations were patentable in India even prior to the Amendment, so no additional impact is anticipated from patenting of such processes.

The competitive environment in the emerging markets (outside India) is changing with most countries moving towards recognizing product patents. This has the effect of reducing the window of opportunity for new product launches. In order to compete effectively in such a challenging environment, we are focusing on both our key therapeutic categories on a global basis and niche therapeutic segments. As part of our global business development program, we will continue to explore in-licensing and other opportunities to strengthen our product pipeline. In addition, we will continue to consolidate and expand our presence in Russia and other countries of the former Soviet Union.

Active Pharmaceutical Ingredients and Intermediates. In this segment, we are focused on the regulated markets of North America and Europe.

In North America and Europe, we do not anticipate commencing any significant sales of new products in fiscal 2006. The success of our existing API products in our key markets is contingent upon the extent of competition in the generics market, which we anticipate will continue to be significant.

Generics. In this segment, we are focused on the regulated markets of North America and Europe. During fiscal 2005, in the United States, our key products of fluoxetine and tizanidine were subjected to additional competition from existing market participants and this impacted the sales of these two products. In fiscal 2006, while we do not anticipate commencing any significant sales of new products, the success of our existing products is contingent upon the extent of competition in the generics market, which we anticipate will continue to be significant. Further, we expect that we will continue to expand our product pipeline for North America as well as Europe. As of March 31, 2005, we had 45 ANDAs pending approval with the U.S. FDA. This includes 29 patent challenges. The launch of these products is contingent upon the successful outcome of litigation related to such products.

Critical Care and Biotechnology. We expect that we will continue to market our existing products and develop additional products. The success of our existing products is contingent upon the extent of competition in this segment.

Drug Discovery. During fiscal 2005, we commenced the second international clinical development for our internally discovered New Chemical Entity (NCE) known as RUS 3108, our drug candidate for the treatment of atherosclerosis. As of March 31, 2005, we had concluded Phase I clinical trials on DRF 10945, our drug candidate for the treatment of dyslipidemia, while the Phase I clinical trials on RUS 3108, our drug candidate for the treatment of atherosclerosis were in progress in Ireland. As we make progress in advancing our pipeline into development, we are building capabilities in drug development. We believe this will help to enhance the value of our NCE assets. We expect to further complement our internal research and development efforts by pursing strategic partnerships and alliances in our key focus areas.

R&D Alliances. During fiscal 2005, we entered into a U.S.$56 million partnership with I-VEN Pharma Capital Limited (I-VEN) for commercialization of certain of our U.S. ANDAs. I-VEN will contribute to the funding of the development, registration and legal costs related to the commercialization of most of the U.S. ANDAs filed or to be filed in 2004-2005 and 2005-2006 on a pre-determined basis. Upon the commercialization of these products, we will pay I-VEN a royalty on net sales for a period of five years. I-VEN has already invested U.S.$22.5 million as of March 31, 2005, and has the option to invest an additional U.S.$33.5 million, in which event I-VEN will be entitled to additional royalties. We have recognized U.S.$2.2 million from the initial investment of U.S. $22.5 million as a reduction in our research and

Table of Contents

development expenses for fiscal 2005. A significant portion of the balance of such initial investment is available to reduce the research and development expenses based on the ANDA filing program and litigation milestones for fiscal 2006. Going forward, we will attempt to structure similar mutually beneficial arrangements for reducing our development risks in our Drug Discovery and Specialty businesses.

5.E. Off-Balance Sheet Arrangements

Guarantees. We adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others. The Interpretation requires that we recognize the fair value of guarantee and indemnification arrangements issued or modified by us after December 31, 2002, if these arrangements are within the scope of that Interpretation.

In addition, under previously existing generally accepted accounting principles, we continue to monitor the conditions that are subject to the guarantees and indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under the guarantees and indemnifications when those losses can be estimated.

We have only one guarantee, which was given on behalf of Pathnet India Private Limited (our joint venture with Gribbles Pathology of Australia). Pathnet, an equity investee accounted for by the equity method, secured a financial assistance of Rs.250 million from ICICI Bank Ltd. (ICICI Bank). To enhance the credit standing of Pathnet, on December 14, 2001 we issued a corporate guarantee of Rs.122.5 million in favor of ICICI Bank. In July 2005, we were released by ICICI Bank from this guarantee when our share of outstanding loan amount, Rs.21.0 million, was repaid.

5.F. Tabular Disclosure of Contractual Obligations

The following summarizes our contractual obligations as of March 31, 2005 and the effect such obligations are expected to have on our liquidity and cash flows in future periods.

		Payments Due by Period (Rs. in millions)			
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**
Financial contractual obligations					
Operating lease obligations	Rs. 591.2	74.6	149.8	139.5	227.3
Purchase obligations					
Agreements to purchase property and equipment and other capital commitments[(1)]	192.2	192.2			
Borrowings from banks	2,796.3	2,796.3			
Long term debt	31.1	5.9	11.8	11.8	1.6
....current portion	5.9	5.9			
....non current portion	25.2		11.8	11.8	1.6

(1) These amounts are net of capital advances paid in respect of such purchases and are expected to be funded from

internally
generated funds.

Table of Contents

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. *Directors and senior management*

The list of our directors and executive officers, their respective age and position as of March 31, 2005 are as follows:

Directors

Name(1)	Age (in yrs)	Position
Dr. K. Anji Reddy(2)	65	Chairman
Mr. G. V. Prasad(2),(3)	44	Chief Executive Officer and Executive Vice Chairman
Mr. Satish Reddy (2),(4)	37	Chief Operating Officer and Managing Director
Mr. Anupam Puri	59	Director
Prof. Krishna G. Palepu	52	Director
Dr. Omkar Goswami	48	Director
Mr. P.N. Devarajan	69	Director
Mr. Ravi Bhoothalingam	58	Director
Dr. V. Mohan	50	Director

(1) Except for Dr. K. Anji Reddy, Mr. G.V. Prasad and Mr. Satish Reddy, all of the directors are independent directors as defined under the New York Stock Exchange Corporate Governance guidelines and the U.S. Sarbanes Oxley Act of 2002.

(2) Full-time director.

(3) Son-in-law of Dr. K Anji Reddy.

(4) Son of Dr. K Anji Reddy.

Executive Officers

Our policy is to classify our officers as executive officers if they have membership on our Management Council. Our Management Council consists of various business and functional heads and is our senior management organization. As of March 31, 2005, the Management Council consisted of:

Name	Age (in yrs)	Position
Mr. G.V. Prasad(1)	44	Chief Executive Officer and Vice Chairman
Mr. Satish Reddy(2)	37	Chief Operating Officer and Managing Director
Mr. V.S. Vasudevan	53	Chief Financial Officer
Mr. Abhijit Mukherjee	46	President Developing Businesses
Mr. Alan Shepard	57	Executive Vice President Europe
Mr. Andrew Miller	49	Executive Vice President and General Counsel
Mr. Arun Sawhney	50	President API
Mr. Ashwani Kumar Malhotra	49	Senior Vice President Formulations Manufacturing
Dr. Dennis Langer(3)	54	President North America
Mr. Jaspal Singh Bajwa	52	President Branded Formulations (Rest of the World(4))
Mr. K.B. Sankara Rao	51	Executive Vice President Integrated Product Development
Mr. Mark Hartman	46	Executive Vice President North America Generics
Mr. Osagie O. Imasogie(5)	44	Executive Vice President Global Corporate Business Development
Dr. R. Rajagopalan	54	President Discovery Research
Mr. Raghu Cidambi	54	Advisor and Head Corporate Intellectual Property Management and Strategic Planning
Mr. Saumen Chakraborty	43	Executive Vice President and Global Chief of Human Resources
Dr. Uday Saxena	47	Chief Scientific Officer

(1) Son-in-law of Dr. K Anji Reddy.

(2) Son of Dr. K Anji Reddy.

(3) Ceased to be our employee as of July 8, 2005

(4) Does not include North America and Europe

(5) Ceased to be employee as of June 30, 2005

In addition, Mr. Jeff Wasserstein joined our Management Council on July 8, 2005. He is working with us as Executive Vice President North America Specialty.

Biographies

Directors

Table of Contents

Dr. K. Anji Reddy is our Founder and Chairman of our Board of Directors. He is also the Founder of Dr. Reddy s Research Foundation and Dr. Reddy s Foundation for human and social development. He has an undergraduate degree in Technology of Pharmaceuticals and Fine Chemicals from the University of Bombay and a Ph.D. in Chemical Engineering from National Chemical Laboratories, Pune. He has six years experience with Indian Drugs and Pharmaceuticals Limited (IDPL) in the manufacture and implementation of new technologies in bulk drugs. He is a member of the Board of Trade as well as the Prime Minister s Task force on pharmaceuticals and knowledge-based industries. The Government of India bestowed the Padmashri Award upon him for his distinguished service in the field of trade and commerce. In addition to positions held with our subsidiaries and joint ventures, he is a Director in Diana Hotels Limited, OOO JV Reddy Biomed Limited, and Pathenco APS.

Mr. G. V. Prasad is a member of our Board of Directors and serves as our Executive Vice-Chairman and Chief Executive Officer. He was the Managing Director of Cheminor Drugs Limited, a Dr. Reddy s Group Company, prior to its merger with us. He has a Bachelor of Science degree in Chemical Engineering from Illinois Institute of Technology, Chicago, U.S.A. and an M.S. in Industrial Administration from Purdue University, U.S.A. He is also an active member of several associations including the National Committee on Drugs & Pharmaceuticals. In addition to positions held with our subsidiaries and joint ventures, he is a Director of Diana Hotels Limited, Nipuna Services Limited and Leiner Health Products, LLC.

Mr. Satish Reddy is a member of our Board of Directors and serves as our Managing Director and Chief Operating Officer. He has a Master of Science degree in Medicinal Chemistry from Purdue University, U.S.A. and a Bachelor of Technology degree in Chemical Engineering from Osmania University, Hyderabad. He is the member of the Confederation of Indian Industries for Andhra Pradesh. In addition to positions held with our subsidiaries and joint ventures, he is also a Director of Diana Hotels Limited and OOO JV Reddy Biomed Limited.

Mr. Anupam Puri has been a member of our Board of Directors since 2002. He retired from McKinsey & Company in late 2000. He was a Director and played a variety of other leadership roles during his 30-year career there. Before joining McKinsey & Company, he was Advisor for Industrial Development to the President of Algeria, and consultant to General Electric s Center for Advanced Studies. He holds a Bachelor of Arts degree in Economics from St. Stephen s College, Delhi University, and Master of Arts and M. Phil. degrees from Oxford University. He is also on the Boards of Godrej Consumer Products Limited, ICICI Bank Limited, Mahindra and Mahindra Limited, Mahindra British Telecom Limited and Patni Computer Systems Limited.

Professor Krishna G. Palepu has been a member of our Board of Directors since 2002. He is the Ross Graham Walker Professor of Business Administration at the Harvard Business School. He holds the title of Senior Associate Dean, Director of Research. Professor Palepu has a Masters degree in physics from Andhra University, an M.B.A. from the Indian Institute of Management and a Ph.D. from the Massachusetts Institute of Technology. He is also a recipient of an honorary M.A. from Harvard, and an honorary Doctorate from the Helsinki School of Economics. He teaches finance, control and strategy in Harvard s M.B.A. and Executive programs. He has published numerous research papers and is also the co-author of the book titled *Business Analysis & Valuation: Text and Cases*. He serves as a consultant to a wide variety of businesses and is on the boards of Satyam Computer Services Limited, Exetor Group, Enamics Limited and Harvard Business School Publishing Company.

Dr. Omkar Goswami has been a member of our Board of Directors since 2000. He is a founder and Chairman of CERG Advisory Private Limited, a corporate advisory and economic research and consulting company. He was a senior consultant and chief economist at the Confederation of Indian Industry for six years. He has also served as editor of Business India, associate professor at the Indian Statistical Institute, Delhi, and as an honorary advisor to the Ministry of Finance. He holds a Bachelor of Economics degree from St. Xavier s College, Calcutta University, a Master of Economics degree from the Delhi School of Economics, Delhi University and a Ph.D. degree from Oxford University. He is also a director of Infosys Technologies Limited, DSP-Merrill-lynch Investment Managers Limited, Crompton Greaves Limited, Infrastructure Development Finance Company Limited, SRF Limited and Sona Koyo Steering Systems Limited.

Mr. P.N. Devarajan has been a member of our Board of Directors since 2000. He has previously served as a Director of Cheminor Drugs Limited. He is also currently a member of the Planning Board of Madhya Pradesh, Chairman of Research at the Council of National Environment Engineering Research Institute, member of the

Assessment Committee of the Council of Scientific and Industrial Research and a member of the Research Council of National Chemical Laboratory. He has previously served as a Director of the Bank of Baroda, a member of the Central Board of Directors of the Reserve

Table of Contents

Bank of India and Group President and consultant of Reliance Industries Limited. He is also a Director on the Board of Kothari Sugars and Chemicals Limited.

Mr. Ravi Bhoothalingam has been a member of our Board of Directors since 2000. He has served as the President of The Oberoi Group and was responsible for its worldwide operations. He has also served as the Head of Personnel at BAT Plc, Managing Director of VST Industries Limited, and as a Director of ITC Limited. He holds a Bachelor of Science degree in physics from St. Stephens College, Delhi and a Master of experimental psychology degree from Gonville and Caius College, Cambridge University. He is also a Director of Nicco Internet Ventures Limited and Sona Koyo Steering Systems Limited.

Dr. V. Mohan has been a member of our Board of Directors since 1996. He is also a visiting professor of Diabetology at Sri Ramachandra Medical College and a professor of International Health at the University of Minnesota, U.S.A. He holds a Bachelor of Medicine degree, Doctor of Medicine degree, Ph.D. and a Doctor of Science degree from Madras University. He was awarded the prestigious Dr. B.C. Roy National Award by the Medical Council of India in 2005 . He is also the Chairman and Managing Director of M.V. Diabetes Specialties Centre Private Limited and the President of the Madras Diabetes Research Foundation.

Executive Officers

Mr. V S Vasudevan is our Chief Financial Officer. In this position he is responsible for managing the finance teams of us and our group of companies worldwide. He also heads the Secretarial, Legal, Investor Relations and Internal Audit functions. He has played an important role in establishment of our corporate governance framework. Under his leadership, we have received external recognition for our corporate governance and financial reporting practices from the Institute of Company Secretaries of India and the Institute of Chartered Accountants of India. He has played a key role in the integration of Cheminor Drugs Limited with us and in our growth through various corporate initiatives, including acquisition of companies in India and overseas and acquisition of brands in India. He is a Chartered Accountant by qualification, and a member of the Peer Review Board of the Institute of Chartered Accountants of India.

Mr. Abhijit Mukherjee is our President of Developing Businesses. Before joining us, he worked with Atul Limited for 10 years, where he held numerous positions of increasing responsibility. In his last assignment there he was President, Bulk Chemicals and Intermediates Business, and Managing Director, Amal Products Limited. He started his career as a management trainee in Hindustan Lever Limited (HLL) and put in 13 years in that company including 3 years in a Unilever company. He was primarily involved in the technical assignments in Aroma chemicals business in HLL and Unilever and also in detergents and sulphonation plants of HLL. He is a graduate in Chemical Engineering from the Indian Institute of Technology, Kharagpur.

Mr. Alan Shepard is our Executive Vice President Europe Business. He joined us from Pliva, where he was Vice President for Global Corporate Strategy. He has a unique combination of experience in areas of commercial, general management, research and development, manufacturing and strategic planning across a variety of product lines, including generics, ethical branded, over the counter and vaccines. He has been associated with several pharmaceutical companies and held several management positions such as General Manager of Rhone Poulenc Rorer (now Aventis), European Marketing Director for Medeva and held various positions with Institute Merieux, Smith Kline and Upjohn. He has a Bachelors of Technology (Honors) degree from Bradford University and is an honorary lecturer for the University of Wales Medical faculty. He has served on several U.K. government committees and been a long-standing member of the Association of British Pharmaceutical Industry s code of practice committee.

Mr. Andrew Miller is Executive Vice President Legal and Intellectual Property Management. He is also a principal at Budd Larner, P.C., our legal counsel in the U.S. He has represented us since the formation of our first U.S. entity in 1992. He is a graduate of the University of Michigan Law School where he was an Editor of Michigan s Journal of Law Reform. He holds a B.A. degree from the State University of New York at Buffalo, where he graduated summa cum laude in 1977 and was elected a member of Phi Beta Kappa.

Mr. Arun Sawhney is President of our Europe and Global API businesses. He joined us in 2001 as President of our API business from Max-GB Limited, where he was Chief Executive. Prior to that he headed the Global Business Development function at Ranbaxy Laboratories Limited. He has also had successful stints as Manager Exports with Hindustan Ciba Geigy and as Regional Sales Manager with Bayer India, earlier in his career. He is a silver medalist,

holds an MBA from

Table of Contents

the International Management Institute, New Delhi, and a Bachelor s degree in Commerce from Sydenham College of Commerce and Economics, Mumbai.

Mr. Ashwani Kumar Malhotra is Senior Vice President of our Formulations manufacturing operations. He joined us as Vice President in February 2001, and was responsible for the India operations supporting Generics and Specialty businesses with new product development filings and manufacturing and supply of products to regulated markets such as the U.S., Canada, Europe, the U.K., South Africa, Australia and New Zealand. Prior to joining us, he worked with Cipla Limited for 13 years in various capacities and with Warner Hindustan, a division of Parke Davis in formulations development and manufacturing for 7 years. He holds a postgraduate degree in Pharmacy from the Institute of Technology, Banaras Hindu University. He also holds a Diploma in Industrial Engineering & Management and a Postgraduate Diploma in Computer Systems from the Institute of Public Enterprises, Government of India.

Dr. Dennis Langer is President of our North America business operations. He joined us from GlaxoSmithKline, Inc., where he was Senior Vice President, project and portfolio management, research and development. He has a unique combination of experience in areas of innovation, research and development, commercial operations and strategy and business development and has been associated with several pharmaceutical companies such as Eli Lilly and Company Limited, Abbott Laboratories and GD Searle & Company, Inc. where he held various senior management positions. He was also Chief Resident in psychiatry at Yale University School of Medicine and held clinical fellowships in psychiatry at Harvard Medical School, George Washington University School of Medicine and the National Institutes of Health. He has a J.D. (cum laude) from Harvard Law School, an M.D. from Georgetown University School of Medicine, and a B.A. in Biology from Columbia University. He has to his credit several publications in peer reviewed medical journals. He currently serves on the board of Transkaryotic Therapies, Inc. and the Boards of Visitors at Columbia College, Columbia University and Georgetown University School of Medicine. He is a Clinical Professor, Department of Psychiatry, Georgetown University School of Medicine, Washington, D.C. Mr. Langer ceased to be our employee effective as of July 8, 2005.

Mr. Jaspal Singh Bajwa is President of our Branded Formulations (Rest of the World) business. He joined us from Marico Industries, where he was Executive Director and Chief Operating Officer. He has 26 years of diverse experience in the consumer and healthcare products industries, having worked with Nestlé, S.A. and Bausch and Lomb, Inc. He started his career with Nestlé, S.A. After 15 years with Nestlé, S.A. in Sales and Marketing, his last position was Chief of Marketing in India. Subsequently, he spent over 10 years with Bausch and Lomb, Inc., where he held several senior management positions including those of Managing Director for India/ SAARC, and Head of their Canadian Subsidiary. He has a Bachelor s degree in Food Technology and an MBA from the Indian Institute of Management, Ahmedabad.

Mr. K.B. Sankara Rao is Senior Vice President responsible for Integrated Product Development for our Global Formulations, Generics and API businesses. He has been with us since 1986 in various capacities, providing the initial impetus to our Formulations business by establishing the manufacturing facilities and upgrading standards to the present day business needs which resulted in the attainment of various statutory approvals, including in the U.K. MHRA approval. He is also responsible for the design and implementation of the Self Managing Team concept in two of our Formulations manufacturing units. He holds a Masters degree in Pharmacy from Andhra University. He is a life member of the Indian Pharmaceutical Association amongst his other affiliations. He has also been a member of CII-Southern Regional Quality & Productivity Sub-committee.

Mr. Mark Hartman is Executive Vice President of our North America Generics business. He has 17 years of experience in the pharmaceutical industry. Before joining us, Mark spent five years at Watson Laboratories. His last three positions at Watson were Director of Marketing for Trade & Managed Care, Executive Director, Sales & Marketing Watson Generics, and Vice President, Sales & Marketing, Watson Generics. He was involved in multiple product and company acquisitions during his tenure with Watson. Before Watson, he was Director of Marketing for Alpharma USPD, Marketing Manager at Geneva Pharmaceuticals, and held various brand and generic sales and marketing positions during his 10 years at Lederle Laboratories. He holds a bachelors degree in Dairy Science from Virginia Tech, Virginia.

Mr. Osagie O. Imasogie is the Executive Vice President of Global Corporate Business Development. Prior to joining us, he was Chief Executive Officer of Trigenesis Therapeutics Inc. Prior to that he was Vice-President and

Director, GSK Ventures, GlaxoSmithKline Research and Development and was instrumental in the external value maximization of various GlaxoSmithKline research and development assets, such as compounds, technology platforms, databases / libraries and patents. He worked with Smithkline Beecham Corporation as a Senior Counsel for a short time before becoming the founding General Counsel & Secretary, Endo Pharmaceuticals Inc., a start-up specialist pharmaceutical company. As a

Table of Contents

Senior Vice President, Business Development at Endo, he was responsible for all of Endo s Worldwide Business Development initiatives. A business executive and attorney, he has over 20 years of professional experience in areas including the healthcare/pharmaceutical industry, business development, corporate finance, corporate law, intellectual property and consulting with Price Waterhouse, DuPont Merck Pharmaceutical Company and Genesiscorp Limited. He obtained his initial legal education in Nigeria before earning his LL.M at the London School of Economics and another LL.M from the University of Pennsylvania School of Law in Philadelphia. Mr. Imasogie ceased to be our employee effective as of June 30, 2005

Dr. R. Rajagopalan is President of our Discovery Research segment. He started his career with Hoechst India Ltd and was associated with their drug discovery program in various capacities for over two decades. He was the principal research scientist in Hoechst when he chose to join us to head our Pharmacology Research and Development group in 1994. He was instrumental in building the discovery biology capabilities at Discovery Research and was promoted to Senior Vice-President, Discovery Biology in 2000. He graduated in 1970 from Madras University with a Bachelor s of Science degree with chemistry as a major and obtained a Master s degree in Pharmacology at the same university. He undertook Doctoral study in pharmacology at the Bombay University. He has several research publications and patents to his credit.

Mr. Raghu Cidambi is Advisor and Head of Corporate Intellectual Property Management and Strategic Planning. Prior to joining us, he served with the Eenadu Group, a large south India-based media conglomerate, where he was responsible for its legal affairs. He has graduated from the Indian Institute of Management, Calcutta and thereafter obtained a Bachelor s Degree in Law from the Osmania University in Hyderabad.

Mr. Saumen Chakraborty is Executive Vice-President and Global Chief of Human Resources (HR). He has 16 years of experience in strategic and operational aspects of management. Prior to joining us, he held various positions including line manager and a HR facilitator, with diverse portfolios such as Senior Manager (Finance & Accounts) in Eicher, and Vice President (Operations) in Tecumseh. A member of various industry fora including the CII and the National HRD Network, he graduated with honors as the valedictorian of his class from Visva-Bharati University in Physics, and went on to pursue management from Indian Institute of Management, Ahmedabad.

Dr. Uday Saxena is our Chief Scientific Officer. Since 2002, he has also been the President and CEO of Reddy US Therapeutics, Inc., our subsidiary located in Atlanta, Georgia. Reddy US Therapeutics, Inc. is engaged in drug discovery in the areas of diabetes, inflammation and cardiovascular disease. He has been in the pharmaceutical/biotech industry for over a decade. From 1997 to early 2000, he was Vice President of Research and a member of the executive committee at AtheroGenics, Inc, a publicly traded biopharmaceutical company located in Alpharetta, Georgia. While at AtheroGenics, he directed several drug discoveries and early development programs that lead to identification of novel compounds currently in late phase clinical trails for restenosis, atherosclerosis and chronic inflammation. Prior to that he was at Parke-Davis Research Division, Ann Arbor, Michigan, where he was responsible for establishing a discovery program in inflammation and atherosclerosis.

Mr. Jeffrey Wasserstein is Executive Vice President of our North America Specialty business. He joined us in January 2005. He focuses on building our specialty business in North America and in addition works with the North American Management Team on selected opportunities for adding value to our other businesses in North America. Prior to joining us he had a long career with Schering Plough Corporation where he was Senior Vice President of Corporate Consent Decree Integration. Prior to this role, he was the President of Schering Canada. He also held several positions of increasing responsibility at the Vice President level over Corporate Business Development, Strategic Planning & Internal Consulting and as Associate General Counsel-Commercial. Prior to joining Schering Plough Corporation, he was an Associate Attorney with Wachtell, Lipton, Rosen & Katz. He holds a Bachelor of Art s degree from Franklin & Marshall College and a J.D. degree from New York University School of Law.

6.B. ***Compensation of directors and executive officers***

Directors compensation

Full-Time Directors. The compensation of our Chairman, Chief Executive Officer and Chief Operating Officer (who we refer to as our full-time directors) is divided into salary, commission and benefits. The compensation committee of the Board of Directors initially recommends the compensation for full-time directors. If the Board of Directors (the

61

Table of Contents

Board) approves the recommendation, it is then submitted to the shareholders for approval at the general shareholders meeting.

Our shareholders have approved the salary, benefits and maximum amount of commission for each of our full-time directors. Our Chief Operating Officer and Chief Executive Officer are each entitled to receive a maximum commission of up to 0.5% of our net profit (as defined under the Indian Companies Act, 1956) for the fiscal year. Our Chairman is entitled to receive a maximum commission of up to 1.0% of our net profit (as defined under the Indian Companies Act, 1956) for the fiscal year. The compensation committee, which is composed of independent directors, recommends the commission for our Chairman, Chief Executive Officer and Chief Operating Officer within the limits of 1%, 0.5% and 0.5% respectively of the net profits (as defined under the Indian Companies Act, 1956) for the fiscal year.

Non-Full Time Directors. Each of our non-full time directors receives an attendance fee of Rs.5,000 (U.S.$115.2) for every Board meeting and Board committee meeting they attend. In fiscal 2005, we paid an aggregate of Rs.392 thousands (U.S.$8,986) to our non-full time directors as attendance fees. Non-full time directors are also eligible to receive a commission on our net profit (as defined under the Indian Companies Act, 1956) for the fiscal year. Our shareholders have approved a maximum commission up to 0.5% of the net profits (as defined under the Indian Companies Act, 1956) for the fiscal year for all non-full time directors in a year. The Board determines the entitlement of each of the non-full time directors to commission within the overall limit.

For fiscal 2005, the directors were entitled to the following amounts as compensation:

Rs. in thousands

Name of Directors	Attendance fees	Commission	Salary	Perquisites	Total
Dr. K. Anji Reddy	NA	4,337	1,800	144	6,281
Mr. G. V. Prasad	NA	2,169	1,080	195	3,444
Mr. Satish Reddy	NA	2,169	1,080	195	3,444
Mr. Anupam Puri	70	383	NA	NA	453
Prof. Krishna G. Palepu	57	383	NA	NA	440
Dr. Omkar Goswami	80	383	NA	NA	463
Mr. P. N. Devarajan	100	383	NA	NA	483
Dr. P. Satyanarayana Rao(1)	10		NA	NA	10
Mr. Ravi Bhoothalingam	65	383	NA	NA	448
Dr. V. Mohan	10	256	NA	NA	266

(1) Retired as Director at the annual General Meeting held on July 28, 2004.

Stock Options to Directors. We introduced the Dr. Reddy s Employee Stock Option Scheme, 2002 in fiscal 2002. Our full-time directors are not eligible to participate in this plan. None of the non-full time directors were granted any options under this plan in fiscal 2005.

Executive officers compensation

The initial compensation to all our executive officers is determined through appointment letters issued at the time of employment. The appointment letter provides the initial amount of salary and benefits the executive officer will receive as well as a confidentiality provision and a non-compete provision applicable during the course of the executive officer s employment with us. We provide salary, certain perquisites, retirement benefits, stock options and variable pay to our executive officers. The compensation committee of the Board reviews the compensation of executive officers on a periodic basis.

We also have an employee stock option scheme. The scheme is applicable to all of our employees and directors and employees and directors of our subsidiaries. The scheme is not applicable to promoter directors, promoter employees and persons holding 2% or more of our outstanding share capital. The compensation committee of the Board of Directors awards options pursuant to the scheme based on the employee s performance appraisal. Some employees have also been granted options upon joining us.

Table of Contents

Compensation for executive officers who are full time directors is summarized in the table under Directors compensation, above. The following table presents the annual compensation paid for services rendered to us for fiscal 2005 and stock options held by all of our other executive officers as of March 31, 2005:

	Compensation	Stock Options			
Name	Rs. in Thousands	Date of grant	No. of options	Exercise price	Expiry Date
Mr. V.S. Vasudevan	7,213	05.09.2002	5,740	1,063.02	(2)
		05.13.2003	10,000	883.00	(2)
		05.27.2004	10,000	885.00	(2)
Mr. Abhijit Mukherjee	5,834	01.24.2005	3,200	5.00	(2)
Mr. Alan Shepard(1)	3,430				-
Mr. Andrew Miller	18,766	01.29.2002	30,000	977.30	01.28.2007
		01.24.2005	6,800	5.00	(2)
Mr. Arun Sawhney	9,289	01.24.2005	11,880	5.00	(2)
Mr. Ashwani Kumar Malhotra	5,160	01.24.2005	3,520	5.00	(2)
Dr. Dennis Langer	16,968	01.19.2004	80,000	5.00	(2)
		01.24.2005	12,000	5.00	(2)
		02.18.2005	12,000	5.00	(2)
Mr. Jaspal Singh Bajwa	9,203	01.24.2005	8,000	5.00	(2)
Mr. K.B. Sankara Rao	4,941	01.24.2005	7,718	5.00	(2)
Mr. Mark Hartman	16,464	05.09.2002	60,000	1,063.02	(3)
		05.13.2003	10,000	883.00	(2)
		05.27.2004	6,000	885.00	(2)
Mr. Osagie O. Imasogie(2)	12,275				
Dr. R. Rajagopalan	5,203	01.24.2005	9,680	5.00	(2)
Mr. Raghu Cidambi	4,200	01.24.2005	8,000	5.00	(2)
Mr. Saumen Chakraborty	6,594	05.13.2003	7,500	883.00	(2)
		01.24.2005	7,200	5.00	(2)
Dr. Uday Saxena	11,681	01.24.2005	8,000	5.00	(2)

(1) Joined in November 2004

(2) The expiry period is 5 years from the date of vesting. The options vest each year over a period of 4 years.

(3) The expiry period is 5 years from the date of vesting. The options vest

each year over a
period of
3 years.

Retirement benefits.

We provide the following benefit plans to our employees:

Gratuity benefits: In accordance with applicable Indian laws, we provide a defined benefit retirement plan (the Gratuity Plan) covering all of our permanent employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment in an amount based on the respective employee s last drawn salary and the years of employment with us. Effective September 1, 1999, we established Dr. Reddy s Laboratories Gratuity Fund (the Gratuity Fund). Liabilities with regard to the Gratuity Plan are determined by an actuarial valuation, based upon which we make contributions to the Gratuity Fund. Trustees administer the contributions made to the Gratuity Fund. The amounts contributed to the Gratuity Fund are invested in specific securities as mandated by law and generally consist of federal and state government bonds and the debt instruments of government-owned corporations.

In respect of certain of our other employees, the gratuity benefit is provided through annual contribution to a fund managed by the Life Insurance Corporation of India (LIC). Under this scheme, the settlement obligation remains with us, although the LIC administers the fund and determines the contribution premium required to be paid by us. The net contribution amounts recognized by us were Rs.24.0 million, Rs.18.0 million and Rs.31.2 million during the years ended March 31, 2003, 2004 and 2005, respectively.

Superannuation benefits. Apart from being covered under the Gratuity Plan described above, our senior officers also participate in superannuation, a defined contribution plan administered by the LIC. We make annual contributions based on a specified percentage of each covered employee s salary. We have no further obligations under the plan beyond our annual contributions. We contributed Rs.19.4 million, Rs.24.2 million and Rs.27.0 million to the superannuation plan during the years ended March 31, 2003, 2004 and 2005, respectively.

Provident fund benefits. In addition to the above benefits, all employees receive benefits from a provident fund, a defined contribution plan. Both the employee and employer each make monthly contributions to the plan each equal to

Table of Contents

12% of the covered employee s salary. We have no further obligations under the plan beyond our monthly contributions. We contributed Rs.47.5 million, Rs.58.7 million and Rs.64.2 million to the provident fund plan during the years ended March 31, 2003, 2004 and 2005, respectively.

6.C. ***Board practices***

Our Articles of Association require us to have a minimum of 3 and a maximum of 20 directors. As of March 31, 2005, we have 9 directors on our Board, of which 6 are non-full time independent directors.

The Companies Act, 1956 and our Articles of Association require that at least two-thirds of our directors be subject to re-election by our shareholders in rotation. At every annual general meeting, one-third of the directors who are subject to re-election must retire and, if eligible for re-election, may be reappointed at the annual general meeting. Our full time directors are not subject to re-election.

The terms of each of our directors and their expiration dates are provided in the table below.

Name	Expiration of Current Term of Office	Term of Office	Period of Service
Dr. K. Anji Reddy (1)	July 13, 2006	5 years	21 years
Mr. Satish Reddy (1)	September 30, 2007	5 years	12 years
Mr. G. V. Prasad (1)	January 30, 2006	5 years	19 years
Mr. Anupam Puri (2)	Retirement by rotation	Due for retirement by rotation in 2007	3 years
Dr. Krishna G. Palepu (2)	Retirement by rotation	Due for retirement by rotation in 2005	3 years
Mr. P. N. Devarajan (2)	Retirement by rotation	Due for retirement by rotation in 2006	4.5 years
Dr. Omkar Goswami (2)	Retirement by rotation	Due for retirement by rotation in 2006	4.5 years
Mr. Ravi Bhoothalingam (2)	Retirement by rotation	Due for retirement by rotation in 2005	4.5 years
Dr. V. Mohan (2)	Retirement by rotation	Due for retirement by rotation in 2006	9 years

(1) Full time director.

(2) Non-full time independent director.

The terms of the contracts with our full-time directors are also disclosed to all the shareholders in the notice of the general meeting. The directors are not eligible for any termination benefit on the termination of their tenure with us.

Committees of the Board

Committees appointed by the Board focus on specific areas and take decisions within the authority delegated to them. The Committees also make specific recommendations to the Board on various matters from time-to-time. All decisions and recommendations of the Committees are placed before the Board for information or approval. We have seven Board-level Committees:

Audit Committee.

Compensation Committee.

Nomination Committee.

Shareholders Grievance Committee.

Management Committee.

Investment Committee.

Strategy Committee.

The details of the Audit Committee, Compensation Committee and Nomination Committee are discussed hereunder.

Audit Committee. Our management is primarily responsible for our internal controls and financial reporting process. Our statutory auditors are responsible for performing independent audits of our financial statements in accordance with generally accepted auditing standards and for issuing reports based on such audits. The Board of Directors has entrusted the Audit Committee to supervise these processes and thus ensure accurate and timely disclosures that maintain the transparency, integrity and quality of financial controls and reporting.

Table of Contents

The Audit Committee consists of the following 5 non-full time independent directors:

Dr. Omkar Goswami (Chairman)

Mr. Anupam Puri

Prof. Krishna G. Palepu

Mr. P. N. Devarajan

Mr. Ravi Bhoothalingam

Our Company Secretary is the Secretary of the Audit Committee. This Committee met on four occasions during fiscal 2005. Our statutory auditors were present at all Audit Committee meetings during the year.

The primary responsibilities of the Audit Committee are to:

Supervise the financial reporting process;

Review the financial results, along with the related public filings, before recommending them to the Board;

Review the adequacy of our internal controls, including the plan, scope and performance of our internal audit function;

Discuss with management our major policies with respect to risk assessment and risk management;

Hold discussions with statutory auditors on the nature and scope of audits, and any views that they have about the financial control and reporting processes;

Ensure compliance with accounting standards, and with listing requirements with respect to the financial statements;

Recommend the appointment and removal of external auditors and their fees;

Review the independence of our auditors;

Ensure that adequate safeguards have been taken for legal compliance both for us and for our Indian and foreign subsidiaries;

Review related party transactions; and

Review the functioning of our whistle blower policies and procedures.

Compensation Committee. The Compensation Committee considers and recommends to the Board the compensation of the full time directors and executives above Vice-President level, and also reviews the remuneration package that we offer to different grades/levels of our employees. The Compensation Committee also administers our Employee Stock Option Scheme.

The Compensation Committee consists of the following five non-full time, independent directors:

Mr. Ravi Bhoothalingam (Chairman)

Mr. Anupam Puri

Prof. Krishna G. Palepu

Dr. Omkar Goswami

Mr. P. N. Devarajan

The Executive Vice President and Global Chief of Human Resources is the Secretary of the Committee. The Compensation Committee met three times during fiscal 2005.

Nomination Committee. The primary function of the Nomination Committee is to assist the Board of Directors in fulfilling its responsibilities by reviewing and making recommendations to the Board regarding the Board s composition and structure, establishing criteria for Board membership and evaluating corporate policies relating to the recruitment of Board members and establishing, implementing and monitoring policies and processes regarding principles of corporate governance in order to ensure the Board s compliance with its fiduciary duties.

Table of Contents

The Nomination Committee consists of the following five non-full time, independent directors:

Mr. Anupam Puri (Chairman)

Prof. Krishna G. Palepu

Dr. Omkar Goswami

Mr. P. N. Devarajan

Mr. Ravi Bhoothalingam

Our Company Secretary is the Secretary of the Committee. The Nomination Committee met once during fiscal 2005.

Corporate Governance

We constantly endeavor to improve our corporate governance and disclosure practices. As part of this process, the following major initiatives were undertaken by us during fiscal 2005:

Separate meetings of small groups of Directors, essentially functioning as informal special committees, on specific business and control matters.

Separate meetings of independent Directors in executive sessions, without the presence of management.

Representation of independent Directors by nomination of a lead independent Director.

Companies listed on the New York Stock Exchange (NYSE) must comply with certain standards regarding corporate governance as codified in Section 303A of the NYSE s Listed Company Manual. Listed companies that are foreign private issuers (as such term is defined in Rule 3b-4 under the Exchange Act) are permitted to follow home country practice in lieu of the provisions of this Section 303A, except that such companies are required to comply with the requirements of Sections 303A.06, 303A.11 and 303A.12(b) and (c), which are as follows:

(i) establish an independent audit committee that has specified responsibilities;

(ii) provide prompt certification by its chief executive officer of any material non-compliance with any corporate governance rules;

(iii) provide periodic written affirmations to the NYSE with respect to its corporate governance practices; and

(iv) provide a brief description of significant differences between its corporate governance practices and those followed by U.S. companies.

The following table compares our principal corporate governance practices to those required of U.S. NYSE listed companies.

Standard for U.S. NYSE Listed Companies	Our practice
Listed companies must have a majority of independent directors, as defined by the NYSE.	We comply with this standard. Six of our nine Directors are independent directors, as defined by the NYSE.
The non-management directors of each listed company must meet at regularly scheduled executive sessions without management.	We comply with this standard. Our non-management directors meet periodically without management directors in scheduled executive sessions.
Listed companies must have a nominating/corporate governance committee composed entirely of independent directors. The nominating/corporate governance committee	We have a Nomination Committee composed entirely of independent directors which meets these requirements. The committee has a written charter that meets these

must have a written charter that addresses the committee s purpose and responsibilities, subject to the minimum purpose and responsibilities established by the NYSE, and an annual evaluation of the committee.	requirements. We do not have a practice of evaluating the performance of the Nomination Committee.
Listed companies must have a compensation committee composed entirely of independent directors. The compensation committee must have a written charter that addresses the committee s purpose	We have a Compensation Committee composed entirely of independent directors which meets these requirements. The committee has a written charter

Table of Contents

Standard for U.S. NYSE Listed Companies	Our practice
and responsibilities, subject to the minimum purpose and responsibilities established by the NYSE, and an annual evaluation of the committee.	that meets these requirements. We do not have a practice of evaluating the performance of Compensation Committee
Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.	Our Audit Committee satisfies the requirements of Rule 10A-3 under the Exchange Act.
The audit committee must have a minimum of three members all being independent directors. The audit committee must have a written charter that addresses the committee s purpose and responsibilities, subject to the minimum purpose and responsibilities established by the NYSE, and an annual evaluation of the committee.	We have an audit committee composed of five members, all being independent directors. The committee has a written charter that meets these requirements. We also have an internal audit function. We do not have a practice of evaluating the performance of our Audit Committee
Each listed company must have an internal audit function.	
Shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with limited exceptions.	We comply with this standard. Our Employee Stock Option Plan was approved by our shareholders.
Listed companies must adopt and disclose corporate governance guidelines.	We have not adopted corporate governance guidelines.
All listed companies, U.S. and foreign, must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	We comply with this standard. More details on our Code of Business Conduct and Ethics are given under Item 16.B.