

Ladies and gentlemen, a very good morning to you all, and welcome to the 32nd Annual General Meeting of Dr. Reddy's Laboratories.

2016 marks three decades of Dr. Reddy's being a public listed company. Such milestones are occasions to thank all those who have contributed to our journey's successes. Let me therefore once again place on record my gratitude to you, our shareholders, for continuously reiterating the faith you placed in your company.

Our founder, Dr. Anji Reddy, envisioned a company that would endure beyond 500 years. Seen in the light of that time scale, these are still the first few steps that we are taking towards his vision. Yet, in its own right, our journey over the last 32 years has been momentous, eventful and successful. We have made medicines affordable and accessible to those who need them most. We have expanded exponentially as a global organization. And we have consistently grown the value of your company over the years. The future will see the bar raised still higher and I will now share with you the reasons as to why I believe this to be so.

Let me begin by summarizing some of the key regional and global events and developments in our industry that could potentially impact your company.

The prevailing mood, both globally and in the domestic market, seems to be one of cautious optimism. The industry has adopted a wait and watch attitude as it keeps an eye on events that can impact us. Whether they are specific to our industry, like the regulatory eco-system, or geo-political in nature, like BREXIT, they can have both positive or negative repercussions. Therefore, the industry in general seems to be waiting for further clarity on the road ahead.

One issue that occupies, perhaps, the largest share of mind today, in the industry at large and I am sure in this room too, is the regulatory eco system and the challenges thereof.

Right from our very first audit, for Methyldopa in CTO1 way back in October 1987, and through the three decades hence, when we underwent more than 50 audits, we have always committed ourselves to maintaining the highest quality standards in our operations. As such, we were extremely disappointed when we received warning letters from the USFDA for 3 of our facilities in India at the end of last year.

However, as a responsible and ethical manufacturer, your company fully supports the regulatory authorities and looks at this as an opportunity for ourselves. We have responded to the letters in detail, within the stipulated timelines. Our CEO will share with you, specifics of the actions that your company is taking on this front as well, when he presents his report on our performance, priorities and future plans. I only want to say what I have always maintained – that every time your company has faced challenges in the past, it has always emerged stronger and more resilient. I am absolutely sure that this will be no different.

But, I would like to dwell upon the regulatory eco-system at a broader level and discuss the possibilities being envisaged at the industry body and international levels.

As the need for affordable medicines grows, so has the need for regulatory inspections increased worldwide. There is a growing realization in India that it is now imperative for quality and regulatory issues to be addressed at an industry body level. There are two reasons for this. One, we have the largest number of FDA approved manufacturing sites outside the US and naturally face greater scrutiny. Two, the USFDA's standards and metrics have evolved significantly. As such, it can only be advantageous for companies to work together in a consistent manner to address these issues and find sustainable solutions.

Many other sectors - the civil aviation, automotive, telecom and IT industries, for example, have had the same challenge and addressed it successfully through co-ordinated and collective action. Their industry bodies were primarily instrumental in helping to create and drive an industry-wide quality agenda.

Similarly, recognising the value of such synergistic effort, the Indian Pharmaceutical Alliance is now taking serious steps to enable all pharma companies to evolve a common quality strategy. This year, for the first time, it brought together 3 key regulatory bodies – the USFDA, the MHRA and the DGCI – to deliberate on a host of quality related issues that the industry as a whole is grappling with.

A roadmap has been drawn up, which places priority on enhancing collaboration with the Government of India to strengthen regulatory systems, build confidence in quality standards, enhance cGMP compliance and upscale technology innovations to meet regulatory stipulations.

The major positive fall-out of the conference was a recognition of our industry's need to shift focus – from merely trying to be compliant at an operational level to delving into the root causes for quality issues and resolving them at a more fundamental level. To use a medical analogy, focus on prophylactic measures rather than look for symptomatic relief. This is now being recognised and addressed with long overdue urgency. Importantly, this is being done in a collaborative and calibrated manner, with all stakeholders at the table.

Moving on. From the very first fluroquinolones, to the most recent launch of Omeprazole in the US, no company, more than yours, has worked on making medicines affordable and accessible to all. This was and continues to be our stated purpose. Our founder Dr. Anji Reddy, in fact, changed the whole pricing paradigm in the Indian pharmaceutical industry, thirty years ago, when he launched Norfloxacin at 40% of the prevalent market price. We can thus legitimately claim to be the pioneers of affordable medicines in the country. And in this spirit, we are completely aligned with the intent of the Government of India insofar as the NLEM that is drawn up periodically goes. Having said that, I would like to add that one must also keep in mind the equally pressing need for research, infrastructure development and technological innovation, all of which will not only throw up new and more efficacious medicines but also drive costs down. One must not be at the expense of the other and a balance needs to be arrived at. You all know that while Dr. Anji Reddy believed in keeping medicines affordably priced, he also realized the critical need for research and development. Thanks to his foresight, your company was the first in India to take up new drug development activities, something unthinkable for a bulk and generic drug

manufacturer of those days. Therefore, rather than rely on price controls alone, I would suggest that we foster innovation and develop alternative mechanisms, whereby essential life-saving medicines are available where and when needed.

Drug price control, however, is only one of the factors creating pricing pressures on the generic industry.

Another major factor is Channel consolidation. Ours is one of the few industries in the world in which the supply chain is controlled by a few major distributors/retail chains. In recent years, there has been a major consolidation in the retail pharmacy business, from pharmacy benefits managers (PBMs) to large wholesalers and retailers, both in the US and globally, due to rising pressure on margins.

This is occurring primarily because governments across the globe are trying to contain rising healthcare costs. Consequently, in order to protect their margins, channel partners are restoring to activities like: 1) vertical integration, 2) aggregating purchases of generic drugs as these are more profitable than branded drugs, 3) leveraging scale benefits, and 4) introducing private labels in the pharmacy supply chain.

In summation, the need of the hour for industry today is to focus on quality systems, negotiating the effects of price controls, as well as meeting the challenges of narrower margins and channel consolidation.

So, what is your company doing to deal with these issues and position ourselves for long term growth?

The answer can be summarized in 3 mainstay areas that Dr. Reddy's is focusing upon and I will touch upon them very briefly:

The first is Operation Excellence. Building efficiency in everything we do is imperative to building sustainability for long term profitable growth. We can no longer afford to measure failures for future improvement. We must now build a quality robustness into everything we do, so that we preempt failure and secure the future.

The second is a continuing focus on product innovations to build a strong pipeline, especially in complex and differentiated products. Our recent successes from our proprietary business in the US are examples of what sustained focus can achieve. Rest assured that this is only a milestone that has been crossed and the journey itself will continue without pause.

The third is people: Without the right people, it would have not been possible to achieve any of what I have stated earlier. Therefore, your company continues to focus on using the best possible practices to identify, hire, develop and retain the best talent that is required to grow the organisation and meet its strategic imperatives and business goals.

Our ability to stay focused on executing upon these priorities, enabled your company to deliver a performance in FY 16, that while admittedly muted, was still able to sustain

growth. It is this unwavering focus that will carry your company to greater successes ahead. Be assured that our priority continues to focus on how to deliver value to our shareholders, speaking of which, we recently concluded a successful buyback of shares. We took this decision to more effectively utilize the healthy cash surplus to provide a tax efficient mechanism to return money to shareholders. Since a Buyback reduces the number of outstanding shares, it creates better long term value for our shareholders as well.

While the 3 focal points I touched upon drive us to continued success, there are two pillars that keep us rooted, help us stay ethically and morally strong, and make our being in business worthwhile.

The first of these is to always stay true to the core values that Dr. Reddy's was built upon. If there was one point that Dr. Anji Reddy stressed on, it was that he could never build a business with anything less than one hundred percent adherence to doing what is right and not what is easy. In this regard, I am honoured to inform you that your company has been conferred with the award for "Best Governed Company" in 2015 at the Asia Business Responsibility Summit. I think we should all take immense pride from this on two counts – that Dr. Anji Reddy founded and built your company on a no-compromise adherence to ethics; and that we, as a people and organisation, remain true to this philosophy of our founder.

Speaking of Dr. Anji Reddy, I know what I am about to say will make members of this audience very pleased. For the past 3 years, since the passing of our founder, I have heard from you the constant refrain that we need to do more to keep alive his life's journey and vision, so that it can inspire and motivate others. I am happy to inform you that we have taken positive steps towards this end.

Earlier this year we created a specially designed memorial to Dr. Anji Reddy at the premises of our Miyapur facility. The Memorial takes visitors through his life's journey, gives them insights into his visionary personality and helps them connect with his path-breaking ideas, in a serene and tranquil environment.

[Visuals of the memorial].

Initially, we are providing the people who were closest to Dr. Reddy – our employees – with the opportunity to visit and be inspired by the Memorial. The response has been truly heartening. More than a thousand employees together with their families have visited the site. Yes, I realise that you too, as our shareholders, will be eager to visit the memorial. I would like to assure you that, a formal public opening of the Memorial will soon be conducted after which it will be open to all. I will ensure that you are kept informed about the details.

The second pillar is again, one that connects directly with our founder's vision. All the success we accomplish... all the value we create... all wins we celebrate... all of these will amount to nothing if we do not give back to our communities, to society, and to the country. Winston Churchill once famously said "We make a living by what we get, but we make a life by what we give".

The founder's memorial that I told you about has an entire section dedicated to the generosity of Dr. Anji Reddy, appropriately called the "Philanthropy walk". But even more heartening is the realization that this permeates deep into the DNA of every member of the Dr. Reddy's family.

In fact, in Dr. Reddy's, a call to community service is met with such an overwhelming response that we are faced with the problem of how to provide everyone with opportunities to serve. This was evidenced by our 2nd annual week of giving, which, as you probably remember was initiated last year, as a tribute to the founder during his anniversary month of March. Almost 2,000 Dr. Reddy's employees from around the world gave of their time and energies to various deserving causes, from children in orphanages to the elderly in old age homes. As I mentioned earlier, the only drawback, if any, was our inability to provide all those employees who wanted to, an avenue to participate.

While there are very many examples of how your company provides livelihood, basic education, higher education, and health to thousands in India, let me just pick one to dwell upon at a little length. This is an initiative that is personally close to my own heart because I believe that the only measure of Indian healthcare being truly successful is whether it reaches the doorstep of the farthest, poorest and most deprived patient in our country. It is this alone that will make our nation a healthy one.

As such, I am sure you will be proud and heartened to know that your company has made a start on this front – a small one, perhaps, in light of the magnitude of what needs to be accomplished, but, nonetheless, a start!

The Community Health Initiative Program or CHIP, as it is popularly known, has achieved this. I could spend time trying to explain to you the impact and succor this program delivers, but in order to truly understand it, one has to see it working on the ground. So I will do the next best thing – show you a video, which will provide you an insight and also be a fitting conclusion to my address to you today.

[CHIP video]

I would be failing my duty if I did not record a special note of thanks on your behalf to our 20,000 people around the globe who work tirelessly each day to accelerate access to affordable and innovative medicines, because, we know that good health can't wait.

While on the subject of people, it is also my duty to inform you about a couple of changes in the constitution of our Board of Directors.

Ravi Boothalingam has demitted office on completion of his tenure. I would like to place on record my appreciation, on behalf of the company, of Ravi's contribution to the Board. His counsel and guidance have been invaluable to us.

We now have two new independent directors being inducted on to the Board:
Hans Peter Hasler and Bharat Doshi.

Hans is a richly experienced Pharma and Biotech executive with a proven international track record, having managed the growth of leading pharmaceutical companies and successfully launched several blockbuster drugs. He will bring his in-depth operational, commercial and general management expertise to bear on our board.

Bharat is a former executive director and group chief financial officer of Mahindra and Mahindra Ltd., the flagship company of the Mahindra group, and a director on the board of the Reserve Bank of India. He is also chairman of Mahindra Intertrade Ltd, director on the board of Mahindra Holdings Ltd and independent director of Godrej Consumers Products Ltd.

On behalf of all of you, I take the liberty to extend Hans and Bharat a warm welcome to Dr. Reddy's.

Friends, five hundred years is a long, long way away. Yet, as a leading global pharma company, the road before us is open and the course is ours to chart. I can assure you that we will continue to lead the industry by meeting challenges head on, breaking new frontiers and always doing so responsibly and ethically. In this journey, I am sure that Dr. Reddy's can count on your continued support, which it has enjoyed these past three decades.

Thank you all once again!