

Sustainability Report 2009
Summary

Our collective actions

Each one of us has a role to play in life. Every positive contribution - big or small - at an individual level is an element of the bigger picture, weaving together for the greater good.

This has been an underlying philosophy at Dr. Reddy's, and it comes to the fore where our sustainability efforts are concerned. Every person in Dr. Reddy's plays an active part to meet the challenges of an ever shifting business paradigm with proactive solutions.

Not only do we contribute as individuals, but through our various corporate functions and processes too - where collaboration and team work drive innovation and enhance performance.

Indeed, Collective Actions form the DNA of Sustainability - from which evolves a range of joint initiatives and synchronized efforts that promote access to affordable, innovative medicines. This also helps us remain an employer of choice and supplements our efforts towards working in harmony with the environment and society.



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The Chairman's message

I take the pleasure of presenting you with our Sustainability Report 2009. A quarter of a century has evolved before us, as we have steadily treaded the path of sustainability, with the purpose of providing affordable and innovative medicines to all. For Dr. Reddy's, Sustainability goes beyond our conscious attempt to conserve resources and build sustainable relationships with our business partners; it is also a vital area of cost savings, revenue generation and competitive advantage. Along the journey as we gained fresh perspectives, we have re-energized our goals, advancing our commitment to the stakeholder community that supports us by investing in sustainability through collective actions.

I would like to stress on what we have done in social change, community development and discovery research. Our engagement with the larger community continues through various programs conducted by Dr. Reddy's Foundation (DRF) on the crucial issues of Education and Livelihoods. Addressing the vital link between education and vocational / livelihood based skills, DRF Livelihood Advancement Business School (LABS) as on July 2009, has provided livelihood opportunities for over 190,000 youth.

We also take pride in the English-medium education to children through four Pudami Neighbourhood Schools in Hyderabad and Ranga Reddy districts. The 'Ensuring Children Learn' program has reached out to over 16,000 children in 378 schools. Engaging with the Naandi Foundation, a well-recognised social sector organization, our employees contribute under the Power of 10 employee giving program towards health and education programs, as well as safe motherhood and child healthcare initiatives.

As part of our stakeholder engagement, focus group interviews were conducted among employees, to gauge their awareness levels and get their suggestions on our Sustainability initiatives. Employees felt proud of their involvement in the employee giving program 'The Power of 10TM' as it was a direct, personal contribution towards Sustainability. We will continue to strengthen community engagement through a wide variety of initiatives and also respond to employee feedback regarding volunteering.

I'll say a few more words on the progress of the Naandi's WaterHealth project. Andhra Pradesh has 350 plants which has encouraged us to approach other states in the country. Naandi's Giddarbah pilot in 2007 set up 60 plants in 90 days making it the first constituency in India where every household has access to drinking water as per WHO norms at a minimal cost of Rs.1 for 10 litres of water. Today, Punjab and Haryana have 300 and 50 water plants respectively. Naandi has also set up 20 plants in Rajasthan with another 20 plants planned in Karnataka.

Fifteen years ago, we were the first in the Indian pharmaceutical space to embark on the high-risk, capital intensive journey of discovering new drugs (NCE). We built well equipped labs and put together a team of highly skilled scientists. Over the years our company kept its faith in drug discovery and at the same time has believed in keeping in tune with the interests of all its stakeholders. Accordingly, we have recently announced the restructuring of our R&D operations. We will now be placing utmost emphasis on R&D activities that can have a significant impact on near-term earnings, while not losing focus on long-term interests of the company.

Effective June 1st, 2009 the Drug Discovery operations in Hyderabad (Discovery Research for us) has merged with Aurigene, our wholly owned Drug Discovery subsidiary in Bangalore. A new group called the Proprietary Products group will build the proprietary, branded R&D portfolio for the company in collaboration with various partners and other biotechs. This group will be responsible for the existing Intellectual Property (IP) of the company and will ensure effective management of ongoing and future drug discovery programs.

As winter approaches, I watch the birds flying south to be on their momentous journey in search of plentiful food, in the cold months. They fly in a fascinating V formation and as I recall the Goose story, I find there is a lesson hidden in it for us all:

Next time,
when you see
Geese heading South
for the Winter, flying along
in V formation, you might consider
what science has discovered as to
why they fly that way: as each bird flaps its
wings, it creates an uplift for the bird immediately
following. By flying in V formation the whole flock
adds at least 71% greater flying range than if each bird flew on its
own.

People who share a common direction and sense of community can get where they are going more quickly and easily because they are traveling on the thrust of one another.*

Giving back to the community that supports us is a mission at Dr. Reddy's that we have been implementing from our earliest days. Over time, our efforts were stepped up to build long-term value for individuals and society as a whole. Today, we reinstate our steadfastness towards sustainable development with collective actions along with our employees, our strategic business partners, involving government and multilateral organizations, social institutions, universities and academia, industry, in particular the pharma and biotech sectors. From this vantage point we look ahead to another silver jubilee of milestones in sustainable business partnership in the global pharma arena.



Dr. Anji Reddy

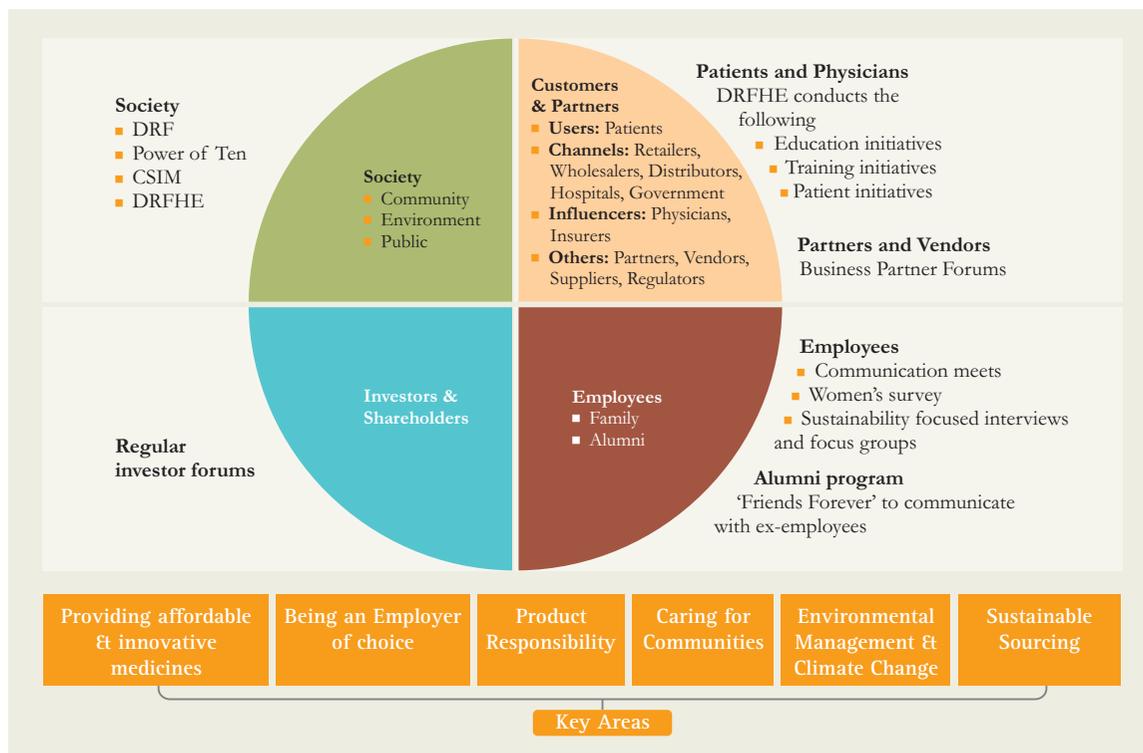
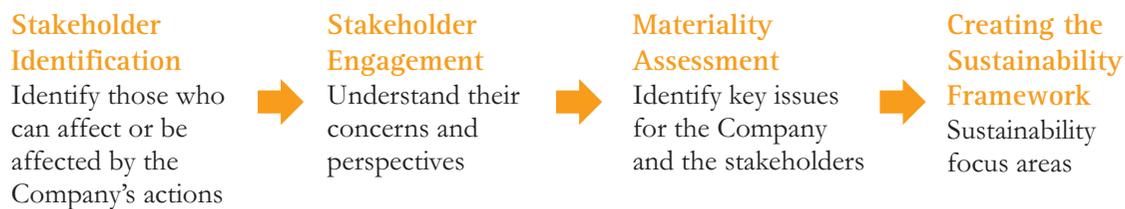
*Courtesy: excerpt-The Goose Story by Dr. Harry Clarke Noyes, ARCS NEWS, Vol. 7, No. 1, January 1992 I
<http://www.addcoach.com/articles/goosestory.html>

DNA of Sustainability

The seeds of Sustainability were sown right at the inception of Dr. Reddy's. It seamlessly integrated into the Company's corporate fabric over the years as the organization worked to meet unmet medical needs and make affordable and innovative medicines accessible to all in society.

Sustainability has a positive effect on each one of us – and goes beyond, to involve not just the organization, but the immediate community, and all of society. This is why we emphasize that Sustainability is not just the domain of Senior Management or the Sustainability Department, but it requires the support and enthusiasm of each stakeholder.

In order to arrive at a robust Sustainability Framework, we adopted the following process:



Our Sustainability Framework

Providing Affordable and Innovative Medicines



Taking our responsibility seriously to aid in reducing the burden of disease on individuals and the world, we are:

- Generating solutions to make medicines affordable
- Innovating at every stage of our processes
- Ensuring each of our businesses address affordability in various innovative ways



- Diverse product pipeline promising affordability, patient comfort, improved access and new technology
- Sparsh (patient assistance program) was extended to more than 120 Cancer Physicians across India benefiting over 1500 cancer patients
- The US Food & Drug Administration (FDA) granted us 23 final Abbreviated New Drug Application (ANDA) approvals and four tentative ANDA approvals in FY 2009
- Alliance with Glaxo SmithKline (GSK) to enable us develop and market over 100 products across an extensive number of emerging markets
- Rural market focus: Initiated in 3 states of Andhra Pradesh, Maharashtra and Uttar Pradesh in India to reach 180,000 doctors and 40,000 retailers through a field force of 600 marketing associates.

Environmental management & Climate Change



We need to design products, processes and plants so that they have a sensible environmental footprint from Day One. We also need to minimize and manage the adverse impact of our existing footprint through innovative options for treatment, recycling and safe disposal.



- 5% reduction in specific Green House Gases (GHG) emissions over 2007-08
- Reduction of 18.7% in total quantity of Hazardous Waste over 2007-08
- Fifth Waste Water Recycling Facility (WWRF) was commissioned in the Biologics Development Centre (BDC)
- Rain water harvesting facility is nearing completion in the Bachupally campus
- Initiation of Solvent Recovery System (SRS) project across all 4 Hyderabad-based Chemical Technical Operations (CTO) units
- Safe Disposal of Organic Residue to Cement Industry
- Completion of Energy Conservation Audits across 12 of our locations by The Energy Research Institute and identified potential to reduce GHG emissions by 7%

Being an Employer of Choice



Our employees work as One Team, collectively ideating, innovating and interacting, to fulfill our purpose of providing affordable and innovative medicines for healthier lives. To enable them in this pursuit, we offer a conducive working environment that taps one's potential while offering freedom to question, innovate and find that 'better way'.



- Global workforce: 10,000+
- Women in workforce: 8%
- Launched Leadership Academy
- Introduced 9 box performance potential framework for talent management
- Wider pool of managers covered for 360 feedback
- Average training mandays per employee: 2.79
- 7 out of 12 manufacturing facilities had zero Loss Time Accident (LTA)
- Frequency rate for LTA: 0.36

- Incidence rate for LTA: 0.73
- Safety training man hours: 47543
- 12 new safety guidelines released

Product Responsibility



We make certain there is ‘No scope for error in anything we do’ by addressing:

- Quality Management
- Regulatory Compliance
- Product Safety requirements
- Stringent procedures for packaging & promotional materials and processes to support patient safety goals



- Quality support has been extended and a dedicated team was set up to support alternate vendor development processes
- 1035 man days of training was provided to trainee sales representatives
- All our Active Pharmaceutical Ingredients (API) manufacturing units and two of our Formulations facilities have been inspected and certified by the US FDA
- The latest version of ARIS GLOBAL, a sophisticated Safety database that helps us accomplish Good Pharmacovigilance practices, has been implemented

Sustainable Sourcing



We encourage our Business Partners to conduct their business in a responsible manner.

We minimize our environmental impact by:

- Purchasing green products / services
- Streamlining our sourcing processes to achieve resource conservation and reduction of our carbon footprint



- Data bank in SHE infosite where Business Partners can be sent alerts regarding their license status
- Over 22 safety audits were carried out and 60 observation points closed
- Commenced process of Risk Analysis for intermediates being outsourced to our Strategic Business Partners (SBP)
- Vendor labs and Use Test labs have been created exclusively to provide dedicated support for quality and analytical processes for our Strategic Business Partners

Caring for Communities



We focus on two main areas for sustainable community engagement.

To progress and provide for the community around us: Introduced a variety of initiatives to enhance healthcare and education in areas near our manufacturing units. Through “The Power of 10TM”, our employees’ contributions provide assistance to Naandi Foundation, one of India’s largest social sector organizations.

To benefit individuals and society at large: Invest in and support non-profit organizations like Dr. Reddy’s Foundation (DRF) and Center for Social Initiative and Management (CSIM).



- The Power of 10TM contribution by employees and Company: Rs. 4.15 million
- Livelihood Advancement Business School (LABS) generated over 46,473 livelihoods in 2008-09
- Education centers ranging from Pudami Primaries to Transit Education Centers had over 11,450 beneficiaries



Vice Chairman & CEO's Message

Dear Stakeholders,

One can imagine the immense challenges faced by an organization like ours that has to take into account the interests of diverse stakeholders and balance various and apparently conflicting interests such as profitability, social impact, climate change and product responsibility. At the beginning it appeared extremely challenging to invoke the trust in our stakeholders that we would not maximize the interests of any one particular stakeholder group at the expense of another.

But over the 25 years of our existence, we have realized that this is not as difficult as it appears to be due to a very simple reason. It is the understanding of the interdependence (as against independence) of our stakeholders that has encouraged our simultaneous pursuit of a people, purpose and planet approach. Our investors (shareholders), whose primary interest is consistent and profitable growth, are also part of the society at large and affected by our environmental and social impacts.

The communities around our manufacturing locations benefit from the economic opportunities that our facilities create for them. However they are also concerned about the adverse impact of our operations on resources like water and air. Our employees are also members of the civil society that is affected by our social, economic and environmental impacts. Our consistent pursuit of creating an ever-flourishing organization built on a platform of unyielding integrity and sound values has indeed, gone a long way in earning us the trust of all our stakeholders and in making our employees proud to work with us.

We have the opportunity to transform not just the organization, but substantially impact human lives. Each one of us, irrespective of position, function and location has a key role to turn this opportunity into a reality and bring more meaning to our work. As we expand our global footprint and continue to pursue Execution Excellence to add significant value for our stakeholders, we are in fact strengthening our ability to provide affordable and innovative medicines for healthier lives.

Our efforts are gaining us the trust and confidence of all our stakeholders, and we will continue to maintain the standards that are expected of us. From substantial Company-wide programs to small, personal initiatives – every contribution is helping us build an extra-ordinary Company. It would also help us in a significant way, to learn your personal views on Sustainability. Do write to us. Your feedback and suggestions will be of immense value.

GV Prasad

Q&A with GV Prasad regarding his views and thoughts on various aspects of Sustainability

Dr. Reddy's has recently modified its Purpose Statement. Could you explain the rationale behind the same?

We have taken steps forward, from “Helping people lead healthier lives” to “Providing affordable and innovative medicines for healthier lives”. This brings a clear focus to our business - that of providing affordable and innovative products to people across the globe. In a world where over 2 billion people cannot get medicines they need or where there are many diseases without satisfactory cures, we felt that our purpose must reflect the problems we are trying to solve through our organization, in a sharper way. We also felt the need to make our purpose specific, meaningful and more inclusive of what each one of us does in the organization.

We also noticed a subtle change in your extranet regarding the Sustainability approach from “People, Profit and Planet” to “People, Purpose and Planet”. Any comments on this?

I would like to quote these words spoken by former Merck president, George W. Merck which I saw written on the white board in our Chairman, Dr. Anji Reddy's office:

“We try never to forget that medicine is for the people. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear. The better we have remembered it, the larger they have been.”

In a sense, we too have a similar belief that the pursuit of our Purpose will ensure that the Profits will follow and I just want to make sure that we have these in the right order of priority.

How are you ensuring that the Purpose Statement will actually get internalized into the mainstream processes?

For our organization to be truly sustainable, we have to be distinctive in a few areas, while being good at most activities that we do. We believe that our strategy of “Leveraging industry-leading science & technology, product offering, and customer service with execution excellence to provide affordable and innovative medicines for healthier lives” helps us focus on the right areas. We are concentrating on Execution Excellence by adopting a global business practice that first identifies an organization's constraints and then provides a definition of the supply chain and market offer which is necessary to achieve set objectives. We are transforming our organization to become distinctive in the areas of science and technology, product development, manufacture and supply chain performance. We will integrate these distinctive capabilities to serve our customers' principal needs in a way that no other significant competitor can. This transformational initiative is very close to the heart of the management at Dr. Reddy's, who is devoting valuable energy and resources to ensure that succeeds at every level.

What bottlenecks, if any, do you foresee in the desire to build an extraordinary company? How do you plan to tackle these?

I strongly agree with and believe in the statement that “Great people build great organizations”. We are now at a transformational stage in our evolution where we require the leadership bench strength to take us to the next level of growth and performance. Very frankly I see no other serious constraint other than this. We would like each of our employees to view his or her job as a platform to achieve greater things in life. Going forward, we are deeply committed to developing and empowering high potential leaders and in creating a distinctive culture of leadership in our organization, to sustain our development well into the future.

What does the “People, Purpose and Planet” approach mean for Dr. Reddy’s?

To arrive at our key focus areas it’s important to consider issues that are of significance to our stakeholders as well as to the Organization. Through engaging with our stakeholders and internal debate amongst senior management of the organization, we have arrived at 6 key focus areas. These are: Providing affordable and innovative medicines, Being an employer of choice, Environmental management and climate change, Caring for communities, Sustainable sourcing and Product responsibility.

In a relative sense, in which of these areas would you say, has Dr. Reddy’s moved ahead, so far?

Based purely on external feedback & recognitions received, I would say that we have covered more ground in the focus areas of Providing affordable and innovative medicines, Being an employer of choice and Caring for communities. Being in the generic Pharma space has enabled us to do quite a bit over the years, in making medicine affordable and available to a large section of the population. We have also won many recognitions and awards recognizing us amongst the best employers to work for. Our social impact through our LABS program has won us national acclaim and the program is now almost self-sustaining, with the Government and other Corporates partnering with us to take this model forward.

Should initiatives regarding Environmental Management and Climate Change be mainly driven by compliance?

There are some countries, like Sweden, where complying with the framework of environmental compliance goes a long way in combating Climate Change. In Sweden, economic instruments like taxes, fees and subsidies are used to influence people to act in a more environmentally friendly and sustainable manner. Examples include Carbon dioxide tax, Nitrogen Oxide tax, recycling fee and Electricity Certificates. In India though, we see a modest beginning being made in this direction; there is still a long way to go, and Corporates need to take proactive measures and go beyond compliance. Climate change is a recent conversation within our organization and we hope to build greater momentum on it in the coming years. A suitable blend of energy conservation, use of

renewable sources of energy, water conservation, control on generation and disposal of hazardous waste and green chemistry is required to take care of our short-term and long-term responsibilities. For example, a great sense of passionate involvement accompanies the creation of our upcoming Special Economic Zone (SEZ) projects (one each in the API and Generics space) wherein we will strive to develop world-class facilities that show-case these aspects and be in the forefront of our fight against Climate Change.

Why is Sustainable Sourcing becoming increasingly important to Dr. Reddy's?

The rapidly changing business environment we operate in, often blurs the boundary in the value chain. The challenge now, is to decide how far behind and how far ahead in our value chain that we choose to influence; but the days are gone when we could narrowly focus on only our internal practices and impacts. Outsourcing can provide us with operational flexibility and a cost advantage to some extent. However, we are ultimately responsible for social, economic and environmental impacts of our entire value chain and have to take responsibility for the manner in which our vendors carry out these outsourced activities. We have begun to examine these aspects over the past few years and have begun in a small way, by trying to influence the quality and safety related systems of some of our strategic business partners from whom we source some of our key starting material.

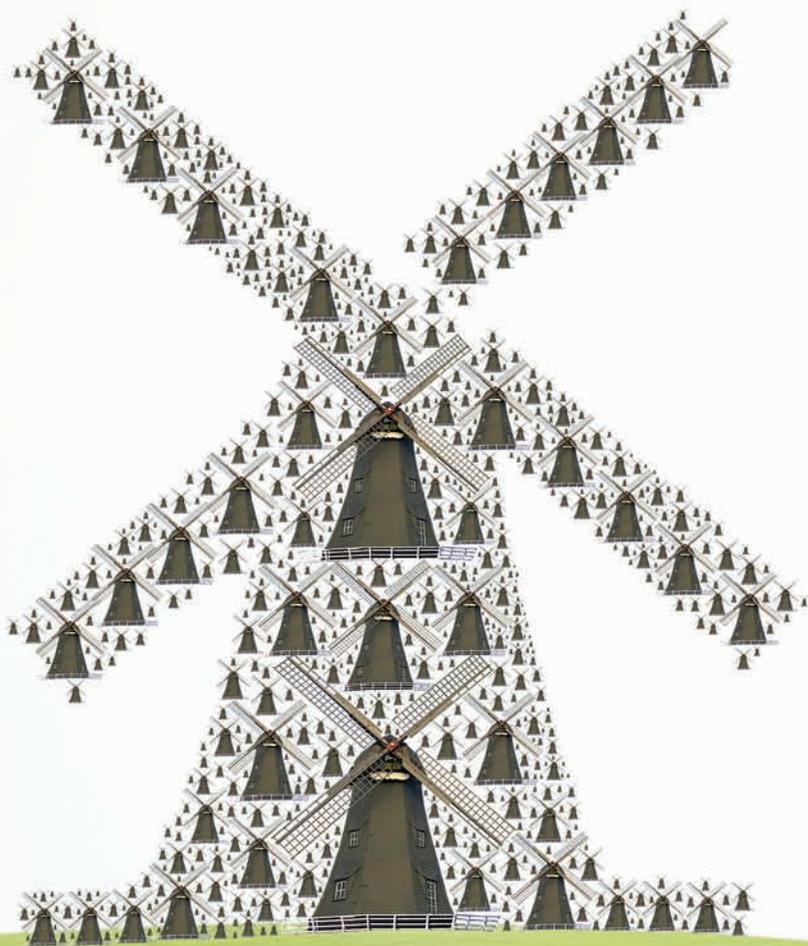
What is the reason Product Responsibility features in the list of key focus areas for Sustainability?

We may excel in all the aspects mentioned above, but are bound to face severe consequences if the life-saving drug ends up endangering the life or well-being of a person. Any lapses in product responsibility in terms of quality and regulatory norms can mean the end of the basic trust that a patient or a doctor has in us. In the recent past, several Pharma players have faced this challenge. At Dr. Reddy's, we believe in following stringent quality control and quality assurance systems, as specified by regulatory requirements wherever the Company operates. We have appointed independent teams to ensure multi-stage quality compliance, while various procedures are in place to see that the safety, efficacy and quality of products are maintained.

Within our power...

...Affordable and Innovative medicines

As a pharmaceutical company with a significant global footprint, we have a serious responsibility – to help reduce the burden of disease on individuals and on the world. We aim to achieve this by generating solutions that make medicines affordable to all, coupled with innovation at every stage of our processes.



Delivering Sustainability: Process

All our businesses, Global Generics, Pharmaceutical Services & Active Ingredient (PSAI) and Proprietary Products, contribute to providing affordable and innovative medicines in different ways:

PSAI	Global Generics	Proprietary Products
<ul style="list-style-type: none">• Novel, cost effective, non-infringing processes• Expertise in handling complex process chemistry, scale up and possess niche capabilities	<ul style="list-style-type: none">• Diversified product portfolio addressing a range of therapeutic areas• Products delivered to patients across the world	<ul style="list-style-type: none">• Generic Biopharmaceuticals: make medicines for critical diseases affordable• Discovery Research: address unmet medical needs• Differentiated Formulations: accelerate the development of new & improved therapies

Sustainability Initiatives

PSAI

- Providing cost effective and innovative processes

Through our PSAI (Pharmaceuticals Services and Active Ingredients) business, which comprises the Active Pharmaceutical Ingredients (API) and Custom Pharmaceutical Services (CPS)



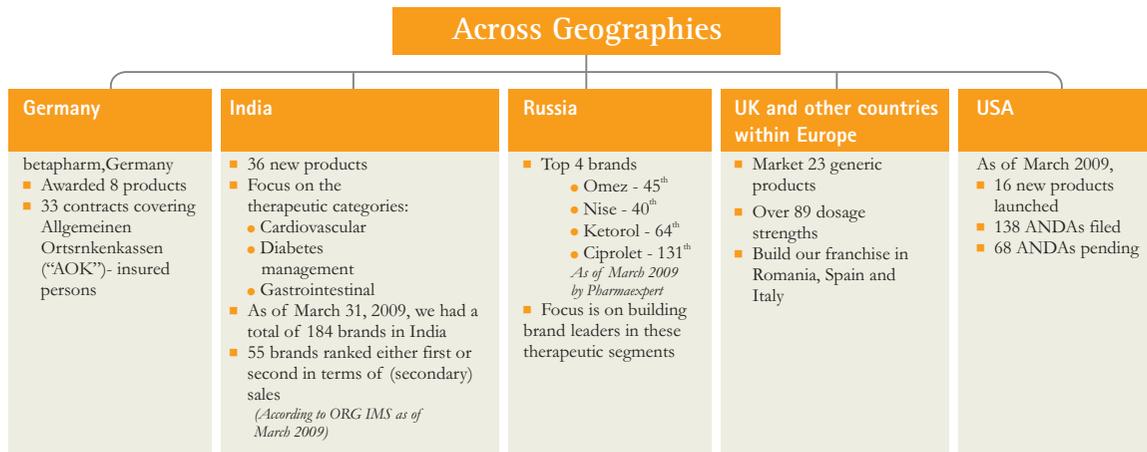
businesses, we offer Intellectual Property advantaged, speedy product development and cost-effective manufacturing services to our customers - both generic companies and innovators.

The research and development group within our API operations contributes 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 and developing approximately 15-20 new products every year.

In FY 2009, our PSAI business unit acquired a portion of Dowpharma's Small Molecules business associated with its UK sites in Mirfield and Cambridge. We have a non-exclusive license to Dow's Pfenex Expression Technology™ for biocatalysis development. Today, we offer niche capabilities, such as biocatalysis, chemocatalysis and hydroformulation, to provide cost effective solutions for chiral molecules.

Global Generics

- Building a diverse product portfolio addressing a range of disease areas
By developing and marketing products across a range of therapeutic segments, we are expanding the availability of quality, affordable generics for a number of diseases. In FY 2009, we had 118 new product launches including 16 in North America, 25 in Europe and 36 in India.



- Reaching different geographies and new regions



We are setting up alliances and developing strategies to enter new regions and expand into new markets, which addresses the need to take generic medicines to more patients in under-served markets.

- Alliance with GSK

We formed a strategic alliance with Glaxo SmithKline plc (GSK) on June 15, 2009, to develop and market over 100 products in emerging markets. This partnership will combine our portfolio of quality branded pharmaceuticals with GSK's extensive sales & marketing capabilities. It will also help us make affordable and innovative medicines accessible to people in more countries around the world.

- **Rural Market focus in India**

In FY 2009, the India Marketing Team initiated a project to cover the rural areas in the states of Andhra Pradesh, Maharashtra and Uttar Pradesh to reach 180,000 doctors and 40,000 retailers through a field force of 600 marketing associates. This helps us develop and market an exclusive portfolio for local needs, with a pricing strategy that promotes both access and profitability. We aim to bring the Rural team on par with other divisions in terms of field processes and to ramp up productivity, while we expand to other states.

- **Patient Assistance program**

Sparsh™ routes the entire range of Dr. Reddy's oncology products to needy patients through patron-oncologists across India, enabling them to complete planned cancer care and treatment. Four new products introduced - Levin™, Xefta™, Verz™ and Empov™ - were also included in the list of cancer drugs offered as part of Sparsh™.

Proprietary Products

This business comprises Generic Biopharmaceuticals, Discovery Research and Differentiated Formulations. In each, we are building world-class capabilities and partnerships to accelerate the discovery and development of new, improved therapies.



Sustainability Highlights

Bringing affordability to Cancer care

Gemcitabine (Gemzar) – used for several kinds of cancer (non-small cell lung, pancreatic, bladder and breast cancer) – is one of the most important cytotoxics in the market. We developed a non-infringing, cost-effective process, which resulted in generic companies launching the product in 2009 in several countries using Dr. Reddy's API, a clear 4 to 7 years before the expiry of relevant process patents. Consumption grew by 30% in over just six months since its generic launch. We hold over 40% market share of Gemcitabine's API and have brought "affordability" in cancer care across continents.

A Novel Device: Redihaler™

We developed and implemented a novel device for Dry Powder Inhalation, which is different from conventional devices, with respect to user-friendliness and convenience. It was developed with full testing and validation for market launch in a record one year's time. A patent application has been filed in India and the US. With Redihaler™, we are expecting substantial market share in the respiratory segment.

Providing freedom from Cancer Pain: Finrid™

Many cancer patients experience pain at the time of diagnosis, and 70% of them have painful symptoms in advanced stages of the disease. We are the first Indian company to market Finrid™ (Fentanyl), a high-potency narcotic pain reliever, available in a novel Japanese 'matrix' technology trans-dermal delivery patch, equipped with a special Synthetic Rubber Polymer adhesive. In addition, Dr. Reddy's brand is 30% more economical than the originator's.

Making complex API

We successfully completed an end-to-end collaboration for the production of one of the most complex generic APIs, Fondaparinux. No generic company has been successful in the lucrative generic space, due to the complexity of the API, even after the patent expired in 1980. We have scaled up all the intermediates as 'first-time-right', while handling one of the most complex process chemistries that has a large number of steps.

Looking to the future

- Continuing focus on Execution Excellence to enhance product pipeline and supply chain excellence in all key markets
- Our Rural Marketing initiatives in India will continue to gain momentum, reaching out to more people in more locations
- We also plan to take Sparsh™ to more beneficiaries
- We will continue to enhance our alliance with GSK, to make our medicines accessible across more geographies



Rooted as one...

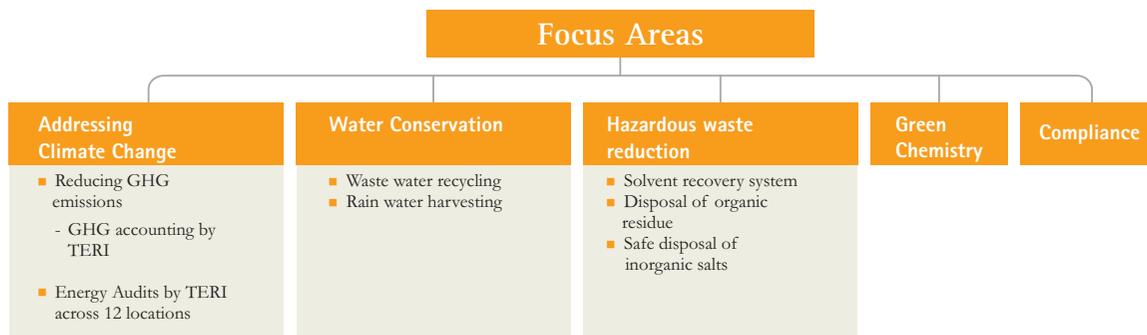
Environmental Management & Climate Change

In our efforts to promote Environmental Sustainability, we look at two aspects: The need to design products, processes and plants so that they have a sensible footprint from Day One. The other aspect is the need to minimize and manage the adverse impact of our existing footprint through treatment, recycling and safe disposal.

We believe in complying with the laws and regulations first, and then going beyond the mandates to keep our planet safe for future generations.



Delivering Sustainability: Process

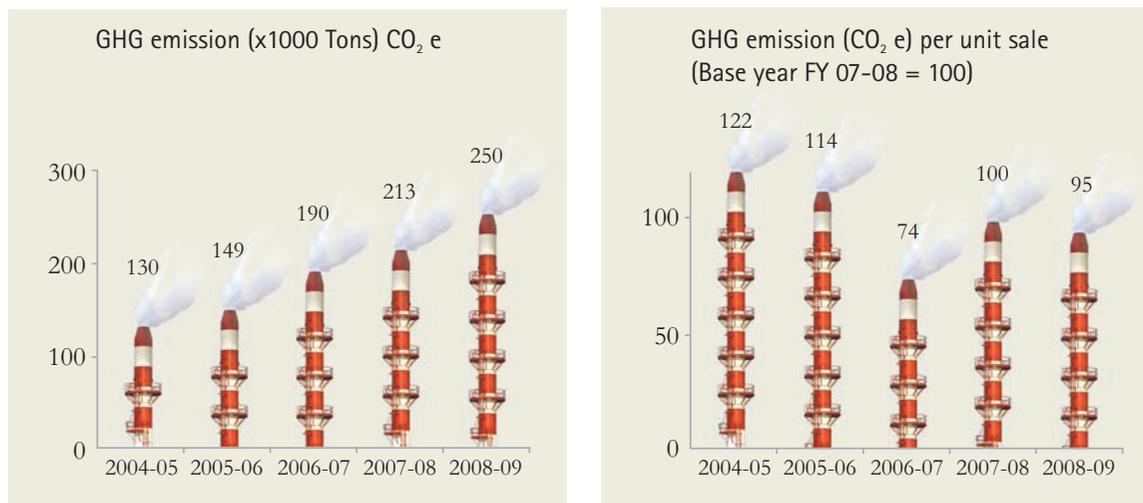


Sustainability Initiatives

Addressing Climate Change

The specter of Climate Change looms large over the world and urgent action needs to be taken to reduce the concentration of Green House Gases (GHG). Our total GHG emissions for FY 2008-09 were 0.25 Million Metric Tons CO₂ e - a 17% increase over 2007-08. Our specific GHG emissions (Metric Ton CO₂ e / INR million sales) for FY 2008-09 was 6.60 - a 5% decrease over 2007-08.

The absolute and specific GHG emission trend for the last five years is shown below:



Given below is a discussion about our current and proposed actions to address GHG emissions.

• GHG Accounting

To characterize and quantify our GHG emissions, we commissioned an accounting exercise for FY 2004-05 to FY 2007-08 through The Energy Research Institute (TERI). The study gave us interesting insights into our carbon footprint and will help us prioritize and focus our actions. Some of the key insights are as follows:

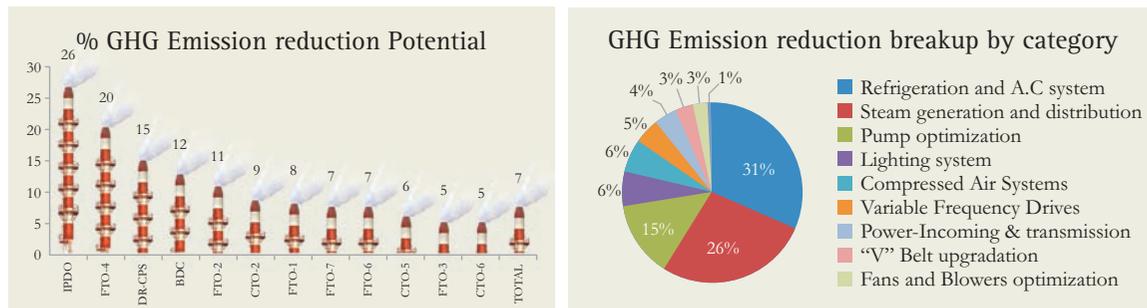
1. Fossil Fuel and Purchased Electricity contribute almost equally to our total GHG emissions
2. Coal accounts for 80% of Scope-1 emissions
3. CTO-5, CTO-6, FTO (Formulations Technical Operations)-3, CTO-2 & CTO-1 account for 76% of our total GHG emissions



- 4.CTO-5 , CTO-6, CTO-2 and CTO-1 account for 85% of our Scope-1 GHG emission
- 5.CTO-5, CTO-6 & FTO-3 account for 48% of our Scope-2 GHG emissions

• **Energy Conservation**

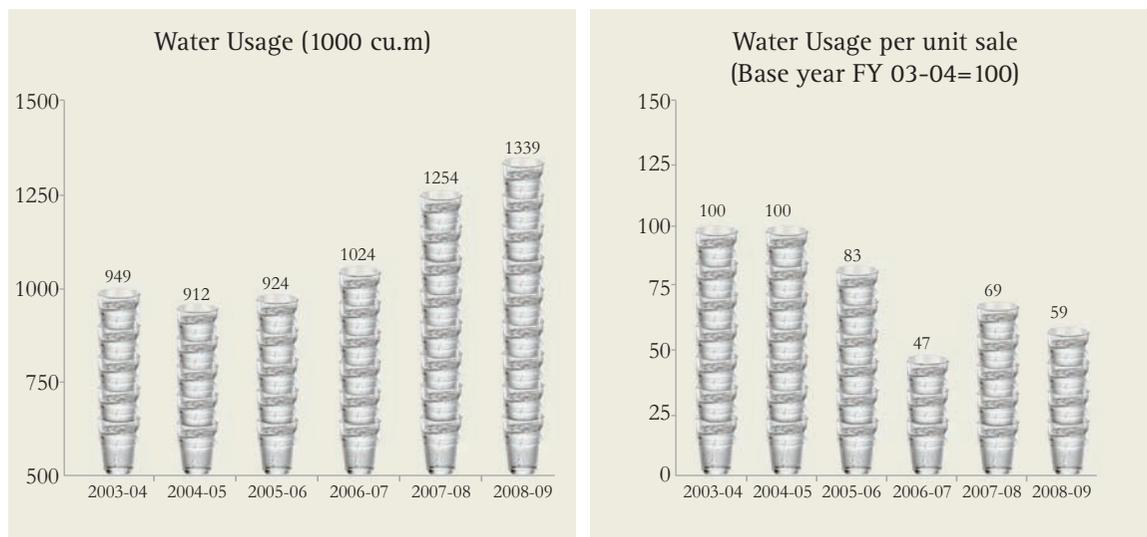
In 2007-08, we initiated Energy Conservation Audits across 12 locations by TERI. The audit showed a potential of reducing our overall GHG emissions by about 7%, with the individual location’s savings potential varying from 5 to 26%. The top 3 categories of recommendations were Refrigeration & Air-conditioning Systems, Steam Generation & Distribution and Pump Optimization. A chart depicting how the total savings were split between various categories of recommendations is given below:



Water Conservation

The total (absolute) quantity of water we consumed during 2008-09 grew by 6.8% over 2007-08 and by 41% over the base year of 2003-04. However, the specific water consumption (water consumed per unit of sales) reduced by 14% over the previous year and by 41% over the base year of 2003-04.

The graph given below shows the water consumption trend for the past 5 years. The declining trend in specific water consumption could be attributed to steps taken over the years to reduce wastage / consumption like setting up waste water recycling facilities in several of our manufacturing locations.



- **Wastewater Recycling**

Going beyond mere compliance, waste water recycling facilities have been installed in several of our plants, starting with CTO-5 in Sept 2002. This was followed by CTO-6 (Sept 2004), CTO-2 (April 2005), CTO-1 (July 2006) and CTO-3 (Jan 2007). The objective was to reduce consumption of fresh water, and to avoid external discharge of effluent from our plants. During FY 2008-09, three more plants – CTO-4, FTO-1 and Biologics - achieved this status with an investment of Rs. 60 million. Investment proposals worth Rs. 200 million have been approved for installing waste water recycling facilities to cater to FTO-2 and FTO-3; a project which should be completed by January 2010.

- **Rain Water Harvesting**

The Company has approved plans to invest in Rain Water Harvesting facilities in three sites – the Bachupally Campus, the upcoming FTO SEZ at Medak, and the upcoming CTO SEZ at Visakhapatnam. Bachupally will be completed during FY 2009-10, and the other sites should be completed in FY 2010-11. This is expected to restore 1.34 million KL/year of water into the ground, representing about 100% of our total water consumption during FY 2008-09.

Hazardous Waste reduction

During 2008-09, the total quantity of Hazardous Waste was 18,578 tons – a reduction of 18.7 % over 2007-08. In-house recovery of spent solvents was one of the key reasons for this decline. Efforts were also made to reduce the quantity of hazardous waste sent for incineration or landfilling.

Green Chemistry

Dr. Reddy's Centre of Excellence for Process Engineering contributes to Sustainability through "Green Chemistry" – the design of chemical products and processes that reduce or eliminate the use and generation of hazardous substances. This ensures not only environment friendly products and processes, but also contributes to the health and safety of employees involved in manufacturing. Some ways by which we develop green products include:

1. Selection of reagents with lowest toxicity
 2. Choice of catalysts that would provide highest reaction yield, thus minimizing waste
 3. Choosing the right form of energy to maximize reaction efficiency
 4. Precise calculations to predict with just two to three experiments how the reaction can be optimized, as well as the two or three preferable solvents for that reaction
 5. Identification of potential hazards before conducting the reaction. Specific parameters such as heat of the reaction are studied. This year, a process safety laboratory has been incorporated
- In last year's report, we mentioned examples of Green Chemistry applications like resin based technologies, development of alternative catalysts and implementation of the process efficiency index. During FY 2008-09, efforts in this direction were sustained and implemented in several products and processes.

Dr. Reddy's has been recently accepted as an associate member of American Chemical Society - Green Chemistry Institute (ACS-GCI). We are the only generic company in the world to be a member.



Compliance

The cornerstone of sustainable development is compliance and no sustainable progress can be achieved if one fails in this aspect. To ensure Environmental Compliance, all our sites were audited by Corporate SHE during 2008-09, with particular focus on complying with Environmental Permit stipulations, in addition to self-audits carried out by the respective sites. 440 points of concern were identified, most of which have been addressed with the support of rigorous quarterly compliance review conducted by the Chief Compliance Officer.

Sustainability Highlights

Disposal of Organic Residue to Cement Industry

A positive development regarding disposal of our organic residues was the opening up of an alternative, environmentally friendly option as compared to incineration. During 2008-09, we disposed 240 tons of organic residues to the Cement Industry for use as feedstock in the cement manufacturing process.

Solvent Recovery Systems

During 2007-08, we initiated the Solvent Recovery System (SRS) project across all our Hyderabad-based CTO units. We aimed to recover spent solvents in-house instead of sending them to external recyclers, as there was concern that the organic residues generated during the recovery process would be dumped in an unauthorized manner.

The project, completed during FY 2008-09 at a cost of Rs. 250 million, resulted in a significant reduction in our overall hazardous waste disposal.



Fifth Wastewater recycling facility

During FY 2008-09, a Wastewater Recycling Facility (WWRF) was commissioned in the Biologics Development Centre (BDC), making it the fifth such facility in the Company. A full-fledged Environment monitoring laboratory was also commissioned to support the facility. The entire effluent generated by the BDC is treated in this facility and then recycled back as cooling tower

make-up or boiler feed water. The WWRF is mainly a combination of Effluent Treatment Plant (ETP), Reverse Osmosis Plant-1 (RO1), Reverse Osmosis Plant-2 (RO2), Multiple Effect Evaporator (MEE) Plant, Agitated Thin Film Dryer (ATFD) and Sewage Treatment Plant (STP).

Looking to the future

- Prioritize and implement actions to reduce greenhouse gas emissions
- Complete Rain Water Harvesting projects and provide Wastewater recycling facility in FTO-2 and FTO-3
- Make our upcoming Special Economic Zones (CTO SEZ in Vizag and FTO SEZ in Medak) world class and sustainable by incorporating our learnings and industry best practices in terms of automation, water conservation, GHG emissions reduction and green products / processes



Chemical operations Facility at Miryalguda, India.

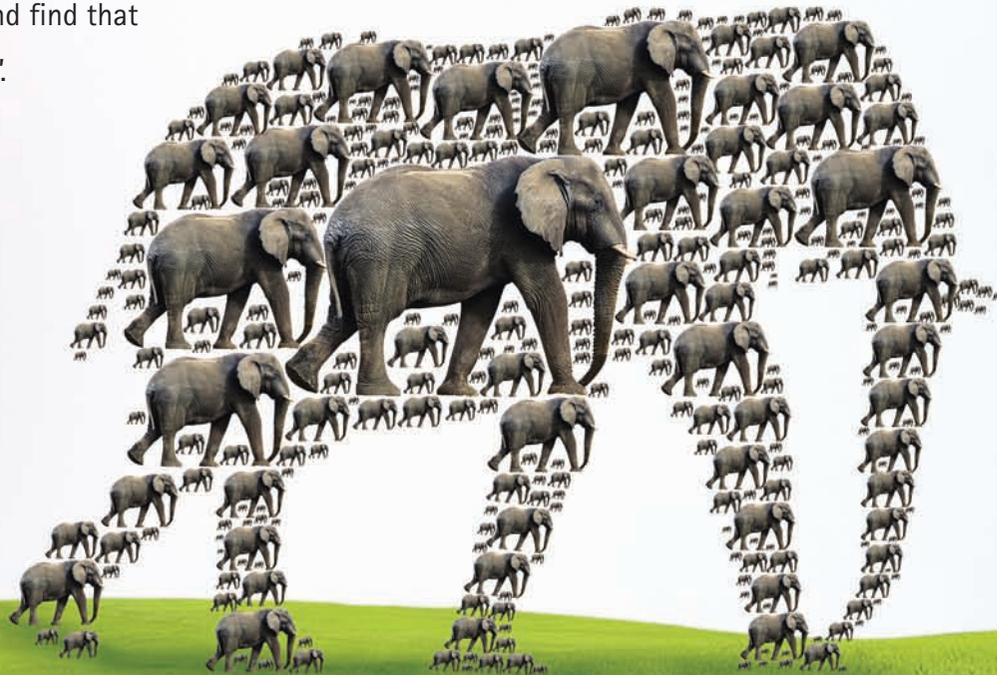


One happy & safe family...

Being Employer of Choice

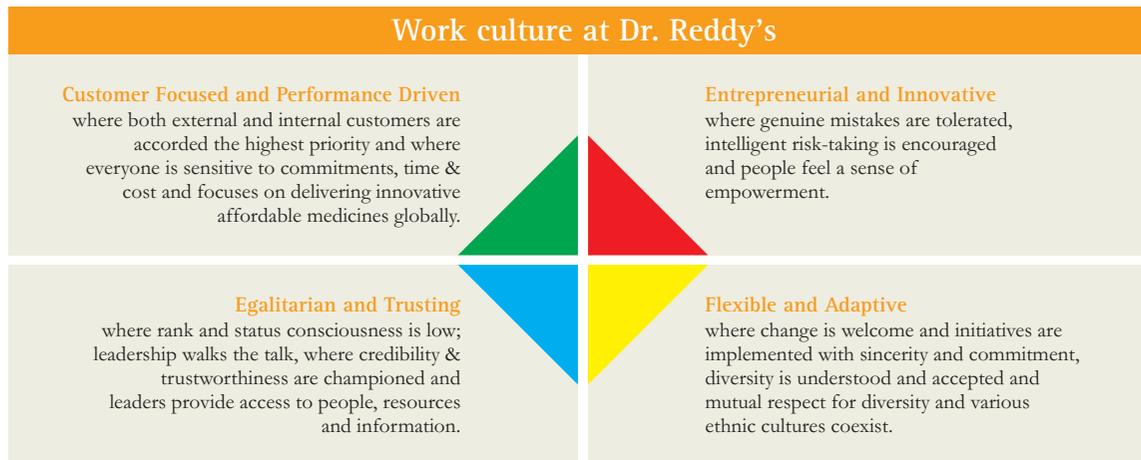
Our employees work as One Team, collectively ideating, innovating and interacting, to fulfill our purpose of providing affordable and innovative medicines for healthier lives.

To enable them in this pursuit, we offer a conducive working environment that taps one's potential while offering freedom to question, innovate and find that 'better way'.



Delivering Sustainability: Process

We believe in giving people freedom to experiment and innovate.



Talent Management



Our focus has predominantly been in the areas of hiring and learning & development with a focus on Leadership development. Recently, we articulated eight competencies that will be the fulcrum of our talent management focus – from talent acquisition to career progression and leadership development.

Learning & Development

We adopt a multi-pronged approach to address diverse learning requirements of employees. This includes providing options for continuous learning and career development (e.g. through Long Term Education Plans).

Details of long-term education programs through tie-ups with leading universities are shown below:

Capability Building Programs in FY 08-09	Number of Participants
MBA - Pharma Management (includes first and second batch)	82
MS (Pharmaceutics)	37
M.Sc (Pharmaceutical Chemistry)	33



Training Programs (Internal & External) FY 08-09

Management Level	Work Level	Number of Participants
Senior Management	4B and above	98
Middle Management	2B to 4A	730
Junior Management	1A to 2A	1508
Staff	Officer-1, O-2, O-3	662
Trainee	Technical Trainee, Management Trainee	344
Total		3342

Our learning agenda has been as much about managing organizational change as it is about developing leadership. Keeping pace with changing times, and thriving on change, was the driver for an organisation-wide strategic initiative: “Execution Excellence”. Preparing the skills and spirit of our people to a new operating paradigm and enabling culture has been a major change effort within the organization.



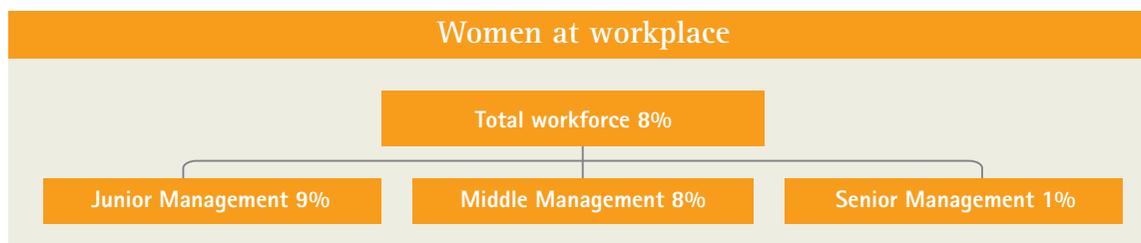
Dr. Reddy's was ranked the Best Workplace in the biotech / pharmaceutical industry in India for 2009, in a study conducted by The Economic Times and the Great Place to Work Institute. This can be attributed to our highly motivated talent pool, which goes the extra mile, to realize our Corporate and Sustainability goals.

Leadership Development

Quality leadership drives Sustainability, and we provide our people opportunities and skills to make a difference to the Company, and the world at large. Through Leadership Development, we aim to build a broad spectrum of capability at management levels, so that internal talent is always available to propel the organization's strategic direction. Senior and middle management are trained through schemes like coaching and mentoring, and programs are run to help transition our people across levels in terms of capabilities, which could be by way of thinking or execution, with regard to projects, new products, delivery and execution.

Diversity

We believe in fair practices, inclusive growth and meritocracy and advocate the right to equal and transparent employment opportunities for all. Focusing on employee diversity and providing fair opportunities for all led to revamping our Employee Referral Scheme - “Parichay”, making referrals of women and differently-abled candidates more rewarding. Now, 8% of our total workforce is women, and we are working towards getting more women into leadership positions.



Internal Communication

To keep communication channels open with employees, we have an internal function and a network of correspondents to manage employee communication initiatives. These include Elixir – the house magazine, Around Dr. Reddy's – the monthly newsletter, internal mails on organization news, messages from senior management and the Company news page.

The CEO posts blog entries, articles, opinions and his quarterly Communiqués on his Intranet website – 'Perspectives'. Employees can post comments in order to foster dialogue on various issues.

During the Quarterly Communication Meet, senior management interacts with employees from various business units, along with the heads of various functions, to help them understand the Company's culture and priorities better.

Safety and Health

Management has the responsibility to ensure that people who come to work each day go back home without physical injury or exposure to occupational health hazards. For this it is essential to have in place elements such as leadership commitment, line management ownership, employee involvement and awareness, risk analysis, incident investigation and emergency preparedness. Such elements combined with safely designed and well maintained physical facilities would ensure a safe & healthy workplace.

Overall Health & Safety awareness and performance in all manufacturing facilities has improved. Line manager involvement has increased and regular management reviews ensure Health & Safety is essential to the business process. At the same time, we are conscious of the incidents during the year, from which we continue to learn. We reaffirm our commitment to establish a proactive and safe culture, with respect for every individual at the core of our health & safety management system.

Sustainability Initiatives

9 Box Performance Potential Framework

- This year, we institutionalized a 9-Box Performance-Potential framework to assess talent and identify gaps. Our talent is measured on two parameters: Performance & Potential. An Individual Development Plan is created and monitored based on the matrix to ensure appropriate interventions on the road to making good leaders.
- We nurture a talent pool for critical positions and skills for both - short and long term. A pipeline of future management talent is created, which will enable transition from one leadership stage to the next.

Leadership Programs

Some key programs for the development of Leadership and Organizational Culture were:

Senior Leader's Program: Learning from peers in other organizations

Leader's Talk Series: Experience-sharing sessions by renowned thought leaders and academics

Leadership Summit: Developing common perspectives on key organizational priorities - Strategy, Leadership, Culture and Change



360 degrees feedback

We recast our 360 degree feedback process, to make it more comprehensive and cover more managers. Downstream interventions will help us stay focused on competency based development and an ever-rising bar of leadership behavior.

Managers gave a positive response to the exercise conducted in FY 2009. It was linked to competency and integrated to promotion and while complementing Company's overall strategy.

Sustainability Highlights

Leadership Academy

Our Leadership Academy was commissioned this year; a state-of-the-art infrastructure aimed at being a catalyst for our Company-wide culture of continuous learning. The Academy encourages people to come together to ideate and introspect.

Women's survey feedback

Our second Women's Survey conducted was received well. The initiatives have been appreciated, and at the same time, we have received inputs on how we could bring in improvement in some of our activities. Almost 90% of the women are satisfied with the facilities provided to them and appreciate the emphasis the organization is placing on the women's agenda.

2 acre site within campus at Hyderabad
2 theatre style classrooms (75 seating capacity)
3 open style classrooms
280 seater auditorium
Computer-based training room
Boardroom-cum-learning resource centre



Friends Forever - An Alumni initiative

While we undertake all measures to control attrition, some of it is inevitable. But we believe that once a Dr. Reddy's employee, always a member of Dr. Reddy's family. Launched 'Friends Forever' - an initiative where we stay in touch with our Alumni on an ongoing basis.

Health surveillance

We changed our strategy towards Medical Surveillance employees/contractors working in our sites. A renowned Occupational Health specialist conducted the annual health check-up in most CTO plants, and no major issues were uncovered. The vigil on preventing exposure of employees to occupational health hazards will continue.

Safety Leading Indicators

Traditionally our performance was evaluated by measuring only lagging indicators such as recordable injuries, fires, spills etc. During the year we also started evaluating our performance by measuring Leading Indicators. Leading Indicators track the progress of underlying processes and behavior which can ultimately deliver a consistent and predictable performance. Elements that are being tracked include Leadership Commitment, Alertness & Vigilance of Safety Personnel, Employee Involvement, Employee Motivation, Safety Awareness, Risk Analysis, Near Misses / Minor Incidents and Emergency Preparedness.

Safety Performance

During the year, 82 safety related incidents were reported from across all locations in India, nine of which were lost time accidents. Maintenance practices, Chemical Handling, Equipment related issues, Manual Handling and fires due to static generation were some of the main causes of the incidents.

Monthly Safety Awareness Campaigns

To maintain alertness & awareness on safety at the desired level, monthly safety campaigns were initiated across all manufacturing sites on topics like Emergency management, Static electricity, Work permit system, Construction safety and Laboratory safety. As part of this program, every plant was asked to choose 1 safety related topic each month and then to conduct an awareness campaign on the same by various means such as banners, posters, training, quiz programs and screening films.

Corporate Safety Guidelines

As part of continuous improvement, 12 Safety guidelines were released by Corporate SHE during the year 2008-09 covering key areas such as Leadership Commitment, SHE Suggestion Schemes, Nitrogen gas safety, excavation, change control, confined spaces and risk analysis.

Corporate Safety Audits

During 2008-09, Corporate Safety Audits were conducted across 8 locations of the organization and a total of 228 recommendations were given to improve the safety standards. These audits were conducted based on Checklists developed for Compressed Gas Cylinder safety, Electrical safety and Incident Reduction.

Material Safety Datasheet Compliance

During the year subscription was taken to the Chemwatch database which lists updated Material Safety Data Sheets (MSDS) for over 3 million chemicals. This enabled us to obtain credible MSDSs of many chemicals as well as finished products thus giving a boost to compliance and safe handling of chemicals.

Safety Training

During FY 2008-09, 1451 training sessions were conducted across our sites, clocking about 47,543 hours of training man-hours. Most sessions were conducted by internal faculty while a few sessions



on specialized topics like Static Electricity, Risk Analysis, Powder Handling and Electrical Safety were conducted by external faculty.

Emergency Preparedness

During the year, 17 mock drills, 16 Fire drills and 10 First Aid training programs were conducted. As on date 1089 trained fire fighters and 663 trained first aiders are available across various locations.

Organization

In the recent past the SHE Organization has also been strengthened by creation of some key positions like CTO SHE Head, FTO SHE Head and two specialist positions were created in Corporate SHE in areas of Process Safety and Industrial Hygiene.

Looking to the future

- Nurturing a talent pool for critical positions and skills
- Creating a pipeline of future management talent and enable them to transition from one leadership stage to the next
- Getting more women into leadership positions
- Institutionalizing the Risk Analysis methodology for API and Formulations Manufacturing
- Establish framework and awareness regarding Industrial Hygiene and Occupational Health
- Significant reduction in Lost Time Accidents
- Corporate SHE audits of all locations in India with focus on Safety and Industrial Hygiene
- Upgradation of the SHE Infosite with improved Safety workflows
- Institutionalize use of Safety Leading Indicators across more locations



Earning our wings...
...product responsibility

As a responsible pharmaceutical company, there is no scope for error in anything we do. We comply with regulations in all our processes, adhere to stringent safety standards and ensure that our products are of superior quality. Quality Management, Regulatory Compliance and Product Safety are our key concerns



Delivering Sustainability: Process



Quality Management

To ensure high levels of Quality and Compliance, some of our manufacturing processes have been automated, to reduce human error. We also have in-process checks at critical stages and stringent procedures to assess the impact of errors and prevent their recurrence. We aim to ensure that every step in our processes is done ‘first time right’.

Quality Assurance

Quality is sustained right from development to commercial dispatch, by deploying actions under two heads:

- a) Development Quality Assurance (DQA) – R&D
- b) Quality Assurance (QA) – Commercial

DQA ensures that the right product is developed, which is safe, pure and efficacious. QA assures quality standards are maintained until the product reaches the patient. Detailed procedures for each system ensure uniformity and consistency in our work.

Regulatory Compliance

We ensure our products comply with standards in the countries we operate in. Our manufacturing facilities comply with local regulatory requirements, as well as with countries to which our products are exported.

Product Safety



We comply with the globally recognized International Conference on Harmonization guidelines on product development, benchmarking to specifications that ensure product quality and safety. Each product developed is compared with the innovator product to establish bioequivalence, clinical efficacy and safety.

Pharmacovigilance spans two areas:

1. Post marketing - surveillance is carried out amongst a huge population
2. Clinical trials - conducted within a controlled population

The Pharmacovigilance Team works with the Regulatory and Quality Assurance Teams to address product related issues and conduct health hazard assessment, if needed.

Marketing & Product Promotion

We ensure that we provide information to medical professionals, patients and key personnel in the Pharmaceuticals Industry which is always accurate, up-to-date and medically validated. Promotional and patient education literature is checked by our Product Management team and Team Medical Affairs who ensure we adhere to stringent guidelines.

Addressing customer concerns

The Customer services cell has a system in place to address any concerns from Regulatory bodies, patients, doctors, other health professionals, pharmacists and field employees. Logging in a complaint triggers alerts to the Quality Assurance (QA) teams at respective plant (where the product originated from) for necessary action. The complaint is analyzed and evaluated by the respective QA teams, Packaging and Medical Affairs team.

A process is in place to streamline response to every concern on the company's products thereby creating a clear communication channel and better accountability between the company and the public.

Sustainability Initiatives

Focused approach

We recently introduced Focused Teams that do only one job at a time. This spells better prioritization during the development stage, and has reduced the scope for errors.

Compliance

Each facility in India has been audited and certified by an Indian regulatory authority.



Quality Compliance checks at our Chemical and Formulation Facility, India.



Manufacturing Facility*	Regulatory Certifications
FTO1	WHO, ANVISA, Romania
FTO2	WHO, MHRA, Ukraine, Romania, Brazil, ANVISA
FTO3	WHO, FDA, MHRA, ANVISA, TGA, Romania, MCC, Danish Medicines Agency, Ukraine
FTO4	WHO
FTO6	WHO
FTO7	WHO
CTO1	WHO, FDA, Danish Medicines Agency, Korea FDA
CTO2	WHO, FDA, Danish Medicines Agency, Korea FDA
CTO3	WHO, FDA, Danish Medicines Agency, Korea FDA
CTO4	WHO, FDA, Danish Medicines Agency, Korea FDA
CTO5	WHO, FDA, Danish Medicines Agency, Korea FDA
CTO6	WHO, FDA, Danish Medicines Agency, Korea FDA, TGA, PMDA

*All the above are India based manufacturing facilities

Our facilities are inspected by the US FDA to assess compliance with current Good Manufacturing Practice (cGMP) regulations. All API manufacturing units and two Formulations facilities have been inspected and certified by the US FDA. The Ministries of Health of Brazil (ANVISA), Ukraine, Romania, Therapeutic Goods Administration (TGA), Danish Medicines Agency and World Health Organization have also approved our facilities.

Marketing & Product Promotion

We provide our professional sales representatives in-depth training, to help them communicate effectively with customers. They get inputs on product background, therapeutic profiling, marketing and soft skills.

Sustainability Highlights

Material Sourcing Quality Assurance (MSQA) group

A dedicated team was set up to support alternate vendor development processes for Key Starting Materials which are otherwise sourced through single vendors.

Quality and Regulatory initiatives are implemented at SBPs sites to ensure that manufacturing and supply of key raw materials meet regulatory requirements. Detailed, robust procedures ensure uniformity and consistency in Market Complaint Handling, Deviations, Change Control, Vendor Management, Training, Documentation, etc. Each team member is first trained on these systems and on Good Manufacturing Practices.

Through Contract Manufacturing and Strategic Sourcing, MSQA works for the continuous development of our SBPs.

Driving Quality Excellence in PSAI

To build competency and skills, in-house workshops were initiated using our internal resource pool - 'Learning Curve'. New recruits undergo extensive training on 'Quality in Dr. Reddy's'.

Last year, we launched eBPR (Batch Production Record) - a user friendly, versatile tool of process documentation which helps prevent operational errors and saves time.

Across locations, a dedicated Audit team coordinates with Plant Heads, Site Quality Assurance, Quality Control, Regulatory Affairs and Technical Services Department for harmonized systems. Observations are reviewed and responded to, for a focused approach on root cause analysis and improvements.

A team for handling complaints was created to keep track of response timelines and the quality of investigation.



Pharmacovigilance

We recently invested in ARIS GLOBAL, a sophisticated Safety database that helps us accomplish Good Pharmacovigilance practices. The regions we market medicines, can report adverse events, which are processed through this database.

Product packaging-addressing counterfeiting

Our systems to prevent counterfeiting of products include:

- Use of a specific sequence for batch numbering, manufacturing and expiry date
- Use of hologram stickers
- Coin reactive zone
- Specialized printing techniques to safeguard products from cheap counterfeits, such as: Flip image: Different images can be seen when the carton is viewed from different angles, Fusion screen: An invisible text/image can be viewed when matched with a counter screen. This printing cannot be duplicated by scanning or photocopying, Printing with UV inks: Invisible printing of text which is visible only under UV light, Split line: Text imbedded in parallel lines which cannot be seen by the naked eye and is visible after photocopying





The Codifying Strip has guidelines to eliminate obvious conventional practice; for example, the use of the 'full stop' in abbreviations, which helps identify counterfeits.

API Manufacturing Facility, Mexico

In 14 customer audits, our facilities, people and systems were commended and our Change Management System was recognized as a model to be implemented. For the second year in a row, no critical observations were found.

3 GMP Compliance Certifications were obtained – from Danish Medicines Agency (European Union), Therapeutic Goods Administration (Australia) and Mexican Health Authorities. This makes our plants the most reliable to manufacture API, and allows us to offer our products in regulated markets across the world.

Looking ___to the future

- Product Responsibility will always be a key focus area for us, and we will continue to follow stringent procedures to adhere to Compliance, Safety and Quality regulations.
- We will maintain our vigil over all processes to ensure our products are not counterfeited
- We will sustain Pharmacovigilance practices and build a globally robust system



The collective buzz...

Sustainable Sourcing

Sustainable Sourcing has two aspects: one relates to influencing our Business Partners to conduct their business responsibly, taking into account ethics, human rights, health & safety, environment and related management systems. The other involves minimizing our environmental impact by purchasing green products / services and streamlining processes.



Delivering Sustainability: Process

Our vendors, or Business Partners, are important stakeholders. We follow a policy of ‘nurture them, and let them grow’, as ultimately our growth is linked to their growth too.



Sustainable Business Partnerships

We assist our Business Partners with technological and financial support, so that they adopt Sustainable practices and grow successfully. We have introduced specific processes to help them imbibe Sustainability and maintain the same standards of responsibility as we do.

Sustainable Logistics

We aim to have our Business Partners set up their facilities in the vicinity of our units. This greatly reduces logistics and significantly minimizes the carbon footprint. Some are moving in this direction, and we are encouraging others to do the same.

Conservation of Resources

From inventory management to sourcing environmentally-friendly products, to supply chain initiatives, we have introduced several processes to conserve resources.

Sustainability Initiatives

Enabling compliance

Many of our Business Partners are WHO GMP certified and ISO compliant. We evaluate their compliance through audit data, and give weightage to those who are environmentally sensitive. We created a data bank on the SHE Infosite, where licenses of our Business Partners are archived. Mail alerts are triggered to their representatives and other stakeholders regarding expiry/non-receipt of licenses. Periodic safety audits are conducted at their facilities to check infrastructure improvement and systems implementation.

Risk Analysis

Last year, we conducted Risk Analysis for intermediates being outsourced to our SBPs. Our Team explains data and makes suitable recommendations to minimize risks. They could recommend a change in procedures, technical and administrative measures, and may call for infrastructural investment. The outcome is a comprehensive document regarding the process for implementation and revisions are based on change management protocol.

Replenish to Consumption – Inventory management

To reduce waste, we implemented ‘Replenish to Consumption’, a strategy devised through Supply Chain Excellence to replenish stocks based on actual consumption by the customer. We have migrated to ‘supply to demand’ for purchase of raw materials, ensuring only the right amount of stocks is supplied to us when the need arises. This process is being stabilized and its impact on reducing waste in terms of excess inventory, non-moving stocks and simplification of transactions will be seen shortly.

Sustainability Highlights

Enabling our Business Partners in Facility Design

We have published a comprehensive booklet on “Facility Designing in line with GMP”, to help our Business Partners consider certain factors before setting up their production facility. These include location & surroundings, requirements for the manufacturing area, facility for sterile dosage forms, equipment, utilities, warehousing and QC lab. It also has a list of documents to be maintained as part of Good Documentation practices and provides a checklist for self inspection and non-conformances.



Risk Analysis Team’s Success Story

This came about with the implementation of recommendations at our Strategic Business Partner’s (SBP) manufacturing facility, which involved risk analysis of Sodium Hydride block. Measures suggested were kerosene circulation for Sodium Hydride reactor, oxygen analyzer, flame arrestors, and eco-ventilator. The unit was recently audited by our customer and was duly appreciated.

Enabling Compliance Management

We created a data bank on the SHE Infosite, where the licenses of our Business Partners are archived. Mail alerts are triggered to their representatives and other stakeholders regarding expiry/non-receipt of licenses. Periodic safety audits were conducted at their facilities to check infrastructure improvement and systems implementation. Over 22 safety audits were carried out and 60 observation points closed.



Vendor Lab and Use Test Lab

We maintain high quality standards, and believe that our SBPs should do the same as well. Hence, we created a Vendor Lab, through which they can manage processes faster, validate new sources and new technologies, speed up implementation and conserve higher cost facilities. Alternate sources quickly integrate recent technologies with the supply chain for mutual benefit.

In the pharmaceutical industry, maintaining high quality standards and robust systems is crucial. Hence, through Use Test Lab, analysis is done to ensure that our Finished Drugs meet the high standards set. This helps in our Sustainability efforts, as we strive to improve the health of individuals, and at the same time, work to provide alternate sources and lower cost intermediates. With this analytical process in place, we keep a check on destroying some volumes of intermediates when impurities are discovered.

Enabling resource conservation

To conserve resources, we introduced recycled paper for shippers (outer cartons) for nearly 40% of our sourcing quantity. The balance is mandated to be of virgin paper which has no recycled component. For secondary packaging, 90% of printed cartons are made with white back board, which comprises 50% or more recycled components.

Looking into the future

- ★ We will continue to seek and implement initiatives to conserve resources and reduce wastage
- We will keep encouraging our Business Partners to collaborate with us to strengthen our Sustainability efforts



A deep commitment... ...caring for communities

Giving back to the community that supports them, is the mission of many forward-thinking organizations. Dr. Reddy's implemented this long ago with 'caring for communities' ingrained in our values & priorities. Through Dr. Reddy's Foundation, established in 1996, we have launched a number of social initiatives – from education to livelihoods and microenterprises.



Delivering Sustainability: Process

Dr. Reddy's focuses on two main areas for sustainable community development:

- To progress and provide for the community around us, we introduced various development initiatives to enhance healthcare and education in areas around our manufacturing units. In addition, through The Power of 10™ employee giving program, our employees' contributions provide assistance to Naandi Foundation, one of India's largest social sector organizations
- To benefit individuals and society at large, we support non-profit organizations like Dr. Reddy's Foundation (DRF) and Center for Social Initiative and Management (CSIM)

Sustainability Initiatives

Livelihoods:

Create, implement and disseminate sustainable, replicable livelihood models through partnerships. LABS assists youth (18-35 years) constrained by low income levels, inadequate skills, irregular employment, absence of training & development opportunities, family indebtedness, and little bargaining power at economic or social levels.

Education:

Provide learning opportunities to those who have never been to school, or have dropped out, and also work toward improvement of quality of school education.

Employee Involvement

- The Power of 10™ program with Naandi

The Power of 10™ is an employee-giving program, wherein the Company matches the employee's donation. The funds are used for health and education programs such as:

- School Child Health Program caters to the health needs of over 52,000 children in 285 schools
- Ensuring Children Learn Program improves the quality of education in government primary schools, and aims to reduce the number of dropouts. Over 16,000 children in 378 schools have benefited
- Safe Motherhood & Child Healthcare Program, supported by Naandi, aims to reduce the number of infant deaths by training traditional birth attendants in hygienic delivery procedures and encouraging them to seek formal medical help in a crisis. Over 2000 pregnant women have received timely assistance till date

Employees contributed Rs. 2,072,677.00, and an equivalent sum was put in by the Company, resulting in an annual corpus of Rs. 4,145,354.00 for the year 2008-09.

As part of our stakeholder engagement, interviews were conducted among employees to gauge awareness and get suggestions regarding our Sustainability initiatives. Employees were proud of their involvement in the 'Power of 10' program as it was a direct, personal contribution towards

Sustainability. But, more than providing just financial assistance, employees want to engage in Corporate Volunteering, and offer their time and talents towards formal, structured Sustainability programs.



Working with Communities across geographies

- India

The following initiatives are conducted for communities around our locations:



- Germany - Initiatives at beta Institut

beta Institut, supported by betapharm - Dr. Reddy's German subsidiary, has various programs addressing children, cancer and stroke patients, doctors and healthcare workers. They develop interventions which address unmet needs, create systems for regular support and emphasize training and knowledge transfer.

- *Papilio* - a nursery school program for the early prevention of addiction and violent behavior using the Augsburg Puppenkiste (Puppet Show) – has involved around 50,000 children
- *mammaNetz*: In its sixth year, this project provides orientation and support to women in all stages of breast cancer. Patients are accompanied individually, if needed, from first diagnosis to aftercare. It also connects all facilities which treat the women or could be of help, thus enhancing aftercare substantially
- *PatientenNetz Schlaganfall* supports patients and their family after a stroke, and aims to reach the highest possible quality of life for patients



- *betaCare* supports doctors and healthcare workers with critical knowledge. They inform patients quickly and competently on social questions through telephone helplines, directories, a search engine and training courses. Over 2.5 million data calls are made per month

- Romania - Youth programs



Dr. Reddy's has been supporting the "Young People in Transition" project in Cluj-Napoca, through the Power of 20 employee-giving program. This aims to prevent street children and benefit youth at foster care centers, and from crisis situations.

- Drug donation for Doctor Packs for International Health Partners (IHP), UK

Since 2006, Dr. Reddy's UK has been supporting IHP with their Doctor Travel Packs - Emergency Kits deployed when IHP deals with worldwide emergencies. Each kit, which includes over 50 essential medicines is designed to act as a mobile dispensary for medical teams.

Sustainability Highlights

The Power of 10™ program with Naandi

Ensuring Children Learn: A case Study

Janardhan, a Class 5 student at the Government Primary School, Ambedkar Nagar in Shaikpet Mandal of Hyderabad topped his class in the academic year 2007-08. What makes this achievement extraordinary is that he is a first generation learner. His father Krishan is a construction worker and his mother Lakshmikantamma is a maid. Their family which includes Janardhan's brothers Bhaskar and Somesh, migrated to Hyderabad three years ago. Janardhan's family lives in a hut and eats two meals a day. With few to no basic amenities. This family exists below the poverty line, like millions of others in the city of Hyderabad.

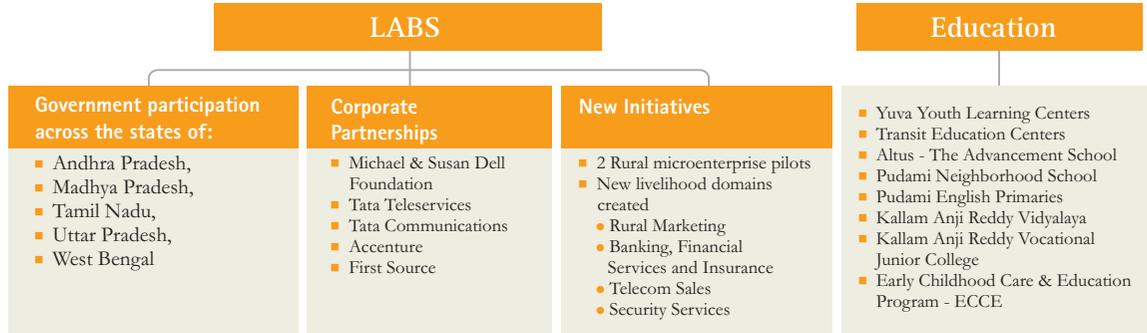


But the similarity ends here. From being a poor student when he joined the Academic Support Center in Class 2, Janardhan has risen to the top of his class in Class 5. For this transformation, Govardhan Reddy, headmaster, gives credit to Naandi Foundation's community activist Varalakshmi, who has been with this centre for the past three years. Her constant attention and encouragement have sparked a love of learning in many of the children. Janardhan, of course, is the jewel in the crown. The Academic Resource Coordinator has counselled his parents to ensure Janardhan has their support for his education. His parents agree wholeheartedly!



DR. REDDY'S FOUNDATION

Everyone has the capacity for self-improvement, if given the right opportunities. This is the basic tenet of DRF, which assists individuals, groups and organizations in sustainable self-development. DRF reaches out to large, lesser privileged sections of society with innovative, scalable projects. Flexible enough to meet varying needs, these programs span two broad categories:



Livelihood Advancement Business School (LABS)



To help youth enter the competitive job market, LABS trains and mentors them with livelihood and soft skills in an interactive environment, to develop their inherent strengths. The curriculum is constantly upgraded in tune with industry requirements. Aspirants also go through intensive Communicative English, on-the-job training and work-readiness modules, to understand the workplace better.

Budding Entrepreneurs launch BPO

In February 2009, nineteen LABS aspirants from the Thiruvananthapuram center set up their own BPO enterprise - 'Vega Data Solutions'. Contributing Rs. 2000 each, they hired computers, worked hard and soon built up a good order book. However, lack of regular power supply, as well as a generator and UPS, necessitates long hours to complete assignments on time.



It happens only in a Pudami School

Amongst the prestigious initiatives of DRF are the Pudami Schools. Literally translating to Mother Earth, these schools have been conceptualised with the aim of providing good, quality education for children from all walks of life and within the neighborhood. These schools which are all English Medium schools with parallel transition courses for children who have moved in from Telugu Medium, Rolled into the methodology are Remedial Courses and Focused Teaching to achieve grade specific competencies. There are several unique methodologies that have been incorporated into our Teacher Training Modules. In all, we now have set up 35 Pudami Schools under the Pudami Education.

Having said all this about quality education, we now move on to the most important reason why Pudami Schools exist - to impart education that does not discriminate between the haves and the have-nots. They are neighborhood schools providing quality English Medium education and at the same time, creating opportunity for both the landlords' child and the farm labourer's child to study in the same classroom!

Against all Odds

VH Suraj (21), from Kerala, born with a hearing impairment could not read or write well; due to which, he had to drop out of school. He had a special talent for electrical work and, encouraged by friends, he started carrying out minor repairs to appliances. He soon became popular, but the money barely sufficed. Then, Suraj heard of Grameen LABS, and enrolled for a 'Multi-Skilled Technician' course. Though his impediment was a challenge, he managed to communicate effectively with his facilitators. He passed with flying colors and got a job with Hero Honda as a trainee electrician. His diligence paid off – from Rs. 1000 pm, he jumped to Rs. 2500, within a month. Both, his employer as well as his parents are proud of this star achiever!

Looking to the future

- Dr. Reddy's will continue to give back to society through investment in Dr. Reddy's Foundation and ongoing participation in community development around manufacturing locations
- We will provide momentum to corporate volunteering initiatives
- We will sustain The Power of 10TM program



“All the areas where the Company has operations – PSAI, Global Generics and Proprietary Products – have contributed to the overall commitment of significantly increasing reach and affordability of medicines.”

COO Satish Reddy’s interview for Sustainability Report 2008-09

What is the outlook towards Sustainability at Dr. Reddy’s and in the pharmaceutical industry?

Sustainability has been an ongoing philosophy at Dr. Reddy’s. Product affordability, access to medicines and company’s contribution to the community were the key Sustainability issues in the founder’s mind when he launched this Company.

Right now, there is a sweeping change in the global pharmaceutical industry with one of the pressures coming in from the need to improve accessibility to affordable and innovative medicines. The issues range from treatment of neglected diseases in tropical countries, improving access through partnerships with Governments and providing alternatives to existing high cost delivery systems. For Dr. Reddy’s, this is no different from the goal of its founder, to provide affordable medicines for all. The strong growth across 25 years of the Company is a testament to this vision.

How have the various Company divisions contributed to the Sustainability effort?

All the areas where the Company has operations - PSAI, Global Generics or Proprietary products - have contributed to the overall commitment of significantly increasing reach and affordability of medicines. In keeping with this commitment, the Company has undertaken programs that go beyond ensuring reduction in the price of drugs, and to take the agenda of providing affordable and innovative medicines into new domains.

As an example, the company has empowered Oncologists in India to provide free drug treatment to those who cannot afford it for certain drugs that are out of reach for most patients. Going beyond economic considerations, the Company has identified areas, such as patient counselling, which are also critical in cases of life-threatening diseases in an effort to improve the overall healthcare system. A Patient Care-giver process has been identified, which enables doctors in the management of patients and provides education to patients regarding their condition. In one way, this demonstrates the Company’s holistic approach to Sustainability and providing affordable and innovative medicines to all. The rural market pilot equipped the Company to identify and analyse new areas, in its quest to improve the supply of affordable and innovative medicines. This will go a long way in determining the rural penetration strategy from a social and product point of view.

What are the other Sustainability initiatives taken by the Company?

Sustainability at Dr. Reddy's goes beyond offering affordable and innovative medicines, to include employees, community and the environment. In the area of HR, the Company continued hiring despite the global recession. Ever-evolving People practices focus on holistic development of employees, and the Company has never slashed training budgets, despite facing several downturns. This is simply a manifestation of its firm commitment to People development. Diversity (including encouraging women employees into the workforce) is another focus area for the Company. Today, 8% of the Company's workforce is women, and the management is keen on getting women talent into leadership positions. The management's next endeavor is to bring differently-abled, people into the workforce, in order to provide them opportunities.

With regard to the environment, what is the Company actively pursuing?

At Dr. Reddy's, the approach to the environment is not an 'end of pipe' solution. The Company gives significant thought to processes at every step to ensure minimum damage to the ecology. Our mandate now, is that "every new product should have a sensible footprint". Green Chemistry, championed by an employee, with management support is now an organizational initiative and has ongoing efforts in a Centre of Excellence at our Integrated Product Development Organization (IPDO).

At a community level, how is Dr. Reddy's making a difference?

In order to provide a brighter future to disadvantaged populations, Dr. Reddy's innovates with novel, scalable concepts. Focusing on possibilities rather than problems, the Company launched Livelihood Advancement Business School (LABS) – a social commitment initiative. The market was scanned for opportunities; relevant training was identified and imparted, resulting in recruitment and livelihood for many. As a catalyst for this model, the Company has evolved a unique, sustainable venture that can be scaled up to a global level, enabling partnerships across governments and leading Corporates.

How has Sustainability percolated through the Company?

The key challenge of Sustainability is to drive the Company vision to employees across functions. The Leadership team believes in a "Walk the Talk" concept. For them, Sustainability is a part of "Collective Action" beyond a discussion at Management level. This is clearly demonstrated by questions that are asked regularly, that go beyond profitability at how each function is contributing to the same. The Company makes efforts to gain knowledge from other industry leaders on issues which have significant implications in the future. These interactions allow the management to anticipate tomorrow's challenges and be prepared well in time with appropriate action; in most cases, proactive, rather than reactive.

What are the Sustainability growth drivers for Dr. Reddy's?

Sustainability in the core business is going to be driven by Biologics, which is currently focused on Generic biopharmaceuticals. The strong pipeline of Biosimilars directs a healthy future growth from a product perspective alongwith the range of generics products being developed that have scaled up considerably.

Growth is slated to be higher in emerging markets, compared to the regulated market. This is where the Company is well-positioned for traction as it has partnered with a global major to gain access to these markets.

An integrated view of operations will help drive seamless performance across functions and will drive execution excellence. This is essential as the company takes on ambitious targets in its efforts to emerge as a leader in the major markets as well as in the businesses it competes in.



Satish Reddy

Company Profile

Established in 1984, Dr. Reddy's Laboratories (NYSE: RDY) is an emerging global pharmaceutical company. As a fully integrated pharmaceutical company, our purpose is to provide affordable and innovative medicines through our three core businesses:

- Pharmaceutical Services and Active Ingredients (PSAI), comprising our Active Pharmaceuticals and Custom Pharmaceuticals businesses;
- Global Generics, which includes branded and unbranded generics; and
- Proprietary Products, which includes New Chemical Entities (NCEs), Differentiated Formulations, and Generic Biopharmaceuticals.

Our strong portfolio of businesses, geographies and products gives us an edge in an increasingly competitive global market and allows us to provide affordable medication to people across the world, regardless of geographic and socio-economic barriers.

Our products are marketed globally, with a focus on India, US, Europe and Russia. Dr. Reddy's conducts NCE research in the areas of metabolic disorders, cardiovascular indications, anti-infectives and inflammation.

We are:

- Among the leading global pharmaceutical companies from India
- 5th largest branded generic player in Germany
- Ranked 7th in the retail segment in Russia, the largest player from India
- Among the Top Ten generic companies in India
- Among the Top 3 Active Pharmaceutical players globally
- Top 3 Abbreviated New Drug Application (ANDA) and Drug Master File (DMF) pipeline in the USA
- Among the largest players in the Custom Pharmaceutical Services (CPS) segment
- 4th on Environment & Social Governance Index, India
- Best Workplace in Pharma & Biotech - Great Place to Work 2008 and 2009
- The fastest path to USD 1 billion in revenues amongst Indian Pharma companies

Corporate Governance

At Dr. Reddy's, our Board of Directors, management and employees are committed to upholding high standards of corporate governance and business ethics. We firmly believe that timely disclosures, transparent accounting policies, rigorous internal control systems and a strong and independent Board go a long way in preserving shareholder trust while maximizing long-term shareholder value.

Dr. Reddy's Board of Directors comprises eminent individuals from diverse fields. The Board acts with autonomy and independence in exercising strategic supervision, discharging its fiduciary responsibilities, and in ensuring that the management observes the highest standards of ethics, transparency and disclosure. Committees appointed by the Board focus on specific areas, take decisions within the authority delegated to them and make specific recommendations to the Board on matters in their areas or purview.

The Management Council is the top tier of our company's management structure. The management of Dr. Reddy's has developed and implemented policies, procedures and practices that attempt to translate our company's vision, mission and purpose into reality. The management also identifies, measures, monitors and controls the risks factors in the business and ensures safe, sound and efficient operation.

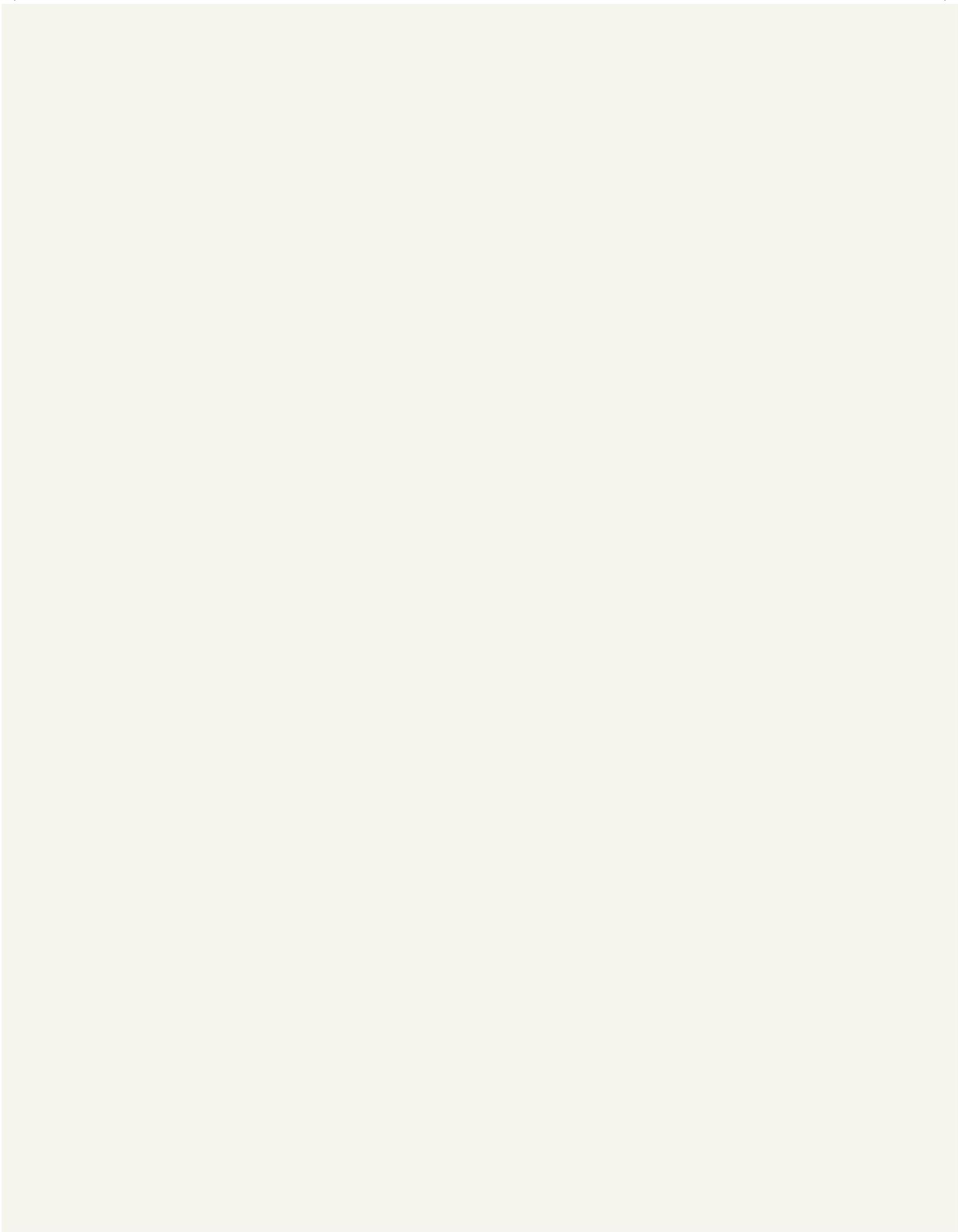
As a value-based, socially responsible organization, Dr. Reddy's is bound to the highest ethical standards in our operations and our behavior. We have adopted a Code of Business Conduct and Ethics (COBE) which applies to every employee, regardless of level or position, and lays down the principles that guide our conduct.

Our internal control systems are regularly checked by both external and internal auditors, who have access to all records and information about our company. The Board and the management review the findings and recommendations of the auditors and take corrective actions wherever necessary.

We have established several systems and procedures to disseminate relevant information to our stakeholders, including shareholders, analysts, suppliers, customers, employees and the society at large. The primary source of information is our corporate website www.drreddys.com.

We welcome your feedback, comments and suggestions on the 2009 Sustainability Summary Report to make our next report even better. Send your response to Raju Subramanyam, Corporate Safety, Health & Environment at: subramanyam@drreddys.com or sustainability@drreddys.com

The complete report is available on www.drreddys.com/sustainability
You can also rate the report online.



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