



Living our values for  
sustainability

## Values.

They're all around us; beaming down from colourful wall posters, set in glorious type inside corporate brochures, scrolling innocuously at the bottom of a website. And yet for many of us they remain a blind spot - more type in a world already swamped by the written word.

But what if they were to come alive? What if they left the cold confines of the printed page to reside in our minds and hearts? Would they transform into action? The answer, as every employee of Dr. Reddy's will tell you, is a resounding yes!

With this report, we hope to take you through our many initiatives, both large and small, that we believe are creating a positive difference to the environment, society and economy, and by implication, to our lives.

# Scope of the report

This report on sustainability is our fourth, prepared with guidance from the reporting guidelines recommended by Global Reporting Initiative. In presenting our sustainability focus and our commitment to sustainable development, the report not only discusses safety, health and environment issues, but also social, ethical and economic topics of importance across the financial year 2006-07.

This is a voluntary information-sharing exercise and is directed towards an internal and external audience: to generate greater employee awareness on the one hand and catalyse a broader industry responsibility on the other.

To enable theme comprehension and to present the content concisely, the report has been segregated into three sections - economic performance, environmental footprint and social responsibility – and presented with a view to assess its impact with the discipline of an ongoing review and year-on-year comparison.

Under the economic section, the report has detailed the impact of the organisation through its sustained

performance and profitable growth. The value being added by the business to the patient community has also been underlined.

Under the environment section, the report has considered water usage, energy consumption, hazardous material management, effluent discharge, water and air pollution load as well as solid waste management. Its scope covers the six units of Chemical Technical Operations that manufacture Active Pharmaceutical Ingredients, five manufacturing units of Finished Dosages, a unit of Biologics and one of Discovery Research all based in India.

Under the social section, the report deals with talent management, employee growth, training and skill development and the development and promotion of initiatives at the individual / group / organisation level to address key social issues. This report also makes a beginning with reporting the community and patient assistance programs in progress in Mexico and Germany, the two countries the company placed its footprint through acquisitions last year.

# Contents

4	Statement from the Chairman
5	Message from the CEO & COO
9	Sustainability statement
10	Business profile
14	Industry context
17	Sustainability framework
24	Governance structures and management systems
30	Economic performance
42	Environmental footprint
68	Social responsibility
108	Achievements
111	Way forward
112	Glossary of terms
113	VALUES - our guiding principles



# Statement from the Chairman

## The social web

Every year the word sustainability takes on a greater importance, a greater responsibility at Dr. Reddy's. I am glad we expand our mind every year. I am glad we stretch the limits.

As the company grows I am more and more convinced that it cannot sustain if we disregard that very wise saying - we are as strong as the weakest link around us.

Think about this: If a forest is dying, exactly what odds does one magnificent tree have of carrying on, even if you water and tend to it diligently? For Dr. Reddy's to endure, not only must we tend to our own assets – our employees - but also the people outside our walls. We have to remember that the magnificent tree cannot survive in spite of the forest; it will do so because of it.

Discontent, poverty, illiteracy are unfortunately endemic in the world around us, and like the tree, for us to exist and grow we have to ensure this ecosystem around us is happier, healthier and more hopeful. That's the true measure of sustainability - creating systems and cultures that live and let live.

I am proud that at Dr. Reddy's, we have founded Dr. Reddy's Foundation and have also co-founded Naandi Foundation - two social responsibility arms that have helped us serve and impact those lives that are on the periphery, lives that comprise the eco-system. They have helped reduce inequity, inequality and injustice, even if their reach today is only 10,000 villages or just a million people. They are unflinchingly and unfailingly

moving towards impacting more. The forest, after all, is a huge area.

Take for example, Naandi's work – with small farmers helping them revive irrigation schemes to reduce distress migration, with tribal communities helping them grow coffee organically for export so they have sustainable incomes, of providing safe drinking water solutions for villages plagued with bacteriological and fluoride contamination, and for underprivileged women and children so that from pregnancy to adulthood they are saved from preventable deaths, they get quality health, nutrition and education – they have contributed to improving the quality of life of these underserved communities. Dr. Reddy's Foundation (DRF) is making India's youth employable. It's remarkable in as much as every youth that is an alumni of DRF, today is in the organised sector, has a stable job and has helped his or her family cross the poverty line.

This report is to uphold this culture of giving back to society and to seek your support for giving it more. I take immense pleasure when Dr. Reddy's is hailed as one of the most progressive companies in the pharma world, and I also instinctively remember the line from the Spiderman film, where the Uncle tells Peter Parker, '*With great power comes great responsibility*'. We must remember, and must respect that.

Dr. Anji Reddy

# Message from the CEO & COO



Dr. Reddy's is a values-led company. We define our purpose in terms of the needs of the society we serve. Our purpose is to help people lead healthier lives. Our vision is to become a discovery-led, global pharmaceutical company. We strive for excellence in everything that we do. This, combined with a clear commitment to the best ethical practices, forms the foundation of our values which we summarise as being:

- quality
- respect for the individual
- innovation and continuous learning
- collaboration and teamwork
- harmony and social responsibility

Last year's Sustainability Report was an expression of *"Applying Sustainability Thinking"*. This report, our fourth Sustainability Report, is about *"Living our Values for Sustainability"* and in it we track these values in action, how our values are integral to achieving Sustainability and how they underpin the operational performance across the Triple bottom line.

We believe that there is a strong link between the kind of company we have chosen to be, and the significant success we are achieving. We are now the fastest growing pharmaceutical company in India.

This year has been a phenomenal year. Dr. Reddy's has become the largest and most profitable pharmaceutical

We are building an organisation with global reach around the cornerstone of sustainability. This means being deeply sensitive to the changing needs of the people and communities that we touch.

company in India. We are among the top 15 generics players in the world and are well placed to grow towards becoming one of the top 10 global generics companies in the future.

We are building an organisation with global reach around the cornerstone of sustainability. This means being deeply sensitive to the changing needs of the people and communities that we touch. That is why we try to be informed about new agendas that are being developed by bodies like the UN Global Compact, Tomorrow's Company, and the World Business Council for Sustainable Development. Over the last twelve months, alongside 10 other global companies, we took part in the ground-breaking Tomorrow's Global Company Inquiry and we strongly agree with the opening sentence of that report:

*"We all believe that for companies to succeed into the future, they must play a greater role in contributing to solving the problems that society faces, including environmental degradation, poverty and the abuse of human rights."*

## The world around us

We are operating this business in turbulent times, times which pose risks but also present great challenges for Dr. Reddy's.

Half of the world's population now live in cities, compared with only 13% a century ago. By 2060 the figure will be 60%. The developing world accounted for 46% of world output, up from 39% in 1995. According to one estimate by 2050 the combined economies of

China, India, Brazil, Russia, Indonesia and Mexico will have outstripped those of the USA, Japan, Germany, France, Italy and Canada by about 25%.

India has the highest number of diabetics in the world and annual coronary deaths are expected to reach 2 million by 2010. At the same time, around 2.5 million children in India die from infections such as pneumonia, diarrhoea, and malaria every year. In South Africa, infectious diseases account for 28% of years of lives lost while chronic diseases account for 25%. The increased burden of chronic diseases in countries that also have a high infectious disease burden is straining their health services.

The nature and spread of diseases suffered in both developed and developing countries is converging rapidly. According to the WHO, ailments such as cardiovascular disease, cancer and diabetes now account for 45 per cent of the global disease burden. Around 80 percent of this burden now occurs in low and middle-income countries. Chronic diseases cause four out of five deaths in lower-income countries.

We believe that Dr. Reddy's has a clear and significant part to play in growing its business through meeting some of these needs. This is first and foremost through the product we make. But it is also through the way we do business – the adverse impacts that we avoid and the contribution our people, our foundation and financial support extended by us can make to basic education, sustainable livelihoods and quality of life for the wider community around the places where we have a strong presence.

Sustainability is a framework which integrates all our strategies, systems, processes and practices. Viewed from a broad angle it makes us a powerful force of good in our business, our communities and society. It helps us enable our employees reach their potential, it helps our customers directly and it creates value for society. At the end of the day we make the world a better place – this is a powerful motivator for all of us.

## Uniting social, economic and environmental objectives

In an era when increasing demands are being made on healthcare services of developed and developing countries, generic medicines provide a major benefit to society by ensuring patient access to quality, safe and effective medicines while reducing the cost of pharmaceutical care. Generic medicines cost a fraction of the original products, which is good news for patients and greater access to medical care for more people.

Aligning our success with major health needs of the world, three things drive our business; they define our strategy and determine our impact. They are access to medicines, making medicines affordable and finding treatment options for unmet or poorly met medical needs.

We have a generics business which is both branded and unbranded. Our focus here is to provide affordability and access to large numbers of people. While building a global generics business based on access and affordability, we are investing surpluses to build strong capabilities in Discovery Research to develop novel products for unmet medical needs.

Our Discovery Research had seven New Chemical Entities (NCEs) as on March 31, 2007, of which five are in clinical development and two at pre-clinical stages. We are continuing to advance these NCEs through a combination of in-house development, partnerships and co-development initiatives.

In doing so, we have shown that we can create value for all our stakeholders in a simultaneous and sustainable way.

There are times when our focus on the long-term needs of the business and of society may curtail dividends, and this can only be justified if it represents an investment in better future returns for all our stakeholders. After a difficult period, we believe this year's record results have vindicated us in this strategy, and in this report we show what it means in terms of our economic, environmental and social impacts.

Aligning our success with major health needs of the world, three things drive our business; they define our strategy and determine our impact. They are access to medicines, making medicines affordable and finding treatment options for unmet or poorly met medical needs.

## Efficiency, waste reduction, and better delivery: Execution excellence

We are also placing increasing emphasis on execution. All the best companies have clear strategies. Only the very best execute them well. Dr. Reddy's Execution Excellence Model (DREEM) has spawned key focus action in both business and enabling processes. Our efforts at *Lean Manufacturing* ("doing more with less") in both finished dosage and active pharmaceuticals is promising. We have also made good progress in the way we develop products at Integrated Product Development Organisation (IPDO) leading to increased throughput, higher quality, lower cost and integration of Intellectual Property in product development. As part of our commitment to the principles of sustainable development, safety, health and environment continue to be priority areas. We are optimising environmental impact with leading environmental technologies and culture building initiatives. This along with emphasis on lean management, simplification of processes is making us a more efficient business and a more responsible one.

## Leadership, people and relationships

A company is the sum total not of its transactions, but of its people, and its relationships, and of the vision, purpose and values that bind us together. In reading this report, we would urge you therefore to see the future not simply in terms of our products and our strategy and systems, important as these are. Ultimately, the company is as good as its people and their energy and rate of learning. It is through their actions that you will

ultimately be able to see the sustainability of this company and its potential to have positive impact in the world around us.

Building leadership is a big priority for us. Possibly the biggest constraint for our growth aspirations will be the quality and quantity of leadership that we have. We need leaders who dream big. We need leaders who drive flawless execution. We want leaders who will establish thought leadership and define excellence in their fields. We need leaders who can inspire and develop our people across boundaries. Above all, we need leaders who can visibly live and champion our organisational values and be effective in the partnerships that will accelerate our progress so that the whole company in all its relationships lives the spirit that is Dr. Reddy's.

## Creating value for the future

Experience and research both point in the same direction: the companies which create the most long-term value are those which succeed in building beyond successful transactions, beyond successful relationships, and through to the point when they become successful institutions. Successful institutions develop deep loyalty and positive support among all their stakeholders.

In the twenty-first century, the only way to build a successful institution is to think and plan sustainably and globally. As a result we believe the organisation we build can re-invent itself, sustain and thrive through changing generations of technology, managers, shareholders and society, attributable to embedding sustainability in its fabric.



G.V. Prasad



Satish Reddy

# Sustainability statement

Our businesses strive to make medicines more accessible, affordable and address unmet or poorly met medical needs through innovation. We commit to deliver all our products and services through environment-friendly and socially responsible operations. By adhering to the following, we aim to deliver sustained value with equal emphasis on people, planet and profits.

- Ensure customer confidence through *product responsibility*
- Conform to *precautionary principles* and *Green Chemistry* in selecting new sites or new process development and production operations to prevent unintended environmental impact and; establish anticipatory action plans to mitigate any unanticipated environmental effects
- 'Do more with less' by focusing on *execution excellence* and *waste minimisation* in all forms
- *Communicate openly and consistently* with all our *stakeholders*, to be sensitive to their needs and explain our actions
- Build *long term relationships* with our *suppliers*, selecting those whose standards and practices are compatible with our principles of sustainable development
- Respect *human dignity* and adhere to all *human rights* and applicable *labour standards* in all operations, whether internal or those of our business partners
- Sustain *equal opportunity* employment practices and encourage *affirmative action* to build a diverse workforce
- Nurture a work environment that enables the *well being of our employees* and supports them to *realise their potential*
- *Practise sensitivity to and establish workplace programmes for alleviating global environmental, social and health concerns* such as pollution, global warming, water scarcity, child labour, poverty, HIV/AIDS and other infectious diseases
- Support and encourage *community development* through high-impact initiatives in select areas like education, livelihood and health

This Statement, in line with our Purpose and Values, together with our Safety, Health and Environment Policy, Quality Policy and Code of Business Ethics (COBE) applies across Dr. Reddy's.

# Business profile

Dr. Reddy's Laboratories was established in 1984 with a purpose – 'To help people lead healthier lives'. Over the years the Company has emerged as a global pharmaceutical company with proven research capabilities.

Our business has a dual impact. Through our Generics and API business, we strive to make medicines more accessible and affordable globally and through our Innovation business we address unmet or poorly met medical needs through novel development of drugs.

Dr. Reddy's Laboratories is a vertically integrated pharmaceutical company with a presence across the value chain through its various businesses, including APIs, finished dosage forms (branded as well as generics), Biologics, Specialty Products and NCEs. The Company's products are marketed in over 100 countries with an emphasis on North America, Europe, India, Russia and other emerging markets. The Company conducts drug discovery research in the areas of metabolic disorders, cardiovascular indications and infectious diseases at its research facilities in Atlanta (USA) and Hyderabad (India).

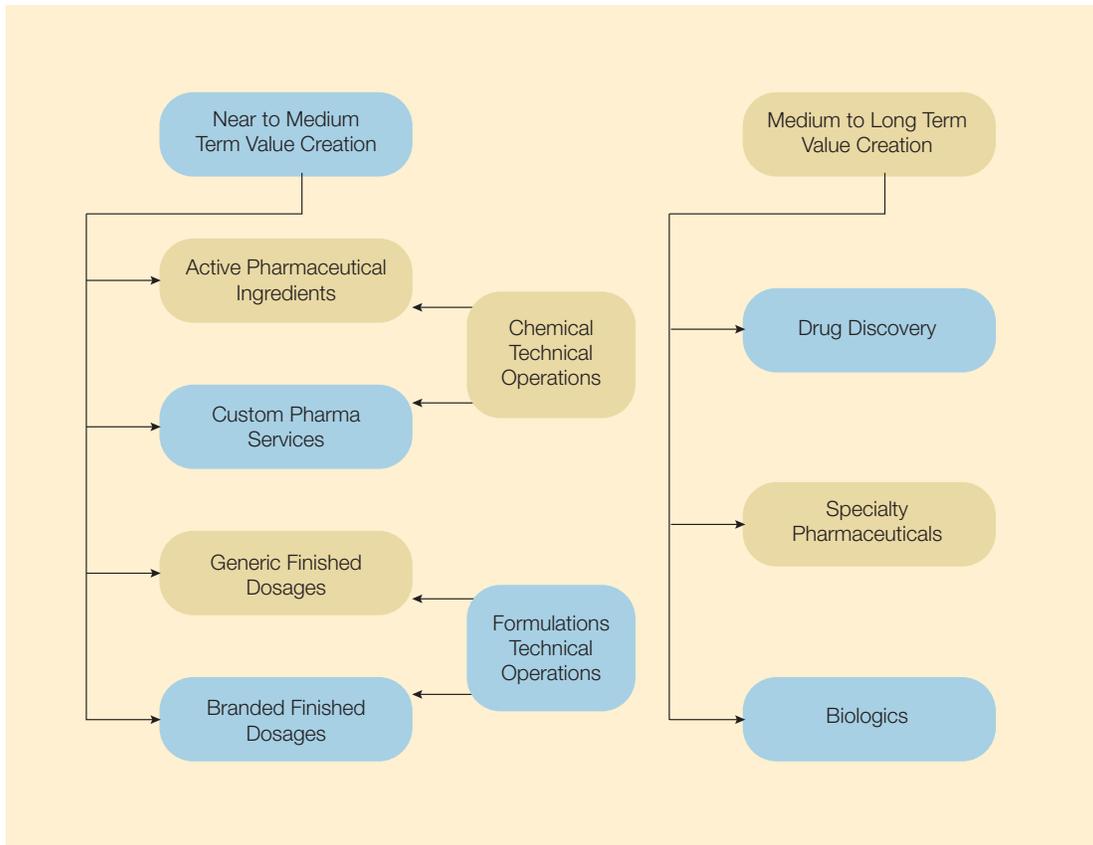
Dr. Reddy's Laboratories is a vertically integrated pharmaceutical company with a presence across the value chain

Our formulations provide us with a wide therapeutic presence: cardiovascular, gastrointestinal, pain, anti-infectives, diabetic care, nutraceuticals, dermatology, respiratory, dental, urology, women's healthcare, surgery and central nervous system.

Through its Custom Pharmaceutical Services business unit, the Company provides drug substance and drug product development and manufacturing services.

# Our vision

“To become a Discovery-led Global Pharmaceutical Company”



## Drive

Long-term stakeholder value creation

The Company committed significant investments in the infrastructure and facilities for almost all its businesses to support potential revenue scale-up in the near future. Focus has also been on rapid scale-up of the API pipeline, branded finished dosage and generics finished dosage businesses, which will not only enhance value for our stakeholders but also generate surpluses for reinvestment in our innovation-led businesses.

The acquisitions made in the financial year 2006 of betapharm, Germany's fourth largest generics pharmaceutical company and Roche's Active Pharmaceutical Ingredient manufacturing site in Mexico, have performed

well. The two acquired companies with its people and processes are now well integrated into the Company.

Our manufacturing plants – Seven CTO (Chemical Technical Operations) units (including Mexico) that produce APIs and Six FTO (Formulations Technical Operations) units for finished dosages – are benchmarked with demanding standards from international regulatory bodies – US FDA (six API units), UK MHRA, MCC and MCA – and are therefore equipped to manufacture products addressing the prescribed standards of different markets across the globe.

Our research facilities at Atlanta (USA) and Hyderabad (India) comprising over 300 R&D professionals help us address the unmet and poorly met medical needs of society. Our presence in the US provides a proximity to the *'thought leaders'*, who conceive breakthrough developments in the fundamental understanding of disease mechanisms. It also affords us a competitive advantage in gaining valuable insights into the underlying disease mechanisms. The chemistry-based drug discovery strategies being developed by scientists at the Hyderabad facility complement this pursuit of a *'target based'* drug discovery approach. In addition, a synergy has been created between the two facilities in terms of developing therapeutic area expertise.

The Integrated Product Development Organisation (IPDO) at Dr. Reddy's is all about better identification of new products and significantly reducing the time taken between concept and delivery of the medicine in the market place.

In the beginning of 2006, the IPDO was restructured in terms of three overlapping sets of Product Delivery Teams (PDTs), Centers of Excellence (COEs) and Common Resources (CRs). In a year, the IPDO has already helped create value creation through IP and proactive patenting; by early development work on certain promising molecules; breakthrough product delivery; by delivering cost leadership in API.

Headquartered in Hyderabad, India, we enjoy a wide global presence and an extensive marketing network through international subsidiaries and joint ventures. Our global presence leads to a sensitive understanding of the local laws in the countries of the Company's presence.

- Global commercialisation infrastructure with focus on US, Europe, India, and Russia (presence in 40+ countries; products sold in 100+ countries)
- Manufacturing infrastructure of 13 facilities (8 US FDA inspected)
- Manufacturing locations in India, UK, China and Mexico
- Research and development locations in India and the US
- Wholly-owned subsidiaries in the US, UK, Russia, Germany and Brazil
- Joint-Ventures in China, South Africa and Australia
- Representative Offices in 16 countries
- Third party distribution setups in 21 countries
- Revenue growth of 35% CAGR from FY01 to FY06
- Increase in international (ex-India) revenues from 49% in FY01 to 86% in FY07

The Company has been engaged in several initiatives to improve the overall manufacturing efficiencies including reduction in wastage and operational cost.

Our differentiated product development portfolio has scientists and medical professionals working in close collaboration to address unmet medical needs in a variety of therapeutic areas using novel drug delivery systems, formulation strategies or drug combinations.

## Dr. Reddy's:

- The leading and most profitable pharmaceutical company in India
- 4th largest branded generic player in Germany
- Ranked 15th in the retail segment in Russia, the largest player from India
- 10th largest finished dosage player in India
- Among the largest API players globally
- Top 5 ANDA and DMF pipeline in the USA
- '4th Best Company to Work For' in India
- Amongst Best Employers 2007 in India
- The fastest Indian pharma company to cross \$1 billion in revenues.
- Among the largest players in the Custom Pharmaceutical Services (CPS) segment
- Largest R&D spend in Drug Discovery in India

Corporate office headquarters in Hyderabad, India



# Industry context

*“Humanity’s greatest advances are not in its discoveries – but in how those discoveries are applied to reduce inequity. Whether through democracy, strong public education, quality healthcare, or broad economic opportunity – reducing inequity is the highest human achievement.”* – Bill Gates, Chairman, Microsoft Corporation & Co-Founder, Bill & Melinda Gates Foundation

Since the advent of modern medicine in the 19th century, the pharmaceutical industry has grown to include thousands of companies worldwide. The largest and most established of these companies comprise one of the most profitable sectors of the global economy. Yet, only a fraction of the world’s population today has physical access to necessary, life-enhancing medicines. Even a smaller subset of that population can consistently afford such care. Furthermore, in spite of staggering advances in scientific knowledge and capabilities, the

cost and time utilised to discover and develop new medicines are ever-increasing. The pharmaceutical industry’s ability to better and lengthen the lives of patients worldwide will require nothing short of a paradigm shift – in business models, in public-private sector interfaces, in innovation. We are privileged to be part of an industry that can not only deliver on a promise, but also an obligation – to better the lives of those in need through accessible, affordable, and innovative life-saving medicines.

To understand the nature of some of the challenges and opportunities facing the pharmaceutical industry, let us consider the following:

## Access

- **A Challenge:** Over one-third of the world’s population still lacks basic access to essential

medicines. Only 50 percent of patients worldwide receive medicine that is properly administered. Key contributing factors certainly include (inadequate) health system infrastructures and treatment expertise, but drug availability, quality, and price also play a major role.

- **An Opportunity:** In spite of its limited healthcare infrastructure, Brazil has radically reduced its AIDS-related illnesses and deaths. Treatment adherence rates in Brazil are the same as those in the United States. Moreover, once the Brazilian government introduced generic competition for AIDS drugs, prices of those drugs dropped by 82 percent. The price of triple-combination anti-retrovirals went from US\$ 10,000 to US\$ 300 in the first year.

## Affordability

- **A Challenge:** Even in high-income countries with public funding for pharmaceuticals, nearly 30 percent of medicines are paid for by patients themselves. In low- and middle-income countries, this percentage increases to between 50 and 90

percent. In countries like Burkina Faso, drugs account for over 80 percent of the amount spent on health, leaving little income to cover any other health care needs.

- **An Opportunity:** Generic drugs can cost 25 to 95 percent less than their brand name counterparts. While we still hope for more public and private sector funding for patients' drug purchases, providing more affordable drugs will increase access and reduce costs. In the United States alone, a mere 1 percent increase in nationwide generic utilisation is estimated to save nearly US\$ 4 billion annually.

## Innovation

- **A Challenge:** According to World Health Organization estimates, the annual spend on research of medicine is US\$ 56 billion, but less than 10 percent of this is on illnesses that afflict more than 90 percent of the world's population. According to the Tufts Center for the Study of Drug Development, the cost of developing a new drug

“Humanity’s greatest advances are not in its discoveries – but in how those discoveries are applied to reduce inequity. Whether through democracy, strong public education, quality health care, or broad economic opportunity – reducing inequity is the highest human achievement.” - Bill Gates

has increased from US\$ 54 million in 1976 to US\$ 802 million in 2001, and it now takes 10-15 years to develop such a drug.

- **An Opportunity:** Much is to be gained by improving global R&D productivity. A component of the solution will involve optimising allocation of human and financial resources across the globe. The industry will also benefit by forging partnerships between public and private sectors, between companies from different countries, and between generic and innovator companies.

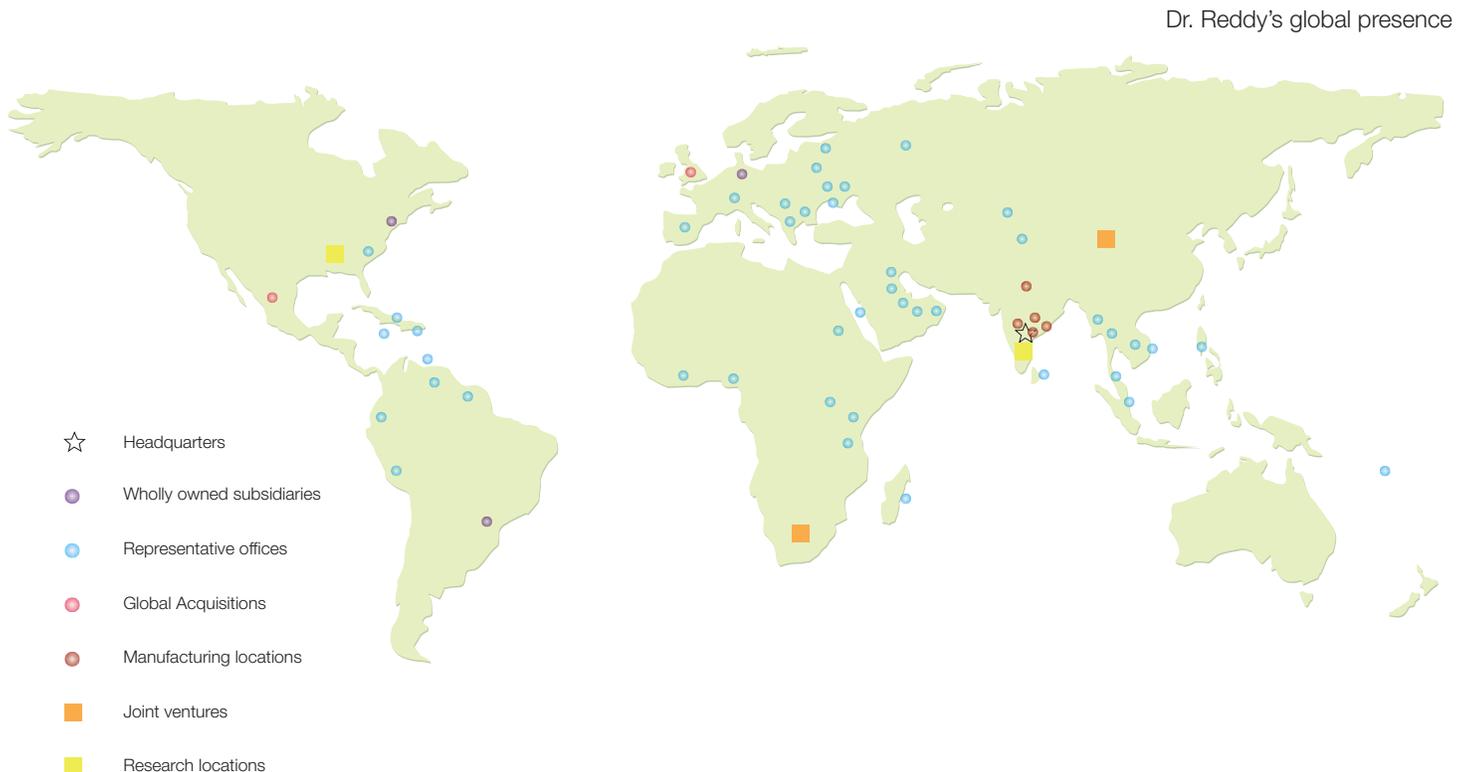
## Globalisation

- **A Challenge:** As the manufacturing, research and development, and commercial operations of pharmaceutical companies spread across continents in order to capture the benefits of a global supply chain and access to new customer markets, the complexity of day-to-day quality

management, productivity, human resources, finance, and customer service also increases.

- **An Opportunity:** Due to their global presence, many pharmaceutical companies are in a privileged position of being truly global citizens – and, as such, can commit to maintaining universally high standards of peak economic output and efficiency, sound environmental programs, and positive social intervention in all the communities that they produce and sell output, invest capital, and employ individuals.

At Dr. Reddy's, we embrace the opportunity to continue to improve these dynamics within the pharmaceutical industry and ultimately for the global communities in which we live. A greater goal is not only to positively impact these aspects, but to stimulate and implement that change in a sustainable way. This requires a consistently balanced and integrated approach to corporate responsibility – social, environmental, and economic – all the while improving global health.





Society



Environment



Economy

## Dr. Reddy's Sustainability framework

*"While we transform ourselves to achieve business success, help people lead healthier lives and become a force for good in the society, we will continue to maximise shareholder value and make it an extremely rewarding experience to be an investor in Dr. Reddy's. Our core purpose of helping people lead healthier lives will drive all our actions and investments. Dr. Reddy's will become one of the world's most innovative pharmaceutical companies, constantly searching for solutions for people's unmet needs and significantly improving their quality of life. While on our journey, we will continue to remain rooted in our values of quality, innovation and continuous learning, truth and integrity, respect for the individual, and social harmony." – Dr. K. Anji Reddy*



**Ameen intends going back home to Kerala to turn around his father's business one day.**

Ameen Muhammed works at the Sparsh – BSNL's Call Centre at St. Mark's Road in Bangalore. Sparsh handles all calls on billing to customer assistance from the south of India. This commerce graduate from Kerala handles calls from customers especially those from Kerala with great ease. After completing his graduation and with no jobs happening and no opportunities coming his way, he moved to Bangalore. A friend mentioned the LABS\* programme and Ameen enrolled for the three month Business Process Organisation course. On completion, the job at Sparsh happened.

With a pay of Rs. 4000 every month and with working hours between 7:30 am to 3:30 pm, Ameen knew he could pack more into his day. He lost no time and enrolled for a distance education programme to complete an MBA with ICFAI. Why an MBA? His father has an undersized business of making small furniture for hospitals. Ameen intends going back home to Kerala to turn around his father's business one day. That's where the MBA fits in. *For now let me soak in the experience of working*, he says.

\*To read about the Livelihood Advancement Business School (LABS), turn to page 83



Sustainability is reinforced by the business we are in. At Dr. Reddy's, we aim to help people lead healthier lives through two parallel objectives: delivering affordable and accessible medication to all parts of the world and discovering, developing and commercialising innovative medicines that meet unmet medical needs.

However, it is not enough to improve affordability and accessibility alone, or to increase innovation capacity. These contributions to the world need to be delivered in a sustainable and responsible way. As a company, we have embraced the Triple bottom line approach to sustainability.

While all companies are led by their purpose, being reminded of it everyday in the midst of short term demands is possible by living the Values. Therefore, while there may be many business cases for pursuing sustainability, at Dr. Reddy's, our commitment is anchored to our Values. The Values are universal, unchanging and provide space for creativity in the path of sustainability. And this commitment we deepen in our systems, processes, structure and thus in our performance.

Respect for all stakeholders and willingness to serve the needs of each constituency is inherent in our management systems. Extending this commitment to our behaviour is a crucial link that our Values provide. Embedding these Values has enabled us to reinforce the Triple bottom line approach and stay true to our citizenship responsibility, which is shaped by Dr. Reddy's Foundation (DRF), a non-profit organisation set up by Dr. Reddy's, which allows us to participate in society beyond business.

The Foundation is pioneering innovative solutions for quality in education and sustainable livelihoods. Working with particular emphasis on disadvantaged people at the bottom of the economic pyramid, DRF is making a social impact with the Livelihood Advancement Business School (LABS), which imparts demand-driven short-term vocational training courses in various industrial / service sectors. Utilising schools as community learning resource centres, DRF addresses the problem of high school drop-out rates in these communities by implementing innovative schooling strategies.

Environment management is a key focus at Dr. Reddy's. We have invested significantly in resources to reduce the ecological footprint of our operations. A key corporate priority at Dr. Reddy's, Safety, Health and Environment (SHE) programmes are nurtured rigorously. Main features of our work are: zero liquid discharge technology at Active Pharmaceutical Ingredients manufacturing facilities, regular safety training for manufacturing operations, emergency management and SHE culture building programs. Our Formulations facilities possess ISO 14001 and OHSAS 18001 certifications, demonstrating our performance in SHE management systems. SHE systems in the factories also ensure contractor management with key results associated with their safety and continuing compliance with onsite and national regulations.

The Triple bottom line (TBL) approach encompasses Dr. Reddy's Execution Excellence model (DREEM) which is anchored on Simplifying and Doing more with less. Emphasis on lean manufacturing, simplification in people processes and integrated product development to reduce time taken from concept to delivery of product into the market are results of DREEM.

Within the Triple bottom line approach, 'People' mean our customers, employees, suppliers, contractors, patients, investors and the community; in other words, our stakeholders. Regular stakeholder engagement enables us to integrate economic, environmental and social objectives in our business practices.

Employees are provided a high performing environment together with continuing focus on Learning & Development programs, Leadership development, Talent management and real time communication. The company is committed to being an equal opportunity employer.

The Business partners programme reaches out to key suppliers to build long-term relationships. The relationship is made transparent by the Code of Business Conduct and Ethics (CoBE).

We meet the expectations of patients and our customers by our efforts that promise product safety and quality. Thus we have an established process for Pharmacovigilance and commitment to current good manufacturing practices in all our manufacturing facilities, with our facilities being US FDA inspected and approved by regulatory authorities of several countries where we market our products. We focus on Patient

assistance programs that are targeted to create affordability and access to Dr. Reddy's brands in select therapeutic segments and also develop programmes that improve the doctor-patient relationship.

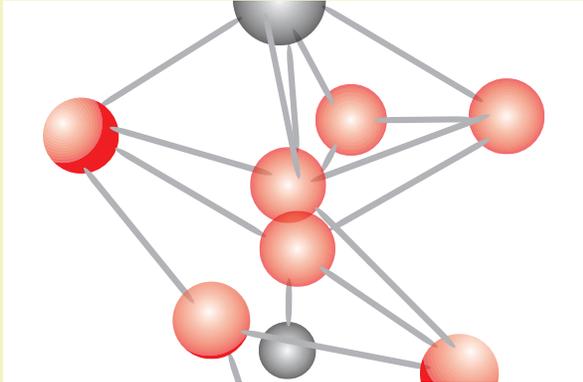
Community development programmes and participation in local initiatives are creating value in the domains of Education & Livelihoods in the neighbourhood of manufacturing facilities besides meeting community needs that achieve infrastructure and health related outcomes. Our employees are playing a significant role by joining the Giving programme, The Power of 10™ that funds two initiatives-*School Healthcare plan and Ensuring Children Learn*. The Volunteer Programme in the company has encouraged employees to volunteer with Dr. Reddy's Foundation, helping them to be active in communities. Another facet of our Community development programme is our support to outreach programs that influence Health education and Social entrepreneurship.

Dr. Reddy's Foundation for Health Education and Centre for Social Initiative and Management conduct educational programs to create resources like Patient educators and Social Entrepreneurs respectively.

Dr. Reddy's long-standing commitment to high standards of corporate governance and ethical business practices is a fundamental shared value of its Board of Directors, management and employees. The Company's philosophy of corporate governance stems from its belief that timely disclosures, transparent accounting policies, and a strong and independent Board go a long way in preserving shareholder trust while maximising long-term shareholder value.

Dr. Reddy's  
sustainability framework  
is guided by our Values,  
Triple bottom line  
philosophy and active  
citizenship.

# Impacts across key business processes



## Drug Discovery

### Environmental

- Animal testing
- Waste generation
- Energy consumption

### Social

- Product Safety
- Access to innovative & effective medicines
- Meeting unmet/poorly met medical needs

### Economic

- Innovation
- Affordability

## Product Development

### Environmental

- Eco-footprint (waste generated and consumption of natural resources) of new processes
- Energy consumption

### Social

- Meeting unmet/poorly met medical needs:  
Access to medicines
- Clinical trials
- Affordability
- Product quality
- Product safety

### Economic

- Continued profitability-pricing advantage
- Customer productivity (Speed/Timelines)
- Process innovation
- Stimulating business success (supporting internal & external customer for timely launch)



## Manufacturing

### Environmental

- Eco-footprint (natural resource consumption, recycling, waste generated, waste treatment and safe disposal)
- Energy consumption
- Environmental impacts of new facility development
- Environmental impacts of third party operations

### Social

- Product quality
- Product safety
- Product information
- Product complaint response process
- Process & plant safety
- Employee safety related to exposure to toxic/hazardous materials (cytotoxic)
- Labour practices (own & contract manufacturer sites)
- Quality & SHE practices of contract manufacturers
- Community relations
- Community impacts during new facility development
- Transport safety
- Materials storage, handling and containment safety

### Economic

- Third party manufacturing
- Job creation
- Local labour
- Capital investment
- Material procurement
- Loan licensee manufacturing
- Waste processing/recycling
- Waste disposal



## Sales & Marketing

### Social

- Supporting affordability of medicines
- Improving access due to availability to versions other than the ethical drug
- Ethical marketing, impacts of social marketing campaigns, patient assistance program
- Partnering with innovator companies, providing services in new chemical entity development, enabling timely launch of new product

### Economic

- Affordability (encouraging competition & downward price pressure), Accessibility
- Customer productivity (time to clinic/market)



Atiba Sahar is a Clinical Research Coordinator with the Yashoda Super Specialty Hospital, Secunderabad. Having earned a Bachelor's Degree in Pharmacy and a Post-Graduate Diploma in Healthcare Management from DRFHE\*, this enthusiastic young woman now co-ordinates clinical trials with a number of Contract Research Organisations on behalf of the hospital's Department of Pulmonary Medicine and Critical Care, sometimes handling up to four projects at a time. *Co-ordinating clinical research not only requires detailed knowledge of how a drug works in the body, it also requires skill in counselling patients who enrol for the programme. My Bachelor's Degree gave me the former, and my PGDHM gave me the latter,* she says.

Rigorous work schedule has Atiba working late hours, sometimes up to 4:00 in the morning. While Atiba must adhere to a very strict schedule during her clinical research projects, she also realises that the patients' needs must be met as well. *Every patient who enters the programme is unique and needs to be counselled in a way different from the rest. Balancing the needs of the patient with tough deadlines is a huge challenge,* Atiba admits.

Nevertheless, Atiba Sahar is always smiling. *I believe that no one can be good at their work if they don't enjoy it, and I really enjoy my work.*

\*To read about Dr. Reddy's Foundation for Health Education (DRFHE), turn to page 91

**Co-ordinating clinical research not only requires detailed knowledge of how a drug works in the body, it also requires skill in counselling patients who enrol for the programme.**



## The Board of Directors ▲

### Sitting (L to R)

Dr. J.P. Moreau  
Kalpana Morparia  
Dr. K. Anji Reddy  
P.N. Devarajan

### Standing (L to R)

Dr. Omkar Goswami  
Ravi Bhoothalingam  
Satish Reddy  
Anupam Puri  
G.V. Prasad  
Dr. Krishna Palepu



## ◀ The Management Council

### From L to R

**Row 1:** G.V. Prasad, Satish Reddy  
**Row 2:** Jaspal S Bajwa, Cartikeya Reddy,  
Amit Patel, Prabir Jha  
**Row 3:** Jeffrey Wasserstein, Abhijit Mukherjee,  
Rajinder Kumar, V.S. Vasudevan, Mark Hartman  
**Row 4:** Saumen Chakraborty, Ashwani Malhotra,  
Raghu Cidambi, Arun Sawhney, K.B. Sankara Rao

# Governance structures and management systems

At Dr. Reddy's, the integration of sustainability thinking with our core business processes occurs at two levels.

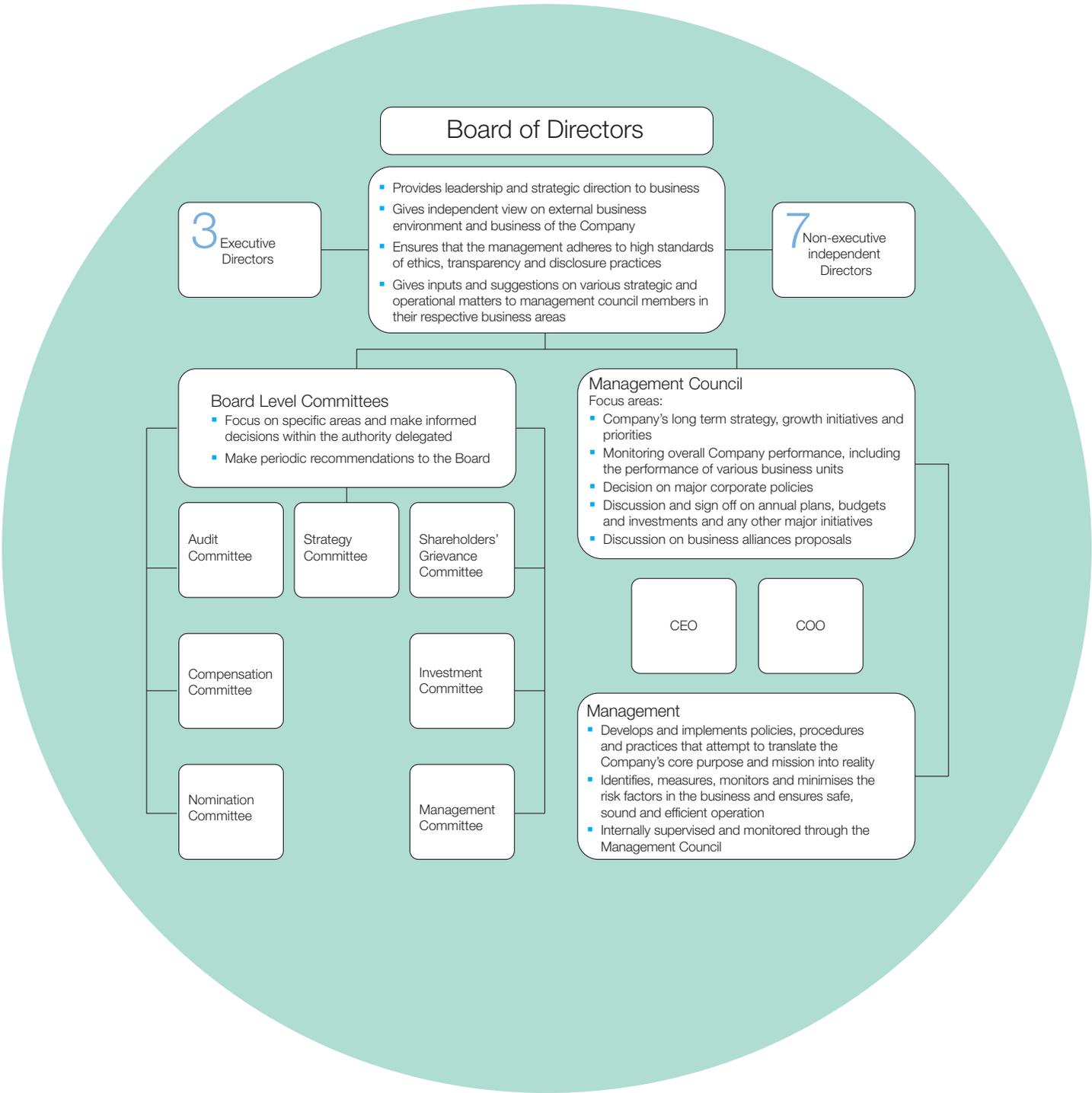
- The corporate level, where overall policies and strategic direction are set and capital is allocated.
- The business groups, which generate revenue and where the impact on communities and the environment are most immediate.

The Board of Directors help us set the strategic direction for the Company. It reviews broad corporate policies, overall performance, corporate social responsibility measures and other areas of significance to the organisation.

The Company's commitment to sound governance is reflected in the composition and independence of its Board. It comprises individuals of diverse backgrounds with broad relevant experience; its 10 Directors comprise 3 executive Directors including the Chairman and 7 independent Directors. At the Company, these

Directors bring in rich expertise across medicinal chemistry, human resource development, strategy, management, finance, law and economics.

The Company's commitment to sound governance is reflected in the composition and independence of its Board.



There are also Board-level committees like the Audit Committee, Compensation Committee, Nomination Committee, Strategy Committee, Shareholders' Grievance Committee, Investment Committee and the Management Committee. The Audit Committee, Compensation Committee and Nomination Committee are entirely composed of independent Directors. The Strategy Committee and Shareholders' Grievance Committee are chaired by independent Directors.

- Audit Committee supervises the financial reporting process; internal control processes; ensures accurate and timely disclosures that maintain the transparency, integrity and quality of financial control and reporting; supervises the Enterprise-wide Risk Management and reviews the Whistle Blower Mechanism.
- Compensation Committee recommends to the Board the compensation of the Executive Directors and Executives above the Vice-President level; it also reviews the remuneration package offered by the Company to different grades/levels of its employees. The Chief of Human Resources makes periodic presentations to the Compensation Committee on performance appraisals, increments and performance bonus recommendations, and other key HR issues.

- Nomination Committee selects nominees for induction to the Board of the Company and reviews principles of corporate governance. New Directors are nominated based on the value they will bring to the Board.
- Strategy Committee develops or reviews the Company's strategies and recommends to the Board its adoption and execution.
- Shareholders' Grievance Committee is empowered to perform all the functions of the Board in relation to handling of Shareholders' Grievances.
- Investment Committee reviews the Company's capital investment proposals and ongoing projects.
- Management Committee authorises the Directors and officers of the Company to deal with day-to-day business operations.

## Code of Business Conduct & Ethics and Ombudsman Procedure

The Company has adopted a Code of Business Conduct and Ethics (CoBE), which applies to all employees and Directors of the Company, its subsidiaries and affiliates. It is the responsibility of all employees and Directors to familiarise themselves with this Code and comply with its standards.

Shareholders voice their concerns, put forward their queries and give feedback at the Annual General Meeting



Areas requiring specialised knowledge are reviewed in partnership with external experts. Improvement opportunities identified during reviews are communicated to the management on an ongoing basis.

An Ombudsman Procedure has also been made under this Code, which describes the ombudsman framework and procedures for investigation and communication of any report on any violation or suspected violation of Code, appeal against any decision taken by the Ombudsman, and submission of complaint against any retaliation action against any employee. An independent Director has been appointed as Chief Ombudsman, and the reports and complaints submitted to the Company will be reported to the Audit Committee. The Code of Business Conduct & Ethics and Ombudsman Procedure have been posted on the Company's website – [www.drreddys.com](http://www.drreddys.com)

The Board and the Senior Management affirms compliance with the Code of Business Conduct and Ethics annually.

## Internal controls

The Company maintains a system of internal controls designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Adequacy of safeguards for assets
- Reliability of financial controls
- Compliance with applicable laws and regulations

The integrity and reliability of the internal control systems are achieved through clear policies and procedures,

process automation, careful selection, training and development of employees, and an organisation structure that segregates responsibilities.

Internal Audit at Dr. Reddy's is an independent and objective assurance function, responsible for evaluating and improving the effectiveness of risk management, control, and governance processes. The department prepares annual audit plans based on risk assessment, and conducts extensive reviews covering financial, operational and compliance controls and risk mitigation. Areas requiring specialised knowledge are reviewed in partnership with external experts. Improvement opportunities identified during reviews are communicated to the management on an ongoing basis.

The Audit Committee of the Board monitors the performance of internal Audit on a periodic basis through review of audit plans, audit findings and speed of issue resolution through follow ups.

## Internal controls on financial reporting

During the years 2005-06 and 2006-07, the Company devoted considerable time and effort towards the compliance with Section 404 of the US Sarbanes-Oxley Act (SOX) of 2002. In 2005-06, the Company became the first Indian manufacturing company to comply with Section 404 of the SOX, in advance of the mandatory deadline of March 31, 2007, which was applicable for foreign private issuers.



Dr. Reddy's 5th Anniversary Commemorative coin of being listed on the NYSE.



Prosperity should be measured not in terms of income but by the extent to which needs are satisfied. By the same analogy, the health and sustainability of a business should be measured by the Triple bottom line.

At Dr. Reddy's we believe that true sustainability is a simultaneous pursuit of economic objectives along with our accessibility, affordability and innovation agenda.



Scientists at work in the Integrated Product Development Organisation (IPDO) facility

2006-07 has been good to us. Dr. Reddy's became the largest pharmaceutical company from India both in terms of revenue as well as profits. The Company benefited from an unusual concentration of significant product opportunities across businesses.

### 2006-07: Key highlights

- We more than doubled our revenues to cross US\$ 1.5 billion in revenue. More importantly, we have achieved the US\$ 1 billion mark even after excluding the revenue from certain one-off opportunities.
- We generated record profit after tax of US\$ 216 million and record cash flows from operations of US\$ 274 million.
- We launched several key products capturing significant market shares.
- We improved our market ranking in some of our key markets and therapeutic segments.
- We expanded our geographical footprint.
- We made significant investments in creating new capacities.
- Most importantly, we continued to expand our product pipeline in each of the businesses.
- For more details, please refer to MDA section of our annual report. [http://www.drreddys.com/investors/annual\\_reports.htm](http://www.drreddys.com/investors/annual_reports.htm)

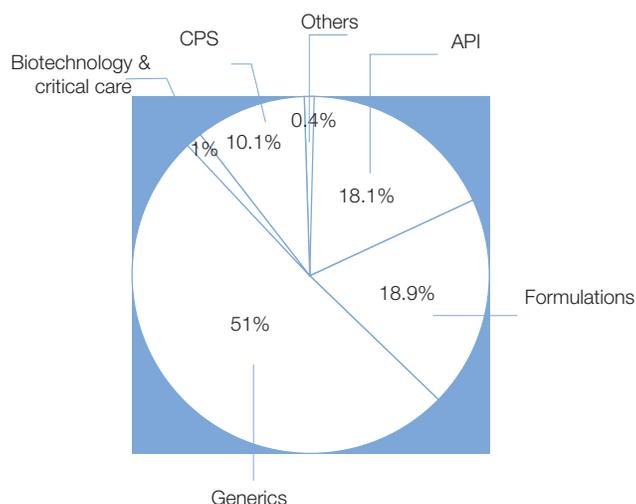
## Growth in revenues and profits

(Rs. in millions)

Parameters	2005-06	2006-07
Indian revenues	8,272	9,178
International revenues	15,995	55,917
Total revenues	24,267	65,095
Operating income	1,442	11,224
Operating margin	6%	17%
EBIT	1,888	10,500
Net income	1,629	9,327
Total assets	68,768	85,919

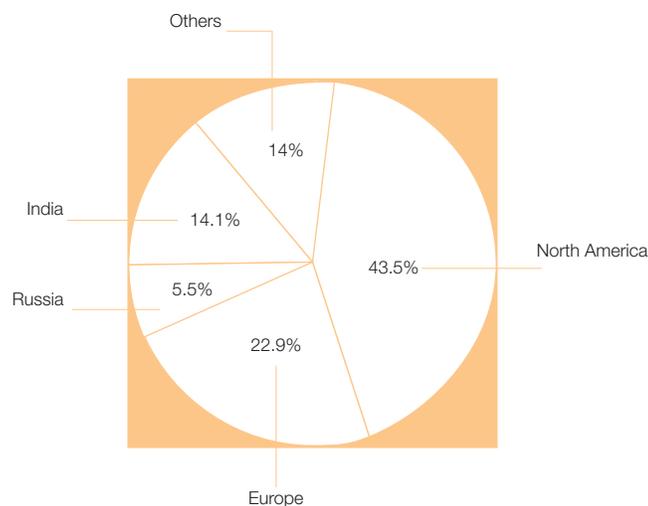
## Revenue by business

Business	2005-06	2006-07	Inc/(dec) %
API	8,238	11,827	44
Formulations	9,926	12,319	24
Generics	4,056	33,224	719
Biotechnology & critical care	691	824	19
CPS	1,327	6,600	397
Others	29	30	- nc -
TOTAL	24,267	65,095	168



## Revenue by geography

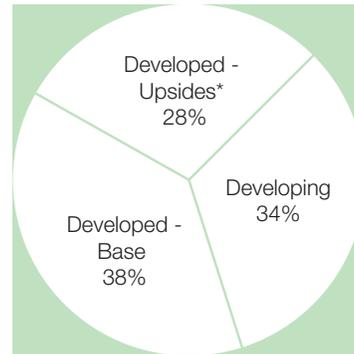
Location	2005-06	2006-07
North America	3,984	28,337
Europe	4,326	14,839
Russia	2,676	3,584
India	8,272	9,179
Others	5,009	9,156
TOTAL	24,267	65,095



## Diversified Revenue Base

2006-07: Rs. 65,095 Million

What is unique in our business model is the interesting portfolio of businesses as well as markets supported by a strong global product development engine. We have a presence across developing and developed markets as reflected in the chart.

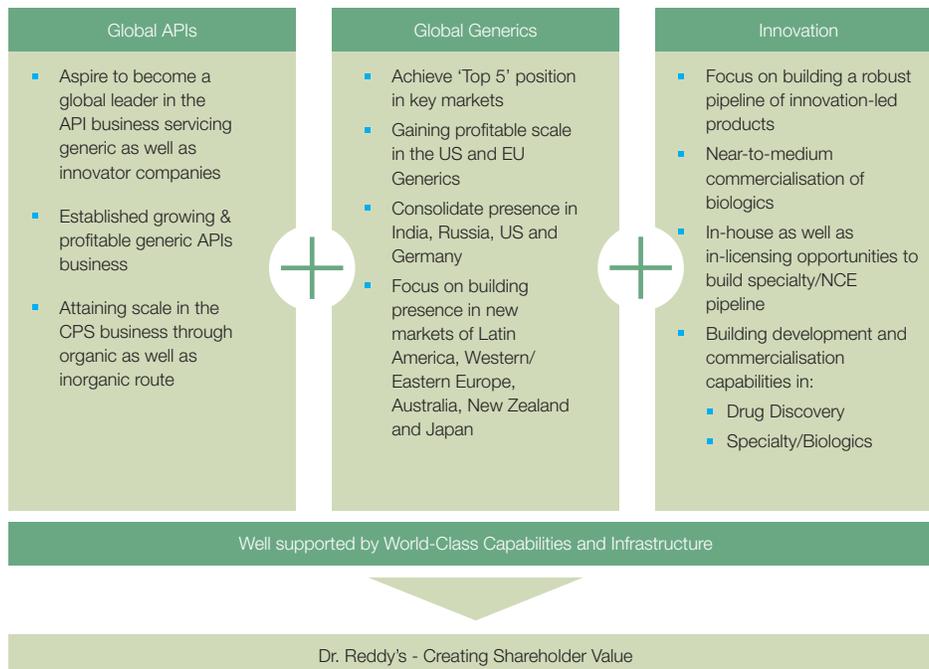


\* Revenues from authorised generics and ondansetron exclusivity in the USA

This diversified market base enables us to leverage our product development efforts across various markets creating the 'multiplier effect'. An example of this is Omeprazole, which is sold by Dr. Reddy's across markets in APIs as well as finished dose form. During 2006-07, this molecule recorded global revenues of about US\$ 84 million. This illustrates the strength of our diversified market base as well as R&D organisation, which we believe will drive sustainable growth in revenues and profits over the long-term.

Looking into the future, we see our businesses evolve into three distinct business lines. Global APIs, Global Generics and Innovation, being the three businesses and we believe our presence across these three distinct categories provides adequate differentiation to deliver long-term sustainable stakeholder value.

## Driving Long-term Sustainable & Profitable Growth





Eight year old Shashi Rekha is recuperating at the Children's ward in Mahaveer Hospital managed by Naandi's Power of 10™ Programme\*. Shashi Rekha has been diagnosed with diabetes and maintains fragile health taking insulin shots twice a day. She has been critically ill having slipped into coma thrice in the past. The Schoolchild Healthcare Plan that provides free healthcare to 60,000 government schoolchildren in Hyderabad also covers little Shashi Rekha who needs this vital care. Her father, a painter, who earns small wages and mother, a home maker, are worried about her all the time. Smiling, with dimples on her cheeks, Shashi says that red is her favourite colour!

\* To read about Power of 10™ and the Schoolchild Healthcare Plan, turn to page 87

**Smiling, with dimples on her cheeks, Shashi says that red is her favourite colour!**

While we continue to push the broad business agenda as outlined, our current priorities revolve around:

- Implementing changes to the organisation design to achieve simplification and effectiveness and support the next wave of growth at Dr. Reddy's
- Building on the ongoing execution excellence initiatives, inculcating a *lean* mindset and achieving operational efficiencies towards securing long-term competitiveness
- Accelerating growth and driving profitability through cost leadership in our global API and finished dosage businesses
- Building a strong innovation business with a defined focus on early commercialisation through creative partnerships and building competence in global discovery & development processes

The above gives us a perspective of sustainable growth and leadership being aimed at by the company. While the other initiatives that help us achieve the cause of access, affordability and innovation across various parts of the world, are detailed below.

The healthcare industry is facing new challenges. The demand for prescription is rising while the sources to pay for them lag far behind. As the population ages and the need to bring more people into the healthcare system increases, the industry struggles to find cost-effective solutions. This is not just in the US and Europe but in many other regions as well. These factors coupled with the growth of the emerging economies should significantly and continuously increase the demand for generics far into the foreseeable future.

- **US Generics:** The total number of Dr. Reddy's generic prescriptions in 2006 totalled 16 million. With a pipeline of more than 69 ANDAs pending approval addressing innovator sales in excess of US\$ 50 billion, we hope to provide far greater access to affordable solutions to the millions of patients in the US.
- **Europe:** Several countries are implementing reforms to promote the use of generics and contain healthcare costs. The average penetration of generics both in volume and value terms is much lower than in the US. For instance, in France, Spain and Italy, the total generic sales were about €700 million in 2003, compared to an estimated level of

The challenge in biosimilars is in developing drugs similar to the innovators as the regulatory pathway is still not well-defined in the developed markets. The opportunity is in addressing underserved needs of patients globally as biotech products are largely used in critical disease conditions

€2.5 billion in 2006, while penetration in these three markets increased from an average of 2% in 2003 to about 6% in 2006. Yet, there is still potential in these markets, given the low penetration levels. Dr. Reddy's is committed to building a strong pan-European presence over the next few years. We have established our presence in Germany (4<sup>th</sup> largest), Russia (6<sup>th</sup> largest generics market in retail segment), Romania, Ukraine and UK. We recently commenced operations in Spain and Italy. Our future markets of focus include France, Portugal and Poland. Our pipeline for the European markets today addresses innovator sales of more than US\$ 15 billion.

- India:** The Company is the 10<sup>th</sup> largest in the finished dosage segment. We aspire to find a place in the Top 5 through our various growth initiatives. The growth in the rural and Class II-IV markets are contributing significantly to the overall industry growth. These markets account for a large proportion of the total population in India. For the twelve month period in September 2006, revenue from rural and Class II-IV markets contributed about 38% to our total revenues in India. We have now set up a special task force to drive penetration in these markets given the potential for increasing access and affordability to a large proportion of population in India.

## Biosimilars

Biosimilars present the next big growth opportunity globally. The challenge in biosimilars is in developing drugs similar to the innovators as the regulatory pathway is still not well-defined in the developed markets. The opportunity is in addressing underserved needs of patients globally as biotech products are largely used in critical disease conditions (see *Biosimilars: Affordability and Accessibility*).

### Biosimilars: Affordability and Accessibility

Circa 2001, Dr. Reddy's launched its first indigenously developed biosimilar product – Grafeel™ (Filgrastim). At the time of its launch only a small proportion of the patient population was being served by the innovator product. Graph 1 and 2 illustrate the impact created by the launch of Grafeel™ on two important fronts – access as well as affordability. Prices were lowered by more than 50% but more importantly, the volumes increased more than ten-fold, indicating greater reach to cancer patients.

G-CSF Case Study

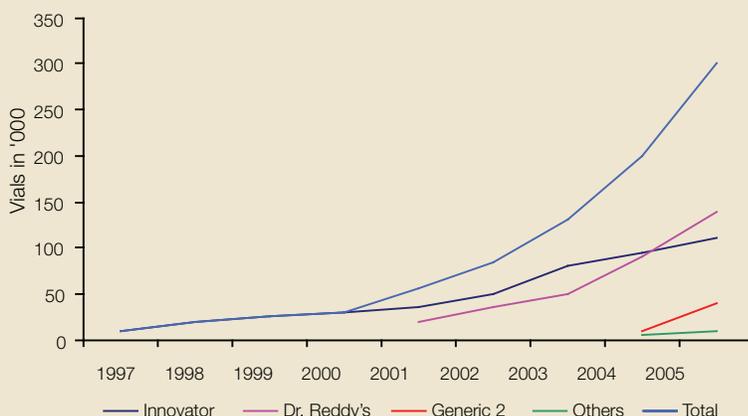


### G-CSF: Price Drop

- Generics entry at about half the price of innovator
- Price dropped by innovator to similar levels as generic competitor

### G-CSF: Market Growth in Vials

- Market grown by more than 10 times post generics entry (implies suboptimal price elasticity)
- Total profits increase for industry
- Accessibility and affordability increase for patients



Circa 2007, Dr. Reddy's launched the first chimeric monoclonal antibody biosimilar in India, the first ever in the world – Reditux™ (Rituximab), used in the treatment of Non-Hodgkin's Lymphoma (NHL). As per Globocan 2002, in India more than 20,000 patients are diagnosed yearly with NHL. Based on the innovator sales, 5 year prevalence of NHL and our estimates, we anticipate the requirement to be in excess of 200,000 vials and the actual volumes being served today is less than 2%. We hope to repeat in Reditux™, what we achieved with Grafeel™.

- Pipeline:** Dr. Reddy's is committed to continuously expanding its pipeline of products for global markets across our Chemicals, Generics and Innovation businesses. During 2006-07, we spent about US\$ 76 million in various R&D programs. The table below is an update of our pipeline across business segments:

Segment	Pipeline
ANDAs	69 pending approval 32 Para IVs 20 potential first-to-file opportunities
DMFs	US: 114 Canada: 46 Europe: 58 EDMFs, 21 CEPs RoW: 52
Dossiers (ex-US)	Over 150 product registrations pending approval
Biosimilars	8 projects under development
New Chemical Entities	6 under development – 5 in clinical development – 1 in pre-clinical development

- Indirect benefits:** Although difficult to measure precisely, Dr. Reddy's main indirect economic impact is through its products. Our pharmaceutical products save several million dollars every year by extending and enhancing people's lives. In addition to our products, our research, manufacturing, distribution, sales, and other operations create tens of thousands of jobs for suppliers, contractors, and ancillary services. We pay the wages and salaries of over 9,000 people in India and other parts of the world, and therefore indirectly support a whole range of businesses that our associates use which in turn generate tax revenues for public services. The purchases we make from supplier companies directly benefit another tier of companies and employees, and generate further tax revenues for the Government.

We provide significant value to society with some negative environmental impacts and significant positive social impacts relative to many other industries. Finally, our voluntary activities have a notable economic impact on local communities and individuals. Taken together, our social, environmental, and economic actions support Dr. Reddy's commitment to make a positive difference in the many lives we touch.

Taken together, our social, environmental, and economic actions support Dr. Reddy's commitment to make a positive difference in the many lives we touch.

## Madhu ensures his younger brother studies well and pursues his graduation, and attends to his grandparents too



G Madhu is the kitchen supervisor at Country Oven, a leading confectionery at Hyderabad. He joined the bakers as a trainee steward and in three years got promoted to being a supervisor. Being orphaned at an early age, Madhu and his younger brother came to stay with their grandparents in Kapra, the outskirts of Hyderabad city. Madhu dropped out of school when he did not clear the tenth grade. One day the road show of the LABS\* programme in his locality caught his attention and he enrolled for the three-month Hospitality and Hotel Management course. Apart from the basic to necessary skills required for a job in a small hotel / restaurant, training in spoken English was also imparted. The job at the confectionery happened soon after the programme and he took to it with ease. Today Madhu ensures his younger brother studies well and pursues his graduation, and attends to his grandparents too. *I like my job* says Madhu while placing the various orders and passing instructions in the kitchen. *And I am positive and open to opportunities always*, he says.

\*To read about the Livelihood Advancement Business School (LABS), turn to page 83

(Amount in Rs. million)

Employees*	2005-06	2006-07
Parameters		
Cost towards wages/salaries	2,976	5,429
Other benefit costs	520	1,004
Total personnel costs (excluding R&D)	3,496	6,433
Total payout per employee	0.54	0.71
<b>Suppliers</b>		
Parameters		
Material	8,644	28,592
Services	6,284	10,506
Total	14,928	39,097
% of sales	62%	61%
Capital expenditure on property plant and equipment (net)	1,182	4,367
<b>Providers of Capital</b>		
Parameters		
ROE	7%	29%
Dividend payout (in Rs/share)	5	3.75
EVA (in Rs. million)	(1,228)	2,570
<b>Society*</b>		
Parameters		
Excise duty	1,153	779
Income Tax	258	1,177
Customs duty	8	19
Sales Tax	516	518
Dividend Tax	54	107
Total Taxes paid	1,989	2,600
Social Investment Plan	60	60
% of sales	0.20	0.1
<b>Customers</b>		
Parameters		
Net Sales	24,267	65,095
Debtors	4,801	7,519
Debtors outstanding (in average number of days of turnover)	72	42

\* Figures based on IGAAP consolidated financials. All other figures based on USGAAP financials.



Our business growth creates numerous employment opportunities across all our manufacturing facilities.

Environmental footprint

Our efforts over the last year were towards continuous improvement in Safety, Health and Environment. We have critiqued and improved our various processes.

However, we are not complacent. While a lot has been done, much more needs doing. There cannot be any finish line for Safety, Health and Environment protection. Going forward we will focus even more on water conservation, efficient use of energy, reducing greenhouse gases, and process development aimed at decreasing the quantity of solid wastes.

As you turn the pages of this section, we will take you through some of the many ways Dr. Reddy's has bettered its methods and turned them into tangible benefits.

## Key performance indicators

Parameter	Unit	2004-05	2005-06	2006-07
1 Net sales <sup>1</sup>	Million INR	15,342	18,768	36,754
2 Total personnel (Dr. Reddy's) <sup>2</sup>	Number	3,393	3,213	3,548
3 Total SHE personnel (Dr. Reddy's) <sup>2</sup>	Number	68	68	72
4 Total capital investment (Cumulative)	Million INR	513	521	558
5 Total operating expense	Million INR	98	109	148
6 Water usage	1000 cu.m	912	924	1,024
7 Energy usage	1000 GJ	1,060	1,132	1,346
8 External energy usage <sup>3</sup>	1000 GJ	292	331	408
9 Internal energy usage <sup>4</sup>	1000 GJ	767	801	938
10 Frequency rate for Lost Time Accidents (LTA) <sup>5</sup>	Number	1	2	1
11 Incidence rate for Lost Time Accidents (LTA) <sup>6</sup>	Number	3	4	3
12 Waste water volume discharged <sup>7</sup>	1000 cu.m	79	92	95
13 Chemical oxygen demand (COD) Load <sup>8</sup>	Ton	316	289	375
14 Total dissolved solids (TDS) Load <sup>8</sup>	Ton	982	806	856
15 Sulphur dioxide <sup>9</sup>	Ton	705	733	823
16 Oxide of nitrogen <sup>9</sup>	Ton	1,634	1,678	1,871
17 Ozone Depleting Substance (ODS) <sup>10</sup>	Ton	12	9	3
18 Non hazardous waste disposed <sup>11</sup>	Ton	7,734	8,690	9,502
19 Hazardous waste disposed <sup>12</sup>	Ton	4,943	6,690	9,511
20 Hazardous waste recycled <sup>13</sup>	Ton	13,352	13,285	13,510
21 Total hazardous and non hazardous waste disposed	Ton	26,030	28,665	32,524
22 Greenhouse gases <sup>14</sup>	t CO <sub>2</sub> Eq	68,114	72,220	83,238
23 Ozone Depleting Substance (ODS) <sup>15</sup>	t CFC 11 Eq	12	8	2
24 Acidification <sup>16</sup>	t SO <sub>2</sub> eq	1,849	1,907	2,133
25 Eutrophication <sup>16</sup>	t PO <sub>4</sub> <sup>-3</sup> Eq	334	320	353

1 Net sales figure is of those units which are considered under the scope of this report.

2 The number of employees is only from the units covered for reporting, excluding contract employees.

3 The external energy is from grid and metered.

4 The internal energy is estimated from the fuel consumption.

5 Frequency rate is the number of Lost Time Accidents reported per million man-hours.

6 Incidence rate is the number of Lost Time Accidents reported per 1000 employees.

7 The treated waste water is discharged either to CETP or to land or to sea.

8 The COD and TDS loads are based on the monthly effluent analytical reports.

9 The SO<sub>2</sub> and NO<sub>x</sub> emissions are estimated based on the fuel consumption.

10 The amount of ODS receipt is reported as total loss.

11 The quantity of wastes calculated based on the records available.

12 The quantity of wastes calculated based on the manifest records.

13 The quantity of wastes calculated based on the manifest and invoices. Waste is recycled through authorised third parties.

14 The data reported is CO<sub>2</sub> emissions, which is the primary GHG.

15 The solvent emissions are not considered in the ODS estimation of data.

16 As per the Sustainability Metrics of Institution of Chemical Engineers, U.K.

# Green chemistry: A benign technology for sustainability

Operating sustainable businesses that provide value-added products and services with minimal or no environmental impact has become top priority for the chemical and process industries. A green approach to the manufacture and marketing of chemical products is an important aspect of a successful sustainability initiative.

Green chemistry also offers chemical producers a mechanism for connecting chemicals and chemistry to the consumer in a positive way. Many companies, both large and small, have demonstrated that a green chemistry approach can be commercially viable by developing products or services that have enhanced performance qualities and/or cost savings in addition to reducing the environmental footprint of their businesses.

Green chemistry, also known as environmentally benign technology, refers to the *design of chemical products and processes that reduce or eliminate the use and generation of hazardous substances*. While this short definition appears straightforward, it marks a significant departure from the manner in which environmental

issues have been considered or ignored in the upfront design of the molecules and molecular transformations that are at the heart of the chemical enterprise. Green chemistry is a highly effective approach to pollution prevention because it applies innovative scientific solutions to real-world environmental situations.

Some of the challenges for chemists include the discovery and development of new synthetic pathways using alternative feedstock or more selective chemistry, identifying alternative reaction conditions and solvents for improved selectivity and energy minimisation and designing less toxic and inherently safer chemicals. In chemical synthesis, the ideal will be a combination of a number of environmental, health, safety and economic targets.

## Green chemistry at Dr. Reddy's

At Dr. Reddy's, we have begun practising green chemistry principles with more vigour, thereby bringing in best chemistry practices in process development. For

example, peptide bond formation, in usual industrial processes, generally involves generation of enormous amount of effluents. We have developed a catalytic process for the peptide bond chemistry, which can replace the conventional procedures in some of the APIs. We have developed a proof of concept in the gram scale. We can apply this technology in some of the commercially important APIs in future after pursuing further studies.

In industrial scale oxidations, though  $\text{KMnO}_4$  is a cheap oxidising agent, it generates a lot of waste as a by-product. We have developed a catalytic version of such

oxidations and could successfully implement at lab scale in a couple of commercially important APIs. This will be taken further whenever there is an opportunity to apply this chemistry in the relevant process.

We have also developed environmentally benign processes for bromination and sulfoxidation reactions. These reactions are green, free of waste and highly atom economic. Further, the quantity of the waste generated in a conventional oxidation process is substrate specific as the quantity of the oxidising agent used in the reaction depends on the molecular weight (moles) of the substrate.

The twelve principles of green chemistry originally published by Paul Anastas and John Warner, and followed by Dr. Reddy's in new process development:

- |   |                                            |    |                                                    |
|---|--------------------------------------------|----|----------------------------------------------------|
| 1 | Prevent waste                              | 7  | Maximise atom economy                              |
| 2 | Design safer chemicals and products        | 8  | Use safer solvents and reaction conditions         |
| 3 | Design less hazardous chemical synthesis   | 9  | Increase energy efficiency                         |
| 4 | Use renewable feedstock                    | 10 | Design chemicals and products to degrade after use |
| 5 | Use catalysts, not stoichiometric reagents | 11 | Analyse in real time to prevent pollution          |
| 6 | Avoid chemical derivatives                 | 12 | Minimise the potential for accidents               |



# Innovations

At Dr. Reddy's our core purpose has always been 'to help people lead healthier lives'. Our values reflect this promise by embracing 'innovation and continuous learning'. We strive to develop and deliver affordable medicines wherever we operate. We will innovate and learn continuously to make our operations more efficient which will in turn make our products more cost effective and affordable for patients.

Cross-functional teams from various functions like Research and Development, Manufacturing, Engineering Services, Technical Services and Safety, Health & Environment are always looking for opportunities in resource recovery and recycling to reduce environmental impact. We have identified and exploited many such opportunities. We list here a few of these innovative initiatives.

1. In the manufacturing processes of Setraline, Oxaprozin and Diltiazem, we have successfully carried out developmental studies on mother liquor streams to recover mandelic acid, acetic acid and toluene respectively. The recovered solvents are sold to authorised third parties. This innovative approach has helped us convert *waste to wealth* while also reducing load to the effluent treatment facility. Earlier, these streams were sent to the effluent treatment plant as waste water for treatment. The monetary savings realised from this totals INR 0.53 million per annum.

2. For the manufacturing processes of Ciprofloxacin, we have successfully carried out developmental studies to recover quinolonic acid (a raw material), toluene and dimethylformamide (solvents) and reused them in the

same process after necessary validations and approvals. Before this innovation was put into practice, this stream was considered waste and the same was disposed to authorised third parties for secured disposal. This innovative approach has helped us demonstrate *recovery/reuse and waste minimisation*. The monetary savings realised here totals INR 22.24 million per annum.

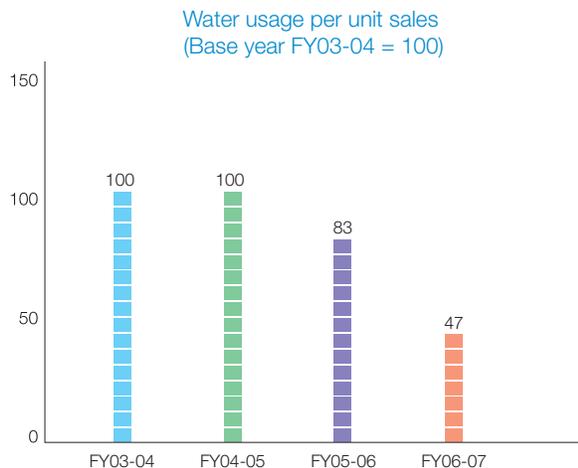
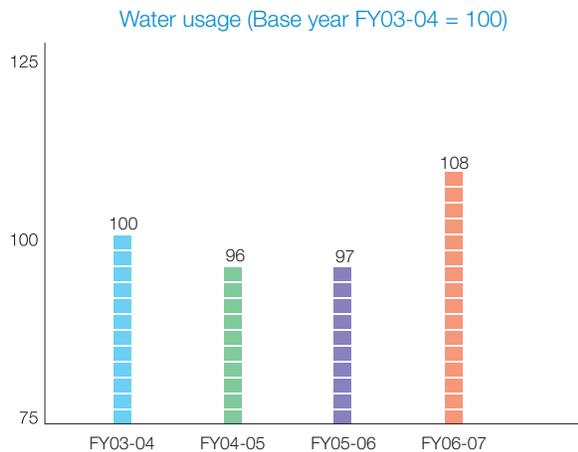
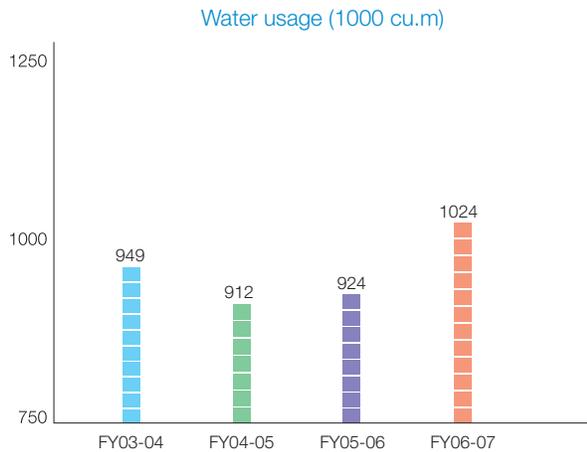
3. In the manufacturing processes of Terbinafine & Ramipril, we have successfully carried out optimisation studies, which has resulted in a reduction of raw materials/solvents consumption and increase in yields and decrease in cycle times. This innovative approach has helped us *conserve natural resources* like acetone, petroleum ether, ethyl acetate and tetrahydrofuran. The monetary savings realised here totals INR 18.61 million per annum.

Our values reflect this promise by embracing 'innovation and continuous learning'.

4. We have made our equipment cleaning operations less solvent and water intensive by judiciously planning our production campaigns to reduce cleaning frequency and by use of efficient cleaning systems like high pressure water jet and ball spray nozzles. This changed cleaning process is better than the previous cleaning practice in terms of efficiency and uses lesser quantities of water and solvents. The new cleaning approach has helped us *conserve natural resources*. The monetary savings realised here totals INR 7.84 million per annum.

This innovative approach towards waste minimisation coupled with end-of-pipe treatment is helping us to reduce the environmental impact of our operations. Our performance on key parameters is presented in the subsequent pages.

# Water usage



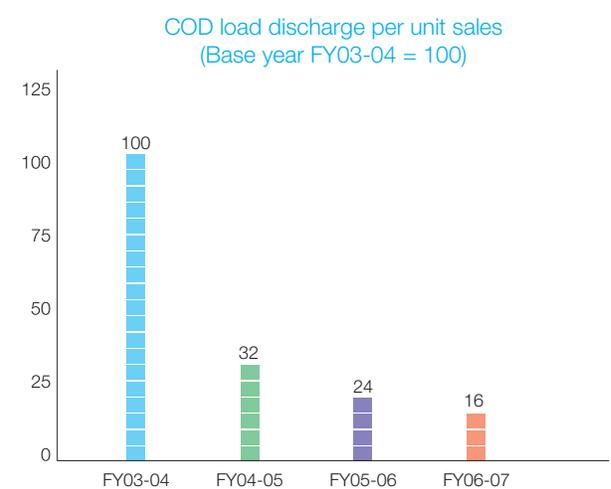
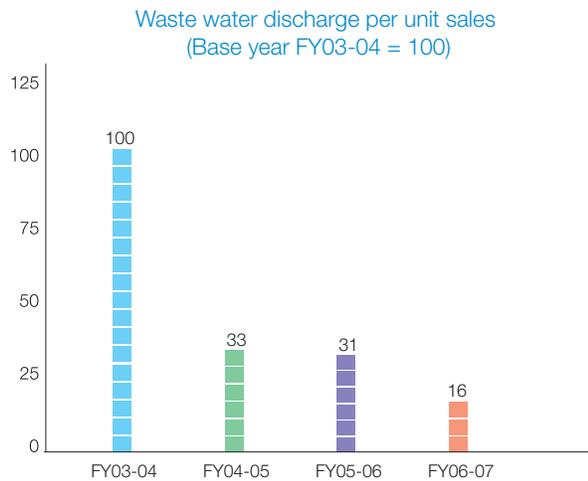
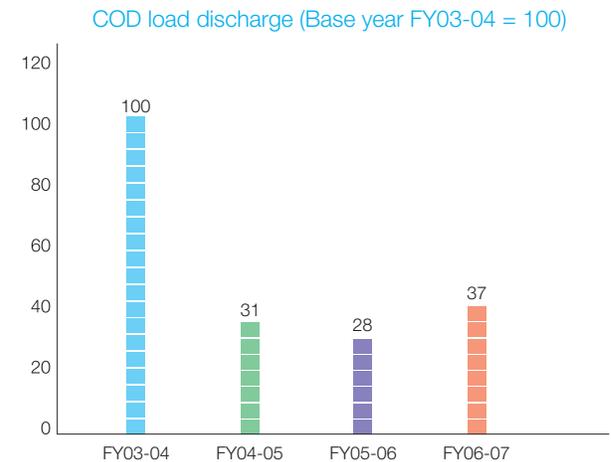
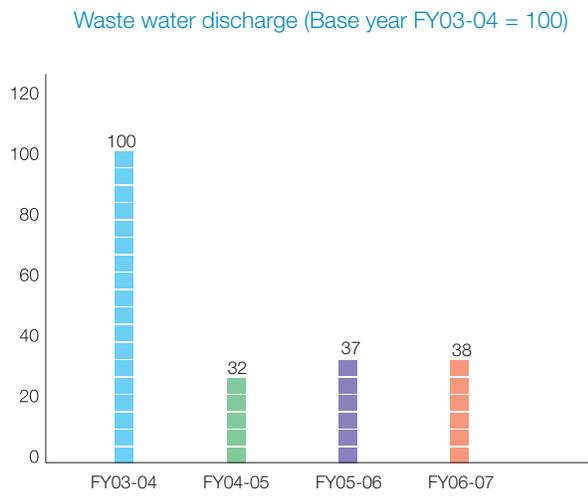
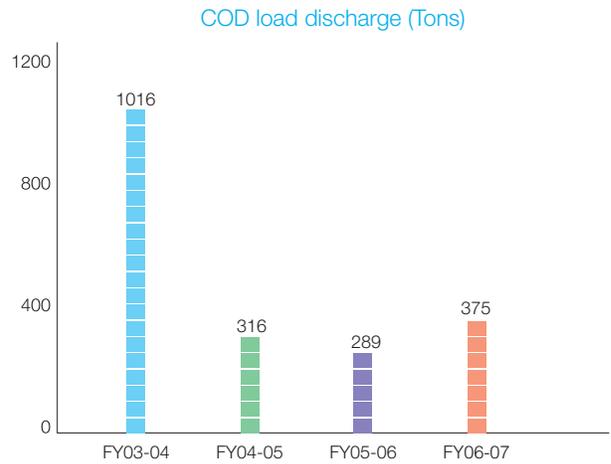
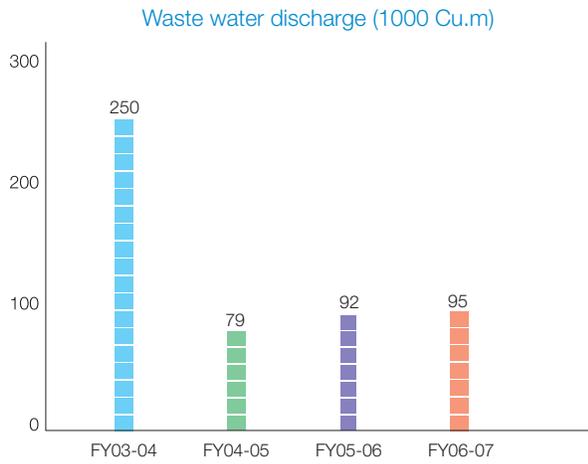
Water and its availability are high on the agenda for global action. And Dr. Reddy's is no different. Generally people tend to believe that water is available in plenty and hence need not be monitored with the same intensity as other raw materials. To move away from this misconception, we have observed a special water campaign on World Water Day - 22<sup>nd</sup> March.

We treat water as an important raw material and carefully monitor its use. We have installed more than 260 water meters over a period of time to monitor and explore the possibility of reduction of water usage. High-pressure water pumps are used for reactor cleaning, which has helped in reducing water consumption. All cleaning processes are studied carefully to check whether there is a scope to reduce or to avoid water usage. Ciprofloxacin, Domperidone, Ibuprofen are some examples where we have achieved substantial reductions in the specific water consumption. Water management teams are working to review the consumption patterns and trends. Effluent treatment plants based on membrane technology for five CTO units are already commissioned. This has helped us in recycling the treated effluent back to the plant thereby reducing the fresh water consumption.

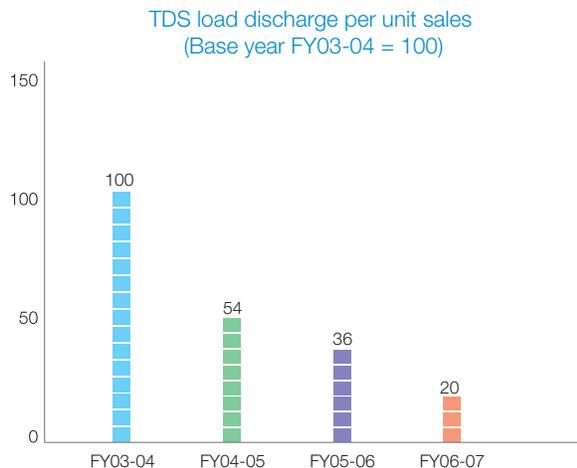
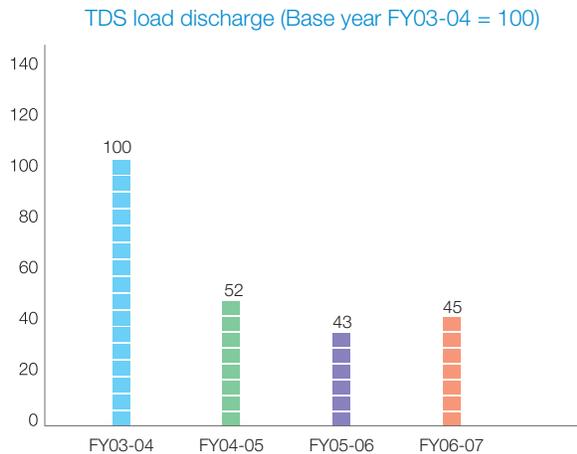
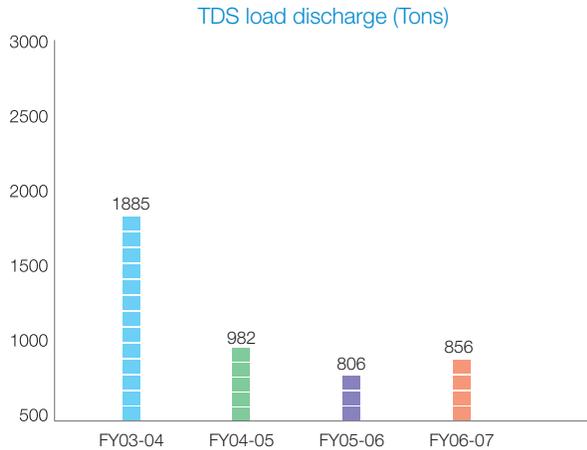
All these measures have helped us to reduce our specific water usage normalised to unit sales to 47% with respect to baseline year FY03-04. We are, however, aware that in absolute terms the consumption has gone up by about 8%. Increasing the production level without substantially increasing the absolute water consumption is going to be the challenge for the years to come considering the fact that the availability of water is going to be increasingly difficult.

# Waste water discharge

# COD load discharge



# TDS load discharge

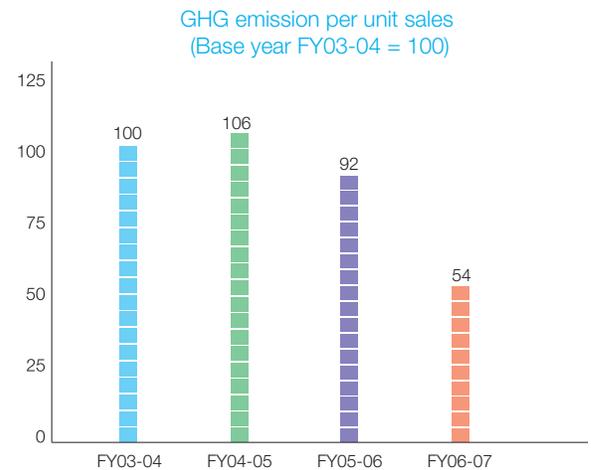
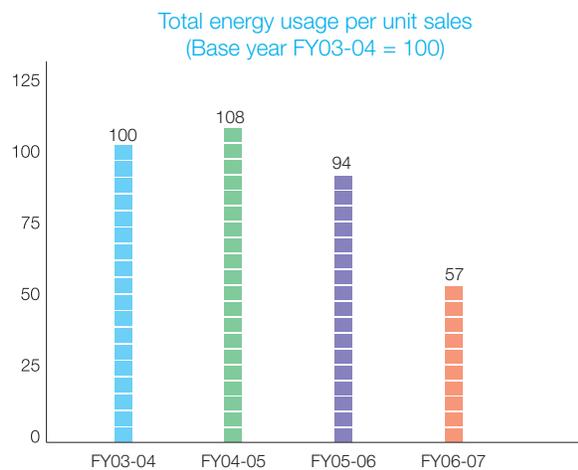
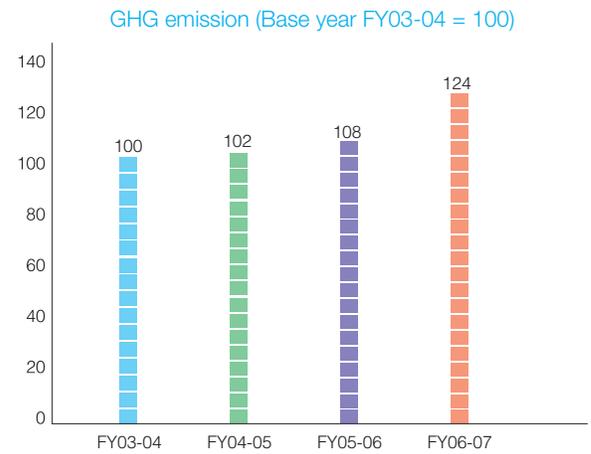
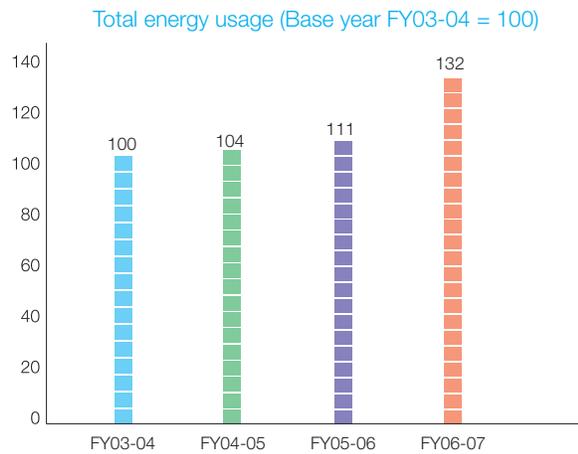
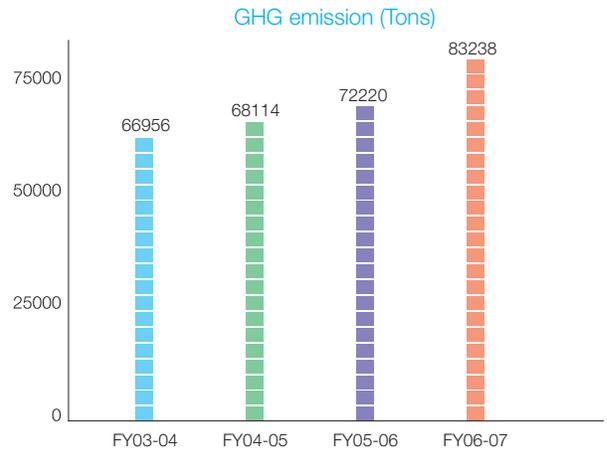
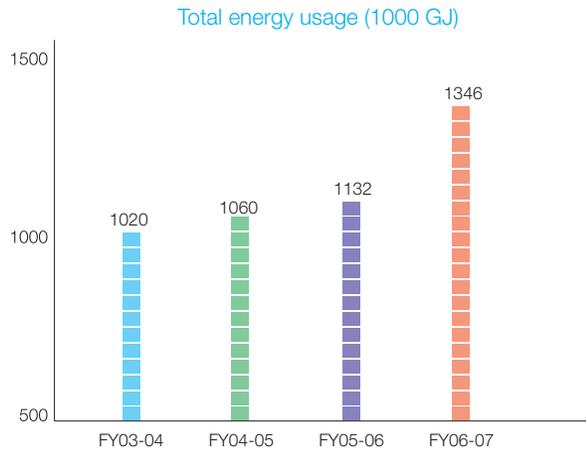


Quantity of waste water discharge, associated pollution load expressed in terms of parameter of relevance such as Chemical Oxygen Demand (COD) and Total Dissolved Solids (TDS) are important criteria to assess the environmental impact of operations. The assimilation capacity of the receiving water body being limited, the control on the quantity of effluent and pollutant load become imperative. We had permission to discharge our effluent from CTO unit 1,2,3 to common effluent treatment plant. For CTO unit 6 we had permission to discharge to sea. However CTO has taken zero effluent discharge as the target. Accordingly effluent treatment facilities based on membrane technology and multiple effect evaporators are commissioned treating effluent from all CTO units except unit 4. The entire effluent from five units of CTO after treatment is recycled back to the plants for different uses. For CTO unit 4 currently we are discharging the effluent to common effluent treatment facility. However we are approaching the authorities to consider the transfer of effluent from this unit to our centralised facility located at CTO unit 2. All FTO units are also treating effluents adequately and using it for gardening. Effluent from Biologics is taken care of in the waste water treatment plant of FTO. The effluent from Discovery Research after the treatment is sent to common effluent facility approved by the authorities. Apart from these measures, we consider in plant controls as important measure for the reduction or avoidance of effluent. Pantoprazole Sodium, Topiramate, Domperidone, Ciprofloxacin, Ibuprofen, Ramipril, Setraline HCl are some of the products where significant impact in terms of effluent reduction is achieved. There are many other products for which the effort in this direction continues.

All the above measures have resulted in a substantial reduction in terms of waste water discharge, COD & TDS load discharge over a period of time. Considering the financial year FY03-04 as the baseline 100, today we are at 38% for waste water discharge, 37% for COD load discharge & 45% for TDS load discharge in terms of absolute figures. When normalised to sales this figure works out to be about 16%, 16% & 20% respectively. We rightfully consider this as a significant achievement. Nevertheless, maintaining this trend is a challenge. We are committed to make substantial investments in upgrading the performance and expanding the capacities of these effluent treatment facilities so as to ensure that the CTO maintains its status of zero effluent discharge even in future. We will continue with the process development work, which will help us to reduce the pollutants' load at the source.

# Energy usage

# Greenhouse gas emissions



More than the rising cost of energy, it is the direct linkage of greenhouse gas emissions with the energy generation and associated effects of global warming that demand close monitoring and control of energy usage. It is estimated that globally the energy generation accounts for 21% of total carbon dioxide emissions, which is the major factor for global warming. We at Dr. Reddy's are sensitive to this issue of global warming. Our energy consumption as well as associated greenhouse gas emissions are reported publicly through Safety, Health & Environment report of FY02-03 and subsequently through our last three corporate sustainability reports.

For reporting greenhouse gas emission it is important to set the operational boundaries with respect to direct and indirect emissions. For this we have taken help from "Corporate Accounting and Reporting Standard" on "The Greenhouse Gas Protocol" published by World Business Council for Sustainable Development and World Resources Institute. The standard defines the direct GHG emissions under Scope 1 as those emissions occur from the sources that are owned and controlled by the company. For this, we have considered the emissions from combustion in owned boiler, thermic fluid heaters and standby DG sets. The scope 2 accounts for GHG emissions from the generation of purchased electricity, consumed by the company. It is to be noted that scope 2 emissions occur at the facility where electricity is generated. From these definitions it is clear that the energy usage both internal and external need to be accounted first for the estimation of greenhouse gas emissions.

Our external energy comes from the grid. The electrical energy purchased externally from grid is used for manufacturing and administrative activities. The internal energy generation is for satisfying various needs of processes such as heating and generating our own power through DG sets for critical operations in the event of power failure.

As can be seen from the graph, our total energy consumption over last four years has gone up by about 32%. This is because of the increase in our production over a period of time as well increasing capacity

utilisation. The aspiration for the growth will be reflected in the increasing energy demand. However, it can be noted that while our absolute consumption of energy has gone up, the energy use normalised to per unit sales has come down to 57% when compared with the baseline year FY03-04 as 100.

As our greenhouse gas emissions are attributed to energy consumption, it is but natural that as energy consumption goes up the greenhouse gas emissions are also likely to go up. In absolute terms our emissions of greenhouse gases has gone up by about 24% over last four years but when normalised to per unit sales it has come down to 54%.

We could achieve this reduction in specific energy consumption and corresponding reduction in specific GHG emissions, by implementing number of energy saving ideas. We earlier carried out energy audits with help from external agencies and implemented the audit recommendations. Our efforts of energy conservation have been rewarded in the past and we have earlier received energy excellence awards from Confederation of Indian Industry (CII). During the year 2006-07, we have implemented more than 85 energy saving initiatives including the installation of servo transformers, replacing ordinary lamps with energy efficient lamps, installation of variable frequency drives and flat belts in place of V belts and many others. All this has resulted in energy saving, reducing the CO<sub>2</sub> emissions equivalent to 4,365 MT per annum. We are in the process of finalising the corporate guideline on energy management. Energy targets for CTO, FTO and office establishments are finalised and we are actively working on all these fronts.

The aspiration for growth and higher standard of living, its linkage with the energy demand and the strong correlation between energy demand and greenhouse gas emission is the crux of the problem. How to de-link the greenhouse gas emission from energy demand is the issue the world is debating today. We believe this is going to be one the biggest challenges for our future operations. Developing the processes, which are less energy intensive and maximising the atom efficiencies can show us the way forward.



DR. REDDY'S

DR. REDDY'S LABORATORIES Ltd., API UNIT-V

WORLD WATER DAY CELEBRATION

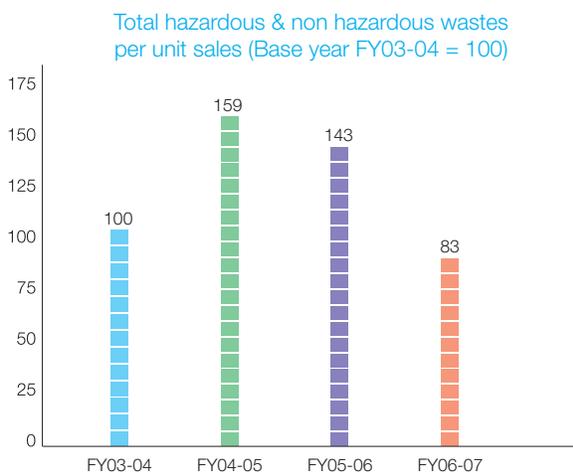
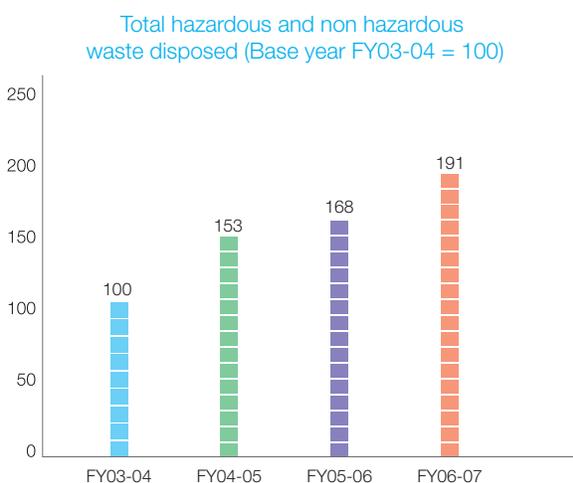
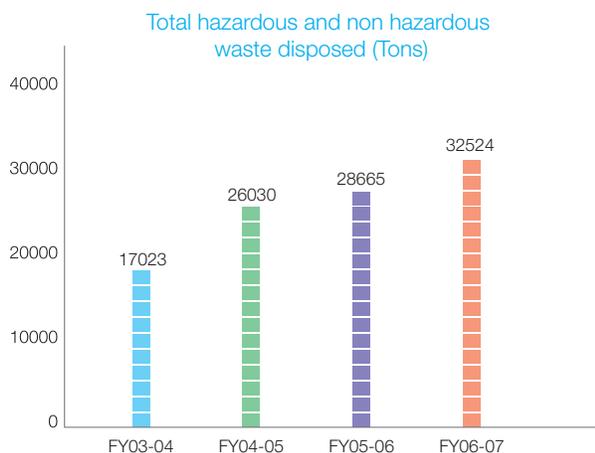
22<sup>nd</sup> MARCH

WINNING COMPETITION AT ZPH S... REDDADEVULAPAI



## World Water Day Celebrations

## Total hazardous and non hazardous waste disposed



Total quantity of hazardous and non hazardous wastes disposed during the year and their trends over the last four years are presented here. From these graphs it can be seen that in absolute terms the total quantity of hazardous and non hazardous waste disposed has gone up by 13% with respect to last year and when compared to base year of FY03-04, this increase works out to be 91%. On specific terms, i.e., when these figures are normalised to unit sales, the figure has gone down by 60% with respect to last year and 17% with respect to base year FY03-04.

Classification of wastes into these two categories is based on the authorisation given to us by the State Pollution Control Board. It may be noted that out of the total quantity of waste disposed a significant portion of the waste is sent to parties authorised by the State Pollution Control Board for the recycling of these wastes. For example, out of the total quantity of 9,502 tpa of non hazardous waste disposed during the year more than 95% of waste was boiler ash, which was given to authorised third parties for brick manufacturing. Similarly, under the hazardous wastes, wastes like spent carbon, mix solvents are given to authorised third parties for recycling. It is our endeavour to explore the possibility of recycling of the waste through authorised parties to the extent possible. Whatever could not be recycled is disposed off to secured landfill sites authorised by the State Pollution Control Board.

We are also planning additional solvent recovery facilities in various units of CTO so that we can recover more solvents in-house rather than getting this job done through third parties. Regarding increase in the quantity of solid waste, one point needs attention. We constructed our effluent recycling facilities for CTO based on membrane technology and multiple effect evaporators between the years 2002 and 2004. It can be seen that we achieved significant reduction due to these plants in terms of effluents discharged as well as COD and TDS load discharged. However, this very membrane technology separates TDS load and the rejects, which are rich in TDS, are subsequently evaporated in multiple effect evaporators finally converting almost all the TDS into solid wastes in the form of mixed salts. This salt is disposed off to landfill site. This is one of the reasons why our solid waste disposal quantity has increased. However, there is no denial that we need to look deeper into our processes to see how the input TDS load can be decreased, either through better technology or through green chemistry thereby reducing the overall impact of the process in terms of TDS load.

# Air emissions control

Apart from resource conservation, the treatment and disposal of (a) waste water (b) solid wastes and (c) air emissions are three important areas to be addressed under the ambit of environmental protection. In the earlier sections, we have presented the overview of the last four years including the trend analysis for resource consumption like water and energy, the data on waste water treatment and disposal and solid waste disposal. In this section we present the information on air emissions control.

We classify air emissions into two main categories namely, emissions from fuel burning sources and emission from non-fuel burning sources. The non-fuel burning sources are further divided into two sub categories namely, direct process emissions and fugitive emissions. The national & local legislations prescribe certain concentration standards for these emissions and we comply with these requirements.

Closed systems for fugitive emission control



The account of how we deal with each of these categories of emissions is presented below. The issue of greenhouse gas emissions is dealt with separately while discussing our energy usage.

The fuel burning sources are meeting our energy requirement. We use furnace oil and coal as a source of our energy for steam generation. Diesel is used mainly for operating generator sets as an emergency power in case of non availability of power from grid. We control our emissions of suspended particulate matter arising out of coal combustion through suitable air pollution control equipment like cyclone separators and bag filters. Considering very small sizes of installation, neither do legislations demand any desulphurization units nor do we have any. Our emissions of  $\text{SO}_2$ , therefore, have the linear functional relationship with the amount of coal or furnace oil or diesel we consume for our energy demand. We believe that the efficient operations of our utilities like boilers, DG sets and continuous efforts to conserve energy are the ways to control the fuel consumption and associated emissions.

The next category of emission is those generated from non-fuel burning sources. These are the emissions

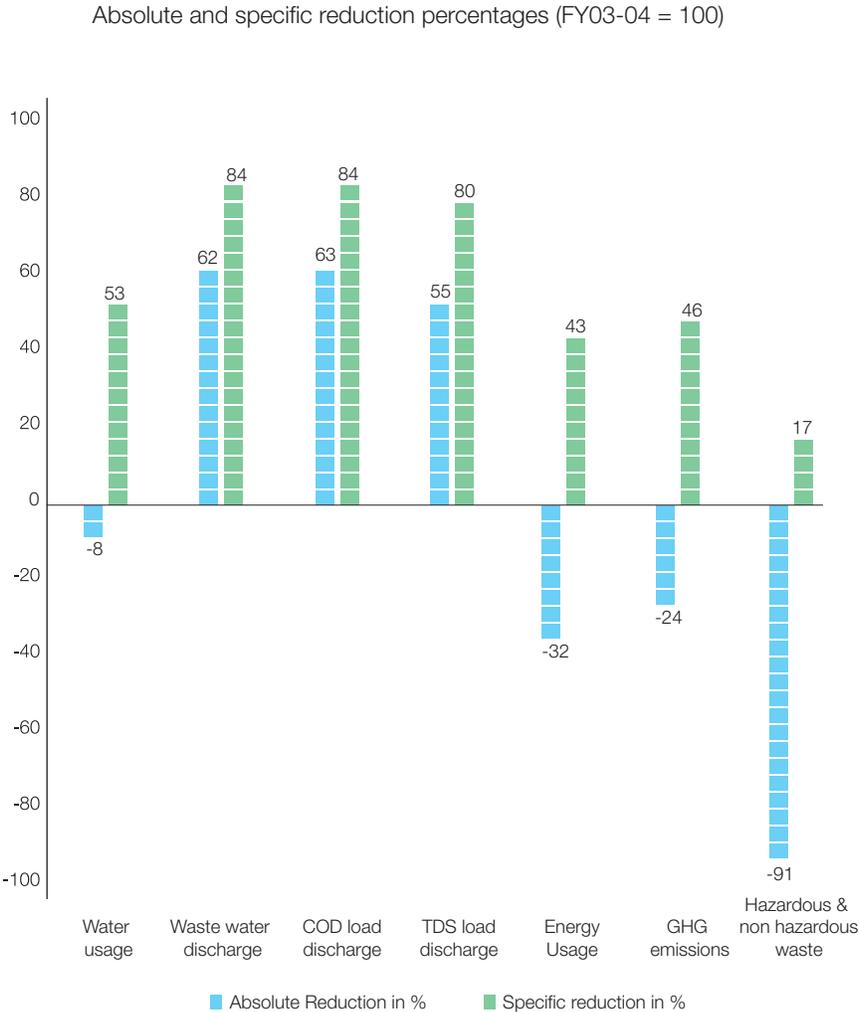
generated from processes either directly or indirectly. Depending on the reactions involved, the nature of emissions is decided. From the range of processes that we are handling, we mainly generate process emissions like HCl and  $\text{NH}_3$ . For these pollutants, we have well designed scrubbers to scrub these emissions. We are also trying to recover  $\text{NH}_3$  and sell its salt as a by-product. The manufacturing of Ranitidine generates emissions of Mercaptan. This is at CTO unit-5. We have a full fledged, well designed incineration system to incinerate the Mercaptan emissions. Indirect emissions from processes are called fugitive emissions. These can be due to inadequacies of maintenance (leakages) or due to operations which are carried out in open conditions. We have a good maintenance program in place to avoid fugitive emissions. To make sure that the fugitive emissions are not a cause of concern, we have workplace monitoring programmes for each unit to measure the exposure of the particular pollutant. We ensure that the values of these pollutants are well within the threshold limits. Grab samples or continuous samples are taken to validate the efficacy of our programmes and practices.

Workplace monitoring with personal sampler for fugitive emissions



# Going Forward... Challenges in environmental protection

When we want to look forward to understand future challenges, it is imperative that we look back first to analyse what we have achieved, what the trends are and what signals these trends are giving. Only then can we understand the future challenges. Before touching upon the future challenges, we are therefore presenting the consolidated overview of the last four years with respect to all key parameters.



The above diagram gives the reduction we have achieved both in terms of absolute and in terms of specific with respect to million rupees sales turnover for the 7 key parameters. For this presentation, we have considered FY03-04 as the baseline year. This is because we published our first Sustainability Report covering our performance for the FY03-04.

From this diagram, the following trends are visible:

1. We could achieve meaningful reduction both in absolute terms and in specific terms for the parameters like waste water, COD and TDS load discharge. For these three parameters, the absolute reduction is in the range of 55 to 63%. In specific terms the range is from 80 to 84%.
2. We did achieve significant reduction in specific terms for water usage (53%), energy usage (43%), Greenhouse gas (GHG) emissions (46%) and hazardous and non hazardous waste disposed (17%). However, in absolute terms, we could not achieve the reduction for these parameters. In terms of absolute figures, the consumption for water and energy has gone up by 8% and 32% respectively. The GHG emissions have gone up by 24%. The quantity of hazardous and non hazardous wastes disposed has gone up by 91%.

Our future environmental challenges will be to:

- Reduce the water consumption
- Control the energy usage
- Explore the technologies which can help reduce the greenhouse gases and
- Explore use of green chemistry coupled with process development work to reduce the TDS load from processes, which is finally contributing to the solid waste disposal through end-of-pipe treatment.

It is interesting to note that increasing water demand, control of GHG emissions and hazardous waste disposals are the three major environmental challenges that the world is also facing today. The strong co-relation between the societal or organisational aspirations for growth and resource consumptions like water and energy makes the world think about the possible solutions. How we are addressing these issues is presented here.

We are ensuring that like any other raw material, water is also treated with respect. Measurements at every possible level are done. Processes are reviewed to check the possible reduction, particularly the cleaning processes. Use of high pressure water jet is intensified. Through Multi effect evaporator (MEE) and membrane technology that we use for effluent treatment, the entire effluent from all the six CTO units except Unit 4 is recycled thereby reducing the fresh water consumption.

Our greenhouse gases are directly coming from the energy consumption. There are hardly any process emissions which are contributing towards the GHG. Hence we are concentrating on the energy conservation measures, which we believe will address both energy consumption and GHG emissions issues. From special poster campaigns to increase the general awareness about energy conservation to specific energy audits of plants, every step is taken to control the energy consumption. During the year of reporting, more than 85 energy saving ideas were implemented resulting into the emission reduction equivalent to 4365 tons per annum. A more detailed account of this is presented in this report.

Regarding solid waste disposal, we are looking deeper into our processes. We have adopted membrane technology coupled with multiple effect evaporators as the treatment technology for our CTO units. With this, we could achieve significant reduction in terms of effluent, COD and TDS load discharge. However, the portion of solids which cannot be recycled has to be disposed off as solid wastes. This is one of the reasons why our solid wastes quantity is increasing. The use of green chemistry and process development work to reduce the TDS loads at the inlet of effluent facilities is the approach we are trying to take in order to address this issue.



Spreading the message of safety through skits



Launch of internal safety document

Dr. Reddy's is working aggressively to enhance the commitment of all employees and contract workers towards safety by actively driving safety training programmes.

Mock drill for rescue operations





Mock fire drill

THE SUSTAINABILITY OF OUR BUSINESS OPERATIONS RESTS ON SAFE AND CLEAN OPERATIONS ACROSS ALL OUR UNITS AND OUR ENDEAVOUR WILL BE TO CONTINUALLY IMPROVE OUR SAFETY RECORD.

# Safety and health

Every employee at Dr. Reddy's is conscious and aware of his/her responsibilities towards safe operations at every level and this has resulted in a substantial reduction in incidents in the year 2006-07 compared to the year 2005-06. We regret to report that one unfortunate accident occurred this year in which a contracted employee succumbed to injuries.

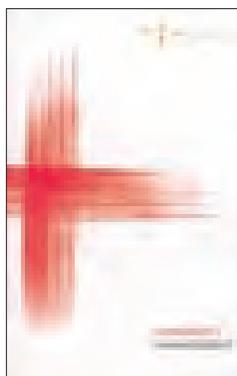
The accident frequency rate had decreased from 1.70 in 2005-06 to 1.37 in 2006-07; the incident rate had decreased from 4.01 in 2005-06 to 3.21 in 2006-07. We have however not turned complacent. The sustainability of our business operations rests on safe and clean operations across all our units and our endeavour will be to continually improve our safety record.

This year we initiated a program to strengthen our emergency management preparedness in our API units (renamed CTOs) by conducting extensive surveys to identify the gaps, making uniform emergency

preparedness plans across all the units and organising training programmes and drills for our Emergency Response Teams.

Health checkups for our employees and contracted employees are done regularly. Extensive workplace monitoring programmes are in place for all manufacturing units to ensure that threshold limits of chemical exposures are never exceeded. Pre-hire medical checkups are followed by annual medical checkups.

Dr. Reddy's is working aggressively to enhance the commitment of all employees and contract workers to safety through safety training programmes, extensive safety inspections, audits and accident investigations and making time-bound compliance compulsory to achieve an unflinching safety record in the years to come. This is in addition to different campaigns undertaken and various directives, guidelines and checklists.



Safety, Health & Environment publications

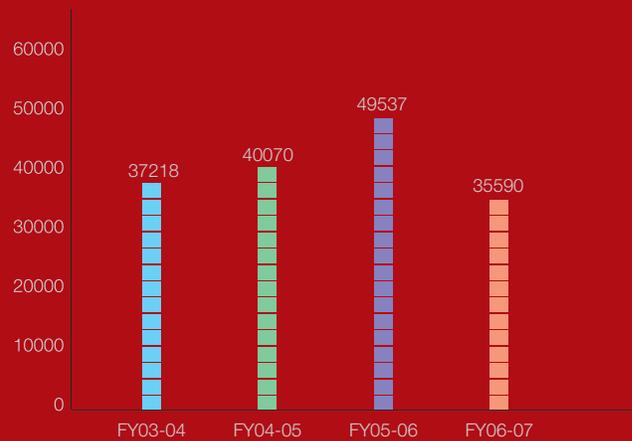
# Hazardous material transport

While safe transportation of material continues to be the primary responsibility of our suppliers, we make every effort to ensure that we guide them and extend help wherever necessary.

We have prepared an extensive internal checklist to check the compliance level of our transporters. This checklist contains many items which are our internal requirements extra over the statutory requirements. Every consignment of hazardous material is checked at the gate with this checklist. Of the total of 47,544 checklist items, we found that transporters have complied with 35,590 items, during the year 2006-07 and compliance was around 81% and our transporters have not out performed during the reporting year. Our supply chain management department is engaged in dialogue with various transporters to check on how this performance can be improved.



Hazardous material transport : Checklist items



Hazardous material transport : Checklist items complied

# Continuous learning

As a knowledge driven organisation, we believe that the quality of our people underpins our performance in every aspect of business, including our SHE performance. We believe that appropriate training is an important way to equip our people to meet the complex organisational challenges of today and tomorrow.

SHE challenges can be complex and our knowledge of the workings of our ecosystems can be far from sufficient in many areas. It is no easy task to overcome these challenges and still contribute to the economic and societal growth which supports our modern way of life and meets the needs of a rapidly growing population.

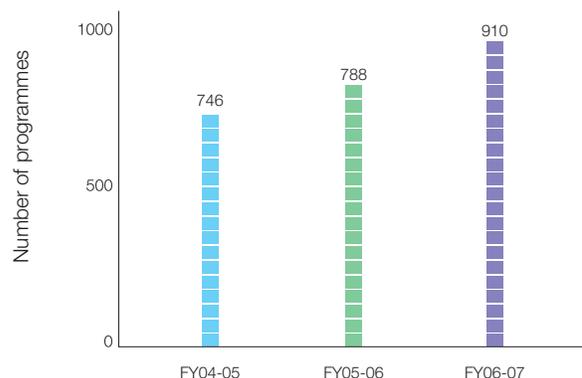
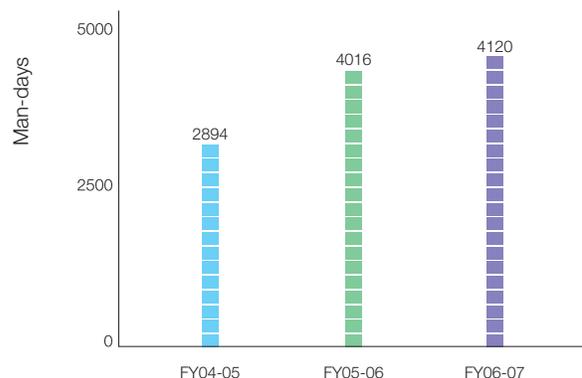
The purpose of SHE training at Dr. Reddy's is to make people more effective in their current jobs, to enhance our overall SHE performance and reinforce group coherence. SHE training is organised based on inherent SHE challenges in a job and the various competences required for the challenges. We also believe that continuous learning through training is an investment that brings significant returns in overall business performance. Our commitment to all areas of training is complete.

In the area of SHE, 910 training sessions totalling 4,120 man-days were utilised for formal training during FY06-07 and many more training days were devoted to informal on-the-job trainings.

At Dr. Reddy's, we believe that we should provide our own employees and contracted employees, with focused and appropriate training which will help them to stay up-to-date in their areas of operations. Towards this aim, we have established a system of need-based training for all employees – both our own and contracted.

We use our internal corporate SHE publications as important training tools besides various other internal and external training modules like behavioural safety, electrostatic hazards, hazop studies, safety testing for intrinsically safe processes and green chemistry amongst many others.

Training in Safety, Health & Environment





Specially designed posters for creating awareness on energy conservation are displayed across all locations

# The melting of ice: a hot topic at Dr. Reddy's

*Never before was the melting of ice so hot.* This is the way UNEP has aptly described the issues of climate change. We at Dr. Reddy's are sensitive towards the issue of global warming and associated climate change.

We have sensitised our employees towards this issue through poster campaigns, publishing articles in our house journal *Elixir* and screening the film "An Inconvenient Truth". The CEO has personally shared his views on this issue with employees through a number of presentations.

We are aware of the fact that the issue of global warming is linked to CO<sub>2</sub> emissions, which in turn is linked to energy demands, arising from our development needs. Answers are difficult. Without getting into the debate of whether the impact of global warming ends up being mild or severe, we at Dr. Reddy's are responding to global warming with energy conservation. There cannot be any negative argument about energy conservation and energy efficiency. We believe that viewing the environmental threats from a business perspective will help. In fact, our drive for energy conservation is in progress for quite some time, notwithstanding the fact that our energy cost is only about 2.5% of the overall cost of manufacturing. A detailed account of our efforts is presented earlier while discussing energy usage and greenhouse gas emission.



Thirty-nine year old Nandiswar has a small shop that sells ceramic tiles in Venkatagiri, a town in Nellore district. His wife who teaches primary classes in a government school and a ten year old son make up his family. He overcame Tuberculosis and typhoid with strong doses of medicine, but in February '07, fevers came only in the evenings and left him confused. Severe weight loss worried him and some scans and tests later, follicular lymphomas were found in his stomach. Nandiswar was told by the doctor that he would have to be placed on chemotherapy, eight cycles of therapy, each to cost him over a lakh of rupees. *We were all set to borrow from friends and sell all assets we had in our little town to arrange for some money as we couldn't leave him untreated*, says his wife. His wife could apply to the government for reimbursement but the funds would take ages to reach them.

*The doctor I was consulting told me that a new drug will be launched soon and the therapy would cost lesser. I saw some hope. My doctor then surprised me by placing me on the therapy free of cost\*. Apart from the cure that was setting in with each cycle, it felt like a huge load was taken off my family's shoulders. With five cycles completed, I feel better. Weakness has set into my muscles, but with three more cycles I hope to be completely cured*, he says. While some friends are helping him manage his shop till he recoups, Nandiswar hopes to get back to his tile shop soon.

\*To read about Sparsh – the patient assistance programme, turn to page 102

***We were all set to borrow from friends and sell all assets we had in our little town to arrange for some money as we couldn't leave him untreated.***

# An effort to create a green building

Have you ever wondered what an eco-friendly office space is? Welcome to one of these! This building is called *Innovation Plaza* created to house the IPDO – the Integrated Product Development Organisation – of the company, a complex that houses laboratories for the scientists working on innovative processes for product development and the Intellectual Property Management teams whose analytical minds need the space and form that sparks their creativity.

Apart from creating an interesting, visually stimulating ambience, efforts were made to adopt as many environment-friendly building practices during the designing process. The architect commissioned for the project, was briefed on this intent before his creativity began flowing into the many lines, shades and sketches turned into blueprints, then into foundations and, now, into the actual structure.

Environment-friendly building practices today provide a competitive advantage to the firms that embrace them. Considering the sustainability of the building at the design stage is extremely important because decisions made here influence all later processes. Whether it is power usage, selection of building materials, construction equipment, air conditioning or lighting, the underlying objective is to optimise usage of resources.

The building is oriented along the North-South axis, taking full advantage of all available natural light, and at the same time keeping out low-altitude direct sunlight from the East and West. The end result is a bright, energy-efficient workspace with an open interior environment where rooms

and space flow into one another, enabling good ventilation and solitude when required.

Here are few examples of what makes this building eco-friendly:

- Large window panels and skylights allow for the entry of abundant natural light
- All the corridors, atriums and breakout spaces take advantage of the wind-tunnelling effect, allowing for natural ventilation
- Compact fluorescent lighting has been installed
- Infra-red sensors in all wash areas turn the water on only when needed

A water-harvesting system maximises replenishment of the ground water table.

But the eco-friendliness of the building is not its only unique point. This building provides an atmosphere to stimulate creativity, amongst scientific staff at work too.

The lawn on the roof of the learning centre not only provides natural insulation to keep out the heat, but also provides residents of the guesthouse a soothing patch of green to augment their view. The main building too is dotted with patches of greenery both inside and on the outside, to allow the creative minds it houses to let their imaginations run free and think of those groundbreaking ideas on which the company depends.

IPDO stands today to create a people environment that is kind to nature, healthy, and sensitive to the working lifestyle of its occupants.



Good ventilation, use of natural lighting and plentiful greenery make the Innovation Plaza a treat to work in

Social responsibility

Social responsibility is an articulated value at Dr. Reddy's. Putting this value into action, we are positively influencing our stakeholders. Our social impact begins with our engagements with people – our employees, the communities in which we live and work, patients and society as a whole. Our external engagements with institutions shape our understanding and practice of sustainability which we report here.

# Our people – our biggest strength

Our values encourage and motivate us to have a partnership with our customers, our employees and our environment, and to drive the organisation towards sustainable development.

People have always been our strength, and the reason for our success. Recognising the fact that employees are the only physical asset that appreciates in value, we give great importance to creating and sustaining a work culture that allows people the space to learn, innovate, experiment and grow. We are building a strong relationship with the environment and with our people; being mindful about the consequences of our operations, going beyond the boundary of our premises and practising the value of Harmony & Social Responsibility.

This year has seen a lot of changes and improvisations. All of which have gone into making Dr. Reddy's what it is today, a global and responsible powerhouse.

## Recruitment

Our approach to talent acquisition is by living the Dr. Reddy's values. Benchmarking against global recruitment practices, excelling at process articulation and execution of recruitment processes come together to form the overall recruitment process. We look at building ownership by taking responsibility for the entire process of recruitment.

People have always  
been our strength,  
and the reason for  
our success.

## Collaboration & Teamwork

- Partner with employees / internal customers
- Partner with the vendors for increased business understanding and effective hiring
- Continuous sharing of knowledge & information

## Respect for the Individual

- Respecting the interviewee's time
- Sensitivity to the confidential details of any candidate
- Effective listening and response to queries of the candidate
- Exhibiting fairness and equal opportunity to all candidates and vendors



## Quality

- The quality of sourcing and screening resumes
- Internal customer delight
- Attention to detail, at all steps
- Acquisition of best-in-class talent at the right time

## Harmony & Social Responsibility

- Seeking this value in potential recruits
- Equal opportunity employer

## Innovation & Continuous Learning

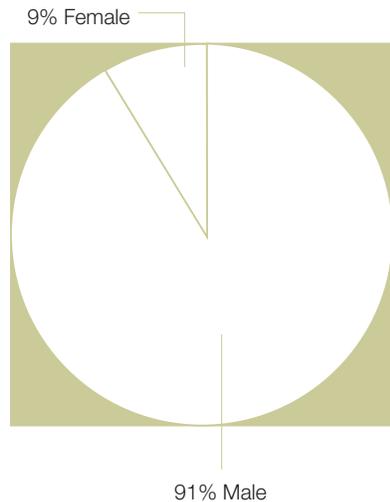
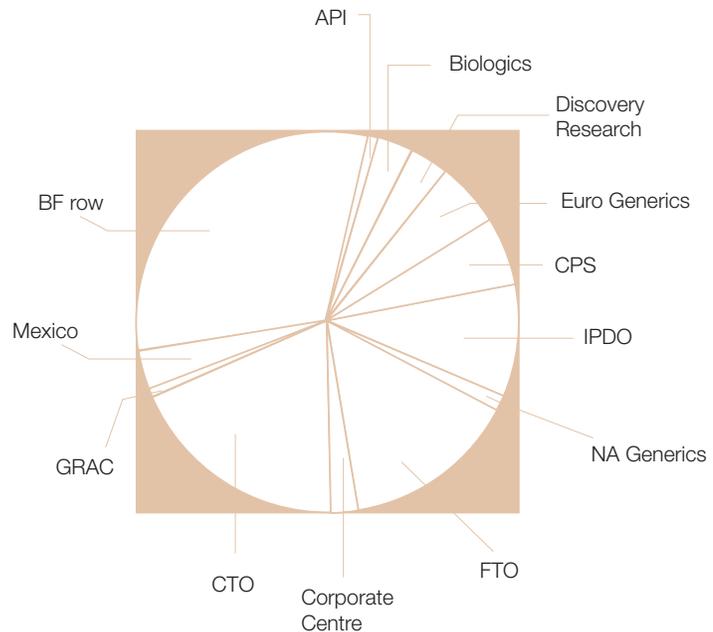
- Explore newer avenues of sourcing and selection
- Continuous benchmarking

Close to 2,500 employees were recruited globally taking the total headcount beyond 9,000 with as many as 2,000 non-Indian nationals employed at all levels of management. Indian operations have been the major hub for hiring activity. Expansion of existing capabilities and additions of Greenfield projects have contributed to volume hiring across various business units.

So as to have a multi-cultural talent mix in India, we have also initiated the process of internal expatriate talent or key non-local talent coming to India on deputation. This lends global exposure to the resources here and helps in imbibing a global mindset promoting successful alliances and partnerships.

## Global employee distribution

Enhancing diversity in our employee base has also been an area of focus thereby increasing our ratios of gender, differently-abled and the cultural mix. The organisation is making conscious efforts to create opportunities for the differently-abled and have recruited them under process, analytical R&D and Global Business Services functions. An attempt is being made towards reaching out to this section by mapping their skill sets to our organisational requirements.



## Gender spread

Dr. Reddy's is creating a culture in which women feel comfortable and valued. Our Board comprises eminent individuals from diverse fields and this year Ms. Kalpana Morparia has been inducted as an independent director on our board. Some of our senior and business-critical positions in Sales & Marketing and R&D are occupied by competent women employees.

There has also been an increased effort in creating a platform for career development of our women employees. A survey was conducted this year for women employees across the globe working with Dr. Reddy's and the action points from the survey findings were implemented. Eminent public personalities like Dr. Kiran Bedi (the first woman to join the Indian Police Service) and Poojitha Chowdhury (documentary filmmaker) addressed women employees of Dr. Reddy's at interactive sessions which helped them get a new perspective in balancing their personal and professional lives and achieving career growth in contemporary complex organisations.

Maternity benefits, infrastructure, medical awareness with respect to women's health were a few key points that were identified. Accordingly, the Maternity Policy has been modified to make it more women friendly, facilities have been improved at various locations to take care of women employees' needs and medical awareness programmes arranged every quarter to bring in more awareness.

## Learning & Development

“There is always something new to learn everyday at Dr. Reddy’s” is what many employees echo.

The Learning & Development (L&D) function stems out of the company’s value of creating a culture of continuous learning and innovation leading to individual and organisational excellence. We believe that every individual in the organisation must have an opportunity to learn and develop. We therefore encourage them to learn more and apply that learning in real time.

L&D’s vision is to make Dr. Reddy’s a “learning organisation” and this vision is to be achieved by involving people; employees, their families, customers and all other stakeholders at Dr. Reddy’s. Given the organisation’s flexibility to adapt an employee into cross-functional roles, we periodically conduct training and development interventions to upgrade skill sets. In our effort to drive learning at all levels, we have also taken up e-learning initiatives through our internal portal – *mydrreddys*. One such popular initiative is the *Harvard Managementor Plus™*, which is an excellent hands-on guidance covering key management topics. This e-learning tool is a precise online resource targeted at managers in a hurry.

## Ankur

*Ankur*, meaning ‘sprout’ or ‘blossom’ in Sanskrit, symbolises growth through transformation. The virtual corporate university of Dr. Reddy’s is branded as *Ankur* and thrives on creating an atmosphere which promotes continuous learning and innovation. Through *Ankur*, we continue to focus on making better people managers at Dr. Reddy’s to sustain a ‘high-performing work culture’. *Ankur* focuses on the following strategic priorities:

- Leadership Development
- Long-term Education Programmes
- Technical/Functional
- Managerial/Behavioural
- OD based Interventions
- Niche business need based



Employees having completed their Masters in Chemical Technology from BITS-Pilani, on their convocation day



Ankur has created a phenomenal impact last year by meeting the training needs of various businesses of the company closing in 25,000 training man-days. This year we launched an innovative 3 phase programme called OPT - Orientation Program for Team Managers, to address the leadership needs of both, new employees and recently promoted managers so as to align them with organisational priorities. We continue to make investments in enhancing our Learning & Development infrastructure. One way is the setting up of our Leadership Academy, presently under construction.

There has been an increased focus in technical training programmes for refining core Pharma skills such as Statistics/Analytical Chemistry, the IPM programme, project management skills and the Clinical Research certification programme.

Continuing with the last year's trend, Ankur has conducted two technical conclaves which have given our young scientists and engineers the opportunity to interact with the thought leaders in the industry.



Particulars	Budgeted (Beginning FY07)	Actual (Ending FY07)
Training man hours per employee	64	69
Total training hours	205000	224000
Total training cost	Rs. 25 mn	Rs. 27 mn

Apart from the technical conclaves, we have been inviting eminent personalities from international universities to provide inputs to our top management. Professor Krishna Palepu (Professor of Finance, Control & Strategy at Harvard Business School), Director on the Board of Dr. Reddy's, spent a day with senior leaders to lead a discussion on how to build a world-class company using two in-depth case studies on leading global companies.

Dr. Reddy's has partnered NMIMS, Mumbai (ranked among the top 10 Business schools in India) to impart an MBA (Pharma Management) to interested & selected employees. This programme with a blended focus on the pharma domain is the first of its kind in the country. It is meant to enrich learning, develop competencies and enhance on-the-job performance. A set of 40 employees are undergoing the course.

## Process simplification

It is a known fact that placing too much effort into maximising local efficiencies can be detrimental to the overall throughput of the organisation. Through myDREEM (Dr. Reddy's Execution Excellence Model), we have tried to revisit the existing processes to simplify and eliminate constraints and help us achieve our objectives.

myDREEM, based on the EFQM was arrived at by considering:

- Simplification
- The Concept of Working Smart

With implementation of our mySAP (myDREEM project) we have simplified a number of work processes and eliminated a lot of redundancy in the work we do.

Our focus this year has also been on implementing *lean principles* at Dr. Reddy's. We have made a good beginning in manufacturing; both at the FTO and CTO operations using the help of Takao Kasahara, a well regarded Japanese consultant, who has helped many global companies achieve dramatic improvements in productivity. There has also been increased rigour in planning. Zero-based budgeting for manpower has ensured that we think lean and stay lean.

## Benchmarking

We have always believed in benchmarking externally and one such initiative that we took in this regard was by reinforcing the culture of positive differentiation - higher rewards for higher performance. The new Variable Plan, which was conceptualised last year, was implemented this year. It means higher Variable Pay and Profit-sharing for high performing employees.

## Organisational design

This year there was increased focus in integrating different businesses and leveraging the strengths of different business units. We implemented a new organisation design in various business units. For example, to streamline our product development, IPDO now has 3 categories of teams such as PDTs (Product Delivery Teams), COEs (Centres of Excellence), CRTs (Common Resource Teams) focused on raising the bar on product development performance in an interdependent and collaborative environment with clear accountability.

## Integrating CTO Mexico and betapharm

The year has also been very fruitful in integrating businesses of betapharm in Germany and CTO (earlier Roche's API facility) in Mexico. The integration process envisaged harmonising values, culture, policies and procedures and above all inducting and integrating them into Dr. Reddy's ethos as their operating philosophy. Specific need-based programs were also conducted such as Spanish language classes for employees who increasingly interact with colleagues in Mexico or Indian culture appreciation programmes for colleagues in Germany.

## Employee health and well being

Being in the business of health, Dr. Reddy's is strongly committed to ensuring good health for its employees and their dependants by providing the required Medical Insurance, observing strict Safety Procedures at work, and evolving right Medical Policies. For example:

The annual exercise of providing customised health checks for employees over 40 years of age, and general health checks for under 40, with special health checks for women are some of the health welfare initiatives.

Premium hospitals in Hyderabad offer comprehensive medical care to employees of Dr. Reddy's and their dependants at affordable prices. All the employees who are exempted from ESI (Employee State Insurance) are covered under the Hospitalisation Insurance where cash-less transactions are available to employees and their dependants across India.

To reduce work-life stress, we organise various employee- and family-centric events through the family-bonding centre of *Ankur*. These programmes enhance the sense of healthy living and help employees and their families bond better with themselves and the Company. Yoga, Art of Living, Parenting, Care during Pregnancy, Tree Plantation drives to protect the environment and Examination Stress Management for school children are some of the programmes conducted.

## Recognition

In line with the Compensation and overall HR Philosophy, outstanding performance is always recognised and rewarded at Dr. Reddy's. The most prestigious Recognition Scheme across the company is the Chairman's Excellence Awards given to individuals who have made a commendable contribution to the organisation. These include initiatives beyond the call of duty, out-of-the-box thinking, and substantial

The North America generics team, winners of Chairman's Excellence Award



value-addition to the organisation, significant institution-building initiatives and exemplary demonstration of living and championing the organisational values.

Adherence and practice of Company's values by employees is always observed and checked. Be it

through the annual performance review which specifically asks for a measure of this, or the 360 degree feedback tool that measures the leadership abilities of employees in the senior management level or any award instituted at the businesses unit level, practice of values is the prime determinant of success.

In line with the Compensation and overall HR Philosophy, outstanding performance is always recognised and rewarded at Dr. Reddy's.

The second Elixir workshop was held to instil creativity and interest in the publication amongst all the correspondents (employees from various business units, geographies, departments who volunteer for writing and reporting various events in the Company)



## Towards communicating better

As we grow in size, we have been making efforts to communicate quickly and effectively across time zones, geographies, businesses and cultures. We have been organising communication meets for the CEO, COO and top management with the senior team of Dr. Reddy's who in turn communicate to their respective teams about the Company. Our policies expressly deploy management, financial, and administrative mechanisms to reach explicit goals and enable uniform and appropriate decision and action. The same are communicated to the last level of employees through sessions, meetings, quizzes, by the Line managers/ Heads of Departments and HR facilitators.

Our house magazine, *Elixir*, and Tejas our Learning & Development journal keep people informed about happenings and learning in different parts of the world. This year we connected with colleagues around the globe by web-casting Celebrations (our annual event) along with the Annual Awards ceremony across geographies.

The CEO sends out a communication every quarter called the "CEO Communiqué" underlining concerns, applauding performance and highlighting areas for focus and reiterating good management practices. This

communication is translated into local languages across all offices to connect with every employee around the world. Employees reflect on this communication and many respond to the CEO with their thoughts and ideas leading to a fruitful dialogue.

*Perspectives* – the CEO's blog on the Intranet for employees to connect with his thoughts and ideas and start a discussion, *Coffee with CEO / COO* – a half hour tête-à-tête with new employees, high performers – are indicators of the transparent and open communication system practised in the company.



Members of the Management Council take questions from employees at a Communication Meet

### Elixir

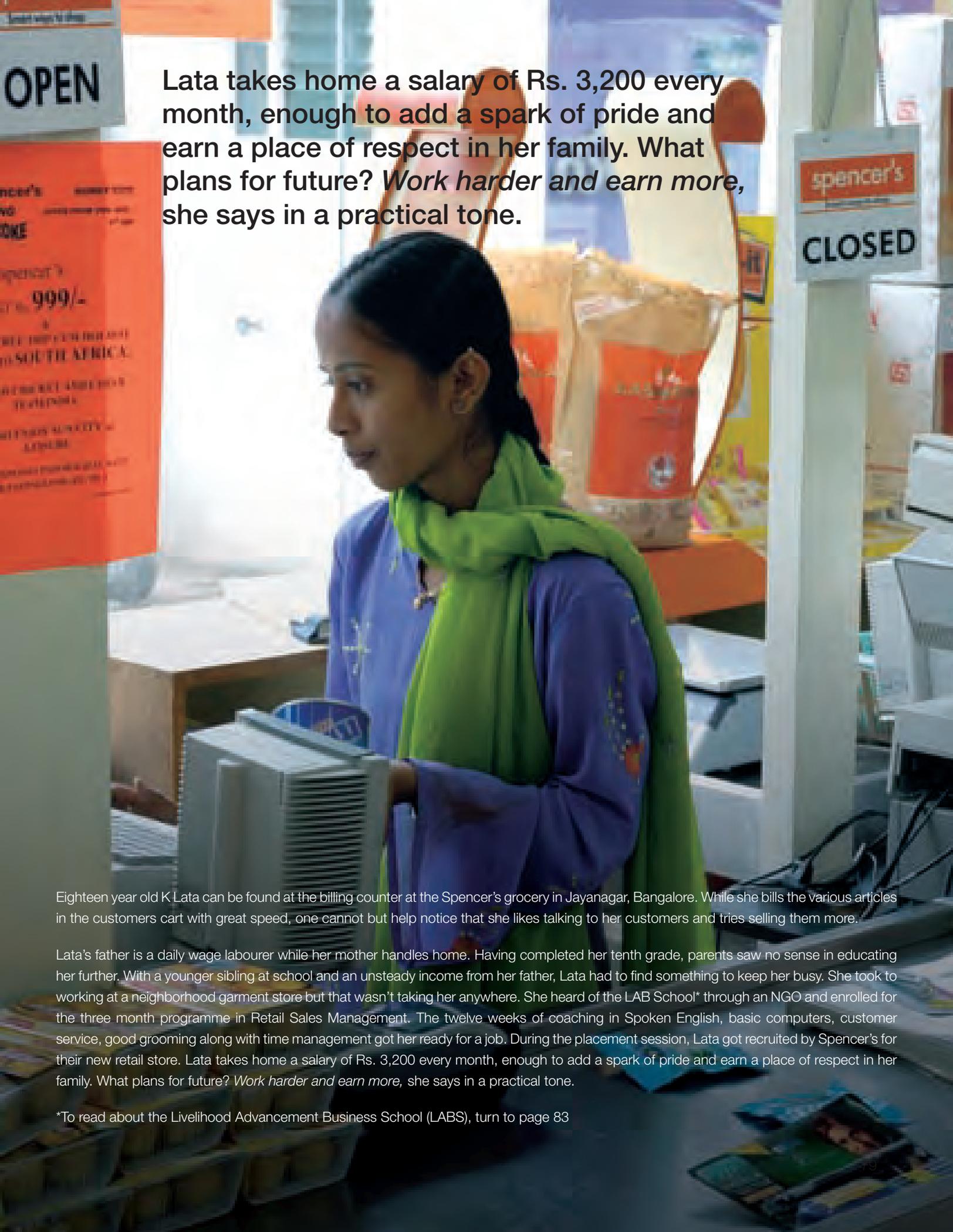


### Around Dr. Reddy's



### Triple Bottom Line





Lata takes home a salary of Rs. 3,200 every month, enough to add a spark of pride and earn a place of respect in her family. What plans for future? *Work harder and earn more*, she says in a practical tone.

Eighteen year old K Lata can be found at the billing counter at the Spencer's grocery in Jayanagar, Bangalore. While she bills the various articles in the customers cart with great speed, one cannot but help notice that she likes talking to her customers and tries selling them more.

Lata's father is a daily wage labourer while her mother handles home. Having completed her tenth grade, parents saw no sense in educating her further. With a younger sibling at school and an unsteady income from her father, Lata had to find something to keep her busy. She took to working at a neighborhood garment store but that wasn't taking her anywhere. She heard of the LAB School\* through an NGO and enrolled for the three month programme in Retail Sales Management. The twelve weeks of coaching in Spoken English, basic computers, customer service, good grooming along with time management got her ready for a job. During the placement session, Lata got recruited by Spencer's for their new retail store. Lata takes home a salary of Rs. 3,200 every month, enough to add a spark of pride and earn a place of respect in her family. What plans for future? *Work harder and earn more*, she says in a practical tone.

\*To read about the Livelihood Advancement Business School (LABS), turn to page 83

# Citizenship

We are committed to actively engage with key developmental problems. We have chosen to work in the areas of education and livelihoods, leading to a final impact of economic empowerment.

We explore through our partnership with Dr. Reddy's Foundation, the wealth of opportunity to make a difference in the lives of young children and youth. Going beyond symbolic gestures, Dr. Reddy's is devoting considerable effort to develop and deploy solutions that are sustainable and long lasting.

The Foundation innovates and experiments with novel concepts that are continuously developed and enhanced to cover larger groups of deprived populace. We are addressing important factors such as quality in education and need for market based approaches for sustainable livelihoods, drawing upon the expertise of all stakeholders. Our extensive efforts and far reaching programmes work because of our various partnerships.

We explore through our partnership with Dr. Reddy's Foundation, the wealth of opportunity to make a difference in the lives of young children and youth.

# Dr. Reddy's Foundation



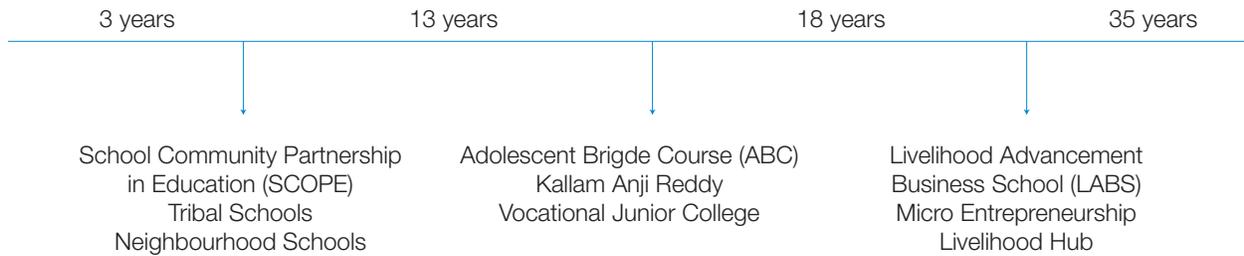
## Mission Statement

We believe that equity in education and livelihoods helps in building an inclusive society. We strive to create quality opportunities in education and livelihoods, with particular focus on the deprived.

Kallam Anji Reddy Vidyalaya (KARV) campus at Hyderabad



## DRF opportunity continuum



### Quality education

DRF extends a helping hand to marginalised communities that lack even the most basic amenities, and have little or no access to education. Utilising schools as community learning resource centres, we strive to improve the quality of school-level education by working with the mainstream education system and implementing innovative schooling strategies to attract school-going children of all age groups.

In FY06-07, DRF sustained its intervention in two major educational programmes:

- School Community Partnership in Education (SCOPE): Funded by Aga Khan Foundation under the 'Programme for Enrichment of School Level Education' (PESLE) project, SCOPE seeks to create access to quality education to all children, irrespective of their age or status. Employing the 'school-community partnership' model, it improves the teaching-learning process by building stakeholders' capacities and creating necessary resources. The partners involved in this initiative include the Department of School Education (Government of Andhra Pradesh), District Institute of Education Training (DIET), State Centre for Educational Research and Training (SCERT), Department of Tribal Welfare (Government of Andhra Pradesh), Sarva Shiksha Abhiyan and Director of Municipal Administration (Government of Andhra Pradesh).
- Quality Education for Skilled Training (QUEST): Under this public-private partnership model – which also includes NGOs – DRF creates, tests and institutionalises technological tools to improve the quality of education and impart workforce

development training for disadvantaged youth. Partners in this consortium include USAID, Azim Premji Foundation, Pratham Educational Initiatives, Wipro Foundation, Microsoft, International Youth Foundation, ICICI Community Initiatives, Lucent Technologies, Nokia Enterprises and GE Foundation.

The other initiatives undertaken in the realm of education are interventions designed in the context of enhancing learning capacity of school children:

- Learning Guarantee Programme: Under this programme taken up in Balanagar Mandal (a geographical area in Hyderabad), children (mostly those in Classes 3/4/5, as well as over-aged children in Classes 1/2) are categorised into Groups A, B or C depending on their literacy levels in Maths and Telugu, and administered special learning modules.

DRF extends a helping hand to marginalised communities that lack even the most basic amenities, and have little or no access to education.

- Integrated Learning Programme (ILP): Specially designed for girls working in petty unskilled jobs, this programme prepares them to continue their education, and also equips them with the skills necessary to get better jobs.
- Children's Reading Clubs: Set up in 2006 in Balanagar Mandal (a geographical area in Hyderabad) in association with QUEST, these clubs have already recorded a membership of over 6000 in a span of just 10 months.
- Adolescent Bridge Course (ABC) Centres: Operating at seven places, these centres have enabled nearly 500 students to take the 10th Class Board Examination of Andhra Pradesh in March 2007.
- Short-term Vocational Courses: Over 350 students were given three-month vocational courses at three centres in Hyderabad.
- Tribal Programme: Begun in 2005, this programme currently encompasses 33 schools in VR Puram Mandal (Khammam District, Andhra Pradesh). Addressing the educational needs of tribal youth in the Mandal, DRF has developed primers and other learning material in their local dialects, using the Telugu script. A documentary film on the educational initiative is also in process.

## The KARV campus

The 5.5-acre Kallam Anji Reddy Vidyalaya (KARV) campus at Chandanagar (Hyderabad) is an integrated model that caters to the educational needs of underprivileged youth in the 3-25 years' age group. The campus houses the following components:

- Pre-School: Caters to children in the 3-6 years' age group.
- Bridge School: Caters to school dropouts and working children in the 6-13 years' age group.
- KARV School: Caters to regular school-going children in the 6-17 years' age group.
- KARV Vocational Junior College: Offers certified 2-year vocational training courses to adolescents in the 15-21 years' age group.
- Livelihood Advancement Business School (LABS): Offers short-term job-oriented training courses for youth in the 18-35 years' age group.

DRF's educational interventions have helped over 34,000 children:

72 government schools in Balanagar (RR District)	27,762 students
33 tribal schools in VR Puram Mandal (Khammam)	3,633 students
1 vocational college in Madinaguda (Hyderabad)	332 students
7 Adolescent Bridge Course (ABC) centres in Hyderabad	965 students
2 short-term vocational training centres in Borabanda (Hyderabad)	256 students
2 Residential Bridge Course (RBC) centres in Balanagar (RR District)	160 students
20 Early Childhood Centres in Balanagar (RR District)	679 students
5 ILP centres in Hyderabad	250 girl workers

## Sustainable livelihoods

Working with particular emphasis on disadvantaged people at the bottom of the economic pyramid, DRF has successfully created nearly 100,000 livelihoods worldwide through its flagship programme, the Livelihood Advancement Business School (LABS), which imparts market demand-driven short-term vocational training courses in various industrial and service sectors.

The pan-India program extends currently to 11 states. LABS in association with Plan International, has also undertaken livelihood programmes in Indonesia, Vietnam and Sri Lanka, working with various like-minded partners in the government/private/NGO sectors.

Always seeking to forge new alliances and partnerships, LABS has successfully created new alliances with the following partners in FY06-07:

- Kotak Education Foundation: In association with DRF, this non-profit organisation of the Kotak Group has created a 'Growth-Oriented Livelihood Generation Model' in Mumbai, based on the 'Build, Operate, Transfer' (BOT) model. After operating a few training courses, the LABS methodology will be transferred to the Kotak Education Foundation for further scale-up.

- The Sehgal Foundation: TSF-LABS, set up in association with The Sehgal Foundation (TSF), provides vocational and employability training to 'Below the Poverty Line' (BPL) youth in Mewat, Haryana.
- Tata Council for Community Initiatives: TCCI and DRF have jointly set up a foundation titled 'Network, Educate, Empower, Value' (NEEV), with the objective of enhancing the employability skills of poor youth by leveraging the industry expertise of various Tata companies. The activities under NEEV include employee volunteering, networking and providing information on new avenues.
- Videsh Sanchar Nigam Limited: VSNL and DRF have jointly set up a Telecom Training Academy for economically disadvantaged youth who have no access to information, knowledge and opportunity. The Academy trains fresh diploma holders from Class C/D towns in acquiring advanced technical skills in the telecom sector.
- Young Indian (CI): In association with the 'Young Indian' Chapter of the Confederation of Indian Industry (CII), LABS is providing car driving skills to poor women, to enable them to become professional cab drivers.
- National Bank for Agriculture and Rural Development: In association with NABARD, LABS has launched a livelihood-based development project in Sultanpur District of Uttar Pradesh.
- Government of Madhya Pradesh: Under the Madhya Pradesh Rural Livelihoods Project, DRF is partnering with the State Government for enhancing the livelihood options of the poor in the tribal belts of four districts in the state.
- Government of Bihar: Under the Bihar Rural Livelihoods Promotion Society – a World Bank-aided independent society – DRF is partnering with the State Government to implement LABS training centres in various rural areas in the state.



## Developing micro-entrepreneurs

In addition to providing employment-oriented vocational courses through its LABS program, DRF has also been developing the latent entrepreneurial skills and aspirations of poor youth. The Micro-Entrepreneurship Development Cell has successfully launched two projects so far:

- **Aarogya:** Under a MoU with the Municipal Corporation of Karimnagar (Andhra Pradesh), DRF has trained 75 mobile food vendors (*chat bandis*) in following hygienic food practices while preparing and serving food to their customers. By providing bank linkages, DRF has helped the vendors to attractively spruce up their eateries, and has also been ensuring supply of clean drinking water to them, in association with the local administration. This has not only improved public hygiene in these mobile eateries, but also greatly boosted their sales.



- **Cornbytes:** In association with the District Rural Development Authority (DRDA) of Ranga Reddy District (Andhra Pradesh), DRF has launched this micro-entrepreneurship development project exclusively for partially handicapped youth. As the entrepreneurs have restricted physical mobility, DRF has taken the responsibility of handholding them for at least one business cycle, including facilitation of both backward and forward linkages.



## Livelihood Hub

A 'Livelihood Hub' has been established by DRF to link underprivileged youth with the world of opportunity outside, by continuously scanning the environment and presenting all available avenues such as government schemes, private sector employment, advanced skills development, entrepreneurship development support, migration support and bank linkages.

A pilot model – grounded in Serilingampally Municipality (Hyderabad) in association with the Andhra Pradesh Urban Society for the Poor (APUSP) – has so far successfully counselled nearly 150 youth 'Below the Poverty Line' (BPL).

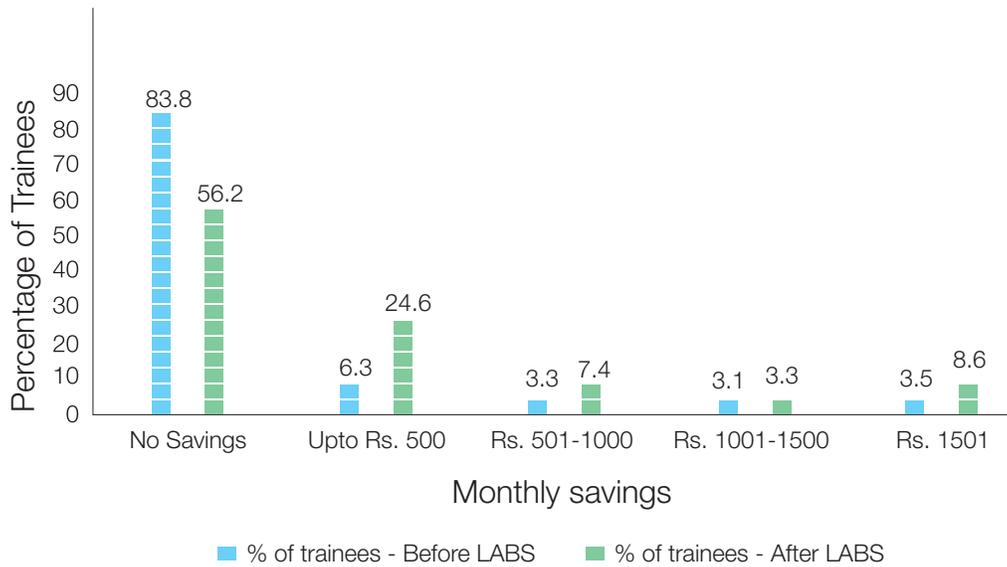
## Grameen LABS

Another significant milestone has been the nationalisation of the Grameen LABS project. Partnering with the Union Ministry of Rural Development under the Swarna Jayanti Swarozgar Yojana (SGSY), DRF seeks to provide livelihoods to poor rural youth across the country, by equipping them with requisite job-oriented skills.

A beginning was made in FY05-06 in seven states – Gujarat, Rajasthan, Tamil Nadu, Uttar Pradesh, Bihar, Jharkhand and Jammu & Kashmir – with a target of providing 35,000 livelihoods. The project has now been scaled up to cover 24 states in the country, with the aim of creating 125,000 livelihoods.

The Foundation conducts a social audit annually with the guidance of Social Audit Network, UK and involves senior members from civil society to ratify audit findings. The CSR representative of Dr. Reddy's also participates in the audit. Here we present key findings and results of our programs which point towards our important contribution and also need for improvement in all programs.

Aspirant's income status	Percentage
No income before and after LABS course	19
Staying in the same income bracket	6
Incomes decreasing	3
Incremental incomes	72



Employees' views on aspirants' performance at workplace (%)

Trait*	Percentage
More committed	57
More motivated	62

\* Attributes as compared with other workforce

Household impact (%)

Response	Access to opportunities	Health status	Food security	Education
Increased	74	47	62	56
No change	24	51	36	41
Decreased	2	2	2	3

\* Source: DRF Social Audit Report 05-06. [www.drreddysfoundation.com](http://www.drreddysfoundation.com)

# Community development & engagement

We seek to fulfil the value of social responsibility in our direct operations by involvement in the communities in which we operate. We seek to create healthy and self-sustaining communities.

With a combination of approaches, our Community Engagement initiatives bring tangible and sustainable benefits to communities where we work and live. Our emphasis is on employee giving, employee volunteering and providing financial support. This kind of engagement ensures deployment of skills, talent, energy and enthusiasm of our employees. Together with our employees, we make a positive contribution to communities where we work and live.

With a combination of approaches, our Community Engagement initiatives bring tangible and sustainable benefits to communities where we work and live.



## The Power of 10™: Dr. Reddy's Employee Giving programme

The power to save a life, the power to gift a smile; the Power of 10™ is an idea that has been changing lives. It is a means to give back to society. A concept promoted by Naandi, a non profit organisation working with children, it has been supported by employees of Dr. Reddy's Laboratories, to the extent of ownership. The movement already has over 14,000 individuals contributing to it.

No. of Employee Donors	Total Amount in Rs. (2006-07)
5,986	16,02,284

In the The Power of 10™ programme, employee contribution is matched by the company. Two major programmes: academic support to children and school child healthcare plan are implemented with the Power of 10™ funds.

### Academic support to children:

The Academic Support Centres supported by The Power of 10™ have been initiated to Ensuring Children Learn (ECL) program. On one hand we are involving educated youth from the community to be like ‘barefoot activists’, using their time and learning to make a difference. On the other hand we are creating the time and space these underprivileged children need to revise and revisit the lessons of the day, much in the same way children from private schools do at home during tuitions and homework.

The underlying principle of this initiative arises out of the belief that every child has certain grade specific competencies in Language, Mathematics and Science across curriculum. Therefore innovations in curriculum and ground-breaking classroom practices have turned the classrooms into a hub for exciting activities and actual learning.

### Schoolchild Healthcare Plan:

The Power of 10™ movement has crossed new frontiers by successfully putting into operation the Schoolchild Healthcare Plan that provides free healthcare to 60,000 government school going children in Hyderabad. Health camps were held to document and track the health profiles of children across 296 schools and each student has been issued a health ID card that entitles them to:

- Access to a paediatrician every day at Out-Patient clinics established in 24 nodal schools
- Specialist care including surgery at tertiary hospitals
- A 24-hour help-line and access to health services on holidays as well

The quintessence of The Power of 10™ is attracting several stakeholders to add value to the program by bringing in their areas of expertise.

The Power of 10™ movement has crossed new frontiers by successfully putting into operation the Schoolchild Healthcare Plan that provides free healthcare to 60,000 government school going children in Hyderabad.



At a Power of 10™ school, a little boy listens in attention clutching his colourful ECL books

## Feedback from an employee, after visiting a Power of 10™ school

"I was under the impression that after 45 years (since my schooling) there would have been a radical change in the Government education system and infrastructure, but the prevailing condition of the schools which we visited shows the extensive need for reforms and change. It is really worth appreciating The Power of 10™ team who work dedicatedly to help improve the literacy levels in children from economically challenged backgrounds.

The hygiene and medical attention being provided by the schools is good. Also I would like to make a special mention of the medical support being provided for school students with unmet medical needs, like surgeries free of cost, providing food and shelter till they recover. It is simply amazing to see the satisfaction on the faces of parents and attendants of these child patients.

I saw the impact it had created and now I am completely overwhelmed to know that even though small, my contribution to the Power of 10™ is a significant contribution!"

It is simply amazing  
to see the satisfaction  
on the faces of  
parents and  
attendants of  
these child patients.

Students at Power of 10™ academic support centre



We also support Dr. Reddy's Foundation for Health Education (DRFHE) and Centre for Social Initiative and Management (CSIM) that work in the domains of Patient Education and Social entrepreneurship respectively, both of which promise sustainable responses in healthcare and voluntary social action. Both the organisations work in Hyderabad where we are headquartered. Our support is helping them stabilise their operations and learn lessons for scale-up, which we consider as an important need for rapid response to social problems.



## Developing patient educators

Dr. Reddy's Foundation for Health Education was instituted with the primary objective of creating qualified healthcare professionals, who would complement and add value to the existing healthcare system, and work with the medical fraternity to offer an integrated multidisciplinary approach to good health.

On an individual level, the effort is primarily to develop qualified, confident, skilful and dedicated professionals – smarter and sharper assistants to the medical fraternity.

### The core initiatives of DRFHE are:

- Create a customised curriculum designed to develop para-medical professionals
- Channel the expertise of specialists from the various disciplines towards developing knowledge and skills along with appropriate value and attitudinal orientation among students
- Proactively carve out a space for Patient Education in the Healthcare Services sector

DRFHE develops patient educators, enabling medical practitioners to devote quality time to diagnosis and treatment.

### DRFHE programmes

- DRFHE initiated the Post Graduate Diploma in Healthcare Management in 2002; a first-of-its-kind programme in India to create professionally trained health educators. 200 Health Educators were created since inception.
- Abhilasha – A programme designed to improve various skills required in effective patient management. The Abhilasha program was effectively launched for nurses in the CARE Hospital in Hyderabad and is now being rolled out on a national level. 500 nurses are being trained through this programme. There are 7 hospitals across India enrolled onto this programme.

DRFHE develops patient educators, enabling medical practitioners to devote quality time to diagnosis and treatment.

Sister N Sumitra, Sister Ponamma and Matron T Uthria Mary at the Jaideva Institute of Cardiology, Bangalore sharing their feedback on DRFHE's\* *Abhilasha*. *The training was very practical. All this while, I was working mechanically but the two days of training had great meaning and insights for me. I feel important and involved in my work now*, says Sister Sumitra. *It helped understand our superiors & patients better and to handle stress which is inevitable in our work*, adds Matron Uthria Mary.

*Simple things like how do I make time for a walk in the morning to how to think objectively through a crisis to how to effectively handle feedback was all taught through role plays and case studies*, explains sister Ponamma. Relaxation, time management, goal setting, team work and inter personal behaviour are concepts not just meant for the world of business but are extremely relevant to service providers like us, they say. When asked for a measure, the sisters say that they see an improvement of 80% in their attitude to work post the training.

They are keen that the younger nurses and paramedical staff also be trained under this programme as it is indeed germane for each of them.

\*To read about Dr. Reddy's Foundation for Health Education (DRFHE), turn to page 91

## Sister N Sumitra, Sister Ponamma and Matron T Uthria Mary at the Jaideva Institute of Cardiology, Bangalore sharing their feedback on DRFHE's *Abhilasha*.





# Learning centre for social change agents

The Centre for Social Initiative and Management (CSIM), Hyderabad is fast emerging as an important learning and resource centre for knowledge sharing and skill development for socially conscious individuals and social sector organisations. Through its educational and training programmes and other services, CSIM is successfully implanting the concept of Social Entrepreneurship and is facilitating application of professional approaches to tackling social problems.

In view of the growing need for human capital development and an entrepreneurial mindset in social sector organisations, the work of CSIM assumes critical importance. CSIM plays a pioneering role in promoting Social Entrepreneurship (SE) awareness, education and training. It also conducts skill building and management development programmes for NGO personnel and promotes volunteering for social benefit. The support provided by Dr. Reddy's to CSIM is a prudent investment for generating sustainable social impact.

The Social Entrepreneurship programme has been the main channel for CSIM to address various social causes through the process of engagement with the participants in terms of project work, networking and follow up after completion of the course. The persons trained by CSIM are making significant contributions in diverse fields like women's empowerment, disability, child labour, street children, community development, primary education, environment, livelihoods etc. (as indicated in the following table).

Social and environmental causes	Number of CSIM alumni working
Women's empowerment and livelihood	7
Mental and physical disability	9
Education	13
Environment/Waste management/ Rainwater harvesting	7
Counselling/personality development	3
Community development	2
Health	3
Care for elderly	1
Microfinance	1
Handicrafts	1
Street Children	1
<b>Total</b>	<b>48</b>

Since its inception in 2002, CSIM, Hyderabad has been conducting Social Entrepreneurship Outlook Program (SEOP) for participants drawn from NGO sector, business sector and academic institutions. During 2006-07, CSIM trained two batches. Cumulatively 70 candidates have successfully completed this course since inception of the Centre.

In 1996, a determined DPK Babu set up a learning facility for the hearing impaired in his little apartment in Begumpet, Hyderabad. Come evening, the apartment would turn into his home. Starting with six children, he experimented on a new system of teaching for the hearing impaired, that took wings and children started to pour in. Growing up with a brother who couldn't hear or speak, Babu clearly knew what he was going to pursue with his work. In 2002, Babu enrolled for the Social Initiative & Management Programme at the CSIM\* and he believes it taught him some essentials. Of how to run a non-profit entity in the way a business operates. Of how to master the difficult communication of conveying a social cause, as that is the one single intangible that can actually be offered to a donor. *The course helped me revisit my vision*, he says. As the director of Ashray Akruti (A voluntary organization working for hearing handicapped children), Babu works towards building a sustainable model to run his organisation. The school today stands proud with 147 children being taught by various teachers, volunteers and trained mothers with funds from various corporates and funding organisations.

\*To read about Centre for Social Initiative and Management (CSIM), turn to page 93



**Master the difficult communication of conveying a social cause, as that is the one single intangible that can actually be offered to a donor.**

# Around manufacturing locations

We seek to build sustainable relationships with neighbours around our manufacturing facilities. We focus on assessing community needs and responding to them. Our programs are supported by employee volunteers and are designed to put the company's resources to best use. Our programmes address a wide range of community needs in areas such as education, health and employability/livelihoods.

The principles with which we operate are: leverage our partnership with Dr. Reddy's Foundation (for sites based in India) in meeting community needs, skill spread – utilising employee talent to meet community concerns and help develop trained human resources who can address community needs.

## Building partnerships

Designed by Dr. Reddy's Foundation, the Life Skills program has impacted 1,00,000 youth through Livelihood Advancement Business Schools (LABS) and made them confident, self-aware and work ready. The program typically enables the target group to understand their environment. Often cut off from mainstream economy and limited by their educational exposure, these youth lack confidence and self-belief. Life Skills helps these young adults to view themselves and their future with positive energy. The Life Skills "Training the Trainer Programme" was launched to create internal resources, drawn from the company's volunteer group, to successfully take the life skills approach in its community development projects with schools in the neighbourhood.

## Educational interventions

Regular attendance and retention of students are major concern areas in government-run schools. Many government run schools require assistance for infrastructure (additional classrooms, toilets) up-gradation and provision of para teachers who can help regular teachers handle high student-to-teacher

ratio in these schools. Our community projects address such crucial needs. Some of our units institute yearly award for meritorious students.

Infrastructure upgrades - Employees of the CTO Unit I, II & III have created a corpus fund for a school in the neighbouring village. The employees are constantly working towards upgrading the basic facilities in the school by providing school uniforms and appropriate stationery. The units have supported the school by levelling the playground area, laying a fence around the premises, providing a gate and an overhead tank for drinking water. The teams intend to work with other government run schools in three neighbouring villages.

A similar initiative was undertaken by Unit V in the Peddevulapalli village where the CSR team carried out infrastructure upgrades like improving the sanitary facilities to make the school premises more children friendly.

## Snack a day

Absenteeism is a common phenomenon in village schools with difficult financial conditions and lack of infrastructure. Hence the CSR Team at Unit V in Miryalaguda rolled out the initiative whereby they provided a morning and evening snack to the children at school to ensure regular attendance. This is an ongoing initiative.

We seek to build sustainable relationships with neighbours around our manufacturing facilities.

## Health awareness camps

HIV/AIDS outreach camps and free health check-up camps were held across the manufacturing facilities for contract labour and neighbouring communities who get valuable information regarding the possible spread and control of disease as well as possible remedial plan for the affected. Improving access to such information minimises their exposure to great personal harm. The CTO units have decided to conduct such awareness camps periodically.



Free medical health check-ups were conducted in February 2007 in Bollaram and neighbouring villages.



Every Friday CTO-VI sets up a drinking water kiosk under the banner "Chalivendram" at the Kandivalasa Ghedda weekly market fair.



CTO-IV organised a road show at Suraram colony on opportunities for youth in Business Process outsourcing, airconditioning & refrigerator repairing, Hospitality and front office jobs. 100 people enrolled for the training and 20 of them received job offers right away.



CTO I, II & III organised a road show for unemployed youth from a neighbouring village. Nearly 132 youth including 30 women registered and 65 joined the LABS programme of DRF. More than 50% of them have found suitable job placements.

At CTO-V, students belonging to a neighbouring village, pursuing undergraduate education in science are supported with tuition fees and further training inputs in technical skills.

# Community programmes in Mexico & Germany

In this report, we are presenting progress of community programs at two new locations of companies which we acquired a year ago. The first is our manufacturing facility in Mexico and the second, beta Institut, the non-profit partner of betapharm in Germany.

Our manufacturing facility in Mexico is driven by the intent to participate and be present in the regional community. The CSR team at the manufacturing plant in Mexico has engaged themselves with intervention in areas of Education & Livelihoods; thereby demonstrating their commitment towards the community by sharing their citizenship philosophy with the industrial, government, academic, business and civic communities to impact positively, the environment they live in.

## Education

### Assessment of Educational institutions in the neighbourhood

The objective of this intervention is to advise educational institutions and their students about correct industrial practices; constant dialoguing with potential human resource consultants and making an effort to create awareness in this sector with regard to the Triple bottom line approach.

This programme has been implemented as indicated in the table below:

STEPS	Progress
Visits to educational institutions	24 per year
Lectures delivered	6 per year
No. of students trained	15 per semester
Educational institutions Directives	Collaborated with 3 different educational institutions Consultative Committee

The scale up plans for the programme envisions the following targets:

- Review the contracts with prestigious educational institutions to obtain better development opportunities for the co-workers and their families by creating scholarships and preferential fee options
- Aim for at least 3 contracts to be materialised in 2008
- Reviewing the number of matriculated students in 2008 for new covenant conditions

Participation in different government initiatives: Focusing on competitiveness, employment and safety actions in the State of Morelos

STEPS	PROGRESS
Meetings with Govt functionaries of various industries	Collaboration in strategic line initiatives at the Counsel for dialogue with productive sectors headed by C Marco Adame, Governor of Morelos
Lectures at symposiums/ Congress	Building good relationships with government and other industrial commerce and society sectors

The unit believes in doing the right thing and giving back to the most vulnerable section of community. This ideology truly epitomises the objective of living the values of a socially responsible company. The core CSR team leads by example and participates in charitable causes attached with non profit organisations. They have successfully collaborated with 'DIF' a governmental institution for 'family integration', "Children's State Hospital for HIV/AIDS for volunteering and with various non-profit institutions in general. The future plans essentially entail improving relations with the governmental and non-governmental and non-lucrative agencies to develop synergies in action of social initiatives.



beta Institut's Bunter Kreis paediatric patient smiles for a picture

## beta Institut for Applied Healthcare Management, Development and Research in Social Health

The activities of the beta Institut include the following:

- Development of new projects
- Undertaking research in the area of Social Health
- Offering advanced training and consulting, and
- betaCare, the most extensive information network on illness and social issues in Germany

The beta Institut has employee strength of about 60 people, and is a not-for-profit organisation. It is the exclusive partner of betapharm Arzneimittel GmbH, which bears approximately 80% of its costs. The rest is financed through health insurance companies, social foundations, ministries and other companies.

The beta Institut mainly targets professionals in the Healthcare and Social Service sectors, such as doctors, pharmacists and teachers. The universal goal of the Institut's activities is, to improve people's lives. The medical treatment of illnesses in Germany is very advanced, but however – as per the definition of the WHO – health is not just freedom from disease. The additional factors of psychological, social and spiritual stability are equally important and these areas are where the beta Institut seeks to address.

The beta Institut has four broad areas of focus: Paediatric Care, the mammaNetz, Papilio and betaCare.

### Paediatric Care: Aftercare using the 'Bunter Kreis' model

Hospitals give critically and chronically ill children treatment using the latest medical techniques. However, they require complex care even after being discharged, necessitating frequent visits to doctors and clinics. Very often, this causes families to undergo high levels of strain, both financial and psychological.

To help families cope with this, the 'Aftercare' approach was developed in the 90s by the '*Bunter Kreis*' ('Colourful Circle') foundation in Augsburg, Germany. According to this model, an affected family is assigned a 'Case Manager' who helps them care for the child at home, especially during the time after the child is discharged from the hospital. The objective is to allow the family to adjust, as soon as possible, to the changed circumstances brought about by their child's illness.

- Scientific research done by the beta Institut shows that 'Aftercare' can be economically viable, that it enhances the development of the affected children, and that it reduces the burden on the entire family.
- The Institut supports any organisation that is interested in building up an Aftercare system based on the '*Bunter Kreis*' model. (2006 has seen the formation of 21 'Colourful Circles'). Representatives of numerous clinics have participated & attended the Aftercare workshops organised by the beta Institut in 2006.
- Achievement highlight of 2006 was the creation of Aftercare Guidelines, a handbook to be published in 2007.

## mammaNetz, and PatientNetz for victims of Stroke

The unique competencies that were developed by the Institut through the guidance of families with critically ill children were extended to adults in 2003 with the formation of mammaNetz, a service through which victims of breast cancer can receive guidance on everything from diagnosis to Aftercare. This is something unique to Germany, as patients often cannot find their way through the complex healthcare system. Here is where the mammaNetz Case Managers are able to help by offering both technical and emotional support and guidance.

- beta Institut has been able to prove scientifically that mammaNetz provides patients with needed support while simultaneously saving money for the healthcare system.
- mammaNetz has partnered with 26 health insurance companies and has also received a research grant from the German Ministry for Research, which helps sustain its operations.
- The beta Institut provides advice to clinics interested in setting up mammaNetz in their regions. mammaNetz has already been set up in four new regions in Germany in 2006.

- The methodology used in guiding patients through mammaNetz has been extended further through the establishment of 'PatientenNetz Schlaganfall' ('Network for Stroke Patients) in 2006.

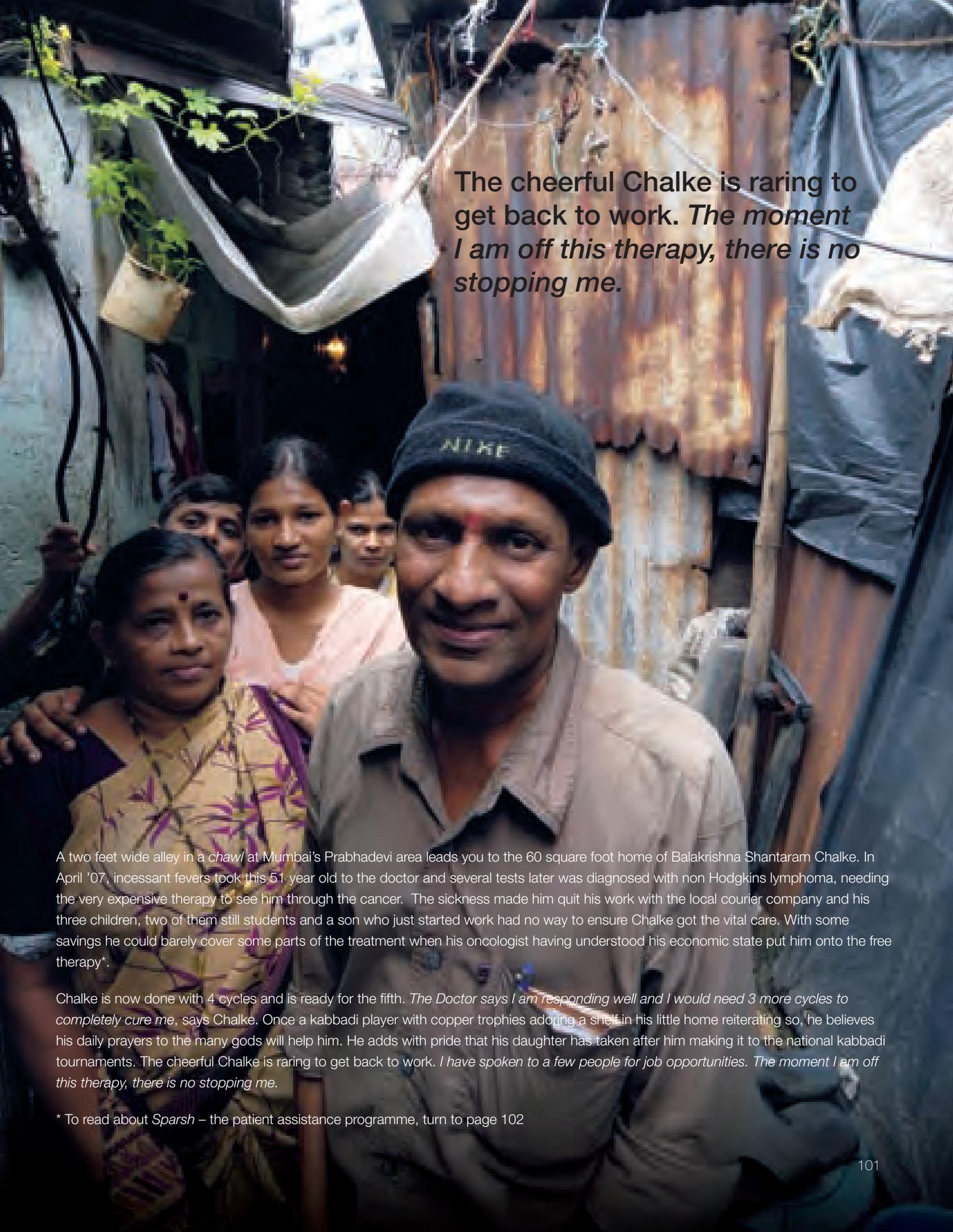
## Papilio: Prevention at the Kindergarten Stage

Drug addiction and violence are problems that predominantly affect young people, causing high monetary expenditure as well as tremendous personal suffering. International studies show that preventive action against these problems must be taken very early on, between the ages of two and seven, if it is to be effective. As most children of this age attend Kindergarten school in Germany, the beta Institut has developed a programme called 'Papilio' for Kindergarten schools that prevents children from developing addictive or violent tendencies.

- 2006 saw Papilio running in 36 cities across the whole of Germany, fighting a campaign for early prevention
- Over 250 Kindergarten schools in Germany use the principles of Papilio, reaching around 16,500 children
- Studies have shown that children undergoing the Papilio programme perform better at school than others

A child experiencing the Papilio programme





**The cheerful Chalke is raring to get back to work. *The moment I am off this therapy, there is no stopping me.***

A two feet wide alley in a *chawl* at Mumbai's Prabhadevi area leads you to the 60 square foot home of Balakrishna Shantaram Chalke. In April '07, incessant fevers took this 51 year old to the doctor and several tests later was diagnosed with non Hodgkins lymphoma, needing the very expensive therapy to see him through the cancer. The sickness made him quit his work with the local courier company and his three children, two of them still students and a son who just started work had no way to ensure Chalke got the vital care. With some savings he could barely cover some parts of the treatment when his oncologist having understood his economic state put him onto the free therapy\*.

Chalke is now done with 4 cycles and is ready for the fifth. *The Doctor says I am responding well and I would need 3 more cycles to completely cure me*, says Chalke. Once a kabbadi player with copper trophies adorning a shelf in his little home reiterating so, he believes his daily prayers to the many gods will help him. He adds with pride that his daughter has taken after him making it to the national kabbadi tournaments. The cheerful Chalke is raring to get back to work. *I have spoken to a few people for job opportunities. The moment I am off this therapy, there is no stopping me.*

\* To read about *Sparsh* – the patient assistance programme, turn to page 102

# Commitment to patients

In our business practices, in line with the Triple bottom line approach, people focus encompasses commitment to patients which is supported by programmes for product responsibility and patient assistance. In this section, we report key initiatives that help strengthen patient safety and provide patient support consistently.

## Sparsh - A Dr. Reddy's Story

True to the spirit of Dr. Reddy's, Team Oncology's aim has been to provide "quality and affordable drugs" to the masses. Though we were poised to increase the spread to a large number of patients due to a better and an affordable pricing (Dr. Reddy's business interest is in manufacture and marketing of generics, of which anti-cancer drugs are biogenerics), we knew we had to "go the extra step" and further reach out to the patients from the lowest income group too. This led us to the idea of a "Patient Assistance Program" that eventually became *Sparsh*.

Through this initiative, we offer expensive oncology medicines absolutely free to patients who cannot afford them, through their doctors.

Doctors in our network recommend patients who cannot afford the costs. We have found that the doctors, when given the discretion, actually exercise very good judgment and help us in delivering to the neediest patients. Thus, we have been able to use the affordability platform and an innovative business model to not only serve society but also build our business. The program is offered by the marketing division in the company and is led in the field by medical representatives.

Reditux™ (Retuximab) and Glioz™ (Temozolomide) are two of our products, that through Sparsh, have impacted the lives of over 100 patients in the first two months.

Sparsh would be extended to all Dr. Reddy's oncology products to enhance free access support to patients. So far we have enrolled over 154 patients and we have a commitment of 300 every year.

## Sarathi

*Sarathi* is designed to sharpen the knowledge and skill sets of the doctor's assistant in a clinic setup, which will improve counselling and patient management, and facilitate the doctor's efforts at better health. The program launched in April 2006 has trained 1,000 physician assistants. There are 1,700 doctor's assistants pan-India enrolled for this programme at the time of this reporting.



The trained assistants have demonstrated their keen interest in patient care and patient counselling. A doctor reported that his patients have also observed the change in the quality of counselling given by his assistant.

## Connecting with patients

Patients have more than just medical problems. However, doctors and pharmacists lack ample time to advise patients on psychological, financial or organisational matters. Such unanswered questions often affect treatment. With *betaCare*, the beta Institut has set up a comprehensive knowledge system that makes the necessary information available to healthcare professionals through various means.

- *betafon* is a telephone service that answers up to 1000 queries per month
- *betaListe* is a handy reference book for social laws and self-help groups (2006 saw the

printing of the 6<sup>th</sup> edition, with 72,000 copies printed)

- [www.betafon.com](http://www.betafon.com) allows people to find information on the internet, and receives up to 650,000 visits per month
- 13 advisors and a reference book titled '*Palliative Care Formulary*' provide detailed technical knowledge
- Seminars and e-learning provide doctors, pharmacists and their colleagues the competencies to advise patients on social issues

The strength of the beta Institut is that it not only develops innovative concepts, but also practically tests them while conducting parallel scientific evaluations. The results of this healthcare research are innovative, practical and quality-assured solutions for issues of healthcare and social welfare. Numerous partnerships with organisations like clinics and universities are of great importance here. Such partnerships are deliberately nurtured, as the beta Institut believes that they add value to the Institut and develop key competencies for future healthcare.

*betaCare* is a programme of the beta Institut in Augsburg, Germany. *betapharm* and its social arm, beta Institut are a part of Dr. Reddy's post their acquisition in February '06.



# Safety, our prime responsibility

We adopt best practices to develop our product and before it is made accessible to the patient we ensure that it has undergone all the necessary safety studies and trials to identify adverse events, if any.

## Complaint handling process

A complaint handling system has been put in place to address all market complaints related to quality of the company's products. The Customer Services Cell, at the Branded Formulations headquarters acts as a single point of contact for related market concerns. The Cell also addresses market complaints from regulatory bodies, patients, doctors, other health professionals, pharmacists and employees.

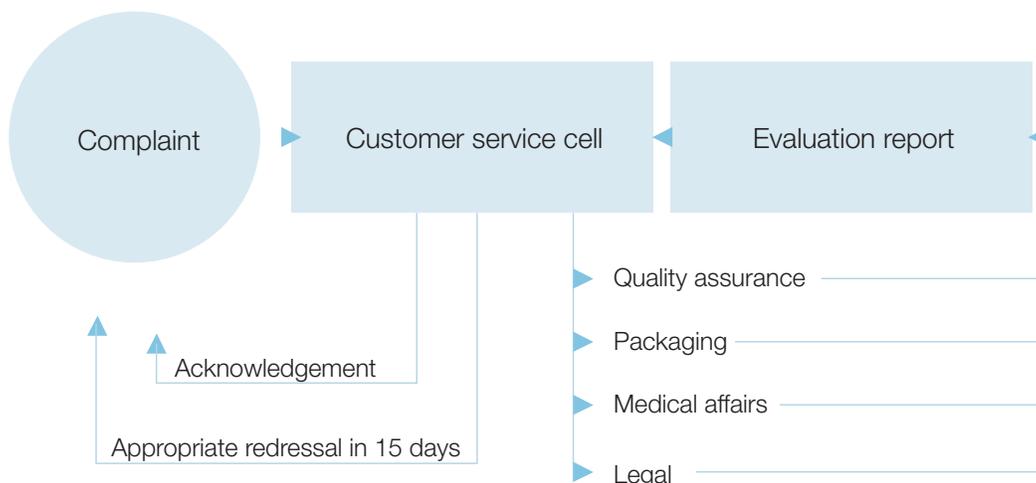
In the normal course of action, complaints sent to the Cell are logged into a database within 12 hours of receipt (unless complaints received have insufficient data, in which case the Cell follows the leads available and logs in the complaint). An acknowledgement letter or mail is sent to the complainant within 24 hours of logging in the complaint.

Logging in a complaint also sends alerts to the Quality Assurance (QA) teams at respective manufacturing plants (where the product originated) for necessary action. The complaint is analysed and evaluated by the respective QA teams, Packaging and Medical Affairs team.

QA reverts with an initial evaluation report within 15 days of logging in the complaint, which is shared with the complainant. In case the evaluation takes longer, an interim reply with initial data is sent to the complainant.

Real time data on the logged in complaint is shared between QA, Marketing, Medical affairs teams along with the Customer Services Cell. In special cases, the legal team is also involved to evaluate the complaint and decide on the way forward. This system helps in streamlining response to every concern on the company's products thereby creating a clear communication channel and better accountability between the company and the public.

One can write to the Customer Services Cell at [customerservicescell@drreddys.com](mailto:customerservicescell@drreddys.com)



## Anti-Counterfeiting

Counterfeit medicines represent an unacceptable risk to patient safety while at the same time jeopardising the original manufacturer's image, reputation and in extreme cases their economic viability. It is therefore imperative that the manufacturer should take care of customers' faith by providing effective features in the product pack to make counterfeiting extremely difficult and also to facilitate easy identification of the original pack.

### Overt features

- 1 Coin reactive printing - Printing with a transparent ink. When scratched with a coin, text is visible to the customer
- 2 Inkjet printing
- 3 Embossing of brand name
- 4 Print Registration of text on both sides of foil
- 5 Hologram seals

### Covert features

- 1 Invisible matrix – Brand name printed using a particular screen not visible for normal viewing. When viewed through a matching screen we can identify the brand
- 2 UV sensitive inks – which can be seen under a UV lamp
- 3 Micro printing – which can be seen with a magnifying glass
- 4 Split line technology – text printed can be read only after taking a photocopy
- 5 Thermochromic inks – Printing with temperature sensitive inks
- 6 Dot elimination – We deliberately miss the dots in over-coding details or text in a structured way

A tamper-proof package design that won the AmeriStar award for packaging excellence



# External engagements

Shaping the agenda of sustainable development, Dr. Reddy's senior business leaders engage with diverse initiatives. We are growing our awareness of actions and practices required in this path.

## Naandi Foundation

Dr. K. Anji Reddy as the Founding Chairman of the Naandi Foundation guides its activities & innovations that have both short-term and long-term benefits to the quality of life of people and of the environment in which they live.

- Naandi is working in concert with WaterHealth India, the Indian arm of WaterHealth International – who bring internationally proven water treatment solutions – to give rural Indians safe and clean water. Naandi plays the role of a social catalyst, galvanising the people into opting for this safe water and educating them on its immediate and long-term benefits. Naandi also works closely with governments/communities to bring innovations and appropriate technologies to underserved populations to give them better access to health, education and livelihood opportunities.
- Organic farming that is encouraging the conversion of semi wastelands with international organic farming protocols to not only re-green barren tracts in Araku Hills, but also ensuring for its tribal population a means of sustainable income for years to come.
- Fighting hunger and malnutrition, a battle Dr. Reddy's began with the launch of the Central midday meal kitchen in Hyderabad that feeds 120,000 government school children everyday, has spread to nine cities covering half a million children today. And recently, enhancing these meals are fortifications of nutrients such as iron that have begun due to alliances forged with international organisations such as Global Alliance for Improved Nutrition (GAIN), (founded at a special UN session for children in 2002) of Switzerland.

- Dr. Anji Reddy is the India Chairman of GAIN. GAIN's mission is to reduce malnutrition through the use of food fortification and other strategies aimed at improving the health and nutrition of populations at risk.

GAIN has a key alliance-building function, bringing together both public and private partners around common objectives, and provides financial support and technical expertise. A distinctive and essential feature of GAIN's approach is its work with the private sector, applying innovative business models to make markets work in a sustainable manner for the benefit of those suffering from malnutrition. GAIN places a critical emphasis on performance management to ensure that the programs it delivers are making a measurable impact on target populations.

Global partnerships with corporates, institutions and key opinion leaders that Naandi has benefited from in its expansion from being an organisation working in five villages in 1998 to one that is touching more than 10,000 habitations across seven states in the country, have been possible largely because of the vision, and the spirit of Dr. K Anji Reddy to make a lasting change in the lives of the underserved.

## Tomorrow's Company

Tomorrow's Company is a not-for-profit research and agenda-setting organisation committed to creating a future for business which makes equal sense to staff, shareholders and society. Its business-led programme of publications, events and other activities focuses on three issues fundamental to the future success of business:

- an improved investment system
- an inclusive approach to leadership and governance
- closing the gap between business and society

Having had a strong influence on business leadership and governance in the UK, Tomorrow's Company is now approaching these issues on an international basis under the theme of Tomorrow's Global Company. The project has brought together senior leaders from companies and organisations based in Europe, Asia and North America: ABB, Alcan, Anglo American, Amnesty International Business Group, BP, Dr. Reddy's, Ford, the

International Institute for Sustainable Development, Infosys, KPMG, Leaders' Quest, McKinsey, Standard Chartered, SUEZ, and SustainAbility.

G.V. Prasad was a member of the inquiry team. The team has spent the past year examining the role global companies should play in what it describes as “a period of unprecedented change - characterised by a rising population, rapid economic growth, the spread of globalisation, pressure on the environment and continuing social, political and cultural divisions.” In setting out the case for business to “expand the space”, the inquiry provides a distinctive approach that leaders

of major companies can adopt in working with others to secure outcomes that are profitable and sustainable for the future.

The inquiry by global business leaders into Tomorrow's global company breaks new ground. It talks about redefining success, embedding values, and creating frameworks as the three elements needed to enable business to widen its role and “expand the space” in which it operates. It expresses support for the market but warns that without business influence, the markets alone will lead us to unsustainable outcomes.

G.V. Prasad led the involvement of Dr. Reddy's and played an influential part in shaping the inquiry's conclusions. In particular the example of Dr. Reddy's as a values led company that has effectively redefined success was a powerful illustration of the report's themes. Dr. Reddy's are, equally, proving powerful advocates as we follow it up.”

– Mark Goyder, Founder Director, Tomorrow's Company

Achievements



The **Best Employers in India 2007** in the study done by the global HR consulting giant Hewitt Associates, in association with India's largest business daily, The Economic Times. We were the only pure play pharmaceutical company in the list of 25 companies awarded in 2007.

The **Global HR Excellence for Innovative HR Practices in the Manufacturing Sector** at the Asia Pacific HRM Congress. These awards recognise companies with Best Recruitment Practices as against the generic practice of judging HR systems as a whole.

The **Recruiting and Staffing Best in Class (RASBIC) 2007 Award for the Best Overall Recruiting and Staffing Organization of the Year** category at the Asia Pacific

HRM Congress. We have bagged this award the second year in a row.

**"Employer Branding Awards- 2007"** in three categories namely: a) Innovation in Recruitment b) Talent Management and c) Innovation in Career Development by the US based "Star of the Industry Awards Foundation".

Ranked 4th in **"The Best Companies to Work for in India"** survey conducted jointly by Business Today, India's leading business magazine, Mercer Human Resource Consulting, a leading global HR consulting firm, and TNS India, an international Market Research organisation.



'Business Leader in the Pharmaceutical Sector' – NDTV Profit Business Leadership Awards – aimed at recognising companies that have shown exceptional ability across industries.

Pharma Excellence Awards 2007, The Pharma Excellence Awards – an Indian Express initiative – are awarded to companies that excel in various fields of the pharmaceutical industry in India. Winning categories include – Sustained growth, Shareholder Protection, Corporate Social responsibility.

The Lifetime Achievement Award was conferred on Dr. K. Anji Reddy at the Pharma Excellence Awards – An Indian Express initiative.

The 'Best India Deal' for the acquisition of betapharm at the FinanceAsia Achievement Awards Hong Kong. FinanceAsia is one of Asia's leading financial publishing companies.

The Financial reporting in Annual Report 2005 was adjudged as the second best in the South Asian region by the South Asian

Federation of Accountants (SAFA). This award considered the most prestigious accolade for financial reporting in South Asian region involves scrutiny of Annual Reports nominated by the apex accounting bodies in the entire region. Dr. Reddy's nomination was filed by the Institute of Chartered Accountants of India.

The Diana (Distribution Industry Award for Notable Achievement) from the Healthcare Distribution Management Association (HDMA), the leading association of healthcare wholesalers and distributors in the US (October 2006). Dr. Reddy's was the Best Overall Generic Pharmaceutical Products Manufacturer with Sales to HDMA Distributors under \$300 million.

Three 'Indiastar awards' given by the Indian Institute of Packaging. These awards that recognise excellence in packaging was given to the Cheerio toothpaste pack with Rooster and sliding carton for aesthetic appeal, Omez pack for Russia for its anti-counterfeit features and customer safety and Ketorol tablets pack for export with the Braille script for social initiative taken.

# Way forward – Sustainability Goals\* for 2007-2008

	Focus Area	Target ( 2007-08)
Corporate	People	Execution Excellence (supporting Lean management / simplification) by creating a culture of 5S, Kaizen in manufacturing locations
		Simplification of HR processes and workflows through implementation of lean management (identified processes are Joining, Separation and Employee Services)
		Leadership Development by creating and developing a plan for potential 'orbit changers'
		Focused interventions for enhancing sensitivity and improved leadership behaviour across the organisation
	Governance	Integrating risk management framework into existing management systems
		Investor relations: Improvement in quality, coverage and effectiveness
		Revisiting key controls in SOX and reducing them as per Auditing standard and myDREEM initiative requirements
Manufacturing	Product Quality	No critical observations in Global Regulatory Affairs council audit (an internal team) in preparation for US FDA audit. Complete 5S implementation
	CTO (API)	
	FTO	
	Environment	Reduce specific consumption w.r.t. unit sales (Rs. one million) by 5% in all six units of CTO  Reduce specific consumption w.r.t. unit production by 10% in FTO facilities  Total number of incidences in all six units of CTO not to exceed 36  Continue exploring process development & green chemistry application for major APIs in order to reduce the environmental impact
	Energy	
	Employee Safety	
	Product development	
	Execution Excellence	Changeover time reduction by 6 hours in identified unit operation in all CTO facilities  Improve Manpower productivity over 06-07 by 12%; Changeover time reduction by 30% in identified lines
	CTO (API)	
	FTO	

\*We present here few key business goals that have impacts related to sustainability. We follow the *Balance Scorecard approach* for goal setting and have other specific goals related to profitability, customer and business process improvements.

# Glossary of terms

ABC	– Adolescent Bridge Course	ILP	– Integrated Learning Programme
ANDA	– Abbreviated New Drug Application	IPDO	– Integrated Product Development Organisation
API	– Active Pharmaceutical Ingredients	IPM	– Intellectual Property Management
APUSP	– Andhra Pradesh Urban Society for the Poor	KARV	– Kallam Anji Reddy Vidyalaya
BFRoW	– Branded Formulations, Rest of the World	L&D	– Learning & Development
BPL	– Below the Poverty Line	LABS	– Livelihood Advancement Business School
COS	– Certificate of Suitability	LTA	– Lost Time Accident
CII	– Confederation of Indian Industry	MEE	– Multi Effect Evaporator
CoBE	– Code of Business Conduct and Ethics	NA	– North America
CoEs	– Centres of Excellence	NCE	– New Chemical Entity
COD	– Chemical Oxygen Demand	NEEV	– Network, Educate, Empower, Value
CPS	– Custom Pharmaceutical Services	NHL	– Non-Hodgkin's Lymphoma
CRs	– Common Resources	ODS	– Ozone Depleting Substance
CSIM	– Centre for Social Initiative Management	OPT	– Orientation Program for Team Managers
CTO	– Chemical Technical Operations	PDTs	– Product delivery teams
DIET	– District Institute of Education Training	PESLE	– Program for enrichment of school and education
DMF	– Drug Master File	QA	– Quality Assurance
DRDA	– District Rural Development Authority	QC	– Quality Control
DREEM	– Dr. Reddy's Execution Excellence Model	QUEST	– Quality Education for Skilled Training
DRF	– Dr. Reddy's Foundation	RoW	– Rest of the World
DRFHE	– Dr. Reddy's Foundation for Health Education	SCERT	– State Centre for Educational Research and Training
EDMF	– European Drug Master File	SCOPE	– School Community Partnership in Education
ECL	– Ensuring Children Learn	SE	– Social Entrepreneurship
ESI	– Employee State Insurance	SEOP	– Social Entrepreneurship Outlook Program
EU	– European Union	SHE	– Safety, Health and Environment
EFQM	– European Foundation for Quality Management	SGSY	– Swarna Jayanti Swarozgar Yojana
FTO	– Formulations Technical Operations	SOX	– Sarbanes – Oxley Act
GAIN	– Global Alliance for Improved Nutrition	TBL	– Triple bottom line
GBS	– Global Business Services	TDS	– Total Dissolved Solids
GHG	– Greenhouse Gas	US	– United States
GPVC	– Global Pharmaco Vigilance Center	USGAAP	– United States Generally Accepted Accounting Standards
IGAAP	– Indian Generally Accepted Accounting Standards	WHO	– World Health Organization

## Photo credits

Chand Shaik (5,17,24,27,32,65,76,105,109,110)

Kalyan Kumar Reddy D (13,17,29,41,47,73,77,78,81)

Kamal Sahai (18,23,35,39,67,79,89,90,92,94,101)

Rajeev Asgaonkar (4,21,22,56,102)

# VALUES - our guiding principles

Values guide behaviour and set the context for doing the right things the right way. Here are the values of Dr. Reddy's that facilitate our journey to our vision – *"To become a discovery-led global pharmaceutical company"*

*We strive for excellence in everything we think, say and do*

**Quality:** We are dedicated to achieving the highest levels of quality in everything we do to delight customers, internal & external, every time.

**Respect for the Individual:** We uphold the self-esteem and dignity of each other by creating an open culture conducive for expression of views and ideas irrespective of hierarchy.

**Innovation & Continuous Learning:** We create an environment of innovation and learning that fosters, in each one of us, a desire to excel and willingness to experiment.

**Collaboration & Teamwork:** We seek opportunities to build relationships and leverage knowledge, expertise and resources to create greater value across functions, businesses and locations.

**Harmony & Social Responsibility:**  
We take utmost care to protect our natural environment and serve the communities in which we live and work.

Our business practices are guided by the highest ethical standards of truth, integrity and transparency.

## Dr. Reddy's Laboratories Limited

Greenlands, Ameerpet, Hyderabad - 500 016. Tel: 91-40-23731946, Fax: 91-40-23731955.  
email: [sustainability@drreddys.com](mailto:sustainability@drreddys.com) | [www.drreddys.com](http://www.drreddys.com)



This report has been printed on environment friendly paper.  
No trees have been felled in its making.