



DRIVING SUSTAINABLE GROWTH

ANALYST MEET 2004

JUNE 16, 2004

Safe Harbor Statement

This presentation includes forward-looking statements, as defined in the U.S. Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially. Such factors include, but are not limited to, changes in local and global economic conditions, our ability to successfully implement our strategy, the market acceptance of and demand for our products, our growth and expansion, technological change and our exposure to market risks. By this nature, these expectations and projections are only estimates and could be materially different from actual results in the future.

(1) Presentation of financials as per USGAAP

(2) Conversion as per convenience translation rate of 1 USD = Rs 43.4

AGENDA

Dr Anji Reddy, *Chairman*

- A Decade of Drug Discovery

Satish Reddy, *Chief Operating Officer*

- 2003-04: Business Highlights

VS Vasudevan, *Chief Financial Officer*

- 2003-04: Financial Overview & Outlook

GV Prasad, *Chief Executive Officer*

- Strategy Update

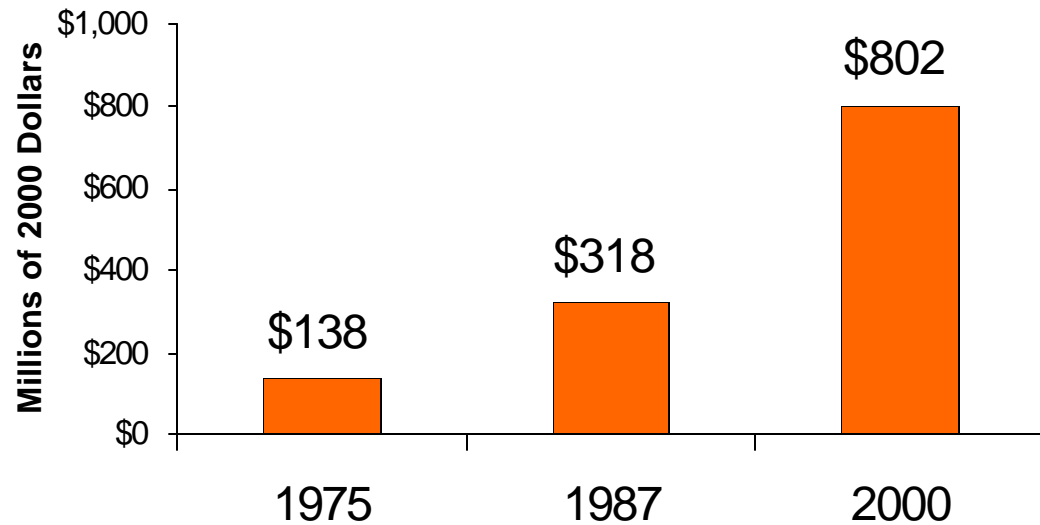


Dr Anji Reddy, *Chairman*

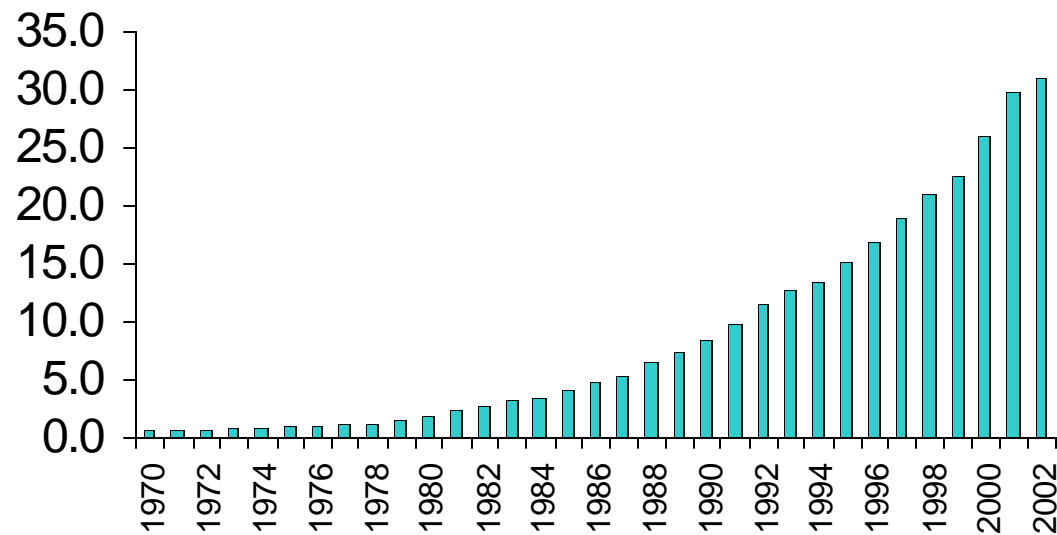
A Decade of Drug Discovery

Globally, NCE R&D has not shown increase in productivity

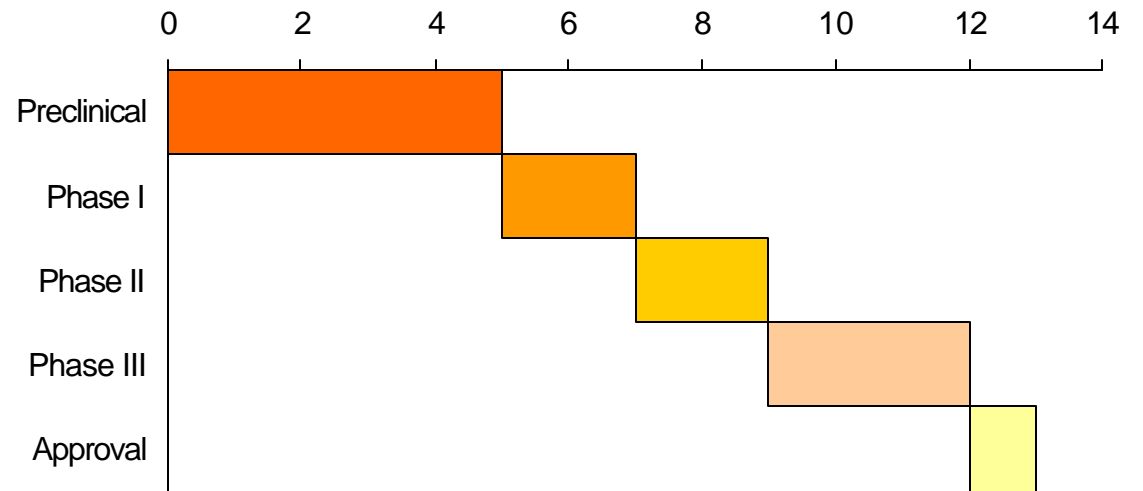
Cost of Developing an NCE has greatly increased



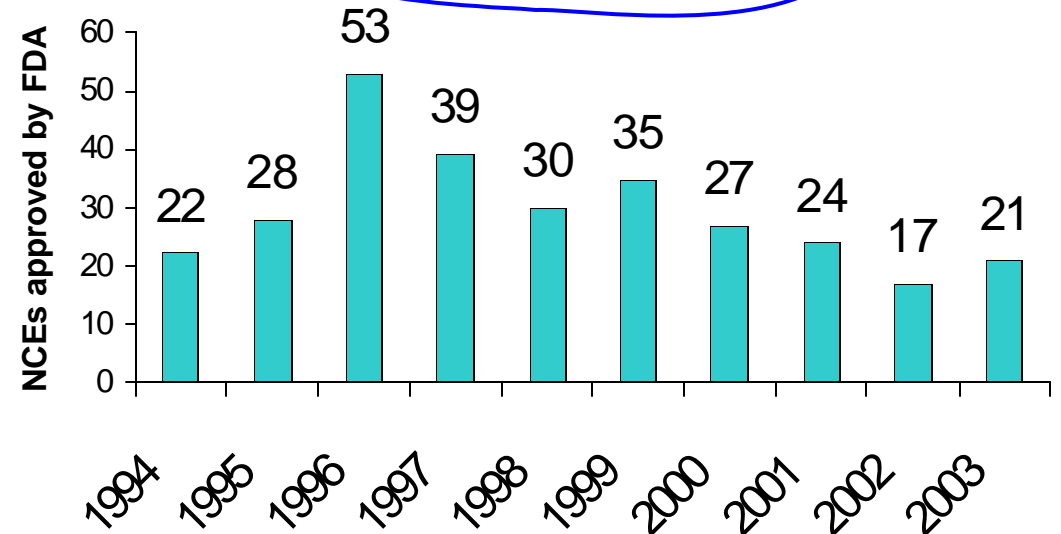
R&D spend keeps increasing



Time taken to launch is not reducing



R&D output is not increasing



Source: PHRMA Reports, Nature Reviews, Feb 2004

Redefining NCE R&D by leveraging our strengths

Speed

- Out-licensed our first molecule to Novo Nordisk within 4 years of start of our NCE R&D
- 3 years only to reach from animal proof of concept to human proof of concept

Example: DRF 10945



Cost-effectiveness

- US Pharma FTE cost: ~ \$ 400,000 (NCE R&D)
- Our FTE cost: ~ \$ 100,000 (NCE R&D)

Underlying this is the strength of 'clarity of vision and strategy'

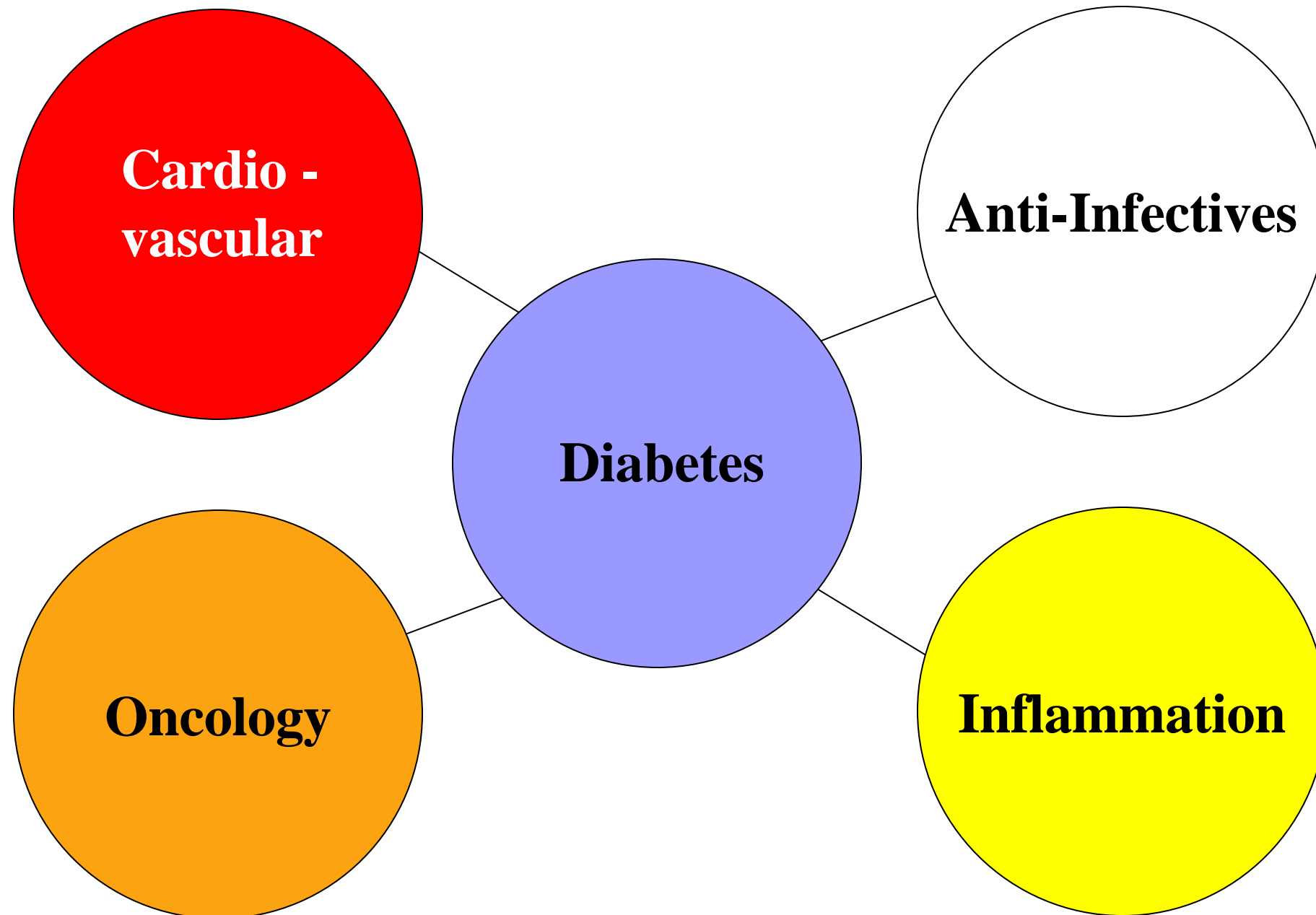
High value-add strategy: Invest in clinical up to Phase IIa

	Preclinical	Phase I	Phase II	Phase III
Upfront (\$ millions)	2	5	10	15
Milestones (\$ millions)	15	25	35	50
Royalty (percentage)	7	10	20	25

Source: Nature Reviews, Sep 2003

- Partnering after human proof of concept increases value significantly
- Well-positioned to exploit this advantage

NCE discovery activity in five therapeutic areas



Excellence in science is our engine of growth

PPAR modulators

- Deep understanding of α , γ and α - γ dual modulators
- Rational development of PPAR α modulator for dyslipidemia (Profile of DRF 10945 superior to competing molecules)
- Pioneering work in development of PPAR α - γ dual modulators for Type 2 diabetes

Perlecan inducers

- Identified novel target
- Established animal proof of concept
- Three pronged approach for treatment of atherosclerosis
- One lead molecule in regulatory toxicology stage
- Potential block-buster opportunity

Excellence in science is our engine of growth

Adenosine MonoPhosphate Kinase (AMPK) modulators

- Identified novel target
- Established animal proof of concept in metabolic disorders
- Fundamentally new scientific understanding
- Potential block-buster opportunity

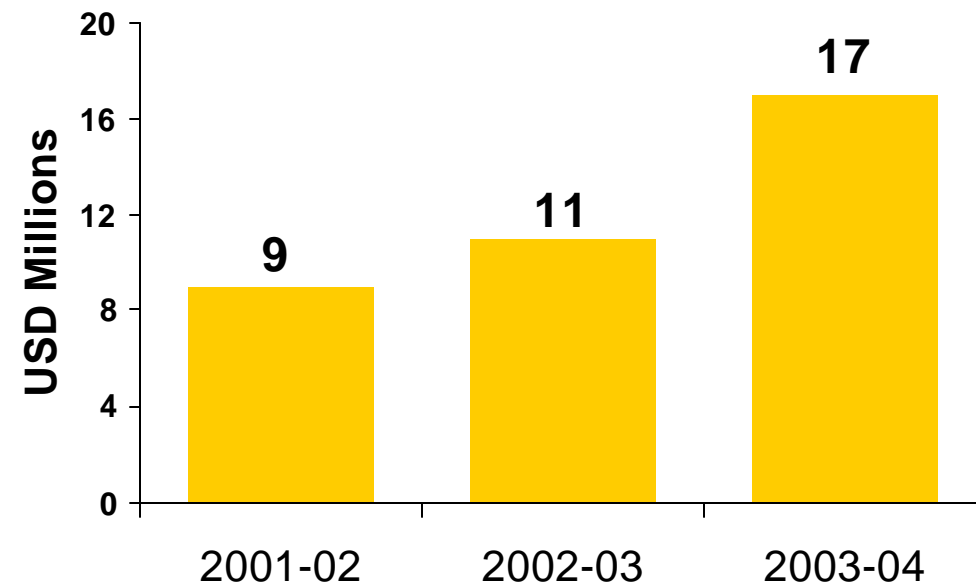
Topoisomerase inhibitors

- Identified leads from natural sources
- Developed complete synthesis in-house
- One lead molecule, DRF 1042, in Phase II
- Human proof of concept in several solid state tumors

Commitment to NCE R&D

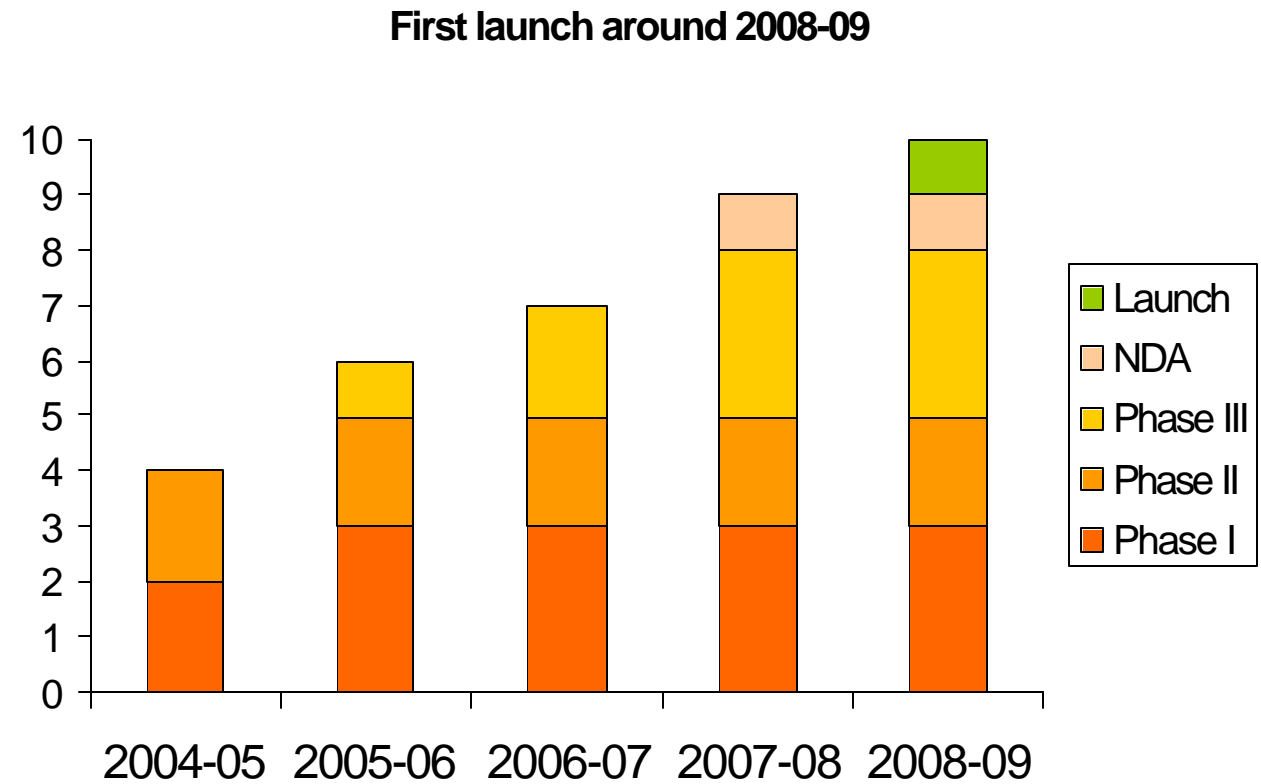
- Step up investments in clinical programs of our promising NCEs
- Pursue partnerships & licensing opportunities to manage investments efficiently

Investments in Drug Discovery

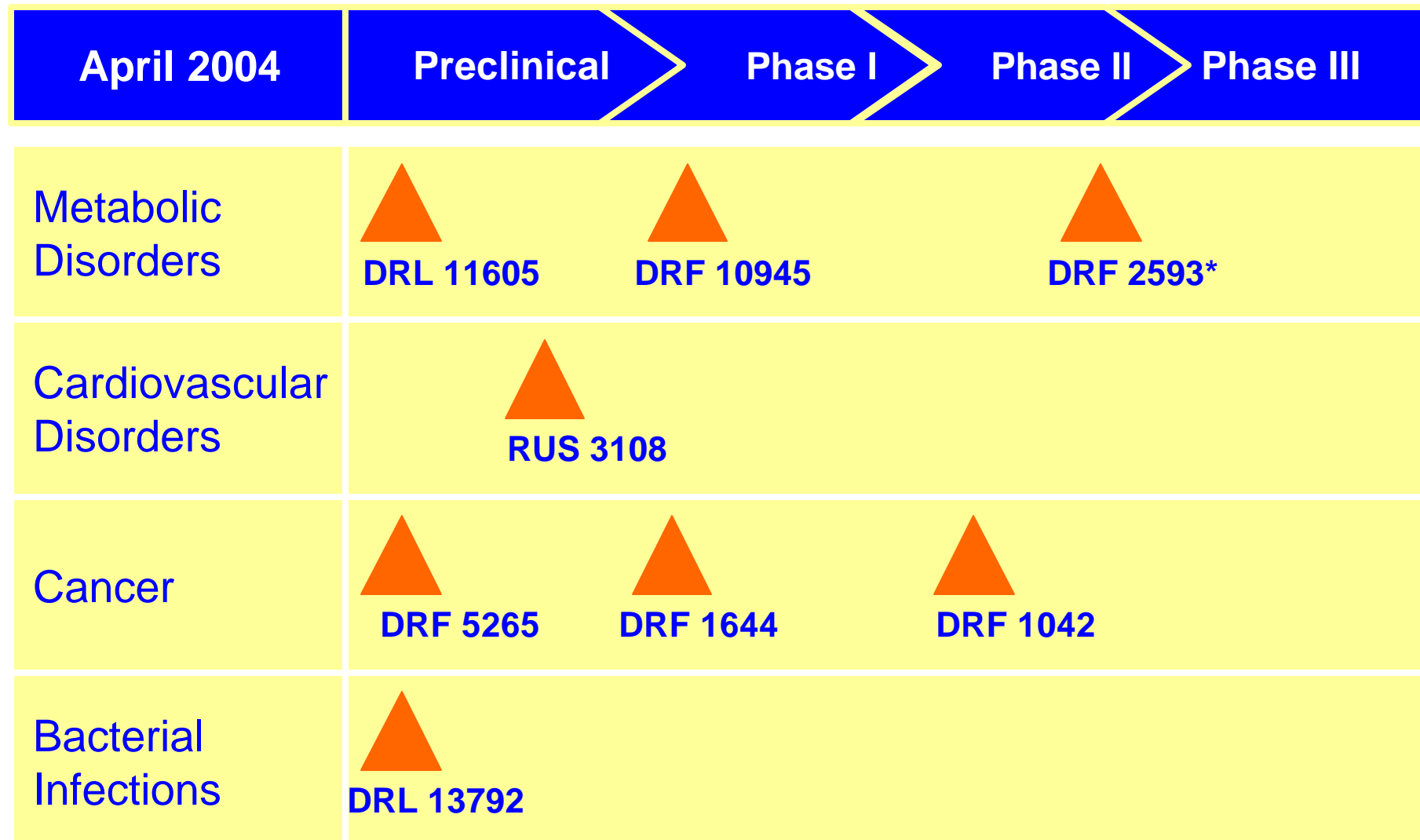


Prospects

- First NCE in market by 2008-09
- Target One NCE every two years



Exciting NCE pipeline - Milestones in 2004-05



* Licensed to Novo Nordisk

Balaglitazone: Completed Phase II Trials

- Balaglitazone (DRF 2593) is an insulin sensitizer that acts as a PPAR (peroxisome proliferator-activated receptor) gamma agonist.
- In Phase II clinical studies balaglitazone has shown dose-dependent reductions in levels of fasting plasma glucose, haemoglobin A1c (HbA1c) and blood lipids
- Plans are in place to **move to Phase III clinical Trials**

DRF-1042: Anticancer Agent

- DRF-1042, a novel **orally** active camptothecin (CPT) analog is currently in phase II trials in India
- Trials are being conducted at various sites in India
- Several solid tumors are being targeted in the trials (Non Small Cell Lung Carcinoma, colorectal cancer, ovarian cancer, Central Nervous System metastases)
- US Phase I clinical Trials are planned for end of 2004
- Dr. Reddy's may take this molecule to the market on its own

DRF-10945: New PPAR alpha agent for treatment of dyslipidemia

- Currently only two moderately effective therapies are used for triglyceride lowering and HDL elevation: niacin and fibrates
- However fibrates cannot always be combined with statins due to skeletal muscle myopathies (rhabdomyolysis)
- DRF-10945 is a **non-fibrate PPAR alpha agonist** with triglyceride lowering and HDL elevation activities
- It may be potentially useful as mono therapy or in combination with statins
- DRF-10945 is currently in phase I clinical trials in North America
- Phase I clinical studies are expected to complete end of 2004
- Phase II Trials to be planned in North America

RUS-3108: Agent for treatment of Cardiovascular disease (CVD)

- Atherosclerosis (blocking of arteries) is the underlying cause of CVD that leads to complications such as heart attacks, stroke and myocardial ischemia
- Current treatments are indirect and focus on management of risk factors such as cholesterol lowering, reducing blood pressure and diabetes → large unmet medical need
- But, **risk reduction is only partially effective**, and 30-40% patients on treatment with statins still have heart attacks

RUS-3108: Agent for treatment of cardiovascular disease (CVD)

- RUS 3108 is an agent with novel mechanism of action to **directly treat atherosclerosis** and resulting cardiovascular complications
- RUS 3108 is currently in preclinical development (GLP toxicology)
- Plan for Phase I clinical trials in UK and USA in 2005

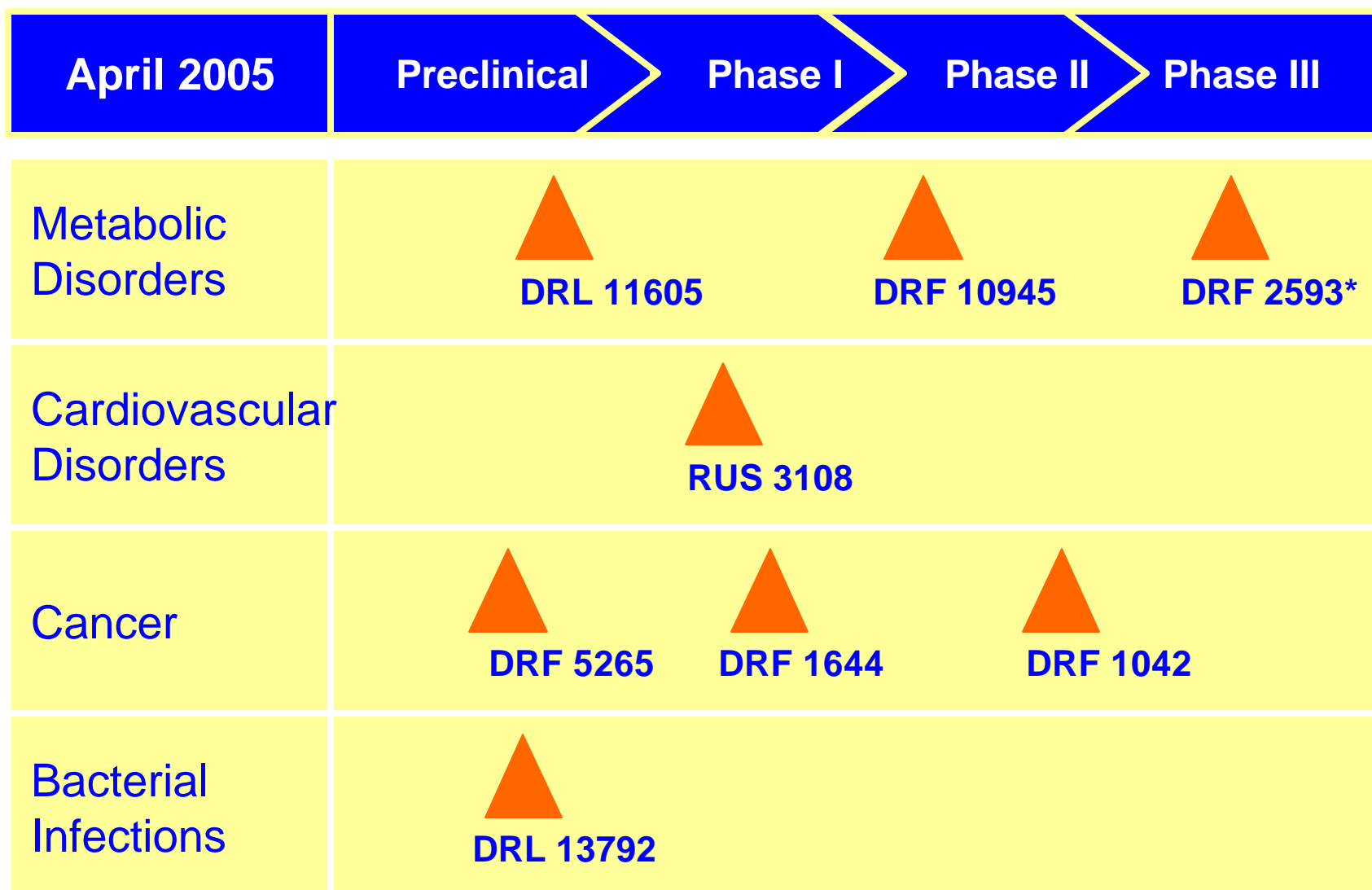
DRF-13792: A Novel Antibiotic

- Discovery effort focused on anti-infectives led to the discovery of new class of anti-infectives → DRF-13792
- After the advent of quinolones, oxazolidinones was the only class of anti-infective drugs to have reached clinic in the last two decades
- Linezolid®, launched in 2000, belongs to the class of oxazolidinones
- DRF 13792 has vastly superior preclinical therapeutic profile compared to Linezolid against gram-positive bacteria
- Moving into regulatory toxicology studies

Arthritis – Direct Disease Modification

- NSAID's (non-steroidal antiinflammatory drugs) and cox-2 inhibitors such as Vioxx® and Celebrex® are currently used to reduce joint inflammation and pain caused by arthritis
- Current approaches do not directly modify the disease process and long term complication in arthritis i.e joint tissue breakdown
- Currently Enbrel® (Amgen) an injectable protein is used to treat severe arthritis
- Early stage program to identify **orally deliverable direct disease modifying drugs (DMARD)**

Exciting NCE pipeline - Milestones in 2004-05



- *DRF 2593 entering Phase III*
- *DRF 10945 entering Phase II*
- *RUS 3108 entering Phase I*

* Licensed to Novo Nordisk

To sum up...

- Strengths of 'Clarity of Vision and Strategy', 'Speed' and 'Cost-effectiveness'
- Established track record in drug discovery
- Exciting pipeline with growing number of projects in clinical development
- Sustainable innovation engine leveraging the low cost innovation base in India and understanding of disease areas



Satish Reddy, *Chief Operating Officer*

2003-04: Business Highlights

2003-04: Key Highlights

- Revenues cross \$ 450 mn; YoY Growth of 11%
 - *Ramipril drives Europe sales to \$ 64 mn*
 - *APIs and Branded Formulations drives India sales to \$165 mn*
 - *Russia continues growth momentum at 9% to \$ 42 mn*
- Net Income dips to \$ 57 mn due to long term investments in pipeline building & certain business development activities
- Cash reserves increase to \$198 mn, up from \$168 mn in March

2003-04: Key Highlights

- Step up in resource building and infrastructure expands SG&A expenses to \$ 151 mn
 - *Includes exceptional charges of \$9 mn*
 - *Increase in manpower & legal & professional charges*
- Expansion of product pipeline drives R&D investments to 10% of revenues
 - *Commenced our first clinical trial in Canada for DRF 10945*
 - *3 projects progressing through clinical programs*
 - *Significant expansion of our API and Generic pipeline*

2003-04: Key Highlights

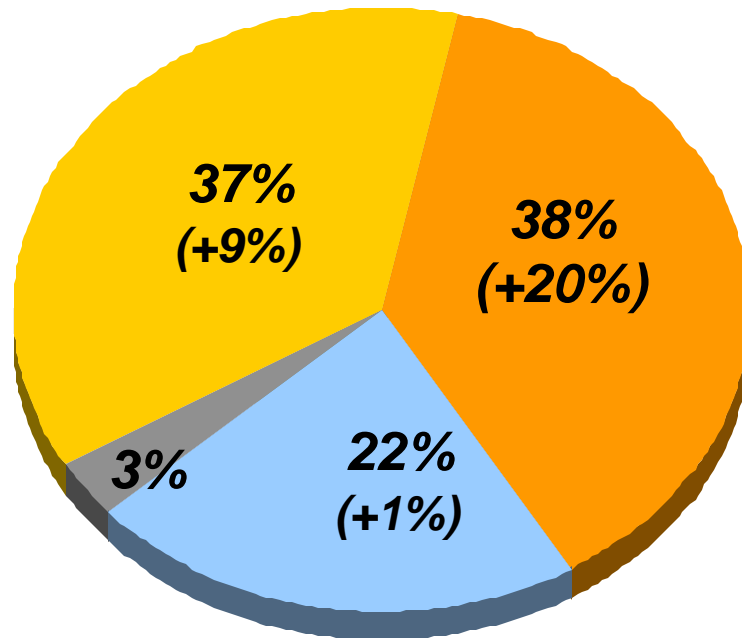
- Continue the momentum in building the Organization
 - *Strengthened the management team*
 - *Increased the staffing in critical functions of IPM and R&D*
- Realigned our operating structure to maximize current potential
 - *Integrated product development activity in API and Finished Dosage development*
 - *Realigned the marketing organization in Branded Formulations*
- First Indian Company to adopt the fair value recognition provisions of Accounting for Stock-Based compensation under USGAAP

Revenue Mix: Core Businesses drives Growth

- Branded Formulations
- APIs
- Generics
- Others

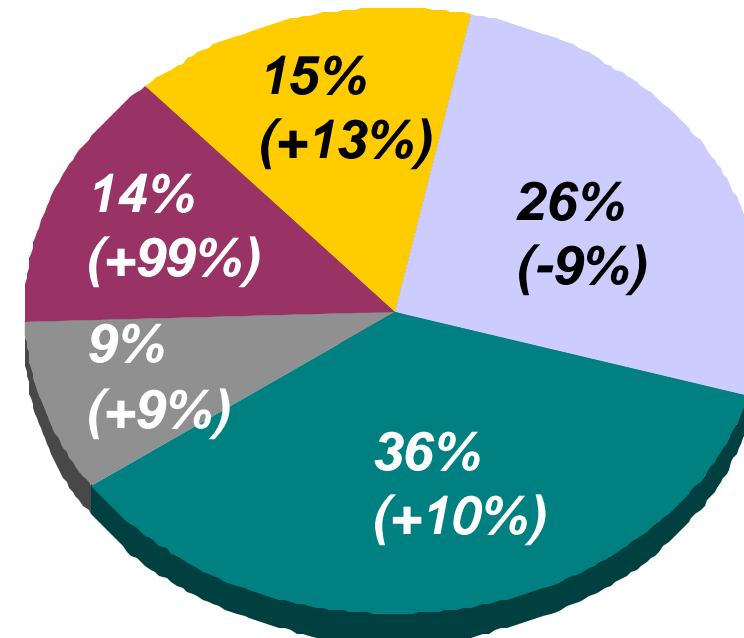
- North America
- India
- Russia
- Europe
- Rest of the world

Revenue by Business
% contribution



Net Revenues: \$463 MN

Revenue by Market
% contribution

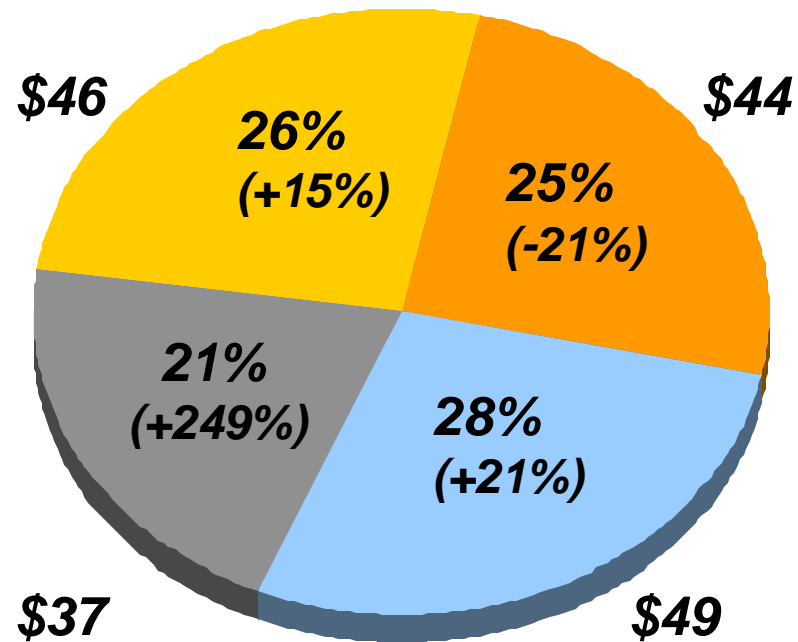


Net Revenues: \$463 MN

*Consistent performance across businesses
Strong platform for long-term growth*

APIs: Balanced portfolio of markets

Revenue by Market *% contribution*



Global revenues: \$176 MN

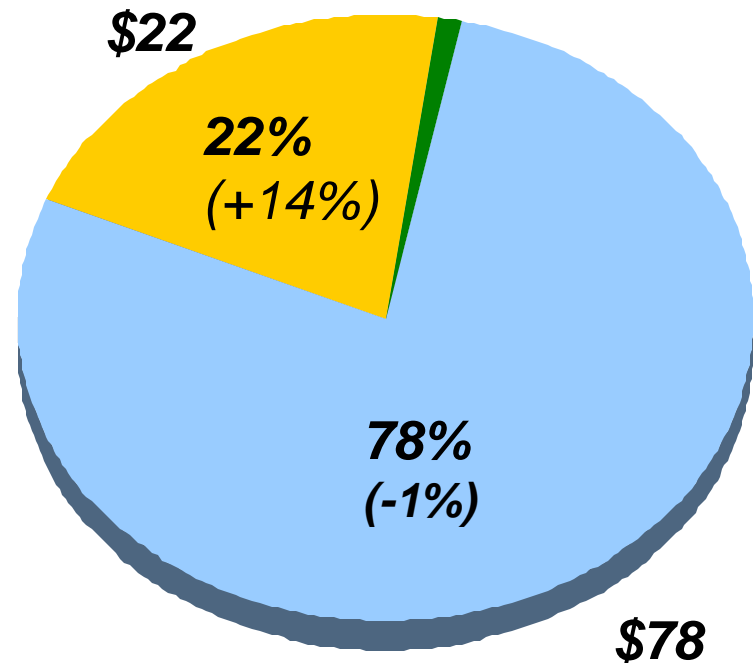


Highlights

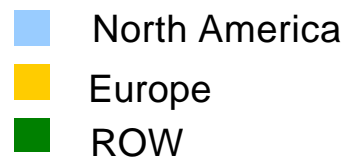
- Continues to grow in the range of 20%
- Increased focus on Europe → consolidated BD effort for regulated markets
- Ramipril launch in Europe records revenues of \$28 mn
- Filed 16 DMFs in the US
- Continue expansion of product pipeline for North America & Europe

Generics: Expanding portfolio

Revenue by Market *% contribution*



Global revenues: \$100 MN

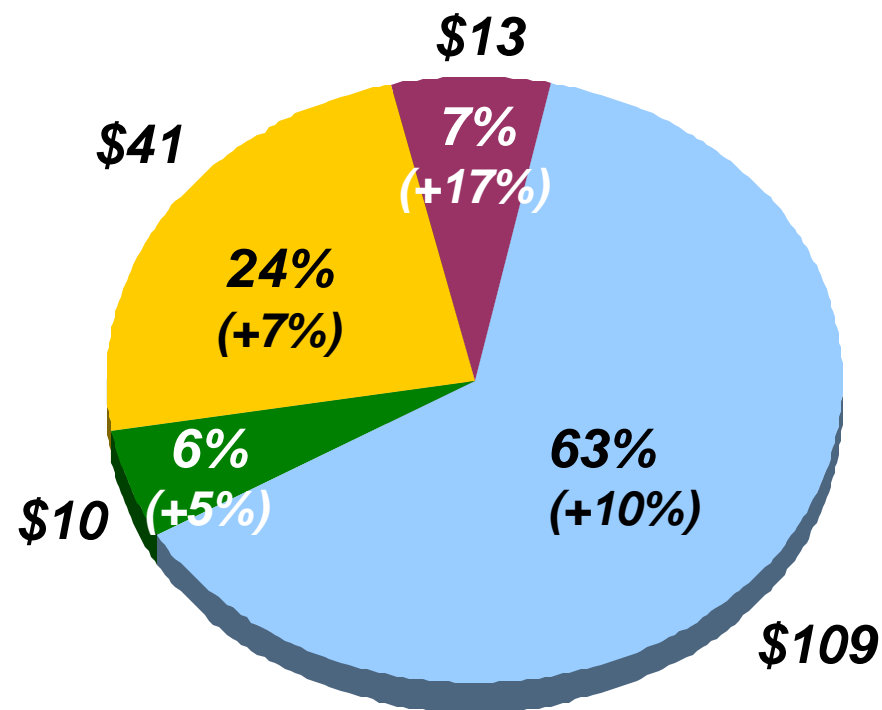


Highlights

- Filed 13 ANDAs including 8 Para IVs
- Growth in Europe driven by Omeprazole and new product launches
- Increasing competition in Fluoxetine & Tizanidine
- New product launches planned in US & Europe
- Significant expansion of pipeline for North America & Europe

Branded Formulations: India & Russia – Key Growth Drivers

Revenue by Market *% contribution*



Global revenues: \$173 MN



Highlights

- India grows at 10% despite significant challenges
- Russia continues growth momentum
- Launched oncology products in Brazil
- Aggressive focus on first-to-launch products in India
- New Goa facility to provide 100% tax exemption for first 5 years



VS Vasudevan, *Chief Financial Officer*

2003-04: Financial Overview

2003-04: Key Financials

Figures in USD Million except EPS

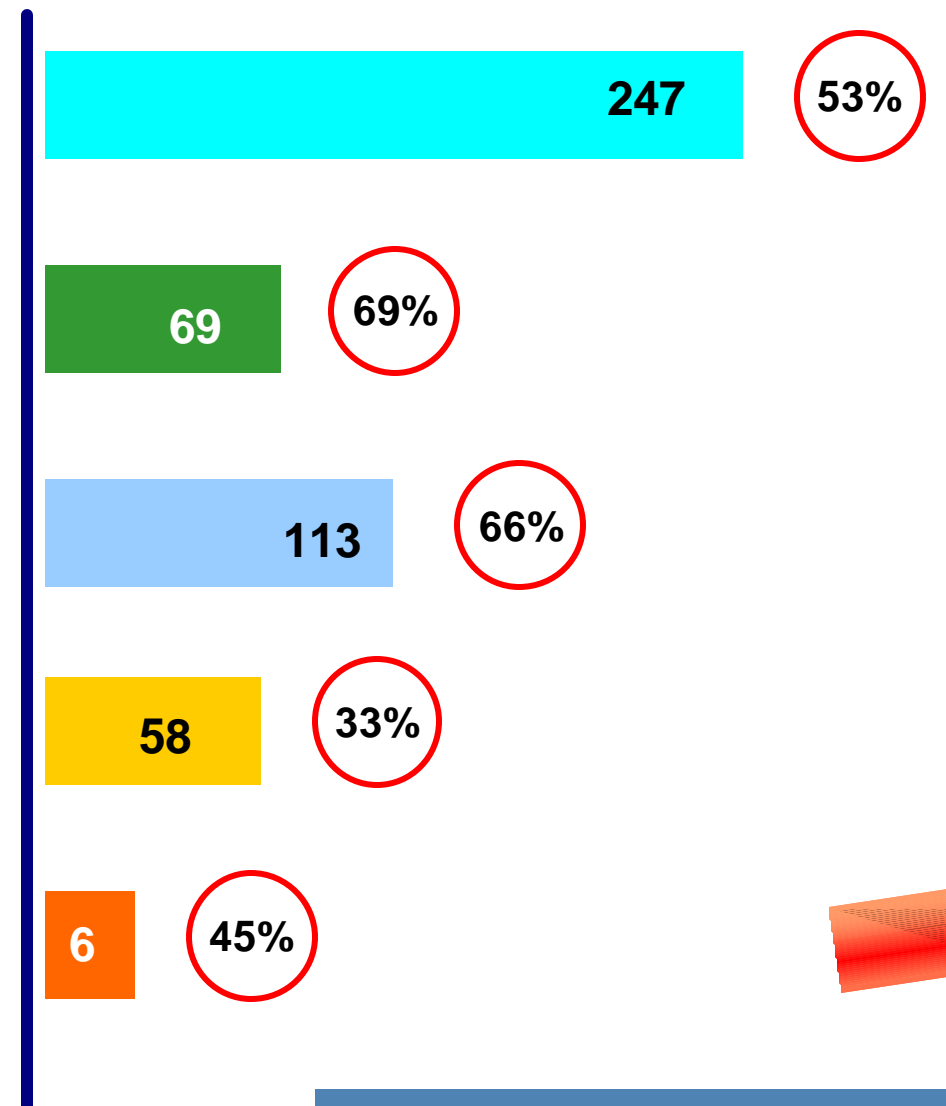
USGAAP	FY 04 INR	FY04 USD	% revenues	FY03 INR	FY03 USD	% revenues	% change
Net Revenues	20,081	463	100	18,070	416	100	11%
Gross Profit	10,735	247	53	10,222	236	57	5%
SG&A	6,562	151	33	5,103	118	28	29%
R&D spend	1,992	46	10	1,412	33	8	41%
Operating income	2,080	48	10	3,218	74	19	-35%
Tax Expense	69	2	0	398	9	2	-83%
Net Income	2,474	57	12	3,404	78	20	-27%
DEPS (per share)	32.32	0.74		44.49	1.03		-27%

Gross Margins by Business

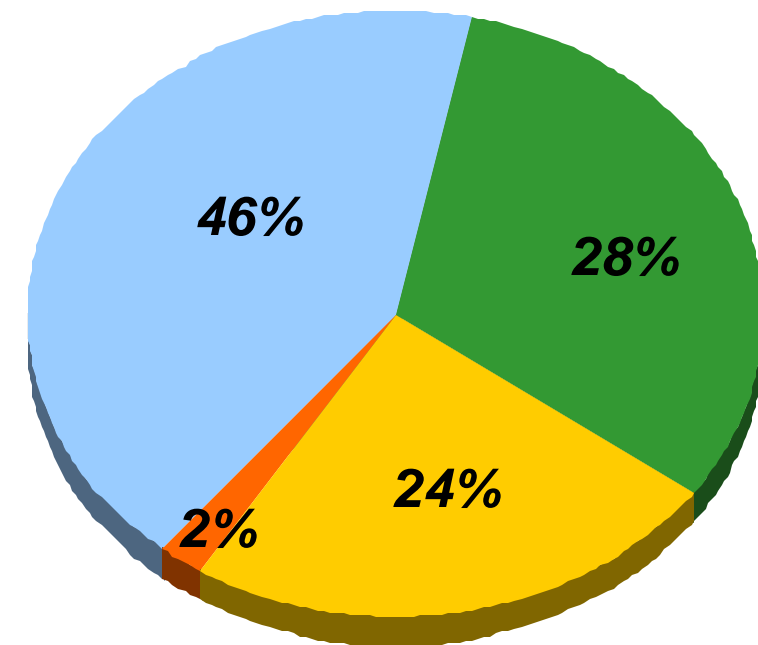
USD Million

○ Gross Margin as % of revenues

Gross Margin by Business



Gross Margin contribution %

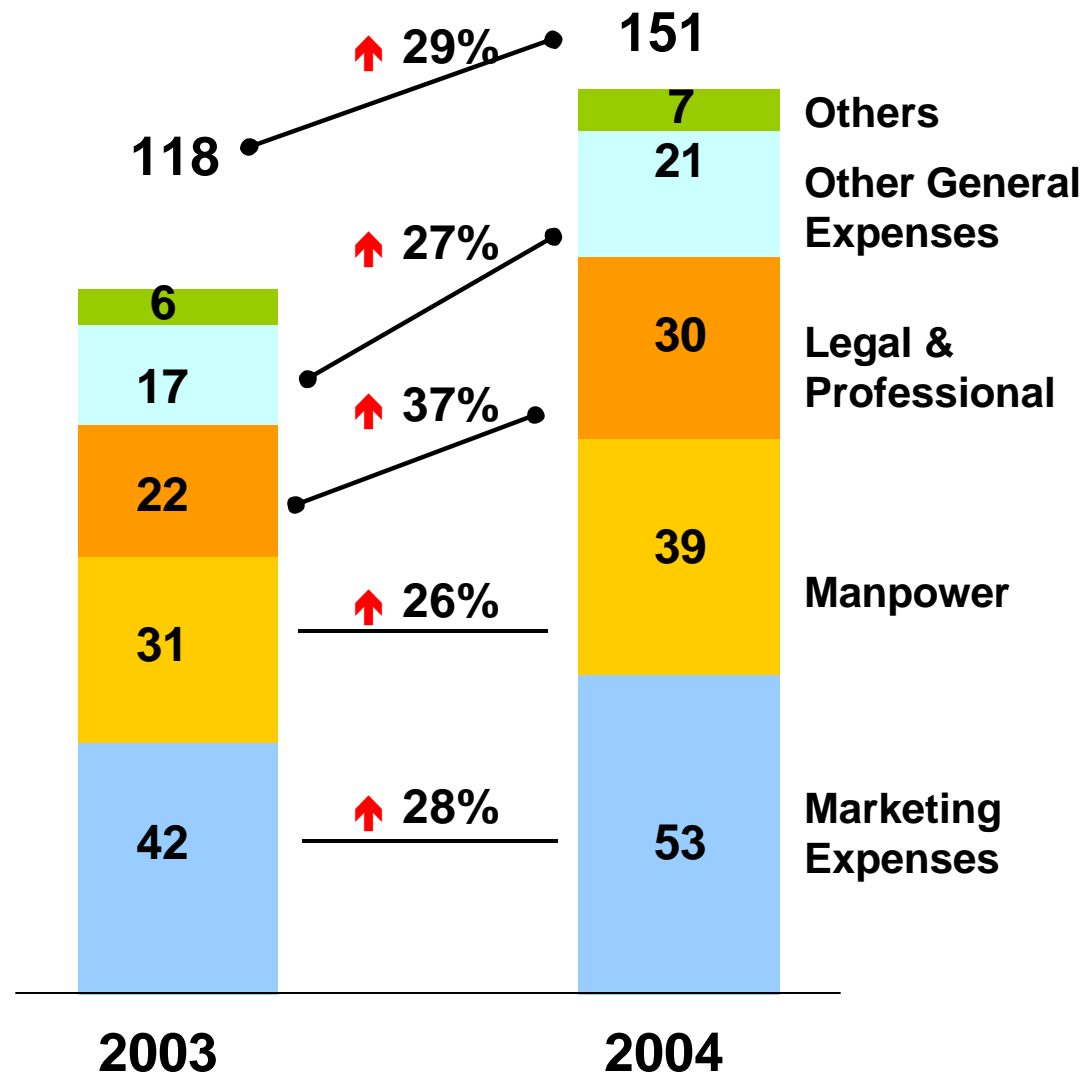


- Company
- Branded Formulations
- Generics
- APIs
- Others

Strength of the core businesses provides the financial flexibility to take the big leap forward

S G & A Expenses

USD Million



Marketing

- AmVaz Project at \$ 3.2 mn
- Norfloxacin provision at \$ 4 mn
- Excluding above, YoY increase at 10%

Legal & Professional

- AmVaz project at \$3.3 mn

Other General Exps

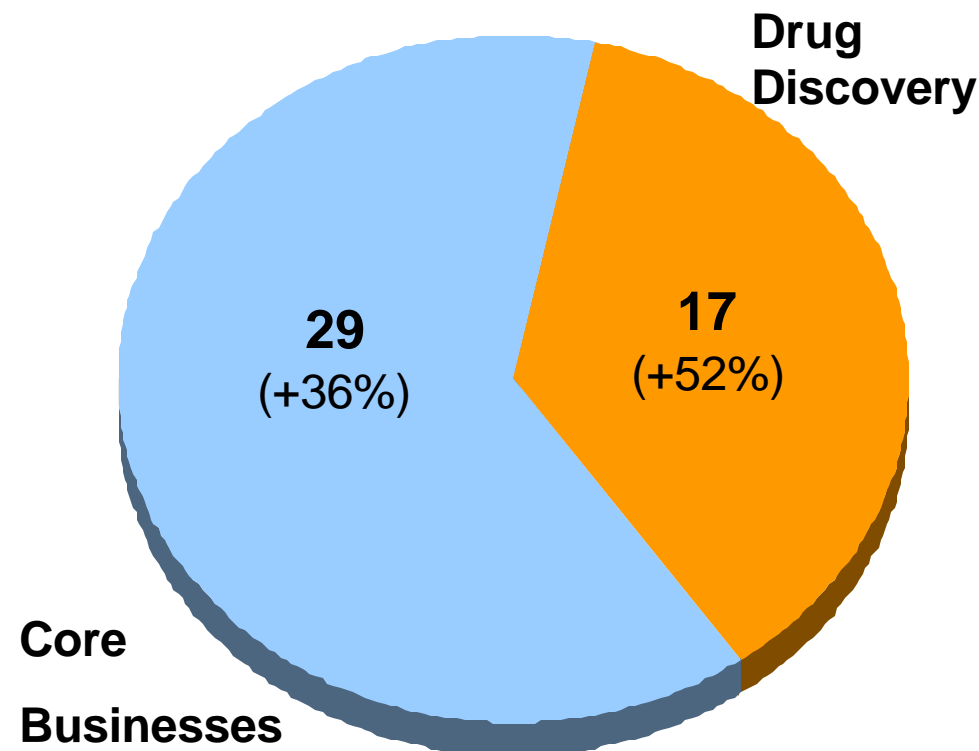
- Insurance expenses at \$ 5 mn (\$ 2 mn in FY03)

- Excluding above, increase at 9%

R&D Investments & Pipeline

USD Million

Total R&D Investment
\$ 46 Mn (+41%)



NCEs

- DRF 1042 moved in Phase II trials in India
- Commenced Phase I trials of DRF 1644 in India and DRF 10945 in Canada

APIs

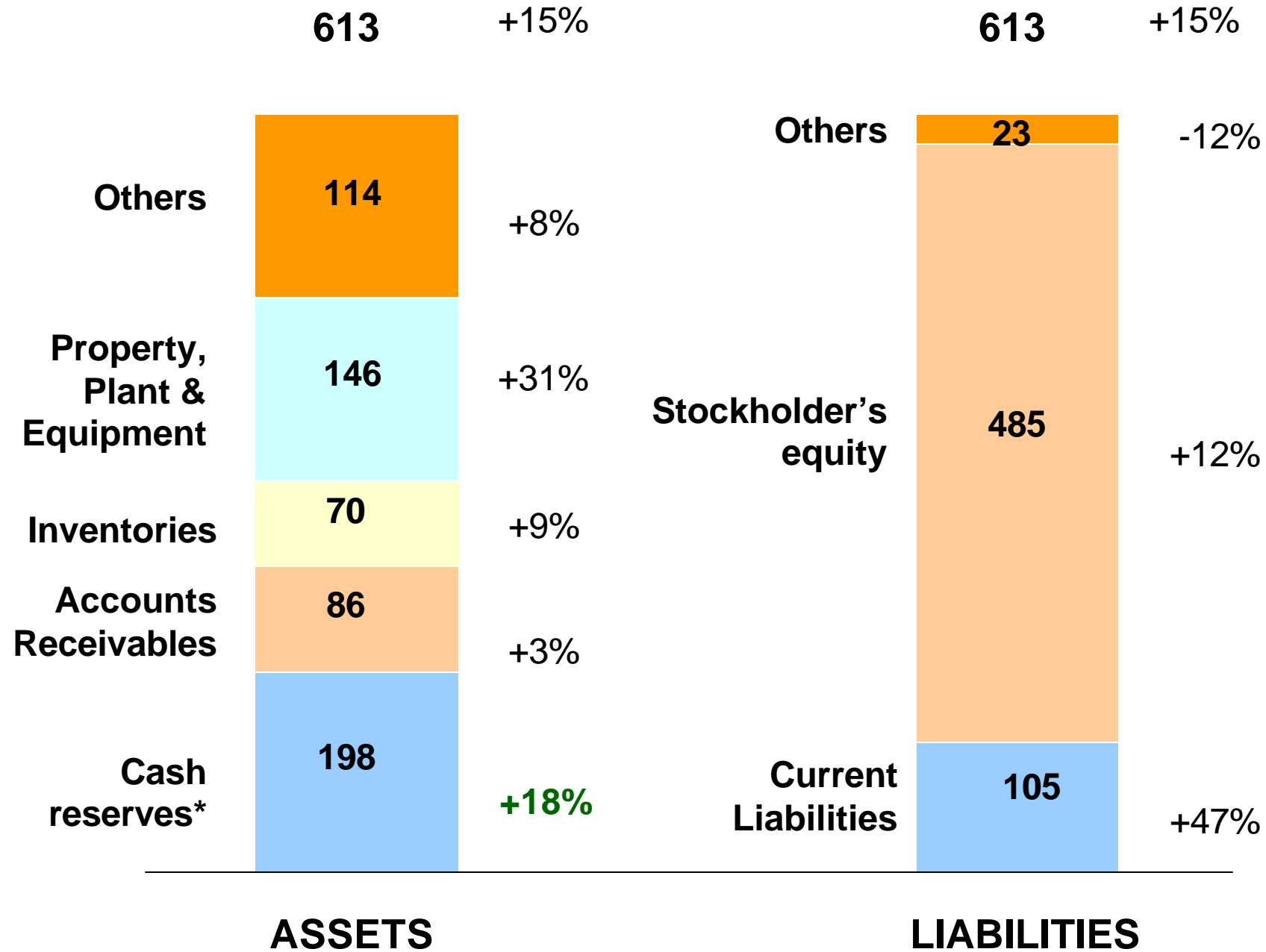
- Filed 16 DMFs with the USFDA taking the total to 56
- Filed 6 PMFs (Canada) taking the total to 18
- Filed 10 EDMFs (Europe) taking the total to 23

Generics

- Filed 13 ANDAs with the USFDA taking the total pending to 35
- Of the 13, 8 were Para IVs including 6 FTFs (including shared exclusivity)

Balance Sheet Highlights

USD Million



* Cash reserves includes Cash & Cash Equivalents, investment securities & restricted cash

2004-05: Key Trends

- Formulations business in India to grow above industry growth rates
- Formulations business in Russia to continue growth momentum
- No major product launches anticipated in APIs business
- Fluoxetine & tizanidine face challenging environment; New product launches planned in the US & Europe; Year-on-year comparisons may be challenging
- Gross margins sensitive to individual product performances & competition in US & Europe
- R&D Spend at approximately 12% of total revenues
- Rupee depreciation → global economic trends hold the key



GV Prasad, *Chief Executive Officer*

Strategy Update

Changing Competitive Landscape: Generics & Specialty

- Industry trends favor the Generic/API industry over the near and mid term
 - *Increasing generic penetration driven by rising healthcare costs & patent expirations*
 - *Legislative Agenda in the developed markets – Medicare Reforms, FDA reforms*
 - *Defensive tactics from innovators & emerging competition from India*
 - *Gold Rush from India in the global API & Generics segment*
- Many large generic companies have added a Specialty/branded strategy to their generics business
 - *Longer product life cycle, opportunity to create value through innovation, attractive margins & adds predictability to earnings*

Consistent Growth Strategy : 2000 – 2007

Created the platform for long-term sustainable growth in the core businesses

Accelerating growth in US

Establishing presence in Europe

Step up investments in Innovation businesses

Unlock the value in our specialty business

Launch of our first NCE

2000-2004

- Aggressive product development to build critical mass
 - Created a portfolio targeting major blockbusters expected to lose patent protection over the next few years
 - Portfolio of APIs & Generics targets market share of ~ 50%
 - APIs: Locked in top 2-3 generic players for key APIs (excluding our own Generics)
 - Generics: Second largest Para IV pipeline → Potential upsides from 180-day exclusivities
- Aggressive focus on business development to leverage product development capabilities
 - Established a strong US Organization
 - Strategic alliances for future growth → PAR, Leiner, Pliva & others
 - Acquisition in Europe → Gain foothold & platform for future growth

Consistent Growth Strategy : 2000 - 2007

Created the platform for long-term sustainable growth in the core businesses

Accelerating growth in US
Establishing presence in Europe
Step up investments in Innovation businesses

Unlock the value in our specialty business
Launch of our first NCE

2004-2007

- Accelerating growth in Core businesses
 - APIs: US Sales potential from \$44 mn → \$200 mn
 - Generics: US Sales potential from \$78 mn → \$300 mn
 - Europe: Focused pipeline & organization building; Alliancing for mainland Europe
 - Drive growth in key emerging markets of India, Russia, China & Brazil
- Invest in building innovation businesses
 - Specialty: Develop acquired assets + Possible product acquisitions + organic pipeline building
 - Drug Discovery: Investing in select NCEs up to Phase IIa

Consistent Growth Strategy : 2000 - 2007

Created the platform for long-term sustainable growth in the core businesses

Accelerating growth in US

Establishing presence in Europe

Step up investments in Innovation businesses

Unlock the value in our specialty business

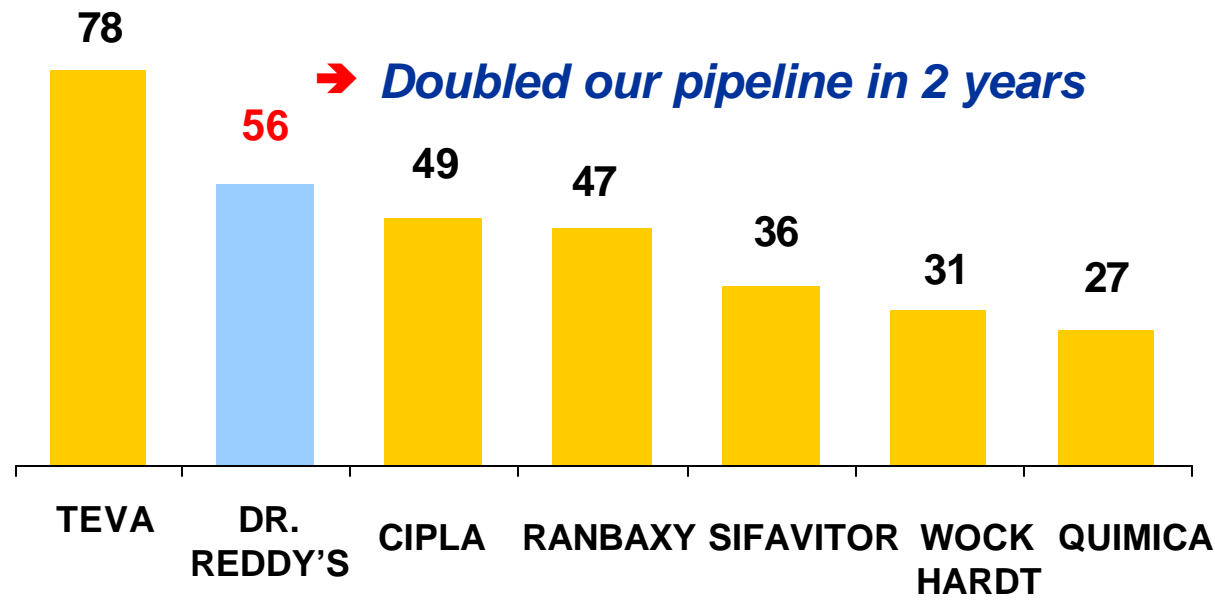
Launch of our first NCE

2007-2011

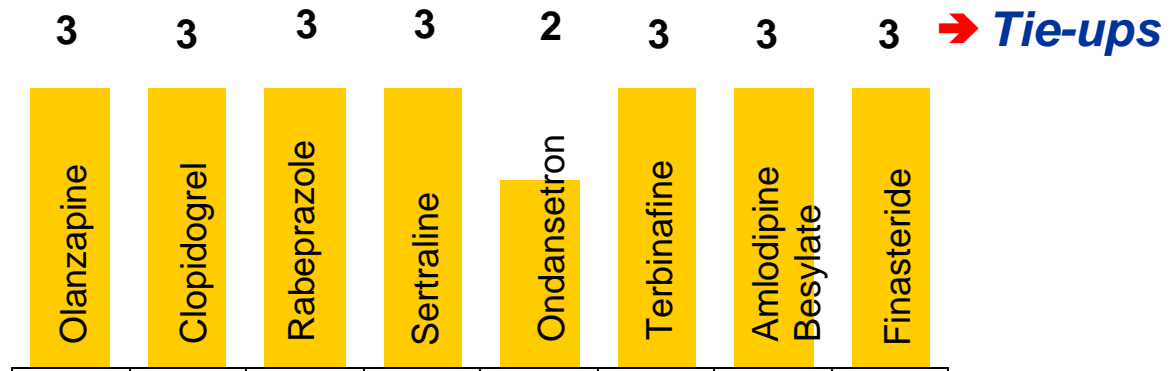
- Growth driven by our innovation businesses
 - In-market portfolio of Specialty prescription brands in the range of \$50 mn - \$100 mn
 - Development pipeline focused on niche Specialty segments
- Potential launch of our first NCE
 - Well balanced portfolio: Pre-clinical through Phase III

APIs : Set for sustainable long-term growth

Cumulative DMFs Filings⁽¹⁾



Collaborations for API supply

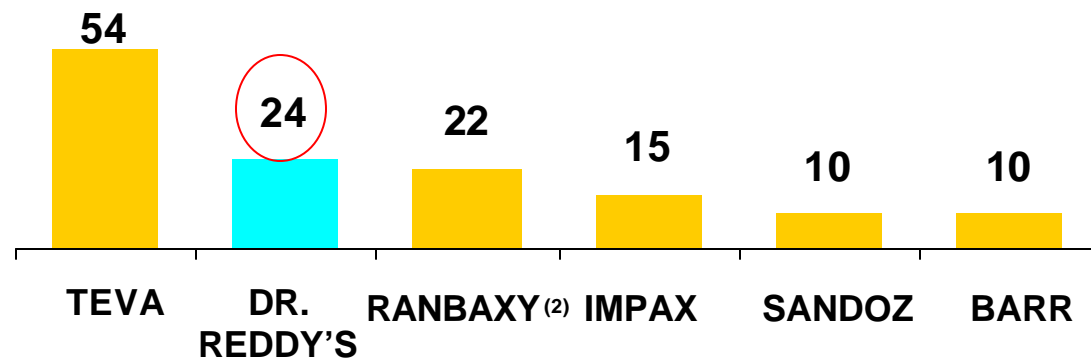


- One of the largest pipelines in the industry
- Created a capacity to file ~ 30 DMFs globally
- *Global leadership in synthetic chemistry*
- *Strong skills in patent navigation*
- Significant growth built into our pipeline → Locked in top 2-3 generic players for key APIs

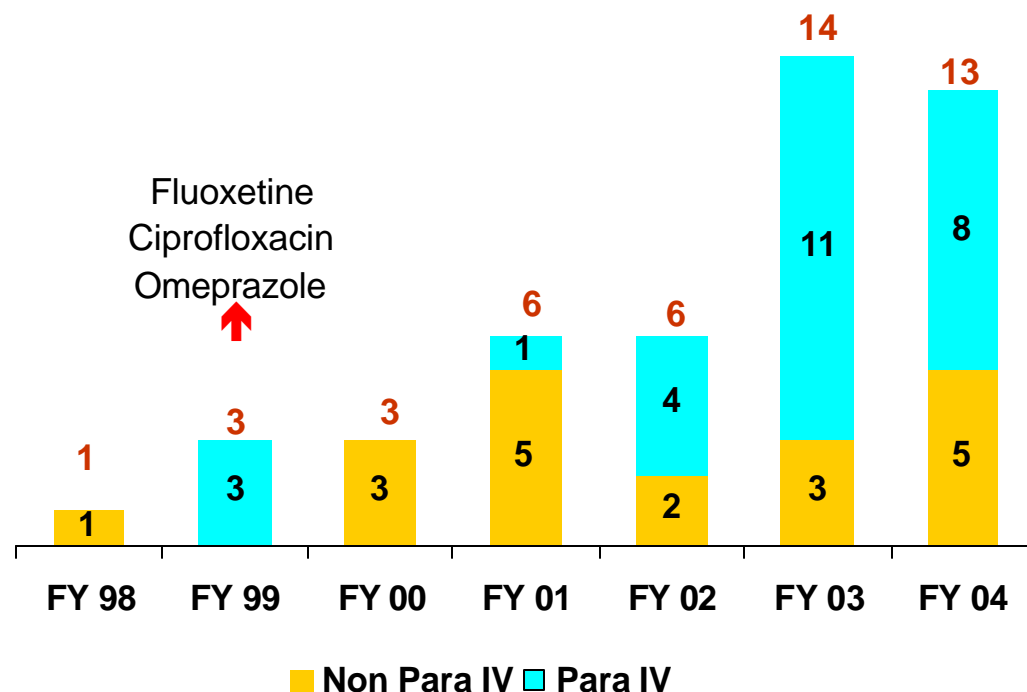
(1) Source: FDA website

Generics: Building momentum for critical mass

Patent Challenge Pipeline (1)



Year wise ANDA filings



- Second largest Para IV pipeline in the industry → 12 FTFs addressing innovator sales of \$ 7 bn
- Created a capacity to file ~ 20 ANDAs + 10-15 product registrations for Europe
- *Strong patent navigation skills*
- Focus on products with entry barriers including patent challenges and complex chemistries
- Leverage portfolio to drive growth in Europe

(1) Based on Company disclosures

(2) CLSA January 2004 Report

Generics: Disclosed Patent Challenges / Near-term opportunities

GENERIC / BRAND	INNOVATOR SALES ⁽¹⁾ (\$, mn)	STATUS
Olanzapine (Eli Lilly's Zyprexa®)	\$ 668 (20 mg & ODT)	District court decision expected in Q3 CY04
Ondansetron (GSK's Zofran®)	\$ 480	Hearing at the District Court completed
Clopidogrel (Sanofi's Plavix®)	\$ 1,998	District Court hearing expected to commence in Q1 CY05
Terbinafine (Novartis' Lamisil®)	\$ 521	Schedule for district court hearing yet to be received
Sertraline (Pfizer's Zoloft®)	\$ 2,665	Compound patent expiry in June 2006; Not sued on subsequent patents
Fexofenadine (Aventis' Allegra®)	\$ 1,958	Discovery process expected to complete in Q2 CY05

(1) Source: IMS MAT Sept 2003

(2) Dr. Reddy's may not in every case seek approval for all indications

Branded Formulations: Future Strategy

INDIA

- Current base of \$110 mn → Ranked 6th in the industry with market share of 2.6%⁽¹⁾
- Target to be in the top 5 → sales potential of \$200 mn
- Mix of new product launches & maximizing the potential of our key brands to drive growth in the near-term
- Mid/Longer-term, leverage strong base & brand equity to pursue strategic growth opportunities in key therapeutic areas
 - *In-licensing of products*
 - *Strategic partnerships & alliances*
- Drive growth in niche & core therapeutic areas

Branded Formulations: Future Strategy

RUSSIA

- Leverage our strong presence & infrastructure by pursuing strategic partnerships & in-licensing opportunities
- Drive pipeline expansion by leveraging on India pipeline & third-party dossiers
- Sales potential from current \$41 mn → \$100 mn

LATIN AMERICA

- Launched oncology products in Brazil
- Focus on key markets of Venezuela & Brazil

CHINA

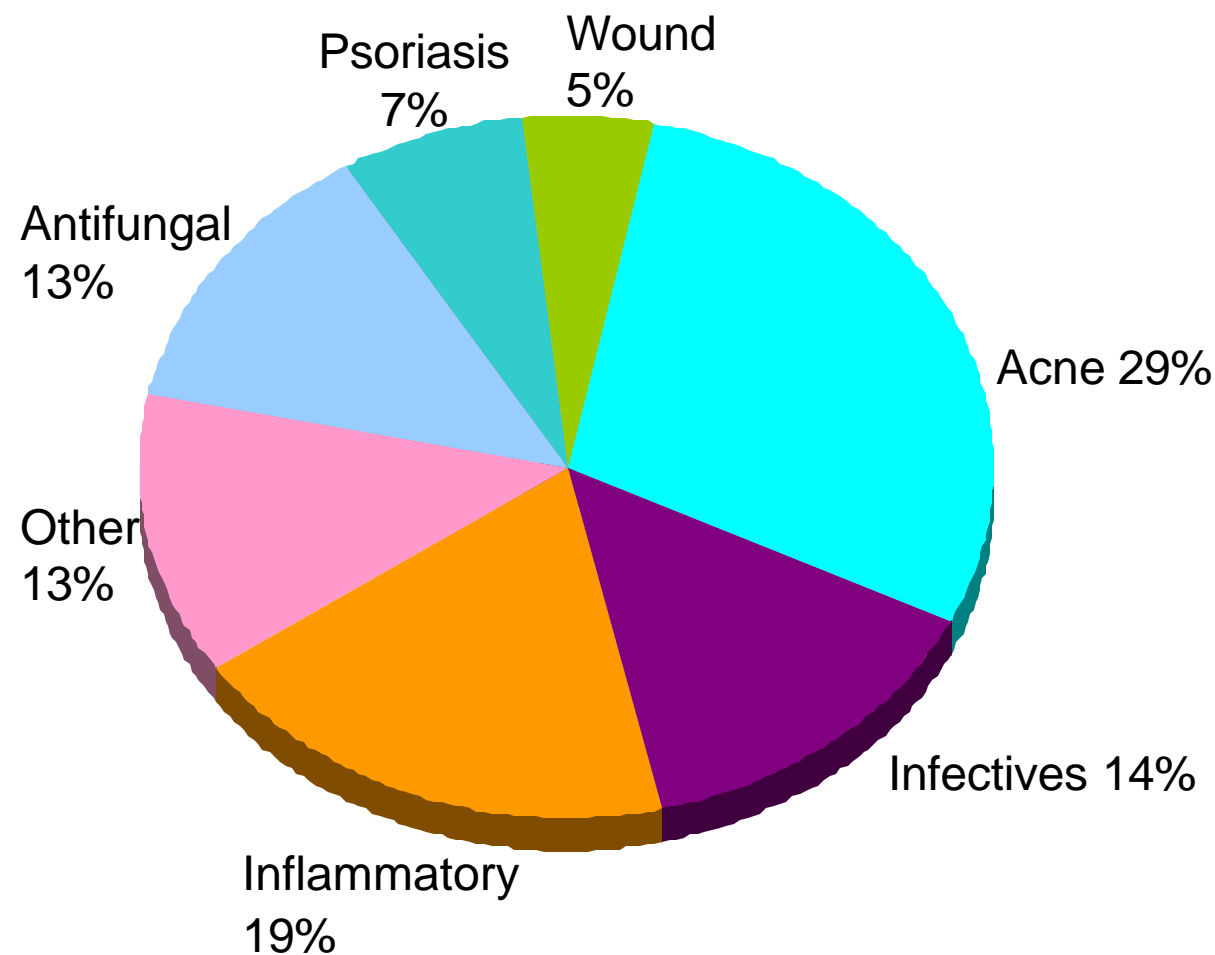
- Launched Ramipril (first generic) in 2003
- 10 products pending registrations
- Commissioned small API facility to focus on intermediates

Specialty business: Update

- Post AmVaz, shifted focus on niche therapeutic segments as against primary care segments
- Acquired Trigenesis for \$ 11 million in May 2004
 - Foray into the US dermatology prescription segment
 - Access to drug delivery technology platforms
 - Access to certain marketed products (residual rights)

US DERMA MARKET: *Sales by Disease Category*

\$5.3B US Dermatology Category
5 Year CAGR 7.9%



Niche & Profitable therapeutic segment

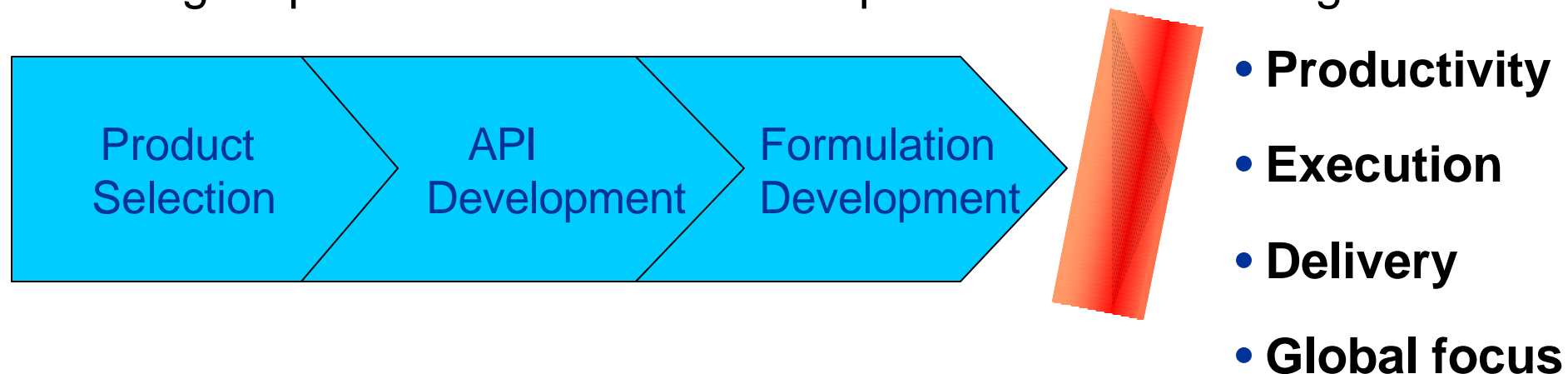
- Relatively low entry threshold
- Concentrated base of target physicians (< 10,000)
- Requires smaller detailing force to achieved desired penetration (about 50-60)
- Less competitive intensity than Primary Care segment; Below the radar of large pharma

Specialty business: What are our next steps?

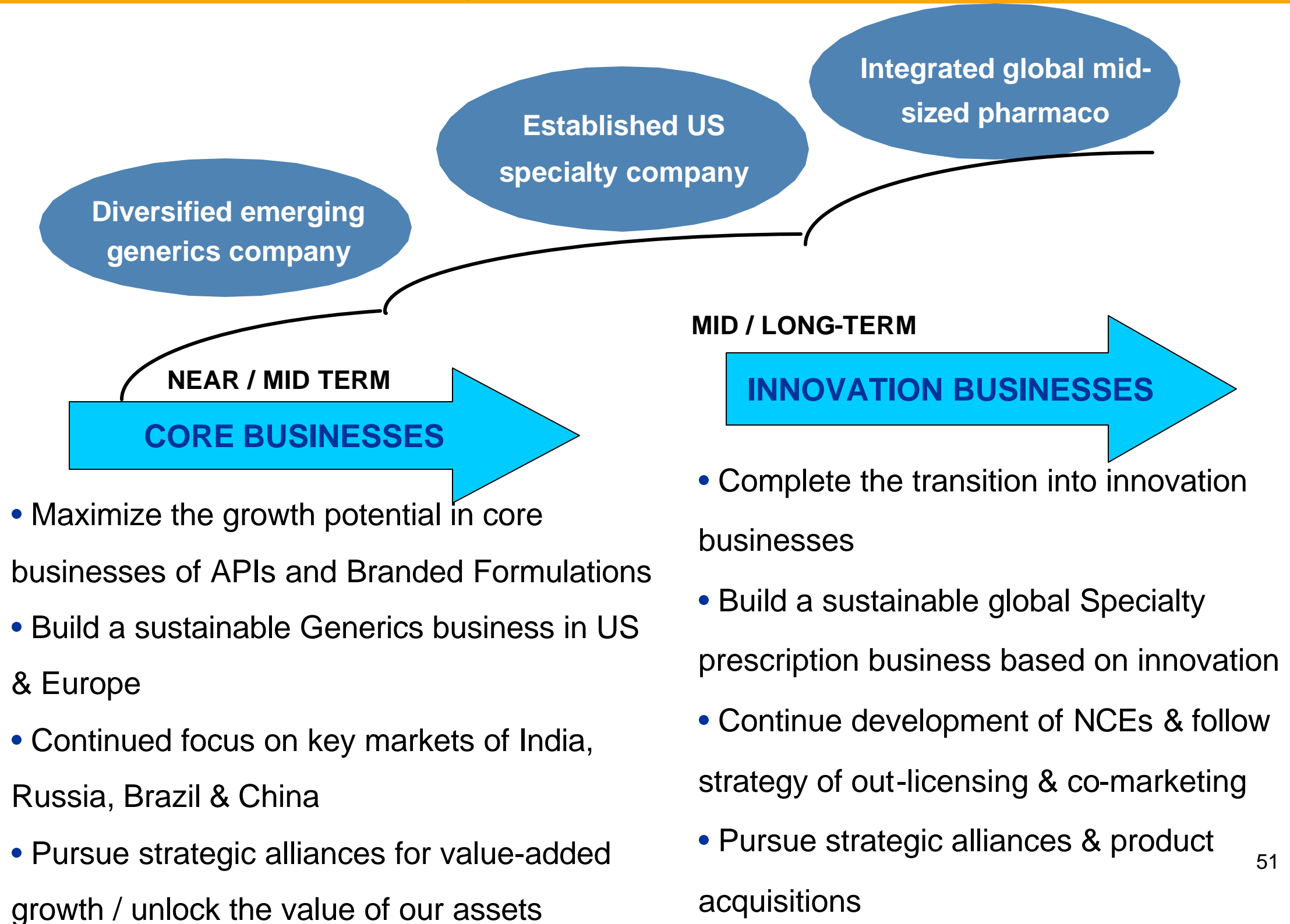
- Leverage internal product development capabilities to develop the acquired assets
- Supplement internal R&D effort & acquired pipeline with aggressive business development strategies and possible acquisitions of in-market products
- Platform to create a franchise of differentiated specialty products in the US dermatology prescription segment

Creating a powerful product development engine

- Integrated the product development activity in APIs, Generic and Branded Formulations
- Strengthened our technical and legal skills to create a robust Intellectual Property Management framework
- Combining technical excellence with process excellence to power this engine
- Leveraging core technology strengths in chemistry with legal, regulatory & IPM expertise to **create significant value**
- Initiating steps to create differentiated products from existing molecules



Corporate Strategy ...remains unchanged



To sum up...

- *Strong fundamentals and cash flows*
- *Exciting pipeline & Powerful product development engine*
- *Leverage these strengths to build a sustainable global generics business → APIs & Finished Dosages*

- *Leverage our innovation engine & knowledge base to create novel products to address unmet medical needs*
- *Pursue strategic alliances & partnerships for value-added growth*
- *Leverage these strengths to build our innovation businesses & move closer to realizing our vision of becoming a **discovery-led global pharmaceutical company***

- *Balance short-term profitability while investing to create a sustainable & profitable **mid-sized global pharmaceutical enterprise***



THANK YOU

ANALYST MEET 2004

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