



Sustainability Report 2005





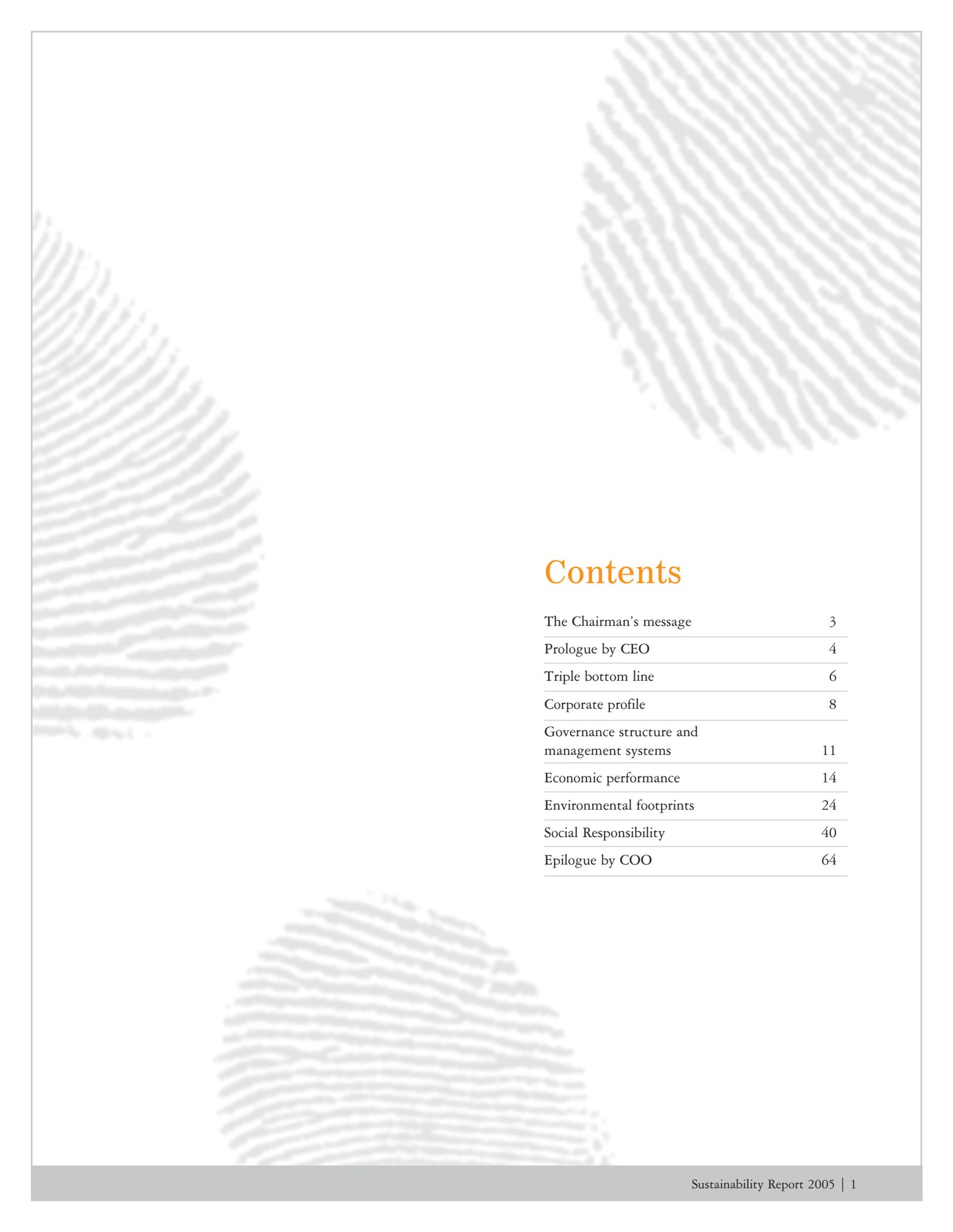
Release of the First Sustainability Report, 2003-04

Scope of the report

The second Sustainability Report of Dr. Reddy's Laboratories Limited, prepared in line with Global Reporting Initiative, reaffirms the company's commitment to sustainable development. This voluntary information-sharing exercise goes beyond the standard statutory requirements specified by listing or even government bodies in India.

The report has been segregated into three sections – economic performance, environmental footprint and social responsibility and the period considered for reporting is FY04-05.

- **Economic performance:** A financial appraisal of the organization's impact on customers, suppliers, employees, capital providers and the public sector.
- **Environmental footprints:** A review of environment performance in addition to statutory compliance requirements along with corresponding penalties in the event of infringement. Besides, a coverage of six API locations, five Finished Dosage manufacturing units, two Developing Business units and one covering Discovery Research and Custom Pharmaceutical Services.
- **Social responsibility:** A review of employment, people's training, employment diversity and information on various social initiatives undertaken for the underprivileged section of society.



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The Chairman's message



As I see it, 'sustainability' is a corporate manifestation of the good manners we learnt in school but conveniently forgot thereafter. Most of us, that is.

Simply explained, it indicates a sensitivity, which gives us the right to live as we please as long as we do not infringe upon the rights of others to do the same.

Now this may sound facile but the more one thinks about it, the more one is convinced that this requires a fair amount of discipline in the ongoing conduct of our lives.

It is so when it comes to corporates with manufacturing facilities; more so when it comes to multi-locational manufacturing organizations; even more so when such a company is engaged in hazardous processes, generating in-process effluents and which can, if these are untreated, affect the lives of thousands in the vicinity and beyond.

By the status of belonging to the pharmaceutical industry, Dr. Reddy's is unenviably placed in such a position.

When I look back across the two decades of our existence and am asked to name what aspect of our business I am indeed proud of, I would be compelled to point to our sustainability record, well before such a term became prevalent, fashionable or mandatory.

Consider the following:

- We could have invested in sustainability after it became mandatory; we did so before.
- We could have barely complied with the mandatory requirement; we invested beyond what was required by law.
- We could have interpreted the subject as per our convenience; we did so from the community's perspective.
- We could have restricted our focus to in-plant equipment and investment; we extended it to the sustainability of our economic, community and environment initiatives.

Why?

Because at Dr. Reddy's, we recognize that this 'save the earth' commitment can succeed only if we address it with a missionary – not mercenary - zeal.

This encapsulates the reason behind this extensive documentation. We at Dr. Reddy's, have made it a public document to inspire other companies to do the same and benefit mankind at large.

It is a humble effort, but its impact could well be timeless.

Sincerely,

A handwritten signature in black ink, appearing to read 'Anji Reddy'. The signature is fluid and cursive, written in a professional style.

Dr. K. Anji Reddy

Prologue

By the Chief Executive Officer

It is how we performed during the short-term (financial year of 2004-05) that underlines the long-term commitment of a company like Dr. Reddy's.

- Our revenues declined 3%; our water consumption dropped 4%.
- Our R&D investments increased 41%; our effluent discharge dropped 68%.

For a number of people, the presentation of these numbers may appear unrelated and irrelevant.

To someone who has been an insider at Dr. Reddy's, the numbers state unambiguously why we are what we are:

- A complete ownership of each of the three pillars – economic, community and the environment – within the organization.
- A company where a temporary decline in the financials is independent of what we should be doing for the community and environment.
- An unmistakable acknowledgment of the fact that a decline in the discharge of effluents is as much an achievement as an improvement in equivalent financial numbers.

So permit me to state how we performed during the financial year under review across each of the three sustainability drivers:

Economic sustainability

As a company we believe that profits are important in that they enable us to stay in business and achieve our goal of providing the unmet medical needs of society, funding community interests and environment priorities.

During 2004-5, the Company witnessed a temporary reversal in its revenues and profits. This decline was partly a result of our consciously incurring an increasing investment in drug discovery and pipeline building across our various businesses, integral to long-term sustainability.

So in spite of the challenges of the day, we remain optimistically committed to our innovation-led drug discovery program; we have adapted measures to balance our short-term profitability with long-term sustainability, which we believe shall enhance value for all our stakeholders across the long-term.

Community sustainability

As a company we believe that we live in a dual world marked by corporate prosperity but surrounded by dearth and inequity starting from our factory gates in a number of instances.

At Dr. Reddy's we have always attempted to redress this imbalance, convinced that it is not only the right thing to do but also in some way enhances the sustainability of our existence.



At the company, social responsibility is not just something we do selectively for a pocket of the external community on an ad hoc basis; it is something we have institutionalized for a wide community of people as an ongoing activity. Interestingly, it begins with our employees; every member, whether a manager or a shop floor worker, is treated with a dignity and respect that is extended beyond the organization.

This is how it manifests: our employees support the development of the underprivileged through various outreach and other initiatives; we involve ourselves in every community initiative program rather than contributing and forgetting; we focus on making our various programs independently sustainable, liberating our resources to be allocated towards other communities.

Environment sustainability

As a company we are aware that the world is changing climatically in an unpredictable and unprecedented way and this is being caused by the way we run our lives and businesses. As a result, the priority at the company is to clean whatever we spill and neutralize whatever we emit as the first step towards making our presence safe, benign and responsible.

Towards this end, we followed the successful implementation of a zero liquid discharge plant at Miryalguda last year with similar modules at our API units in Hyderabad and Vizag. Today every drop of water from our three plants is treated and recycled. In doing so we have not only reduced our fresh water consumption in a significant way but also changed the perception of the community that an API plant can indeed be scrupulously clean and responsible.

I must repeat what I stated in our previous Sustainability Report: that while there is a quiet sense of pride in all this, there is no arrogance: we need to extend the biggest benefit across the widest constituency of individuals.

For this to stay as a reality, our members will keep doing what they have been doing and better; for this to stay as a reality the large community of medical practitioners will need to continue placing their faith in our ability to innovate; for this to stay as a reality, our shareholders will need to continue reposing trust in our earnings capability.

Which really means that we work for three masters at Dr. Reddy's – the investor, the community and the citizen of the world – and we will need to work harder than ever before to keep our jobs and conscience over the coming years.

Of course, I am confident that we will.

Sincerely,



G.V. Prasad



Triple Bottom Line

– a commitment to our stakeholders

Even as recent as a couple of decades ago, the single yardstick by which a Company was likely to be appraised was its bottomline. The bigger it got, the greater its respect.

There has a sweeping rethink since: over the last few decades there has been a realization that man – and companies, for that matter – do not exist for bread alone.

That a Company could well be reporting year-on-year financial growth but irreversibly polluting the earth in doing so; that a plant may be the nucleus of prosperity, but its influence could well be ending at its doorstep.

So by the modern definition, such companies can be considered successful no longer. In the new world, there is a growing understanding that a sustainable business needs to reinforce its economic growth with ecological respect and social responsibility.

This, as we know it, represents the basis of the enlightened modern-day concept of the 'Triple Bottomline'.

At Dr. Reddy's, we can claim with a reasonable mix of pride and humility that the spirit of this 'Triple Bottomline' was seeded into our very existence from inception.

- Our business model has always been financially robust;
- Our community has always extended from employees and shareholders to people we have shared the world with; and
- Our concern is not just for our office and our manufacturing units but the earth at large.

At the heart of this compliance has been an enduring conviction.

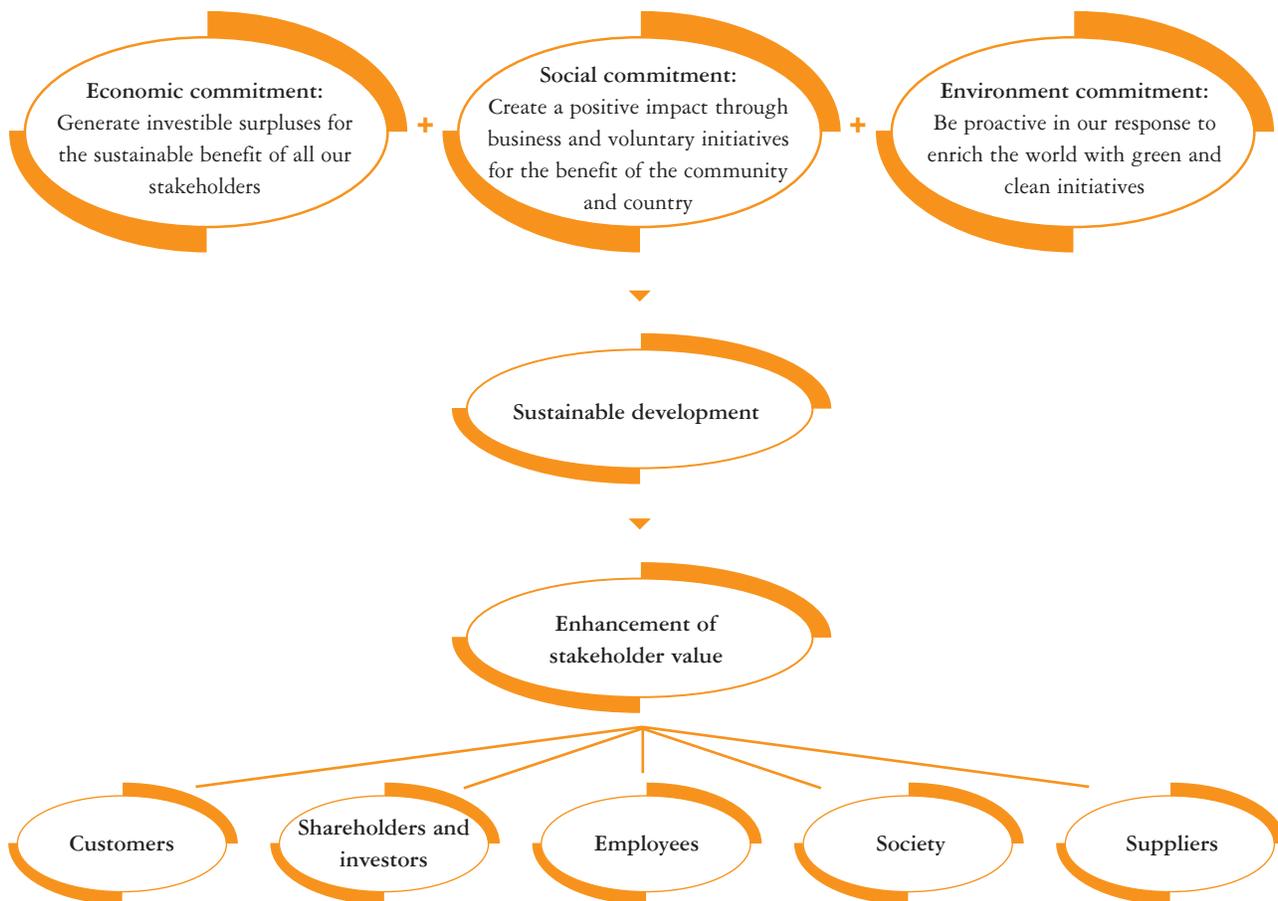
We have always recognized that however well-intentioned we may be, we will not be able to sustain our altruism without a surplus-generating business model; that our economic viability will always be in some way dependent on the well being of our peripheral and external community as a result of which our success must extend to them; that the only way resource-dependant businesses can survive well into the long term is through prudent environment management that makes the earth livable for our succeeding generations.

But intention is never enough; it must be reinforced by stable practices and processes.

Besides, stakeholders are not just employees and customers; we recognize that the needs of all – shareholders, customers, employees, business partners, governments, local communities and the public – must be comprehensively addressed for us to fulfill the true meaning behind our existence.

As a result, the health of our Triple Bottomline is reflected in the quality of our profits, the employability of the community influenced by our reach-out programs and the cleanliness of the environments we touch. Given the complexity of this otherwise simple agenda, sustainability at Dr. Reddy's is not a milestone or a scorecard, it is a never-ending journey.

As a visible manifestation of this commitment we have published this second-ever report on the subject, partly to motivate our people within and partly to inspire those outside, so that Triple Bottomline is not only an engaging ideal for our employees but also a deeper calling for hundreds of organizations in the country.



Corporate profile

Dr. Reddy's (established in 1984) is an emerging global pharmaceutical Company with deep proven research capabilities, the point of origin of its Triple Bottomline approach.

Over the years, its economic focus has been strengthened by a number of factors:

Purpose: The Company's purpose – 'To help people lead healthier lives' – is achieved by meeting the unmet medical needs of a large cross-section of society through innovative, affordable and available products.

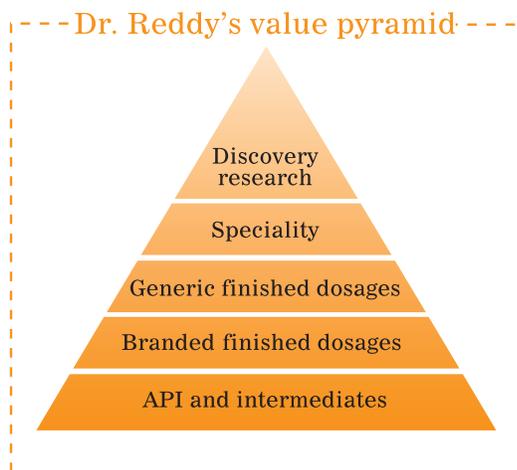
Integration: The Company is vertically integrated with a presence across the entire pharmaceutical value chain.

It produces active pharmaceutical ingredients, finished dosage forms (branded formulations and generics) and biotechnology products, marketed globally, with a focus on India, US, Europe and Russia.

Wide therapeutic footprint: The Company's finished dosages relieve patients from pain across a wide therapeutic footprint, the principal being the cardiovascular, gastro-intestinal, pain management, anti-infectives, diabetic care, neutraceuticals and dermatology segments.

Research and development: Relevantly, the Company is engaged in frontline research and drug discovery, the basis of its existence. Even as its innovation-driven businesses of drug discovery and specialty pharmaceuticals are investment-intensive across a long gestation cycle, they enjoy an attractive potential protected by a global intellectual property framework. The company's R&D focus is manifested in more than 1,100 scientists working untiringly towards the innovation and creation of products largely across the generics platform, increasing access and affordability, and in the innovation platform, addressing unmet/under-served medical needs with the objective to help people lead healthier lives.

Strong pipeline: The Company is building a long pipeline of products across its API and finished dosages businesses, which will not only generate surpluses for reinvestment in the Company's innovation-led businesses but more importantly strengthen the business model and in doing so, enhance the value of the Company's Triple Bottomline.



Infrastructure

At Dr. Reddy's, infrastructure represents the foundation of its business viability.

Manufacturing: In a world where product outsourcing is conducted across countries and continents, the Company's manufacturing plants - six API units and five finished dosages - enjoy global economies of scale, are invested with contemporary equipment, are benchmarked with demanding standards from international regulatory bodies like USFDA (six API units), UK MHRA, MCC, MCA and are therefore equipped to manufacture products meeting the demanding standards of different markets across the globe.

Research: The Company's drug discovery program is spread across its research facilities at Atlanta (USA) and Miyapur (India). Its research labs in India and U.S. together comprise more than 1,100 R&D professionals focusing on product development across the value chain and helping the company address the unmet medical needs of society.

Global presence

- Headquartered in Hyderabad, India
- Manufacturing locations in India, UK and China.
- Research and development locations in India and the US.
- Wide global presence for marketing finished dosages across 36 countries and APIs in more than 70 countries.
- Marketing network through international subsidiaries and joint ventures.
- Global presence leading to a sensitive understanding of the local laws in the countries of the Company's presence.
- An expanding portfolio marketed in emerging markets.
- Exports corresponding to 65.6% of total revenues in 2004-05.

Brand driving sustainability

The Dr. Reddy's brand is not just its catalyst of sales in the marketplace; it is also the principal driver of the Company's position as a preferred employer, customer, vendor, publicly-held organization and member of society.

Its brand represents the positive convergence of years of corporate goodwill. This has been generated from its industry first-mover spirit reflected in the pioneering development of products, product acceptance, sustainable business growth, forward-looking governance practices as well as a sensitive corporate social responsibility.

Essentially, the Company's brand, encapsulated in words like 'pioneering', 'innovation', 'rigorously tested', 'better therapeutic value', 'excellence', 'caring' and 'socially responsible' across millions of its stakeholders, represents an ability to do things with a difference with the objective to make all growth value-enhancing in a sustainable way.

The strength of the corporate brand is reflected in its various reputation-enhancing awards and accolades:

- The 'Best Management' award from the Government of Andhra Pradesh.
- WorldStar award from World Packaging organization for packaging excellence in 2004.
- Energy & Water Management Awards 2004 from CII.
- Recognition among the 'Top 25 Best Employers in India' (Business World and CNBC TV18-Hewitt).
- Sixth Most Respected Company among all companies in India and the most respected Company in the pharmaceutical sector (Business World).
- Seventh 'Best Company to Work For in India' (Business Today - Mercer & TNS)
- Among the Thirteen Best Managed Companies in India (Business Today- AT Kearney 'Best Managed Companies' annual survey of companies across India).

Vision and values

At Dr. Reddy's, the purpose identifies why we exist; the vision defines our aspiration.

Simply put, our purpose is to help people lead healthier lives through innovation that addresses the unmet medical needs of man by making pharmaceutical products affordable and available to a large cross-section of society.

This vision provides our Company with a long-term direction, inspiring and uniting all members of the Dr. Reddy's family towards a common goal.

The Company's values represent boundaries, beliefs and guiding principles that facilitate the Company's journey towards this vision.

In turn, the Company's business practices are guided by the highest ethical standards of truth, integrity and transparency.



Framework for broad-based sustainability



- To help people lead healthier lives



- To be a discovery led global pharmaceutical Company

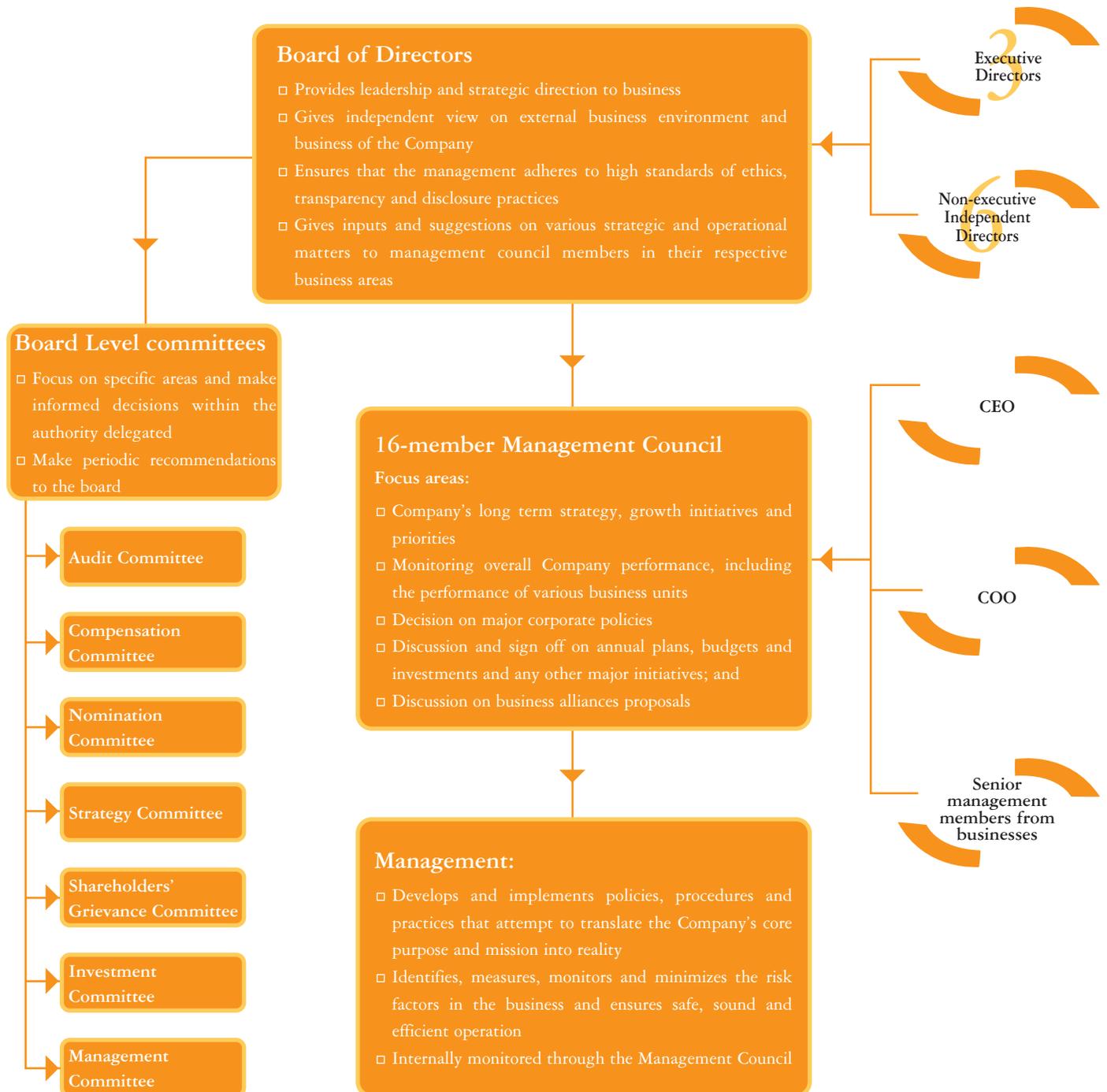


We strive for excellence in everything we think, say and do

- Quality
- Respect for the individual
- Innovation and continuous learning
- Collaboration and teamwork
- Harmony and social responsibility

Governance structure and management systems

At Dr. Reddy's, we recognize that sustainability is facilitated through a governance framework that reconciles shareholder and organizational interest in the most effective manner. This framework, continuously benchmarked with evolving standards through a spirit of continuous improvement, is driven by timely disclosures, transparent accounting policies and an independent Board to protect shareholder trust and maximize corporate value.



Management Council



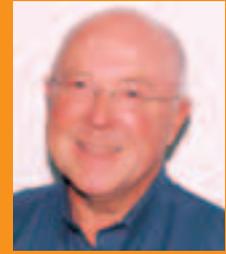
G V Prasad
Executive Vice Chairman
and Chief Executive Officer



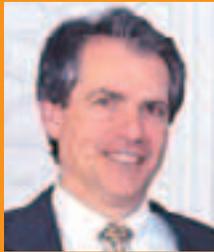
Satish Reddy
Managing Director &
Chief Operating Officer



Abhijit Mukherjee
President,
Developing Businesses



Alan Shepard
Executive Vice President,
Europe



Andrew J Miller
Executive Vice President,
General Counsel



Arun Sawhney
President, API



Ashwini Kumar Malhotra
Senior Vice President,
Formulations TechOps



Jaspal Singh Bajwa
President,
Branded Formulations



Jeffrey Wasserstein
Executive Vice President,
NA Specialty



KB Sankara Rao
Executive Vice President,
Integrated Product
Development



Mark Hartman
Executive Vice President,
NA Generics



R Rajagopalan
President,
Discovery Research



Raghu Cidambi
Head,
Strategic Planning &
Corporate IPM



Saumen Chakraborty
Executive Vice President
and Global Chief of HR



Uday Saxena
Chief Scientific Officer



VS Vasudevan
Executive Vice President
and Chief Financial Officer

At Dr. Reddy's, the effectiveness of this governance process is driven through the existence of the following dedicated committees addressing specific focus areas:

- The Audit Committee supervises the financial reporting process, internal control and risk management processes and compliances.
- The Compensation Committee reviews the remuneration package offered by the Company to different grades/levels of employees and administers the employee stock option plans.
- The Nomination Committee recommends induction of the new members in the Board of the Company and reviews the governance principles of the Company.
- The Strategy Committee recommends the adoption or modification of the Company's strategies and reviews its progress and implementation.

At Dr. Reddy's, this governance process extends throughout the organization and beyond in the following manner: the existence of an independent Board of Directors, an alignment with international practices, robust controls and a transparent information dissemination to stakeholders. This governance process was strengthened during the year under review through the following initiatives:

- Review meetings of small groups of Directors on specific business and control matters.
- Separate meetings of Independent Directors in executive sessions, without the presence of the management.
- Representation of Independent Directors by the nomination of a lead Independent Director.
- Implementation of the code of business conduct and ethics, along with an ombudsman procedure.
- Detailed discussions on the business strategy of various businesses.
- Usage of control tools under SOX to strengthen internal controls on financial reporting.

The review meetings referred to above included review meetings in the Company's SHE parameters and practices as well as the Company's HR practices and policies. The highlights of these review meetings were later shared with the Board.

Communication channel

At the heart of the Company's governance resides a continuous, credible and transparent communication system. The Company uses various communication channels to reach information to all its stakeholders in a proactive way, communicating beyond the strict reporting guidelines recommended by the relevant authorities.

External communication (to stakeholders)

- Statutory communication to Stock Exchanges (India and US)
- Statutory disclosures and filings (including with the SEC, US)
- Press releases □ Company website □ Annual report □ Annual General Meeting and other shareholder related meetings □ Analyst meet □ Press briefings □ Analyst-related conference calls (including quarterly conference calls) □ Corporate film □ Corporate presentations □ Brochures (corporate and others) □ Global trade and industry exhibitions □ Product detailing material

Internal communication (to employees)

- CEO Communique □ Elixir (quarterly magazine) □ Notice boards
- Around Dr. Reddy's (monthly email newsletter) □ Company news (daily news updates through intranet) □ Organization wide announcements □ SHE Infosite (Company intranet) □ Open houses with senior management □ Quarterly briefings of the senior management □ Unit level employee celebrations and get-together events □ Annual organization-wide celebrations



Economic performance

At Dr. Reddy's, economic growth represents an important pivot of its Triple Bottomline approach. This is derived through a competent reconciliation of profitability needs in the short-term with growth sustainability across the long-term.

The Company strengthened its business sustainability through proactive investments reflected in the following initiatives:

- Presence at the highest end of the pharmaceutical value chain
- Pipeline expansion in API and finished dosages businesses at one end and the development of innovation-based products in Drug discovery and Specialty businesses on the other
- Ongoing investment in widening the product portfolio
- Investment in a rich pipeline of products – one of the largest in the industry – expected to unleash its true value over the foreseeable future
- Wide, deep and consistent presence across key global markets
- Risk-reward partnerships to reconcile short-term profitability with enhanced long-term shareholder value

At Dr. Reddy's, we reinforced the supporting role of organizational and functional leadership, people resources and the evolution of various processes in line with a rapidly changing industry environment. The Company invested prudently in these 'soft' areas interwoven with a culture of excellence running across its businesses, processes and functions.

It is the Company's conviction that as these initiatives mature, profits will increase and economic sustainability strengthened.

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Financial highlights

(Amount in Rs mn)

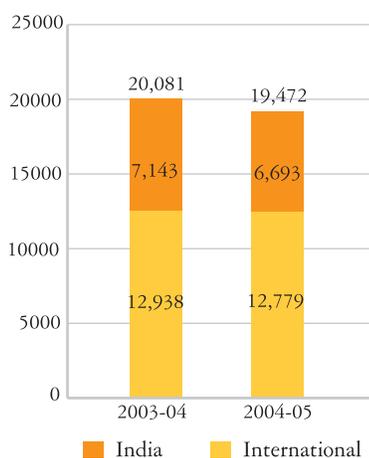
Parameters	2003-04	2004-05
Indian revenues	7,143	6,693
International revenues	12,938	12,779
Total	20,081	19,472
Operating income	2,080	(366)
Net income	2,474	211
Total assets	26,619	29,288
Capital expenditure on property, plant and equipment	2,075	1704
Investment in research and development	1,992	2,803

In 2004-05, Dr. Reddy's reported revenues of Rs. 19,472 million, a decline of 3 per cent over the previous year. However, net income declined from Rs. 2,474 million in 2003-04 to Rs. 211 million in 2004-05 mainly on account of a decline in revenue from key products like ramipril API in Europe as well as fluoxetine and tizanidine in the U.S. generics business. Even as the combined revenues for these products declined from Rs. 2,489 million in 2003-04 to Rs. 1,135 million in 2004-05, they were to a large extent off-set by the growth in the other businesses, reflected below:

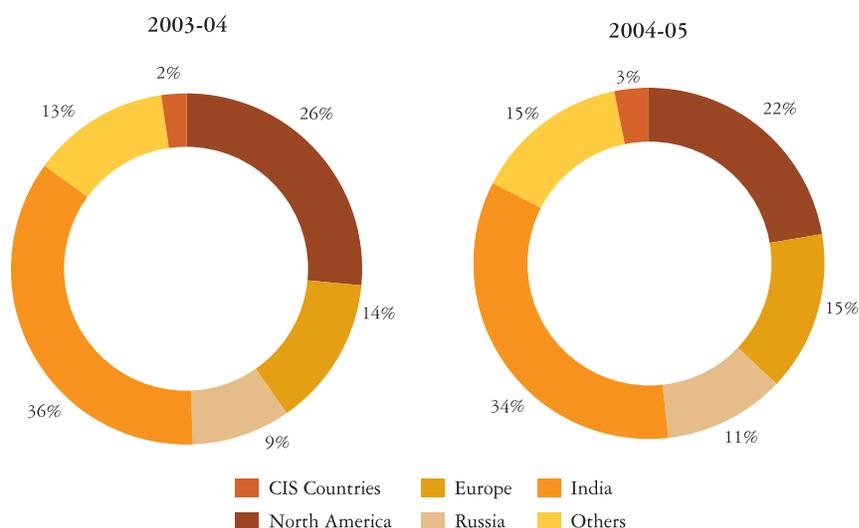
- 25% revenue growth in the international branded finished dosages segment, driven by an expansion in the Russian and CIS markets

- 18% revenue growth in Russia, one of the most successful international markets, to Rs.2,170 million (US\$ 50 million),
- 44% revenue increase in Europe Generics to Rs.1,340 million (US\$ 31 million), driven by a growth in key products like omeprazole and amlodipine maleate
- Rs.1,963 million (US\$ 45 million) in global revenue from omeprazole. More than Rs.436 million (US\$ 10 million) each in revenues from the key markets of India, Russia and UK
- Growth in revenues from the emerging high-margin Custom Pharmaceutical Services business to Rs.312 million from Rs.113 million in 2003-04

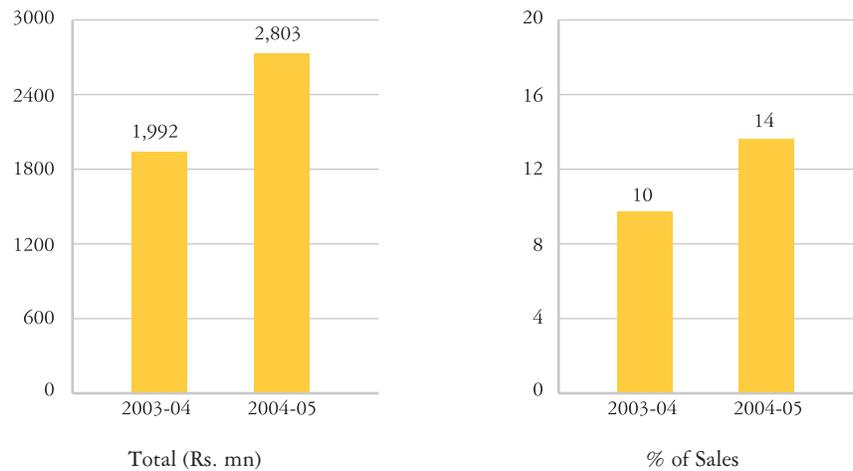
Sales (Rs. mn)



Sales by geographic area (%)



R & D expenses



Importantly, in spite of a short-term pressure on profitability, the Company strengthened its commitment to prospective economic growth through an ongoing spending in research and discovery to the extent of 14 per cent of its sales in 2004-05, the highest by any Indian pharmaceutical Company.

It is the Company's conviction that this aggressive research investment will translate into new products, driving its growth in an attractive and sustainable way.

Business strategy

At Dr. Reddy's, we have strengthened our economic performance – and hence, our sustainability – by being alive to emerging opportunities. In doing so, the Company has scaled from one attractive pharmaceutical area to another with the objective to enhance value and fully realize its organizational potential.

The result is the Company's presence across a comprehensive business range: from the manufacture of APIs and finished dosages at one end leading to the specialty mid-segment to the Company's innovation-led business of discovery at the highest end of the pharmaceutical value chain.

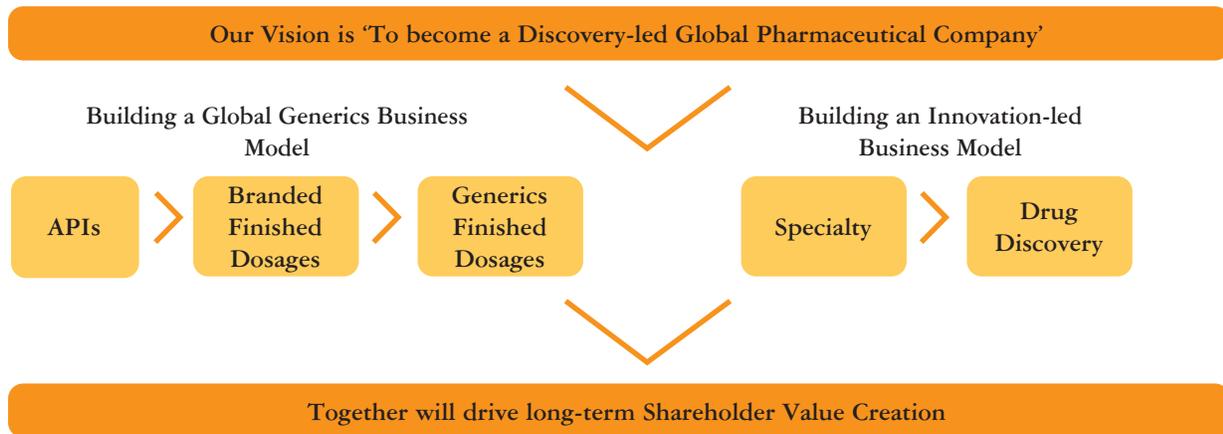
This extensive presence was in response to a rapid growth in industry opportunities, the need to drive corporate growth and the potential to unlock the value invested in the Company's R&D and marketing infrastructure.

Over the years, the Company strengthened its capability to generate a robust return through the following business-enhancing initiatives:

- **Being proactive:** In terms of people, commercial, R&D and regulatory investments leading to enhanced capabilities
- **Being progressive:** Graduation to the innovation-led businesses, leading to a migration to the highest end of the value chain
- **Being global:** Successful leverage of the product portfolio across key international markets in different forms leading to profitable and sustainable growth
- **Being flexible:** Adaptation of strategies for global and local requirements leading to robust customer relationships

From a strategic perspective, the Company addressed the potential inherent in its businesses at two levels, each requiring a different mindset, varied resources and diverse skill sets.

- Generics model (includes APIs and finished dosages)
- Innovation model (includes specialty and discovery)



The generics model (including API and finished dosages business): The Company expects to leverage the potential across existing markets, products and synergies across the three businesses for maximum benefit. The API, generics and branded finished dosages business, strategically invested with resources, already possess a rich pipeline that will start yielding results from 2006-07 onwards.

Innovation businesses of specialty and discovery research: The Company's Specialty business is in the initial period of its maturity cycle; with sustained investments being made into it we expect the business to mature across the medium term; the business serves as a bridge to building our Discovery business.

On the other hand, our Discovery business carries a more extended gestation, requiring an even longer investment commitment before it will be possible for the Company to realize the full potential of its pipeline. We are optimistic that these businesses will lead Dr. Reddy's to globally launch its own NCEs in niche therapeutic spaces,

generating stable and attractive returns adequately protected by a global framework of intellectual property.

At Dr. Reddy's, we are optimistic that the new lines of our businesses will generate attractive growth over the near-term. The Company's Custom Pharmaceutical Services business has strengthened its position as a partner of choice for large global innovators and emerging pharma companies. With India likely to emerge as a preferred outsourcing hub in the new product patent environment, this business is attractively positioned to address significant opportunities.

Dr. Reddy's biologics business is focusing on the development of a global bio-generics portfolio, which presents significant growth opportunities for the innovator as well as generics companies. Dr. Reddy's is currently investing in building infrastructure and R&D capabilities for developing a biologics portfolio with the regulatory framework in mind: launch in less regulated markets leading to a progressive entry into the regulated markets.



Our businesses: Economically sustainable

Sales by business units

(Amount in Rs mn)

Business units	2003-04	2004-05
API	7,629	6,945
Branded finished dosages	7,507	7,823
Generics finished dosages	4,338	3,577
Emerging business	411	527
Drug discovery	–	288
CPS	113	312
Others	83	–
Total	20,081	19,472

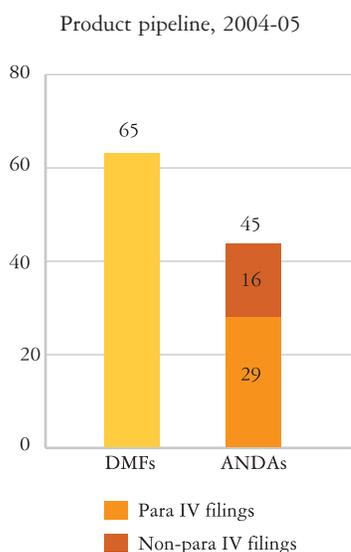
Over the decade, the Company has grown its understanding of diseases and extended its scope of discovery research into new therapeutic spaces. It now expects to leverage its decade-long experience and its acquired capabilities and knowledge to expand its portfolio of NCEs.

The Company's specialty business is a bridge that will help the Company to realize the full value of its new chemical entities. Having gained access to product rights and technology platforms through the acquisition of Trigenesis, the Company has leveraged its internal product development capabilities to create a pipeline of two key assets in the dermatological segment likely to go into clinical development in 2005-06.

The Company is optimistic that as its molecules complete their various drug development stages and mature into product launches, they will accelerate cash flows in a significant but sustainable manner protected by global patents.

APIs, Branded and Generics finished dosages

□ **Generics:** At Dr. Reddy's, even as the Company stayed committed to its longer gestation businesses, it concurrently strengthened its presence in the generics segment. The Company's investments in ANDA and DMF filings over three years resulted in the creation of a strong pipeline that now comprises 65 DMFs and 45 ANDAs pending approval with the U.S.FDA.



The ANDA pipeline addresses an innovator sales opportunity of USD 25 billion (IMS MAT Dec 2004). Of the 45 ANDAs, 29 are Para IVs and 12 potential first-to-file opportunities.



As this pipeline coincides with a number of key products going off patent from 2006-07 onwards, it will translate into enhanced returns. With several products under development in both API and generics, the Company is focusing on building a balanced portfolio that will deliver consistent year-on-year revenue growth.

□ **Branded finished dosages:** The Company is more focused than ever on launching new products with increasing frequency. This is reflected in the ORG IMS March MAT 2005 data, wherein the Company improved its market ranking in terms of the total value of new product launches from 24 in 2003-04 to 5 in 2004-05. It accelerated product filings across several international markets over the last three years, which will translate into quicker growth going forward. The Company is also supplementing the exercise of growing its internal pipeline with in-licensing efforts with a target to generate 20% of revenues from new product launches (most recent 30 month launches) over the next three years.

Even as the Company remains committed to enhancing long-term stakeholder value, it is mitigating R&D risks along the way. Towards this, it is evaluating risk-reward partnerships in the area of R&D investments, which will enable it to protect short-term profitability without compromising long-term stakeholder value.

More specifically, these partnerships will enable the Company to enhance the scope and accelerate the pace of its research without compromising either its quality or sustainability. Besides sharing risks and rewards, the partnerships will also provide the Company with opportunities to scale its business across a wider geographic spread. As a step ahead, the Company is exploring partnerships across its R&D intensive businesses, which will enable it to create a substantial R&D growth engine.

This has already begun to transpire: in 2005, the Company entered into a path breaking and responsible partnership with ICICI Venture to strengthen its long-term commitment to generic products development. On the one hand, this unique arrangement served as a validation of the Company's product pipeline; on the other, it balanced risk sharing with opportunity maximization without compromising ongoing earnings capability.

The Company is presently engaged in creating a suitable R&D partnership model for its Drug Discovery business and will explore the possibility of a similar partnership deal for the Specialty business, these partnerships enabling the company advance its NCE and specialty assets while mitigating the risks and costs of development.

Impacting the economies of stakeholders

Even as the Company invested in its various businesses, it also focused on cost control, productivity and process excellence with a view to balance short-term profitability with long-term sustainability. The Company's objective was to positively impact the economies of not just its shareholders but also a wider community of stakeholders comprising employees, customers, suppliers and society.

Shareholders

Parameters	2003-04	2004-05
ROE	12%	1%
Dividend payout (in. Rs./share)	5	5
EVA (in Rs. mn)	83	(2,400)

Personnel

Parameters	2003-04	2004-05
Cost towards wages / salaries	1,967	2,511
Other benefit costs	398	427
Total personnel costs	2,365	2,938
% of sales	12%	15%
Total payout per employee	0.38	0.48

Society

Parameters	2003-04	2004-05
Excise duty	870	815
Income tax	425	0
Custom duty	6	3
Sales tax	558	515
Total taxes paid	1,859	1,333
Social investment program	26	88
% of sales	0.1%	0.5%

Suppliers

Parameters	2003-04	2004-05
Material	6,421	6,411
Services*	5,731	5,370
Total	12,152	11,781
% of sales	61%	61%

* Includes expenses towards power and fuel, repairs and maintainance, marketing, travel, bank and general expenses.

Customers

Parameters	2003-04	2004-05
Net sales	20,081	19,472
Debtors	3,730	3,587
Payments received during the year	19,592	19,615
Debtors' outstanding (in average number of days of turnover)	68	67



Execution excellence

At Dr. Reddy's we recognize that business sustainability is critically dependant on the quality of human resources, systems, processes, managerial competencies, innovation and cost structure.

Over the years, the Company initiated critical processes to reinforce its business health. Now as it expands across businesses and geographies, an efficient and timely execution of strategy will need to remain prioritized. Work processes and systems will need to be constantly upgraded; the pursuit of excellence will need to touch every member from the shop floor level to the senior management.

As a part of the Company's priority to embed excellence and continuous improvement into all key processes, it adapted the Dr. Reddy's Execution Excellence Model built around its core values, purpose and vision. For instance, the model identifies the processes and organization-wide practices for sustainable business results. It provides a framework of how people, processes, practices and strategy can be interlinked for sustainable improvement, supported through the creation of an enabling organization.

The Shared Services Organization was established in March 2004 with the objective to attain a process excellence in the areas of finance, human resource management and other enabled processes. In view of this, the Six Sigma Technique was rolled out to achieve improvements in cost, cycle time, accuracy and responsiveness. The center has already recorded an efficiency of 4 Sigma (99.3% transaction accuracy) leading to significant savings. To take this initiative further, a 3S Model for Excellence has been anchored to leverage SOX as an opportunity, SAP

as a platform and Shared Services as a model to achieve all-round business process excellence.

Project DISHA was initiated with the purpose of achieving supply chain excellence driven by customer needs and market specific requirements in response to the Company's presence in diverse markets. Having completed the pilot phase, the Company is currently in a rollout phase.

Project Rachna was initiated to make the new product development process globally distinctive. This helped align R&D teams to cost and timeliness, thereby achieving a reduction in cycle time in the development of new products.

Project Pragati focused on cost leadership across all the Company's businesses through the generation of ideas, leading to total savings of Rs 448 million over three years.

Project Suraksha implemented Section 404 of the Sarbanes Oxley Act, 2002, within the Company, in line with strengthening international corporate governance practices. Even though compliance with Section 404 of SOX was mandatory only from the financial year 2006-07 (ending 31 March 2007), the Company built an effective, sustainable and visible control environment ahead of the mandated timeline.

At Dr. Reddy's, these initiatives, will lower costs as well as stronger processes and practices, have – and will continue to – enhance profits and business sustainability.

Environmental footprints

A prudent management of the environment represents an important pillar of the Triple Bottomline agenda.

At Dr. Reddy's, relevantly, our challenge has evolved from a mere control of local pollutants to an exercise of an informed choice in line with the growing threat to the global environment.

This evolution was facilitated by the insight that a management that overlooked the environmental impact arising from its operations did so at the risk of failure across the long term; the insight that an economy and the environment partner in the global pursuit of an enhanced quality of life; the insight that sustainable success can be achieved only through the initiation of processes that make operational, economic and environmental sense; the steadfast conviction that the '3P' philosophy-Pollution Prevention Pays – is the only sure and sustainable policy.

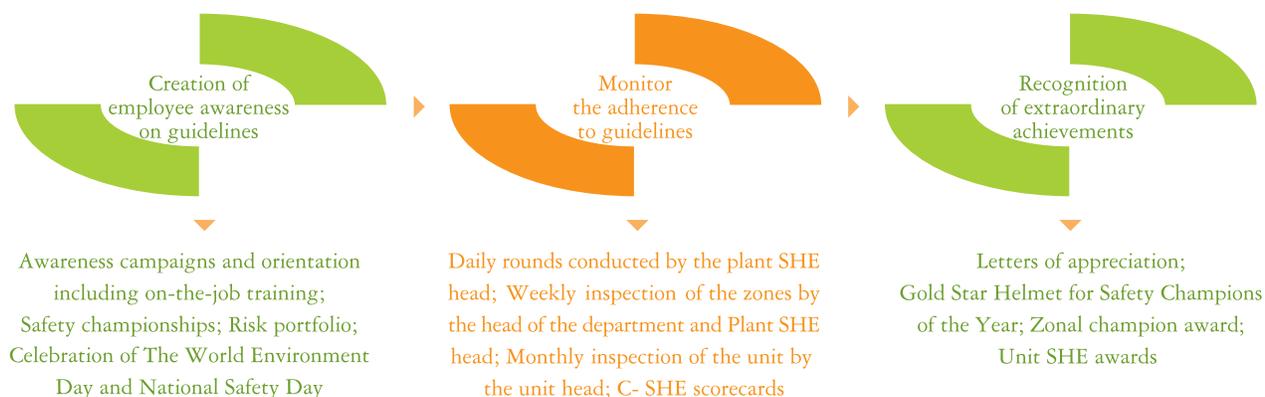
As a responsible corporate citizen, Dr. Reddy's has lived this philosophy: it has implemented a number of initiatives to rationalize the consumption of natural resources through prudent process improvements, disciplined resource use, enhanced employee awareness, ongoing training and an established system of monitoring actual performance against its targets.

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A robust and reliable management system

At Dr. Reddy's, we believe that a customized management structure is the first step towards responsible environment management. In view of this, the Company created a three-tier structure comprising a SHE head in each plant, a Senior Director at the corporate level and a quarterly review discipline conducted by the COO and CEO along with the Senior Director.



The strength of the Company's environment commitment is reflected in the following initiatives and achievements:

- ISO 14001 (environment) and OHSAS 18001 (safety and health) certification for its generics plant
- Investment of 2894 person-days in SHE training - classroom and on-job - for its employees in 2004-05
- A wide training coverage (across 746 sessions) comprising basic fire fighting, on-site emergency planning and emergency preparedness, C-SHE directives, guidelines and information, ISO 14001, risk portfolio, rain water harvesting, electrostatic hazards, Zero Liquid Discharge Plant operation, work permit system and process safety. General and job specific safety training was provided for all employees including contractors
- A periodic evaluation of the manufacturing units for SHE performance through the use of monthly C-SHE scorecards and quarterly compliance meetings





We catch them young: New generation, new ideas



The success of the 'Success Story Wizard'

At Dr. Reddy's, we understand that for a sensitive subject like the environment, information on probable transgression must be available immediately leading to correction in the shortest possible time.

In view of this, the Company replaced its conventional year-end practice of reporting in-plant successes with real-time reporting through the user-friendly 'Success Story Wizard'. This user-friendly online reporting system

highlights improvements across the Company's intranet as they happen; it creates learnings without any time loss; it enhances the Company's information repository for prospective use.

At Dr. Reddy's, we define success stories as anything that:

- Helps implement SHE Policy
- Integrates SHE with business
- Adds economic usefulness to waste so as to convert it into a resource
- Facilitates recovery/reduction/recycling of waste
- Facilitates a better management of resources
- Facilitates a better method of waste management
- Reduces resource consumption per unit of production
- Makes processes safer or reduces occupational hazards

Similarly, community outreach initiatives of the plants are tracked through the CSR Initiative feature on the SHE Infosite.

In the subsequent pages we have presented a few success stories.

Ecologically credible

Sl.No.	Description	Unit	2003-04	2004-05
1.0	Income (IGAAP-Standalone) ⁽¹⁾	Million INR	15,923.91	15342.39
2.0	Personnel			
2.1	Total personnel (Dr.Reddy's) ⁽²⁾	Number	3498	3393
2.2	Total SHE personnel (Dr.Reddys) ⁽²⁾	Number	69	68
3.0	Investment and operating expenses for SHE			
3.1	Total capital investment (Cumulative)	Million INR	451.18	513.25
3.2	Total operating expenses	Million INR	92.87	97.75
4.0	Resource consumption			
4.1	Water usage	1000 cu. m	949.20	912.42
4.2	Energy usage	1000 GJ	1020.31	1059.51
4.3	External energy usage ⁽³⁾	1000 GJ	249.56	292.44
4.4	Internal energy usage ⁽⁴⁾	1000 GJ	770.75	767.07
5.0	Safety & Health			
5.1	Frequency rate for Lost Time Accidents ⁽⁵⁾	Number	1.16	1.13
5.2	Incidence rate for Lost Time Accidents ⁽⁶⁾	Number	4.96	2.65
6.0	Wastewater			
6.1	Volume discharged ⁽⁷⁾	1000 cu. m	250.09	78.83
6.2	COD load ⁽⁸⁾	Tons	1015.98	316.11
6.3	TDS load ⁽⁸⁾	Tons	1884.53	981.85
7.0	Air emissions			
7.1	Sulphur dioxide ⁽⁹⁾	Tons	687.43	705.17
7.2	Oxides of nitrogen ⁽⁹⁾	Tons	1609.40	1634.38
7.3	Ozone depleting substances ⁽¹⁰⁾	Tons	10.69	12.33
8.0	Hazardous and non-hazardous wastes			
8.1	Non-hazardous waste disposed ⁽¹¹⁾	Tons	5827.48	7734.48
8.2	Hazardous waste disposed ⁽¹²⁾	Tons	3801.62	4943.33
8.3	Hazardous waste recycled ⁽¹³⁾	Tons	7394.18	13352.34
8.4	Total hazardous and non-hazardous waste	Tons	17023.28	26030.15
9.0	Environmental impact			
9.1	Greenhouse gases ⁽¹⁴⁾	t CO ₂ eq	66955.81	68114.39
9.2	Ozone depleting substances ⁽¹⁵⁾	t CFC11 eq	9.18	12.39
9.3	Acidification ⁽¹⁶⁾	t SO ₂ eq	1814.02	1848.56
9.4	Eutrophication ⁽¹⁶⁾	t PO ⁻³ ₄ eq	344.23	333.80

1 Calculation of per unit sale is based including income figure of new unit at GOA.

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 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 SO₂ and NO_x 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. Wastes are recycled through authorized third parties.

14 The data reported is CO₂ emissions, which is the primary GHG.

15 The solvent emissions are not considered in the ODS estimation due to non-availability of data.

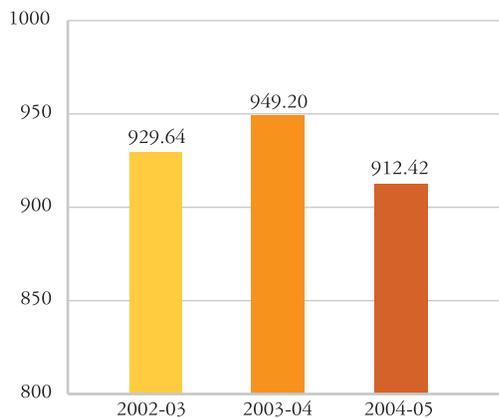
16 As per the Sustainability Metrics of the Institution of Chemical Engineers, UK.

Water use

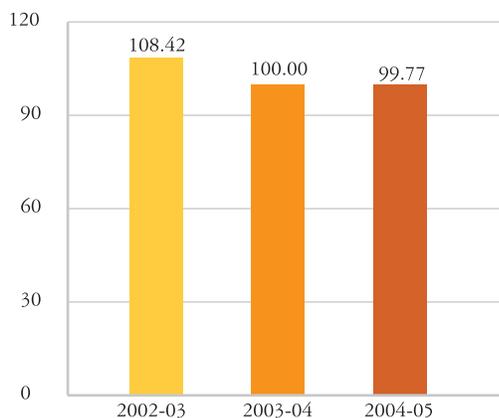
One of the most important environment protecting initiatives lies in the responsible use of water, especially in a world where this resource is depleting.

As a resource-respecting organization, the Company achieved a reduction in its consumption of fresh water, translating into a 4 per cent reduction in quantum terms. This was achieved through the following initiatives:

- The commissioning of a zero liquid discharge plant (ZLDP) at API unit 2 (Bollaram) and API unit 6 (Vizag). The Company's API unit 5 (Miryalguda) was already zero liquid discharging unit in 2003-04.
- The recycling of treated water from ZLDP for use in cooling tower makeup.
- The introduction of simple water conservation measures like the use of push button taps and complex process improvements as well as an increase in employee awareness and disciplined consumption.
- The monitored use of water against targets set through the prudent use of water meters.



Water usage (1000 cu.m)



Water usage per unit sales
(Base year FY0304=100)



Zero Liquid Discharge Plant

Reduction in fresh water intake

In 2004-05, Dr. Reddy's commissioned a new II stage Reverse Osmosis plant in its Biotechnology unit, which facilitated purification, enhanced recycling and reduced the intake of water.

Various initiatives, single objective

- The Company's API unit 4 saved 14400 KL of fresh water between October 2004 and March 2005.
- The Company's FTO-Unit-4 rationalized water consumption from 7300 KL to 6054 KL in 2004-05.
- The Company's FTO-Unit-3 reduced specific water consumption from 232.36 KL/ton to 162.49 KL/ton in 2004-05.
- The Company's FTO-Unit-1 reduced water consumption by 9125 KL in 2004-05.

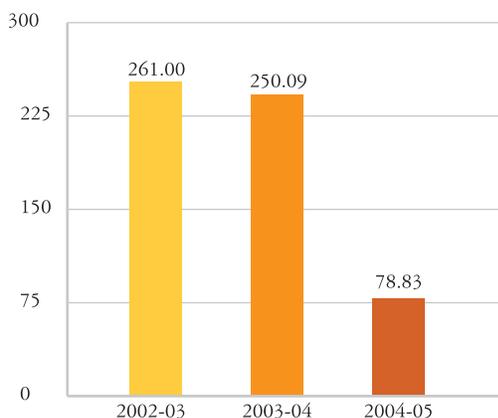
At Dr. Reddy's, we inspired employee-driven initiatives through enhanced awareness and decisive initiatives. On one hand, the Company used display cards, slogans, mails and announcements; on the other, it switched from the use of normal taps to the push type alternative, installed sensor taps in canteens and urinals to reduce wastage of water, introduced pressure water jets for washing vessels/floors, arresting the overflow from collection tanks and continuously monitored consumption through water meters.

A combination of these two translated into savings: the Company's API unit 4 recycled condensate water from the evaporator in cooling towers and recycled water in heat exchangers in the R&D labs to reduce consumption by 24 KL per ton of Ibuprofen production. The Company's FTO-Unit-1 also achieved conservation of water through the recycling of jet wash water and distillation plant condensate water.



Wastewater discharge

At Dr. Reddy's, we recognize that water conservation can be effectively facilitated through prudent investments in equipment. Over the years, the Company did precisely so through the commissioning of zero liquid discharge plants attached to its API facilities.



Wastewater discharge (1000 cu.m)



Wastewater discharge per unit sales
(Base year FY0304=100)

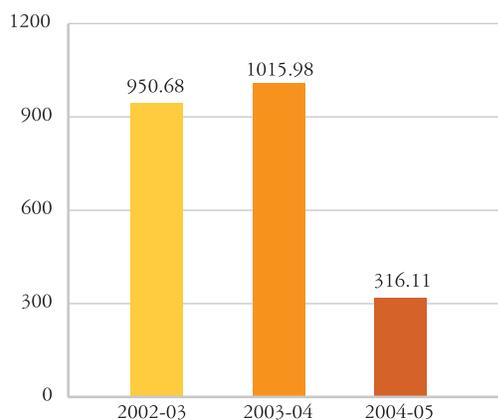
Appreciable decline in resource consumption

The API unit 3 of Dr. Reddy's reported a significant saving in raw material and water consumption in 2004-05.

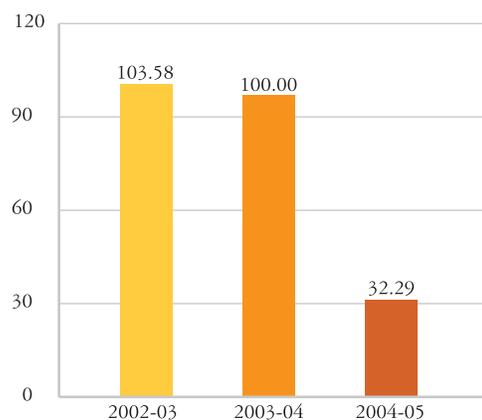
Earlier, the unit consumed 45 kg Alanine, 306 kg of Hydrochloric Acid, 88 kg of Soda Ash and 10,000 litres of water per batch of Ramipril ECCP. The unit reduced the consumption of Alanine from 45 kg to 43 kg and the consumption of Hydrochloric Acid, Soda Ash and fresh water by half through research-inspired process modifications without affecting product quality. These modifications resulted in an increase in yield by 18% and pollution load declined significantly. Correspondingly, wastewater discharge declined, generating a cumulative saving of around INR 34.6 million in 2004-05.

COD and TDS load discharge

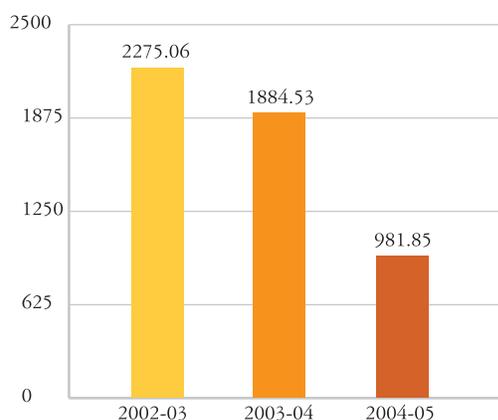
At Dr. Reddy's, this enhanced focus on recycling - 100 per cent at its three API units - resulted in a significant decline in chemical oxygen demand (COD), total dissolved solids (TDS) and a lower load on the environment.



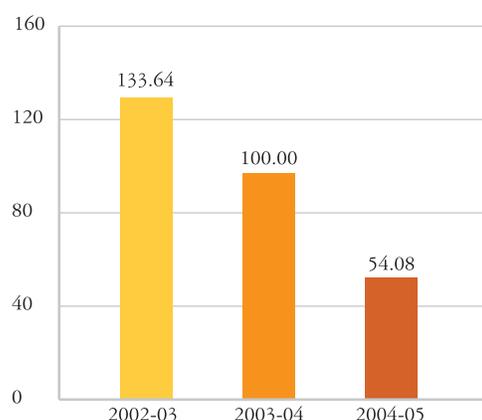
COD load discharge (Tons)



COD load discharge per unit sales
(Base year FY0304=100)



TDS load discharge (Tons)



TDS load discharge per unit sales
(Base year FY0304=100)

Changing raw materials, reducing environment load

The API unit 1 replaced the use of Toluene with Methanol in the manufacture of Losartan Potassium, eliminating the use of water, generation of wastewater as well as a significant reduction in pollutant load and cycle time (by 70 hours). As a result, the Company generated savings of INR 15.7 million during the year under review.

Energy use

At Dr. Reddy's, we recognize that energy conservation directly reduces the consumption of finite resources. In view of this, the Company embarked on the following energy-rationalizing measures:

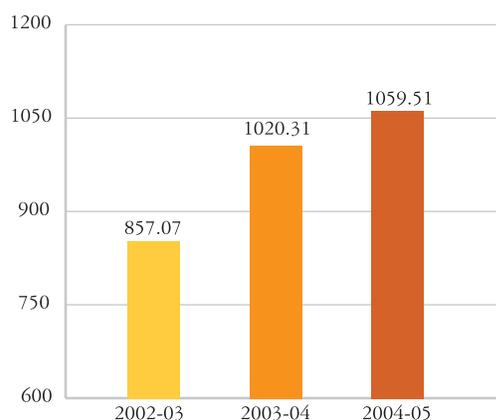
Energy-saving equipment: use of variable frequency drives (VFDs), flat belts, intermediate controllers and energy-efficient pumps.

Conservation measures: Replacement of incandescent lamps with fluorescent/CFL lamps, replacement of 200 watt incandescent

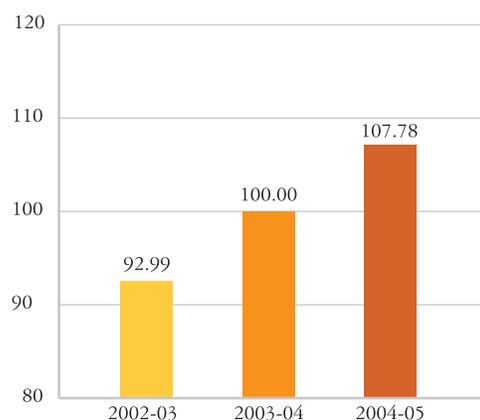
lamps with 23 watt cfl models on the shopfloor, replacement of CaCl_2 with Methanol as a secondary refrigerant in addition to other process improvements.

Replacement: Elimination of pumps through a better leverage of gravity in the supply of water from API unit 2 to API units 1 and 3; enhanced employee awareness leading to disciplined energy use.

Renewable energy: Use of 70000 KWH of solar energy in the FTO 2.



Total energy usage (1000GJ)



Total energy usage per unit sales
(Base year FY0304=100)

Decline in energy consumption through a reduction in the running of the chilling plant

At Dr. Reddy's API unit 4, we are proud to report that monthly power consumption declined by 27 per cent to 25740 KWH in 2004-05 through the simple isolation of an energy-intensive chilling plant.

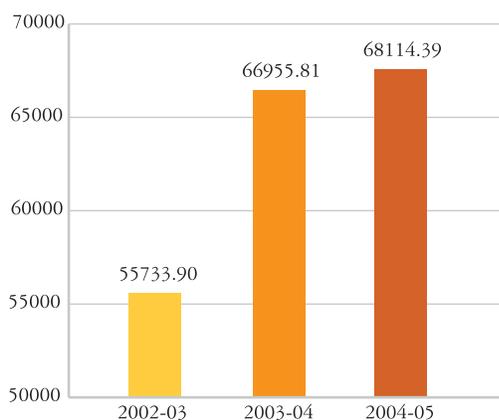
Earlier, two types of chilling plants were being run simultaneously to maintain an overall -5 degrees C plant temperature for the Ibuprofen crystallization stage and other vent condensers of the plant. Gradually, it was noticed that the inlet temperature required for crystallization was 0 to -5 degrees C whereas for all other applications it was $+5$ degrees C to $+10$ degrees C. Owing to the common brine circulation piping system that had already been established, both plants were being run at -5 degrees C, requiring higher energy.

By isolating the -10 degrees C compressor plant from the common system and exclusively using the same for crystallization, the total running hours of the plants was effectively reduced. The other plant is run at $+5$ to $+10$ degrees C and is being used for other applications.

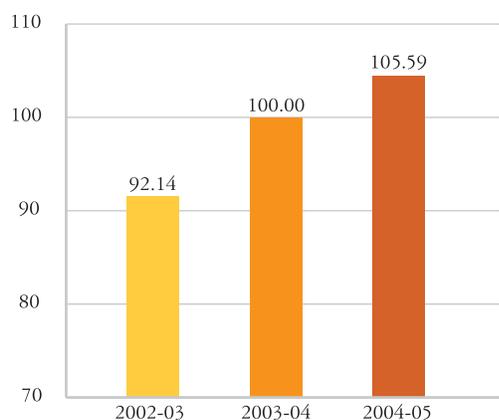
Dr. Reddy's Biotechnology unit reduced its per-day power consumption by 57 per cent from 2095 KWH to 898 KWH through the replacement of three chillers of 70TR each, with a single efficient chiller system attached with a variable frequency drive.

Greenhouse gas emissions

At Dr. Reddy's, our focus is a reduction in the emission of gases like carbon dioxide, directly responsible for the Greenhouse Effect. However, we must report that greenhouse gas emissions increased over the last two years as a result of the Company's increased energy consumption.



CO₂ emission (Tons)



CO₂ emission per unit sales
(Base year FY0304=100)

Carcinogenic and Ozone depleting substance substitution in CPS

At Dr. Reddy's, Carbon Tetra Chloride, a human carcinogen and ozone-depleting substance was used in the production of ECPA-II. Following laboratory trials, solvent feasibility studies and a scale-up process, Carbon Tetra Chloride was substituted with Cyclohexane by the DR & CPS team. Such initiatives are continuously being made across various products.

Material recovery for re-use

At Dr. Reddy's, the use of Toluene in the manufacture of Naproxen generated a residue (1400 kgs/day) which needed to be incinerated or sold to authorized external agencies. From 2004-05 onwards, the Company's API unit 5 embarked on the process of washing the Toluene residue with caustic lye and water. From its aqueous layer, 120 kgs/day of L-Nap products was recovered for onward use while another 400 kgs/day of Toluene was recovered when the residue was sent to the Solvent Recovery System. The recovered material was reused, reducing fresh solvent consumption.

Re-using solvents

At Dr. Reddy's API unit 5, Toulene + 2 Butanol, generated during the manufacture of Naproxen, were incinerated until research revealed that the recovered solvents could be re-used. So during 2004-05, 157.55 KL of Toulene + 2 Butanol recovered from the distillation of NAP-I was recycled, leading to a reduction in the consumption of fresh solvents, waste generation and fuel consumption.

How our Chemical Inventory System is making our workplace safer and efficient

Earlier at Dr. Reddy's, the absence of an efficient system to track chemicals being used in the various labs in Discovery Research and Custom Pharmaceutical Services (DR&CPS) enhanced concerns with regard to the accumulation of chemicals, disposal of unused chemicals and a growing inventory.

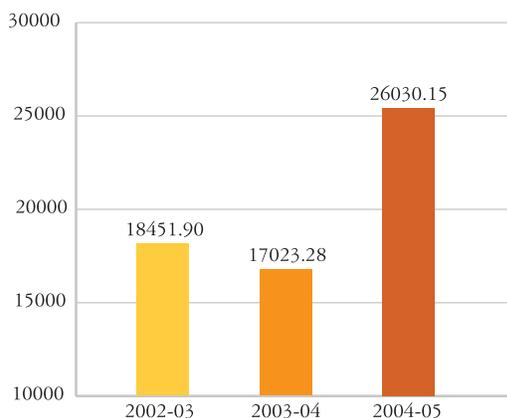
The Company's safety committee conferred within and with the laboratory heads, following which a Lotus Notes-based chemical inventory system was commissioned in March 2005. All chemical bottles were bar coded and all labs in DR&CPS were interconnected with the system. The benefits were immediate: savings in (a) the lead-time of procurement, (b) resource use, (c) inventory duplication, (d) waste chemical accumulation and (e) disposal cost. Besides, hazards related to the storage of excess chemicals in the store / laboratory declined. Obsolete and waste chemicals belonging to one department were converted into raw materials for the other wherever possible.

Hazardous and non-hazardous waste disposal

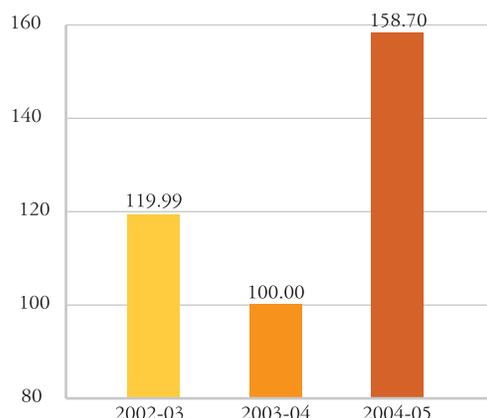
At Dr. Reddy's, one of the visible commitments to the safety of our community is through the responsible disposal of hazardous and non-hazardous wastes. This disposal is done through incineration, land filling and by an authorized external agency. For instance, about 51 per cent of total solid waste generated was disposed to authorized external agencies in 2004-05 who recycled the material for onward use. As a result, the waste of one industry represented a resource for another.

Besides, the Company also rationalized material consumption through process improvements and endeavored to discover new means through which it could recycle waste within its processes.

The increase in hazardous waste generated during 2004-05 was on account of solid waste generation by the Company's zero liquid discharge plants, two of which were commissioned during 2004-05.



Waste disposed (tons)



Waste disposal per unit sales (Base year FY0304=100)

Dr. Reddy's responsible waste disposal practices

- **Hazardous waste:** Comprises ETP sludge, incinerator ash and salts from the spray dryer, which is disposed in a secured land fill.
- **Hazardous recyclable waste:** Consists of waste oil, spent solvents, spent salts, spent residue and spent carbon, disposed to external agencies authorized by the Pollution Control Board to recycle the material.
- **Non-hazardous waste:** Consists of waste used paper, outer carton box, uncontaminated metal scrap recycled through an authorized agency. While canteen waste comprising waste food is given to a piggery, the rest of the bio-degradable canteen waste is converted to vermicompost.
- **Effluent:** The effluent from ZLDP is recycled.
- **Process gas emissions:** These are scrubbed following which clean gas is vented into the environment.

Solvent elimination at source

Dr. Reddy's IPDO unit is proud to claim that it developed a solvent-free process for the manufacture of Mesalamine, eliminating the use of solvents like Ethyl Acetate and Petroleum Ether and leading to the following benefits:

- Reduction in energy and solvent consumption
- Reduction in the generation of liquid waste
- Elimination of hazards associated with solvent handling
- Better control in liquid and gaseous emissions

Generating less waste

At Dr. Reddy's, raw material consumption was rationalized across a number of processes through relevant R&D experiments. For instance, in the fourth stage of the manufacture of Ibuprofen, the use of key raw material per batch was reduced from 210 kgs to 200 kgs while in the fifth stage, the use of Caustic Soda Lye was reduced from 610 Lt to 390 Lt per batch and water by 100 Lt per batch across both the stages. With these changes, the Company significantly reduced the generation of waste in 2004-05.

Hazardous material transport

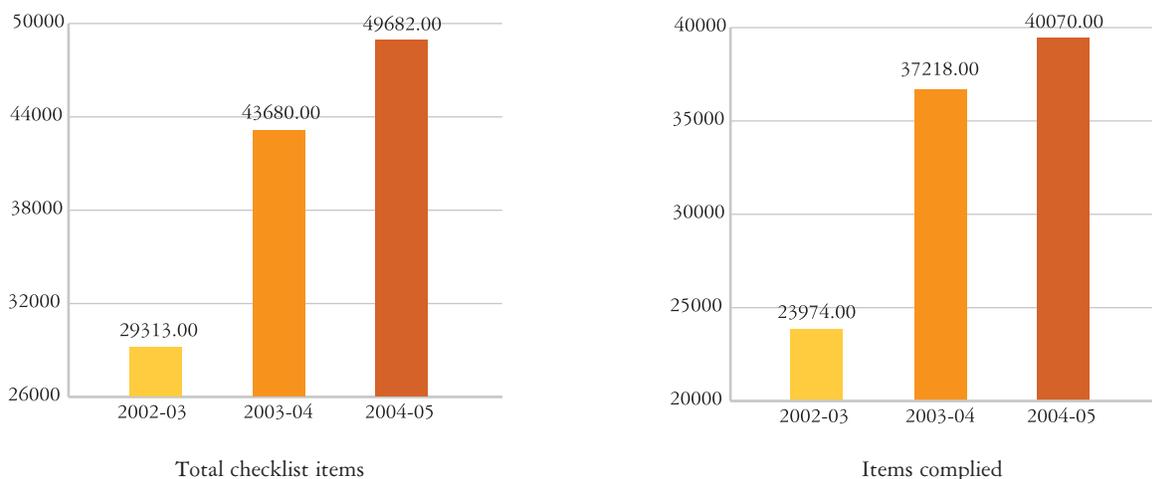
At Dr. Reddy's, we recognize that while the safe transportation of hazardous raw material is the responsibility of our vendors, its inefficient handling in our premises could result in fire, explosion, spill and toxic release putting public lives at risk.

In view of this, the Company initiated a guideline called 'Transportation of hazardous material by road' to ensure the safe inward delivery of all materials. This guideline prescribes the safeguards to be undertaken before transportation comprising the selection of vehicles, drivers, routes, documentation, safety equipment, safety requirements as well as measures to be undertaken to counter mishaps.

Among the guidelines is a detailed truck check before it enters the plant area including documentation comprising Transport Emergency (TREM) cards and Material Safety Data Sheets (MSDS). This was initiated to create an awareness of the necessity of safety, planning, emergency management and the communication of non-compliance among vehicle drivers.

It was observed that the level of compliance in 2004-05 was 81 per cent compared to 85.2 per cent in the previous year, an issue that has been raised and acted upon with the objective to improve compliance.

Hazardous material transport compliance



Statutory compliance

Statutory compliance has been reviewed with respect to deviation from prescribed standards, accidental releases, pending court cases and compensation.

For our manufacturing units, the state and central regulatory authorities have prescribed certain pollution norms. Every manufacturing unit monitor and report the compliance on regular basis to the regulatory authorities.

During the reporting period, no major incident of accidental release reported, which has caused damage within the factory premises or in the neighboring areas.

As reported in our last year's Sustainability Report, the Indian Council for Environmental Legal Action had filed a Writ Petition (Civil) under Article 32 of the constitution of India against Government of Andhra Pradesh and Andhra Pradesh (AP) Pollution Control Board. About 170 industries located in and around Hyderabad in the AP State are respondents to this case,

which includes four of our manufacturing facilities. This case was originally field in the Honourable Supreme Court of India in the year 1990 and subsequently it was transferred to Hon'ble High Court of AP (Hon'bl High court) in the year 2002. The Hon'ble High Court has constituted a fact-finding committee to submit a status report with certain terms of reference as prescribed by Hon'ble High Court. In this connection, the fact-finding committee visited the respondent industries, including our units. The committee in its report submitted to the Hon'ble High Court indicated that our units are functioning satisfactorily

As per the order of Hon'ble High Court the responded industries are required to bear the expense for the working of fact finding committee and as part of those expenses, we have paid INR 0.04 million to AP pollution control board during the reporting period. The amount of compensation paid during reporting period was INR 0.30 million

API unit 2 wins water efficient unit and energy efficient unit awards from CII

At Dr. Reddy's, environment protection is directed towards the conservation of finite natural resources like water and fuel, reduction in global warming, increased organizational sustainability as well as a focus on cost reduction with the objective to enhance the affordability of medicines.

At the Company, this resource management was formalized through a procedure, which encompassed suggestions from employees and external agencies leading to the use of the right technology, waste reduction as well as the implementation of ideas with discipline and awareness.

These initiatives in the area of energy and water conservation were recognized by the industry: the Company's API Unit 2 received the prestigious CII award under the energy-efficiency and water efficiency categories in 2004.



Achievements

Energy: The API Unit 2 implemented nearly 30 energy saving suggestions between 2001-02 and 2004-05, resulting in a saving of 1564035 KWH (equivalent to the CO₂ emission reduction of 1000 tons).

At Dr. Reddy's we believe that nothing works as effectively as the discipline of an ongoing review. As a result, the Company commissioned a daily review of the energy consumption and steam fuel ratio, a monthly review of energy conservation projects by the plant, finance and tracking (FIT) team, a periodic energy audit conducted by external agencies like CII and TERI as well as inter-unit energy meetings.

The various initiatives incorporated by the Company comprised innovative practices like pump controlling with pressure transmitter, flash steam, condensate water recovery and the replacement of water ejector pumps with closed loop water ring vacuum pumps. The Company also trimmed pump impellers to suit load conditions, converted motors to enhance the power factor, replaced inefficient pumps with higher energy efficient alternatives, installed variable frequency drives, replaced incandescent lamps with fluorescent /CFL alternatives and replaced V-belts with flat belts, among others.

Water: The API Unit 2 reported a water saving equivalent to 38694 KL/annum in 2004-05 and a 12673 KL / annum reduction in effluent generation. Correspondingly, water consumption per ton of production declined significantly, while effluents sent to the Common Effluent Treatment Plant dropped from 90 KL/day in 2002-03 to 26 KL/day in 2004-05.

This sharp decline was largely on account of the commissioning of the zero liquid discharge plants, adoption of measures like the steam condensate and flash steam recovery as well as ongoing modifications in the various manufacturing processes.

Among the other initiatives, the use of fresh water was substituted with treated water for gardening. The creation of pits facilitated rainwater harvesting and the recharge of ground water, trenches diverted the run off rainwater into pits while the planned collection of rainwater on rooftops rationalized the consumption of ground resources. Besides, the introduction of high-pressure jet pumps for vessel cleaning, wet mopping as well as the use of push type taps and photocell flush taps contributed to a reduction in water consumption.



Water efficient unit award



Energy efficient unit award



Safety and health

At Dr. Reddy's, the commitment to a clean environment comprises a respect for the safety of employees and contractors who may be working inside our premises.

The strength of our resolve was reflected in declining accident rates during 2004-05.

Occupational safety

Description	Unit	2003-04	2004-05
Frequency rate for Lost Time Accidents	Number	1.16	1.13
Incidence rate for Lost Time Accidents	Number	4.96	2.65

As a precaution, the Company did not just report or document mishaps but also near misses, the latter investigated by a three-level investigation process that diagnosed their root cause with a view to prevent their recurrence.

This approach was supported by a number of initiatives: each of the Company's plants was equipped with occupational health centers; each new recruit underwent a mandatory health check-up; all employees underwent an annual medical check-up; contract workmen underwent necessary health checks before they began to work on the Company's premises.



STOP for Safety

In early 2004, there were number of instances that required first-aid interventions across the Company's plants, necessitating a need to reinforce safe practices. To address this, Du Pont's STOP (Safety Training Observation Program) was introduced in API unit 2. In 2004-05, all seven modules were successfully implemented. The program emphasized that 'Safety is everyone's responsibility' among floor level workers. It highlighted that all injuries could be prevented, that safety could be enhanced through a two-way dialogue between the employee and safety instructor and that a close observation of employee behaviour could indicate potentially unsafe acts leading to timely preventive action.

Following this initiative, employee mindset responded positively to suggestions. As a result, first-aid cases declined from a peak of 50 to 9 cases per month, a favourable trend.

Improving plant safety

Plant safety is an essential component for environment sustainability for an important reason: any mishap could potentially derail operations, affecting economic health and, in turn, the Triple Bottomline.

The Company embarked on a number of initiatives to make its processes and practices safer:

- Use of 1,3, Dichloro acetone (lachrymator in the starting intermediate stage) was reduced by 79.5 kgs per batch in API Unit 6, enhancing operator safety; besides, product yield improved by 51 kgs and cycle time declined by 20 hours.
- The Cytotoxic operation in the Company's manufacturing facility was redesigned to provide completely closed handling for product, personnel and environment protection.

This redesign - as per global regulatory requirements - contained the impact of the potent material at source through the use of barrier isolators, containing the release of contaminants into the environment.

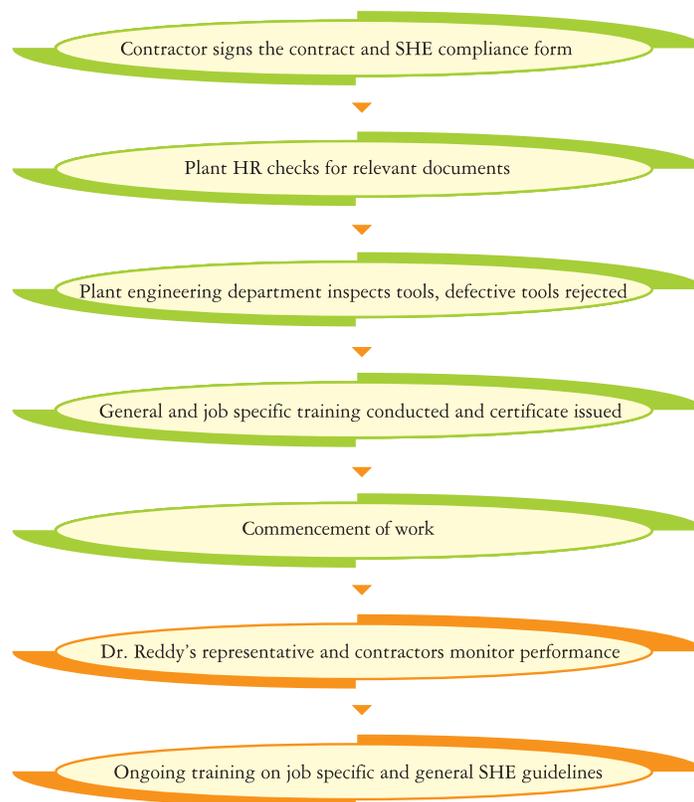
The new mechanism uses state-of-the-art isolators and rapid transfer ports; it provides for end-to-end zero-contact handling of highly potent active ingredients. The facility is also equipped with an intelligent fire alarm system that can detect the location of the fire immediately and accurately.



State-of-the-art isolator

Safety of contract workers

At Dr. Reddy's, a safety guideline was formulated for contractors to enhance desired plant safety. As per this guideline, all contractors need to mandatorily comply with the safety requirements; non compliance could result in penalty and even contract termination.



■ At the beginning of the contract

■ During the tenure of the contract

Social Responsibility

Over the last couple of decades, there has been a growing recognition that an organization's responsibility does not end with its shareowners or customers.

But that it is broadly responsible for employee and societal growth as well.

As a result, there is a growing realization that organizations must not judge but guide; there is a growing concurrence that organizations must not only consume but also develop.

As a sensitive organization, Dr. Reddy's has invested in its people through a number of initiatives directed at making the Company an invigorating place to work in. Besides, it has engaged in the development of communities directed at making their residents confident and independent.

Dr. Reddy's has engaged in the development of communities directed at making their residents confident and independent.





Human Resource Management

At Dr. Reddy's, people represent the DNA of our business, in view of which we have invested significant resources to enhance their performance and competencies and emerge as a discovery-led global pharmaceutical company.

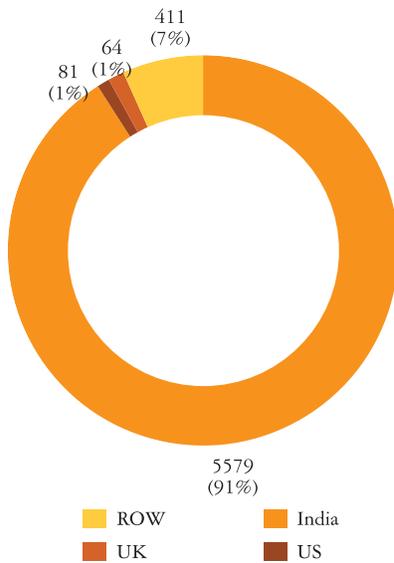
Employment

Dr. Reddy's has a diverse and competent workforce of more than 6000 individuals representing 35 nationalities.

Head count

Category	March 31, 2004			March 31, 2005		
	Male	Female	Total	Male	Female	Total
Senior management	101	3	104	110	5	115
Middle management	419	30	449	420	28	448
Junior management	1619	105	1724	1759	196	1955
Staff	1946	131	2077	2010	182	2192
Trainees	550	108	658	594	105	699
Workmen	681	45	726	682	44	726
Total	5316	422	5738	5575	560	6135

The geographic spread of employees



Diversity and opportunity

At Dr. Reddy's, we recognize that people drive sustainability; as a result, the richer the investment in people, the stronger the focus on sustainability.

In view of this, our focus has always been on the selection of talented individuals who in realizing their potential can help the company achieve its vision.

Over the years, the Company has created an inspiring workplace primarily through an equal opportunity recruitment policy: it recruits, hires, trains, promotes, compensates, transfers and inspires members without any bias of gender, age, handicap, disability, religion, creed, race, background or national origin.

In doing so, Dr. Reddy's lives its HR philosophy of building a diverse, competent and merit-driven workplace integrated through a culture of innovation, excellence and enduring values.

As an extension of this responsibility, Dr. Reddy's complies with the laws of the land where it conducts business. In spite of dealing with diverse country-specific laws for the last 10 years, there has been no incidence of non-compliance in its history.

- Five of the 17 Management Council members are non-Indian in nationality.
- Eight of the 24 Country Managers were recruited from the geographies of their origin while 16 are expatriates.
- Senior positions in most of the countries are held by local nationals.
- Out of total workforce outside India, 90 per cent are non-Indian nationals.

Talent management

At Dr. Reddy's, a prudent approach to recruitment represents the basis of its strong human resource management, leading to sustainability.

The Company's comprehensive recruitment manual ensures a process-led and metrics-driven talent acquisition practice streamlined through a 'Talent Management Team'. The Company has implemented a number of practices for efficient recruitment of the best available talent.

- Introduction of 'Project Internship Program' across various management and technical school campuses
- Moved from a predominantly consultant based recruitment to cost effective hiring channels like recruitment through employee referral ('Parichay')
- Introduction of advanced psychometric tools, behavioural event interviews and an e-recruitment portal called 'Career Center'

As a global organization, the Company made a significant progress in hiring key talent from outside India. In 2004-05 alone, 69 members were recruited for international positions and 1222 for India (field and non-field positions) with an increase in the offer-to-acceptance ratio to 96%, a significant achievement in a challenging job market.



Learning and development

At Dr. Reddy's, our sustainability has been strengthened through an investment in the continuous and comprehensive skill replenishment of our members, reflected in increasing budgets, extending tenures and enlarging coverage.

For instance, the Company invested 8016 person-days of training in 2004-05 (average 1.36 days per member), corresponding to a significant organizational investment of INR 69 mn in its learning and development.

Ankur – the learning center

Ankur's endeavour is to create an organizational learning climate, wherein each employee assumes the onus for personal development, knowledge enhancement and skills replenishment across the organization.

Snap shot, 2004-05

- On an average six technical training programs were conducted in a month (total 78 programs in 2004-05)
- Around 683 members were trained in various programs in 2004-05
- 50 employees were trained in Project Management, 304 in Intellectual Property Management and 30 employees in Regulatory Affairs programs
- 51 employees pursued courses from BITS in 2004-05
- 19 employees participated in ISB executive development programs in 2004-05
- One employee enrolled for Company sponsored MBA with Great Lakes Institute of Management
- 'Values Week' conducted at various locations facilitating an internalization of the Company's values
- An online 360 degree feedback mechanism deployed based on the 'Dr. Reddy's Leadership Model' to identify potential leaders

Given below is the number of members who attended various programs in 2004-05:

Category	Members attended
Senior management	63
Middle management	456
Junior management	1332
Staff	658
Trainees	123

Induction process

At Dr. Reddy's, an induction program for campus recruits comprises classroom training, production and research insights, combined with on-the-job training, familiarizing them with the realities of the industry, Company and business unit. All new recruits undergo a comprehensive two day program called 'Know your Business'. Besides, recruits are provided an insight into the Company's values, philosophy, culture and strategy rounded off with training in social sensitivity, multi-functions and field sales. This holistic introduction enables employees to absorb corporate and business reality, shrinking their learning curve and making their presence productive in the shortest possible time.

Career management

At Dr. Reddy's, we have focused on career management with the objective of building employability and competence beyond mere vertical mobility. To support the continued employability of our members and manage their career growth, the Company supported higher education (including Master in Science and MBA courses) and conducted relevant training programs.

Unique 'Career Design Workshops' were instituted for middle-to-senior managers to facilitate a better understanding of their strengths and career preferences. These workshops helped resolve career dilemmas by matching strengths with aspirations, followed up by appropriate interventions wherever needed. Besides, the Company has identified deserving individuals to build succession plan for different key positions.

Compensation and rewards

Dr. Reddy's expects to remain an employer of choice through a competitive compensation package that attracts and retains the best individuals as well as motivates superior performance; it initiated a link between compensation and results with emphasis on individual merit and team performance; it initiated path-breaking incentives for team performers willing to take risks, for those who value learning and personal/professional growth, for members with a willingness to adapt and for those possessing a passion for superior performance.

PerfECT

(Performance Enhancement and Coaching Tool)

At Dr. Reddy's, PerfECT facilitates performance enhancement through a structured individual development plan wherein the superior plays the role of a mentor. Besides development and coaching, PerfECT helps in raising the performance standards continuously across the organization.

4352 members were covered by PerfECT in 2004-05.



Technical training programs offered by Ankur

- Polymorphism □ Process design and scale up for APIs
- Separation process, Drying technology
- XRD – DSC □ Diseases and drugs
- Workshop on India-global manufacturing destination - current regulatory requirements
- Doing business in US □ US taxation
- Transfer pricing □ US GAAP
- Pharmaceutical regulatory affairs in Asia
- Strategic succession and talent management
- Regulatory compliance □ Microbiology in support of pharmaceutical manufacture
- Intellectual Property Rights □ Bio therapeutics: from process development to manufacturing
- ICH Stability studies □ Workshop on cGMP
- Pharmaceutical Accounting and Reporting Congress □ Understanding Sarbanes-Oxley and SAS 99

Behavioural / Management Training programs offered by Ankur

- Communication □ Presentation □ Business writing
- Creativity □ Team building
- Assertiveness □ Time management □ Leadership development
- Cross-cultural training
- Planning and decision making □ Customer orientation
- 7-habits □ Industrial relations and labour laws
- Behaviour event interviews
- Managerial grid □ Psychometric tests

Organization Climate Survey (OCS)

At Dr. Reddy's, an organization climate survey represents a formal medium for members to express their opinion on organizational strengths and improvement areas.

Conducted by an external agency, the OCS ensures confidentiality and impartiality. The success of the initiative is reflected in its average response rate of 67 per cent in 2003-04 and 45 per cent in 2002-03, rising to in excess of 85 per cent in some locations.

The areas for improvement identified by the OCS in 2004-05 extended into the following programs conducted by the Company's business units:

- Josh, a member engagement program in FTO
- Project Pragnya, a people development program that provides technical training in APIs
- Leadership training programs by Ankur – the learning center

Human rights

At Dr. Reddy's, we pride on our fairness, impartiality and ethical commitment. In view of this, any member found to be engaging in any unlawful discrimination or any act of non-compliance is subject to disciplinary action, including termination. As an extension, members with questions or concerns about discrimination in the workplace are encouraged to bring these issues to the Company's attention without fear of reprisal or retaliation.

The Company ensures a compliance with its various processes through the following initiatives:

- A recruitment manual details our complete process of non-discriminatory recruitment
- A Values booklet highlights absolutely non-negotiable principles in any transaction within or outside the Company
- PerfECT process (PerfECT booklet) ensures a compliance in the process of performance measurement and evaluation

At the Company, HR audits are conducted periodically ensuring complete compliance with all processes and underlying principles. The Company is a responsible employer and employs no child or forced labour in any of its locations.



Employee well being

An organization is only as good as its people. Investments in people drive new capabilities, making organizational growth sure and sustainable. In view of this, the organization goes beyond what is required or mandated by the statute in the treatment or understanding of its members.

Dr. Reddy's offers several benefits towards employee well being comprising subsidized canteen facilities, subsidized transport assistance to and from the factory and training hall for contract workers. Health of employees is a matter of prime importance at the Company evident from the provision of various facilities like an occupational health centre with a round-the-clock availability of an ambulance and medical team. The Company sponsors pre-employment health check-up, annual health check-up at corporate hospitals and periodical health check-up at the plants. At a nominal premium the employees can also cover themselves, their spouse, children and parents under the mediclaim insurance scheme. Other insurance schemes comprise group personal accident insurance and group term life insurance. It also has a superannuation fund with risk coverage and a benevolent fund for the benefit of its employees.



Celebrations 2005

At Dr. Reddy's, 'Celebrations' is an annual festival to promote organizational camaraderie. As always, the "Spirit of Excellence" was the basis of this mega event, inviting participation from employees across the Company and their families. The event comprised exciting contests, camel and horse rides for children, magic shows, giant wheel and merry go-round rides, portrait artists and multi-regional cuisine. On this occasion, the Chairman's Excellence Awards were presented to 16 individuals for their outstanding organizational contribution and nine awards were presented to teams for initiative, innovation, quality, service excellence, workplace management, contribution to society and environment. Seven Certificates of Appreciation were awarded to teams and individuals as special recognition for their excellent performance.



Family bonding center

“If you are happy at home, you are happy at work,
If your happy at work, you are happy at home”

At Dr. Reddy's, we recognize that work life is becoming increasingly stressful. In view of this, we organize various member-centric and family-centric events and programs through our family bonding center at Ankur. These programs enhance a sense of healthy living and help members and their families bond better with both themselves and with the Company.

A total of 2573 individuals participated in the programs. Programs were organized in the fields of yoga, spoken English, Art of Living, vocal / instrumental music, parenting, debate, quiz, drawing, tree planting and exam stress management.

Code of business ethics

At Dr. Reddy's, the Board of Directors adopted a Code of Business Conduct and Ethics (Code) to reflect its continued commitment to the highest standards of truth, integrity, transparency and non-discrimination.

To strengthen this awareness across the organization, the Company released a booklet for the benefit of its members, defining its purpose, vision and behaviours that support or detract from its values.



Communication channels

The Company has various channels through which members can escalate their issues and concerns.

- **Connect:** An open forum wherein the CEO and COO address employees at large, inviting opinions on issues and concerns.
- **HR face to face:** Members get the audience of the Global Chief of HR and other senior members of that division in an open forum where they can highlight their problems.
- **Skip level:** Members can skip the reporting level and report problems to executives above their immediate supervisor.

HR accolades

The success of our HR practices is reflected in prestigious accolades received by the Company for its progressive people practices.

- Rated the 6th 'Most Respected Company' among all companies in India in a survey conducted by Businessworld. Dr. Reddy's was adjudged number one in the pharmaceuticals space.
- Rated the 7th 'Best Company to Work For in India' among all participant companies in India in a survey conducted jointly by Business Today, Mercer and TNS. The Company was the only pharma organization in the top ten.
- Ranked 11th amongst the "Top 25 Best Employers in India" for the year 2004 in a survey conducted by Hewitt & CNBC India.



Dr. Reddy's was presented with the Best Management Award by the Andhra Pradesh State Government on the occasion of May Day 2005 Celebrations held at Hyderabad. The award was in recognition of outstanding contribution in maintenance of industrial relations, labor welfare and productivity.

Mr. G.V. Prasad, the CEO and Vice Chairman of the Company, received the award on the Company's behalf from Dr. Y.S. Rajasekhara Reddy, the Chief Minister of Andhra Pradesh.



Community Development

At Dr. Reddy's, we recognize that the most effective societal change is often achieved not just through a solitary commitment, but a collective approach marked by partnerships with complementary organizations.

This convergence of innovation, ingenuity and initiative on the one hand with passion and professionalism on the other marks Dr. Reddy's ongoing involvement with Dr. Reddy's Foundation, Naandi and CSIM.

As an interested agent of change, Dr. Reddy's involvement is close, sustained and comprehensive across the tangible and intangible aspects. Over the years, this passion for involved transformation has extended wide and deep across its employees, who support the Company's various community development projects through a selfless contribution of their personal time and resources.

At Dr. Reddy's, it is this model of comprehensive involvement that is being perceived as leading to sustainable progress for its stakeholders.

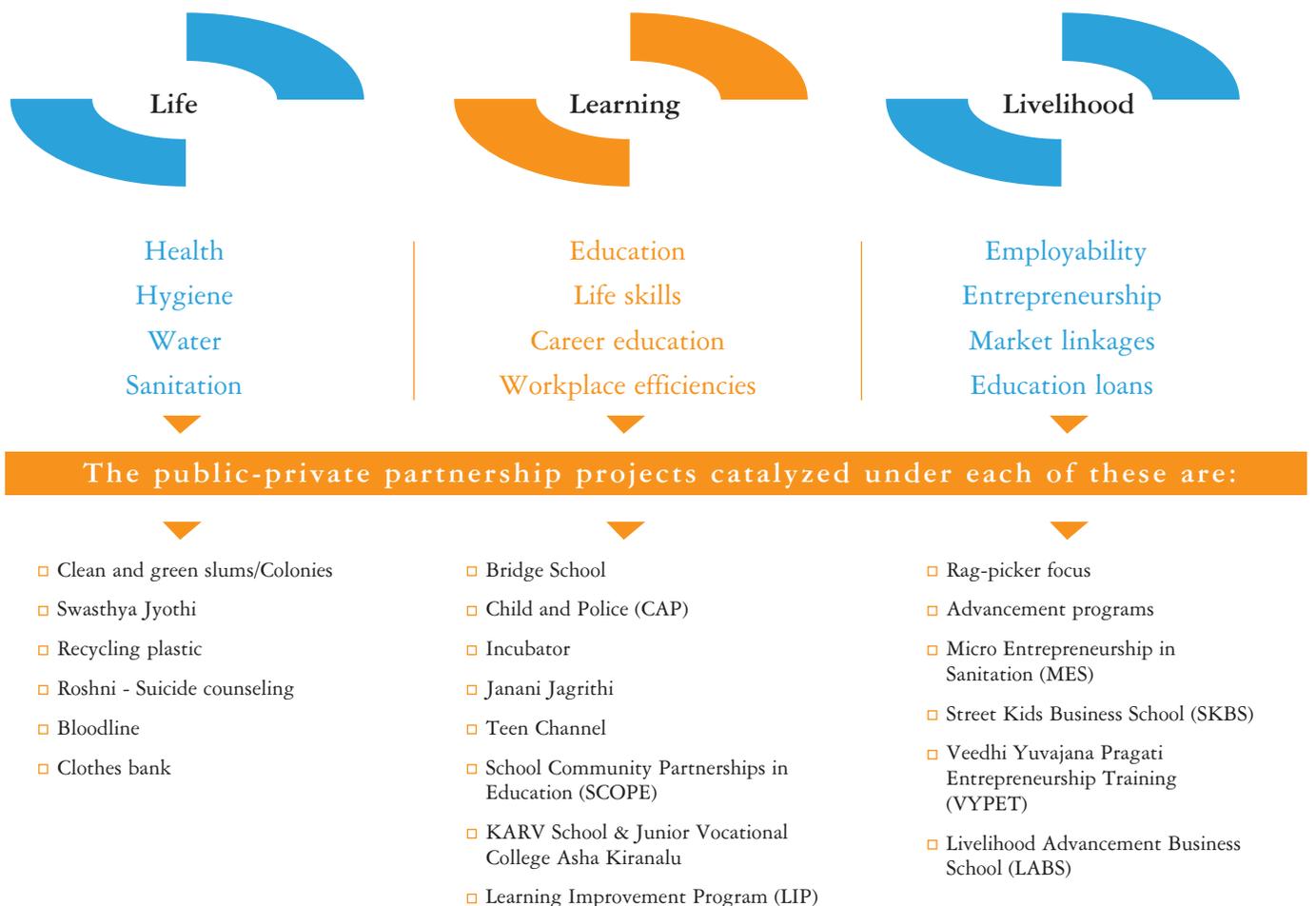
Dr. Reddy's Foundation for Human and Social Development

Social arm of the Company

- Year of commissioning: 1996
- Proposition: : Institutionalized response to organized corporate philanthropy
- Status: Responsible social arm of Dr. Reddy's, drawing on the culture of innovation of its parent

- Dr. Reddy's Foundation focuses on the sustainable development of individuals, communities and society at large through projects that link learning and livelihoods in a healthy and sustainable way
- Dr. Reddy's Foundation now catalyses sustainable public-private partnerships specifically for children and youth at risk through innovative programs across the three Ls (life, learning and livelihood) better society through the application of pioneering ideas and practices

Our 3 Ls approach



'Life', one of the three Ls, covers projects related to health (hygiene, water and sanitation).

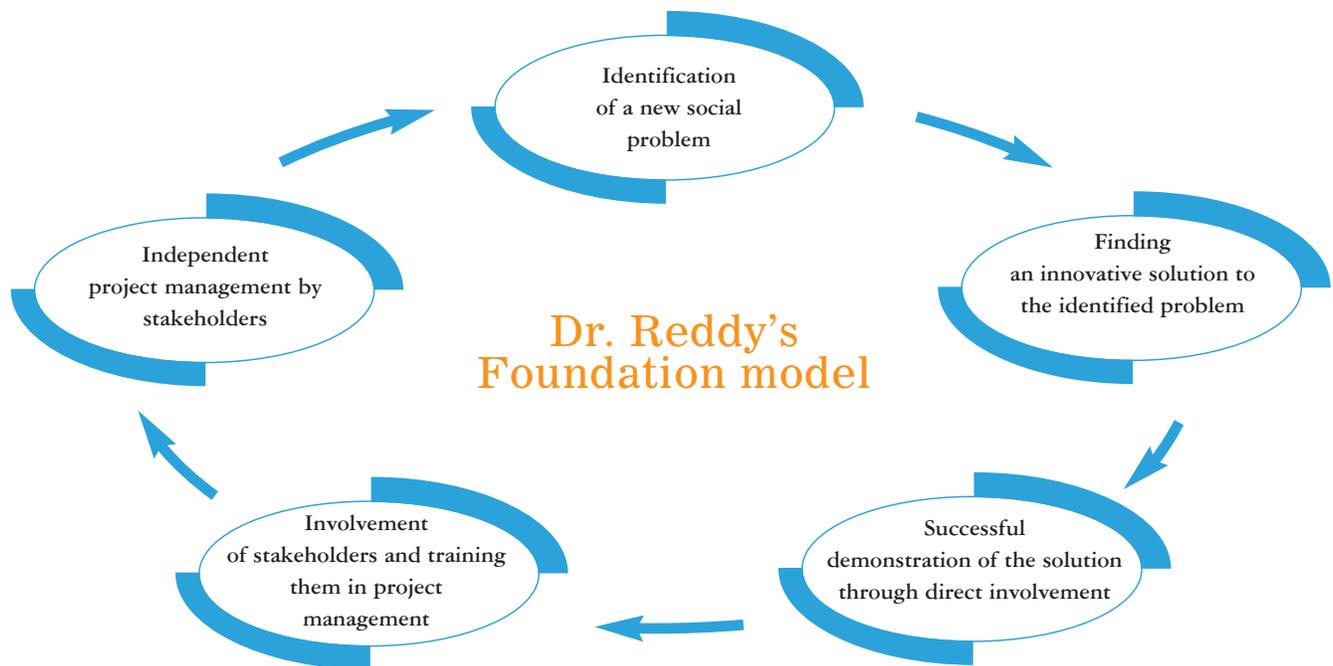
'Learning' addresses education-driven child development, enhancing literacy through the provision of life skills, efficiency skills and career education.

'Livelihood' addresses employability and income enhancement through entrepreneurship skills, market linkages and monetary resources for life enhancement.



Challenges / new direction

- Dr. Reddy's Foundation focuses on change through strong channel partnerships at the primary (state) and secondary levels (corporates)
- Dr. Reddy's Foundation has graduated from a doer to an enabler, demonstrating the success of its solution for onward replication by mentors
- Dr. Reddy's Foundation focuses on the proactive upgradation of its systems and policies as a precursor to achieving change in its target community



How are we facilitating a child's right to childhood:

Child and Police SCOPE project

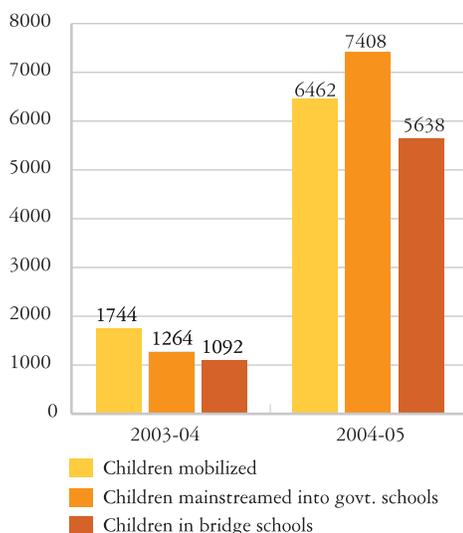
Year of commissioning:	1997
Promoters:	Dr. Reddy's Foundation and the Andhra Pradesh State Police
Focus:	Children (6 to 12) at risk
Goal:	Rehabilitation of children through the creation of child labour-free zones
Strategy:	Enhanced awareness among citizens, law enforcing agencies, media, business community and policy makers



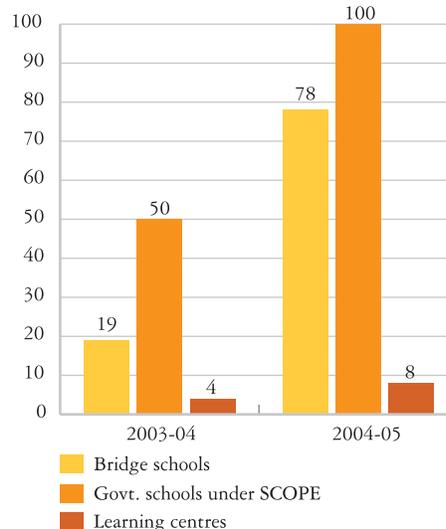
Achievements, 2004-05

- Transfer of process skills and access strategies across government school communities
- The creation of class room strategies, training modules and educational material for classes 1 to 5 to address language deficits, introduce environmental science and encourage drawing skills in children. As proof of the success of its modules, the CAP-SCOPE Project was invited by UNICEF to create a teachers' manual on reading problems for classes 1 and 2
- Increase in number of teachers to 330 through improved capacity and provision of on-site facilitation support to teachers with help from the education department of Andhra Pradesh
- Introduction of a new improved report, which is child friendly and assesses all learning components
- Initiation of a pilot project to provide formal full time education to the children of a minority community

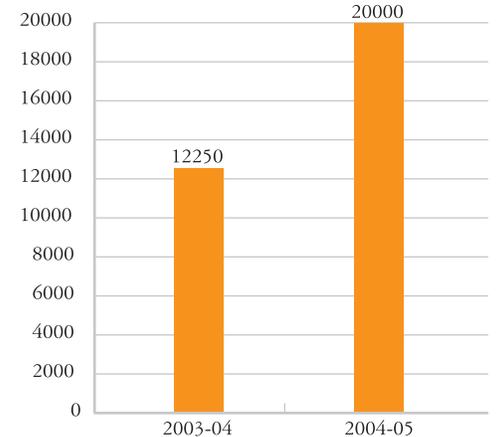
CAP performance



Centers under CAP SCOPE



School children impacted



How are we drawing adolescents-at-risk towards learning and then extending them towards a livelihood:

CAP-Teen channel project

Year of commissioning:	2004
Status:	Innovative program from the CAP Project basket
Focus:	Adolescents / youth (13 –18) at risk
Objective:	Rehabilitation of adolescents / youth-at-risk who opt out of high school before completion
Goal:	Connection of learning with Livelihoods

The Teen Channel gives thousands of adolescents and high school drop-outs an opportunity to resume their learning on the one hand and connect it to a livelihood on the other.

The program reinforces the learning of the adolescents with academic educational, social, life skills and workplace capabilities. More than 640 adolescents at risk had benefited through this program by the close of 2004-05.

As an extension, the program now expects to address the early child care and health care requirements of pregnant women as well as new mothers who are unable to afford mainstream health care facilities.



Making a difference...one life at a time

Fifteen-year-old Jyothi left school after her mother died and her father – a vegetable vendor – failed to support her education. She sought a monthly INR 1200 employment as a helper in a fan company where she was identified by the facilitators of the Teen Channel program during a door-to-door mobilization initiative. That is how Jyothi joined the Shapooranagar Center of Teen Channel. Jyothi, who dropped out of the seventh standard, returned to mainstream education and graduated from school with an impressive 79 per cent in 2005.

How are we helping needy young adults become employable:

Livelihoods Advancement Business School

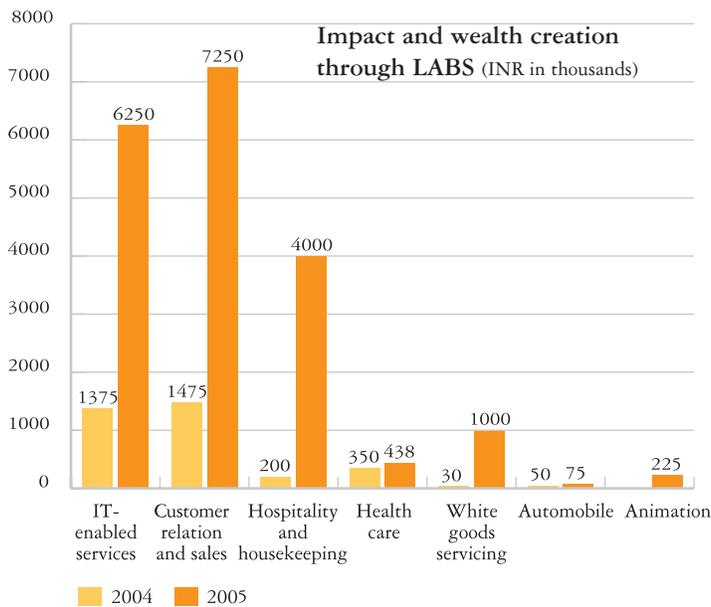
Year of commissioning:	2000
Objective:	Making employable young adults from financially weak backgrounds
Goal:	To create a million livelihoods by 2010



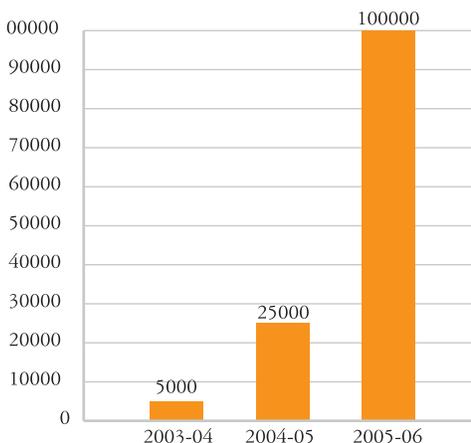
Achievements, 2004-05

- The creation of 20,000 livelihoods (against a target of 10,000).
- An extension to Uttar Pradesh, Chattisgarh and Madhya Pradesh.
- Commissioning of a centre in Kandy (Sri Lanka) with 107 students.
- Increase in the number of students in Vietnam.
- The formation of 'Grameen LABS' to address the needs of the rural youth in a tie-up with the Indian government.
- A tie-up with the social/community development activities of major corporates.
- A tie-up with major corporates for customized manpower training.
- An expansion of UPADHI across Andhra Pradesh and KUIDFC LABS across Karnataka.
- The introduction of e-training, micro enterprise development, agro-sales and marketing, machine tool operations and industrial garment manufacture.

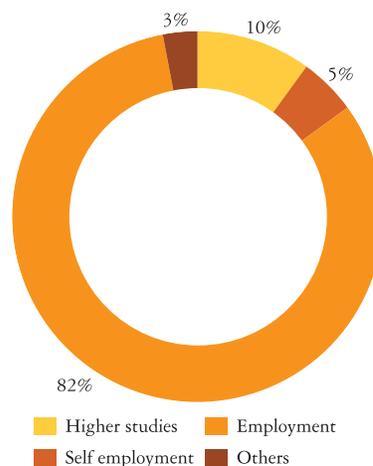
Result: More than 80 per cent of the beneficiaries reported an increase in their earnings through successful recruitment or by becoming entrepreneurs.



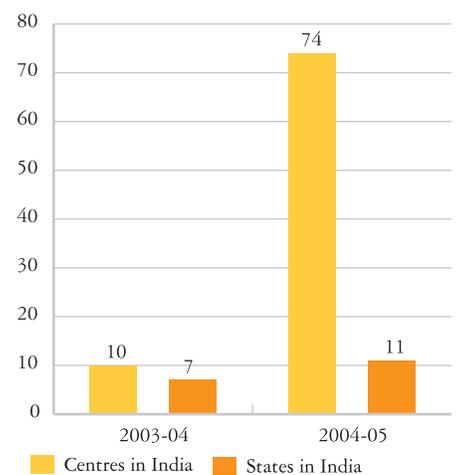
Livelihoods created



Achievements post-LABS



Geographic reach





How LABS changed my life

From 'shishya' to 'guru'...

After Savitha's formal education was completed in the midst of challenging family circumstances, she joined LABS' ITES course. Impressed by her commitment, the faculty recommended her for a job as a computer teacher under a collaboration with Chaitanya Vidya Niketan. She earned INR 2000 a month. Encouraged, she intends now to graduate and start a computer class of her own. "My three months of training at Upadhi LABS has provided me with the motivation to set it up," she says.

Naandi

- Year of establishment: 1998
- Proposition: Not-for-profit organization working in the area of poverty eradication
- Strategy: Increase through community-based innovations the efficiency and equity of every rupee spent for social sector development for underserved populations

Over the years, Naandi's differentiated strategy has resulted in an increased professional space available for innovation, effective private-public partnerships and the commitment of the best of a corporate's (Dr. Reddy's) human and financial resources in the pursuit of poverty eradication.

Dr. Reddy's has identified itself with the cause of Naandi, evident from the following:

- **The Power of 10:** This is a monthly mobilization of contributions from employees, raised through voluntary donations of Rs 10 or multiples per employee. This is matched by an equal grant from the Company. This contribution is helping to support a number of projects for children in government schools. In Hyderabad, Dr. Reddy's has led this movement of giving back to society, which now has 20 other companies also subscribing to it.
- **The conduct of a rural sensitivity program for new management recruits:** A three-day stay in tribal Andhra Pradesh is designed to give the new professionals a first hand experience of what their Company is supporting and an understanding of the challenges and dynamics of development in remote tribal areas. This is done through annual visits to Naandi's Araku Valley tribal project for children in 800 schools and an organic coffee plantations initiative that is underway for landless tribals.



From a long-term perspective, Naandi's multi-pronged eradication approach comprises the following initiatives:

	Initiatives	Objectives	Activities	Achievements
	<p>Safe motherhood</p>	<p>Reducing neonatal and maternal mortality</p>	<ul style="list-style-type: none"> □ Convergence of available government and private healthcare services for increasing accessibility □ Tracking of health record of every pregnant mother and child. 	<p>A pilot project, Janani, initiated in Narayanpet division, Mahabubnagar district, to educate and bring women under supervised pre-and-post-delivery medical attention.</p>
	<p>Safe water</p>	<p>Providing safe drinking water to rural communities</p>	<ul style="list-style-type: none"> □ Providing appropriate, affordable, patented purification technologies to villagers □ Creating community ownership of the unit. 	<p>The program is underway in one pilot at Bomminampadu impacting seven villages and a present population of 2000.</p>
	<p>Education in government schools</p>	<p>Ensuring children learn in government schools</p>	<ul style="list-style-type: none"> □ Enabling children to get quality elementary education through design of right tools and sustaining health initiatives in schools □ Encouraging stakeholders to defend the right of the child. 	<ul style="list-style-type: none"> □ Mid-day meal program in over 1000 schools across Andhra Pradesh. □ Initiation of health program across 300 schools benefiting 60,000 children.
	<p>Livelihood program for marginal farmers</p>	<p>Enhancing marginal farmers' per capita income</p>	<ul style="list-style-type: none"> □ Enabling landless tribal farmers to cultivate coffee in the Araku region □ Revival of lift irrigation schemes for marginal farmers 	<ul style="list-style-type: none"> □ 1000 tribal families impacted through coffee plantation program □ 11,000 families benefited through farmer schemes □ Revived 60 lift irrigation schemes



Old Malakpet School adopted by Dr. Reddy's

At Old Malakpet School, classes take place in a rented building with inadequate space and roofing. Due to unpaid power bills, there is no power connection. "Every time it rained," explained one teacher, "there would be pools of water in the room as a result of which teachers would have to pick students and carry them across at times."

Since the school was in a rented premises, no infrastructure work could be commissioned. Therefore, Naandi and the Dr. Reddy's volunteers identified a plot of land to build a school; following repeated visits by the

Dr. Reddy's team, government officials agreed to sanction the land for one.

The other improvements comprised the following:

- Provision of new mats to make sitting in the classrooms comfortable.
- Appointment of a teacher to teach English to Urdu and Telugu speaking students.
- A provision of sanitation materials to keep the toilet clean
- Teaching 732 children hygiene lessons
- Encouragement of extra curricular activities like yoga, films, drawing

classes and quizzes; screening of the UNICEF-produced animated films with Meena as the central character to communicate hygiene, health, education and gender equality messages.

- Encouragement of parents' involvement through regular meetings.
- Organization of science exhibitions and participation in art camps; in September 2003 the best works of art by the school children were auctioned to raise funds to provide healthcare for needy children.

Center for Social Initiative and Management (CSIM)

- Year of commissioning: 2002
- Proposition: To empower social change agents, spot innovative social change ideas, create learning opportunities to start mission-based, structured and impacting social work; encourage citizens to participate in social change
- Strategy: Serve as a learning center that supports and trains prospective social entrepreneurs and innovators in social change to transform their vision into action

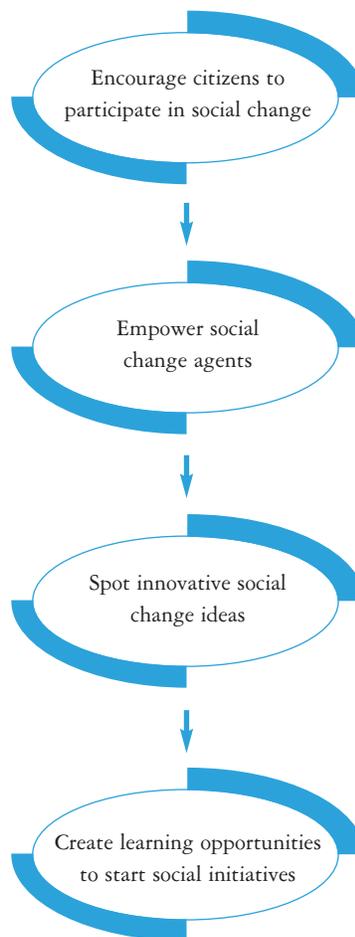
Centre for Social Initiative and Management (CSIM) was born out of the insight of eminent technocrat Mr. P.N.Devarajan that in an era of specialization, even the act of helping people needs to be professionalized, channelized and rationalized.

CSIM (Hyderabad) is supported by Dr. Reddy's through various initiatives such as financial and infrastructure support, voluntary help from the employees of Dr. Reddy's and active interest from employees through an enrolment in various programs.

Dr. Reddy's also provides a detailed listing on its website to enable it to attract professional volunteers. CSIM is currently based in Chennai and Hyderabad and intends to add chapters in Bangalore, Mumbai and Pune.

CSIM is a project of Manava Seva Dharma Samvardhani (MSDS) trust. MSDS also recognizes the contribution of women who provide care and shelter to

CSIM's process



the underprivileged by annually honouring them through Sadguru Gnananada Awards. MSDS networks with various NGOs nationwide with a view to encourage women social entrepreneurs dedicated to the welfare of humanity, especially women, children and the disabled. Dr. Reddy's actively supports this award with the conviction that the encouragement of women's participation in social interventions will inspire more to join, accelerating change.

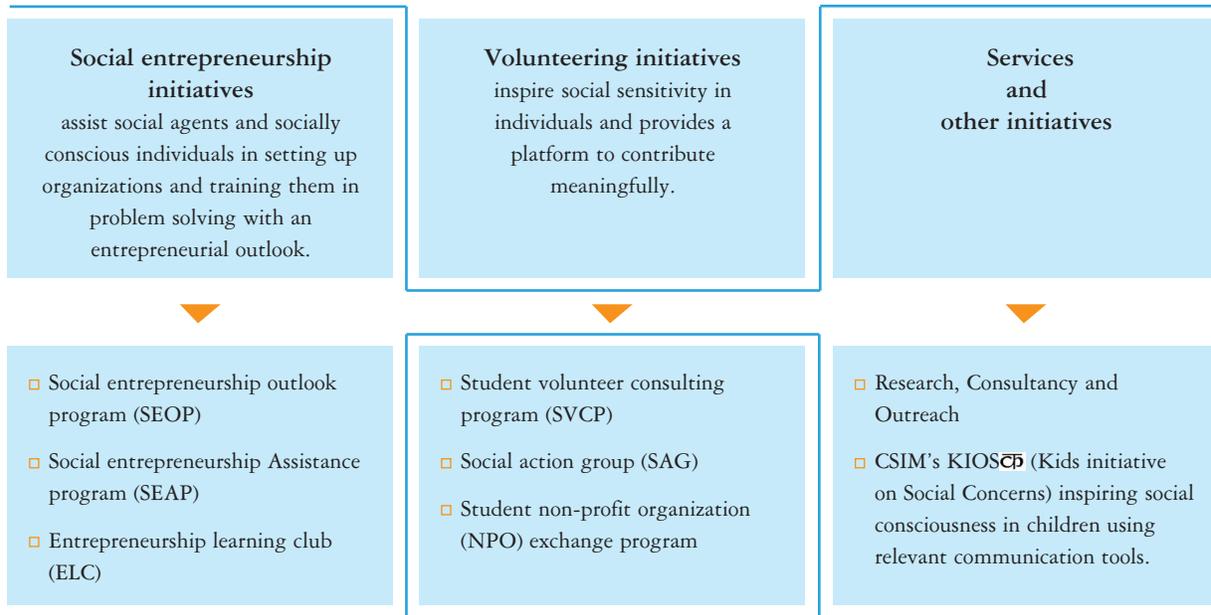
CSIM administers the DOS project (initiated by Social Action Group member families), which provides dal, oil and sugar (DOS) - acutely felt need of the underprivileged - to the residents of NGOs. The DOS Project services 10 NGOs and about 500 residents. Dr. Reddy's employees support seven homes through the DOS project.

Other recognition

CSIM, Hyderabad, has been recognized by Ashoka Innovators for the Public, which supports social entrepreneurs with innovative ideas to solve society's most pressing social and environmental problems, in activating the Hyderabad Chapter of Ashoka.



CSIM's programs



The following are some facts and figures which reflect CSIM's performance

- | | | |
|---|--|---|
| <ul style="list-style-type: none"> □ 50 SEOP members □ 6 SEAP members □ 61 ELC paid members + 29 (SEOP + SEAP members) | <ul style="list-style-type: none"> □ 32 SVCP members □ 200 SAG members □ 64 students completed Student NPO projects; 110 students undergone orientation | <ul style="list-style-type: none"> □ 72 workshops □ Newsletter to 100 people every month □ Half yearly bulletin to all members |
|---|--|---|

Making good work sustainable

Ms. Shanu Nakhat of WOMEN (NGO providing vocational training to women in slums of Asifnagar) started realizing the importance of making her organization sustainable after her association with CSIM (SEOP program). On reviewing the market demand and the kind of training WOMEN imparts to slum women, the management started four income generation enterprises – a boutique, a beauty parlour, an e-service center and an eat shoppe. Besides, serving as an income source to WOMEN, the enterprises also generate employment for the slum women who are employed as assistants to experts.

Feasibility study

As a part of CSIM's SVC program, Jimmy George was appointed as a student volunteer consultant for Alexander (SERVH) - an organization for disabled. He was assigned on a project (feasibility study of a proposed Water treatment) to make the organization self sustaining. First, Jimmy visited Nalgonda to understand SERVH's work and study the Reverse Osmosis plant set-up there. Thereafter he conducted a survey of other players (Mineral water) in the market and arrived at the conclusion that although the project was not feasible in cities due to stiff competition from the big players, nevertheless it had a good scope in towns and villages. This project provided Jimmy with relevant market experience and at the same time sensitized him to the problems of the underprivileged.

"CSIM helped bring order into our chaos"

AM Charitable Trust promotes alternative therapies in cancer management. CSIM stepped in to help in the following ways: core focus identification, scientific working practices, human resource management and road map development. More importantly, CSIM helped us diversify our funds base, resulting in financial sustainability. We are grateful to CSIM, for their high level of involvement and the support from Mr. P.N. Devarajan.

K.S. Madhavan,
Founder, AM Charitable Trust,
Managing Director, KSMA,
Advisory Member, CSIM



Community outreach initiatives

At Dr. Reddy's, besides being involved with the social initiatives through organizations like Dr. Reddy's Foundation, Naandi and CSIM, employees are also reaching out to communities around the Company's manufacturing facilities and to their colleagues in their own small way, creating a positive societal impact.

Health initiatives

- Coordinated a mega family planning program organized by district authorities at the primary health center of Kondmulagam village, Ranasthal mandal. 70 families benefited by this initiative.
- A mega super specialty health camp conducted for the villagers in and around Peddadevulapalli with free diagnosis and medicine distribution, supervised by 23 doctors from different specialties.
- Blood donation camp, organized in association with the Lion's Club, wherein 104 units of blood were collected from the employees of one of the units.
- Safety and health-related programs conducted for employees and the neighbouring community wherein safety and personal hygiene training was given to neighboring school children and medicines were pooled from employees and distributed among needy villagers following professional authorization.
- Eye camp conducted for casual workers and their family members – 176 persons covered under this initiative.

- The organization of an education health camp in Sivani School at Miryalguda to enhance awareness of a healthy diet and pollution free environment.
- The arrangement of a drinking water camp at the weekly fair in Kandivalasa Gedda under the 'Cheeyutha' social initiative scheme.

Educational initiatives

- Adoption of a government school in Puttaguda village, Jinnaram (M), Medak district, providing books, stationery and the sponsorship of a teacher's salary.
- Funding of the distribution of notebooks by the Company's employees across 250 primary school children in the schools of Mentada, Sancham, Boyapalem and Donipeta of Ranasthalam Mandal (Srikakulam district).
- Scholarships for 15 meritorious poor students from the tenth standard and intermediate level, covering five mandals of the Vizianagaram and Srikakulam districts, in a program held at the zilla parishad high school in Patherlapalli village.



- The Company's employees contributed stationery, furniture, water storage facilities, utensils and sports equipment to the Sambhipur primary school.
- The provision of a permanent toilet facility for boys and girls at IDA Bollaram High School and the donation of furniture from one of our units to the primary and secondary government schools of Bollaram village.

Other social initiatives

- Adoption of Sambhipur village, resulting in the co-organization of an eye camp in which 250 villagers were given free glasses, medication and advice on cataract problems; the organization of a health and sanitation camp to discuss the perils of open defecation, the conduct of a formal course for the youth on leadership and technical skills in association with the 'Art of Living' group and the organization of 'self help' groups by the youth to embark on village developmental issues.
- The pooling of INR10,500 by the Company's employees as a part of the 'Cheeyutha' social initiative to commission three bore wells for villagers when Pydibheemavaram villagers were unable to contribute towards the 'rural water supply' scheme.
- The organization of a tree plantation drive in which around 100 samplings were planted around the newly acquired plant site near API unit 1.
- The organization of a bird-watching program to list various bird species in and around API unit 5 with the objective to grow drought and salt resistant trees that will provide feeding and nesting for various bird and mammal species.
- Donation by employees of INR 60,000 towards 'The situation of the Indian Child', a camp organized by CRY.
- Donation of a day's salary towards the Chief Minister's Relief Fund by shopfloor members of one of the Company's units.
- The conduct of a 'Spoorthi' program by the Company's employees, wherein women of Devuni Palavalasa village were provided training in manufacture of toilet cleaning product with an assured buyback arrangement. Similarly, the organization of candle making training for women, following which the products were purchased by employees during Diwali.

Epilogue

By the Chief Operating Officer



At Dr. Reddy's, the origin of our commitment to sustainability is enshrined in our institutionalized journey of excellence, wherein we must do everything we believe strongly in and that we must be the best in everything that we do.

To make this an enduring ideal, we have created a framework that links people, processes and strategy with the objective of making all our development sustainable.

As a result, our sustainability commitment is not just on paper, it is in real.

Over the last couple of decades, this is what has made sustainability the bottomline of all our strategy:

- It is not an afterthought; it is integral to our decision making.
- It is not brushed under the carpet; it is unambiguously communicated across the organization.
- It is not a soft area left to academics; it is target-driven across the company, plants and people beyond statutory or peer benchmarks.
- It is not conducted in isolation; it is supported by management systems and resources.
- It is not extra-curricular; it is linked to performance appraisal.

As a result, if I may be permitted to state as modestly as possible, Dr. Reddy's is an achiever in this area.

- We have invested in a pipeline of products across our businesses at one end balanced with relevant risk reward partnerships.
- We have motivated our people to conserve valuable natural resources, encouraging compliers through recognition, while pulling up non-conformers.
- We launched the 'Success-story-wizard' for reporting successes and learnings across the Company's intranet, encouraging knowledge sharing and creating a knowledge repository for long-term use.
- We encouraged a social awareness among employees through social sensitivity training (through the deployment for social work in the tribal region of Araku valley) of all new recruits.
- The success of our initiatives is reflected in the fact that one of our API units successfully won the prestigious CII award under the energy-efficiency and water efficiency categories in 2004.

The company is now looking ahead to create a million livelihoods by 2010, having successfully created 20,000 livelihoods during the year against a target of 10,000.

It is this achievement that will warm the hearts of all at the company as much as a molecular breakthrough or a sharp improvement in our profitability.

Sincerely,

A handwritten signature in black ink, appearing to read 'Satish Reddy'.

Satish Reddy



For further clarifications, please contact: Mr. Shrikant Kale, Senior Director – Corporate Safety Health & Environment
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