ESG Overview and Performance
2019-20

GOOD HEALTH CAN’T WAIT
About this report

This ESG Snapshot encompasses an overview of our business performance across the Environment, Social and Governance parameters for FY2020. This snapshot covers our performance across all our product manufacturing operations and R&D facilities globally. Further details on governance, strategy, key initiatives and long-term outlook will be presented in our Annual Sustainability Report 2019-20, which is aligned to multiple national and international frameworks and guidelines.
Who we are

Values
- Integrity and Transparency
- Safety
- Quality
- Productivity
- Respect for the Individual
- Collaborations and Teamwork
- Sustainability

Core Purpose
- Accelerate access to affordable and innovative medicines because ‘Good Health Can’t Wait’.

Promises
- Bringing expensive medicines within reach
- Addressing unmet patient needs
- Helping patients manage disease better
- Working with partners to help them succeed
- Enabling and helping our partners ensure that our medicines are available where needed

Our key business segments

Biologics
Our biosimilars, generic equivalents of the innovator’s biologics, offer affordable yet equally effective alternatives.

Global Generics
Global generics is our biggest business driver. We offer more than 400 high-quality generic drugs.

Proprietary Products
We focus on developing differentiated and non-differentiated formulations, presenting significantly enhanced efficiency and presenting ease of use.

Pharmaceutical Services and Active Ingredients (PSAI)
We are one of the world’s largest manufacturers of active pharmaceutical ingredients (APIs) and partner with leading generic formulator companies.

Customer Pharmaceutical Services
We offer end-to-end product development and manufacturing services and solutions to innovator companies.
Our Footprint

Nationalities
48

Countries
more than 42

Consolidated revenue for FY2020
174.6
INR billion
↑ 13%

PAT for FY2020
19.5
INR billion
↑ 4%

Net Debt to Equity Ratio
-0.03
Reduce from 0.09 in FY2019

Average training
26.67
Hours

Energy from renewable sources
8.8%

Energy conserved
244,446
GJ

Products launched in FY2020
168

Investment in R&D
8.8%
of revenue

No. of employees
21,000+

80 launched in Emerging Markets
Highlights of the year

1. Internal water price set ranging from INR 67 to 449 per KL (i.e. $ 0.88 to $ 5.91)

2. Internal carbon price set at INR 937/tCO₂e (i.e. $ 12.54)

3. TCFD assessment initiated

4. First Indian pharmaceutical Company to commit to the Science Based Targets (SBTi)

5. Featured in the global Bloomberg Gender-Equality Index for the third year in a row

6. 358,272 lives touched through CSR initiatives

7. Sustainability Ambassador Program launched

8. SHE Policy revised to incorporate a holistic approach towards sustainability throughout our value chain

9. Zero fatality in FY2020

10. Tax Policy adopted
Awards

- Sustainable organization of the year - Pharma Sector
  India Sustainability Summit & Awards 2019

- CII Environmental Best Practices award
  Confederation of Indian Industries (CII)

- Greentech Environment Award
  Greentech Foundation

- IGBC Green Factory Building ‘Gold’ rating for Formulation Manufacturing Unit SEZ PU 1
  Green Building Congress

- CII National Award for our Budhera Watershed Development Program
  Confederation of Indian Industry (CII)

- Energy Efficient Unit award to Formulation Manufacturing Unit 3
  Confederation of Indian Industry (CII)

- Golden Peacock Award for Sustainability
  Institute of Directors (IOD)

- Gold 4 Star – OHSSAI Award for Sustainability, Environment Management and Safety Management
  OHSSAI Foundation

- Dr. Reddy’s Laboratories Inc. recognized for workplace health achievement
  American Heart Association

- EHS Excellence awards 2019
  CII – SR (Confederation of Indian Industry – Southern Region)

- PeopleStrong New Code of Work (NCOW) awards
  PeopleStrong

- Apex India Excellence Award
  Apex India Foundation

- Mr. G V Prasad has been named as one of the top 20 leaders on The Medicine Maker’s Power List 2020
  The Medicine Maker’s

- Top 50 Pharma Innovation award
  Pharma Gorilla, Singapore

- Pharma Anti-Counterfeiting & Compliance Awards (PAC Awards-2019)
  Sponsored by Government of Telangana

- DIANA Awards 2019
  Distribution Industry Awards for Notable Achievements in Healthcare

- V. Krishnamurthy Award for Excellence 2019 to Mr. G V Prasad
  Centre for Organization Development

We align with

- FTSE4Good
- CDP
- Global Compact
- Dow Jones Sustainability Indices
- Sustainability Based Targets
Stakeholder engagement and materiality

Approach to stakeholder engagement

1 Identify universal stakeholders
2 Select engagement sample
3 Engage stakeholders
4 Synthesize outcomes
5 Prioritize key stakeholders

Results of the stakeholder engagement exercise

<table>
<thead>
<tr>
<th>Stakeholder group</th>
<th>Key risks from business perspective linked to the stakeholder group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>Workforce attrition</td>
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<tr>
<td></td>
<td>Workforce productivity</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Third-party risks</td>
</tr>
<tr>
<td></td>
<td>Logistic disruptions</td>
</tr>
<tr>
<td>Regulators</td>
<td>Compliance risk</td>
</tr>
<tr>
<td>Investors</td>
<td>Investment risk</td>
</tr>
<tr>
<td>Patients/customers</td>
<td>Quality and safety risk</td>
</tr>
<tr>
<td>NGOs &amp; communities</td>
<td>Business continuity</td>
</tr>
</tbody>
</table>

Approach to prioritize material topics

1 We had conducted a Stakeholder Engagement and Materiality Assessment in 2010. We have initiated the exercise in 2020, which is underway. The results will be published in our Annual Sustainability Report 2019-20.
Results of the materiality exercise

Affordable and innovative medicines

Environmental management

Being an employer of choice

Product responsibility

Sustainable sourcing

Caring for communities
Targets and roadmap

We adopted our Environmental Commitment Statement in 2010, with targets for 2020 across 6 environmental aspects. Our performance against the targets will be discussed in our Annual Sustainability Report 2019-20. With the conclusion of our Environmental Commitment Statement, we have renewed our commitment by adopting our strategy roadmap with short, medium- and long-term environmental targets, as presented below.

- **2023**
  - Short Term
  - 100% Waste Circularity including Plastic (India)

- **2025**
  - Medium Term
  - 50+% Renewable Energy (Power-to-Power)
  - 100% Water Neutrality
  - 100% Waste Circularity including Plastic (Global)

- **2030**
  - Long Term
  - 55% Scope 1&2 reduction (Base Year 2017-18)²

² Aligned to our SBTi targets. Our Scope 3 emission targets will be elaborated in our Sustainability Report 2019-20.
ESG Overview & Performance 2019-20

Upstream
- Applying green chemistry principles
- Discovery
- API and Formulation R&D
- Audits and Assurance

Within the Fence
- Renewable Energy
- Talent management - training & capacity building, equal opportunity, gender equality (NHLP, NHMP, YLP, eNabling you!, GLOWRIA)
- Health & well-being (MHI, awareness sessions)
- Safety (MSI, PHA, DMC)
- Circular Economy

Climate Protection
- Rainwater harvesting
- Water conservation
- (ZLD) Zero Liquid Discharge
- Waste
- Energy conservation & efficiency projects

Operational & engineering excellence projects
Packaging waste reduction projects
Non-hazardous waste
Hazardous waste
Recycling
Cement kiln
Our Sustainable Value Chain

Downstream

Sustainable logistics initiatives

Air to sea shipments

Carrying and Forwarding Agency (CFA)

Hospital

Retail shop

Patient management programs, flagship medical education programs, DRFHE

Supply Chain (Upstream & Downstream)

Patient Management & Care

Dr. Reddy's Foundation

Partnership with NGOs

Community Initiatives

Water shed

RO water

Mitra

Local communities

Naandi Foundation

Sanitation

Education & Skill enhancement- (KARV, SIP, GROW, Prerna, KAR-VJC, Pudami)

Health (CHIP, SHP)
Environment

At Dr. Reddy’s, we recognize the positive and negative impacts of our operations on the environment. We consistently strive to improve resource conservation and energy efficiency through the implementation of eco-friendly technologies and cutting-edge manufacturing processes. The outcomes and performance highlights for FY2020 are presented below.

<table>
<thead>
<tr>
<th>Performance Indicator</th>
<th>FY2017-18</th>
<th>FY2018-19</th>
<th>FY2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials – API (kg)</td>
<td>507,314</td>
<td>479,892</td>
<td>478,260</td>
</tr>
<tr>
<td>Raw materials – Excipients (kg)</td>
<td>6,289,306</td>
<td>4,257,859</td>
<td>4,454,464</td>
</tr>
<tr>
<td>Water withdrawal – Municipal supply (kl)</td>
<td>288,758</td>
<td>272,693</td>
<td>391,288</td>
</tr>
<tr>
<td>Water withdrawal – Other 3rd party supply (kl)</td>
<td>695,454</td>
<td>656,042</td>
<td>452,727</td>
</tr>
<tr>
<td>Water withdrawal – Ground water (kl)</td>
<td>691,080</td>
<td>788,825</td>
<td>917,407</td>
</tr>
<tr>
<td>Fuel consumption – Non-renewable sources (GJ)</td>
<td>3,222,184</td>
<td>3,318,534</td>
<td>2,968,984</td>
</tr>
<tr>
<td>Fuel consumption – Renewable sources (GJ)</td>
<td>369,659</td>
<td>356,986</td>
<td>364,594</td>
</tr>
<tr>
<td>Direct energy consumption (GJ)</td>
<td>3,408,424</td>
<td>3,501,260</td>
<td>3,096,138</td>
</tr>
<tr>
<td>Indirect energy consumption (GJ)</td>
<td>1,232,775</td>
<td>1,122,810</td>
<td>1,066,051</td>
</tr>
<tr>
<td>GHG emissions – Scope 1 (tCO₂e)</td>
<td>349,108</td>
<td>364,283</td>
<td>319,190</td>
</tr>
<tr>
<td>GHG emissions – Scope 2 (tCO₂e)</td>
<td>195,287</td>
<td>176,480</td>
<td>154,836</td>
</tr>
<tr>
<td>GHG emissions – Scope 3 (tCO₂e)</td>
<td>345,407</td>
<td>331,501</td>
<td>324,723</td>
</tr>
<tr>
<td>Other air emissions – SOx (tons)</td>
<td>440</td>
<td>380</td>
<td>289</td>
</tr>
<tr>
<td>Other air emissions – NOx (tons)</td>
<td>251</td>
<td>217</td>
<td>151</td>
</tr>
<tr>
<td>Other air emissions – SPM (tons)</td>
<td>163</td>
<td>133</td>
<td>97</td>
</tr>
</tbody>
</table>
Performance on water conservation (Quantity: kl)

- **121,194** Wastewater discharged
- **851,494** Wastewater recycled/reused
- **50,789** Rainwater captured

Hazardous Waste (Quantity: tons)

- **186** Incineration
- **133** Landfill
- **17,577** Co-processing
- **7,464** Recycle/reuse

*These targets were part of our Environmental Commitment Statement adopted in 2010, for the year 2020.*

Reduced 61% specific water consumption against the target of 40%*

100% of our Non-Hazardous waste in FY2020, 17,984 tons, was recycled / sold to third party

Reduced 31% specific energy consumption against the target of 40%*

Reduced 48% specific hazardous waste generation against the target of 40%*

48% of our total freshwater consumption was recycled/reused in FY2020, with 9 ZLD facilities for our 16 manufacturing plants in India

Achieved 8.8% renewable energy share against target of 25%*
Our employees are our biggest assets and a key stakeholder for ensuring our success as a responsible business. We have well-defined employee-centric policies and procedures, which enable a conducive work place and help employees voice their concerns and aspirations. On the social front, we are working closely with the community to understand their concerns and support them through our various programs, focused on education, health and livelihood. A quick snapshot of FY2020 is presented below.

**Social**

Our KPI’s

With an overall diversity of 18%, we have 14.82% women in all management positions, including junior, middle and senior management (as % of total management workforce).

**Occupational health & safety**

- Fatalities: 0
- Lost-Time Injury Frequency Rate (LTIFR): 0.18
- Occupational Illness Frequency Rate (OIFR) - Employees: 0

**Human Rights**

Most of our facilities have undergone human rights due diligence and have been certified to be in conformance to SA 8000: 2014.

Our comprehensive SAMS (Social Accountability Management Procedure) facilitates compliance to the requirements of SA 8000.
At DRL, we have a well-defined governance system and strategy for a sustainable supply chain. In FY2020, based on our spend analysis 67.9% of our procurement budget was spent locally.

- **Community contributions**
  - Total spending on CSR as percentage of profit after tax stood in FY2020: 2.25%
  - Total beneficiaries in FY2020 though our education programmes: 115,750
  - Total beneficiaries in FY2020 through our livelihood programmes: 37,509
  - Total beneficiaries in FY2020 through our health programmes: 204,975

- **Health and wellbeing**
  - We have taken health and wellbeing initiatives for our employees – Part time work policy for women, Flexi working hours, Creche facility, Parental leave
  - Employees were part of our performance appraisal process in FY2020: 100%
  - 3% reduction in employee turnover rate as compared to FY2019
  - Achieved our target taken in FY2019 of increasing the number of differently abled employees by 10%
  - Man hours of training imparted through the New Horizons Leadership Program: 3,000+

- **Sustainable Supply chain**
  - At DRL, we have a well-defined governance system and strategy for a sustainable supply chain. In FY2020, based on our spend analysis 67.9% of our procurement budget was spent locally.

<table>
<thead>
<tr>
<th>Key Performance Indicator (KPI)</th>
<th>Target</th>
</tr>
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<tbody>
<tr>
<td>Affordable and innovative medicines</td>
<td>Robust supply to the market by developing capacities and KPI’s</td>
</tr>
<tr>
<td>Make vs. Buy</td>
<td>In-housing journey from 50 to 61%</td>
</tr>
<tr>
<td>Cost Leadership</td>
<td>Improving Total Variable Cost to reflect in the Profit and Loss statement</td>
</tr>
</tbody>
</table>

*We define local as suppliers within the bounds of the Indian territory which can be classified into global-local, referring to all entities within national boundaries and 'local-local' which refers to entities located within the radius of ~100 km from our manufacturing operations.*
MSI is a quantitative and objective tool to monitor safety culture and management across our sites. MSI 1.0 was adopted in FY2019, learnings from which lead us to adopt MSI 2.0 at the end of FY2020. Sites are audited, scored and given feedback for improvement on MSI on a regular basis, which is also shared with senior leadership. The MSI parameters are broadly classified into two categories:

1. Cultural parameters: There are 4 cultural parameters with a 40% weightage in the index
   - Felt Leadership – Top management (Unit head)
   - Felt Leadership – Front line management
   - Consequence management
   - Training

2. Safety management systems: There are 6 safety management linked parameters with a 60% weightage in the index
   - Fire index
   - Electrical index
   - LOTO index
   - Contractor Safety Management (CSM) index
   - Road safety index
   - Operational discipline

Our proactive focus on employee health is driven by our My Health Index (MHI) program. This comprises of 4 phases, as presented below. Post site wise planning, as a part of pre-intervention, employees are able to understand their current health status – Optimal / Suboptimal / Poor. This is followed up with interventions for improvement and post intervention evaluation to ensure traction and success.
Governance

Corporate governance at Dr. Reddy’s is defined by transparency and integrity. The major pillars of our corporate governance are board structure and effectiveness, ethics and compliance, and risk management, amongst others. All the pillars have governance practices, which help streamline the organization’s efforts towards achieving our long-term objectives. These governance practices, adopted at the leadership level, cascade down to the operational and functional level. Further details on corporate governance are a part of our Annual Report along with ‘Management Discussion and Analysis’ and ‘Additional Stakeholder Information’. An overview of our Corporate Governance is presented below.

Governance structure

Our Board of Directors comprise of our leaders, who provide strategic direction, capitalize on sustainable opportunities and provide keen insights into the company’s management systems. Our Board has deep expertise in the fields of strategy, finance, operations, science, human resources, information technology and economics. The diversity in perspectives supports us in understanding varied stakeholder concerns and offers insights from a multi-sectoral angle.

Board of Directors

<table>
<thead>
<tr>
<th>10 Directors</th>
<th>2 Executive Directors</th>
<th>8 Independent Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Audit Committee</td>
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<tr>
<td>• Nomination, Governance and Compensation Committee</td>
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<td>• Risk Management Committee</td>
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<tr>
<td>• Stakeholders’ Relationship Committee</td>
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<tr>
<td>• Corporate Social Responsibility (CSR) Committee</td>
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<tr>
<td>• Banking and Authorizations Committee</td>
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<tr>
<td>• Science, Technology and Operations Committee</td>
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<tr>
<td>• Integrated Assurance Forum</td>
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</tbody>
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Business ethics and compliance

Our Code of Business Conduct and Ethics (COBE) establishes an environment for acceptable behavior and actions, applicable to all Directors and employees, including those of our wholly owned subsidiaries. Additionally, the code also covers corruption and bribery, discrimination, confidentiality of information, conflicts of interest, anti-trust/anti-competitive practices, money laundering and/or insider trading, environment, health and safety, and whistleblowing amongst others.

For FY2020, there were no incidents of bribery or corruption, whilst all our operations were assessed for risks related to corruption. However, there were 2 cases regarding anti-competitive behavior which are under investigation.**

**Further details are available in our Annual Report 2019-20 on page #35
Risk Management
Our Enterprise Risk Management (ERM) enables efficient execution of our business strategies. The ERM team is responsible for all activities spanning from risk identification, prioritization, categorization and defining risk mitigation strategies. We ensure cross-functional engagement in the risk dialogue of the firm to ensure the risk identification process is exhaustive.

In FY2020, we initiated a regulatory and physical climate risk assessment as part of our TCFD for all the company’s manufacturing sites, 28 manufacturing sites of critical suppliers and some critical logistics infrastructure

Trade and Industry Associations
We actively support causes and polices for stimulating inclusive and sustainable growth. We participate in various trade associations and collaboratively work with industry bodies, the government and peer group members. In FY2020, we contributed approximately INR 10 million towards trade and industry memberships.
COVID-19 Response

As we share our ESG Overview & Performance 2019-20, the world is responding to the challenge of COVID-19 pandemic. This global crisis has put forth problem statements which were not faced in a century - especially complex for the pharmaceutical sector. As a producer of essential and life-saving drugs, we had to ensure our operations were unaffected, without any compromise to the health and safety of our employees. We are braving the challenge by adopting preventive, proactive and reactive responses across 11 core areas. The Safety Circle below represents our holistic approach towards COVID-19. Further details will be presented in our Annual Sustainability Report 2019-20.