MANAGING CHALLENGES

ANNUAL REPORT 2002 - 2003

DR. REDDY'S

LIFE . RESEARCH . HOPE

WELCOME TO THE CHALLENGE

. AND THE CHALLENGE IS THE JOURNEY TO THE VISION OF BEING A DISCOVERY-LED GLOBAL PHARMACEUTICAL COMPANY.

THIS IS AN AMBITIOUS VISION FOR ANY INDIAN COMPANY. AND DR. REDDY'S HAS MADE SIGNIFICANT PROGRESS TOWARDS THIS GOAL. A RESULT OF EXCEPTIONAL FORESIGHT TRANSLATED INTO STRATEGY AND IMPLEMENTED METICULOUSLY.

BUT THE JOURNEY AHEAD IS FRAUGHT WITH CHALLENGES. AND THE MAGNITUDE OF THE TASK BEFORE DR. REDDY'S IS TO NAVIGATE EVERY ROADBLOCK WISELY AND YET STAY ON COURSE.

WELCOME TO THE JOURNEY.

MANAGING CHALLENGES

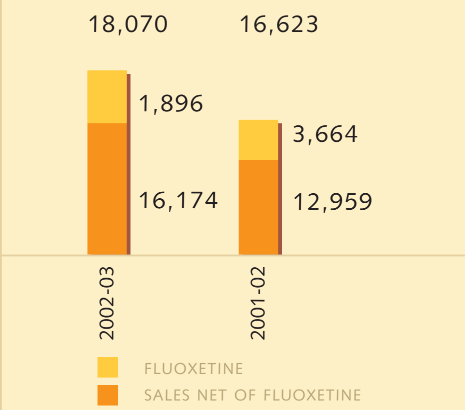
CONTENTS

US GAAP FINANCIAL HIGHLIGHTS

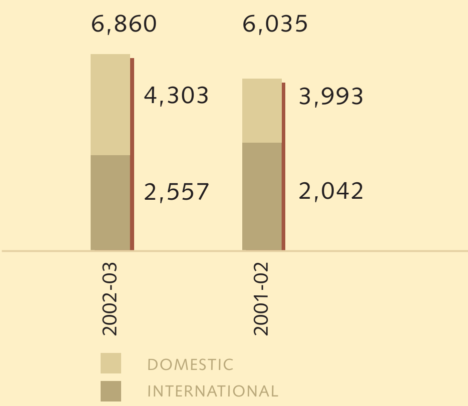
- Total revenues up by 9% to Rs. 18,070 million.
- Fluoxetine capsules 40mg revenues at Rs. 1,896 million as against Rs. 3,664 million in the previous year, which included one-time marketing exclusivity revenues. Net of Fluoxetine, total revenues up by 25%.
- Revenues outside India up by 10% to Rs. 11,581 million; contributing 64% to total revenues.
- Revenues in North America at Rs. 5,853 million; contributing 32% to total revenues.
- Revenues in Europe up by 79% to Rs. 1,401 million; driven by the acquisition in UK.
- Revenues in Russia up by 28% to Rs. 1,676 million.
- Gross margins on total revenues at 57%; driven by improved business mix. This compares with gross margins of 59% in FY02 driven by Fluoxetine one-time marketing exclusivity revenues.
- R&D spends up by 85% to Rs. 1,375 million. R&D spends as a percent to revenues at 7.6%.
- 14 US DMF filings during the year taking the total filings to 40.
- 14 ANDA filings including 10 Para IV certifications.
- Cash and cash equivalents increase to Rs. 7,273 million from Rs. 5,109 million in the previous year
- Recommendation of a dividend @ Rs.5 on each equity share of Rs.5.

GRAPHS

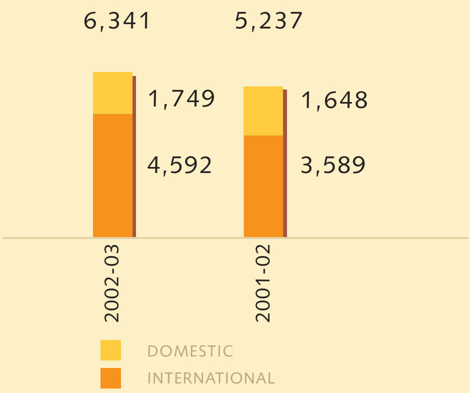
TOTAL SALES RS. MN.



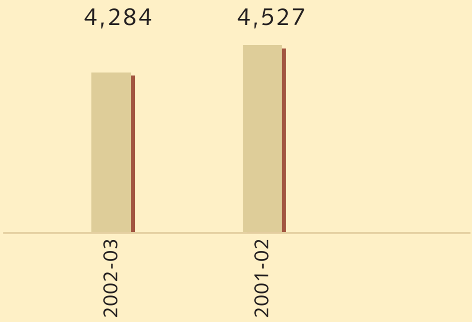
BRANDED FORMULATIONS SALES RS. MN.



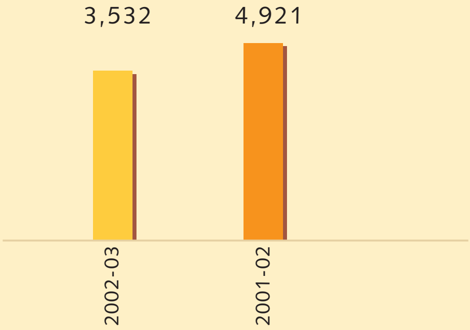
APIs SALES RS. MN.



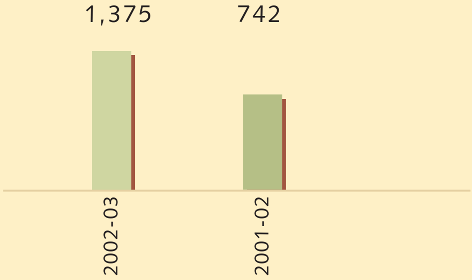
GENERICS SALES RS. MN.



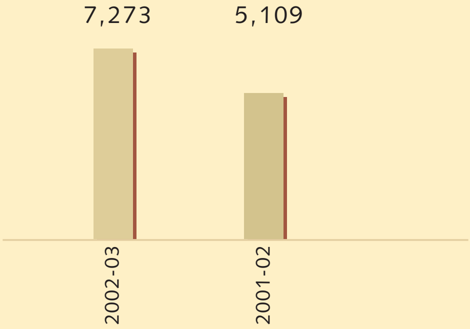
PROFIT AFTER TAX RS. MN.



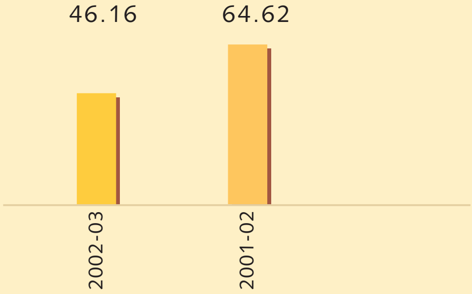
R&D SPEND RS. MN.



CASH AND CASH EQUIVALENTS RS. MN.



DILUTED EARNING PER SHARE RS.

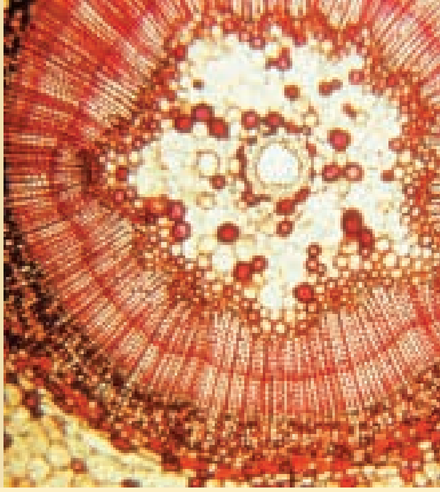


BOARD OF DIRECTORS

Standing Below: From Left to Right- Prof. Krishna G. Palepu, Dr. Venkateswarlu, Mr. Ravi Bhoothalingam, Mr. P. N. Devarajan, Dr. K. Anji Reddy
2nd Row: Dr. V. Mohan, Mr. Anupam Puri, Mr. G. V. Prasad, Dr. Omkar Goswami, Dr. P. Satyanarayana Rao, Mr. Satish Reddy.

BOARD OF DIRECTORS

Dr. K. Anji Reddy	Executive Chairman
Mr. G.V. Prasad	Executive Vice-Chairman and CEO
Mr. Satish Reddy	Managing Director and COO
Mr. Anupam Puri	Non-executive and independent director
Dr. A. Venkateswarlu	Non-executive director
Prof. Krishna G. Palepu	Non-executive and independent director
Dr. Omkar Goswami	Non-executive and independent director
Mr. P. N. Devarajan	Non-executive and independent director
Dr. P. Satyanarayana Rao	Non-executive and independent director
Mr. Ravi Bhoothalingam	Non-executive and independent director
Dr. V. Mohan	Non-executive and independent director



AUDIT COMMITTEE

Dr. Omkar Goswami (Chairman)
Mr. Anupam Puri
Dr. A. Venkateswarlu
Prof. Krishna G. Palepu
Mr. P. N. Devarajan
Dr. P. Satyanarayana Rao
Mr. Ravi Bhoothalingam

COMPENSATION COMMITTEE

Mr. Ravi Boothalingam (Chairman)
Dr. A. Venkateswarlu
Mr. G.V. Prasad
Mr. P. N. Devarajan
Mr. Satish Reddy

REMUNERATION COMMITTEE

Mr. P. N. Devarajan (Chairman)
Dr. A. Venkateswarlu
Dr. Omkar Goswami
Mr. Ravi Bhoothalingam

NOMINATION COMMITTEE

Mr. Anupam Puri (Chairman)
Prof. Krishna G. Palepu
Mr. Ravi Bhoothalingam

SHAREHOLDERS' GRIEVANCES COMMITTEE

Dr. P. Satyanarayana Rao (Chairman)
Mr. G. V. Prasad
Mr. Satish Reddy

INVESTMENT COMMITTEE

Mr. G. V. Prasad (Chairman)
Dr. A. Venkateswarlu
Mr. Satish Reddy

MANAGEMENT COMMITTEE

Dr. K. Anji Reddy (Chairman)
Mr. G. V. Prasad
Mr. Satish Reddy

CHAIRMAN'S LETTER

DR. K. ANJI REDDY | CHAIRMAN

THE ULTIMATE ACCOLADE FOR A PHARMACEUTICAL COMPANY COMES FROM THE STRENGTH OF ITS DRUG DISCOVERY PROGRAM AND THE SIZE OF ITS NEW CHEMICAL ENTITY (NCE) PIPELINE.

DEAR SHAREHOLDERS

When I think about our close to two-decades-old journey of helping people lead healthier lives, we have encountered many challenges, seized many opportunities to put the Company on a firm footing. We have built all our businesses through an aggressive mix of entrepreneurship, innovation and globalisation.

Starting with bulk actives (APIs) we used innovation in process development to build a strong and profitable business. This fiscal, we are happy to report, the bulk actives business reported a commendable 21 per cent growth in revenue over last year.

We then entered the branded finished dosages business in India. Our efforts in this business made it possible for us to bring affordable medicine to the people. The cost advantage we created by innovation brought us very close to the hearts of the doctor community.

The same theme of affordable medicine saw us extending our branded finished dosages business to other global markets such as Russia, UK, and some of the Latin American and Asian countries, including China. Over a period of time some of our brands have become leaders and we have increased our share in these markets.

Our presence in branded finished dosages in Russia and UK deserves mention. The 28 per cent revenue growth in Russia is a consequence of the equity of our key brands - Omez, Enam, Ciprolet and Ketorol. In Europe, the acquisition of BMS and Meridien UK drove revenues up by 79 per cent.

We started building a base for the US generics business in 1992. And within ten years, we already have Fluoxetine to our credit. In the post-Fluoxetine expiry period there was widespread speculation that this business would come under pressure. We are happy to note that the Generics division has turned in an excellent performance this fiscal bringing us closer to the $100 million mark.

Nor are we resting on our successes. We have drawn plans to enter the specialty business segment in the US with our own branded finished dosage forms. One of them is amlodipine maleate, another version of Pfizer's Norvasc, for which we have filed a paper-NDA with USFDA. This has been subjected to litigation in US courts. While we have won the case in the district court of New Jersey, we are awaiting a decision from the Federal Circuit court, where Pfizer appealed against district court's decision. And while we await the court's decision on amlodipine maleate, our Specialty Business game plan is well under way with another paper-NDA filing with the USFDA.

Even as we were building a strong base for generic entry in the US, we have taken on the ultimate pharmaceutical challenge – drug discovery research while readying ourselves for the post-2005 era.

When we started our drug discovery program in 1993, industry pundits viewed it with skepticism. This ambition, they said, would not be within the reach of an Indian company. The challenge was, to prove them wrong. And in this last decade, we have done just that.

This November, we will complete ten years of drug discovery research. And what an eventful decade it has been! We now have a pipeline of seven New Chemical Entities (NCEs) including two in clinical development. Three NCEs were out-licensed to MNCs for upfront and milestone payments. Of these one has completed phase-II clinical development and another went all the way to phase-III clinical development, before it was withdrawn due to its side-effect profile.

Our efforts and the progress we made during the last decade have proved that we are up to the drug discovery challenge. However, the bigger challenge is to take a molecule from our pipeline all the way to the market place cost-effectively, and also make it available at an affordable price to the people.

I have great confidence in our army of chemists and biologists, and am sure we will bring our own molecule to the market in this decade – the first decade of 21st century.

When you look at all the activities that we have undertaken during the last 18 years or so, you will notice that we have always chosen the challenging and innovative path to stay ahead. I know that whatever route is taken, one does not succeed all the time. But I firmly believe that walking on the trail of innovation will lead to creating a great company – a company that doctors, patients, investors and the public will admire.

I take this opportunity to assure you that we will surely and steadily progress on the road to our vision of becoming a "discovery-led global pharmaceutical company".

DR. K. ANJI REDDY
CHAIRMAN

THE ROAD AHEAD

THE VISION TO BE A GLOBAL BRAND IS BORN OUT OF THE ABILITY TO LOOK BEYOND.

THE US - THE MOST PROFITABLE AND COMPETITIVE MARKET

The first stop for any pharmaceutical company seeking to be a global player has to be the US- the largest, most profitable and most competitive market in the world. Dr. Reddy's has successfully entered the US with both Active Pharmaceutical Ingredients (API) and Generic Formulations. The turnover from the US market will fuel our growth in the short-term.

CREATING A GLOBAL BRAND

Apart from the US, Dr. Reddy's has a presence in over 50 countries with Russia, China and Europe being the other key markets. The strategy is to sell our product line in new markets. And, therein lies the challenge of creating a global brand.

Our brand equity in India and Russia has paved the way for recognition in other markets. We have succeeded in establishing Dr. Reddy's

DR. REDDY'S IS STRENGTHENING ITS GLOBAL PRESENCE IN THE FACE OF FAST-CHANGING LAWS, MARKET DYNAMICS AND CULTURAL DIVERSITY.

presence in the US with Fluoxetine, and more recently, with Ibuprofen. Amlodipine Maleate, our first specialty product, can only further consolidate this equity.

Foraying into foreign territory implies dealing with dynamic regulations, intellectual property laws and technology issues specific to each country. Also, today the world is racing towards a harmonised quality bar. This has huge commercial implications. For Dr. Reddy's, it spells the opportunity to raise the bar in terms of operation, quality and delivery. An imperative matched by our own very high standards in manufacturing.

THE COMPETENCE TO INTEGRATE DIVERSE CULTURE

Managing a global organisation is not a trivial task. There are numerous challenges to becoming a truly global company. An ability that we are implementing as we learn. For instance, in the US and Russia, our two biggest international markets, we employ local talent at all levels and have integrated them into the organisation.

Dr. Reddy's successes in the markets of the world are evidence that we have managed capital structure optimally, and maintained strategic flexibility using alliances to learn and evolve.

THE ROAD LESS TRAVELLED

MANAGING INNOVATION REQUIRES DISCOVERING THE STRENGTH WITHIN.

OUR DREAM IS TO TAKE DRUGS ALL THE WAY FROM MOLECULE TO MARKET.

The key to sustain the edge in a competitive environment is to innovate. Newer means need to be identified. Newer battles won. Newer milestones set. At Dr. Reddy's, our drive has helped us identify innovative measures.

THE PATH OF DISCOVERY

The world is transitioning into a patent-protected regime. This calls for an entirely new way of doing things. Realising this 10 years ago, we embarked on our drug discovery programme.

Like the nuclear club, only an elite few countries and companies have succeeded in drug discovery. The journey we embarked on then was in uncharted territory. It was founded

on Dr. K. Anji Reddy's vision of taking molecules from discovery to the markets of the world.

The path of discovery has led to significant achievements. We have out-licensed three molecules DRF 2725, DRF 2593 in diabetes and DRF 4158 in cancer to MNCs for development. And even though development of DRF 2725 was discontinued by Novo Nordisk, and DRF 4158 was returned to the Company by Novartis, both these molecules have helped strengthen our learning about discovery and development. Meanwhile, DRF 2593 is under development.

Our intent is to focus on unmet medical needs, specifically in diabetes, cardiovascular diseases, anti-infectives, cancer and inflammation. Our goal is to develop our own drug candidates. We are pursuing a strategy of going up the value chain incrementally to manage risks intelligently. Key to this strategy is out-licensing new molecules to larger pharmaceutical companies, which have the resources to take the molecule to the market faster.

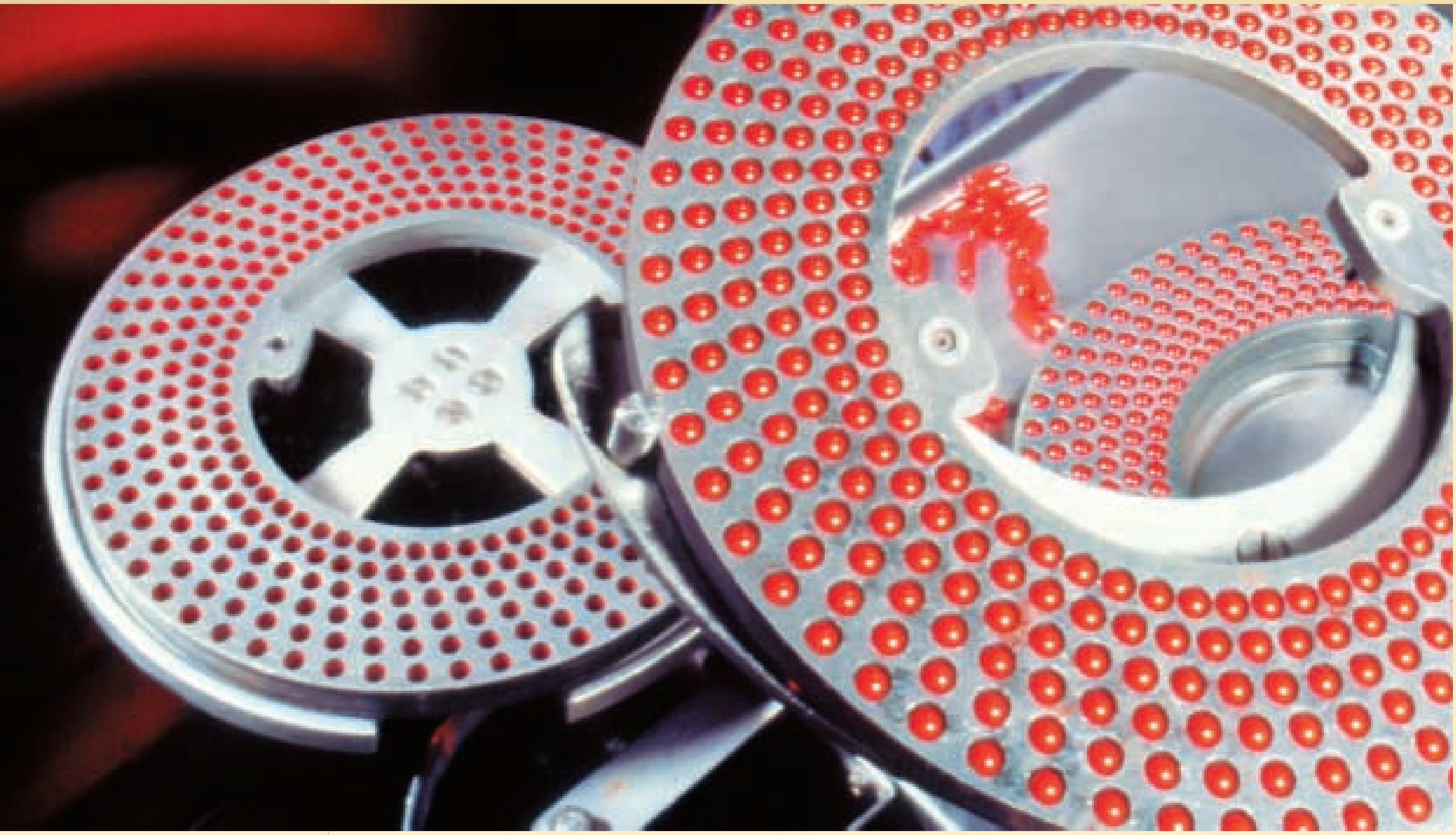
Our integrated discovery approach melds talent and skills throughout our organisation. For instance, our research facility in Atlanta conducts target-based drug discovery. This approach is complemented by the chemistry-based research approach in Hyderabad. Our aim is to develop the highest value products; those with the greatest risk, but which offer the greatest return. Our global presence gives us the advantage of providing a cost-effective combination of critical skills and scale.

It is also very important to develop skills to take our own New Chemical Entities (NCE) to the market place. And then, of course, there is the need to build a unique organisation with seminal talent, and leverage our presence in the US to access critical skills and in India for scale and agility.

SPECIALTY BUSINESS

In the short-term, our strategy is to build a sustainable US-focused Specialty Business. This will serve as a bridge to the discovery business. Right now we are in the process of setting up the commercial front end. In the long-term, our ability to leverage skills in product identification, drug delivery and formulation will help us create a global Specialty Business. This business will enhance our value by accelerating creation of a launch platform. Equally important, it will de-risk the discovery business by giving us options should molecules fail.

ON THE RIGHT TRACK



CALCULATED RISK BRINGS ITS OWN REWARD

OUR DISCOVERY DREAM IS BUILT ON THE FOUNDATION OF OUR CORE BUSINESSES - API, BRANDED FORMULATIONS AND GENERICS.

Our core businesses of API, Branded Formulations and Generics fund Dr. Reddy's journey to the vision. These businesses also offset the risks inherent in discovery and specialty, and provide a cushion against unforeseen events and risks by building critical mass for the organisation.

THE ACTIVE PHARMACEUTICAL INGREDIENTS BUSINESS

The API business is distinguished by our global leadership in quality, speed and scale. Our capability in the API business vertically integrates with other businesses, offering advantages of expansion of product pipeline, speed to market, competitive quality and pricing.

We are leveraging our product development capabilities with special emphasis on the regulated markets of the US, UK and Europe. To this end we endeavour to achieve impeccable and flawless execution in new product development. A sign of our success is the fact that we filed 14 DMFs in the US in fiscal 2003. This takes the total filings to 40, which compares with the best in the industry.

BRANDED FORMULATIONS-INDIA AND INTERNATIONAL

With high quality products and innovative marketing, our Branded Formulations business is continually breaking new ground.

To gain leadership in the Indian market, our game plan is to drive growth in our core therapeutic areas while focusing on niche segments. We are also working towards building a presence in Russia, Brazil, Mexico and China by developing our own field force and marketing select product lines. Simultaneously, we are progressing towards expanding our presence in Asia-Pacific, Latin America, CIS and the Middle East.

GENERIC FORMULATIONS-REGULATED MARKETS

Dr. Reddy's has the advantage of being a vertically integrated player in this business. We have a robust pipeline of exciting products.

It's only been three years since Dr. Reddy's entered the global generics business. And, we are already closing in on the US$ 100 million sales mark. It's been a tremendous three years. We believe it's only the beginning. Our aim is to become one of the top ten US generic companies by targeting unique high value opportunities. To make this possible, we are increasing our portfolio of high-margin products and being in the first wave of product launches. We are also building a commercial front-end in the US and UK markets. And exploring opportunities in Canada and Europe.

REACHING THERE

HOW CLOSE YOU GET
TO YOUR VISION DEPENDS ON
HOW WELL YOU
MANAGE THE RISKS.

HEDGE RISKS,
WE ARE BUILDING A STRONG
NCE PIPELINE AND A
SPECIALTY BUSINESS IN THE US.

The effort is to take prudent risks appropriate to our resources. And yet forge ahead, expand, and make ours the most effective and efficient drug discovery programme.

The challenge is to manage risks intelligently and balance investments between long-term objectives and short-term growth drivers. We are institutionalising risk management as part of our corporate governance best practices.

Our risk management effort encompasses the process from discovery to the customer. The current success and strength of our core businesses is the launch pad for the next wave of growth.

Over the next few years, our focus will be on driving growth in these businesses to strengthen cash flows, build the US front-end and support our discovery-led ambition.

In journeying towards our destination, the challenge also lies in fostering a spirit of innovation, entrepreneurship and excellence in all our activities. And, in staying true to our organisational values of quality, innovation and continuous learning; respect for the individual, harmony and social responsibility.

The way to our vision is rife with uncertainty, risk and challenge. And we are ready for them. Having envisioned them in the first place. We are driving multiple initiatives in each business simultaneously, taking bold steps while managing risk intelligently and ensuring flawless execution to fulfill our strategic intent.

Satish Reddy,
Managing Director & COO

G. V. Prasad,
Executive Vice Chairman & CEO

CORPORATE SOCIAL RESPONSIBILITY

SAFETY, HEALTH AND ENVIRONMENT

Safety, Health and Environment continues to be one of the important dimensions of sustainability. As a step forward to integrate Safety, Health and Environment with business, this year, we are voluntarily publishing a separate "Safety, Health and Environment report" covering the period from 1st April, 2002 to 31st March, 2003.

Worldwide SHE reporting practices are quite diverse depending on the socio-economic conditions in which the business operates. Also, the initial motives for the reporting are different. Whatever the initial motive, the Global Reporting Initiative (GRI) - an international institution affiliated with the United Nations through its status as a Collaborating Center of United Nations Environment Programme - observed that numerous benefits typically emerge. SHE reporting helps to:

• Maintain and strengthen trust with community and advocacy groups, investors, customers and other stakeholders.

• Link disparate functions such as finance, marketing, R&D and operations into more integrated strategic vision and operation, opening new conversations that pave the way for discovery and innovation.

• Identify trouble spots and unanticipated opportunities in supply chain, among

customers, communities or regulators, or in the areas of reputation or brand management.

• Assess and measure the value of sustainability practices in the organisation in relation to the organisation's overall business strategy and competitiveness.

• Reduce share price volatility and uncertainty occasioned by surprise, untimely or incomplete disclosure.

Today the business stands on three pivots - accountability, governance and sustainability. Realising this, worldwide many organisations produce SHE reports. We are happy to be among those responsible companies who care for Safety, Health & Environment and give the account of the environmental impact of their operations.

FOLLOWING ARE THE HIGHLIGHTS IN THE AREA OF SAFETY, HEALTH AND ENVIRONMENT FOR THE FINANCIAL YEAR 2002-2003:

• When compared among various SBUs, operations of Discovery Research, Generics, Branded Formulations, Custom Chemical Services and Emerging Businesses do not have much impact on the environment in terms of monitoring parameters prescribed by state and national level authorities. However, API operations are the major contributors. Realising this, major initiatives for the environmental protections are taken by API SBU in order to ensure that the residual impact is at the minimum acceptable level.

• The Zero Liquid Effluent Discharge Project at Miryalguda Unit of API, which was commissioned last year is functioning satisfactorily. Similar projects are planned for Unit 6 at Visakhapatanam and at Unit 2, Bolaram. The Bolaram Zero Liquid Effluent Discharge Project will cater to needs of Units 1, 3 and 4 as well. Both these projects are expected to go on stream during this financial year.

• After the commissioning of these projects, all six plants of API will be Zero Liquid Effluent Discharge Plants. Entire industrial effluent from these units will be reused in the plant again. This will be a significant step forward towards the water conservation in the year 2003 - the year declared as "International Year of Freshwater" by United Nations.

• Environmental Protection today is more a resource conservation than the end of the pipe treatment. We are considering water conservation as one of the important focus areas within an overall gamut of resource conservation. The Zero Liquid Effluent Discharge Plants is one of the important steps towards this end.

• New Safety Promotion Schemes are introduced in manufacturing units. This is a three-level scheme for the positive management of Safety, Health and Environment, which recognises the performance of an individual, group of employees in the plant, called Zone, and the entire plant. Safety is of prime importance to us. Despite our intensive efforts to continually upgrade the Safety standards, there was one fatal accident during the reporting period.

• Our Generics unit at Bachupalli has already obtained ISO 14001 certification. During the reporting period, the auditors DNV carried out the surveillance audit and the facility was found to be compliant with the requirements.

CORPORATE SOCIAL RESPONSIBILITY

SOCIAL COMMITMENTS

Water for drought-hit farmers in Mahabubnagar

- Primary schools in remote, schoolless habitations of tribal Paderu.
- Income opportunities for tribal poor in Araku.
- Providing quality education to children attending government schools in Hyderabad.
- Creating rural creches for children of poor, wage earning parents in Vizianagaram.

A small shareholder had once asked me, "We are making very good profits for the Company. But what are we doing for the Society?" That kind of opened my eyes.

Dr. K. Anji Reddy.

THE POWER OF 10™

Simple solutions to complex problems. That's what the power of 10 is all about. An innovative concept conceived by Dr. K. Anji Reddy whereby as little as Rs. 10 a month given by employees (right from the worker at the factory to the CEO) is channelled to support the social initiatives of Naandi. The Company on its part matches the contributions of the employees.

Within a year and a half of its introduction at DRL, the contributions have touched a Rs. 3 million mark and true to the promise made by Dr. K. Anji Reddy on behalf of Naandi, "this money will be spent properly for the upliftment of the people of Andhra Pradesh."

Every rupee has been spent to improve the quality of life of over 100,000 poor in the state.

The overwhelming spirit of giving back to society demonstrated by the employees of DRL through "the power of 10™" has inspired Naandi to take it forward to a number of corporates and organisations including those in the public sector.

"The power of 10™" enabled Naandi to enlist a huge contingent of volunteers as well from these institutions who are giving their time and skills in areas as diverse as education of underprivileged children, water for drought-hit farmers and support to marginalised tribals. All to improve quality of life.

Today, all employees at DRL proudly feel that they are "making a difference to the Society" and it is a moment of reckoning in Drill's Social Responsibility Chapter.

Naandi Foundation is an autonomous not for profit development organisation co-founded by Dr. Reddy's Laboratories with Dr. K. Anji Reddy as its founding Chairman.

DRFHSD - A GLIMPSE OF THE ROAD AHEAD...

FROM CAP (CHILD AND POLICE) PROJECT TO SCOPE (SCHOOL COMMUNITY PARTNERSHIP IN EDUCATION)

While CAP was started as a joint venture between the Hyderabad City Police and Dr. Reddy's Foundation for Human and Social Development (DRFHSD), critical stakeholder development has made both the constituency of the program, its areas of focus, its reach and its array of service much broader than originally envisaged. The education department, businesses, alumni, parent and student community have moved in as key leaders to the school-based reform – change initiation and management – process. The police and Dr. Reddy's Foundation have provided the space for these primary stakeholders while also facilitating investments by other funders including AKF-PESLE, PLAN International, UNICEF and UNDP-USAID.

Initially, the definition of direct target beneficiary group was limited to children in hazardous working conditions. DRFHSD has worked on a more comprehensive definition of all "children-at-risk" to include all children out of school requiring protection and support including working children, exploited, poor, marginalised minority children and the girl child. Understanding challenges and opportunities to access to formal full time quality education for children-at-risk has occupied a central focus in the program perspective. Stakeholder development with primary children, parents, teachers and school principals during the first phase has began to move from sensitivity and awareness development to participation through capacity building and leadership development, advocacy and dissemination.

THE MISSION OF SCOPE is - improving the competencies of the whole school community towards access to quality education for all children and utilising the school as a community learning resource center by bringing in the community context into the learning, helping students learn and grow while at the same time providing for the school to support and strengthen the collective learning of their families and communities as well.

SCOPE network schools bring together many stakeholders and partners through a range of support services and opportunities to children, teachers, principals, youth, families and communities before, during and after school to cover a range of learning requirements, academic and non-academic that address the comprehensive needs of children, their families, and their schools by partnering with them to create an environment for academic learning,

social development, personal growth, and community involvement.

It is envisaged that this developed model will be replicable, sustainable and adoptable for scaling-up and wider replication through police-corporate-citizen network across the country and the Pan-Asian region, wherever access and quality to formal education issues are applicable.

QUALITY EDUCATION AS PERCEIVED BY THE SCOPE network schools connotes facilitating learning environments in the classrooms and schools that promote high-caliber curriculum and instruction to enable all children to meet challenging academic standards in a child-centered, competency-based, participatory learning environment and use all of the community's assets as resources for learning, to be able to acquire life skills and social skills to develop their assets and talents, form positive relationships with peers and adults, and serve as resources to their communities.

THE STRATEGIC PLAN is focused on the children and families at risk designed to increase the educational success of students by better meeting their academic and non-academic needs and eventually to establish schools as life-long learning centers and focal points in their communities.

The program has several related goals reached: To provide community residents with lifelong learning opportunities; to involve the community in the educational process; and to cooperate with other community agencies to provide health, education, cultural and recreational opportunities at accessible central locations.

THE METHODOLOGY The whole school competency development will be achieved through comprehensive educational improvement program, enhanced student achievement by teacher-led learning interventions, school-community leadership and self-sustainability of the program.

There are many innovative designs and interventions within the SCOPE network schools depending upon the unique needs and capacities of each school community, but they tend to share a core set of operating principles that:

• Develop strong community stakeholding, leadership and partnerships – Stakeholders and Partners pool their resources and expertise and work together to design innovative solutions to support quality learning for all children. Children, youth and adults are expected to participate and learn to achieve high standards in learning and be contributing members of their community.

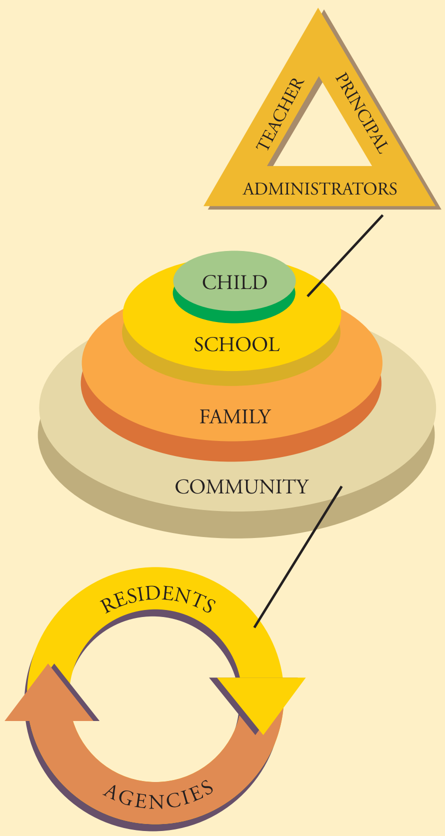
• Build on the community's strengths - SCOPE network schools build on the assets of the entire community - including the people who live and work there, local organisations, and the alumni, to enhance the community's quality of life through lifelong learning and empowerment of its people.

• Subscribe to accountability for results - Clear, mutually agreed-upon vision, goals and demonstrable results drive the work of SCOPE network school communities. Continuous analysis of data helps partners for appropriate interventions and measure progress toward results.

The SCOPE network schools work essentially with the Government schools for poor urban neighborhoods by strengthening schools, families, & communities towards Quality education.

THE GOALS • To provide community residents with lifelong learning opportunities. • To involve the community in the educational process. • To cooperate with other community agencies to provide health, educational, cultural and recreational opportunities

DRIVERS OF SCOPE



MILESTONES FOR THE FIRST THREE-YEAR PHASE

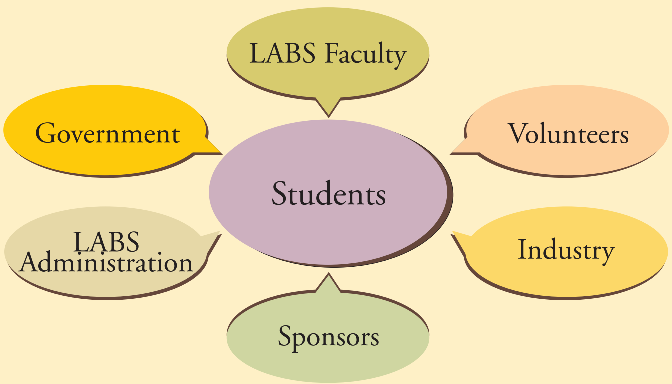
• Considerable investments made to foster & strengthen School - Community Partnership. • The project provided for training and capacity building for school & community members in areas like vision development, • team building. • Successful demonstrations of competencies by stakeholders to develop safe & child-centered schools and supportive neighborhoods. • Specially designed learning programs : • Bridge school for young adults. • After-school programs. • Re-inforcement/Remedial programs LABS. • School - Community Teams in-sync with neighborhood have addressed various Social-Health-Educational issues. • Home - Community-based educational opportunities such as after-school program, group study.

KEY RESULT AREAS FOR NEXT PHASE:

• School Communities will become a major financial contributor. • School-Community Model will be customised to the vision of individual schools and to the needs of the neighborhood. • Fostering 'Parent-Community resident-community agency' participation at various levels with the school. • Creation of a mutually supportive environment where classroom and social support services work together to enhance student achievement.

• Equitable access to quality education for all children. • High-calibre curriculum and instructions to meet challenging academic standards. • Development of life and social skills. • Families and community are safe and supportive and actively engaged in the Model. • Life-long learning for parents and community members through their involvement with the school. • Parents and community member actively participate in designing and supporting quality programs.

THE LABS PLAYERS



THE EVOLUTION

LABS has evolved to fill the gaps that exist in the emerging service market while addressing the practical economic need and the broader social need of the under privileged youth.

THE MISSION

LABS aims to provide young adults from economically weak backgrounds an opportunity to assimilate into the competitive job market.LABS will help them acquire the required livelihood and social skills in an environment of learning and mentoring that is responsive to the individual's emotional and developmental needs.

It has grown over the last three years from a mere 150 sq ft. facility for 10 students to a 5.5.acre facility for over 5000 students. LABS is currently functional in over 10 centers across five states. The B2Y (Business to Youth) network of LABS has helped trainees access placement opportunities over 140 entry level positions in 6 sectors.

SOME COMMENTS ON LABS

•"I am fascinated by the scope and vision of the LABS Projects.The concept of 'Stakeholder' is applied and ventured at a level to be envied and copied by organisations such as mine." Erma Manoncourt, Deputy Director, UNICEF.

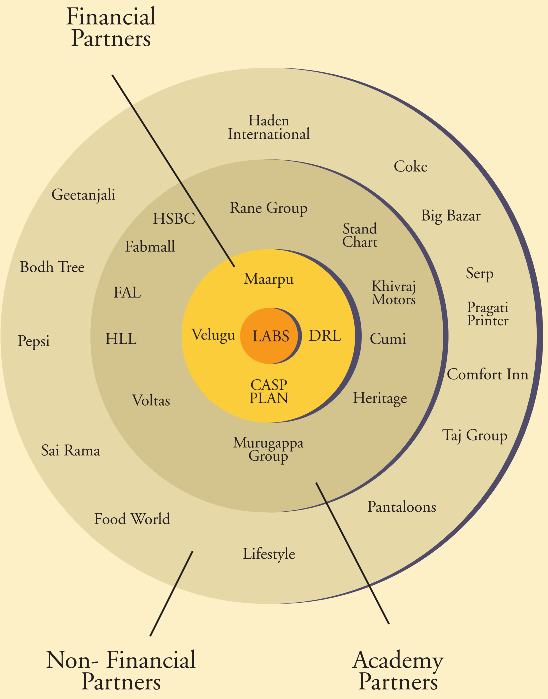
•"......I wish such institutions exist in every part of this great nation." G. Kamal. V. Rao, IAS, Director of Youth Services, Govt. of A.P.

•"Very very impressive.Keep lighting the candles." Richard Haynes, U.S.Consulate General,Chennai.

•"Inspirational!" Peter Holland, British High Commission.

•".....We assure our commitment to expand the horizon of your dream and create a new reality." Indian School of Business, Hyderabad.

PARTNERS



There comes a time in a man's life when he looks back and takes stock of what he's achieved. The commencement of Dr. Reddy's Foundation for Human and Social Development (DRFHSD) in 1996, and more specifically, the path-breaking livelihood initiative – LABS, the popular acronym of the Livelihood Advancement Business School is something which indeed makes me very proud.

As a leading industrialist of the State of Andhra Pradesh, I have been of the firm opinion that it is up to organisations like ours to help in mitigating the woes of our economically challenged brethren. Writing the occasional cheque seemed inadequate to me. Which is why six years back, I set up DRFHSD.

As I write this, nearly 5000 young men and women, aged between 18 and 25, have passed out of the portals of this business school with a difference – LABS, and are working in well known firms like Ion Exchange, Pantaloons, Foodworld, Lifestyle, Heritage Hospitals, Datatree, Bodh Tree Consulting and many more as sales staff, cashiers, data entry operators, home nursing assistants and telecallers. The number 5000 is significant, not just because it has been achieved in a little over 3 years, but also because LABS has proved to be both replicable and scalable; ERGO, the program is operational in Hyderabad, Chennai, Mumbai and New Delhi, apart from 4 districts in AP alone.

Any development program worth its name must pass the litmus test of scale and duplication; LABS has successfully accomplished this.

So what exactly does LABS do and do so well that the veritable Who's Who of Indian industry like the Murugappa Group and the Rane Group, Standard Chartered Bank, and Hindustan Lever Limited among others are now partners in the initiative?

Well, simply put, LABS trains economically challenged youth in appropriate skill development programs with the avowed objective of enabling them acquire entry level workplace competencies (and jobs) in India's new market economy. What's not so simple to explain, however, is the transformation (change is too mild a word) in these youngsters post-training! The timid, shy, non-communicative, socially challenged young man or woman metamorphoses into a poised, confident individual, all in the space of 3 months, ready to take on his or her first job, and the world with it.

Employers are increasingly thrilled with the quality and dedication of these youngsters; repeat hiring is a standard procedure with them now. A bonus is that attrition rates with LABS alumni are very low; for these youth, the job is like a lifeline. Another much wanted side-effect is the increase

in the educational aspirations of the alumni-turned-employees. Without exception, all have graduation as an immediate goal.

Most gratifying and touching, however, is the way these youth have donned the mantle of main bread winner in the family; almost each one has a tale to tell of loans repaid, siblings educated or the purchase of the ubiquitous colour TV set.

Like I said earlier, LABS has demonstrated replicability. It is my dream to take LABS into not just the many cities dotting India's landscape, but also make a dent in the villages, where 60% of India lives. This will need a Herculean effort and the participation of many more socially committed organisations is a sine qua non for my target of 1 million livelihoods by 2010.

In the words of Franklin Delano Roosevelt,: "We cannot build the future for our youth, but we can certainly build our youth for the future."

Dr. K. Anji Reddy

AWARDS & RECOGNITIONS 2002-03

MARCH 2003

"The GKD-NIQR Outstanding Organisation Award 2002" from National Institution of Quality and Reliability (NIQR).

FEBRUARY 2003

HR Award "The Organisation With Innovative HR Practice" from World HRD Congress.

FEBRUARY 2003

National Award for best presented accounts in annual report for financial year 2001-02 from the Institute of Chartered Accountants of India.

FEBRUARY 2003

Recognition of top 10 Most Respected Companies in India by Business World. The Company ranked 7th position across all sectors.

JANUARY 2003

"Value Creator Award" for 2001-02 by Outlook Money, the investment supplement of Outlook, India's leading weekly magazine.

JANUARY 2003

Recognition of No. 1 company in India across all sectors by Business Standard, a leading newspaper in India in its year-end review "BS-1000".

DECEMBER 2002

"ICSI National Award for Excellence in Corporate Governance" for the year 2002 from the Institute of Company Secretaries of India.

DECEMBER 2002

Recognition of ranking among Top Companies in Asia in the annual survey "Review 200" by Far East Economic Review (FEER), a leading business magazine in Asia Pacific region.

DECEMBER 2002

Award for "Outstanding Achievement In Building World Class Organisation Through Total Employee Involvement" from National Institute of Personnel Management (NIPM).

OCTOBER 2002

Recognition of "Best Under A Billion" Forbes Global's 200 Best Small Companies for 2002 by Forbes Global.

AUGUST 2002

Dr. K. Anji Reddy felicitated for his outstanding contributions in promoting Indo-US Trade by Andhra Pradesh branch of Indo-American Chamber of Commerce (IACC).

AUGUST 2002

Design Excellence (ADEX) Awards:
"Website of the year 2002" for corporate website www.drreddys.com
Elixir, inhouse magazine of Dr. Reddy's, placed second in Journal and Newsletter category by Advertising Club of India, Hyderabad chapter.

JUNE 2002

Award of Gold Card status by Andhra Pradesh Government in recognition of Company's positive track record as a Corporate Tax Payer.

INTANGIBLES ACCOUNTING

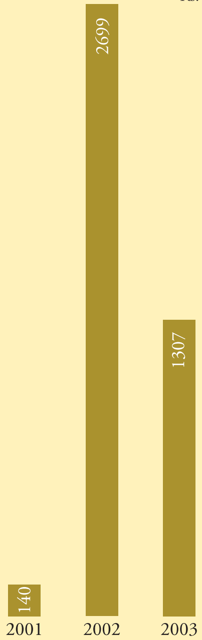
EVA - ECONOMIC VALUE ADDED ®

Rs. Mn.

	2003	2002	2001
Shareholders' Funds	18832	15457	5241
Debt - LT	41	47	1003
Total Capital Employed (a)	**18873**	**15504**	**6244**
Earnings before Interest & Tax - EBIT	3944	5095	1460
Tax on EBIT*	398	423	411
NOPAT (a)	**3546**	**4672**	**1049**
Weighted Average Cost of Capital	**11.9%**	**12.7%**	**14.6%**
Capital charges (b)	**2238**	**1973**	**910**
Economic Value Added (a-b)	**1307**	**2699**	**140**

® EVA is a registered trademark of Stern Stewart & Co.

Economic Value Added
Rs. Mn.



NOTE:

1. The cost of equity is calculated by using the following formula:

   Return on risk-free investment + expected risk premium on equity investment adjusted for the beta variant for Dr. Reddy's in India.

2. 10-year G-Sec yield taken as the risk-free rate of investment (6.09%).
3. Beta value of 0.65 used for calculation of cost of equity.
4. Taxes on EBIT calculated at the Effective Tax Rate (excluding deferred taxes).
5. All the calculations are based on US GAAP Consolidated Financials.
6. Calculations till previous year were based on Indian GAAP Standalone Financials and hence are not comparable.

INTANGIBLES ACCOUNTING

BRAND VALUE OF DR. REDDY'S BRAND

Rs. Mn.

	2003	2002	2001
Earnings before Interest & Tax	**3944**	**5095**	**1460**
Non-brand Income			
Non-brand Income	-279	-332	-62
Adjusted Profit	**3665**	**4762**	**1398**
Inflation compound Factor	1	1.06	1.12
Present Value of Brand Profits	**3665**	**5048**	**1571**
Weightage Factor	3	2	1
Weighted Profits	3777		
Remuneration of Capital @ WACC	2238		
Brand Related Profits	1539		
Tax @ 10.1%	155		
Brand Earnings	1383		
Multiple applied	20		
Dr. Reddy's Brand Value	**27667**		

Assumptions

1. Inflation is assumed at 6% per annum.
2. Effective tax rate is at 10.1% (excluding deferred tax liability).
3. Brand-strength multiple is a function of seven internal attributes.
4. All calculations are based on US GAAP Consolidated Financials.
5. Calculations till previous year were based on Indian GAAP Standalone Financials and hence not comparable.

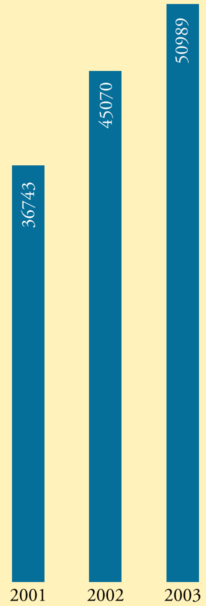
   Dr. Reddy's Brand Value in FY 2002 based on Indian GAAP Standalone Financials was Rs. 33626 mn.

MVA - MARKET VALUE ADDED

	2003	2002	2001
Current Market Value of Debt	41	47	1003
No. of outstanding shares (Mn.)	77	77	32
Share price details*			
High for the year	1150	1150	1494
Low for the year	675	432	1159
Average Price	**912**	**791**	**1327**
Average Market Value of Equity	69821	60527	41984
Market Value of Debt & Equity	69862	60574	42987
Book Value of Debt & Equity	18873	15504	6244
Market Value Added	**50989**	**45070**	**36743**
Net MVA during the year	**5919**	**8327**	

* Share prices in 2002 adjusted for stock split.

Market Value Added
Rs. Mn.



INTANGIBLES ACCOUNTING

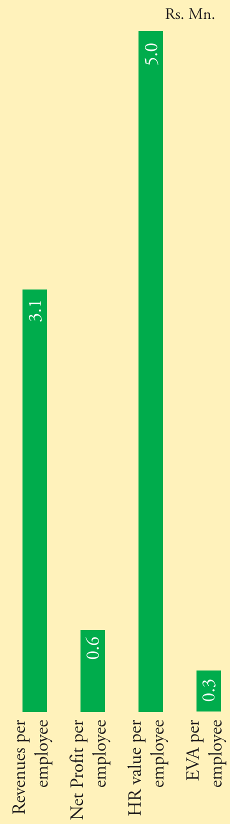
HUMAN RESOURCES ACCOUNTING

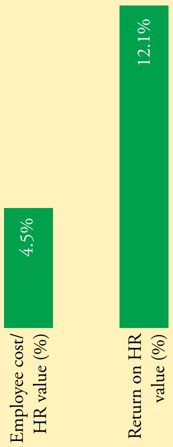
Human beings are considered central to achievement of productivity, above equipment, technology and money.

Human Resource Accounting is an attempt to identify, quantify and report investments made in human resources of an organisation that are not presently accounted for under conventional accounting practice. Quite a few models have been developed and suggested from time to time for the measurement and valuation of human assets.

The ***Lev & Schwartz*** model has been used by Dr. Reddy's to compute the value of human resources as on March 31, 2003. The evaluation is based on the present value of the future earnings of the employees and on the following assumptions:

1. Employee compensation includes all direct and indirect benefits earned both in India and abroad.
2. The incremental earnings based on age group have been considered.
3. The future earnings have been discounted at 11.9%, the WACC for Dr. Reddy's. Beta has been taken at 0.65, the beta for Dr. Reddy's stock in India.





Rs. Mn.

	2003
Number of employees	5852
Total Value of Human Resources	29084
Revenues per employee	3.09
Net Profit per employee	0.60
HR value per employee	4.97
EVA per employee	0.29
Total Revenues/Total Value of HR (ratio)	0.62
Economic Value Added/Total Value of HR (ratio)	0.06
Employee cost/HR value (%)	4.5%
Return on HR value (%)	12.1%

EXCELLENCE AWARDS

CHAIRMAN'S AWARD FOR EXCELLENCE | INDIVIDUALS


Dr. Arani Chaterjee


Mr. Prashant Kumar Pathak


Mr. A. S. Priyashanta Boteju


Mr. Pravin Ramesh Rothe


Mr. Tim Crew receiving the award on bahalf of Mr. Cameron Reid


Dr. G. V. S. Sesha Kumar

Mr. Ram Pillarisetti accepting the award on behalf of Mr. Alessondra Ricci

Mr. B. M. Sundaram

Mr. KVSNHR Joga Rao

Mr. B. Mallikarjuna Rao

Mr. Douge Sunday receiving the award on behalf of Mr. Terry Coughlin

Mr. Vilas Dholye accepting the award on behalf of Mr. Chandan Kumar

EXCELLENCE AWARDS

CHAIRMAN'S AWARD FOR EXCELLENCE | INDIVIDUALS


Dr. Ranjan Chakrabarti


Mr. K. Ramakrishna


Mr. Vijay Soni


Dr. Mahendra Rao


Mr. A. Prasad Reddy


Dr. M. S. N. Reddy

Mr. P. Srinivas Naidu

Mr. Appala Naidu

Mr. N. Ramachandra Reddy

Ms. K. Suguna

EXCELLENCE AWARDS

CHAIRMAN'S AWARD FOR EXCELLENCE | TEAM AWARDS

Best Initiative Team Award
Bulk Actives Unit II

Best Initiative Team Award
Branded Formulations Unit IV

Best Managed Work Place (non-manufacturing) Award
Discovery Research

Team Award for Social & Environment Contribution
Bulk Actives Unit I

Best Quality Driving Team Award
Generics

Best Innovation Team Award
Sitaram Kumar & Team

Best Manufacturing Unit Award
Bulk Actives Unit III

Best Cafetaria Award
Discovery Research/TDC

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal 2003 for Dr. Reddy's Laboratories Limited ("Dr. Reddy's" or "The Company") was a year of significant achievements on many fronts. Some of those achievements reflect the strength of our product pipeline while other milestones speak directly of our future and reflect major progress in achieving our goal of launching higher margin products into high value markets. Taken together, these achievements and milestones support our confidence in the future of Dr. Reddy's.

Highlights of the Year:

- Total turnover was at Rs. 15,983 million. Excluding Fluoxitine, the Sales for the year under review grew by 20 per cent from Rs. 12,292 million to Rs. 14,797 million.
- We successfully launched the generic formulation, Tizanidine in the US and Omeprazole in the U.K.
- We posted record revenues in our global API business, giving us the financial flexibility to support our investment programs in the future.

The Future:

- We significantly boosted our investment in R&D, up 37 per cent versus last year and now at eight per cent of revenues;
- We filed 14 ANDAs of which three are pending acceptance by the USFDA, bringing the total under review to 23. Of those, we believe seven could be first-to-file opportunities. Of the 14 ANDAs filed this year, 10 are Paragraph IV filings. We now have one of the most exciting generics pipeline in the US industry, with the potential of introducing drugs whose innovator sales last year topped US$ 19 billion; and
- We filed 14 drug master files in US

Two other major milestones also reached during the year are:

- In March, we entered into a 15 year exclusive product development and marketing alliance for OTC products in the US with Leiner Health Products.
- In December, we received a favourable lower court decision on Amlodipine Maleate, setting the stage for a possible launch as early as at the end of this year.

Of course, there were setbacks. In October, 2002 we received a disappointing lower court decision on Omeprazole. In January, 2003, Novartis opted to replace our dual acting insulin sensitizer, with one of our follow-up compounds. And as you know, in February, 2003, Novo Nordisk decided not to go ahead with Phase III trials of Ragaglitazar i.e. DRF 2725. However, the good news is that Novo Nordisk is taking forward the development of Balaglitazone i.e. DRF 2593.

MANAGEMENT DISCUSSION AND ANALYSIS

While setbacks are disappointing, that is the very nature of this business. Set backs are inevitable, in the short term. Our response is to remain focused on the long term and on the continued prospects for growth and prosperity in our markets, our pipeline and therefore, on the future of Dr. Reddy's.

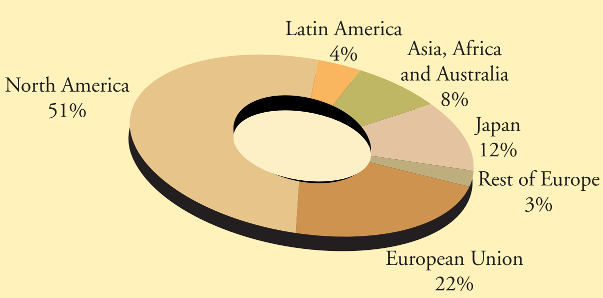
MARKETS

It is useful to begin with an overall perspective of the global and Indian pharmaceutical business before moving on to review the Dr. Reddy's performance in these markets.

GLOBAL PHARMACEUTICAL MARKET[1]

The global pharmaceutical industry experienced strong growth in the year 2002. Despite economic challenges in the world's leading markets and a lower than normal number of new product introductions. The global audited sales of pharmaceuticals rose by eight per cent (at a constant dollar rate) to reach US$ 400.6 billion. Chart A gives region-wise share of the global pharmaceutical market.

Chart A: Region-wise Global Pharma Market



North America, Europe and Japan cemented their position and accounted for 88 per cent of audited worldwide pharmaceutical sales in 2002 while sales in Latin America slumped 10 per cent due to the economic problems in this region. North America was yet again the strongest performer, growing 12 per cent at a constant dollar rate to reach US$ 203.6 billion - 51 per cent of the world's total. Europe grew 8-9 per cent, and Japan, the second-largest individual market, recorded one per cent growth. The rest of Asia, Africa and Australia combined showed a healthy increase of 11 percent.

INDIAN PHARMA MARKET [1]

The Indian pharmaceutical industry today has carved a niche for itself. Estimated to be worth US $ 4.5 billion, this highly organised sector is growing at a rate of 8-9 per cent annually. It ranks very high in the third world countries, in terms of technology, quality and range of medicines manufactured. From simple headache pills to sophisticated antibiotics and complex cardiac compounds, almost every type of medicine is now made indigenously.

Playing a key role in promoting and sustaining development in the vital field of medicines, Indian pharmaceutical industry boasts of quality producers and many units approved by regulatory authorities in the US and UK.

The pharmaceuticals industry in India meets around 70 per cent of the country's demand for bulk drugs, drug intermediates, pharmaceutical formulations, chemicals, tablets, capsules, orals and injectibles. There are about 250 large units and about 8,000 Small Scale Units, which form the core of the pharmaceutical industry in India. These units produce complete range of pharmaceutical formulations, i.e., medicines ready for consumption by

[1] Data taken from IMS and various Pharma websites

MANAGEMENT DISCUSSION AND ANALYSIS

patients and about 350 APIs i.e., chemicals having therapeutic value, used for production of pharmaceutical formulations.

Following the delicensing of the pharmaceutical industry, industrial licensing for most of the drugs and pharmaceutical products has been done away with. Manufacturers are free to produce any drug duly approved by the Drug Control Authority. Technologically strong and totally self-reliant, the pharmaceutical industry in India has low costs of production, low R&D costs, innovative scientific manpower, strength of national laboratories and an increasingly positive balance of trade. The pharmaceutical industry, with its rich scientific talents and research capabilities, supported by intellectual property protection is set to take on the international market.

PERFORMANCE OF DR. REDDY'S STRATEGIC BUSINESS UNITS

We now move on to the performance of Dr. Reddy's Strategic Business Units or SBUs. These are: (i) Active Pharmaceutical Ingredients (API) or Bulk Actives, (ii) Branded Formulations, (iii) Generics, (iv) Emerging Businesses, (v) Discovery Research and (vi) Others. Table 1 gives the revenues according to SBUs.

Table 1: Dr. Reddy's SBU-wise performance (Rs. Million)

SBU	Total Sales 2003	Total Sales 2002	% Increase/(decrease)
API	5,563	4,997	11
Formulations	6,803	6,057	12
Generics	3,240	4,066	(20)
Diagnostics, Critical Care & Biotechnolgy	318	358	(11)
Drug Discovery	–	344	(100)
Others	59	179	(67)
Total	15,983	16,001	

The SBU performance has been discussed in detail hereunder:

APIs OR BULK ACTIVES

The API business of Dr. Reddy's supplies active pharmaceutical ingredients to many of the world's largest generic players. With the anticipated growth in the global generics business after 2005 - when a large number of formulations go off patent - the Company's API business is expected to see significant growth.

Revenue from the Bulk Actives SBU increased by 11 per cent to Rs 5,563 million for the year ended March 31, 2003 from Rs 4,997 million for the year ended March 31, 2002. Revenue from this business accounted for 35 per cent of the total revenue for the year ended March 31, 2003.

Chart B gives the geographic distribution of sales in SBU Bulk Actives in different regions of the world.

Export revenue from this business segment increased by 14 per cent to Rs. 3,814 million for the year ended March 31, 2003 as compared to the export revenue of Rs. 3,356 million for the year ended March 31, 2002. Export sales took regulated markets increased by 17 per cent as compared to an increase of nine per cent for less regulated market.

Bulk Actives also performed well in the domestic front and the sales increased by 7% to register Rs. 1,749 million for the year ended March 31, 2003 as compared to Rs. 1,641 million for the year ended March 31, 2002.

Table 2 gives the details of sale of the top 10 API products sold by the Company and their contribution in total APIs sales in the financial year 2002-03.

Chart B: Geographic sales of SBU Bulk Actives

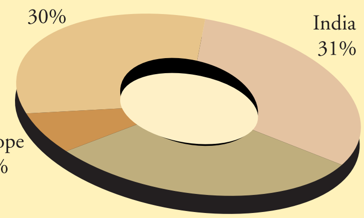


Table 2: Sale of major APIs and their share total revenue (Rs. Million)

	FY 2002-03	% of total	FY 2001-02	% of total
Ciprofloxacin	768	14%	838	17%
Nizatidine	477	9%	373	7%
Ibuprofen	474	8%	371	7%
Naproxen Sodium	300	5%	226	5%
Ranitidine HCl form1	258	5%	231	5%
Ranitidine HCl form2	218	4%	209	4%
Sparfloxacin	176	3%	358	7%
Dextromethorphan	146	3%	223	4%
Doxazosin Mesylate	145	3%	131	3%
Tizanidine	144	2%	7	0%
Others	2,456	44%	2028	41%
Total	**5,563**	**100%**	**4997**	**100%**

During the year, the Company filed 14 drug master files (DMFs) in US, which is almost double the number of DMFs filed in previous financial year, taking the total to 40. We also filed 67 patents with Indian Patent Office in the financial year 2002-03.

We have six bulk manufacturing facilities in the state of Andhra Pradesh in India. These facilities are built and operated according to the latest systems of cGMP. Our facilities are inspected by the USFDA and other reputed international inspection agencies for all our major products.

As an environmentally responsible organisation, our manufacturing facilities are equipped with state-of-the-art effluent treatment facilities, including aeration, evaporation systems and zero discharge facilities. Our operations and infrastructure are engineered to optimize solvent and by-product recoveries. The comprehensive manufacturing services include R&D labs, pilot plants, technical services, quality control, quality assurance and regulatory affairs.

BRANDED FORMULATIONS

Dr. Reddy's has a leading presence in India for value added branded finished dosages. We have, over the years, acquired a strong reputation for our high quality branded formulations. Our integrated R&D facility with the ability to scale up production, while following international quality standards, gives us the upper edge.

Revenue from this business increased by 12 per cent to Rs. 6,803 million for the year ended March 31, 2003 from Rs. 6,057 million for the year ended March 31, 2002. This segment accounted for 43 per cent of the total revenue for the year ended March 31, 2003 compared to 38 per cent of the total revenue for the year ended March 31, 2002. The growth in branded formulations business has been primarily driven by the significant growth in export markets.

The export revenue from this segment increased by 21 per cent to Rs. 2,438 million for the year ended March 31, 2003 as compared to Rs. 2,010 million for the year ended March 31, 2002.

The revenues from the domestic formulations market increased by eight per cent to Rs. 4,365 million for the year ended March 31, 2003 as compared to Rs. 4,047 million for the year ended March 31, 2002.

The top 10 brands accounted for 50 per cent of the segment's domestic sales revenue. Table 3 gives the data. Table 4 and Chart C give revenues by therapeutic segments.

MANAGEMENT DISCUSSION AND ANALYSIS

Table 3: Domestic sale of Dr. Reddy's top 10 branded formulations (Rs. Million)

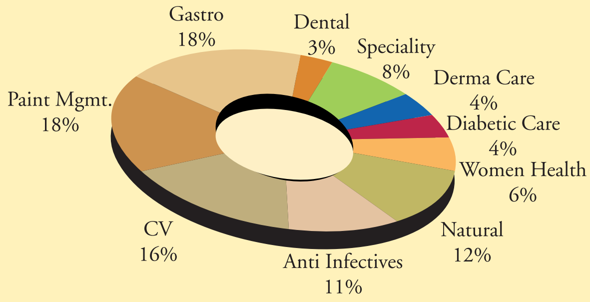
	FY 2002-03	% of total	FY 2001-02	% of total
Nise	658	15%	588	15%
Omez	470	11%	463	11%
Stamlo	255	6%	244	6%
Ciprolet	170	4%	219	5%
Stamlo Beta	155	3%	129	3%
Enam	145	3%	143	4%
Antoxid	100	2%	110	3%
Reclide	85	2%	87	2%
Clamp	84	2%	53	1%
Gaity	82	2%	22	1%
Others	2,161	50%	1,989	49%
Total	**4,365**	**100%**	**4,047**	**100%**

During the year we launched 34 new products in the domestic market.

Table 4: Domestic formulations sales by therapeutic segments (Rs. Million)

Therapeutic Area	Revenue
Gastro	782
Pain Mgmt	822
Cardio-vascular (CV)	709
Anti Infectives	494
Natural	530
Women Health	248
Diabetic Care	163
Derma Care	158
Speciality	328
Dental	131
Total	4,365

Chart C: Domestic formulations sales by therapeutic segments



MANAGEMENT DISCUSSION AND ANALYSIS

The international marketing division of the Branded Formulations SBU recorded a growth of 21per cent. Chart D gives the geographic distribution of the international formulation business sales.

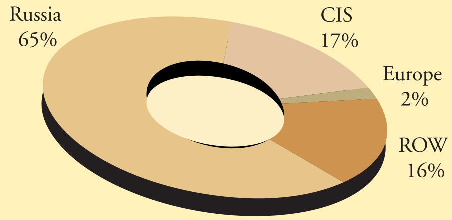
We have filed 285 dossiers and received 105 approvals/registrations in Branded Formulations for emerging markets in the financial year 2002-03. For the first time we filed registration dossiers in Bahrain, UAE, Qatar, Kuwait, Peru, Ecuador, Nicaragua and Mexico.

The Company has initiated steps to set up a facility to manufacture of formulations at Goa with an estimated capital outlay of Rs. 315 million. Goa has well developed infrastructure and is strategically located in terms of access to markets. Additionally it also provides fiscal benefits. Another key reason for choosing Goa is to geographically diversify manufacturing facilities and derisk us from the ill effects of all manufacturing facilities in one area. This project is expected to be commissioned in the current financial year.

GENERICS

Generics SBU sales declined by 20 per cent to Rs. 3,240 million during the year ended March 31, 2003 from Rs. 4,066 million during the year ended March 31, 2002. The decline in sales at this business was primarily

Chart D: Geographic distribution of international marketing operations in SBU Formulations



on account of lower sales of Fluoxetine. Last year sales were high due to the exclusivity period stretching from August 2001 to January 2002.

In January 2003, we launched Ibuprofen Tablets 400, 600 and 800 mg in the US. Ibuprofen is the first generic product to be marketed under the Dr. Reddy's label. The Ibuprofen launch is a significant event in the company's endeavour to build a strong and sustainable US generics business. Direct marketing of Ibuprofen Rx is the first step in building our commercial organization in the US market and exemplifies the fact that we can manage our vertically integrated supply chain.

Dr. Reddy's launched several generic products in 2002-03. Some of these are:

(i) Tizanidine, (ii) Nizatidine (iii) Omeprozole and (iv) Ibuprofen.

MANAGEMENT DISCUSSION AND ANALYSIS

With a large number of blockbuster drugs going off-patent by 2005, the generics market in the developed world is estimated to reach a size of US$ 45 billion. Given Dr. Reddy's strengths in process research and development, skills in bulk manufacturing, compliance with cGMP and IPR and the experience gained from international regulatory filings and patent challenges, the Company feels confident of its future prospects in this business.

During the year we filed 14 abbreviated new drug applications (ANDAs) in the US, taking total ANDA filings to 23.

EMERGING BUSINESSES

Our Emerging Businesses SBU mainly consists of Biotechnolgy, Critical Care and Diagnostics divisions. Sales from this business has reflected a decline of 11 per cent, to record a sales of Rs. 318 million for the year ended March 31, 2003 as compared to Rs. 358 million for the year ended March 31, 2002. The decline in sales was primarily due to the decrease in domestic sales of critical care and diagnostics products. This was partially offset by the increase in export sales of critical care products.

Dr. Reddy's Biotechnology division deals with therapeutics, vaccines and diagnostics. Molecular biology, cell culture, fermentation, downstream processing and hybridoma technology are the focus areas. Dr. Reddy's core competency lies in the recombinant proteins technology platform. Our use of technology, multiple expression systems (E.coli, yeast and mammalian cells) ensure high expression levels in yield apart from cost and market leadership.

Dr. Reddy's Critical Care Division (CCD) caters to speciality segments like oncology. It strives to create a strong base for a sustainable long term competitive advantage. In a short span of four years, the division has achieved a leading position in oncology. The accelerated growth comes from its ability to face challenges and achieve a paradigm shift. CCD has set new standards through innovative product presentations, focused customer approach and customized patient service.

We are in the process of closing our Diagnostics business due to the insignificant contribution of this division to the overall sales of the Company, different customer base like pathological laboratories and since the business was not conforming to the overall strategy of the Company.

DISCOVERY RESEARCH

The core of Dr. Reddy's vision is drug discovery. In 2002-03, the Company incurred expenditure of Rs. 1,339 million on R&D or eight per cent of the total revenue, versus Rs. 980 million or six per cent of total revenue in 2001-02.

Table 5 gives the Company's existing pipeline of New Chemical Entities (NCEs).

Table 5: Dr. Reddy's R&D Pipeline

Compound	Therapeutic Area	Development Status	Remarks
DRF 2593	Diabetes	Phase II Completed	Insulin Sensitizer Licensed to Novo Nordisk
DRF 2725	Diabetes & Dyslipidemia	Phase III (On Hold)	Insulin sensitizer
DRF 4158	Metabolic disorders	Preclinical completed	Indicated for Insulin resistance and associated disorders
DRF 4832	Metabolic disorders	Late Preclinical	HDL Elevator, Clinical Development in Europe
DRF 1042	Cancer	Phase I Completed	Topoisomerase-I inhibitor Clinical Development in Europe
DRF 1644	Cancer	Preclinical Completed	Topoisomerase-I inhibitor, Clinical Development in Europe
DRF 11057	Bacterial Infections	Preclinical	
DRF 10945	Metabolic disorders/ Dyslipidemia	Preclinical	

Our three NCEs in preclinical development are DRF-4832, a HDL elevator, DRF-8417 and DRF-11057, both oxazolidinone analogs for treatment of bacterial infections. Of the two oxazolidinone compounds we have discontinued further development of DRF-8417 and have selected DRF-11057 for further development.

During the year 2002-03, we completed phase I clinical trials on our anti-cancer compound DRF-1042. This is Dr. Reddy's first new chemical entity (NCE) in the cancer area. DRF-1042 is a novel, orally active camptothecin analog, which exhibits anti-cancer activity by inhibiting topoisomerase I enzyme.

We have already integrated our research activities in India and Atlanta. We will leverage the chemistry and pharmacological capabilities of our labs in India and early stage research capabilities of our labs in Atlanta to create further synergies. We will manage the risk profile of our R&D assets through alliances and this will also help us build complimentary skills.

OTHERS

The sales from other SBU, Custom Chemical Services, reduced from Rs. 179 million for the year ended March 31, 2002 to Rs. 59 million for the year ended March 31, 2003. This decrease was mainly due to absence of income from Service contracts during the current year.

Our Custom Chemical Services (CCS) business unit caters to the need of pharmaceutical companies that wish to outsource their requirements in Contract Research, Custom Synthesis and Contract Manufacturing. CCS's cutting edge lies in its experience and expertise spanning a range of technologies, talented scientific personnel, large manufacturing capacities, modern infrastructure, speed and accuracy in response and customised and cost effective solutions to a variety of chemistry problems.

SPECIALTY BUSINESS

Dr. Reddy's initiated the building of the US focused Specialty Business in the financial year ended March 31, 2003. This business will serve a bridge for the Company to move from the generic to the discovery platform in the US. Thereby enhancing the value of the discovery business by accelerating creation of a launch platform, derisking the discovery business by giving us options in case more molecules fail, creates greater value in the long term and leveraging our "India Advantage" skills including API, finished dosages, intellectual property and clinical development.

The US court's landmark judgment on our Amlodipine Maleate case that dismisses Pfizer's complaint alleging patent infringement, is a big step forward in launching our Specialty Business. One that takes us closer to realising our vision of becoming a discovery led global pharmaceutical Company.

INDIAN GAAP FINANCIAL PERFORMANCE FOR 2002-03, STANDALONE

Table 6, Table 7 and Table 8 summarise the financial performance of Dr. Reddy's as a Standalone corporate entity for the year 2002-03. The detailed analysis of the profit and loss account and balance sheet has also been discussed hereunder.

Table 6: Profit and Loss Account (Rs. Million)

	For the year ended March 31, 2003	For the year ended March 31, 2002	Increase/ (Decrease) %
Income			
Sales	15,983	15,578	3%
Income from services	–	79	(100%)
License fees	–	344	(100%)
Other income	667	515	30%
	16,650	**16,516**	
Expenditure			
Material costs	4,778	4,290	11%
Conversion charges	119	62	92%
Excise duty	847	790	7%
Personnel costs	1,211	1,006	20%
Operating expenses	3,351	2,926	15%
Research and development expenses	1,338	980	37%
Amortisation of long term deposits	23	23	0%
Deferred Revenue Expenditure written-off	–	931	(100%)
Provision for decline in the value of long term investments and investments written off	51	217	(76%)
Finance charges	34	109	(69%)
Depreciation	586	474	24%
	12,338	**11,808**	
Profit before tax	4,312	4,708	(8%)
Income tax			
- Current tax	402	395	2%
- Deferred tax expense/(benefit)	(11)	(284)	(96%)
Profit after taxation	**3,921**	**4,597**	**(15%)**

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUES

Total sales increased by three per cent to Rs. 15,983 million in 2002-03 while the total revenues grew by one per cent to Rs. 16,650 million in 2002-03.

Table 7: Share of revenue from product sales between Indian and international markets (Rs. Million)

	2002-03	%	2001-02	%
International	9,554	60%	9,537	61%
India	6,429	40%	6,041	39%
Total revenue	**15,983**	**100%**	**15,578**	**100%**

The Company's international revenues from product sales have increased marginally. In 2001-02 total revenues included license fees of Rs. 344 million and revenues from Fluoxetine capsules 40 mg during the 180-day marketing exclusivity, which ended in January 2002. In 2002-03 the decline in international revenues on account of the above was largely offset by the increase in revenues from Bulk Actives and Formulations, which grew by 11per cent and 12 per cent respectively.

The revenues in India grew by a modest six per cent to Rs. 6,429 million as compared to last year. Our Formulations business accounts for 43 per cent of the total revenues while Bulk Actives contribute 35 per cent. Our Formulations business was up by only 12 per cent on account of general slow down in the industry and the uncertainty over the implementation of the new Value Added Tax (VAT) system announced by the Government of India in March 2003. In Bulk Actives business despite significant competition we registered a growth of 11 per cent driven by volume growth in key products.

Other income increased by 29 per cent to Rs. 667 million from Rs. 515 million for the year ended March 31, 2002. The increase is primarily on account of increase in interest income on fixed deposits and increase in export benefits.

MATERIAL COSTS

Material consumption increased by 11 per cent to Rs. 4,778 million for the year ended March 31, 2003 from Rs. 4,290 million for the year ended March 31, 2002. Material Costs as a percentage of sales increased to 30 per cent for the year ended March 31, 2003 from 28 per cent for the year ended March 31, 2002. This was primarily due to decline in revenues from fluoxetine capsules 40 mg.

CONVERSION CHARGES

Conversion charges have increased by 92 per cent to Rs. 119 million for the year ended March 31, 2003 from Rs. 62 million for the year ended March 31, 2002. The increase is primarily on account of increase in third party manufacturing activity in bulk actives and branded formulations.

EXCISE DUTY

The excise duty has increased by seven per cent from Rs. 790 million to Rs. 847 million for the year ended March 31, 2003. The increase was on account of growth in the overall sales of the Company.

PERSONNEL COST

Salaries, wages and other benefits have increased by 20 per cent to Rs. 1,211 million for the year ended March 31, 2003 from Rs. 1,006 million for the year ended March 31, 2002. This increase was primarily on account of increase in manpower, increase in salaries and performance bonus, gratuity, recruitment expenses, medical and insurance expenses and training and development expenses.

OPERATING AND OTHER EXPENSES

Operating and other expenses have increased by 15 per cent to Rs. 3,351 million for the year ended March 31, 2003 from Rs. 2,926 million for the year ended March 31, 2002. This increase was primarily on account of increase in expenditure on power and fuel, insurance, selling expenses, rates & taxes, foreign exchange loss, rent, travelling and conveyance, legal and professional charges, write off of bad debts and loans etc.

R & D EXPENDITURE

Research and Development costs have increased by 37 per cent to Rs. 1,338 million for the year ended March 31, 2003 from Rs. 980 million for the year ended March 31, 2002. Research and Development costs as a percentage of sales increased to 8% for the year ended March 31, 2003 from six per cent for the year ended March 31, 2002.

DEFERRED REVENUE EXPENDITURE WRITTEN-OFF

Deferred revenue expenditure written-off amounted to nil for the year ended March 31, 2003 as against Rs. 931 million for the year ended March 31, 2002. During the year ended March 31, 2002, the Company had changed its accounting policy on treatment of expenditure incurred on research, product development, market development, etc. This collectively referred to as deferred revenue expenditure, was written-off over the estimated period over which the benefit was expected to accrue to the year in which it is incurred. Accordingly, a sum of Rs. 931 million being the unamortised balance as at March 31, 2001 was written-off.

PROVISION FOR DECLINE IN LONG TERM INVESTMENTS AND INVESTMENTS WRITTEN-OFF

The provision for decline in long term investments and investments written off were at Rs. 51 million for the year ended March 31, 2003 as against Rs. 217 million for the year ended March 31, 2002. Provision for the current year primarily represents provision towards Company's investment in Pathnet (India) Private Limited aggregating to Rs. 49 million. During the year ended March 31, 2002 a provision of Rs. 67 million was made on account of losses incurred by Compact, Rs. 85 million was made on account of Aurantis due to closing down of operations of the said joint ventures and Rs. 65 million towards investment in Reddy Biomed Limited.

FINANCE CHARGES

Finance charges have reduced from Rs. 109 million for the year ended March 31, 2002 to Rs. 34 million for the year ended March 31, 2003 primarily due to prepayment of secured and unsecured loans during the year ended March 31, 2002 on account of inflow of funds received from ADS issue.

DEPRECIATION

Depreciation has increased by 23 per cent to Rs. 586 million for the year ended March 31, 2003 from Rs. 474 million for the year ended March 31, 2002 primarily on account of the setting up of a new formulations plant at Yanam and other significant additions in the existing facilities.

PROFITS

The Company has reported a profit after tax of Rs. 3,921 million in the financial year 2002-03 as compared to Rs. 4,597 million in the year 2001-02. The reasons for this significant decrease in profit after taxation was primarily due to a decline in profits generated from sale of Flouxetine 40 mg during the year in US market.

Table 8: Abbreviated Balance Sheet

(Rs. Million)

	As at 31 Mar 2003	As at 31 Mar 2002
Sources of Funds:		
Total Shareholders' funds	18,069	14,580
Total Loan Funds	288	138
Total Sources of funds	18,357	14,718
Application of Funds:		
Total Fixed Assets	4,381	3,960
Investments	1,566	639
Current Assets, Loans and Advances	15,569	12,560
Current Liabilities & Provisions	(2,736)	(2,006)
Net Current Assets	12,833	10,554
Deferred tax Liability	(423)	(435)
Total Application of Funds	18,357	14,718

SHAREHOLDERS' FUNDS

There has been no change in the Share Capital during the year. As on March 31, 2003, it remains at Rs. 383 million, the same as on March 31, 2002. The total reserves and surplus has increased to Rs. 17,686 million in March 31, 2003 from Rs. 14,197 million in March 31, 2002. The increase has been on account of profits made during the year net of dividend payouts.

LOAN FUNDS

There has been a reduction in the secured loans outstanding from Rs. 53 million to Rs. 43 million. The decrease has been on account of repayment of credit facilities from banks and a loan from IREDA. However, there has been a rise in unsecured loans primarily on account of the loan notes of GBP 1.82 million, issued as a part of consideration for the acquisition of BMS Laboratories Limited (now Dr. Reddy's Laboratories (EU) Limited) and Meridian Healthcare Limited (now Dr. Reddy's Laboratories (UK) Limited) in UK. The entire amount is outstanding at the year end and the liability has been stated at Rs. 137 million.

FIXED ASSETS

The Gross Block has increased by Rs. 924 million resulting from increase (net of deductions/adjustments during the year) in fixed assets namely buildings Rs. 97 million, plant and machinery, electrical and laboratory equipments of Rs. 700 million, furniture & fixtures and office equipments of Rs. 84 million, vehicles of Rs. 31 million and land of Rs. 12 million.

INVESTMENTS

Investments increased to Rs. 1,566 million as on March 31, 2003 from Rs. 639 million on March 31, 2002. The Company made the following investments during the financial year:

- Acquisition of UK based BMS Laboratories Limited (Now Dr. Reddy's Laboratories (EU) Limited and its wholly owned subsidiary Meridian Healthcare Limited (now Dr. Reddy's Laboratories (UK) Limited) for a consideration of Rs. 566.79 million.
- Investments were made in Dr. Reddy's Farmaceutica Do Brasil Ltda. to an extent of Rs. 9.75 million for marketing development operations in Latin America.

- Investment of Rs. 3.21 million. in OOO JV Reddy Biomed Limited to acquire 24 per cent minority stake in this company. OOO JV Reddy Biomed Limited was a joint venture of the Company with Biomed Limited of Russia. Consequent to this acquisition of minority interest, OOO JV Reddy Biomed Limited became a wholly owned subsidiary of the Company.
- Rs. 29.90 million were invested in Zenovus Biotech Limited for biotech research operations.
- Rs. 249.90 million were invested in Aurigene Discovery Technologies Limited to fund research activities at Bangalore and Boston.

Further, the loans extended to DRL Investments Limited, Compact Electric Limited to the tune of Rs. 0.50 million and Rs. 90 million respectively were converted into equity during the year. Further Pathnet (India) Private Limited allotted shares for Rs. 28.30 million against the share application money pending allotment.

CURRENT ASSETS, LOANS AND ADVANCES

The Current Assets, Loans and Advances have gone up from Rs. 12,560 million to Rs. 15,569 million. This was mainly due to increase in inventories to Rs. 2,401 million in March 31, 2003 from Rs. 1,898 million in March 31, 2002. The increase in Inventory was primarily due to increase in Raw Material, Stores, Spares and Packing Material. Increase in cash and bank balances was primarily on account of cash generated from operations during the year. As on March 31, 2003 we had cash and bank balance of Rs. 6,884 million, which includes ADS proceeds held in fixed deposits in banks outside India aggregating to Rs. 1,513 million.

Loans & Advances stood at Rs. 1,868 million as on March 31, 2003 as compared to Rs. 1,213 million on March 31, 2002. The loans and advances increased primarily due to increase in advance made to subsidiaries and material suppliers.

The loan extended to Compact Electric Limited has been restructured resulting in conversion of a loan of Rs. 90 million into equity shares and write off of loan to an extent of Rs. 26.50 million. The advances to DRL Investments Limited to an extent of Rs. 0.50 million have been converted to share capital during the year. The Company also advanced further moneys to Aurigene Discovery Technologies Limited and Zenovus Biotech Limited for funding the research activities of these companies.

Long-term deposits of Rs. 91 million as on March 31, 2003 represent advances against the consideration payable for brands acquired and are amortised over a period of ten years in accordance with the terms of the agreement.

CURRENT LIABILITIES & PROVISIONS

The current liabilities and provisions stood at Rs. 2,736 million as on March 31, 2003 as compared to Rs. 2,006 million as on March 31, 2002. This is mainly attributable to increase in sundry creditors for raw material, packing material and expenses. This increase was primarily attributable to the better credit terms from suppliers and increased business activities. The increase was also due to addition of bio-studies service vendors in our Generics SBU.

SEGMENT REPORTING

Accounting Standard 17 (AS-17) issued by the Institute of Chartered Accountants of India (ICAI) mandates companies to identify business segments, and report revenues, profits and capital employed in each such segment. Table 9 gives the financial details according to the segments identified by Dr. Reddy's.

Table 9: Income, profits and capital employed by business segments for the year 2002-03

(Rs. Million)

	For the year ended March 31, 2003	For the year ended March 31, 2002
Segment Revenue		
a) Active Pharmaceutical Ingredients and Intermediates	6,454	5,952
b) Formulations	7,098	6,294
c) Generics	3,254	4,141
d) Diagnostics, Critical Care and Biotechnology	399	424
e) Drug Discovery	–	344
Total	17,205	17,155
Less : Inter segment revenue	962	1,047
Add : Other unallocable Income	407	408
Total income	**16,650**	**16,516**
Segment Results		
(Profit)(+)/loss(-) before tax and interest from each segment		
a) Active Pharmaceutical Ingredients and Intermediates	1,100	807
b) Formulations	2,263	2,182
c) Generics	1,896	3,402
d) Diagnostics, Critical Care and Biotechnology	(34)	(6)
e) Drug Discovery	(520)	(176)
Total	4,705	6,209
Less : (i) Interest	34	109
(ii) Other unallocable Expenditure net off unallocable income	359	1,392
Total profit before tax (PBT)	**4,312**	**4,708**
Capital Employed		
a) Active Pharmaceutical Ingredients and Intermediates	4,025	4,266
b) Formulations	2,991	3,018
c) Generics	2,548	1,887
d) Diagnostics, Critical Care and Biotechnology	409	466
e) Drug Discovery	66	32
f) Others	8,079	5,301
Total	**18,118**	**14,970**

MANAGEMENT DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIALS IGAAP

Dr. Reddy's has presented consolidated accounts in this annual report. For the purpose of consolidation under Indian GAAP, the Company have identified 19 subsidiaries including step down subsidiaries, a partnership firm, a joint venture and associates. The list is given in Note 2 of Schedule 20 of the Notes to Accounts accompanying the consolidated balance sheet and profit and loss account. Table 10 gives the abbreviated consolidated profit and loss account under Indian GAAP.

Table 10: Abbreviated sales and profit figures from consolidated financials IGAAP, 2002-03 (Rs. Million)

Particulars	For the year ended March 31, 2003	For the year ended March 31, 2002	Growth
Total Income	18,847	17,388	8%
Profit Before Tax (PBT)	4,110	4,613	(11%)
PBT as % of Total Income	22%	27%	–
Profit After Tax (PAT) after Minority Interest	3,642	4,579	(20%)
PAT as % of Total Income	19%	26%	–

CONSOLIDATED FINANCIALS US GAAP

Since Dr. Reddy is listed on the NYSE, it is required to prepare its financials in accordance with US GAAP. These are given separately in this annual report. Table 11 below gives the abbreviated profit and loss account under US GAAP.

Table 11: Abbreviated financials prepared according to US GAAP (Rs. Million)

Particulars	For the year ended March 31, 2003	For the year ended March 31, 2002	Growth
Revenue (A)	18,070	16,623	9%
Gross Profit (GP)	10,231	9,754	5%
GP as % of Revenue	57%	59%	–
Other Income (B)	683	154	344%
Total Income (A+B)	18,753	16,777	12%
PBT before Minority Interest	3,937	5,090	(23%)
PBT as % of Total Income	22%	31%	–
PAT after Minority Interest	3,532	4,921	(28%)
%	20%	30%	–
Earnings per equity share			
Basic	46.16	64.73	
Diluted	46.16	64.62	

RECONCILIATION BETWEEN IGAAP AND US GAAP CONSOLIDATED RESULTS

Table 12 below gives the reconciliation between financials prepared under consolidated Indian GAAP and US GAAP.

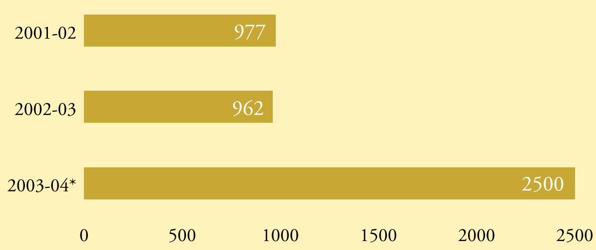
Table 12: Reconciliation between financials prepared according to Indian GAAP and US GAAP consolidated (Rs. Million)

Net Profit Reconciliation	For the year ended March 31, 2003
Net Income as per Indian GAAP	3,642
Adjustments	
Difference on Revenue recognition	27
Earnings of Affiliates consolidated	(92)
Depreciation (net)	83
Amortisation (net)	(314)
Others	294
Profit before consolidation	3,640
Subsidiaries difference	(107)
Net Income as per US GAAP	3,532

MANAGEMENT DISCUSSION AND ANALYSIS

INVESTMENT OUTLOOK

Chart E: Capital expenditure from 2001-02 to 2003-04 (Rs. Million)



*Estimated

The Company has initiated steps for three special projects. These projects include a Formulations project, Oncology project and the Biotech project with an estimated outlay of Rs. 1,000 million for this year. The balance is planned towards improvement of existing facilities and other routine capex.

CORPORATE INITIATIVES

The major initiatives taken by the management during the financial year 2002-03 are:

Rachna

In October 2002, the Company launched Six Sigma initiative in New Product Development. The initiative is aimed at developing Six Sigma competencies in the New Product Development process across four SBU's – APIs, Generics, Branded Formulations and Custom Chemical Services. The Six Sigma methods emphasize rigorous tracking of critical measures and enhanced customer satisfaction. This also ties in with our desire to introduce the Six Sigma concepts to our organization, in order to apply them subsequently in other critical areas, such as supply chain management and manufacturing. The focus will be to map and reengineer the New Product Development process, build skills in project management both at the portfolio management level as well as the project activity planning level and clearly establish accountabilities.

Pragati

Operational excellence is critical for us to differentiate ourselves from competition and meet our growth aspirations. Purchasing and supply management (PSM) constitutes the foundation of operational excellence, and success in this initiative will create significant momentum in the entire organisation to strive for operational excellence. The Pragati project was initiated towards this end in October 2002.

The overall objective of the program is to transform Dr. Reddy's into a "world class purchasing organisation optimizing cost, quality and delivery". The program is structured to generate maximum impact and will be driven by a project leader duly supported by category champions and a core facilitation team. In each wave, the category teams will generate, evaluate and syndicate numerous ideas towards meeting the aspirational saving targets. The teams will also outline implementation plans delineating responsibility for implementing each idea and put in place tracking mechanisms.

HUMAN RESOURCES

A Company is only as good as its people. This adage is particularly true for a knowledge based, discovery driven pharmaceutical company like Dr. Reddy's. The total manpower strength of Dr. Reddy's group is 5,852 and we have spent almost Rs. 1,211 million on salaries, wages and employee benefits. There are over 770 scientists at Dr. Reddy's, of whom 246 focus exclusively on Discovery Research. This includes 125 PhDs.

As we transition towards our vision of becoming a discovery led global pharmaceutical company, the organisational and business challenges that we face become very significant. These challenges can be met only if we have great leaders at all levels. We need leaders who can imagine the future, who can think without limits and above all who are passionate about their work.

We need leaders who have the ability to execute well. This critical aspect of execution is based on the people skills of the leader. We also need leaders with self-confidence, who are committed to the development and success of their people. Leaders who, hire people much better than themselves and leaders who are collaborative both internally and externally. They who move away from a command and control mindset to a higher standard of leadership in order to get the best out of people and enable everyone to reach to their highest potential. We need leaders who deliver on results today, build the pipelines for the future and build up the organizational capability to sustain growth. Leaders and leadership development is therefore a key area of focus.

We are committed took management and leadership development programs, in which we identify the next generation of leaders in our company and groom them for their rightful place.

USE OF ADS PROCEEDS

The net proceeds from the ADS offering after underwriting discounts and commissions was approximately US$ 125.4 million. A significant portion of the net proceeds from the offering amounting to US$ 30 million has been invested in bank deposits. We have liquidated US$ 74.1 million of our liabilities, thereby reducing our interest outflows substantially. A sum of GBP 9.16 million has been invested in the acquisition of UK based BMS Laboratories Limited (now Dr. Reddy's Laboratories (EU) Limited) alongwith its wholly owned subsidiary Meridian Healthcare Limited (now Dr. Reddy's Laboratories (UK) Limited).

RELATED PARTY TRANSACTIONS

Accounting Standard 18 (AS-18) issued by ICAI mandates disclosure of all related party transactions. These have been disclosed in detail in Note 5 of Schedule 20 to the Standalone financial statements.

INTERNAL CONTROLS AND RISK MANAGEMENT

Dr. Reddy's has designed a system of internal control to (i) safeguard the company's assets, (ii) ensure that transactions are properly authorised and (iii) provide reasonable assurance, at reasonable cost, of the integrity, objectivity and reliability of the financial information. The management of Dr. Reddy's duly considers and takes appropriate action on recommendations made by the statutory auditors, internal auditors and the audit committee of the board.

OPPORTUNITIES AND THREATS

OPPORTUNITIES

Our vision is to become a discovery led global pharmaceutical company. To achieve this we need an adequate number of late stage compounds and in-market products, a stream of early phase projects backed by a sustainable pipeline engine, a broad-based research program of both first-in-class and analogue research, skills in all stages of drug discovery, development of skills for taking our own new chemical entities to the market and the ability took build a unique organization with world class talent.

In order to achieve this we are working towards Developing of our outlicensing strategy to combine co-development and outright outlicensing beyond phase 2A, inlicensing projects to augment our internal pipeline development efforts, focussing on the five major therapeutic areas - diabetes, metabolic disorders, cardiovascular disease, anti-infectives, cancer and inflammation, leveraging presence in the US for access to critical skills and India for scale and agility.

The other big opportunity lies in Specialty business in the US. This will serve as our bridge to the discovery business. It will enhance the value of the discovery business by accelerating the creation of a launch platform, derisk the discovery business by giving us options in case more molecules fail and create greater value in the long term i.e. more than generics and emerging markets. At the same time specialty will leverage our "India Advantage" skills including API, branded formulation, intellectual property and clinical development.

In order to build a sustainable Speciality business in the US our strategy would be to set up an organisation including significant front end in the US to market and sell products and provide a bridge to our NCE commercialisation process identifying and developing new drug delivery system (NDDS) and other opportunities to develop unique products and develop competencies in detailing/brand marketing in the US.

While we build up our Discovery pipeline and the Specialty business, we will need to ensure the growth trajectories of our core businesses, viz. APIs, Branded Formulations and Generics. This is vital to our continued growth as well as to generate financial resources to fund our evolution. These businesses are also critical to balance the inherent risks in Discovery & Specialty. They provide a cushion against unforeseen events and risks by building critical mass for the organisation. Therefore, we will focus on generating momentum in the other businesses and grow them effectively by building on the base already created.

RISKS AND THREATS

Our long term results will depend, to a degree, upon our ability to successfully patent and commercialise our own molecules. The development and commercialisation process is both time consuming and costly. On an average, it takes approximately 10 to 12 years to develop a new product from the laboratory stage to a form ready for consumption by the patient. We always run the risk of delays in any part of the process. Our inability to obtain necessary regulatory approvals for our products or failure of a product at any stage may disturb our projected realisation. We are also investing in our Specialty business in the US and delays or denial of regulatory approvals may affect our future revenue projections.

Keeping in mind the number of Patent Expiries coming in near future, sales of patent expiry drugs in the US during the next three years is a big opportunity for all generics players. We will continue to invest in further development of our generics business. If branded pharmaceutical companies in the US are successful in limiting the use of generics through their legislative and regulatory efforts, our sales of generic products may suffer. We also face the risks of competition, litigations and hurdles of regulatory framework in the generics business.

Currently, only process patents are recognised in India. However, by virtue of India being a member of the World Trade Organisation (WTO), India has recently passed legislation to recognise product patents from 2005. This does not affect a discovery based Company like Dr. Reddy's. However, it will affect companies that survive only on reverse engineering. Recognising this fact, some

MANAGEMENT DISCUSSION AND ANALYSIS

Indian companies are now stepping up their research activities to make themselves more self-sufficient in product development. How many of them actually develop the R&D capabilities to compete in the new regime remains to be seen.

The Drug Price Control Order (DPCO) continues to play an active role in the industry. Sometimes, the pricing authority arbitrarily sets prices of drugs that fall within its ambit without giving due consideration even to the costs of production. This leaves manufacturers with low margins and hence fewer funds to invest in world class manufacturing facilities and R&D activities. The silver lining is that the span of drug price control has been substantially reduced in 2001-02. However, since the Drug Price Controller is a pure administrative authority subject to the pressures of government, this could easily be reversed.

CAUTIONARY STATEMENT

The management of Dr. Reddy's has prepared and is responsible for the financial statements that appear in this report. These financial statements are in conformity with accounting principles generally accepted in India and in the US and therefore include amounts based on informed judgments and estimates. The management also accepts responsibility for the preparation of other financial information that is included in this report.

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

CORPORATE GOVERNANCE

Dr. Reddy's Laboratories Limited ("Dr. Reddy's" or "The Company") believes that corporate governance goes beyond being a regulatory requirement, actually it builds a long-term value to stakeholders by providing a system of checks and balances between the Board, executive management, investors and other key stakeholders, as a result the organisation is geared up towards long-term sustainable value creation by adequately managing risks, sharing information and balancing stakeholders expectations.

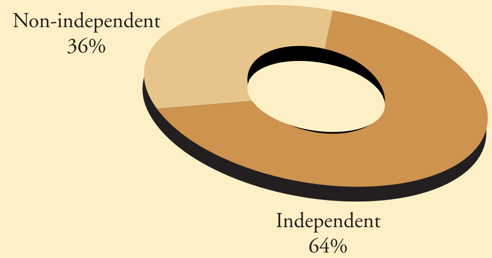
A. BOARD OF DIRECTORS

1) COMPOSITION

As on March 31, 2003, Dr. Reddy's had 11 Directors on its Board, of which eight are Non-Executive Directors. Seven out of the eight Non-Executive Directors are independent as defined under the New York Stock Exchange (NYSE) listing rules.

Dr. K. Anji Reddy, one of the founder Director of the Company, is the Executive Chairman of the Board. The composition of the Board in terms of percentage of Independent Directors as per NYSE Corporate Governance guidelines is shown in chart-1.

Chart-1 Percentage of Independent Directors as per NYSE Corporate Governance Standards



The directors are experts in the fields of medicinal chemistry, medical research, human resource development, strategy, management, finance and economics. They discuss matters relating to significant business decisions, including strategy, new projects, investments and regulatory matters.

Table 1 gives the composition of the Dr. Reddy's board, their positions, relationship with the other directors, other directorships and memberships of committees held by each.

CORPORATE GOVERNANCE

Table 1: Composition of Dr. Reddy's Board

Name	Position	Relationship with other Directors	Date of joining	Directorships in India u/s 275	**Other Directorships	***Committee memberships	****Chairmanships in Committees
Dr. K. Anji Reddy	Executive Chairman	Father of Satish Reddy and father-in-law of Mr. G. V. Prasad	February 24, 1984	6	29	1	1
Mr. G. V. Prasad	Executive Vice Chairman and CEO	Son-in-law of Dr. Anji Reddy & brother-in-law of Mr. Satish Reddy	April 8, 1986	12	25	4	1
Mr. Satish Reddy	Managing Director and COO	Son of Dr. Anji Reddy and brother-in-law of Mr. G. V. Prasad	January 18, 1993	7	34	4	–
Dr. Omkar Goswami	Independent Director	None	October 30, 2000	3	1	4	2
Mr. P. N. Devarajan	Independent Director	None	October 30, 2000	8	–	3	1
Mr. Ravi Bhoothalingam	Independent Director	None	October 30, 2000	2	1	5	2
Dr. P. Satyanarayana Rao	Independent Director	None	October 31, 1994	1	2	3	1
Dr. V. Mohan	Independent Director	None	March 8, 1996	1	1	–	–
Dr. A. Venkateswarlu	Director*	None	January 30, 2001	1	2	4	–
Prof. Krishna G. Palepu	Independent Director	None	January 29, 2002	2	2	4	1
Mr. Anupam Puri	Independent Director	None	June 4, 2002	5	1	6	3

* According to Clause 49 of the Listing Agreement with Indian stock exchanges, an Independent Director means a Director who, apart from receiving a Director's remuneration, does not have any other material pecuniary relationship or transactions with the Company, its promoters, its management, or its subsidiaries, which in the judgement of the Board may affect the independence of judgement of the Director. By that criterion, Dr. A. Venkateswarlu is an Independent Director. However, according to the New York Stock Exchange's listing rules, a person is not treated as an Independent Director without three years having lapsed between that person being an employee and a board member of the same company. Pursuant to the above clause, Dr. A. Venkateswarlu is a Non-Executive, but not an Independent Director.

** Other Directorships are those, which are not covered under Section 275 of the Companies Act, 1956.

*** Committee membership include membership in Dr. Reddy's.

**** Chairmanship in Committees include in Dr. Reddy's.

CORPORATE GOVERNANCE

2) DEFINITION OF "INDEPENDENT DIRECTOR"

The Company has adopted the definition of Independent Director as specified by NYSE.

3) SHAREHOLDING IN THE COMPANY

Table 2 gives details of the shares held by each of the directors as on March 31, 2003.

Table 2: Shares held by Directors in the Company

Name	No. of shares held
Dr. K. Anji Reddy	600,478*
Mr. G. V. Prasad	690,772
Mr. Satish Reddy	597,916
Dr. Omkar Goswami	-
Mr. P. N. Devarajan	-
Mr. Ravi Bhoothalingam	-
Dr. P. Satyanarayana Rao	1,000
Dr. V. Mohan	-
Dr. A. Venkateswarlu	18
Prof. Krishna G. Palepu	-
Mr. Anupam Puri	2,000**

* Dr. Reddy's Holdings Private Limited owns 17,461,730 shares of Dr. Reddy's Laboratories Limited.

Dr. K. Anji Reddy owns 40.71% of Dr. Reddy's Holdings Private Limited. Various members of his family own the remainder.

** ADSs held

4) ROLE AND RESPONSIBILITIES

The Dr. Reddy's board provides leadership, strategic guidance and an objective and independent view to the company's management while discharging its fiduciary responsibilities, thereby ensuring that the management adheres to the standards of ethics, transparency and disclosure norms.

5) NOMINATION OF NEW MEMBERS

The board of directors has constituted a Nomination Committee, which recommends the selection of the new inductees to the board.

The Nomination Committee and the board take into account the candidate's past experience, background and involvement as Director on Boards of other companies while evaluating his/her suitability for making his/her recommendation to the Company's shareholders.

Executive Directors are contractually appointed for a period of five years, subject to the recommendation of the board and approval of the shareholders. A third of the Non-Executive Directors retire by rotation every year and if eligible, may offer themselves for re-appointment.

6) MEETINGS

Board meetings at Dr. Reddy's usually extend for a day. The Audit Committee and other committee meetings are half a day sessions.

CORPORATE GOVERNANCE

During these meetings, head of business and key management personnel are called upon to make presentations to the board. The time spent by the Board of Directors during the year is shown in chart-2.

The Dr. Reddy's board met five times during the year on June 4, 2002, July 31, 2002, August 26, 2002, October 24, 2002 and January 28, 2003. Details of Directors, their attendance at board meetings and the Annual General Meeting are given in Table 3.

Chart - 2 Analysis of time spent by Directors

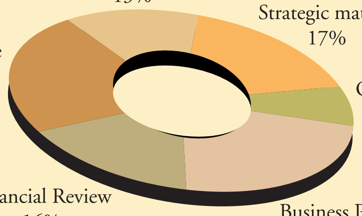


Table 3: Directors' Attendance at Dr. Reddy's Meetings during the year 2002-03

Name of Director	Number of board meetings held	Number of board meetings attended	Attendance in last AGM on August 26, 2002
Dr. K. Anji Reddy	5	5	Present
Mr. G. V. Prasad	5	5	Present
Mr. Satish Reddy	5	5	Present
Dr. Omkar Goswami	5	4*	Present
Mr. P. N. Devarajan	5	5	Present
Mr. Ravi Bhoothalingam	5	5	Present
Dr. P. Satyanarayana Rao	5	5	Present
Dr. V. Mohan	5	5	Present
Dr. A. Venkateswarlu	5	5	Present
Prof. Krishna G. Palepu	5	2*	Present
Mr. Anupam Puri	5	3*	Absent

* Were given leave of absence on request.

7) MEETINGS IN EXECUTIVE SESSION

During the financial year, the independent directors of Dr. Reddy's have met once without management in executive session. The Company intends to facilitate such sessions as and when required by the Independent Directors.

8) INFORMATION GIVEN TO THE BOARD

The board of Dr. Reddy's was provided with the information listed below as and when required. Such information is submitted either as part of the agenda papers generally 15 days in advance of the board meetings or is in the form of presentations made during the meetings of the board or the committees.

- Annual operating plans and budgets, capital budgets, updates and all variances;
- Quarterly results of the Company and its operating divisions or business segments;
- Detailed presentations on the progress in research and development and new drug discoveries;
- Minutes of meetings of the Audit Committee and other committees;
- Information on recruitment and remuneration of key executives just below the board level;
- Significant regulatory matters concerning Indian or foreign regulatory authorities;
- Issues which involve possible public or product liability claims of a substantial nature;
- Risk analysis of various products, markets and businesses;
- Detailed analysis of potential acquisition targets or possible divestments;
- Details of any joint venture or collaboration agreement;
- Transactions that involve substantial payment towards goodwill, brand equity or intellectual property;
- Significant sale of investments, subsidiaries, assets, which are not in the normal course of business;
- Contracts in which director(s) are deemed to be interested;
- Materially important show cause, demand, prosecution and penalty notices;
- Fatal or serious accidents or dangerous occurrences;
- Significant effluent or pollution problems;
- Materially relevant default in financial obligations to and by the Company or substantial non-payment for goods sold by the Company;
- Significant labour problems and their proposed solutions;
- Significant development on the human resources and industrial relations fronts;
- Quarterly details of foreign exchange

exposure and the steps taken by management to limit the risks of adverse exchange rate movement; and

- Non-compliance of any regulatory or statutory nature or listing requirements as well as shareholder services such as non-payment of dividend and delays in share transfer.

BOARD ONLINE

The Company has also facilitated information sharing online through a portal exclusively for the Board of Directors, "Board Online", which keeps board members updated on all information related to the Company. Directors can access presentations, documents, agenda notes and minutes of all previous meetings online. They can also access key reports posted periodically on this portal. The portal also keeps them updated on the industry and company news.

9) COMPENSATION TO DIRECTORS

Remuneration including the commission on the net profits of the Company for the three Executive Directors of Dr. Reddy's are recommended by the boards Remuneration Committee, which consists of Non-Executive Directors and is then approved by the Board.

Executive Directors are not eligible to participate in the stock option plan. Non-Executive Directors have not been granted any options during the year.

The remuneration paid or payable to the directors for services rendered during 2002-03 is given in Table 4 below.

Table 4: Remuneration of the Directors (in Rs. thousand)

Name of Directors	Sitting fees*	Commissions**	Salaries	Perquisites***	Total
Dr. K. Anji Reddy	NA	44,167	1,800	244	46,211
Mr. G. V. Prasad	NA	22,084	1,080	254	23,418
Mr. Satish Reddy	NA	22,084	1,080	254	23,418
Dr. Omkar Goswami	40	1,430	NA	NA	1,470
Mr. P. N. Devarajan	70	1,430	NA	NA	1,500
Mr. Ravi Bhoothalingam	65	1,430	NA	NA	1,495
Dr. P. Satyanarayana Rao	65	1,430	NA	NA	1,495
Dr. V. Mohan	25	953	NA	NA	978
Dr. A. Venkateswarlu	75	1,429	NA	NA	1,504
Prof. Krishna G. Palepu	10	1,429	NA	NA	1,439
Mr. Anupam Puri	20	1,429	NA	NA	1,449

NOTES :

* Sitting fees include fees for Board as well as Committee meetings @ Rs.5000/- per meeting.

** Commissions are variable, and based on percentage of net profit calculated according to Section 198 of the Companies Act, 1956.

*** Perquisites include house rent allowance, medical reimbursement for self and family according to the rules of the Company, leave travel assistance, personal accident insurance, Company vehicle for official use with driver, telephone at residence and superannuation benefits and are fixed in nature.

CORPORATE GOVERNANCE

10) RELATED PARTY TRANSACTIONS

The details of related party transactions are discussed in detail in Note 5 of Schedule 20 to the standalone financials of the Company.

11) COMMITTEES OF THE BOARD

Committees appointed by the board focus on specific areas and take decisions within the authority delegated. The Committees also make specific recommendations to the board on various matters from time-to-time. All decisions and recommendations of the Committees are placed before the board for information or approval. Dr. Reddy's has seven board-level committees:

- Audit Committee;
- Remuneration Committee;
- Compensation Committee;
- Nomination Committee;
- Shareholders' Grievances Committee;
- Management Committee; and
- Investment Committee.

a) Report of the Audit Committee

The management is primarily responsible for Dr. Reddy's internal controls and the financial reporting process. Statutory auditors are responsible for performing independent audits of the Company's financial statements in accordance with generally accepted auditing standards and for issuing reports based on such audits. The Board of Directors has entrusted the Audit Committee with the responsibility of supervising these processes and thus ensuring accurate and timely disclosures that maintain the transparency, integrity and quality of financial control and reporting.

The committee consists of the following seven non-executive directors, six of whom are independent even by the strictest criterion of 'independence'.

- Dr. Omkar Goswami (chairman);
- Mr. Anupam Puri;
- Dr. A. Venkateswarlu;
- Prof. Krishna G. Palepu;
- Mr. P. N. Devarajan;
- Dr. P. Satyanarayana Rao; and
- Mr. Ravi Bhoothalingam.

The Company Secretary is the secretary of the committee.

The CEO, CFO and CIA are permanent invitees at all the Audit Committee meetings. The statutory auditors of the Company were present in all the Audit Committee meetings during the year.

Prof. Krishna G. Palepu and Mr. Anupam Puri were inducted to the Audit Committee of the Board at the meeting of the Board of Directors held on October 24, 2002.

In 2002-03, Dr. Reddy's Audit Committee meetings were organised a day before the board meetings. The meetings generally are half-a-day sessions, except in the case of half-yearly and annual results, where they extend to full-day sessions. The agenda for the Audit Committees, inter alia, included the following items:

i. Detailed presentation of performance, including budget versus actuals, segregated at the level of each strategic business unit (SBU), business performance of each SBU including working capital management.

ii. Internal audit, control matters and risk management, including action-taken reports.

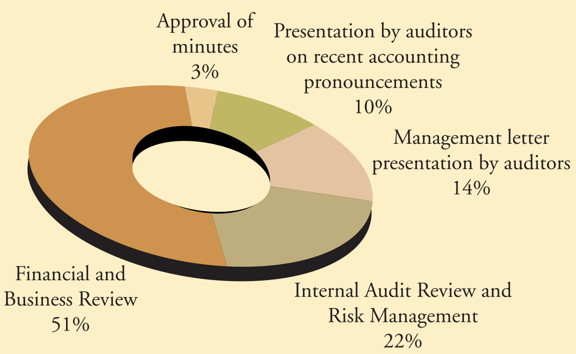
iii. The status of SAP and other IT systems that assist financial and operational reporting and how these could be further optimised to increase speed of reporting and create improved management information systems.

iv. Discussion with statutory auditors, including new accounting standards and policies relating to Indian as well as US accounting principles and practices.

v. Detailed operational and financial risk appraisals, as well as risks relating to legal compliance.

Chart - 3 shows the time spent by the members of Audit Committee on various issues in classified manner.

Chart - 3 Time spent by Audit Committee



The Audit Committee met four times during the year on June 3, 2002, July 30, 2002, October 23, 2002 and January 27, 2003.

Table 5 gives the attendance record of the Audit Committee.

Table 5: Audit Committee Attendance During 2002-03

Committee members	Meetings held	Meeting attended
Dr. Omkar Goswami (chairman)	4	3
Mr. Anupam Puri*	4	1*
Dr. A. Venkateswarlu	4	4
Prof. Krishna G. Palepu*	4	0*
Mr. P. N. Devarajan	4	4
Dr. P. Satyanarayana Rao	4	4
Mr. Ravi Bhoothalingam	4	4

* Only one meeting held after their induction into Audit Committee.

The primary responsibilities of the Audit Committee are to:

- Effectively supervise the financial reporting process;
- Review the quarterly and annual financial results before placing them before the Board;
- Review the adequacy of internal controls in the Company, including the plan, scope and performance of the internal audit function;
- Review financial and other operational risk management policies of the Company;
- Hold discussions with statutory auditors on the nature and scope of audits and any views that they have about the financial control and reporting processes;

- Ensure compliance with accounting standards and listing requirements with respect to financial statements;
- Recommend the appointment and removal of external auditors and their fees;
- Review the independence of auditors;
- Ensure that adequate safeguards have been taken for legal compliance both for the Company and its other domestic as well as foreign subsidiaries; and
- Review related party transactions.

The Dr. Reddy's Audit Committee has been vested with all the powers necessary to effectively discharge the above responsibilities.

Based on its discussion with the statutory auditors and the management, the Audit Committee has recommended that the board accept the audited financial statements prepared in accordance with Indian GAAP and US GAAP as true and fair statements of the financial health of the Company.

Further, the committee has recommended that for the year 2003-04 the Board re-appoint Bharat S Raut & Co. and KPMG as statutory independent auditors for Indian GAAP and US GAAP respectively.

The committee has also expressed satisfaction over the performance of the finance and legal departments of the Company and of the efficiency and independence of the internal audit department.

Sd/-
Dr. Omkar Goswami
Chairman, Audit Committee

b) Remuneration Committee

Dr. Reddy's Remuneration Committee consists of the following four Non-Executive Independent Directors:

- Mr. P. N. Devarajan (chairman);
- Dr. A. Venkateswarlu;
- Dr. Omkar Goswami; and
- Mr. Ravi Bhoothalingam.

The head of the human resources function of the Company is the secretary of the committee.

The Remuneration Committee considers and recommends the compensation of the Executive Directors and Executives above Vice-President level and also reviews the remuneration package offered by the Company to different grades of its employees.

While deciding the remuneration of an Executive Director, the committee shall take into account the following:

- Financial position of the company;
- Trend in the industry;

- Appointee's qualification;
- Experience;
- Past performance;
- Past remuneration; etc.

In determining the remuneration package, the committee shall strike a balance between the interest of the Company and the shareholders.

The Remuneration Committee met in full strength during the year on January 27, 2003 to discuss the Company's recruitment and compensation strategy.

c) Compensation Committee

The Compensation Committee administers the Company's employee stock option scheme (ESOS) and consists of the following directors:

- Mr. Ravi Bhoothalingam (chairman);
- Dr. A. Venkateswarlu;
- Mr. G. V. Prasad;
- Mr. P. N. Devarajan; and
- Mr. Satish Reddy.

The Company Secretary is the secretary of this committee. The Compensation Committee met on three occasions during the year on May 9, 2002, July 31, 2002 and August 26, 2002. All committee members attended the meeting. Details of stock options granted by the committee during the financial year are discussed in detail in the Directors' Report.

d) Nomination Committee

The Nomination Committee was constituted on October 24, 2002 with Mr. Anupam Puri as chairman. The Nomination Committee consists of the following directors:

- Mr. Anupam Puri (chairman);
- Prof. Krishna G. Palepu; and
- Mr. Ravi Bhoothalingam.

The role of the Nomination Committee is to:

- Lay out the procedure for selection of nominees on the board of the Company;
- Shortlist nominees for induction to the board of the Company;
- Recommend appointment of members to the Board for its consideration; and
- Plan long-term succession planning for Executive and Independent Directors.

No meetings were held during the financial year 2002-03.

e) Shareholders' Grievance Committee

The Shareholders' Grievance Committee is chaired by a Non-Executive, Independent Director and consists of the following Directors:

- Dr. P. Satyanarayana Rao (chairman);
- Mr. G. V. Prasad; and
- Mr. Satish Reddy.

CORPORATE GOVERNANCE

The Company Secretary is the secretary of this committee. This committee met four times during the year on June 4, 2002, July 30, 2002, October 23, 2002 and November 23, 2002. All members were present at all meetings.

The major discussions and recommendations of this committee were to:

- Review investor complaints and look into their redressal;
- Review investor queries;
- Review corporate actions related work; and
- Outsource investor services for investors holding shares in physical form.

f) Management Committee

The Dr. Reddy's Management Committee consists of the following Executive Directors:

- Dr. K. Anji Reddy (chairman);
- Mr. G. V. Prasad; and
- Mr. Satish Reddy.

The Company Secretary is the secretary of this committee. The Management Committee reviews SBU operations and capital budgets and gives necessary directions to the senior management team based on strategy finalised by the board. The committee has held six meetings during the year on June 14, 2002, August 14, 2002, September 20, 2002, November 28, 2002, February 12, 2003 and March 24, 2003.

g) Investment Committee

The Company's Investment Committee comprises the following directors:

- Mr. G. V. Prasad (chairman);
- Dr. A. Venkateswarlu; and
- Mr. Satish Reddy.

The Company Secretary is the secretary of this committee. The Investment Committee reviews the Company's investment proposals and ongoing projects. The committee has held three meetings during the year on November 25, 2002, December 12, 2002 and March 24, 2003.

During the year, the Investment Committee discussed and recommended investment proposals to the board. The major projects proposed were a new formulations manufacturing facility at Goa, a Cytotoxics facility, a biotechnology facility and additional investments in the Russian subsidiary.

B. MANAGEMENT

The Dr. Reddy's management has developed and implemented policies, procedures and practices that attempt to translate the Company's core purpose and mission into reality. The management also identifies, measures, monitors and minimizes the risk factors in the business and ensures safe, sound

CORPORATE GOVERNANCE

and efficient operation. These are internally supervised and monitored through the Management Council.

Management Council

The Dr. Reddy's management council consists of all the senior management members from across business units and the corporate centre of the Company. It has a balanced representation from both the Company's Indian as well as its overseas offices. The present members of the management council are:

Management Council on 2 May, 2003

SITTING (L to R) : 1. Mr. V. S. Vasudevan, 2. Mr. Arun Sawhney, 3. Mr. Satish Reddy, 4. Mr. G.V. Prasad, 5. Mr. Andrew Miller, 6. Dr. R. Rajgopalan, 7. Mr. Jaspal Bajwa

STANDING (L to R) : 1. Mr. Raghu Cidambi, 2. Mr. Adam Levitt, 3. Dr. Uday Saxena, 4. Mr. Cameron Reid, 5. Mr. Mark Hartman, 6. Mr. Saumen Chakraborty, 7. Mr. Abhijeet Mukherjee, 8. Mr. Timothy Crew

CORPORATE GOVERNANCE

For a detailed background of Management Council members please visit the corporate website of the Company - www.drreddys.com.

The council meets once a quarter for two full day sessions. The background notes for the meetings are circulated well in advance in order to facilitate decision-making. Listed below are some of the key matters considered by the management council:

- The Company's long-term strategy;
- Monitoring of overall Company performance, including the performance of various business;
- Decision on major corporate policies;
- Discussion and sign-off on annual plans, budgets and investments; and
- Discussion on business alliance proposals.

Management Discussion and Analysis

This annual report has a detailed chapter on Management Discussion and Analysis.

Prohibition of Insider Trading

The Company has a policy prohibiting Insider Trading, conforming to the Securities Exchange Board of India (SEBI) and Securities Exchange Commission (SEC) of United States of America. The necessary guidelines have been laid down for employees, connected persons and persons deemed to be connected for trading in the securities of the Company.

C. INTERNAL CONTROL SYSTEMS

Effective governance consists of competent management, implementation of policies and processes, maintenance of an appropriate audit program and internal control environment and effective risk monitoring and management information systems.

Dr. Reddy's has put in places both external and internal audit systems. Auditors have access to all records and information about the Company. The board and the management review the findings and recommendations of the auditors and take necessary corrective action. The board recognises the work of the auditors as an independent check on the information received from the management on the operations and performance of the Company.

Statutory and US GAAP Audits

For the financial year 2002-03, Bharat S Raut & Co. audited the financial statements prepared under the Indian GAAP. The Company has appointed KPMG as independent auditors for the purpose of issuing an opinion on the financials prepared under the US GAAP.

While auditing the operations of the Company, the external auditors recorded their observations and findings with the management. These were then discussed among the management, Audit Committee members and the auditors at Audit Committee meetings. Corrective actions suggested by the auditors and the Audit Committee were implemented or taken up for implementation by the management.

The independent auditors gave their opinion about the fair presentation in the financial statements of the Company's financial condition and operating results. Their audit was done in accordance with generally accepted auditing standards and included a review of the internal controls to the extent, considered necessary to determine the audit procedures required to support their opinion. Their reports appears on page no. 106 and 142 in this annual report.

Auditors' fees

During the year, the Company paid Rs. 5,150,000 to the Statutory Auditors of the Company as remuneration. The auditors were paid Rs. 475,000 for rendering other services to the Company.

The audiors were also reimbursed out of pockets expenses of Rs. 463,000.

Internal Audit

The Company has implemented comprehensive internal control systems covering ethical values, management's philosophy and the competence of employees. The internal control systems ensure that any vulnerability in the achievement of the Company's objectives caused by risk factors whether internal or external, existing or emerging, is detected and reported in a timely manner and is meted out with appropriate corrective action.

The internal control systems include careful selection and development of employees, a proper division of responsibilities and dissemination of written accounting and operating policies and procedures augmented by a continuing internal audit programme. Although there are inherent limitations to the effectiveness of any system of accounting controls, the Company believes that its system provides reasonable assurance that its assets are safeguarded from unauthorised use or disposition and that the transactions are executed in accordance with management's authorisation and are properly recorded to permit the preparation of financial statements in accordance with generally accepted accounting principles.

The internal audit at Dr. Reddy's is an independent, objective assurance and consulting activity, designed to add value and to improve the Company's operations. The internal audit function operates at a level in the Company that allows it to fully accomplish its responsibilities. The Chief Internal Auditor Reports to the Chief Executive Officer and is a permanent invitee in the Audit Committee. The Audit Committee periodically meets with internal auditors and reviews their audit plans, internal controls, financial reports and related matters.

The internal audit plan, which is approved by the Audit Committee, is based on outcomes of the risk assessment process, issues highlighted by the Audit Committee and senior management and its own professional judgment. The internal audit function co-ordinates with the other internal and external providers of assurance to ensure proper coverage of finance and operational and compliance controls.

CORPORATE GOVERNANCE

D. INFORMATION TO STAKEHOLDERS

Dissemination of information

During the year, the Company followed a planned information dissemination process through various means to different stakeholders - shareholders, analysts, suppliers, customers, employees and the society at large.

The primary source of information regarding the operations of the Company is the corporate website - www.drreddys.com.

All official news releases and presentations made to institutional investors and analysts are posted on the corporate website. An analysis of the various means of dissemination of information is produced below in Table 6.

Table 6: Details of communication made during the financial year 2002-03

Means of communication	Frequency
Press releases/statements	33
Earnings calls	4
Publication of results	4
Analysts meet	1

The quarterly results of the Company are published in widely circulated national newspapers such as *The Economic Times*, *Business Line* and *The Times of India* and the local daily, *Vartha*, and internationally through Business Wire.

The Company's IT initiatives in the dissemination of information to stakeholders through the corporate website and various portals viz. Vikreta2drl.com, customer2drl.com, livizi.com, housecallsindia.com, drlintouch.com have been appreciated across stakeholders.

INFORMATION FOR SHAREHOLDERS

Re-appointment of Directors

Dr. Omkar Goswami, Dr. V. Mohan and *Dr. A Venkateswarlu* retire by rotation at the ensuing annual general meeting. Dr. Omkar Goswami and Dr. V. Mohan are eligible for reappointment and proposed to be reappointed at the ensuing annual general meeting. Dr. A. Venkateswarlu has expressed his intention not to opt for re-appointment at the ensuing annual general meeting. The brief profiles of Dr. Omkar Goswami and Dr. V. Mohan are given hereunder.

Dr. Omkar Goswami has been a senior consultant and chief economist at the Confederation of Indian Industry (CII) since August 1998. He has also served as editor of Business India, associate professor at the Indian Statistical Institute, Delhi, and as an honorary advisor to the Ministry of Finance. Dr. Goswami holds a Bachelor of Economics degree from St. Xavier's College, Calcutta University, a Master of Economics degree from the Delhi School of Economics, Delhi University and a Doctor of Economics degree from Oxford University. He is also a Director of Infosys Technologies Limited, Infrastructure Development Finance Company Limited and DSP-Merrill Lynch Investment Managers Limited. He is an Audit Committee and Compensation Committee member in Infosys Technologies Limited.

Dr. V. Mohan has been one of our Directors since 1996. He is also the Chairman and Managing Director of M. V. Diabetes Specialities Centre Private Limited, a Director of Madras Diabetes Eye Research Centre Private Limited and the President of the Madras Diabetes Research Foundation. He is also a visiting professor of Diabetology at Sri Ramachandra Medical College and a professor of International Health at the University of Minnesota, USA. Dr. Mohan holds a Bachelor of Medicine degree, Doctor of Medicine degree, PhD and a Doctor of Science degree from Madras University.

Postal ballot

Dr. Reddy's has had no occasion to use postal ballots for obtaining shareholder approval on any matter.

Shareholder information

The detailed Additional Shareholder Information section is part of this Annual Report.

CERTIFICATE OF COMPLIANCE

To the Members of Dr. Reddy's Laboratories Limited

We have examined the compliance of conditions of Corporate Governance by Dr. Reddy's Laboratories Limited ("the Company"), for the year ended on 31 March 2003, as stipulated in clause 49 of the Listing Agreement of the said Company with the Bombay Stock Exchange, the Hyderabad Stock Exchange, the Madras Stock Exchange, the Ahmedabad Stock Exchange, the Calcutta Stock Exchange and the National Stock Exchange. The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the Company as per the records maintained by the Shareholders/Investors Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

for Bharat S Raut & Co.
Chartered Accountants

Pradip Kanakia
Partner

Place : New York, USA
Date : May 30, 2003

ADDITIONAL SHAREHOLDERS INFORMATION

CONTACT INFORMATION

REGISTERED AND CORPORATE OFFICE

Dr. Reddy's Laboratories Limited
7-1-27, Ameerpet
Hyderabad 500 016
Andhra Pradesh, India
Phone: +91-40-23731946
Fax: +91-40-23731955
Website: http://www.drreddys.com

CONCERNED OFFICERS

- **ADS Investors/Institutional Investors/ Financial Analysts**

US / EUROPE

Artie Rokkam
Phone: +1-201-760-2880, X211
Fax: +1-201-760-0401
email: artie@drreddys.com

ASIA PACIFIC

Nikhil Shah
Phone: +91-40-55511532
Fax: +91-40-23731955
email: nikhilshah@drreddys.com

- **Indian Retail Investors**

GENERAL QUERIES

Girish Tekchandani
Assistant Company Secretary
Dr. Reddy's Laboratories Limited
7-1-27 Ameerpet,
Hyderabad 500 016
Andhra Pradesh, India
Phone: +91-40-23731946 (Ext 309)
Fax: +91-40-23731955
email: girisht@drreddys.com

SHARE TRANSFERS AND OTHER SERVICES

Bigshare Services Private Limited
G-10 Left Wing, Amrutha Ville
Opp. Yashodha Hospital, Somajiguda
Hyderabad 500 082
Andhra Pradesh, India
Phone: +91-40-23374967
Fax: +91-40-23370295
Email : bigshare@hd2.dot.net.in
Contact Person: Mr. G. S. Dharma Veer

- **Media**

Pratap Antony/R. Rammohan
Corporate Communications
Phone: +91-40-55511634/620
Fax: +91-40-55511621
email: pratapa@drreddys.com
rammohanr@drreddys.com,

ADDITIONAL SHAREHOLDERS INFORMATION

- **Chief Compliance Officer**

  V. S. Vasudevan
  Chief Financial Officer
  Dr. Reddy's Laboratories Limited
  7-1-27, Ameerpet
  Hyderabad 500 016
  Andhra Pradesh, India
  Phone: +91-40-23731946
  Fax: +91-40-23731955
  email: vasudevan@drreddys.com

- **Compliance Officer**

  Santosh Kumar Nair
  Company Secretary
  Dr. Reddy's Laboratories Limited
  7-1-27, Ameerpet
  Hyderabad 500 016
  Andhra Pradesh, India
  Phone: +91-40-23731946
  Fax: +91-40-23731955
  email: santoshkumar@drreddys.com

CALENDAR FOR THE YEAR

Annual General Meeting

Date	August 25, 2003
Time	11.30 AM
Venue	Convention Center, Hotel Viceroy, Tank Bund Road, Hyderabad 500 080.
Last date for receipt of proxy forms	August 23, 2003 before 11.30 AM

Financial Calendar (Tentative)

For the quarter ending June 30, 2003	Last week of July
For the half year ending September 30, 2003	Last week of October
For the quarter ending December 31, 2003	Last week of January
For the year ending March 31, 2004	Last week of May
AGM for the year ending March 31, 2004	Second half of August, 2004
Book closure date	August 12, 2003 to August 15, 2003 (both days inclusive)
Dividend	Rs. 5 on equity shares of Rs. 5 each
Dividend payment date	August 30, 2003 onwards

LISTING ON STOCK EXCHANGES

EQUITY SHARES

- Hyderabad Stock Exchange Limited (Regional Stock Exchange).
- The Stock Exchange, Mumbai (BSE).
- The Calcutta Stock Exchange Association Limited.
- Madras Stock Exchange Limited.
- Ahmedabad Stock Exchange.
- National Stock Exchange (NSE).

AMERICAN DEPOSITORY SHARES (ADSs)

- New York Stock Exchange, New York

NOTE:
1. Listing fees for the year 2003-2004 has been paid to the Indian Stock Exchanges.
2. Listing fees to NYSE for listing of ADSs has been paid for the calendar year 2003-04.
3. Shares are also traded at other stock exchanges as permitted securities.

ADDITIONAL SHAREHOLDERS INFORMATION

CODES AT VARIOUS STOCK EXCHANGES

The following security codes are used by different stock exchanges and web sites for identification of the scrip of the Company.

Mumbai Stock Exchange: 500124
National Stock Exchange: DRREDDY
New York Stock Exchange (NYSE): RDY
Reuters: REDY.BO
Bloomberg: DRRD@IN

INTERNATIONAL SECURITIES IDENTIFICATION NUMBER (ISIN)

ISIN is a unique identification number of a traded scrip. This number has to be quoted in each transaction relating to the dematerialised equity shares of the Company. The ISIN number of the shares of Dr. Reddy's Laboratories is **INE089A01023.**

CUSIP NUMBER FOR ADSs

The Committee on Uniform Security Identification Procedures (CUSIP) of the American Bankers Association has developed a numbering system for securities. A CUSIP number uniquely identifies a security and its issuer and is recognised globally by organisations adhering to standards issued by the International Securities Organisation (ISO). Dr. Reddy's ADSs carry the CUSIP number **256135203.**

DEPOSITORIES

- **OVERSEAS DEPOSITORY OF ADS's**

  Morgan Guaranty Trust Company
  JP Morgan
  60 Wall Street
  New York, NY 10260-0060, USA
  Phone: +1-212-648-3403
  Fax: +1-212-648-5576
  Contact Person: Luca Biondolillo
  (luca.biondolillo@jpmorgan.com)

- **DOMESTIC CUSTODIAN OF ADS's**

  ICICI Limited
  ICICI Towers
  Bandra-Kurla Complex
  Mumbai 400 051,
  Maharashtra, India
  Phone: +91-22-26531414
  Fax: +91-22-26531122

- **REGISTRAR FOR INDIAN DEMAT SHARES**
  Bigshare Services Private Limited
  G-10 Left Wing, Amrutha Ville
  Opp. Yashodha Hospital, Somajiguda
  Hyderabad – 500 082
  Phone: +91-40-23374967
  Fax: +91-40-23370295
  Email : bigshare@hd2.dot.net.in
  Contact Person : Mr. G. S. Dharma Veer

ADDITIONAL SHAREHOLDERS
INFORMATION

EQUITY HISTORY OF THE COMPANY

Table 1 gives the equity history of the Company from when Dr. Reddy's was incorporated in 1984 until date.

Table 1: Equity history of Dr. Reddy's

Date	Particulars	Issued	Cancelled	Cumulative
February 24, 1984	Issue to promoters	200		200
November 22, 1984	Issue to promoters	243,300		243,500
June 14, 1986	Issue to promoters	6,500		250,000
August 9, 1986	Issue to public	1,116,250		1,366,250
September 30, 1988	Forfeiture of 100 shares		100	1,366,150
August 9, 1989	Rights Issue	819,750		2,185,900
December 16, 1991	Bonus Issue	1,092,950		3,278,850
January 17, 1993	Bonus Issue	3,278,850		6,557,700
May 10, 1994	Bonus Issue	13,115,400		19,673,100
May 10, 1994	Issue to promoters	2,250,000		21,923,100
July 26, 1994	GDR underlying Equity Shares	4,301,076		26,224,176
September 29, 1995	SEFL Shareholders on merger	263,062		26,487,238
January 30, 2001	CDL Shareholders on merger	5,142,942		31,630,180
January 30, 2001	Cancellation of shares held in CDL		41,400	31,588,780
April 11, 2001 & April 24, 2001	ADS underlying Equity Shares	6,612,500		38,201,280
July 9, 2001	GDR conversion into ADS			38,201,280
September 24, 2001	ARL Shareholders on merger	56,694		38,257,974
October 25, 2001	Sub division of equity shares			76,515,948

ADDITIONAL SHAREHOLDERS INFORMATION

DESCRIPTION OF VOTING RIGHTS

All shares issued by the Company carry the same voting rights.

PERSONS HOLDING MORE THAN 1% OF THE SHARES

Table 2 : gives the names of the persons who are holding 1% or more shares in Dr. Reddy's as on March 31, 2003.

Table 2: Persons holding 1% or more of the shares in the Company

Sr. No.	Name	No. of shares held*	% of paid up capital
1.	Dr. Reddy's Holdings Private Limited	17,461,730	22.82%
2.	Life Insurance Corporation of India	5,038,583	6.59%
3.	Fidelity Management and Research Co.	3,082,288	4.03%
4.	Emerging Markets Growth Fund Inc.	1,920,450	2.51%
5.	Schroder Investment Management	1,412,249	1.85%
6.	Top 50 Asien.	984,288	1.29%
7.	Unit Trust of India	945,847	1.24%
8.	Watson Pharmaceuticals Inc.	850,000	1.11%
9.	Madabhushini Investments Private Limited	761,417	1.00%

* Does not include ADS holdings.

ADDITIONAL SHAREHOLDERS INFORMATION

PERFORMANCE OF EQUITY SHARES ON BSE AND ADS ON NYSE

Table 3 gives the monthly high and low as well as the total number of shares/ADS traded per month on the BSE and the NYSE during the financial year 2002-03.

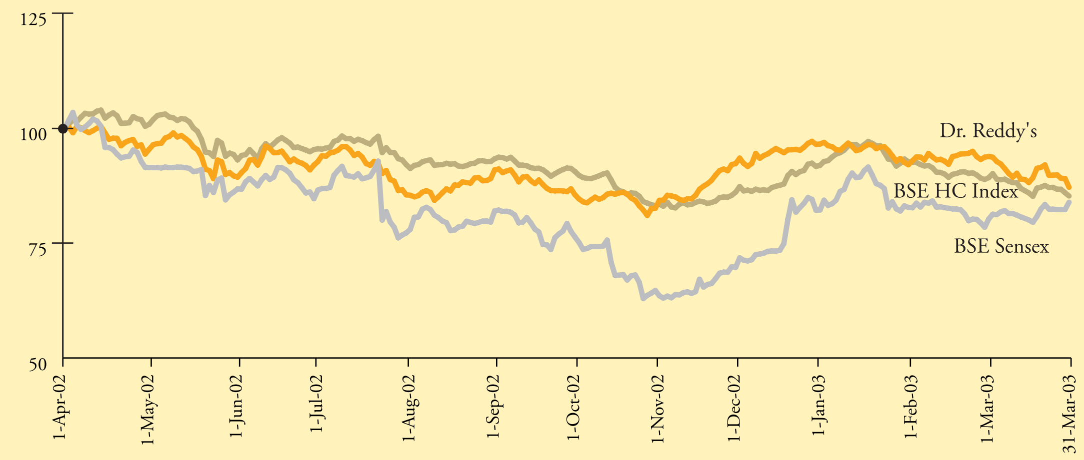
Table 3: Highs, lows and shares traded per month on BSE and NYSE, 2002-03

	BSE			NYSE		
Months	**High (Rs.)**	**Low (Rs.)**	**No. of Shares**	**High (USD)**	**Low (USD)**	**No. of ADSs**
April-02	1,149.90	995.00	1,824,474	24.00	21.40	2,051,200
May-02	1,016.00	910.50	1,458,484	22.35	20.40	3,275,300
June-02	1,010.00	922.25	811,819	21.15	18.40	2,666,300
July-02	1,017.00	815.00	2,393,157	21.64	16.00	3,629,900
August-02	970.00	700.00	896,851	19.34	17.20	2,072,700
September-02	902.80	801.45	1,562,276	18.18	16.50	1,922,400
October-02	831.00	682.00	2,995,401	17.48	13.90	3,426,300
November-02	769.80	675.00	2,244,939	15.99	13.30	1,711,800
December-02	932.00	762.00	3,741,429	19.47	15.70	2,404,000
January-03	1,003.00	851.05	2,338,209	21.00	18.10	2,813,000
February-03	934.00	853.00	872,824	19.30	18.10	1,632,200
March-03	923.00	861.00	562,823	19.70	18.00	1,483,000

MOVEMENT OF CLOSING SHARE PRICES DURING THE YEAR ON BSE AND NYSE

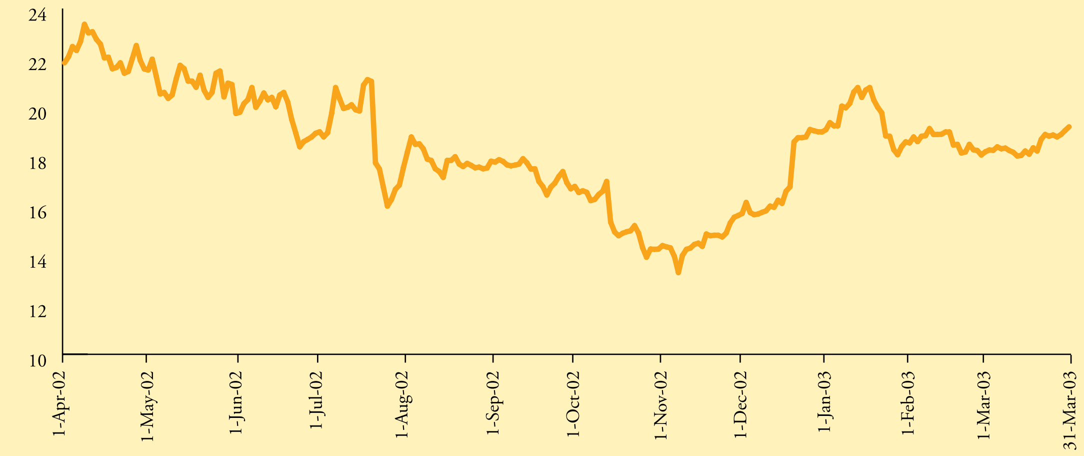
Chart -1 gives the movement of Dr. Reddy's share price movement on BSE during the year vis-a-vis BSE sensex. Chart-2 gives the movement of ADS prices on NYSE during the year.

Chart -1 Movement of closing share prices during the year on BSE



BSE Sensex, BSE Healthcare index and Dr. Reddy's share prices indexed to 100 as on April, 2003

Chart - 2 Movement of ADS prices during the year (US $)



ADDITIONAL SHAREHOLDERS INFORMATION

SHAREHOLDING PATTERN AS ON MARCH 31, 2003

Table 4 gives the data on shareholding classified on the basis of shareholders, while Table 5 gives it according to shareholder class.

Table 4: Distribution of shareholdings according to type of shareholders

	March 31, 2003				March 31, 2002			
	Physical	Demat	Total	Total %	Physical	Demat	Total	Total %
PROMOTERS' HOLDING								
Individuals	1,455,804	993,590	2,449,394	3.20%	1,455,804	963,666	2,419,470	3.16%
Companies	17,461,730	–	17,461,730	22.82%	17,461,730	–	17,461,730	22.82%
Other Directors	–	–	–	–	–	–	–	–
SUB TOTAL	**18,917,534**	**993,590**	**19,911,124**	**26.02%**	**18,917,534**	**963,666**	**19,881,200**	**25.98%**
INDIAN FINANCIAL INSTITUTIONS	**1,200**	**6,525,665**	**6,526,865**	**8.53%**	**600**	**4,772,891**	**4,773,491**	**6.24%**
BANKS	**13,776**	**79,780**	**93,556**	**0.12%**	**14,036**	**54,910**	**68,946**	**0.09%**
MUTUAL FUNDS	**1,350**	**1,838,945**	**1,840,295**	**2.41%**	**1,658**	**2,683,244**	**2,684,902**	**3.51%**
FOREIGN HOLDING								
Foreign Institutional Investors	5,644	18,469,871	18,475,515	24.14%	5,644	18,145,792	18,151,436	23.72%
NRIs	1,018,774	1,107,181	2,125,955	2.78%	1,159,394	1,069,406	2,228,800	2.91%
GDRs/ADSs	2,200	14,777,751	14,779,951	19.32%	2,600	14,900,942	14,903,542	19.48%
Others	–	850,000	850,000	1.11%	1,440,400	–	1,440,400	1.88%
SUB TOTAL	**1,026,618**	**35,204,803**	**36,231,421**	**47.35%**	**2,608,038**	**34,116,140**	**36,724,178**	**48.00%**
INDIAN PUBLIC & CORPORATES	**3,524,982**	**8,387,705**	**11,912,687**	**15.57%**	**4,214,658**	**8,168,573**	**12,383,231**	**16.18%**
TOTAL	**23,485,460**	**53,030,488**	**76,515,948**	**100.00%**	**25,756,524**	**50,759,424**	**76,515,948**	**100.00%**

ADDITIONAL SHAREHOLDERS INFORMATION

Table 5: Distribution of shareholding according to number of shares held, March 31, 2003

Shares held	No. of shareholders	% of shareholders	No. of shares held (Rs. 5/-)	% of share-holding
1 to 5,000	51,232	94.51	5,485,662	7.17
5,001 to 10,000	1,512	2.79	2,239,045	2.93
10,001 to 20,000	777	1.43	2,265,558	2.96
20,001 to 30,000	226	0.42	1,135,269	1.48
30,001 to 40,000	127	0.23	872,921	1.14
40,001 to 50,000	61	0.11	546,012	0.71
50,001 to 100,000	103	0.19	1,455,263	1.90
100,001 and Above	172	0.32	62,516,218	81.71
Total	**54,210**	**100.00**	**76,515,948**	**100.00**

DIVIDEND HISTORY

Table 6 gives the dividend history of Dr. Reddy's from 1996-97.

Table 6: Dividend history from 1996-97 to 2002-03, % of face value of each share

Year	Interim dividend	Final dividend	Total dividend
1996-97	–	30	30
1997-98	–	30	30
1998-99	–	30	30
1999-00	25	5	30
2000-01	–	40	40
2001-02	100	50	150
2002-03	–	100	100

ADDITIONAL SHAREHOLDERS INFORMATION

REVIEW OF THE LAST ANNUAL GENERAL MEETING

The last annual general meeting was held on August 26, 2002 at Convention Center, Hotel Viceroy, Tank Bund Road, Hyderabad at 11.30 AM. Apart from the ordinary business at the meeting, the following resolutions were passed at the meeting unanimously:

- Appointment of Dr. Krishna G. Palepu as Director;
- Appointment of Mr. Anupam Puri as Director;
- Revision in terms of appointment of Dr. K. Anji Reddy;
- Revision in terms of appointment of Mr. G. V. Prasad;
- Revision in terms of appointment of Mr. Satish Reddy;
- Re-appointment of Mr. Satish Reddy as Managing Director; and
- Amendment in Articles of Association to include meetings through Video conferencing.

COMPLIANCE

Dr. Reddy's has complied with all the requirements of the Listing Agreement with all Stock Exchanges and in respect of all matters related to the regulations and guidelines of SEBI, the Companies Act, 1956, and all other relevant corporate statutes.

NOMINATION FACILITY

Shareholders holding physical shares may, if they so want, send their nominations in prescribed form 2B to the Registrars & Transfer Agents of the Company. Those holding shares in dematerialised form may contact their respective Depository Participant (DP) for availing the nomination facility.

SIMULTANEOUS DEMATERIALISATION OF SHARES SENT FOR TRANSFER

The Company provides facility of simultaneous transfer and dematerialisation of equity shares. Upon receipt of the share certificate for transfer and upon completion of the due process, the investor is intimated through an option letter about the dematerialisation option. If the investor so desires, he/she may send his/her dematerialisation request within a period of 15 days from the date of the option letter - failing which share certificate will be dispatched to the investor. The investors who wish to exercise the option to dematerialise their shares are required to submit Dematerialisation Request Form (DRF) duly filled, along with the original option letter to the DP.

SHARE TRANSFER SYSTEM

The Securities and Exchange Board of India (SEBI) vide its letter No. D&CC/FITTC/CIR-15/2002 dated December 27, 2002 has directed all Stock Exchanges, Custodians and Depositories to ensure that all the work related to share registry in terms of both physical and electronic should be maintained at a single point i.e., either in-house by the Company or by a SEBI registered Registrar & Share Transfer Agent.

INFORMATION

Dr. Reddy's has appointed M/s. Bigshare Services Private Limited, as Registrars & Transfer Agent with effect from February 1, 2003. All services relating to share transfers and information may be availed from M/s. Bigshare Services Private Limited, Hyderabad at Bigshare Services Private Limited, G-10 Left Wing, Amrutha Ville, Opp. Yashodha Hospital, Somajiguda, Hyderabad – 500 082, Phone: +91-40-23374967, Fax: +91-40-23370295, Email : bigshare@hd2.dot.net.in, Contact Person: Mr. G. S. Dharma Veer.

The Company periodically audits the operations of Registrar and Transfer Agent. A Practicing Company Secretary also independently audits the efficiency and effectiveness of services rendered by Bigshare at regular intervals. The number of shares transferred in physical form during the last two financial years are given in Table 7.

Table 7: Shares transferred in physical form

	2002-2003	2001-2002
Number of transfers	365	428
Number of shares	1,498,515	82,633

DEMATERIALISATION OF SHARES

Dr. Reddy's scrip forms part of the compulsory dematerialisation segment for all investors with effect from February 15, 1999. To facilitate easy access for investors to the dematerialised system, the Company has signed up with both the depositories namely National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) and has established connectivity with the depositories through our registrars - Bigshare Services Private Limited, Hyderabad. As on March 31, 2003 over 69 per cent of Dr. Reddy's paid-up share capital has been dematerialised.

Dematerialisation of shares are done through Bigshare Services Private Limited, Hyderabad and on an average the dematerialisation process is completed within 10 days from the date of receipt of a valid dematerialisation request along with the relevant documents.

ADDITIONAL SHAREHOLDERS INFORMATION

ANALYSIS OF SHAREHOLDERS' QUERIES AND REQUESTS RECEIVED DURING 2002-03

Table 8 lists all types of shareholder queries received and replied during 2002-03.

Table 8: Shareholder queries and requests received and replied in 2002-03

Nature of Letters	Received	Replied	Pending
Change of address	471	471	0
Revalidation of dividend warrants	588	586	2
Non-receipt of dividend warrants	62	62	0
Sub-division of shares	1,336	1,322	14
Share transfers	423	404	19
Split of shares	48	48	0
Stop transfer	22	22	0
Power of attorney registration	14	14	0
Change of bank mandate	68	68	0
Correction of name	9	9	0
Dematerialisation confirmation	1,564	1,549	15
Rematerialisation of shares	42	40	2
Issue of duplicate share certificates	38	38	0
Transmission of shares	16	16	0
General enquiry	756	733	23

The pending queries and requests were either received during the last week of March 2003 or were pending due to non-receipt of information/ documents from the respective shareholders.

DATES AND VENUE OF PREVIOUS THREE ANNUAL GENERAL MEETINGS

26th August, 2002 at Hotel Viceroy, Tank Bund Road, Hyderabad.

24th September, 2001 at Jewel Garden, 208, Sikh Road, Secunderabad.

29th September, 2000 at Jewel Garden, 208, Sikh Road, Secunderabad.

All resolutions in these Annual General Meetings were passed through show of hands. There was no occasion of postal ballot in these Annual General Meetings.

ADDITIONAL SHAREHOLDERS INFORMATION

DISCLOSURE ON LEGAL PROCEEDINGS PERTAINING TO SHARES

There are nine pending cases mostly relating to disputes over title of the shares, in which Company has been made a party. These cases are however not material in nature.

UNCLAIMED DIVIDENDS

Pursuant to Section 205A of the Companies Act, 1956, unclaimed dividends up to and including the financial year 1994-95 have been transferred to the general revenue account of the Central Government. Shareholders who have not cashed their dividend warrant(s) relating to financial year(s) up to and including 1994-95 are requested to claim the amounts from the Registrar of Companies, Andhra Pradesh.

The dividends for the following years remaining unclaimed for seven years will be transferred to Investor Education and Protection Fund established by the Central Government under Section 205C of the Companies Act, 1956. Table 8 gives the transfer dates. Shareholders who have not claimed these dividends are therefore, requested to do so before these are statutorily transferred to the Investor Education and Protection Fund. Shareholders who have not cashed their dividend warrants relating to the dividends specified in Table 9 are requested to immediately approach M/s. Bigshare Services Private Limited, Hyderabad for issue of duplicate warrants.

Table 9: Dates of transfer of unclaimed dividend

Financial year	Type of dividend	Date of declaration	Due for transfer on
1995-1996	Final	25.09.1996	13.11.2003
1996-1997	Final	25.09.1997	13.11.2004
1997-1998	Final	25.09.1998	13.11.2005
1998-1999	Final	24.09.1999	12.11.2006
1999-2000	Interim	23.03.2000	11.05.2007
1999-2000	Final	29.09.2000	17.11.2007
2000-2001	Final	24.09.2001	31.10.2008
2001-2002	Interim	31.10.2001	07.12.2008
2001-2002	Final	26.08.2002	02.10.2009
1995-1996	Final (erstwhile Cheminor)	24.07.1996	11.09.2003
1996-1997	Final (erstwhile Cheminor)	26.09.1997	14.11.2004
1997-1998	Final (erstwhile Cheminor)	26.09.1998	14.11.2005
1998-1999	Final (erstwhile Cheminor)	25.09.1999	13.11.2006
1999-2000	Interim (erstwhile Cheminor)	23.03.2000	11.05.2007
1999-2000	Final (erstwhile Cheminor)	06.07.2000	24.08.2007

ADDITIONAL SHAREHOLDERS INFORMATION

NON-COMPLIANCE ON MATTERS RELATING TO CAPITAL MARKETS FOR LAST THREE YEARS

There has been no such instance of non-compliance.

FINANCIAL RESULTS ON COMPANY'S WEBSITE

Our quarterly and annual results are displayed on the Company's website.

Apart from the above, we regularly provide the information to the stock exchanges as per the requirements of the listing agreements.

PLANT LOCATIONS (IN INDIA)

BULK DRUGS

Bulk Drugs - I
Plot No. 137, 138 & 146
IDA Bollaram
Jinnaram Mandal
Medak Dist., AP
Pin: 502 320

Bulk Drugs -II
Plot No. 110 & 111
IDA Bollaram
Jinnaram Mandal
Medak Dist., AP
Pin: 502 320

Bulk Drugs - III
Plot No. 116
IDA Bollaram
Jinnaram Mandal
Medak Dist., AP
Pin: 502 320

Bulk Drugs - IV
Plot No. 9/A
Phase - III
IDA Jeedimetla
Ranga Reddy Dist., AP
Pin: 500 055

Bulk Drugs - V
Peddadevulapally
Tripuraram Mandal
Nalgonda Dist., AP
Pin: 508 207

Bulk Drugs - VI
IDA Pydibheemavaram
Ransthal Mandal
Srikakulam Dist., AP
Pin: 532 409

FORMULATIONS

Formulation - I
IDA Bollaram
Jinnaram Mandal
Medak Dist., AP
Pin: 502 320

Formulation - II
S Y No. 42 Bachupally
Quthbullapur Mandal
Ranga Reddy Dist., AP
Pin: 500 123

Formulation - III
R S No. 63/3 & 63/4
Thiruvandarkoil
Mannvipet, Pondicherry
Pin: 605 102

Formulation - IV
Ward-F, Block-4
Adavipolam
Yanam, Pondicherry
Pin : 533 464

ADDITIONAL SHAREHOLDERS INFORMATION

GENERICS
Survey No. 41 Bachupally
Quthbullapur Mandal
Ranga Reddy District, AP
Pin: 500 043

BIOTECH
Survey No. 47 Bachupally
Quthbullapur Mandal
Ranga Reddy District, AP
Pin: 500 043

CRITICAL CARE
Survey No. 47 Bachupally
Quthbullapur Mandal
Ranga Reddy District, AP
Pin: 500 043

DIAGNOSTICS
Survey No. 47 Bachupally
Quthbullapur Mandal
Ranga Reddy District, AP
Pin: 500 043

CUSTOM CHEMICAL SERVICES
Bollaram Road
Miyapur
Hyderabad, AP
Pin: 500 050

DISCOVERY RESEARCH
Bollaram Road
Miyapur
Hyderabad, AP
Pin: 500 050

PLANT LOCATIONS (OUTSIDE INDIA)

DR. REDDY'S LABORATORIES (UK) LIMITED
Riverview Road, Beverly,
East Yorkshire
HU 17 Old
United Kingdom

KUNSHAN ROTAM REDDY PHARMACEUTICAL CO. LIMITED
Huangpujiangzhonglu Kunshan Economic
and Technological Development Zone,
Jiangsu province
China

ADDITIONAL SHAREHOLDERS INFORMATION

INFORMATION ABOUT NEW DIRECTOR AND REAPPOINTED DIRECTORS

This is given in the previous chapter on 'Corporate Governance'.

CERTIFICATE FROM THE COMPANY SECRETARY

I, Santosh Kumar Nair, Company Secretary of Dr. Reddy's Laboratories Limited, hereby confirm that the Company has:

a. Maintained all the books of account and statutory registers prescribed under the Companies Act, 1956.

b. Filed all forms and returns and furnished all necessary particulars to the Registrar of Companies and/or Authorities as required under the Companies Act, 1956.

c. Conducted the Board Meetings and Annual General Meetings as per the Companies Act, 1956 and the minutes thereof were properly recorded in the minutes books.

d. Effected share transfers and despatched the certificates within the time limit prescribed by various authorities.

e. Not exceeded the borrowing powers.

f. Paid dividend to the shareholders within the time limit prescribed and has also transferred the unpaid dividend to the Central Government within the time limit.

g. Complied with the regulations prescribed by the Stock Exchanges, SEBI and other Statutory Authorities and also the statutory requirements under the Companies Act, 1956 and other applicable statutes in force.

The certificate is given by the undersigned according to the best of his knowledge and belief, knowing fully well that on the faith and strength of what is stated above, the shareholders of the Company will place full reliance on it.

Sd/-

Place : New York, USA — Santosh Kumar Nair

Date : May 30, 2003 — Company Secretary

QUERIES AT ANNUAL GENERAL MEETING

Shareholders desiring any information as regards the accounts are requested to write to the Company at an early date so as to enable the management to keep the information ready. The queries relating to operational and financial performance may be raised at the Annual General meeting.

The Company provides the facility of Investor Helpdesk at the Annual General Meeting. The shareholders may give their queries relating to shares, dividends etc. at the Investor Helpdesk.

DIRECTORS' REPORT

Dear members,

Your directors take great pleasure in bringing you this report for the financial year 2002-2003.

The financial highlights of the year were:

FINANCIAL HIGHLIGHTS

Table -1 gives the financial highlights of the Company in the financial year 2002-03 as compared to previous financial year.

Table 1: Financial highlights in the Financial year 2002-03.

(Rs. in thousands)

	2002-2003	2001-2002
Income	16,650,222	16,516,347
Gross profit	4,897,218	5,181,915
Depreciation	585,615	474,187
Profit before tax	4,311,603	4,707,728
Taxation		
Current tax	390,677	111,223
Net profit for the year	3,920,926	4,596,505
Add: Profit and loss brought forward	775,977	149,871
Add: Transferred from debenture redemption reserve	–	142,494
Total available for appropriation	4,696,903	4,888,870
Appropriations:		
Interim dividend paid	–	382,580
Tax on interim dividend	–	39,023
Proposed dividend on equity shares *(subject to deduction of tax)	382,580	191,290*
Tax on proposed dividend	49,018	–
Transfer to general reserve	3,000,000	3,500,000
Balance carried forward	1,265,305	775,977

DIRECTORS' REPORT

DIVIDEND

Your directors are pleased to recommend a dividend of Rs. 5 per equity share of Rs. 5 for the financial year 2002-2003. The dividend, if approved at the ensuing annual general meeting, will be paid to those shareholders whose name appear on the register of members of the company on August 15, 2003.

The dividend would be tax free in the hands of the shareholders.

EQUITY SHARE CAPITAL

There was no change in the equity capital of the Company during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

A detailed discussion on the industry structure, development, opportunities, threats, review of operational performance and risk is forming part of this report and is provided in the annual report.

CORPORATE GOVERNANCE

A detailed report on the Corporate Governance system of the Company is provided for in the annual report. The Company has been awarded the National Award for Excellence in Corporate Governance 2002 instituted by ICSI. A fifteen members Jury headed by Mr. M. N. Venkatachaliah, Former Chief Justice of India, selected Dr. Reddy's for this award. His Excellency Mr. Bhairon Singh Shekhawat, Hon'ble Vice-President of India presented the award to Mr. V. S. Vasudevan at a function held on December 31, 2002 at Vigyan Bhavan, New Delhi.

ADDITIONAL INFORMATION TO SHAREHOLDERS

As in earlier years intangible valuation and share related information is provided for in the annual report.

EMPLOYEE STOCK OPTIONS SCHEME

Table - 2 gives the details of stock options granted under the Dr. Reddy's Employee Stock Option Scheme 2002 as on March 31, 2003.

Table 2: Details of Stock Options

Sr. No.	Description	Details
a)	Options granted	558,445
b)	The pricing formula	The scheme provides for grant of options at a price not less than previous thirty days' weighted average price of the equity shares of the Company on the stock exchange, on the date of grant.
c)	Options vested	69,500
d)	Options exercised	NIL
e)	The total number of shares arising as a result of exercise of option	NIL
f)	Options lapsed*	14,574
g)	Variation of terms of options	No
h)	Money realised by exercise of options	NIL
i)	Total number of options in force	543,871
j)	Employee wise details of options granted to	
	(i) Senior managerial personnel	**Name** — **No. of options** Timothy Crew — 44,500 Cameron Reid — 50,000 Andrew J. Millar — 30,000 Arun Sawhney — 7,700 Dr. R. Rajagopalan — 8,200 Mr. V. S. Vasudevan — 5,740 Dr. Jayaram Chigurupati — 5,460 Mr. Saumen Chakraborty — 5,500 Mark Hartman — 60,000 Uday Saxena — 80,270 Adam Levitt — 36,000
	(ii) Any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year.	NIL
	(iii) Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant.	NIL
k)	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with International Accounting Standard (IAS) 33.	NA

* Options lapsed due to employees leaving the job.

DIRECTORS' REPORT

SUBSIDIARY COMPANIES

The Company had 19 subsidiary companies as on March 31, 2003. As required under Section 212 of the Companies Act, 1956, the Annual Reports together with Balance Sheet and Profit and Loss Account for the year ended in 2002-03 of these subsidiary companies are part of this annual report. For further information on these subsidiaries, members may also refer the Directors' Report of subsidiaries and the same forms part of this report.

DIRECTORS RESPONSIBILITY STATEMENT

In terms of Section 217 (2AA) of the Companies Act, 1956, your directors confirm as under:

1. In preparation of annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2002-2003 and of profit of the company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and or preventing and detecting fraud and other irregularities;
4. We have prepared the annual accounts on an ongoing concern basis.

FIXED DEPOSITS

Your Company has not accepted any fixed deposits and, as such, no amount of principal or interest was outstanding as of the Balance Sheet date.

DIRECTORS

There was no change in the Directors during the year. Dr. Omkar Goswami, Dr. V. Mohan and Dr. A. Venkateswarlu retire by rotation at the forthcoming annual general meeting. Dr. Omkar Goswami, Dr. V. Mohan being eligible, offer themselves for re-appointment. Dr. A. Venkateswarlu has expressed his intention not to opt for re-appointment. The nomination committee and the Board recommend re-appointment of Dr. Omkar Goswami and Dr. V. Mohan. The brief profile of Dr. Omkar Goswami and Dr. V. Mohan is given in the Corporate Governance section for the reference of the members.

AUDITORS

The Auditors, Bharat S Raut & Co., Chartered Accountants retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office, if re-appointed. The Audit Committee and the Board of Directors recommend M/s. Bharat S Raut & Co. as statutory auditors of the Company for the financial year 2003-2004.

DIRECTORS' REPORT

COST AUDIT

Pursuant to Section 233B of the Companies Act, 1956, Central Government of India has prescribed Cost Audit of the Company's Bulk drugs division and Formulation division. The Cost Audit is under process and the Company will submit the cost Auditors' Report to the Central Government in time.

PARTICULARS OF EMPLOYEES

Under the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of employees are set out in the annexure to the Directors' Report.

CONSERVATION OF ENERGY RESEARCH AND DEVELOPMENTS, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNING AND OUTGO

The particulars as prescribed under clause (e) of sub-section (1) of 217 of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the report of Board of Directors) Rule, 1988 are annexed hereto and the same forms part of this report.

ACKNOWLEDGEMENT

Your Directors place on record its sincere appreciation for significant contribution made by the employees through their dedication, hard work and commitment and the trust reposed on us by the medical fraternity and the patients.

We also acknowledge the support and wise counsel extended to us by the analysts, bankers, government agencies, shareholders and investors at large. We look forward to having the same support in our endeavor to help people lead healthier lives.

For Dr. Reddy's Laboratories Limited

DR. K. ANJI REDDY
Chairman

Place : New York, USA
Date : May 30, 2003

Annexures to the Directors' Report

FORM A

Form for Disclosure of Particulars with respect to Conservation of Energy.

A. Power and fuel consumption

1. Electricity

Purchased

	2002-03	2001-02
Unit	54,729,710	49,099,022
Total amount	Rs. 227,292,779	Rs. 202,287,970
Rate/unit	Rs. 4.15	Rs. 4.12

Own generation – through diesel generator set

	2002-03	2001-02
Unit	5,821,568	4,482,455
Units per ltr. of diesel oil	3.21	3.32
Cost/unit	6.1	5.11

2. Coal (used in boiler)

	2002-03	2001-02
Quantity (tonnes)	23,711	18,565
Total Cost (Rs.)	46,796,668	41,350,970
Average rate	1,902	2,227

FORM B

Research and Development (R&D)

1. **Specific areas in which R&D carried out by the Company.**
   - Development of lab scale processes for pharmaceutical products and new polymorphism with a good market potential worldwide
   - Development of alternate/non infringing routes of synthesis for products already commercialized. Study of impurity profiles of products
   - Development of formulations for Pre clinical and clinical studies of NCEs
   - Development and commercialisation of products in therapeutic areas of Pain management, Asthma management, Diabetes management, Women health, Cardio Vascular, Anti infectives, Gastro intestinal therapy, Dental primary care and Onco care
   - Analytical methods development
   - Packaging development for New Products, improvements in existing packs.
2. **Benefits derived as a result of the above R&D**
   - Commercial production of the Gatifloxacin anhydrous, Glimepiride, Lamotrigine, Levocetirizine Dihydrochloride, Loratadine (Form-1), Quetiapine Fumarate, Repaglinide, Sibutramine HCl Monohydrate, Sumatriptan, Tolterodine Tartrate, Ziprasidone HCl Monohydrate, Donepezil Hydrochloride, Dutasteride, Esomeprazole Magnesium has commenced
   - Modification of existing manufacturing processes for some of the products have led to significant savings in cost of production
   - Modifications of existing manufacturing processes for reducing the time cycle
   - Patents challenged in Indian patent Office, Russian Patent Office and US Patent Office. First to launch in domestic market - Elina (Mizolastine tablets), Mintop forte (Minoxidil Topical solution), Omez Injection (Omeprazole Injection), Ebiza L and Oreta (Letrozole tablets)
   - Analytical methods Developed for the products in therapeutic areas of Pain management, Asthma management, Diabetes management, Women health, Cardio Vascular, Anti infectives, Gastro intestinal therapy, Dental primary care and Onco care

- Clinical trials and Bio-equivalence studies completed for identified molecules.

3. **Future plan of action**

- Commercialisation of products for which the products are under trials at development stage. Several new products have been identified after a thorough study of the market and the processes to manufacture these products will be developed in the R&D lab
- Development of new products in therapeutic areas of Pain management, Asthma management, Diabetes management, Women health, Cardio Vascular, Anti infectives, Gastro intestinal therapy, Dental primary care and Onco care
- Development of Analytical methods for the new products
- Development of Finished dosage forms for International marketing
- Clinical trials and Bio-equivalence studies for new products.

4. **Expenditure on R&D**

		2002-03	2001-02
A.	Capital	246,304,521	37,302,230
B.	Recurring	1,388,630,821	980,302,230
C.	Total	1,634,935,342	1,107,604,460
	Total R&D expenditure as a percentage of total turnover	9.92%	6.13%

DIRECTORS' REPORT

Technology, Absorption, Adaptation and Innovation

1.	Efforts, in brief, made towards technology absorption, adaptation and innovation	The Company had a full-fledged R&D Division continuously engaged in research on new products and process development of existing products. The Company has developed indigenous technology in respect of the products manufactured by them. As soon as the technology is developed for a product, it is tested in Pilot Plant and thereafter commercial production is taken up. It is our philosophy to continuously upgrade the technology.
2.	Benefits derived as a result of the above efforts, e.g., product improvement, cost reduction, product development, import substitution, etc.	Product quality improvement, cost reduction, product development, import substitution and etc. The continuation upgradation and adoption of technology as benefited the Company in the form of better production process, better yields, quality of the end product and cost reduction.
3.	In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished: a) Technology imported b) Year of import c) Has technology been fully absorbed d) If not fully absorbed, areas where this has not taken place, reasons there for and future plans of action.	No Imported technology

FORM C

Foreign Exchange Earnings and Outgo

Please refer information given in the notes to accounts to the annual accounts of the company in Schedule 20 Notes to accounts item no. 17 to item no. 20.

STATEMENT OF PARTICULARS OF EMPLOYEES AS PER PROVISIONS OF SEC 217(2A) OF THE COMPANIES ACT, 1956.

Sl. No.	Name of the Employer	Age	Designation Nature of Duty	Gross Remuneration (in Rs. thousands)	Qualification	Experience in Years	Date of Commencement of Employment	Particulars of Last Employment
Employed for the full year								
1	Dr. K. Anji Reddy	63	Executive Chairman	46,211	B.Sc.(Tech), Ph.D.,	33	01.09.1986	Managing Director, Standard Organics Ltd.
2	Mr. G.V. Prasad	42	Executive Vice Chairman and CEO	23,418	B. Sc., (Chem Eng), MS (Indl. Admn.)	19	30.06.1990	Promoter Director, Benzex Labs Pvt. Ltd.
3	Mr. K. Satish Reddy	35	Managing Director and COO	23,418	B.Tech., M.S.	11	18.01.1993	Director, Globe Organics Ltd.
4	Mr. V. S. Vasudevan	52	Chief Financial Officer	3,924	B Com, ACA	29	01.04.1986	Finance Head, Standard Equity Fund Ltd.
5	Mr. Arun Sawhney	48	President (Bulk - SBU)	5,183	B.Com. PGDBM	20	01.06.2001	Chief Executive, Max-GB Ltd.
6	Dr. R. Rajgopalan	53	President (Drug Research - SBU)	3,500	PhD	30	18.04.1994	Principal Research Scientist, Hoechst India Ltd.
7	Mr. K. B. Sankara Rao	49	Senior Vice President (Branded Formulations-SBU)	2,979	M Pharma	22	29.09.1986	Production Executive, Cipla Ltd.
8	Mr. Saumen Chakraborty	42	Senior Vice President (Strategic HR)	3,853	MBA, IIM	19	02.07.2001	Vice President, Tecumsesh
9	Dr. G. Om Reddy	54	Senior Vice President (Custom Chemical Services-SBU)	2,724	PhD	26	07.05.1992	Sr. Research Scientist, TDL Chemicals Ltd.
10	Mr. Vilas Dholye	54	Senior Vice President (Bulk - SBU)	2,534	B Tech (Chem)	24	18.12.2000	VP, Pidilite Industries Ltd.
11	Mr. C. V. Narayana Rao	48	Vice President (Bulk - SBU)	2,446	M Pharma	26	01.07.1994	Associate Director, Park India Ltd.
12	Mr. Arvind Vasudeva	43	Vice President (Branded Formulations-SBU)	2,937	B Tech, PGD on Op. Mgt	25	07.01.1994	Marketing Planning Manager, Astro IDL
13	Dr. M. Satyanarayana Reddy	46	Vice President (Bulk - SBU)	2,508	PhD	15	01.07.1992	Group Leader, Standard Research Centre
14	Mr. Ashwini Kumar Malhotra	47	Vice President (Generic - SBU)	3,063	M Pharma, PGD-IEM, PGD-CS	23	08.02.2001	Unit Head, Cipla Ltd.
15	Dr. N. R. Srinivas	43	Vice President (Discovery Research - SBU)	2,886	PhD	12	01.06.2001	Senior Research Investigator, Bristol Myers Sqibbs Company
Employed for the part of the year								
16	Mr. Abhijeet Mukharjee	44	President (Custom Chemical Services-SBU)	599	B Tech (Chem)	14	15.01.2003	President, Atul Ltd.
17	Dr. Jayed Iqbal	56	Distinguished Research Scientist (Drug Research-SBU)	594	PhD	17	02.01.2003	Director, Regional Research Laboratory
18	Mr. R. S. Prasad	55	Executive Vice President (Generic - SBU)	3,025	M Pharma	31	16.4.1994	Project Head, Ranbaxy Laboratories Ltd.

1. All the above employments are contractual.
2. Dr. K. Anji Reddy, Mr. G. V. Prasad and Mr. Satish Reddy are relatives within the meaning of Section 6 of the Companies Act, 1956.
3. Dr. K. Anji Reddy, Mr. G. V. Prasad and Mr. Satish Reddy are also eligible for commission on the net profits of the Company. The Commission has been included in the remuneration specified above.

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FINANCIALS
IGAAP STANDALONE
DR. REDDY'S LABORATORIES LTD.

AUDITORS' REPORT
TO THE MEMBERS OF DR. REDDY'S LABORATORIES LIMITED

We have audited the attached Balance Sheet of Dr. Reddy's Laboratories Limited ("the Company") as at 31 March, 2003 and the Profit and Loss Account of the Company for the year ended on that date annexed thereto and the Cash Flow Statement for the year ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

1. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

2. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

3. Further to our comments in the Annexure referred to in paragraph 2 above:

   (a) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

   (b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

   (c) the Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account;

   (d) in our opinion, the Balance Sheet and the Profit and Loss Account dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956, to the extent applicable;

   (e) on the basis of written representations received from the Directors, as on 31 March, 2003, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March, 2003 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.

   (f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

      (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March, 2003;

      (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and

      (iii) in the case of cash flow statement, of the cash flows for the year ended on that date.

FOR BHARAT S RAUT & CO.
Chartered Accountants

PRADIP KANAKIA
Partner

Place : New York, USA
Date : May 30, 2003

ANNEXURE
TO THE AUDITORS' REPORT

The Annexure referred to in paragraph 2 of the Auditors' Report to the members of Dr. Reddy's Laboratories Limited ("the Company") for the year ended 31 March, 2003.

We report as follows:

The matters contained in sub-paragraphs 4(D) of the Manufacturing and Other Companies (Auditor's Report) Order, 1988, are not applicable to the Company.

1. The Company has maintained proper records of fixed assets showing full particulars, including quantitative details and location. The Company has a phased programme of physical verification of its fixed assets which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. In accordance with this programme, certain fixed assets were physically verified by management and no material discrepancies were identified during such verification.

2. None of the fixed assets of the Company have been revalued during the year.

3. The stock of finished goods, work-in-process, stores and spares, raw materials and components have been physically verified by management at reasonable intervals during the year.

4. In our opinion, the procedures of physical verification of inventories followed by management are reasonable and adequate in relation to the size of the Company and the nature of its business.

5. The discrepancies noticed during the physical verification of inventories as compared to book records were not material and have been properly dealt with in the books of account.

6. In our opinion and based on our examination, the valuation of inventories is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the previous year.

7. The Company has not taken any loans, secured or unsecured, from companies, firms, or other parties listed in the register maintained under Section 301 of the Companies Act, 1956, or from companies under the same management as defined under Section 370(1B) of the Companies Act, 1956.

8. The Company has not granted any loans, secured or unsecured, to companies, firms, or other parties listed in the register maintained under Section 301 of the Companies Act, 1956, or to companies under the same management as defined under Section 370(1B) of the Companies Act, 1956.

9. The parties (including employees) to whom loans or advances in the nature of loans have been given by the Company are regular in repaying the principal amounts as stipulated and interest where applicable.

10. In our opinion and according to the information and explanations given to us by management, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of stores, raw materials including components, plant and machinery, equipment and other assets, and for the sale of goods.

11. In our opinion, and according to the information and explanations given to us, the transactions for purchase of goods and materials and for sale of goods, materials and services made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956, and aggregating during the year to Rs. 50,000 or more in respect of each party, have been made at prices which are reasonable having regard to prevailing market prices for such goods, materials or services or the prices at which transactions for similar goods, materials or services have been made with other parties.

12. In our opinion, the Company has an adequate system for determination of unserviceable or damaged stores and spare parts, raw materials including components and finished goods. Adequate provision has been made at the year-end, in the books of account, for the loss arising on such items.

ANNEXURE
TO THE AUDITORS' REPORT

13. The Company has not accepted any deposits from the public and consequently the provisions of Section 58A of the Companies Act, 1956, and the rules made thereunder are not applicable, to the Company.

14. In our opinion reasonable records have been maintained by the Company for the sale and disposal of realisable scrap. We were informed by the management that the production process does not generate any by-products.

15. In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.

16. We have broadly reviewed the books of account maintained by the Company pursuant to the Order made by the Central Government for the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956, and are of the opinion that prima facie the prescribed accounts and records have been maintained. We have not, however, made a detailed examination of the records with a view to determining whether they are accurate or complete.

17. The Company has been regular in depositing Provident Fund and Employees' State Insurance dues during the year, with the appropriate authorities.

18. According to the information and explanations given to us, there are no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty which are outstanding as at 31 March, 2003 for a period of more than six months from the date they became payable.

19. According to information and explanations given to us by management and on the basis of the examination of the books of account carried out by us, no personal expenses of employees have been charged to the profit and loss account, other than those payable under contractual obligations or in accordance with generally accepted business practice.

20. The Company is not a sick industrial company within the meaning of clause (o) of sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.

21. In our opinion and according to the information and explanations given to us by management, the service activities of the Company during the year were such that it was not necessary to maintain a system of:
    - allocating man-hours utilised to individual jobs; and
    - authorisation and control over allocation of labour to individual jobs.

    However, the Company has a reasonable system, commensurate with its size and nature of its business in respect of:
    - recording receipts, issues and consumption of material and stores and allocating materials consumed to the relative jobs; and
    - authorisation at proper levels, and an adequate system of internal control, on issue and allocation of stores to jobs.

22. In our opinion in respect of the trading activity, damaged goods have been determined and where the value of such goods is significant, provision has been made for the loss wherever applicable.

FOR BHARAT S RAUT & CO.
Chartered Accountants

PRADIP KANAKIA
Partner

Place : New York, USA
Date : May 30, 2003

BALANCE SHEET
AS AT 31 MARCH, 2003

(All amounts in Indian Rupees thousands, except share data)

	Schedule	As at 31 March, 2003	As at 31 March, 2002
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	382,580	382,580
Reserves and surplus	2	17,686,622	14,197,294
		18,069,202	**14,579,874**
Loan funds			
Secured loans	3	42,905	53,014
Unsecured loans	4	244,654	85,186
		287,559	**138,200**
		18,356,761	**14,718,074**
APPLICATION OF FUNDS			
Fixed assets	5		
Gross block		6,623,778	5,699,424
Less: Accumulated depreciation		(2,757,142)	(2,215,907)
Net block		3,866,636	3,483,517
Capital work-in-progress (including capital advances)		514,067	476,130
		4,380,703	**3,959,647**
Investments	6	1,566,374	639,432
Current assets, loans and advances			
Inventories	7	2,401,168	1,898,124
Sundry debtors	8	4,324,515	4,449,543
Cash and bank balances	9	6,884,002	4,885,601
Loans and advances	10	1,868,143	1,213,292
Long-term deposits	20(11)	91,000	113,750
		15,568,828	**12,560,310**
Current liabilities and provisions			
Current liabilities	11	2,183,378	1,726,058
Provisions	12	552,298	280,284
		2,735,676	2,006,342
Net current assets		**12,833,152**	**10,553,968**
Deferred tax liabilities, net	20(3)	(423,468)	(434,973)
Miscellaneous expenditure (to the extent not written-off or adjusted)	13	–	–
		18,356,761	**14,718,074**
Notes to accounts	20		

The schedules referred to above form an integral part of the Balance Sheet.

As per our report attached
for **Bharat S Raut & Co.**
Chartered Accountants

Pradip Kanakia
Partner

Place : New York, USA
Date : 30 May, 2003

for **Dr. Reddy's Laboratories Limited**

Dr. K. Anji Reddy
Chairman

G.V. Prasad
Executive Vice Chairman & CEO

K. Satish Reddy
Managing Director & COO

Dr. Omkar Goswami
Director

V.S. Vasudevan
Chief Financial Officer

Santosh Kumar Nair
Company Secretary

PROFIT AND LOSS
ACCOUNT FOR THE YEAR ENDED 31 MARCH, 2003

(All amounts in Indian Rupees thousands, except share data)

	Schedule	For the year ended 31 March, 2003	For the year ended 31 March, 2002
INCOME			
Sales		15,983,145	15,577,800
(Includes excise duty Rs. 697,269; previous year: Rs. 671,287)			
Income from services		143	79,615
License fees		–	343,612
Other income	14	666,934	515,320
		16,650,222	**16,516,347**
EXPENDITURE			
Material costs	15	4,777,763	4,289,612
Conversion charges		119,446	62,516
Excise duty		847,198	789,718
Personnel costs	16	1,210,787	1,005,921
Operating and other expenses	17	3,350,568	2,925,849
Research and development expenses		1,338,631	980,303
Amortisation of long term deposits		22,750	22,750
Deferred revenue expenditure written-off		–	931,354
Provision for decline in the value of long-term investments and investments written-off		51,406	217,424
Finance charges	18	34,455	108,985
Depreciation		585,615	474,187
		12,338,619	**11,808,619**
PROFIT BEFORE TAXATION		**4,311,603**	**4,707,728**
Less: Provision for tax	19	390,677	111,223
PROFIT AFTER TAXATION		**3,920,926**	**4,596,505**
Balance in profit and loss account brought forward		775,977	149,871
Add: Transferred from debenture redemption reserve		–	142,494
Amount available for appropriation		**4,696,903**	**4,888,870**
APPROPRIATIONS			
Interim dividend paid		–	382,580
Tax on interim dividend		–	39,023
Proposed dividend on equity shares * (subject to deduction of tax)		382,580	*191,290
Tax on proposed dividend		49,018	–
Transfer to general reserve		3,000,000	3,500,000
Balance carried forward		1,265,305	775,977
		4,696,903	**4,888,870**
Earnings per share	20(4)		
Basic - Par value Rs. 5 per share		51.24	60.41
Diluted - Par value Rs. 5 per share		51.24	60.41
Notes to accounts	20		

The schedules referred to above form an integral part of the Profit and Loss Account.

As per our report attached
for **Bharat S Raut & Co.**
Chartered Accountants

Pradip Kanakia
Partner

Place : New York, USA
Date : 30 May, 2003

for **Dr. Reddy's Laboratories Limited**

Dr. K. Anji Reddy
Chairman

G.V. Prasad
Executive Vice Chairman & CEO

K. Satish Reddy
Managing Director & COO

Dr. Omkar Goswami
Director

V.S. Vasudevan
Chief Financial Officer

Santosh Kumar Nair
Company Secretary

SCHEDULES
TO THE BALANCE SHEET

(All amounts in Indian Rupees thousands, except share data)

		As at 31 March, 2003		As at 31 March, 2002
SCHEDULE 1 : SHARE CAPITAL				
Authorised				
100,000,000 (previous year: 100,000,000) equity shares of Rs. 5 each		500,000		500,000
Issued				
76,516,148 (previous year: 76,516,148) equity shares of Rs. 5 each fully paid-up		382,581		382,581
Subscribed and paid-up				
76,515,948 (previous year: 76,515,948) equity shares of Rs. 5 each fully paid-up	382,579		382,579	
Add: Forfeited share capital (Note 2)	1		1	
		382,580		382,580
		382,580		**382,580**

NOTES:

1. Subscribed and paid-up share capital includes:
   (a) 34,974,400 (previous year: 34,974,400) equity shares of Rs. 5 each fully paid-up, allotted as bonus shares by capitalisation of general reserve.
   (b) 526,124 (previous year: 526,124) equity shares of Rs. 5 each allotted pursuant to a scheme of amalgamation with Standard Equity Fund Limited without payments being received in cash.
   (c) 10,285,884 (previous year: 10,285,884) equity shares of Rs. 5 each allotted and 82,800 (previous year: 82,800) equity shares of Rs. 5 each extinguished pursuant to a scheme of amalgamation with erstwhile Cheminor Drugs Limited (CDL) without payments being received in cash.
   (d) 13,225,000 (previous year: 13,225,000) equity shares of Rs. 5 each allotted against American Depository Shares (ADS).
   (e) 8,602,152 (previous year: 8,602,152) equity shares of Rs. 5 each allotted against Global Depository Receipts (GDR) that were converted into ADS during the year ended 31 March, 2002.
   (f) 113,388 (previous year: 113,388) equity shares of Rs. 5 each allotted to the erstwhile members of American Remedies Limited (ARL) pursuant to a scheme of amalgamation with ARL without payments being received in cash.
2. Represents 200 (previous year: 200) equity shares of Rs. 5 each amount paid-up Rs. 500/-, forfeited due to non-payment of allotment money.

SCHEDULES
TO THE BALANCE SHEET

(All amounts in Indian Rupees thousands, except share data)

	As at 31 March, 2003	As at 31 March, 2002
SCHEDULE 2 : RESERVES AND SURPLUS		
Capital reserve		
Balance at the beginning and end of the year	7,276	7,276
Securities premium account		
Balance at the beginning of the year	7,730,980	2,014,380
Add: Share premium received on ADS issue	–	6,180,493
	7,730,980	8,194,873
Less: ADS issue expenses written-off	–	(463,893)
	7,730,980	**7,730,980**
Debenture redemption reserve		
Balance at the beginning of the year	–	142,494
Less: Transferred to profit and loss account	–	(142,494)
	–	–
General reserve		
Balance at the beginning of the year	5,683,061	2,902,091
Less: Net deferred tax liability up to 31 March, 2001	–	(719,030)
	5,683,061	2,183,061
Add: Transferred from profit and loss account	3,000,000	3,500,000
	8,683,061	5,683,061
Profit and loss account		
Balance in profit and loss account	1,265,305	775,977
	17,686,622	**14,197,294**

SCHEDULE 3 : SECURED LOANS		
Loans from banks		
Cash credit and packing credit (Note 1)	–	5,669
Others		
Loan from Indian Renewable Energy Development Agency Limited (Note 2)	42,905	47,345
	42,905	**53,014**

NOTES :

1. The Company has working capital facilities with a consortium of bankers and has created a charge, on a pari-passu basis, by hypothecation of the whole of the current assets, both present and future, and a first charge on immovable properties, pertaining to certain factories of the Company.
2. Loan from Indian Renewable Energy Development Agency Limited is secured by way of hypothecation of specific movable assets pertaining to the Solar Grid Interactive Power plant.

SCHEDULE 4 : UNSECURED LOANS		
Foreign currency loan notes	136,653	–
Sales tax deferment loan from the Government of Andhra Pradesh (interest free)	83,572	85,186
Short-term loans from banks		
Overdrafts	24,429	–
	244,654	**85,186**

(All amounts in Indian Rupees thousands, except share data)

SCHEDULE 5 : FIXED ASSETS

Description	Gross block				Depreciation				Net block	
	As at 1 April, 2002	Additions/ Adjustments	Deductions/ Adjustments	As at 31 March, 2003	As at 1 April, 2002	For the year	Deductions/ Adjustments	As at 31 March, 2003	As at 31 March, 2003	As at 31 March, 2002
Land - freehold (Note 1)	75,353	13,419	957	87,815	–	–	–	–	87,815	75,353
Buildings	979,625	96,685	–	1,076,310	139,027	41,349	–	180,376	895,934	840,598
Plant and machinery (Note 2)	3,220,141	477,576	33,029	3,664,688	1,374,361	324,834	5,277	1,693,918	1,970,770	1,845,780
Electrical equipment	385,150	38,918	346	423,722	195,658	37,419	14	233,063	190,659	189,492
Laboratory equipment	502,375	221,137	4,263	719,249	217,569	85,415	(1,399)	304,383	414,866	284,806
Furniture, fixtures and office equipment	377,313	133,764	49,984	461,093	222,197	67,947	32,212	257,932	203,161	155,116
Patents, trademarks and designs	76,000	–	–	76,000	26,338	11,942	–	38,280	37,720	49,662
Vehicles	79,961	51,969	20,535	111,395	37,524	16,436	8,276	45,684	65,711	42,437
Library	3,506	–	–	3,506	3,233	273	–	3,506	–	273
	5,699,424	**1,033,468**	**109,114**	**6,623,778**	**2,215,907**	**585,615**	**44,380**	**2,757,142**	**3,866,636**	**3,483,517**
Previous year	4,853,659	1,048,724	202,959	5,699,424	1,888,866	474,187	147,146	2,215,907	3,483,517	–

NOTES:

1. Land located at Pydibheemavaram allotted by the Andhra Pradesh Industrial Infrastructure Corporation Limited having a book value of Rs. 4,445 (previous year: Rs. 4,445) is yet to be registered in the name of the Company.
2. The Company owns treated effluent discharge pipeline in equal proportion jointly with a third party in Pydibheemavaram pursuant to a mutual agreement.
3. Additions to gross block and capital work-in-progress include Rs. Nil (previous year: Rs. 19,174) on account of capitalisation of borrowing costs during the year.
4. Depreciation for the year includes depreciation amounting to Rs. 62,028 (previous year: Rs. 12,182) on Research and Development assets.

(All amounts in Indian Rupees thousands, except share data)

	As at 31 March, 2003	As at 31 March, 2002
SCHEDULE 6 : INVESTMENTS		
(Long term at cost)		
I. Quoted investments		
Non-trade		
(a) Equity shares (fully paid-up)		
12,030 (previous year: 12,030) equity shares of Rs. 10 each of State Bank of India (Note 1)	3,104	3,104
8,600 (previous year: 8,600) equity shares of Rs. 10 each of Reliance Industries Limited (Note 1)	919	919
1,300 (previous year: 1,300) equity shares of Rs. 10 each of Cholamandalam Investment and Finance Company Limited	130	130
23,500 (previous year: 23,500) equity shares of Rs. 10 each of IDBI Bank Limited	423	423
(b) Debentures and bonds		
Nil (previous year: 100) 12.50%, Non-Convertible debentures of Rs. 50 each in Woolworth India Limited (written off during the year)	–	5
(c) Units		
2,000 (previous year: 2,000) Units of UTI Master Gain 92	20	20
I. Total quoted investments	**4,596**	**4,601**
II. Unquoted investments		
Trade		
Equity and preference shares (fully paid-up)		
In Subsidiaries		
50,000 (previous year: 104) equity shares of Rs. 10 each of DRL Investments Limited	500	1
17,000,000 (previous year: 8,000,000) equity shares of Rs. 10 each of Compact Electric Limited	170,000	80,000
700,070 (previous year: 700,070) 15% cumulative redeemable preference shares of Rs. 100 each of Compact Electric Limited	70,007	70,007
11,625,000 (previous year: 11,625,000) ordinary shares of HK$ 1 each of Reddy Pharmaceuticals Hong Kong Limited	58,021	58,021
500,000 (previous year: 380,000) equity shares of 1,000 Roubles each of OOO JV Reddy Biomed Limited	6,635	3,427
500,000 (previous year: 500,000) equity shares of US$ 1 each of Reddy Antilles N.V.	17,969	17,969
1,121,254 shares of Real $ 1 each (previous year: 400,000) of Dr. Reddy's Farmaceutica Do Brasil Ltda.	19,285	9,529
400,750 (previous year: 400,750) ordinary shares of Dr. Reddy's Laboratories Inc.	175,038	175,038
134,513 (previous year: 134,513) equity shares of Rs. 10 each of Cheminor Investments Limited	1,345	1,345
2,500 (previous year: 2,500) ordinary shares of FF 100 each of Reddy Cheminor S.A.	1,558	1,558
3,000,000 (previous year: 10,000) equity shares of Rs. 10 each of Zenovus Biotech Limited	30,000	100
25,000,000 (previous year: 10,004) equity shares of Rs. 10 each of Aurigene Discovery Technologies Limited	250,000	100
Carried forward	**800,358**	**417,095**

(All amounts in Indian Rupees thousands, except share data)

	As at 31 March, 2003	As at 31 March, 2002
SCHEDULE 6 : INVESTMENTS (CONT.)		
Brought forward	800,358	417,095
Unquoted trade investments (continued)		
In subsidiaries (continued)		
34,476 (previous year: Nil) ordinary A shares of GBP 0.01 each of Dr. Reddy's Laboratories (EU) Limited (formerly BMS Laboratories Limited)	141,502	–
98,124 (previous year: Nil) ordinary shares of GBP 0.01 each of Dr. Reddy's Laboratories (EU) Limited (formerly BMS Laboratories Limited)	402,737	–
360,000 (previous year: Nil) preference shares of GBP 0.0001 each of Dr. Reddy's Laboratories (EU) Limited (formerly BMS Laboratories Limited)	22,546	–
In associates		
2,870,502 (previous year: 2,870,502) ordinary shares of Real $ 1 each of Aurantis Farmaceutica Limited	85,099	85,099
4,900,000 (previous year: 2,070,000) equity shares of Rs. 10 each of Pathnet India Private Limited ('Pathnet')	49,000	20,700
300 (previous year: 300) equity shares of Rs. 10 each of Dr. Reddy's Exports Limited	3	3
In joint venture		
Equity shares held in Kunshan Rotam Reddy Pharmaceutical Co. Limited (Notes 2 and 3)	256,737	256,737
In other companies		
28,693 (previous year: 28,693) ordinary shares of 1,000 Roubles each of Biomed Russia Limited	65,557	65,557
200,000 (previous year: 200,000) ordinary shares of Rs. 10 each of Altek Engineering Limited	2,000	2,000
8,859 (previous year: 8,859) equity shares of Rs. 100 each of Jeedimetla Effluent Treatment Limited	965	965
24,000 (previous year: 24,000) equity shares of Rs. 100 each of Progressive Effluent Treatment Limited	2,400	2,400
Nil (previous year: 1) equity share of Rs.1,000 each of Sri Venkateshwara Co-operative Industrial Estate Limited (written off during the year).	–	1
In capital of partnership firms		
Globe Enterprises	2,393	2,393

(A partnership firm with Dr. Reddy's Holdings Limited organised under the Indian Partnership Act, 1932 wherein the Company and Dr. Reddy's Holdings Limited share the profits in the ratio of 95:5 respectively)

(All amounts in Indian Rupees thousands, except share data)

	As at 31 March, 2003	As at 31 March, 2002
SCHEDULE 6 : INVESTMENTS (CONT.)		
Partners capital account:		
Dr. Reddy's Laboratories Limited – Rs. 2,393		
Dr. Reddy's Holdings Limited – Rs. 101		
II. Total unquoted investments	**1,831,297**	**852,950**
Aggregate cost of investments (I + II)	**1,835,893**	**857,551**
Less: Provision for decline, other than temporary, in the value of investments	(269,519)	(218,119)
Total investments, net	**1,566,374**	**639,432**
Aggregate cost of quoted investments	4,596	4,601
Aggregate cost of unquoted investments	1,831,297	852,950
Market value of quoted investments	6,221	5,961

NOTES :

1. In respect of shares of State Bank of India and Reliance Industries Limited, the share certificates were misplaced during transfer/lost in transit. The Company initiated necessary legal action at the appropriate courts. The Company has won the case relating to the equity shares of Reliance IndustriesLimited and out of 8,600 equity shares held by the Company, share certificates for 7,729 equity shares have since been received.
2. Equity shares held in Kunshan Rotam Reddy Pharmaceutical Co. Limited, China (Reddy Kunshan) are not denominated in number of shares as per the laws of China.
3. In accordance with Accounting Standard 27 - Financial Reporting of Interest in Joint Ventures, issued by the Institute of Chartered Accountants of India which is effective from current year, investments made by the Company in the equity share capital of Reddy Kunshan has been accounted as investments in a Joint venture company. To facilitate a comparison, the Company's investment in Reddy Kunshan in the previous year has been reclassified.

	As at 31 March, 2003	As at 31 March, 2002
SCHEDULE 7 : INVENTORIES		
Stores and spares	282,092	188,263
Raw materials	770,729	597,928
Work-in-process	660,201	514,779
Finished goods	688,146	597,154
	2,401,168	**1,898,124**
SCHEDULE 8 : SUNDRY DEBTORS		
(Unsecured)		
Debts outstanding for a period exceeding six months		
Considered good	136,657	224,596
Considered doubtful	182,961	96,258
Other debts		
Considered good	4,187,858	4,224,947
	4,507,476	4,545,801
Less: Provision for doubtful debts	182,961	96,258
	4,324,515	**4,449,543**

SCHEDULES
TO THE BALANCE SHEET

(All amounts in Indian Rupees thousands, except share data)

	As at 31 March, 2003	As at 31 March, 2002
SCHEDULE 9 : CASH AND BANK BALANCES		
Cash in hand	3,542	1,818
Balances with scheduled banks		
On current accounts	141,320	60,518
On EEFC current accounts	18,550	7,540
On deposit accounts	5,174,645	2,295,868
On unclaimed dividend accounts	9,808	9,541
On unclaimed fractional share pay order accounts	688	727
Balances with non-scheduled banks		
Current account with Manjira Grameena Bank	–	256
Current account with Sri Visakha Grameena Bank Limited	133	61
Balances with non-scheduled banks outside India		
On current accounts	22,567	29,875
On deposit accounts	1,512,749	2,479,397
	6,884,002	**4,885,601**

NOTES:

1. Maximum amount outstanding at any time during the year with non-scheduled banks:		
Manjira Grameena Bank	256	1,515
Sri Visakha Grameena Bank Limited	200	253
2. Deposits with scheduled banks include Rs. 9,403 (previous year: Rs. 6,330) representing margin money for letters of credit and bank guarantees.		
3. Deposits with banks outside India represents balance of unutilised money out of ADS issue:		
ABN Amro Bank, Netherlands	293,977	1,733,771
[Maximum amount outstanding at any time during the year: Rs. 1,733,771 (previous year: Rs. 1,733,771)]		
State Bank of India, Bahrain	742,272	744,844
[Maximum amount outstanding at any time during the year: Rs. 755,271 (previous year: Rs.744,844)]		
Bank of America, USA	–	782
[Maximum amount outstanding at any time during the year: Rs. 782 (previous year: Rs. 468,900)]		
Deutsche Bank, Singapore	476,500	–
[Maximum amount outstanding at any time during the year: Rs. 484,740 (previous year: Rs. Nil)]		
	1,512,749	**2,479,397**

(All amounts in Indian Rupees thousands, except share data)

SCHEDULE 9 : CASH AND BANK BALANCES (CONTD.)

4. Closing balances and maximum amounts outstanding at any time during the year on current accounts with banks outside India:

	Maximum balance		Balance as at	
	31 March, 2003	31 March, 2002	31 March, 2003	31 March, 2002
Citibank, New York	54,733	5,135,902	10,139	19,533
Credit Bank of Moscow, Moscow	29,263	12,821	7,382	9,148
ABN Amro Bank, Romania	2,170	1,864	1,338	434
ABN Amro Bank, Kazakhstan	2,857	1,300	164	108
Golden Taler Bank, Belarus	4,162	416	558	193
Societe Generale Yugoslav Bank Ad, Yugoslavia	2,699	1,331	982	78
Exim Bank HCMC, Vietnam	6,826	1,195	6	221
Standard Chartered Grindlays Bank, Sri Lanka	3,051	160	49	160
Standard Chartered Bank (Ghana) Limited, Ghana	874	153	–	–
Citibank, Malaysia	1,267	–	4	–
Commercial Bank of Africa Ltd., Kenya	9,093	–	758	–
Estado De Cuenta, Peru	242	–	238	–
National Bank of Foreign Economic Activity of Republic of Uzbekistan, Uzbekistan	230	–	–	–
Ukreximbank, Ukraine	5,678	1,915	949	–
			22,567	**29,875**

	As at 31 March, 2003	As at 31 March, 2002
SCHEDULE 10 : LOANS AND ADVANCES		
(Unsecured)		
Considered good		
Loans and advances to wholly owned subsidiary companies	361,593	282,169
Share application money pending allotment to subsidiary companies	252,628	110,959
Advances to material suppliers	72,713	68,063
Staff loans and advances	77,184	76,518
Share application money pending allotment in respect of an associate company	–	43,610
Other advances recoverable in cash or in kind or for value to be received	665,364	453,263
Advance tax (net of provision for current taxes Rs. 1,439,286; previous year: Rs. 1,038,764)	282,246	44,671
Balances with customs, central excise etc.	85,051	62,554
Deposits	71,364	71,485
Considered doubtful		
Advance towards investment	8,056	8,056
Share application money pending allotment in respect of an associate company	15,310	–
Other advances recoverable in cash or in kind or for value to be received	3,332	–
	1,894,841	1,221,348
Less: Provision for doubtful advances	(26,698)	(8,056)
	1,868,143	**1,213,292**

(All amounts in Indian Rupees thousands, except share data)

SCHEDULE 10 : LOANS AND ADVANCES (CONTD.)

Staff loans and advances include:
Loans to an officer of the Company Rs. 439 (previous year: Rs. 563)
[Maximum amount outstanding at anytime during the year Rs. 563 (previous year: Rs. 656)]
Loans and advances in the nature of loan to wholly owned subsidiary companies comprise:

	Balance as at		Maximum amount outstanding at any time during the year	
	31 March, 2003	**31 March, 2002**	**31 March, 2003**	**31 March, 2002**
Dr. Reddy's Laboratories Inc.	148,504	154,269	154,460	175,038
Aurigene Discovery Technologies Limited	200,441	–	249,486	–
Zenovus Biotech Limited	10,000	5,273	35,830	5,373
DRL Investments Limited	2,643	3,143	3,143	3,143
Compact Electric Limited	–	119,481	122,881	126,905
Cheminor Investments Limited	5	3	5	3
	361,593	**282,169**		

NOTES:

1. The loans and advances in the nature of loans to the subsidiaries specified above have repayment schedule below seven years. All these loans are interest free loans except for the loan given to Dr. Reddy's Laboratories Inc., which bears interest at the London Inter Bank Offered Rate (LIBOR) plus 0.7%.
2. There are no investments made by the loanees in the Company and in any of its subsidiaries.

SCHEDULE 11 : CURRENT LIABILITIES

	As at 31 March, 2003	As at 31 March, 2002
Sundry creditors		
Outstanding dues to small scale industries	26,121	19,332
Others	1,855,662	1,487,255
Subsidiary companies	159,351	57,388
Book overdraft	87,551	86,436
Unclaimed dividends *	9,808	9,541
Interest accrued but not due on loans	–	10
Trade deposits	44,885	66,096
	2,183,378	**1,726,058**

* Investor Protection and Education Fund shall be credited by the amounts when due.

(All amounts in Indian Rupees thousands, except share data)

SCHEDULE 11 : CURRENT LIABILITIES (CONTD.)

NOTE:

The names of the small scale industrial (SSI) undertakings to whom the Company is indebted for a period of more than 30 days as at 31 March, 2003:

Tirumula Comprints (P) Ltd
Classic Packagings
Milan Art Printers
Plastic Shapers
Gansons Ltd.
Temple Packaging (P) Ltd
Super Olefins (P) Ltd
Classic Mek Fabricators (P) Ltd
Madhavi Engineering Company
Ability Engineering Services
Murthy's Lab Glass Works
Ravi Industries
Nagoor Services
Sree Industrial Services
Godavari Plasto Containers Pvt Ltd
Surya Industrial Equipments
Vinayak Metal Fabs
Lisa Ampoules & Vials (P) Ltd
Apex Drugs and Intermediates Ltd
Paper Pack Industries
Vivala Cartons (P) Ltd
Walnut Packaging (P) Ltd
Hemair Systems India Ltd
Regal Packaging
Esjay Polyproducts (P) Ltd
Veer-Chemie & Aromatics (P) Ltd
PCR Metacaps
Sigachi Chloro Chemicals (P) Ltd
Sree Deepti Packaging Industries
Susheel Enterprises
Taurus Chemicals (P) Ltd

The list of SSI undertakings was determined by the Company on the basis of information available with the Company and relied upon by the auditors.

SCHEDULE 12 : PROVISIONS

	As at 31 March, 2003	As at 31 March, 2002
Proposed dividend	382,580	191,290
Tax on proposed dividend	49,018	–
Provision for		
Gratuity	49,962	38,164
Leave encashment	70,738	50,830
	552,298	**280,284**

SCHEDULE 13 : MISCELLANEOUS EXPENDITURE

(to the extent not written-off or adjusted)

Share issue expenses		
Balance at the beginning of the year	–	2,507
Less: Adjusted against share premium account	–	(2,007)
Less: Written-off during the year	–	(500)
	–	–
Development expenditure		
Contributions to Dr. Reddy's Research Foundation		
Balance at the beginning of the year	–	536,410
Less: Written-off during the year	–	(536,410)
	–	–
Contribution to Reddy US Therapeutics Inc.		
Balance at the beginning of the year	–	50,146
Less: Written-off during the year	–	(50,146)
	–	–
Product development expenditure		
Balance at the beginning of the year	–	338,727
Less: Written-off during the year	–	(338,727)
	–	–
Market development expenditure		
Balance at the beginning of the year	–	17,819
Less: Amount amortised during the year	–	(11,748)
Less: Written-off during the year	–	(6,071)
	–	–

SCHEDULES
TO THE PROFIT AND LOSS ACCOUNT

(All amounts in Indian Rupees thousands, except share data)

	For the year ended 31 March, 2003	For the year ended 31 March, 2002
SCHEDULE 14 : OTHER INCOME		
Dividends		
Subsidiary companies	6,664	4,177
Non-trade investments	175	35
Interest income		
On fixed deposits (gross, tax deducted at source: Rs. 58,279; previous year: Rs. 4,455)	327,305	99,026
On debentures and bonds (gross, tax deducted at source: Rs. Nil; previous year: Rs. Nil)	–	26
On loans to a subsidiary company	3,934	5,664
On others	2,555	3,282
Income from redemption of mutual fund units	6,284	19,420
Exchange gain, net	–	235,848
Export benefits	202,347	71,012
Miscellaneous income	117,670	76,830
	666,934	**515,320**

		For the year ended 31 March, 2003		For the year ended 31 March, 2002
SCHEDULE 15 : MATERIAL COSTS				
(a) *Opening*				
Work-in-process	514,779		508,789	
Finished goods	597,154	1,111,933	493,003	1,001,792
Closing				
Work-in-process	660,201		514,779	
Finished goods	688,146	1,348,347	597,154	1,111,933
Net (increase)/decrease		(236,414)		(110,141)
(b) *Raw materials consumed*				
Opening stock of raw materials	597,928		378,823	
Add: Purchases	3,498,593		3,277,958	
	4,096,521		3,656,781	
Less: Closing stock	770,729	3,325,792	597,928	3,058,853
(c) *Stores, chemicals, spares and packing material consumed*		543,565		372,679
(d) *Purchase of traded goods*		1,144,820		968,221
		4,777,763		**4,289,612**

Raw materials consumed include Rs. 54,057 (previous year: Rs. 99,609) being stocks written-off/written-down, Rs. 103,340 (previous year: Rs.139,410) being cost of samples issued and is net of Rs. 29,821 (previous year: Rs. 41,251) being sale of raw materials.

SCHEDULES
TO THE PROFIT AND LOSS ACCOUNT

(All amounts in Indian Rupees thousands, except share data)

	For the year ended 31 March, 2003	For the year ended 31 March, 2002
SCHEDULE 16 : PERSONNEL COSTS		
Salaries, wages and bonus	938,234	787,633
Contribution to provident and other funds	84,165	67,093
Workmen and staff welfare expenses	188,388	151,195
	1,210,787	**1,005,921**

	For the year ended 31 March, 2003	For the year ended 31 March, 2002
SCHEDULE 17 : OPERATING AND OTHER EXPENSES		
Power and fuel	381,191	328,372
Repairs and maintenance:		
Buildings	15,503	24,915
Plant and machinery	181,379	185,130
Others	193,982	185,275
Rent	43,382	35,860
Rates and taxes	90,489	46,120
Insurance	62,958	31,235
Travelling and conveyance	151,789	106,036
Communication	57,850	42,615
Advertisements	19,170	27,299
Commissions on sales	139,371	79,929
Other selling expenses	1,316,209	1,152,641
Printing and stationery	46,528	37,809
Donations	24,021	43,117
Legal and professional	159,107	73,480
Bad debts written off	9,266	32,311
Loans and advances to a subsidiary company written off	26,474	–
Provision for doubtful advances given to an associate company	15,310	–
Provision for doubtful advances - others	3,332	8,056
Provision for doubtful debts	86,703	78,880
Loss on sale/retirement of fixed assets, net	22	29,029
Directors' sitting fees	370	280
Directors' remuneration	104,007	204,483
Auditors' remuneration	6,088	5,285
Amortisation of market development expenditure	–	11,748
Bank charges	26,048	32,458
Exchange loss, net	39,249	–
Sundry expenses (Note 1)	150,770	123,486
	3,350,568	**2,925,849**

Note: 1. Sundry expenses include Nil (previous year: Rs. 500) towards public issue expenses written-off.

SCHEDULES
TO THE PROFIT AND LOSS ACCOUNT

(All amounts in Indian Rupees thousands, except share data)

	For the year ended 31 March, 2003	For the year ended 31 March, 2002
SCHEDULE 18: FINANCE CHARGES		
Interest on term loans	–	22,966
Interest on loan note	5,574	–
Interest on debentures	–	39,665
Other finance charges	28,881	46,354
	34,455	**108,985**
SCHEDULE 19: PROVISION FOR TAX		
Current taxes		
Domestic taxes	402,182	395,280
Deferred taxes		
Domestic taxes	(11,505)	(284,057)
	390,677	**111,223**

SCHEDULE 20 : NOTES TO ACCOUNTS

1 SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial statements of Dr. Reddy's Laboratories Limited ("DRL" or "the Company") have been prepared and presented under the historical cost convention on the accrual basis of accounting in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") issued by the Institute of Chartered Accountants of India to the extent applicable and with the relevant provisions of the Companies Act, 1956. The financial statements are presented in Indian rupees rounded off to the nearest thousands.

b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in the current and future periods.

c) New accounting standards

The Company has adopted AS 27 "Financial Reporting of Interests in Joint Ventures" issued by the Institute of Chartered Accountants of India which is effective for the accounting periods commencing on or after 1 April, 2002. The standard prescribes principles and procedures for accounting for interests in joint ventures and reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors.

d) Fixed assets and depreciation

Fixed assets are carried at the cost of acquisition or construction less accumulated depreciation. The cost of fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised. The cost of fixed assets also includes the exchange differences arising in respect of foreign currency loans or other liabilities incurred for the purpose of their acquisition or construction.

Advances paid towards the acquisition of fixed assets outstanding at each balance sheet date and the cost of fixed assets not ready for their intended use before such date are disclosed under capital work-in-progress.

Depreciation on fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed. Individual assets costing less than Rs. 5,000 are depreciated in full in the year of acquisition.

Schedule 20 : Notes to accounts (Contd.)
Significant accounting policies (Contd.)

Management's estimates of the useful lives for various categories of fixed assets are given below:

	Years
Buildings	
– Factory and administrative buildings	30
– Ancillary structures	3 to 10
Plant and machinery	3 to 15
Electrical equipment	5 to 15
Laboratory equipment	5 to 15
Furniture, fixtures and office equipment (other than computer equipment)	4 to 8
Computer equipment	3
Patents, trade marks and designs (including marketing know-how)	6 to 10
Vehicles	4 to 5
Library	2

e) **Investments**

Long-term investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment.

Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investments.

f) **Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The methods of determining cost of various categories of inventories are as follows:

Raw materials	First in first out (FIFO)
Stores and spares	Weighted average method
Work-in-process and finished goods (manufactured)	FIFO and an appropriate share of production overheads
Finished goods (traded)	Cost of purchase
Goods in transit	At actual cost

g) **Research and development**

Revenue expenditure on research and development is expensed as incurred. Capital expenditure incurred on research and development having alternate uses is capitalised as fixed assets and depreciated in accordance with the depreciation policy of the Company.

h) **Retirement benefits**

Contributions payable to an approved gratuity fund (a defined benefit plan), determined by an independent actuary, are charged to the profit and loss account. Leave encashment cost which is a defined benefit, is accrued based on actuarial valuation at the balance sheet date, carried out by an independent actuary.

Contributions payable to the recognised provident fund and approved superannuation scheme, which are defined contribution schemes, are charged to the profit and loss account.

Schedule 20 : Notes to Accounts (Contd.)
Significant Accounting Policies (Contd.)

i) **Foreign currency transactions and balances**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the profit and loss account except that exchange differences related to acquisition of fixed assets are adjusted in the carrying amount of the related fixed assets.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date not covered by forward exchange contracts are translated at year-end rates. The resultant exchange differences (except those related to acquisition of fixed assets) are recognised in the profit and loss account.

Income and expenditure items at representative offices are translated at the respective monthly average rates. Monetary items at representative offices at the balance sheet date are translated using the year-end rates. Non-monetary assets are recorded at the rates prevailing on the date of the transaction.

The premium or discount on forward exchange contracts is recognised over the period of the contracts. The premium or discount in respect of forward exchange contracts related to acquisition of fixed assets is adjusted in the carrying amount of the related fixed assets. In respect of other contracts, it is recognised in the profit and loss account.

j) **Revenue recognition**

Revenue from sale of goods is recognised when significant risks and rewards in respect of ownership of the products are transferred to the customer. Revenue from domestic sales of formulation products is recognised on despatch of products to stockists by clearing and forwarding agents of the Company. Revenue from domestic sales of active pharmaceutical ingredients and intermediates is recognised on despatch of products from the factories of the Company. Revenue from export sales is recognised on shipment of products.

Revenue from product sales is stated inclusive of excise duty and exclusive of returns, sales tax and applicable trade discounts and allowances.

Revenue from services is recognised as per the terms of the contracts with the customers when the services are performed.

Non-refundable up-front and milestone payments (“license fees”) are recognised as revenue when earned, in accordance with the terms prescribed in the license agreements.

Dividend income is recognised when the unconditional right to receive the income is established. Income from interest on deposits and interest bearing securities is recognised on the time proportionate method.

Export entitlements under the Duty Entitlement Pass Book (“DEPB”) scheme are recognised in the profit and loss account when the right to receive credit as per the terms of the scheme is established in respect of the exports made and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.

k) **Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit.

Current tax

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

Schedule 20 : Notes to Accounts (Contd.)
Significant Accounting Policies (Contd.)

Deferred tax

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised.

The break-up of the major components of the deferred tax assets and liabilities as at balance sheet date have been arrived at after setting off deferred tax assets and liabilities where the Company has a legally enforceable right to set-off assets against liabilities and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

l) **Earnings per share**

The basic earnings per share (“EPS”) is computed by dividing the net profit after tax for the year by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, net profit after tax for the year and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. The dilutive potential equity shares are deemed converted as of the beginning of the period, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares).

m) **Employee stock option schemes**

In accordance with the Securities and Exchange Board of India guidelines, the excess of the market price of shares, at the date of grant of options under the Employee stock option schemes, over the exercise price is treated as employee compensation and amortised on a straight-line basis over the vesting period.

n) **Contingencies**

Loss contingencies arising from claims, litigation, assessments, fines, penalties etc. are provided for when it is probable that a liability may be incurred, and the amount can be reasonably estimated.

Schedule 20 : Notes to Accounts (Contd.)

(Rs. thousands)

	As at 31 March, 2003	As at 31 March, 2002
2 COMMITMENTS AND CONTINGENT LIABILITIES		
(i) Commitments / contingent liabilities:		
(a) Guarantees issued by banks	62,823	121,536
(b) Guarantees issued by the Company on behalf of subsidiaries and associates	871,120	782,340
(c) Letters of credit outstanding	178,443	181,973
(d) Contingent consideration payable in respect of a foreign subsidiary acquired	75,044	69,727
(ii) Claims against the Company not acknowledged as debts in respect of:		
(a) Demands for payments into the credit of the Drug Prices Equalisation Account under Drugs (Price Control) Order, 1979, which are contested by the Company in respect of its product "Norfloxacin". The Company has filed a legal suit against the notification, where interim stay has been granted by the Andhra Pradesh High Court in favour of the Company	162,375	148,562
(b) Income tax matters, pending decisions on various appeals made by the Company and by the Department	209,881	163,180
(c) Excise matters, under dispute	68,263	47,673
(d) Sales tax matters, under dispute	12,325	1,470
(e) Other matters, under dispute	26,781	–
(iii) Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	309,732	749,403

(iv) The Company is also involved in other lawsuits, claims, investigations and proceedings, including patent and commercial matters, which arise in the ordinary course of business. However, there are no such matters pending that the Company expects to be material in relation to its business.

3 DEFERRED TAXATION

Deferred tax liability, net included in the balance sheet comprises the following:

	As at 31 March, 2003	As at 31 March, 2002
Deferred tax assets		
Sundry debtors	100,780	9,309
Investments	249	256
Provisions	25,413	20,118
Others	18,120	1,981
	144,562	**31,664**
Deferred tax liabilities		
Fixed assets	568,030	466,637
Deferred tax liabilities, net	**423,468**	**434,973**

Schedule 20 : Notes to Accounts (Contd.)

	For the year ended 31 March, 2003 Basic & Diluted EPS	For the year ended 31 March, 2002 Basic & Diluted EPS
4 EARNINGS PER SHARE (EPS)		
The computation of EPS is set out below:		
Earnings		
Net profit for the year (Rs. thousands)	3,920,926	4,596,505
Shares		
Weighted average number of equity shares outstanding during the year – Basic	76,515,948	76,092,181
Add : Weighted average number of equity shares arising out of outstanding stock options (net of the stock options forfeited) that have dilutive effect on the EPS	9,642	–
Weighted average number of equity shares outstanding during the year –Diluted	76,525,590	76,092,181
Earnings per share of par value Rs. 5 – Basic (Rs.)	51.24	60.41
Earnings per share of par value Rs. 5 – Diluted (Rs.)	51.24	60.41

5 RELATED PARTY DISCLOSURES

a. There are no related parties where control exists, other than in case of subsidiaries including the step-down subsidiaries.

b. Related parties where control exists or with whom transactions have taken place during the year:

Subsidiaries including step-down subsidiaries

- OOO JV Reddy Biomed Limited, Russia;
- Reddy Pharmaceuticals Hong Kong Limited, Hong Kong;
- Dr. Reddy's Laboratories Inc., USA;
- Reddy Cheminor S.A., France;
- Reddy Antilles N.V., Netherlands;
- Dr. Reddy's Farmaceutica Do Brasil Ltda., Brazil;
- Zenovus Biotech Limited, India;
- Aurigene Discovery Technologies Limited, India;
- Aurigene Discovery Technology Inc., USA;
- Compact Electric Limited, India;
- Cheminor Investments Limited, India;
- DRL Investments Limited, India;
- Reddy Netherlands B.V., Netherlands;
- Reddy Pharmaceuticals Singapore Pte Limited, Singapore;
- Reddy US Therapeutics Inc., USA;
- Dr. Reddy's Laboratories (EU) Limited, UK (formerly known as BMS Laboratories Limited, UK);
- Dr. Reddy's Laboratories (UK) Limited, UK (formerly known as Meridian Healthcare, UK);
- Dr. Reddy's Laboratories (Proprietary) Limited, South Africa; and
- Globe Enterprises (a partnership firm in India).

Schedule 20 : Notes to Accounts (Contd.)
Related Party Disclosures (Contd.)

Associates

■ Pathnet India Private Limited	Enterprise on which the Company has significant influence
■ Aurantis Farmaceutica Ltda	Enterprise on which the Company has significant influence
■ Dr. Reddy's Exports Limited	Enterprise on which the Company has significant influence

Joint Venture

- Kunshan Rotam Reddy Pharmaceutical Company Limited ("Reddy Kunshan"), China

Enterprises where principal shareholders have significant influence ("Significant interest entities")

■ Dr. Reddy's Research Foundation ("Research Foundation")	Enterprise where the principal shareholders have significant influence
■ Dr. Reddy's Holdings Limited	Enterprise owned by principal shareholders

Others

■ Diana Hotels Limited	Enterprise owned by relative of a director
■ Ms. K. Samrajyam	Spouse of Chairman
■ Ms. G. Anuradha	Spouse of Executive Vice-Chairman and Chief Executive Officer
■ Ms. Deepthi Reddy	Spouse of Managing Director and Chief Operating Officer
■ Madras Diabetes Research Foundation	Enterprise promoted by a director
■ Dr. Reddy's Heritage Foundation	Enterprise in which Chairman is a director
■ Manava Seva Dharma Samvardhani Trust	Enterprise in which a director is a Managing trustee

Key Management Personnel represented on the Board

■ Dr. K. Anji Reddy	Chairman
■ Mr. G. V. Prasad	Executive Vice-Chairman and Chief Executive Officer
■ Mr. K. Satish Reddy	Managing Director and Chief Operating Officer

Non-Executive and Independent Directors on the Board

- Dr. P. Satyanarayana Rao
- Dr .V. Mohan
- Dr. Omkar Goswami
- Mr. Ravi Bhoothalingam
- Mr. P. N. Devarajan
- Dr. A. Venkateswarlu
- Dr. Krishna G Palepu
- Mr. Anupam Puri

Schedule 20 : Notes to Accounts (Contd.)

Related Party Disclosures (Contd.)

c. Particulars of related party transactions

The following is a summary of significant related party transactions:

(Rs. thousands)

Particulars	**For the year ended 31 March, 2003**	**For the year ended 31 March, 2002**
i. Sales to:		
Subsidiaries, associates and joint ventures	5,769,447	6,310,237
Significant interest entities	763	3,302
ii. Dividends from subsidiaries	6,664	4,177
iii. Interest income from a subsidiary	3,934	5,664
iv. Purchases from:		
Subsidiaries	137,617	166,207
Significant interest entities	45,614	11,904
Others	2,206	5,697
v. Operating expenses paid to subsidiaries	–	47,266
vi. Loans to a subsidiary company written off	26,474	–
vii. Provision for doubtful advances given to an associate	15,310	–
viii. Contributions made to Research Foundation	190,172	449,000
ix. Hotel expenses paid to:		
Enterprise owned by relative of a director	7,119	5,703
x. Rent paid to:		
Key Management Personnel	9,043	7,975
Spouses of Key Management Personnel	7,764	6,696
xi. Directors' sitting fees	370	280
xii. Donation to an enterprise in which a director is a Managing trustee	630	–

d. The Company has the following amounts due from/to related parties:

i. Due from related parties (included in loans and advances and sundry debtors):		
Subsidiaries	2,845,371	2,568,606
Significant interest entities	–	274
Key Management Personnel and Relatives	3,680	2,270
ii. Deposit with Significant interest entity	3,000	–
iii. Due to related parties (included in current liabilities):		
Subsidiaries	159,351	57,388
Significant interest entities	5,030	1,935
Enterprise owned by relative of a director	35	175

e. Details of remuneration paid to the whole-time and non-whole-time directors are given in Note 6 of Schedule 20.

f. Equity contributions in subsidiaries, associates and a joint venture have been disclosed under "Investments". Share application money paid to subsidiaries by the Company for which shares are yet to be allotted and loans to subsidiaries have been disclosed under "Loans and advances".

g. The Company undertakes research and development through the Research Foundation, an entity incorporated under Section 25 of the Companies Act, 1956. The Research Foundation currently conducts research and development activities primarily for the Company. The Company funds the operations of the Research Foundation.

Schedule 20 : Notes to Accounts (Contd.)

6 PARTICULARS OF MANAGERIAL REMUNERATION

The remuneration paid to managerial personnel during the year:

(Rs. thousands)

	Chairman		Executive Vice-Chairman & CEO		Managing Director & COO		Non-Executive/ Independent Directors	
	For the year ended 31 March,		For the year ended 31 March,		For the year ended 31 March,		For the year ended 31 March,	
	2003	2002	2003	2002	2003	2002	2003	2002
Salaries and allowances	1,800	1,200	1,080	1,080	1,080	1,080	–	–
Commission	44,167	96,399	22,084	48,199	22,084	48,199	10,960	6,800
Other perquisites	244	944	254	304	254	278	–	–
	46,211	98,543	23,418	49,583	23,418	49,557	10,960	6,800

The executive directors are covered under the Company's gratuity policy along with the other employees of the Company. Proportionate amount of gratuity and leave encashment is not included in the aforementioned disclosure.

Computation of net profit and directors' commission under Section 309 (5) of the Companies Act, 1956 and commission payable to directors.

(Rs. thousands)

	For the year ended 31 March, 2003	For the year ended 31 March, 2002
Profit after taxation as per profit and loss account	3,920,926	4,596,505
Add:		
Provision for taxation	390,677	111,223
Provision for wealth tax	765	557
Directors' sitting fees	370	280
Managerial remuneration to directors	104,007	204,483
Loss on sale of fixed assets, net	22	29,029
Depreciation as per books of accounts	585,615	474,187
	5,002,382	5,416,264
Less:		
Depreciation as envisaged under Section 350 of the Companies Act, 1956 *	585,615	474,187
Profit for the purpose of calculating directors' commission as per the provisions of the Companies Act, 1956	4,416,767	4,942,077
Commission payable to whole-time directors @ 2% (previous year: 4%)	88,335	197,683
Commission payable to non-whole-time directors:		
Maximum allowed as per the Companies Act, 1956 (1%)	44,168	49,421
Maximum approved by the shareholders (0.5%)	22,084	24,711
Commission approved by the Board	10,960	6,800

* The Company depreciates fixed assets based on estimated useful lives that are lower than those implicit in Schedule XIV to the Companies Act, 1956. Accordingly, the rates of depreciation used by the Company are higher than the minimum rates prescribed by Schedule XIV.

Schedule 20 : Notes to Accounts (Contd.)

(Rs. thousands)

		For the year ended 31 March, 2003	For the year ended 31 March, 2002
7	**AUDITORS' REMUNERATION**		
a)	Audit fees	5,150	4,500
b)	Other charges		
	Taxation matters	50	300
	Other certifications	425	400
c)	Reimbursement of out of pocket expenses	463	85
		6,088	5,285

8 INTEREST IN JOINT VENTURE

The Company has a 51 per cent interest in Reddy Kunshan, a joint venture in China. Reddy Kunshan is engaged in manufacturing and marketing of active pharmaceutical ingredients and intermediates and formulations in China. The aggregate amount of the assets, liabilities, income and expenses related to the Company's share in Reddy Kunshan as at and for the year ended 31 March 2003 are given below:

(Rs. thousands)

Particulars	**As at 31 March, 2003**
Balance sheet	
Secured loan	72,745
Unsecured loan	6,813
Fixed assets, net	92,558
Deferred tax assets, net	4,728
Current assets, loans and advances	
Inventories	12,751
Sundry debtors	24,431
Cash and bank balances	8,723
Loans and advances	1,921
Other current assets	1,068
Current liabilities and provisions	
Current liabilities	41,374
Provisions	–
Net current assets	7,520
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	4,620
Income statement	
Income	
Sales	67,356
Expenditure	
Material costs	31,260
Operating and other expenses	74,715
Research and development expenses	7,997
Finance charges	2,478
Depreciation	2,468
Other expenses	1,471
Loss before taxation	(53,033)
Provision for taxation	
- Current tax	–
- Deferred tax expense	22,612
Loss after taxation	(75,645)

Schedule 20 : Notes to Accounts (Contd.)

9 EMPLOYEE STOCK OPTION SCHEME

Employees Stock Option Plan-2002 (the 2002 Plan): The Company instituted the 2002 Plan ("the Scheme") for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on 24 September 2001. The Scheme covers all non - executive directors and employees of DRL and directors and employees of all its subsidiaries. Under the Scheme, the Compensation Committee of the Board ("the Committee") shall administer the Scheme and grant stock options to eligible employees of the Company and its subsidiaries. The Committee shall determine the employees eligible for receiving the options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for the options issued on the date of the grant.

The Scheme further provides that in no case shall the Per Option Exercise Price be less than the fair market value on the date of grant. The fair market value of a share on each grant date is defined as the weighted average closing price of the shares during 30 days prior to the grant, in the stock exchange where there is highest trading volume during that period. Notwithstanding the foregoing, the Committee may, after getting the approval of the members in general meeting, grant Options with a Per Share Exercise Price lesser than the fair market value.

In the case of termination of employment, all non-vested options would stand cancelled. Options that have vested but have not been exercised can be exercised within the time prescribed under each option agreement by the Committee or if no time limit is prescribed, within three months of the date of employment termination, failing which they would stand cancelled.

During the current year the Company has issued 433,945 options to employees of the Company and its subsidiaries under this scheme. The vesting period for the options granted varies from 12 to 48 months. The date of grant, exercise price fixed by the committee for respective options and the market price of the shares of the Company on the date of the grant is given below:

Date of grant	Number of options granted	Exercise price (Rupees)	Market price (Rupees)
9 May 2002	259,400	1,063.02	998.90
31 July 2002	172,732	911.00	843.80
26 August 2002	1,813	884.00	866.05
	433,945		

As the exercise price of shares, at the date of grant of options is higher than the market price, no compensation cost is set-up. The movement in the options during the year ended 31 March, 2003 is set out below:

	For the year ended 31 March, 2003	**For the year ended 31 March, 2002**
Options outstanding at the beginning of the year	124,500	–
Issued	433,945	124,500
Forfeited	(14,574)	–
Options outstanding at the end of the year	**543,871**	**124,500**

10 EMPLOYEE SEPARATION COSTS

During the previous year ended 31 March, 2002 the Company announced a Voluntary Retirement Scheme ("the Scheme") for workmen. In accordance with the Scheme, the Company has incurred during the year an amount of Rs. 353 thousand (previous year: Rs. 20,464 thousand), which has been expensed as incurred, in accordance with the Company policy.

11 LONG-TERM DEPOSITS

Long-term deposits represent advances against the consideration payable for brands acquired and are amortised over a period of ten years in accordance with the terms of the agreements.

Schedule 20 : Notes to Accounts (Contd.)

The information required as per clause 4(c) and (d) and notes thereon of part II of Schedule VI to the Companies Act, 1956

12 CAPACITY AND PRODUCTION

a) Licensed capacity, installed capacity and production

		As at 31 March, 2003			As at 31 March, 2002		
Class of goods	Unit	Licensed capacity (i)	Installed capacity (i)	Actual Production	Licensed capacity (i)	Installed capacity (i)	Actual Production
Formulations (ii)	Million units	2,137.30*	2,137.30*	2,164.24	2,136*	2,136*	1,960
Active pharmaceutical ingredients and intermediates (API)	Tonnes	6,941	3,859	3,261	6,941	3,313	2,427
Generics	Million units	5,550	5,550	1,061.93	3,600	3,600	685.9
Diagnostic reagents and kits	Units	600,000	600,000	314,456	600,000	600,000	317,246
Biotechnology	Grams	370	340	14.78	370	340	7.05

* On single shift basis

NOTES:

(i) Licensed and installed capacities are as certified by Management and relied upon by the auditors as this is a technical matter. 135

(ii) Actual production of Formulations includes 383.70 million units (previous year: 329.3 million units) produced on loan licensing basis from outside parties.

13 PARTICULARS OF PRODUCTION, SALE AND STOCK

(Rs. thousands)

	Opening Stock		Production	Purchases		Sales **		Closing stock	
	Quantity	Value	Quantity	Traded goods (Units)	Value	Quantity	Value	Quantity	Value
Formulations (million units)	317	368,406	2,164.24	629.53	751,522	2,682.59	7,168,482	428.18	408,191
	(239)	(349,558)	(1,960)	(623)	(742,755)	(2,505)	(6,491,034)	(317)	(368,406)
Active pharmaceutical ingredients and intermediates (tonnes)	103	209,915	3,261	319	372,389	3,545*	6,422,493	138	261,516
	(109)	(135,281)	(2,427)	(206)	(187,736)	(2,639)	(5,885,707)	(103)	(209,915)
Generics (million units)	10.4	5,298	1,061.93	–	–	1,043.72	3,240,137	28.61	16,211
	(–)	(–)	(685.9)	(–)	(–)	(675.5)	(4,066,417)	(10.4)	(5,298)
Diagnostic machinery, reagent kits, controls standards and analytical reagents (units)	22,399	12,172	314,456	33,970	20,909	355,160	122,535	15,665	2,228
	(14,219)	(8,164)	(317,246)	(849,006)	(37,730)	(1,158,072)	(143,384)	(22,399)	(12,172)
Biotechnology (grams)	0.88	1,363	14.78	–	–	15.66	39,119	–	–
	(–)	(–)	(7.05)	(–)	(–)	(6.17)	(37,503)	(0.88)	(1,363)
Total		597,154			1,144,820		16,992,766		688,146
Less: intersegmental sales							1,009,621		
Net sales as per profit and loss account							15,983,145		
Previous year		(493,003)			(968,221)		(15,577,800)		(597,154)

* Includes captive consumption of active pharmaceutical ingredients 336.06 tonnes (previous year: 160.32 tonnes)
** Sales are net of samples, rejections and damages but include intersegmental sales.
Figures in brackets represent the numbers for the previous year.

Schedule 20 : Notes to Accounts (Contd.)

14 RAW MATERIALS CONSUMED DURING THE YEAR

(Rs. thousands)

Raw materials	Unit	For the year ended 31 March, 2003 Quantity	Value	For the year ended 31 March, 2002 Quantity	Value
Fluoro Quinolonic Acid	Kg	602,050	353,475	75,650	29,113
Isobutyl Aceto Phenone (HVD)	Kg	1,828,021	254,444	952,356	128,975
2-Acetyl-6-Methoxy Naphthalene	Kg	340,805	121,435	136,799	55,898
Cyclopropylamine	Kg	68,326	30,891	166,898	86,851
Acetophenone	Kg	287,000	78,768	660,463	201,854
Piperazine Anhydrous	Kg	445,212	63,764	324,529	56,030
Others			2,423,015		2,500,132
			3,325,792		**3,058,853**

'Others' include no item which in value individually accounts for 10 per cent or more of the total value of the raw materials consumed.

15 DETAILS OF IMPORTED AND INDIGENOUS RAW MATERIALS, SPARE PARTS, CHEMICALS, PACKING MATERIALS AND COMPONENTS CONSUMED

(Rs. thousands)

Particulars	For the year ended 31 March, 2003 Value	% of total consumption	For the year ended 31 March, 2002 Value	% of total consumption
Raw materials				
Imported	1,488,221	45%	1,367,749	45%
Indigenous	1,837,571	55%	1,691,104	55%
	3,325,792		**3,058,853**	
Stores, Chemicals, Spares and Packing materials				
Imported	87,312	16%	52,619	14%
Indigenous	456,253	84%	320,060	86%
	543,565		**372,679**	
	3,869,357		**3,431,532**	

16 CIF VALUE OF IMPORTS

(Rs. thousands)

	For the year ended 31 March, 2003	For the year ended 31 March, 2002
Raw materials	1,418,072	1,320,515
Capital equipment (including spares and components)	216,362	172,909
	1,634,434	**1,493,424**

Schedule 20 : Notes to Accounts (Contd.)

(Rs. thousands)

	For the year ended 31 March, 2003	For the year ended 31 March, 2002
17 EARNINGS IN FOREIGN CURRENCY		
Exports on FOB basis	9,192,906	9,254,314
License fees	–	343,612
Income from services	–	79,615
Interest on deposits with banks	49,078	73,414
Interest on loans to a subsidiary	3,934	5,664
Dividends received from subsidiaries	6,664	4,177
Others	–	1,167
	9,252,582	**9,761,963**
18 EXPENDITURE IN FOREIGN CURRENCY		
Travelling	44,691	12,171
Interest on External Commercial Borrowings	–	5,319
Consultancy fees	11,357	17,324
Other expenditure	966,182	388,938
	1,022,230	**423,752**
19 DIVIDEND REMITTANCE IN FOREIGN CURRENCY		
Final Dividend		
Number of shares	1,440,000	720,000
Number of shareholders	1	1
Amount (Rs. thousands)	2,088*	2,880
Relating to the year	2001-02	2000-01
Interim Dividend		
Number of shares	–	1,440,000
Number of shareholders	–	1
Amount (Rs. thousands)	–	7,200
Relating to the year (interim)	–	2001-2002

* Net of taxes

The Company does not make any direct remittances of dividends in foreign currencies to ADS holders. The Company remits the equivalent of the dividends payable to the ADS holders in Indian Rupees to the depositary bank, which is the registered shareholder on record for all owners of the Company's ADS. The depositary bank purchases the foreign currencies and remits dividends to the ADS holders.

20 SEGMENT INFORMATION

In accordance with AS 17 - Segment Reporting, segment information has been given in the consolidated financial statements of DRL and therefore no separate disclosure on segment information is given in these financial statements.

21 COMPARATIVE FIGURES

Previous year's figures have been regrouped/reclassified wherever necessary, to conform to current year's classification.

CASH FLOW
STATEMENT FOR THE YEAR ENDED 31 MARCH, 2003

(All amounts in Indian Rupees thousands, except share data)

	31 March, 2003	31 March, 2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	4,311,603	4,707,728
Adjustments:		
Depreciation	585,615	474,187
Amortisation of long term deposits	22,750	22,750
Bad debts written off	9,266	32,311
Income from redemption of mutual fund units	(6,284)	(19,420)
Deferred revenue expenditure written-off	–	931,354
Unrealised foreign exchange (gain)/loss	138,352	(127,093)
Amortisation of marketing development expenditure	–	11,748
Provision for decline in the value of long-term investments and investments written off	51,406	217,424
Loans and advances to a subsidiary company written off	26,474	–
Interest income	(331,239)	(104,716)
Dividend income	(6,839)	(4,212)
Finance charges	34,455	108,985
Loss on sale / retirement of fixed assets, net	22	29,029
Provision for doubtful debts	86,703	78,880
Provision for doubtful advances	18,642	8,056
Preliminary expenses written off	–	500
Operating cash flows before working capital changes	**4,940,926**	**6,367,511**
(Increase)/decrease in sundry debtors	2,841	(1,675,561)
(Increase)/decrease in inventories	(503,044)	(322,064)
(Increase)/decrease in loans and advances	(169,140)	6,966
Increase/(decrease) in current liabilities and provisions	465,995	620,329
Cash generated from operations	**4,737,578**	**4,997,181**
Income taxes paid	(639,756)	(456,970)
Net cash provided by operating activities	**4,097,822**	**4,540,211**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(993,239)	(1,149,954)
Proceeds from sale of fixed assets	4,438	26,784
Purchase of investments	(3,665,259)	(2,411,268)
Sale of investments	2,939,603	2,363,680
Loans and advances given to subsidiaries & joint ventures	(337,568)	(313,119)
Interest received	257,255	95,872
Dividend received	6,839	4,212
Net cash used in investing activities	**(1,787,931)**	**(1,383,793)**

CASH FLOW
STATEMENT FOR THE YEAR ENDED 31 MARCH, 2003

(All amounts in Indian Rupees thousands, except share data)

	31 March, 2003	31 March, 2002
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital (net of share issue expenses)	–	5,782,725
Repayment of debentures	–	(300,000)
Proceeds from long-term borrowings	–	13,188
Repayment of long-term borrowings	(6,054)	(900,422)
Repayment of short-term borrowings	–	(2,428,996)
Proceeds from short-term borrowings	18,760	–
Interest paid	(34,465)	(161,437)
Dividend paid	(191,290)	(560,846)
Net cash provided by / (used in) financing activities	**(213,049)**	**1,444,212**
Net increase in cash and cash equivalents	2,096,842	4,600,630
Cash and cash equivalents at the beginning of the year (Note 1)	4,885,601	194,308
Effect of exchange gain / (loss) on cash and cash equivalents	(98,441)	90,663
Cash and cash equivalents at the end of the year (Note 1)	**6,884,002**	**4,885,601**

As per our report attached
for Bharat S Raut & Co.
Chartered Accountants

Pradip Kanakia
Partner

Place : New York, USA
Date : 30 May, 2003

for Dr. Reddy's Laboratories Limited

Dr. K. Anji Reddy
Chairman

G.V. Prasad
Executive Vice Chairman & CEO

K. Satish Reddy
Managing Director & COO

Dr. Omkar Goswami
Director

V.S. Vasudevan
Chief Financial Officer

Santosh Kumar Nair
Company Secretary

NOTES:

1. Cash and cash equivalents comprise:

Cash in hand	3,542	1,818
Balances in:		
Current accounts	164,020	90,710
Deposit accounts	6,677,991	4,768,935
EEFC current accounts	18,550	7,540
Unclaimed dividend	9,808	9,541
Unclaimed fractional share pay order accounts	688	727
Margin money	9,403	6,330
	6,884,002	**4,885,601**

2. Previous year's figures have been regrouped/reclassified, wherever necessary to conform to the current year's classification.
3. During the previous year ended 31 March, 2002, 113,388 equity shares of Rs. 5 each had been allotted pursuant to a scheme of amalgamation of American Remedies Limited with the Company, without payment being received in cash.

BALANCE SHEET ABSTRACT
AND COMPANY'S GENERAL BUSINESS PROFILE

1. **Registration Details**

Registration No.	:	4 5 0 7	State Code	: 0 1
Balance Sheet Date	:	3 1 (Date) 0 3 (Month) 0 3 (Year)		

2. **Capital Raised during the Year (Amount in Rs. thousands)**

Public Issue	: NIL	Right Issue	: NIL
Bonus Issue	: NIL	Private Placement	: NIL

3. **Position of Mobilisation and Deployment of Funds (Amount in Rs. thousands)**

Total Liabilities	: 18356761	Total Assets	: 18356761
Sources of Funds :			
Paid-up Capital	: 382580	Reserves and Surplus	: 17686622
Secured Loans	: 42905	Unsecured Loans	: 244654
Application of Funds :			
Net Fixed Assets	: 4380703	Investments	: 1566374
Net Current Assets	: 12833152	Deferred Tax Liabilities, net	: -423468

4. **Performance of the Company (Amount in Rs. thousands)**

Turnover	: 16650222	Total Expenditure	: 12338619
Profit Before Tax	: 4311603	Profit After Tax	: 3920926
Earning per Share in Rs.	: 51.24	Dividend Rate %	: 100

5. **Generic Names of Three Principal Products/Services of Company (as per the monetary terms)**

Item Code No. (ITC Code) : 29419003
Product Description : CIPROFLOXACIN HYDROCHLORIDE

Item Code No. (ITC Code) : 29420001
Product Description : NORFLOXACIN

Item Code No. (ITC Code) : 30049038
Product Description : OMERPRAZOLE

FINANCIALS
IGAAP CONSOLIDATED
DR. REDDY'S LABORATORIES LTD.

AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF DR. REDDY'S LABORATORIES LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF DR. REDDY'S LABORATORIES LIMITED AND ITS SUBSIDIARIES

1. We have audited the attached Consolidated Balance Sheet of Dr. Reddy's Laboratories Limited ("the Company") and its subsidiaries (as per the list appearing in Note 2 to the consolidated financial statements) [collectively referred to as the "DRL Group"] as at 31 March, 2003 and also the Consolidated Profit and Loss Account for the year ended on that date annexed thereto and the consolidated cash flow statement for the year ended on that date. These consolidated financial statements are the responsibility of Dr. Reddy's Laboratories Limited's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are prepared, in all material respects, in accordance with the financial reporting framework generally accepted in India and are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

3. The consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard 21 - Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.

4. In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

    (i) in the case of the Consolidated Balance Sheet, of the consolidated state of affairs of DRL Group as at 31 March, 2003;

    (ii) in the case of Consolidated Profit and Loss Account, of the consolidated results of operations of DRL Group for the year ended on that date; and

    (iii) in the case of Consolidated Cash Flow Statement, of the consolidated cash flows of DRL Group for the year ended on that date.

FOR BHARAT S RAUT & CO.
Chartered Accountants

PRADIP KANAKIA
Partner

Place : New York, USA
Date : May 30, 2003

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH, 2003

(All amounts in Indian Rupees thousands, except share data)

	Schedule	As at 31 March, 2003	As at 31 March, 2002
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	382,580	382,580
Reserves and surplus	2	16,922,868	13,731,351
		17,305,448	14,113,931
Minority interest		–	96,937
Loan funds			
Secured loans	3	126,688	70,903
Unsecured loans	4	251,753	103,795
		378,441	174,698
		17,683,889	**14,385,566**
APPLICATION OF FUNDS			
Fixed assets	5		
Gross block		8,296,647	6,424,645
Less: Accumulated depreciation		(3,059,080)	(2,348,018)
Net block		5,237,567	4,076,627
Capital work-in-progress (including capital advances)		788,012	581,259
		6,025,579	4,657,886
Investments	6	7,562	29,978
Current assets, loans and advances			
Inventories	7	2,779,673	2,202,391
Sundry debtors	8	3,719,395	4,049,243
Cash and bank balances	9	7,280,871	5,123,238
Loans and advances	10	1,394,741	945,804
Long-term deposits	20(13)	91,000	113,750
		15,265,680	12,434,426
Current liabilities and provisions			
Current liabilities	11	2,667,444	2,158,363
Provisions	12	557,879	281,029
		3,225,323	2,439,392
Net current assets		12,040,357	9,995,034
Deferred tax assets	20(7)	42,500	68,955
Deferred tax liabilities	20(7)	(432,109)	(366,287)
Miscellaneous expenditure **(to the extent not written-off or adjusted)**	13	–	–
		17,683,889	**14,385,566**
Notes to consolidated accounts	20		

The schedules referred to above form an integral part of the Consolidated Balance Sheet.

As per our report attached
for Bharat S Raut & Co.
Chartered Accountants

Pradip Kanakia
Partner

Place : New York, USA
Date : 30 May, 2003

for Dr. Reddy's Laboratories Limited

Dr. K. Anji Reddy
Chairman

G. V. Prasad
Executive Vice Chairman & CEO

K. Satish Reddy
Managing Director & COO

Dr. Omkar Goswami
Director

V. S. Vasudevan
Chief Financial Officer

Santosh Kumar Nair
Company Secretary

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH, 2003

(All amounts in Indian Rupees thousands, except share data)

	Schedule	For the year ended 31 March, 2003	For the year ended 31 March, 2002
INCOME			
Sales		18,105,984	16,460,120
(Includes excise duty and other similar duties and taxes Rs. 817,135; previous year: Rs. 671,287)			
Income from services		143	79,615
License fees		–	343,612
Other income	14	740,616	504,753
		18,846,743	**17,388,100**
EXPENDITURE			
Material costs	15	5,178,467	4,428,345
Conversion charges		131,999	62,516
Excise duty and other similar duties and taxes		969,687	789,718
Personnel costs	16	1,738,335	1,216,040
Operating and other expenses	17	4,598,759	3,569,091
Research and development expenses		1,323,770	958,905
Amortisation of long term deposits		22,750	22,750
Deferred revenue expenditure/Pre-operative expenses written off		33,281	931,354
Provision for decline in the value of long-term investments and investments written off		1,714	158,871
Finance charges	18	39,078	114,937
Equity in loss of associates	20(4)	28,300	–
Depreciation		728,678	522,717
Less: Preoperative expenses capitalised/to be capitalised in respect of Aurigene Discovery Technologies Limited		(58,215)	–
		14,736,603	**12,775,244**
PROFIT BEFORE TAXATION		**4,110,140**	**4,612,856**
Provision for tax	19		
- Current tax		397,515	422,092
- Deferred tax expense/(benefit)		63,612	(356,736)
PROFIT AFTER TAXATION		**3,649,013**	**4,547,500**
Minority interest in (profit)/loss		(6,734)	31,908
PROFIT FOR THE YEAR		**3,642,279**	**4,579,408**
Balance in profit and loss account brought forward		245,861	(363,148)
Add: Transferred from debenture redemption reserve		–	142,494
Amount available for appropriation		**3,888,140**	**4,358,754**
APPROPRIATIONS:			
Interim dividend paid		–	382,580
Tax on interim dividend		–	39,023
Proposed dividend on equity shares *(subject to deduction of tax)		382,580	*191,290
Tax on proposed dividend		49,018	–
Transfer to general reserve		3,000,000	3,500,000
Balance carried forward		456,542	245,861
		3,888,140	**4,358,754**
Earnings per share			
Basic – Par value Rs.5 per share	20(8)	47.60	60.18
Diluted – Par value Rs.5 per share		47.60	60.18
Notes to consolidated accounts	20		

The schedules referred to above form an integral part of the Consolidated Profit and Loss Account.

As per our report attached
for Bharat S Raut & Co.
Chartered Accountants

Pradip Kanakia
Partner

Place : New York, USA
Date : 30 May, 2003

for Dr. Reddy's Laboratories Limited

Dr. K. Anji Reddy
Chairman

G. V. Prasad
Executive Vice Chairman & CEO

K. Satish Reddy
Managing Director & COO

Dr. Omkar Goswami
Director

V. S. Vasudevan
Chief Financial Officer

Santosh Kumar Nair
Company Secretary

SCHEDULES
TO THE CONSOLIDATED BALANCE SHEET

(All amounts in Indian Rupees thousands, except share data)

		As at 31 March, 2003		As at 31 March, 2002
SCHEDULE 1 : SHARE CAPITAL				
Authorised				
100,000,000 (previous year: 100,000,000) equity shares of Rs. 5 each		500,000		500,000
Issued				
76,516,148 (previous year: 76,516,148) equity shares of Rs. 5 each fully paid-up		382,581		382,581
Subscribed and paid-up				
76,515,948 (previous year: 76,515,948) equity shares of Rs. 5 each fully paid-up (Note 1)	382,579		382,579	
Add: Forfeited share capital (Note 2)	1		1	
		382,580		382,580
		382,580		**382,580**

NOTES:

1. Subscribed and paid-up share capital includes:
   (a) 34,974,400 (previous year: 34,974,400) equity shares of Rs.5 each fully paid-up, allotted as bonus shares by capitalisation of general reserve.
   (b) 13,225,000 (previous year : 13,225,000) equity shares of Rs.5 each allotted against American Depository Shares (ADS).
   (c) 8,602,152 (previous year: 8,602,152) equity shares of Rs. 5 each allotted against Global Depository Receipts (GDR), that were converted into ADS during the year ended 31 March, 2002.
   (d) 113,388 (previous year : 113,388) equity shares of Rs. 5 each allotted to the erstwhile members of American Remedies Limited (ARL) pursuant to a scheme of amalgamation with ARL without payments being received in cash.
   (e) 10,285,884 (previous year: 10,285,884) equity shares of Rs.5 each allotted and 82,800 (previous year: 82,800) equity shares of Rs. 5 each extinguished pursuant to a scheme of amalgamation with erstwhile Cheminor Drugs Limited without payments being received in cash.
   (f) 526,124 (previous year: 526,124) equity shares of Rs. 5 each allotted pursuant to a scheme of amalgamation with Standard Equity Fund Limited without payments being received in cash.
2. Represents 200 (previous year : 200) equity shares of Rs.5 each, amount paid-up Rs.500/-, forfeited due to non-payment of allotment money.

SCHEDULES
TO THE CONSOLIDATED BALANCE SHEET

(All amounts in Indian Rupees thousands, except share data)

	As at 31 March, 2003	As at 31 March, 2002
SCHEDULE 2 : RESERVES AND SURPLUS		
Capital reserve		
Balance at the beginning of the year	7,470	7,470
Add: Capital reserve arising from acquisition of minority interest	6,299	–
	13,769	**7,470**
Securities premium account		
Balance at the beginning of the year	7,730,980	2,014,380
Add: Share premium received on ADS issue	–	6,180,493
	7,730,980	8,194,873
Less: ADS issue expenses written-off	–	(463,893)
	7,730,980	**7,730,980**
Debenture redemption reserve		
Balance at the beginning of the year	–	142,494
Less: Transferred to profit and loss account	–	(142,494)
	–	–
General reserve		
Balance at the beginning of the year	5,747,040	2,902,091
Less: Net deferred tax liability up to 31 March, 2001	–	(655,051)
Less: Share in losses of Dr. Reddy's Exports Limited up to 31 March, 2002	(3)	–
Less: Share in losses of Pathnet India Private Limited (Pathnet) up to 31 March, 2002 (Refer Note 4 of Schedule 20)	(20,700)	–
	5,726,337	2,247,040
Add: Transferred from profit and loss account	3,000,000	3,500,000
Less: Quarterly net loss in respect of OOO JV Reddy Biomed Limited arising from the change in its year-end (Refer Note 1(c) of Schedule 20)	(4,760)	–
	8,721,577	**5,747,040**
Profit and loss account		
Balance in consolidated profit and loss account	**456,542**	**245,861**
	16,922,868	**13,731,351**

SCHEDULES
TO THE CONSOLIDATED BALANCE SHEET

(All amounts in Indian Rupees thousands, except share data)

	As at 31 March, 2003	As at 31 March, 2002
SCHEDULE 3 : SECURED LOANS		
Loans from banks		
Cash credit and packing credit [Notes 1 a) & b)]	4,461	12,685
Term loan from bank [Note 1 b)]	5,089	6,142
Others (Notes 2 and 3)	74,233	4,731
Loan from Indian Renewable Energy Development Agency Limited (Note 4)	42,905	47,345
	126,688	**70,903**

NOTES :

1. a) The Group has working capital facilities with a consortium of bankers and has created a charge, on a pari-passu basis, by hypothecation of the whole of the current assets, both present and future, and a first charge on immovable properties, pertaining to certain factories of the Group.

   b) Packing credit facility and the term loan from a bank availed by Compact Electric Limited ("CEL") are secured by way of charge on all movable and immovable properties of CEL and equitable mortgage of land and buildings of CEL.

2. Loan from the Agricultural Bank of China taken by Kunshan Rotam Reddy Pharmaceutical Company Limited ("Reddy Kunshan"), a consolidated joint venture, is secured by way of hypothecation of leasehold land, buildings and equipment of Reddy Kunshan.

3. Loan from the ICICI Bank taken by Aurigene Discovery Technologies Limited ("Aurigene") is secured by way of hypothecation of vehicles acquired by Aurigene.

4. Loan from Indian Renewable Energy Development Agency Limited is secured by way of hypothecation of specific movable assets pertaining to the Solar Grid Interactive Power plant of the Company.

	As at 31 March, 2003	As at 31 March, 2002
SCHEDULE 4 : UNSECURED LOANS		
Foreign currency loan notes	136,653	–
Sales tax deferment loan from the Government of Andhra Pradesh (interest free)	83,572	85,186
Other unsecured loans from banks	31,528	18,609
	251,753	**103,795**

(All amounts in Indian Rupees thousands, except share data)

SCHEDULE 5 : FIXED ASSETS

Description	GROSS BLOCK						DEPRECIATION						NET BLOCK	
	As at 1 April, 2002	Deductions in respect of the opening balances of Reddy Kunshan (Note 5 of Schedule 20)	Additions on acquisition of Dr. Reddy's Laboratories (EU) Limited (Note 6 of Schedule 20)	Other Additions/ Adjustments	Deductions/ Adjustments	As at 31 March, 2003	As at 1 April, 2002	Deductions in respect of the opening balances of Reddy Kunshan (Note 5 of Schedule 20)	Additions on acquisition of Dr. Reddy's Laboratories (EU) Limited (Note 6 of Schedule 20)	For the year	Deductions/ Adjustments	As at 31 March, 2003	As at 31 March, 2003	As at 31 March, 2002
Goodwill	260,743	–	324,071	66,595	–	651,409	21,786	–	–	82,295	–	104,081	547,328	238,957
Land – freehold (Note 1)	81,711	–	–	13,419	957	94,173	–	–	–	–	–	–	94,173	81,711
Land – leasehold (Note 2)	72,539	11,177	–	2,362	–	63,724	1,178	577	–	233	–	834	62,890	71,361
Buildings	1,118,643	47,475	37,270	225,585	259	1,333,764	159,878	6,479	1,480	50,350	–	205,229	1,128,535	958,765
Plant and machinery (Note 3)	3,400,746	17,246	108,747	488,316	33,081	3,947,482	1,432,716	5,273	39,822	354,161	5,289	1,816,137	2,131,345	1,968,030
Electrical equipment	396,334	–	–	111,783	346	507,771	204,258	–	–	38,351	14	242,595	265,176	192,076
Laboratory equipment	502,374	–	–	417,486	4,263	915,597	217,569	–	–	90,801	(1,399)	309,769	605,828	284,805
Furniture, fixtures and office equipment	419,662	3,713	1,191	210,036	51,756	575,420	238,919	1,546	–	81,251	33,461	285,163	290,257	180,743
Patents, trademarks and designs	76,267	–	–	–	–	76,267	26,605	–	–	11,942	–	38,547	37,720	49,662
Vehicles	92,120	2,225	3,896	55,977	22,234	127,534	41,879	1,065	1,736	19,018	8,349	53,219	74,315	50,241
Library	3,506	–	–	–	–	3,506	3,230	–	–	276	–	3,506	–	276
	6,424,645	**81,836**	**475,175**	**1,591,559**	**112,896**	**8,296,647**	**2,348,018**	**14,940**	**43,038**	**728,678**	**45,714**	**3,059,080**	**5,237,567**	**4,076,627**
Previous year	5,081,446	–	–	1,569,945*	226,746	6,424,645	1,958,060	–	–	545,224*	155,266	2,348,018	4,076,627	–

NOTES:

1. Land (freehold) located at Pydibheemavaram allotted by the Andhra Pradesh Industrial Infrastructure Corporation Limited having a book value of Rs.4,445 (previous year: Rs. 4,445) is yet to be registered in the name of the Group.
2. In pursuance of an allotment letter ("the letter") dated 16 October, 2001, received from Karnataka Industrial Area Development Board , Aurigene Discovery Technologies Limited, a consolidated subsidiary, acquired land located at Electronics City, Bangalore, on a lease-cum-sale basis. In terms of the letter, the lease shall be converted into a sale at the end of six years subject to fulfilment of all the terms and conditions of the allotment. Pending completion of the period of six years and fulfilment of the terms and conditions of the allotment, the amount incurred on the land acquisition aggregating to Rs.49,729 (previous year: Rs. 49,729) has been accounted as leasehold land.
3. The Group owns a treated effluent discharge pipeline in equal proportion jointly with a third party in Pydibheemavaram pursuant to a mutual agreement.
4. * – Additions to gross block in the previous year and depreciation for the previous year include amounts pertaining to acquisition of Reddy Kunshan amounting to Rs. 164,958 and Rs. 22,507 respectively.

SCHEDULES
TO THE CONSOLIDATED BALANCE SHEET

(All amounts in Indian Rupees thousands, except share data)

	As at 31 March, 2003	As at 31 March, 2002
SCHEDULE 6 : INVESTMENTS		
(Long term at cost)		
Investment in associates		
Aurantis Farmaceutica Ltda	85,099	85,099
Pathnet India Private Limited	–	20,700
Dr. Reddy's Exports Limited	–	3
Other investments (at cost)		
Aggregate cost of quoted investments	4,596	4,601
Aggregate cost of unquoted investments	70,923	70,923
	160,618	181,326
Less: Provision for decline, other than temporary, in the value of investments	153,056	151,348
	7,562	**29,978**
Market value of quoted investments	6,221	5,961

	As at 31 March, 2003	As at 31 March, 2002
SCHEDULE 7 : INVENTORIES		
Stores and spares	284,505	189,911
Raw materials	829,994	621,126
Work-in-process	683,800	515,958
Finished goods	981,374	875,396
	2,779,673	**2,202,391**

	As at 31 March, 2003	As at 31 March, 2002
SCHEDULE 8 : SUNDRY DEBTORS		
(Unsecured)		
Debts outstanding for a period exceeding six months		
Considered good	167,154	232,277
Considered doubtful	264,567	170,684
Other debts		
Considered good	3,552,241	3,816,966
	3,983,962	4,219,927
Less: Provision for doubtful debts	264,567	170,684
	3,719,395	**4,049,243**

SCHEDULES
TO THE CONSOLIDATED BALANCE SHEET

(All amounts in Indian Rupees thousands, except share data)

	As at 31 March, 2003	As at 31 March, 2002

SCHEDULE 9 : CASH AND BANK BALANCES

Cash in hand	9,453	2,546
Cash in transit	9,975	4,639
Balances with banks		
On current accounts	485,560	97,173
On EEFC current accounts	18,550	7,540
On deposit accounts	6,746,837	5,001,072
On unclaimed dividend accounts	9,808	9,541
On unclaimed fractional share pay order accounts	688	727
	7,280,871	**5,123,238**
Deposits with banks include:		
(i) Margin money for letters of credit and bank guarantees	11,346	6,330
(ii) Balance of unutilised money out of ADS issue	1,512,749	2,479,397

SCHEDULE 10 : LOANS AND ADVANCES

(Unsecured)

Considered good		
Advances to material suppliers	74,911	69,408
Staff loans and advances	77,583	80,477
Share application money pending allotment in respect of Pathnet	–	43,610
Other advances recoverable in cash or in kind or for value to be received	742,127	546,525
Advance tax (net of provision for current taxes)	336,037	46,880
Balances with statutory authorities	85,228	70,062
Deposits	78,855	88,842
	1,394,741	945,804
Considered doubtful		
Share application money pending allotment in respect of Pathnet	15,310	–
Other advances recoverable in cash or in kind or for value to be received	3,332	–
Advances towards investment	8,056	8,056
	1,421,439	953,860
Less: Provision for doubtful advances	26,698	8,056
	1,394,741	**945,804**

SCHEDULE 11 : CURRENT LIABILITIES

Sundry creditors	2,519,301	1,968,158
Book overdraft	87,551	86,456
Unclaimed dividends	9,808	9,541
Trade deposits	50,784	66,096
Other advances	–	28,112
	2,667,444	**2,158,363**

(All amounts in Indian Rupees thousands, except share data)

	As at 31 March, 2003	As at 31 March, 2002
SCHEDULE 12 : PROVISIONS		
Proposed dividend	382,580	191,290
Tax on proposed dividend	49,018	–
Provision for		
Gratuity	50,858	38,734
Leave encashment	71,036	51,005
Taxation, net of advance taxes	4,387	–
	557,879	**281,029**

SCHEDULE 13 : MISCELLANEOUS EXPENDITURE
(to the extent not written-off or adjusted)

	As at 31 March, 2003	As at 31 March, 2002
Share issue expenses		
Balance at the beginning of the year	–	2,507
Less: Adjusted against share premium account	–	(2,007)
Less: Written-off during the year	–	(500)
	–	–
Development expenditure		
Contributions to Dr. Reddy's Research Foundation		
Balance at the beginning of the year	–	536,410
Less: Written-off during the year	–	(536,410)
	–	–
Contribution to Reddy US Therapeutics Inc.		
Balance at the beginning of the year	–	50,146
Less: Written-off during the year	–	(50,146)
	–	–
Product development expenditure		
Balance at the beginning of the year	–	338,727
Less: Written-off during the year	–	(338,727)
	–	–
Market development expenditure		
Balance at the beginning of the year	–	17,819
Less: Amount amortised during the year	–	(11,748)
Less: Written-off during the year	–	(6,071)
	–	–

SCHEDULES
TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

(All amounts in Indian Rupees thousands, except share data)

	For the year ended 31 March, 2003	For the year ended 31 March, 2002
SCHEDULE 14 : OTHER INCOME		
Interest on fixed deposits	339,210	103,786
Dividends from investments	175	35
Profit on sale of fixed assets	–	1,954
Income from redemption of mutual fund units	6,284	19,420
Exchange gain, net	–	216,964
Export benefits	202,347	71,012
Miscellaneous income	192,600	91,582
	740,616	**504,753**

SCHEDULE 15 : MATERIAL COSTS

		For the year ended 31 March, 2003		For the year ended 31 March, 2002
(a) Opening				
Work-in-process	515,958		509,896	
Finished goods	875,396		807,958	
Add: Stocks acquired on acquisition of Dr. Reddy's Laboratories (EU) Limited (Refer Note 6 of Schedule 20)	59,998		–	
Less: Adjustment to opening balance of Reddy Kunshan (Refer Note 5 of Schedule 20)	(12,839)	1,438,513	–	1,317,854
Closing				
Work-in-process	683,800		515,958	
Finished goods	981,374	1,665,174	875,396	1,391,354
Net (increase) / decrease		(226,661)		(73,500)
(b) Raw materials consumed				
Opening stock of raw materials	621,126		395,822	
Add: Stocks acquired on acquisition of Dr. Reddy's Laboratories (EU) Limited (Refer Note 6 of Schedule 20)	18,432		–	
Less: Adjustment to opening balance of Reddy Kunshan (Refer Note 5 of Schedule 20)	(2,947)		–	
Add: Purchases	3,720,763		3,386,143	
	4,357,374		3,781,965	
Less: Closing stock	829,994	3,527,380	621,126	3,160,839
(c) Stores, chemicals, spares and packing material consumed		578,245		372,785
(d) Purchase of traded goods		1,299,503		968,221
		5,178,467		**4,428,345**

Raw materials consumed include Rs. 54,057 (previous year: Rs. 99,609) being stocks written-off/written-down, Rs. 103,340 (previous year: Rs. 139,410) being cost of samples issued and is net of Rs. 29,821 (previous year: Rs. 41,251) being sale of raw materials.

SCHEDULES
TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

(All amounts in Indian Rupees thousands, except share data)

	For the year ended 31 March, 2003	For the year ended 31 March, 2002
SCHEDULE 16 : PERSONNEL COSTS		
Salaries, wages and bonus	1,408,507	963,932
Contribution to provident and other funds	101,897	78,960
Workmen and staff welfare expenses	227,931	173,148
	1,738,335	**1,216,040**

	For the year ended 31 March, 2003	For the year ended 31 March, 2002
SCHEDULE 17 : OPERATING AND OTHER EXPENSES		
Power and fuel	389,124	330,190
Rent	70,604	51,925
Rates and taxes	134,126	50,632
Repairs and maintenance:		
Buildings	24,889	29,803
Plant and machinery	185,495	185,234
Others	205,975	188,209
Insurance	98,492	53,518
Travelling and conveyance	213,993	137,194
Communication	76,806	54,085
Advertisements	21,584	33,881
Commission on sales	159,617	96,541
Other selling expenses	1,360,811	1,195,161
Printing and stationery	51,838	40,302
Legal and professional charges	955,872	514,486
Donations	24,021	43,117
Bad debts written-off	16,132	45,302
Provision for doubtful advances	18,642	8,056
Provision for doubtful debts	93,883	79,208
Loss on sale/retirement of fixed assets, net	248	29,040
Directors' sitting fees	370	280
Directors' remuneration	104,007	204,483
Auditors' remuneration	6,088	5,285
Amortisation of market development expenditure	–	11,748
Exchange loss, net	58,189	–
Bank charges	28,487	36,681
Sundry expenses	299,466	144,730
	4,598,759	**3,569,091**

SCHEDULES
TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

(All amounts in Indian Rupees thousands, except share data)

	For the year ended 31 March, 2003	For the year ended 31 March, 2002
SCHEDULE 18: FINANCE CHARGES		
Interest on loans	6,661	27,040
Interest on debentures	–	39,665
Other finance charges	32,417	48,232
	39,078	**114,937**
SCHEDULE 19 : PROVISION FOR TAX		
Current taxes		
Domestic taxes	402,225	395,280
Foreign taxes	(4,710)	26,812
	397,515	422,092
Deferred taxes		
Domestic taxes	67,491	(352,724)
Foreign taxes	(3,879)	(4,012)
	63,612	(356,736)
	461,127	**65,356**

SCHEDULE 20 : NOTES TO CONSOLIDATED ACCOUNTS

1 SIGNIFICANT ACCOUNTING POLICIES

a) **Basis of preparation of consolidated financial statements**

The consolidated financial statements have been prepared and presented under the historical cost convention on the accrual basis of accounting in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") issued by the Institute of Chartered Accountants of India ("the ICAI") to the extent applicable. The consolidated financial statements are presented in Indian rupees rounded off to the nearest thousand.

b) **Use of estimates**

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the consolidated financial statements and reported amounts of income and expenditure for the year. Actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in the current and future periods.

c) **Principles of consolidation**

The consolidated financial statements include the financial statements of Dr. Reddy's Laboratories Limited ("DRL" or "the Company"), the parent company and all of its subsidiaries (collectively referred to as "the Group" or "DRL Group"), in which DRL has more than one-half of the voting power of an enterprise or where DRL controls the composition of the board of directors or of the governing body. In accordance with AS 27 – "Financial Reporting of Interests in Joint Ventures", issued by the ICAI, the Group has accounted for its proportionate share of interest in a joint venture by the proportionate consolidation method. The joint venture arrangement has been more fully described in Note 5 of Schedule 20.

The consolidated financial statements have been prepared on the following basis:

- The financial statements of the parent company and the subsidiaries have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances / transactions and resulting unrealised profits in full. Unrealised losses resulting from intra-group transactions have also been eliminated except to the extent that recoverable value of related assets is lower than their cost to the group. The amounts shown in respect of reserves comprise the amount of the relevant reserves as per the balance sheet of the parent company and its share in the post-acquisition increase in the relevant reserves of the subsidiaries.

- The Group accounts for investments by the equity method of accounting where it is able to exercise significant influence over the operating and financial policies of the investee. The Group's equity in profit/ loss of the equity method associates, Aurantis Farmaceutica Ltda, Brazil (Aurantis), Pathnet India Private Limited (Pathnet) and Dr. Reddy's Exports Limited (Reddy Exports), is included in the consolidated profit and loss account. Inter company profits and losses have been eliminated until realised by the investor or investee.

- Pursuant to the adoption of AS 27 "Financial Reporting of Interest in Joint Ventures" the Group does not consolidate entities where the minority shareholders have certain significant participating rights that provide for effective involvement in significant decisions in the ordinary course of business.

- The proportionate share of Group's interest in Joint Ventures is combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses after eliminating intra-group transactions and resulting unrealised profits, to the extent it pertains to the other venturers.

Schedule 20 : Notes to Consolidated Accounts (Contd.)
Significant Accounting Policies (Contd.)

- The excess / deficit of cost to the parent company of its investment in the subsidiaries and joint ventures over its portion of equity in the subsidiaries / joint ventures at the respective dates on which investment in such subsidiaries / joint ventures was made is recognised in the financial statements as goodwill / capital reserve. The parent company's portion of equity in such subsidiaries / joint ventures is determined on the basis of the book values of assets and liabilities as per the financial statements of the subsidiaries / joint ventures as on the date of investment and if not available, the financial statements for the immediately preceding period adjusted for the effects of significant transactions.
- Newly acquired subsidiaries have been consolidated from the respective dates of acquisition. During the current year, OOO JV Reddy Biomed Limited, a consolidated subsidiary in Russia, has changed its year-end from 31 December to 31 March. Accordingly, the Group has eliminated the three month lag and has included the financial statements for twelve months. As a result, the loss for the quarter ended 31 March, 2003, amounting to Rs.4,760 thousands has been recorded directly to the general reserve.
- The excess of cost to the parent company of its investment in the associates over the portion of the equity of the associates is described as goodwill or capital reserve, as the case may be. Goodwill / capital reserve arising on the acquisition of an associate by the parent company is included in the carrying amount of investment in the associate but is disclosed separately.
- The consolidated financial statements are presented, to the extent possible, in the same format as that adopted by the parent company for its separate financial statements.
- The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

d) **New accounting standards**

The Group has adopted the following Accounting Standards issued by the ICAI which are effective for the accounting periods commencing on or after 1 April, 2002.

AS 23 "Accounting for Investments in Associates in Consolidated Financial Statements": The standard sets out principles and procedures for recognising, in the consolidated financial statements, the effects of the investments in associates on the financial position and operating results of a group.

AS 27 "Financial Reporting of Interests in Joint Ventures": The standard prescribes principles and procedures for accounting for interests in joint ventures and reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors.

e) **Fixed assets and depreciation**

Fixed assets are carried at the cost of acquisition less accumulated depreciation. The cost of fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised. The cost of fixed assets also includes the exchange differences arising in respect of foreign currency loans or other liabilities incurred for the purpose of their acquisition or construction.

Advances paid towards the acquisition of the fixed assets outstanding at each balance sheet date and the cost of fixed assets not ready for their intended use before such date are disclosed under capital work-in-progress. Pre-operative expenses directly attributable to fixed assets pending capitalisation are included under capital work-in-progress.

Depreciation on fixed assets is provided using the straight-line method based on the useful lives of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than Rs. 5,000 are depreciated in full in the year of acquisition.

Schedule 20 : Notes to Consolidated Accounts (Contd.)
Significant Accounting Policies (Contd.)

Management's estimates of the useful lives for various categories of fixed assets are given below:

	Years
Goodwill	5 to 10
Buildings	
– Factory and administrative buildings	20 to 30
– Ancillary structures	3 to 10
Plant and machinery	3 to 15
Electrical equipment	5 to 15
Laboratory equipment	5 to 15
Furniture, fixtures and office equipment (other than Computer equipment)	4 to 8
Computer equipment	3
Patents, trade marks and designs (including marketing know-how)	6 to 10
Vehicles	4 to 5
Library	2

Leasehold land is being amortised over the primary period of the lease.

f) **Investments**

Long-term investments, other than investments in associates, are stated at cost. A provision for diminution is made to recognise a decline, other than temporary, in the value of long-term investments. Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investments.

Investments in associates, accounted under the equity method of accounting, are initially recorded at cost, identifying any goodwill / capital reserve at the time of acquisition. The carrying amount of such investments is adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The carrying amount of investment in an associate is reduced to recognise a decline, other than temporary, in the value of the investment, such reduction being determined and made for each investment individually.

g) **Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost of inventories comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The methods of determining cost of various categories of inventories are as follows:

Raw materials	First in first out (FIFO)
Stores and spares	Weighted average method
Work-in-process and finished goods (manufactured)	FIFO and an appropriate share of production overheads
Finished goods (traded)	Cost of purchase
Goods in transit	At actual cost

h) **Research and development**

Revenue expenditure on research and development is expensed as incurred. Capital expenditure incurred on research and development having alternative uses is capitalised as fixed assets and depreciated in accordance with the depreciation policy of the Group.

i) **Retirement benefits**

Contributions payable to approved gratuity funds (a defined benefit plan), determined by an independent actuary are charged to the profit and loss account. Leave encashment cost which is a defined benefit, is accrued based on actuarial valuations at the balance sheet date carried out by an independent actuary and is charged to the profit and loss account.

Schedule 20 : Notes to Consolidated Accounts (Contd.)
Significant Accounting Policies (Contd.)

Contributions payable to recognised provident funds, approved superannuation scheme and employee pension and social security schemes in certain overseas subsidiaries, which are defined contribution schemes, are charged to the profit and loss account.

j) **Foreign currency transactions, balances and translation of financial statements of foreign subsidiaries and joint venture**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the profit and loss account except that exchange differences related to acquisition of fixed assets are adjusted in the carrying amount of the related fixed assets.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date not covered by forward exchange contracts are translated at year-end rates. The resultant exchange differences (except those related to acquisition of fixed assets) are recognised in the profit and loss account.

The premium or discount on forward exchange contracts is recognised over the period of the contracts. The premium or discount in respect of forward exchange contracts related to acquisition of fixed assets is adjusted in the carrying amount of the related fixed assets. In respect of other contracts, it is recognised in the profit and loss account.

The financial statements of the foreign subsidiaries, representative offices and a joint venture are translated into Indian rupees as follows:

- Revenue items, except opening and closing inventories and depreciation are translated at the respective monthly average rates. Opening and closing inventories are translated at the rates prevalent at the commencement and close respectively of the accounting period. Depreciation is translated at the rates used for the translation of the values of the assets on which depreciation is calculated.
- Monetary items are translated using the closing rate.
- Non-monetary items, other than inventories and fixed assets, are translated using the exchange rate at the date of transaction i.e., the date when they were acquired.
- Fixed assets are translated using the exchange rate at the date of their acquisition. Where there has been an increase or decrease in the liability of the Group, as expressed in Indian rupees by applying the closing rate, for making payment towards the whole or a part of the cost of a fixed asset or for repayment of the whole or a part of the monies borrowed, in foreign currency specifically for the purpose of acquiring a fixed asset, the amount by which the liability is so increased or reduced during the year, is added to, or reduced from, the cost of the fixed asset concerned.
- The net exchange difference resulting from the translation of items in the financial statements of foreign subsidiaries is recognised as income or as expense for the year, except to the extent adjusted in the carrying amount of the related fixed assets as stated above.
- Contingent liabilities are translated at the closing rate.

k) **Revenue recognition**

Revenue from sale of goods is recognised when significant risks and rewards in respect of ownership of the products are transferred to the customer. Revenue from domestic sales of formulation products is recognised on despatch of products to stockists by clearing and forwarding agents of the Group. Revenue from domestic sales of active pharmaceutical ingredients and intermediates is recognised on despatch of products from the factories of the Group. Revenue from export sales is recognised on shipment of products.

Schedule 20 : Notes to Consolidated Accounts (Contd.)
Significant Accounting Policies (Contd.)

Revenue from product sales is stated inclusive of excise duty and other similar duties and taxes and exclusive of returns, sales tax and applicable trade discounts and allowances.

Revenue from services is recognised as per the terms of the contracts with the customers when the services are performed.

Non-refundable up-front and milestone payments ("license fees"), are recognised as revenue when earned, in accordance with the terms prescribed in the license agreements.

Revenue from the various profit sharing arrangements entered into by the Group is recognised when it is earned and is measurable and when the ultimate collection is reasonably certain.

Dividend income is recognised when the unconditional right to receive the income is established. Income from interest on deposits and interest bearing securities is recognised on the time proportionate method.

Export entitlements under the Duty Entitlement Pass Book ("DEPB") scheme are recognised as revenue when the right to receive credit as per the terms of the scheme is established in respect of the exports made and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.

l) **Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit.

Current tax

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Group.

Deferred tax

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

The break-up of the major components of the deferred tax assets and liabilities as at the balance sheet date have been arrived at after setting off deferred tax assets and liabilities where the group has a legally enforceable right to set-off assets against liabilities, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

m) **Earnings per share**

The basic earnings per share ("EPS") is computed by dividing the net profit after tax for the year by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, net profit after tax for the year and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as of the beginning of the year, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares).

Schedule 20 : Notes to Consolidated Accounts (Contd.)
Significant Accounting Policies (Contd.)

n) **Employee stock option schemes**

In accordance with the Securities and Exchange Board of India guidelines, the excess of the market price of shares, at the date of grant of options under the Employee stock option schemes, over the exercise price is treated as employee compensation and amortised on a straight-line basis over the vesting period.

o) **Contingencies**

Loss contingencies arising from claims, litigation, assessments, fines, penalties etc. are provided for when it is probable that a liability may be incurred, and the amount can be reasonably estimated.

2 DESCRIPTION OF THE GROUP

Dr. Reddy's Laboratories Limited ("DRL" or "the Company") together with its subsidiaries collectively referred to as "the Group" or "DRL Group", is a leading India-based pharmaceutical group headquartered in Hyderabad, India. The Group's principal areas of operation are formulations, active pharmaceutical ingredients and intermediates, generics, diagnostics, critical care and biotechnology, and drug discovery. The Group's principal research and development and manufacturing facilities are located in Andhra Pradesh, India with principal marketing facilities in India, Russia, the United States, the United Kingdom, Brazil and France. The Company's shares trade on several stock exchanges in India and on the New York Stock Exchange in the United States from April 11, 2001.

DRL's subsidiaries, step-down subsidiaries, associates and joint ventures are listed below:

Entity	Country of incorporation	Percentage holding (%)
Subsidiaries		
OOO JV Reddy Biomed Limited ("RBL")	A Company organised under the laws of Russia	100
Reddy Pharmaceuticals Hong Kong Limited	A Company organised under the laws of Hong Kong	100
Dr. Reddy's Laboratories Inc. ("DRLI")	A Company organised under the laws of New Jersey, USA	100
Reddy Cheminor S.A.	A Company organised under the laws of Chartres, France	100
Reddy Antilles N.V. ("RANV")	A Company organised under the laws of Antilles, Netherlands	100
Dr. Reddy's Farmaceutica Do Brazil Ltda.	A Company organised under the laws of Brazil	100
Zenovus Biotech Limited	A Company organised under the laws of India	100
Aurigene Discovery Technologies Limited	A Company organised under the laws of India	100
Dr. Reddy's Laboratories (EU) Limited ("DREU") [formerly known as BMS Laboratories Limited]	A Company organised under the laws of the United Kingdom	100
Compact Electric Limited	A Company organised under the laws of India	100
Cheminor Investments Limited	A Company organised under the laws of India	100
DRL Investments Limited	A Company organised under the laws of India	100

Schedule 20 : Notes to Consolidated Accounts (Contd.)
Description of the Group (Contd.)

Entity	Country of incorporation	Percentage holding (%)
Step-down subsidiaries		
Reddy Netherlands B.V.	A subsidiary of Reddy Antilles N.V., organised under the laws of Netherlands	100
Reddy Pharmaceuticals Singapore Pte Limited	A subsidiary of Reddy Antilles N.V., organised under the laws of Singapore	100
Reddy US Therapeutics Inc. (“Reddy US”)	A subsidiary of Reddy Antilles N.V., organised under the laws of Atlanta, USA	90
Dr. Reddy’s Laboratories (UK) Limited (“DRUK”) [formerly known as Meridian Healthcare]	A subsidiary of Dr. Reddy’s Laboratories (EU) Limited, organised under the laws of the United Kingdom	100
Dr. Reddy’s Laboratories (Proprietary) Limited	A subsidiary of Dr. Reddy’s Laboratories Inc., organised under the laws of Republic of South Africa	100
Aurigene Discovery Technologies Inc.	A subsidiary of Aurigene Discovery Technologies Limited, organised under the laws of Massachusetts, USA	100
Partnership firm		
Globe Enterprises	A partnership firm with Dr. Reddy’s Holdings Limited organised under the laws of India, wherein DRL and Dr. Reddy’s Holdings Limited share the profits in the ratio of 95:5	95
Joint Venture		
Kunshan Rotam Reddy Pharmaceutical Co. Limited (“Reddy Kunshan”)	A Company organised under the laws of China	51
Associates		
Pathnet India Private Limited (“Pathnet”)	A Company organised under the laws of India	49
Aurantis Farmaceutica Ltda (“Aurantis”)	A Company organised under the laws of Brazil	50
Dr. Reddy’s Exports Limited	A Company organised under the laws of India	22

3

COMMITMENTS AND CONTINGENT LIABILITIES

(Rs. thousands)

	As at 31 March, 2003	As at 31 March, 2002
(i) Commitments/contingent liabilities:		
(a) Guarantees issued by banks	71,816	132,242
(b) Guarantees issued by the Company on behalf of its subsidiaries and associates	871,120	782,340
(c) Letters of credit outstanding	182,425	194,575
(d) Contingent consideration payable in respect of a foreign subsidiary acquired	75,044	69,727
(e) Bonds executed in favour of customs and excise authorities by a subsidiary	130,128	130,128

Schedule 20 : Notes to Consolidated Accounts (Contd.)
Commitments and Contingent Liabilities (Contd.)

		As at 31 March, 2003	As at 31 March, 2002
			(Rs. thousands)
(ii)	Claims against the Group not acknowledged as debts in respect of:		
	(a) Demands for payments into the credit of the Drug Prices Equalisation Account under Drugs (Price Control) Order, 1979, which are contested by the Company in respect of its product "Norfloxacin". The Group has filed a legal suit against the notification, where interim stay has been granted by the Andhra Pradesh High Court in favour of the Group	162,375	148,562
	(b) Income tax matters, pending decisions on various appeals made by the Group and by the Department	209,881	163,180
	(c) Excise matters, under dispute	68,263	47,673
	(d) Sales tax matters, under dispute	12,325	1,470
	(e) Other matters, under dispute	35,918	9,138
(iii)	Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	361,446	882,412
(iv)	The Group is also involved in other lawsuits, claims, investigations and proceedings, including patent and commercial matters, which arise in the ordinary course of business. However, there are no such matters pending that the Group expects to be material in relation to its business.		

4 ACCOUNTING FOR ASSOCIATES

Pursuant to the adoption of AS 23 - Accounting for Investments in Associates in Consolidated Financial Statements, the Company has accounted for its investments in Pathnet India Private Limited, Aurantis Farmaceutica Ltda and Dr. Reddy's Exports Limited under the equity method.

Pathnet India Private Limited

The Company, in earlier years acquired a 49% interest in Pathnet for a consideration of Rs. 64,310 thousands (including share application money of Rs.15,310 thousands). Pathnet is engaged in the business of setting up of medical pathology laboratories. The Company has accounted for its 49% interest in Pathnet by the equity method. The Company's equity in the loss of Pathnet up to 31 March, 2002 aggregating to Rs. 20,700 thousands has been adjusted against the opening general reserve.

The Company's equity in the loss of Pathnet for the year ended 31 March, 2003 aggregates to Rs. 28,300 thousands. The carrying value of the investment in Pathnet aggregates to Rs. Nil as on 31 March, 2003 (previous year: Rs. 20,700 thousands).

Aurantis Farmaceutica Ltda

During the previous year ended 31 March, 2002, the Company discontinued its association with Aurantis. The operations of this entity are being phased out and the Company does not expect to recover the carrying amount of its investment in Aurantis. Accordingly, during the previous year, the Company had provided for the carrying value of the entire investment of Rs. 85,099 thousands to recognise this other than temporary loss in value.

Schedule 20 : Notes to Consolidated Accounts (Contd.)

5 ACCOUNTING FOR INTEREST IN A JOINT VENTURE (JV)

Kunshan Rotam Reddy Pharmaceuticals Company Limited

Reddy Kunshan (the JV) is engaged in manufacturing and marketing of active pharmaceutical ingredients and intermediates and formulations in China. Consequent to the acquisition of 51% of its voting power on 15 August, 2001, Reddy Kunshan was consolidated with the Company in the consolidated financial statements for the year ended 31 March, 2002.

Three of the directors of the Company are on the board of directors of Reddy Kunshan, which is comprised of seven directors. Under the terms of the agreement, all decisions with respect to operating activities, significant financing and other activities are taken by the majority approval of at least five of the seven directors of the board. These significant decisions include amendments to the Articles, suspensions of the operations, alterations to the registered capital etc. As the Company does not have the control over the board and as the other partners have significant participating rights, acting on its own, the Company will not be in a position to control or take any significant operating decisions of Reddy Kunshan and would require approval of other shareholders. As the Company has participating rights as against protective rights under the agreement with none of the parties unilaterally controlling the JV, the Group has, in accordance with AS 27 – Financial Reporting of Interests in Joint Ventures issued by the ICAI, accounted for its 51% interest in the JV by the proportionate consolidation method. Thus the Group's income statement, balance sheet and cash flow statement incorporate the Group's share of income, expenses, assets, liabilities and cash flows of the JV on a line-by-line basis.

In view of the accounting of the interest in Reddy Kunshan by the proportionate consolidation method, the opening balances of assets and liabilities and the share of minority interest have been eliminated from the opening balances as at 1 April, 2002.

The aggregate amount of the assets, liabilities, income and expenses related to the Group's share in the joint venture company included in these financial statements as at 31 March, 2003 are given below:

(Rs. thousands)

Particulars	**As at 31 March, 2003**
Balance Sheet	
Secured loan	72,745
Unsecured loan	6,813
Fixed assets, net	92,558
Deferred tax assets, net	4,728
Current assets, loans and advances	
Inventories	12,751
Sundry debtors	24,431
Cash and bank balances	8,723
Loans and advances	1,921
Other current assets	1,068
Current liabilities and provisions	
Current liabilities	41,374
Provisions	–
Net current assets	7,520
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	4,620

Schedule 20 : Notes to Consolidated Accounts (Contd.)
Accounting for Interest in a Joint Venture (JV) (Contd.)

(Rs. thousands)

Particulars	**For the year ended 31 March, 2003**
Income statement	
Income	
Sales	67,356
Expenditure	
Material costs	31,260
Operating and other expenses	74,715
Research and development expenses	7,997
Finance charges	2,478
Depreciation	2,468
Other expenses	1,471
Loss before taxation	(53,033)
Provision for taxation	
– Current tax	–
– Deferred tax expense	22,612
Loss after taxation	(75,645)

6 ACQUISITIONS

Dr. Reddy's Laboratories (EU) Limited ("DREU") [formerly BMS Laboratories Limited]

On 11 April, 2002, DRL acquired the entire share capital of DREU and its consolidated subsidiary Dr. Reddy's Laboratories (UK) Limited ("DRUK") for a total consideration of Rs. 644,413 thousands (UK Pound Sterling 9.16 million). The purchase consideration consists of:

	(Rs. thousands)
Cash	438,216
Loan notes	128,108
Direct acquisition costs	7,739
	574,063
Contingent consideration	70,350
	644,413

At the date of acquisition, the Group has recorded the cost of the acquisition as Rs. 574,063 thousands consisting of the cash paid, loan notes issued, and the direct acquisition costs. Contingent consideration amounting up to Rs. 70,350 thousands is held in an escrow account and is subject to set-off for indemnity claims that may be made by the Group. Therefore, this amount has not been included in the determination of the cost of acquisition, but will be included as purchase consideration upon expiration of the escrow period in 2007.

DREU and DRUK are UK based pharmaceutical companies engaged in the manufacture and marketing of generic pharmaceuticals. As a result of the acquisition, the Group has gained entry into the UK generics market. The Group has accounted for the acquisition under the purchase method. Accordingly, the financial results for the period 11 April, 2002 through 31 March, 2003 have been included in the consolidated financial statements of the Group. The purchase cost of Rs. 574,063 thousands has been allocated as follows:

Schedule 20 : Notes to Consolidated Accounts (Contd.)
Acquisitions (Contd.)

(Rs. thousands)

Particulars	**Amount**
Fixed assets	108,066
Goodwill	324,071
Inventories	89,844
Sundry Debtors	93,462
Cash and bank balances	98,271
Loans and advances	2,327
Total assets	716,041
Less: Liabilities assumed	
Current liabilities	118,431
Provisions	14,265
Deferred tax liability	9,282
Total liabilities	141,978
Purchase cost	574,063

7 DEFERRED TAXATION

Deferred tax liability, net included in the balance sheet comprises the following:

(Rs. thousands)

	As at 31 March, 2003	**As at 31 March, 2002**
Deferred tax assets		
Inventories	–	67,670
Other current assets	4,406	6,778
Carry forward loss	2,599	39,460
Sundry debtors	101,042	–
Sundry creditors	–	52,663
Current liabilities	2,313	3,100
Provisions	41,849	20,117
Expenses deferred for tax purposes	36,505	12,325
	188,714	202,113
Deferred tax liabilities		
Fixed assets	(578,323)	(465,992)
Sundry debtors	–	(33,453)
	(578,323)	(499,445)
Deferred tax liabilities, net	**(389,609)**	**(297,332)**

The net deferred tax liability of Rs. 389,609 thousands (previous year: Rs. 297,332 thousands) has been presented in the balance sheet as follows:

(Rs. thousands)

	As at 31 March, 2003	**As at 31 March, 2002**
Deferred tax assets	42,500	68,955
Deferred tax liabilities	(432,109)	(366,287)
	(389,609)	**(297,332)**

[Refer Note 1(*l*) of Schedule 20]

Schedule 20 : Notes to Consolidated Accounts (Contd.)

8 EARNINGS PER SHARE (EPS)

The computation of EPS is set out below:

	For the year ended 31 March, 2003	For the year ended 31 March, 2002
Earnings		
Net profit for the year (Rs. thousands)	3,642,279	4,579,408
Shares		
Weighted average number of equity shares outstanding during the year – Basic	76,515,948	76,092,181
Add: Weighted average number of equity shares arising out of outstanding stock options (net of the stock options forfeited) that have dilutive effect on the EPS	9,642	–
Weighted average number of equity shares outstanding during the year – Diluted	76,525,590	76,092,181
Earnings per share of face value Rs.5 – Basic (Rs.)	47.60	60.18
Earnings per share of face value Rs.5 – Diluted (Rs.)	47.60	60.18

9 RELATED PARTY DISCLOSURES

a. There are no related parties where control exists, other than in case of subsidiaries and step-down subsidiaries.

b. Other related parties with whom transactions have taken place during the year:

Associates

■ Pathnet India Private Limited	Enterprise on which the Company has significant influence
■ Aurantis Farmaceutica Ltda	Enterprise on which the Company has significant influence
■ Dr. Reddy's Exports Limited	Enterprise on which the Company has significant influence

Enterprises where principal shareholders have significant influence ("Significant interest entities")

■ Dr. Reddy's Research Foundation ("Research Foundation")	Enterprise on which the principal shareholders have significant influence
■ Dr. Reddy's Holdings Limited	Enterprise owned by principal shareholders

Others

■ Diana Hotels Limited	Enterprise owned by relative of a director
■ Ms. K. Samrajyam	Spouse of Chairman
■ Ms. G. Anuradha	Spouse of Executive Vice Chairman and Chief Executive Officer
■ Ms. Deepti Reddy	Spouse of Managing Director and Chief Operating Officer
■ Madras Diabetes Research Foundation	Enterprise promoted by a director
■ Dr. Reddy's Heritage Foundation	Enterprise in which Chairman is a director
■ Manava Seva Dharma Samvardhani Trust	Trust in which a director is a Managing trustee

Key Management Personnel represented on the Board of the Company

■ Dr. K. Anji Reddy	Chairman
■ Mr. G. V. Prasad	Executive Vice-Chairman and Chief Executive Officer
■ Mr. K. Satish Reddy	Managing Director and Chief Operating Officer

Schedule 20 : Notes to Consolidated Accounts (Contd.)
Related Party Disclosures (Contd.)

Non-Executive and Independent Directors on the Board

- Dr. P. Satyanarayana Rao
- Dr. V. Mohan
- Dr. Omkar Goswami
- Mr. Ravi Bhoothalingam
- Mr. P. N. Devarajan
- Dr. A. Venkateswarlu
- Dr. Krishna G Palepu
- Mr. Anupam Puri

c. Particulars of related party transactions

The following is a summary of significant related party transactions:

(Rs. thousands)

Particulars	**For the year ended 31 March, 2003**	**For the year ended 31 March, 2002**
i. Sales to:		
Significant interest entities	763	3,302
ii. Purchases from:		
Significant interest entities	45,614	11,904
Others	2,206	5,697
iii. Contributions made to Research Foundation	190,172	449,000
iv. Hotel expenses paid to:		
Enterprise owned by relative of a director	7,119	5,703
v. Rent paid to:		
Key Management Personnel	9,043	7,975
Spouses of Key Management Personnel	7,764	6,696
vi. Directors' sitting fees	370	280
vii. Donation to an enterprise in which a director is a Managing trustee	630	–

d. The Group has following amounts due from/to related parties:

(Rs. thousands)

Particulars	**As at 31 March, 2003**	**As at 31 March, 2002**
i. Due from related parties (included in loans and advances and sundry debtors):		
Significant interest entities	–	274
Key Management Personnel and relatives	3,680	2,270
ii. Deposit with significant interest entity	3,000	–
iii. Due to related parties (included in current liabilities):		
Significant interest entities	5,030	1,935
Enterprise owned by relative of a director	35	175

e. Details of remuneration paid to the whole-time and non-whole-time directors are given in Note 11 of Schedule 20.

f. Equity contribution in associates have been disclosed under "Investments". Share application money paid to the associate by the Company for which shares are yet to be allotted has been disclosed under "Loans and advances".

Schedule 20 : Notes to Consolidated Accounts (Contd.)
Related Party Disclosures (Contd.)

g. The Group undertakes research and development through Research Foundation, an entity incorporated under Section 25 of the Companies Act, 1956. The Research Foundation currently conducts research and development activities primarily of the Group. The Group funds the operations of the Research Foundation.

10 SEGMENTAL INFORMATION

The primary and secondary reportable segments are business segments and geographic segments respectively.

Business segments:

For management purposes, the Group is organised on a worldwide basis into five strategic business units (SBUs), which are the reportable segments:

- Formulations;
- Active Pharmaceutical Ingredients and Intermediates (API);
- Generics;
- Diagnostics, Critical Care and Biotechnology; and
- Drug Discovery.

The Group reports its primary segment information on the basis of SBUs. Formulations also referred to as finished dosages, consist of finished pharmaceutical products ready for consumption by the patient. Active pharmaceutical ingredients and intermediates, also known as active pharmaceutical products or bulk drugs, are the principal ingredients for formulations. Active pharmaceutical ingredients and intermediates become formulations when the dosage is fixed in a form ready for human consumption such as a tablet, capsule or liquid using additional inactive ingredients. Generics are generic finished dosages with therapeutic equivalence to formulations. Diagnostic pharmaceuticals and equipment and specialist products are marketed by the Group primarily for anti-cancer and critical care. The Group is involved in drug discovery. The Group commercialises drugs discovered with other products and also licenses these discoveries to other companies.

Geographic segments: The Group's business is organised into five key geographic segments. Revenues are attributable to individual geographic segments based on the location of the customer.

Segment revenues and expenses: All segment revenues and expenses are directly attributable to the segments.

Segment assets and liabilities: According to the internal organisation and management structure of the Group and its system of internal financial reporting, the management does not review the total assets and liabilities for each reportable segment.

The assets and liabilities are not fully identifiable with / allocable to individual reportable segments. Consequently, the management believes that it is not practicable to provide segmental disclosures relating to assets and liabilities since allocation among the various reportable segments is not possible.

Inter-segment transfers: Segment revenue, segment expenses and segment result include transfers between business segments. Inter-segment transfers are accounted for at cost to the transferring segment. Such transfers are eliminated on consolidation.

Accounting policies: The accounting policies consistently used in the preparation of the financial statements are also applied to revenues and expenditure in individual segments.

Unallocable and Head office expenses: General administrative expenses, head-office expenses, and other expenses that arise at the corporate level and relate to the Group as a whole are shown as unallocable items.

Schedule 20 : Notes to Consolidated Accounts (Contd.)
Segmental Information (Contd.)

Segment information for the year ended 31 March, 2003

	Formulations	Active pharmaceutical ingredients and intermediates	Generics	Diagnostics, critical care and biotechnology	Drug discovery	Others	Eliminations	Unallocable items	Total
External sales	6,920,281	6,301,841	4,299,276	428,411	–	156,175	–	–	18,105,984
Inter-segment sales	88,786	590,216	–	–	–	–	(679,002)	–	–
Total sales	**7,009,067**	**6,892,057**	**4,299,276**	**428,411**	–	**156,175**	**(679,002)**	–	**18,105,984**
Income from services	–	–	–	143	–	–	–	–	143
License fees	–	–	–	–	–	–	–	–	–
Exchange gain (net)	–	–	–	–	–	–	–	–	–
Export benefits	173,788	28,559	–	–	–	–	–	–	202,347
Miscellaneous income	77,641	78,072	5,272	209	–	30	–	31,376	192,600
Segment revenues	**7,260,496**	**6,998,688**	**4,304,548**	**428,763**	–	**156,205**	**(679,002)**	**31,376**	**18,501,074**
Interest	–	–	–	–	–	–	–	339,210	339,210
Dividend	–	–	–	–	–	–	–	175	175
Other unallocable income	–	–	–	–	–	–	–	6,284	6,284
Total revenues	–	–	–	–	–	–	–	–	**18,846,743**
Segment result	2,161,692	1,369,533	2,414,900	(29,019)	(558,904)	12,159	–	–	5,370,361
Unallocated expenses	–	–	–	–	–	–	–	1,221,143	1,221,143
Finance charges	–	–	–	–	–	–	–	39,078	39,078
Profit before taxation	–	–	–	–	–	–	–	–	**4,110,140**
Provision for taxation									
– Current tax	–	–	–	–	–	–	–	–	397,515
– Deferred tax expense/(benefit)	–	–	–	–	–	–	–	–	63,612
Profit after taxation	–	–	–	–	–	–	–	–	**3,649,013**
Minority interest – Profit	–	–	–	–	–	–	–	–	(6,734)
Profit for the year	–	–	–	–	–	–	–	–	**3,642,279**

Schedule 20 : Notes to Consolidated Accounts (Contd.)
Segmental Information (Contd.)

Segment information for the year ended 31 March, 2002

	Formulations	Active pharmaceutical ingredients and intermediates	Generics	Diagnostics, critical care and biotechnology	Drug discovery	Others	Eliminations	Unallocable items	Total
External sales	6,168,067	5,213,710	4,526,390	357,878	–	194,075	–	–	16,460,120
Inter-segment sales	191,036	479,960	–	–	–	–	(670,996)	–	–
Total sales	**6,359,103**	**5,693,670**	**4,526,390**	**357,878**	**–**	**194,075**	**(670,996)**	**–**	**16,460,120**
Income from services	–	–	–	–	–	79,615	–	–	79,615
License fees	–	–	–	–	343,612	–	–	–	343,612
Exchange gain (net)	22,488	62,244	63,923	57	–	–	–	68,252	216,964
Export benefits	7,111	63,901	–	–	–	–	–	–	71,012
Miscellaneous income	927	46,441	–	–	–	–	–	44,249	91,617
Segment revenues	**6,389,629**	**5,866,256**	**4,590,313**	**357,935**	**343,612**	**273,690**	**(670,996)**	**112,501**	**17,262,940**
Interest	–	–	–	–	–	–	–	103,786	103,786
Dividend	–	–	–	–	–	–	–	35	35
Other unallocable income	–	–	–	–	–	–	–	21,339	21,339
Total revenues	–	–	–	–	–	–	–	–	17,388,100
Segment result	2,186,563	1,077,165	3,794,424	(6,299)	(175,592)	3,056	–	–	6,879,317
Unallocated expenses	–	–	–	–	–	–	–	2,151,524	2,151,524
Finance charges	–	–	–	–	–	–	–	114,937	114,937
Profit before taxation	–	–	–	–	–	–	–	–	**4,612,856**
Provision for taxation									
– Current tax	–	–	–	–	–	–	–	–	422,092
– Deferred tax expense/(benefit)	–	–	–	–	–	–	–	–	(356,736)
Profit after taxation	–	–	–	–	–	–	–	–	**4,547,500**
Minority interest – Loss	–	–	–	–	–	–	–	–	31,908
Profit for the year	–	–	–	–	–	–	–	–	**4,579,408**

Schedule 20 : Notes to Consolidated Accounts (Contd.)
Segmental Information (Contd.)

Sales by markets:

The following table shows the distribution of the Group's sales by geographical markets, based on the location of the customer:

Sales revenues by geographic markets

(Rs. thousands)

	For the year ended 31 March, 2003	For the year ended 31 March, 2002
India	6,488,566	6,046,599
North America	5,884,238	5,949,241
Russia and other CIS countries	2,101,138	1,665,061
Europe	1,400,381	1,000,173
Others	2,231,804	2,222,273
	18,106,127	**16,883,347**

Analysis of assets by geography

(Rs. thousands)

	As at 31 March, 2003	As at 31 March, 2002
India	15,048,352	11,112,764
North America	1,938,958	1,939,179
Russia and other CIS countries	539,346	472,513
Europe	1,007,110	2,192,933
Others	2,765,055	1,404,901
	21,298,821	**17,122,290**

Cost of tangible and intangible fixed assets acquired by geography

(Rs. thousands)

	For the year ended 31 March, 2003	For the year ended 31 March, 2002
India	1,409,214	1,104,462
North America	122,980	158,635
Russia and other CIS countries	39,045	3,921
Europe	448,066	2,274
Others	4,391	278,146
	2,023,696	**1,547,438**

Schedule 20 : Notes to Consolidated Accounts (Contd.)

11 PARTICULARS OF MANAGERIAL REMUNERATION

The remuneration paid to managerial personnel during the year:

(Rs. thousands)

Particulars	**For the year ended 31 March, 2003**	**For the year ended 31 March, 2002**
Remuneration and Commission to whole-time directors		
Salaries and allowances	3,960	3,360
Commission	88,335	192,797
Other perquisites	752	1,526
	93,047	**197,683**
Commission to non-whole-time directors	10,960	6,800
	104,007	**204,483**

The executive directors are covered under the Company's gratuity policy along with the other employees of the Company. Proportionate amount of gratuity and leave encashment is not included in the aforementioned disclosure.

Note: Computation of Net Profits under Section 309(5) of the Companies Act, 1956 ("the Act") and the computation of limit on commission payable to non-whole-time directors have not been disclosed as the limits prescribed under the Act do not apply at consolidated level.

12 EMPLOYEE STOCK OPTION SCHEME

Dr. Reddy's Laboratories Limited

Employees Stock Option Plan-2002 (the 2002 Plan): The Company instituted the 2002 Plan ("the Scheme") for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on 24 September, 2001. The Scheme covers all non-executive directors and employees of DRL and directors and employees of all its subsidiaries. Under the Scheme, the Compensation Committee of the Board ("the Committee") shall administer the Scheme and grant stock options to eligible employees of the Company and its subsidiaries. The Committee shall determine the employees eligible for receiving the options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for the options issued on the date of the grant.

The Scheme further provides that in no case shall the Per Option Exercise Price be less than the fair market value on the date of grant. The fair market value of a share on each grant date is defined as the weighted average closing price of the shares during 30 days prior to the grant, in the stock exchange where there is highest trading volume during that period. Notwithstanding the foregoing, the Committee may, after getting the approval of the members in general meeting, grant Options with a Per Share Exercise Price lesser than the fair market value.

In the case of termination of employment, all non-vested options would stand cancelled. Options that have vested but have not been exercised can be exercised within the time prescribed under each option agreement by the Committee or if no time limit is prescribed, within three months of the date of employment termination, failing which they would stand cancelled.

During the current year the Company has issued 433,945 options to employees of the Company and its subsidiaries under this scheme. The vesting period for the options granted varies from 12 to 48 months. The date of grant, exercise price fixed by the committee for respective options and the market price of the shares of the Company on the date of the grant is given below:

Schedule 20 : Notes to Consolidated Accounts (Contd.)
Employee Stock Option Scheme (Contd.)

Date of grant	**Number of options granted**	**Exercise price (Rupees)**	**Market price (Rupees)**
9 May, 2002	259,400	1,063.02	998.90
31 July, 2002	172,732	911.00	843.80
26 August, 2002	1,813	884.00	866.05
	433,945		

As the exercise price of shares, at the date of grant of options is higher than the market price, no compensation cost is set-up. The movement in the options during the year ended 31 March, 2003 is set out below:

	For the year ended 31 March, 2003	**For the year ended 31 March, 2002**
Options outstanding at the beginning of the year	124,500	–
Issued	433,945	124,500
Forfeited	(14,574)	–
Options outstanding at the end of the year	**543,871**	**124,500**

Reddy US Equity Ownership Plan 2000:

In the fiscal year 2001, Reddy US, a consolidated step-down subsidiary, adopted the Reddy US Therapeutics Inc. 2000 Equity Ownership Plan ("the Plan") to provide for issuance of stock options to its employees and certain related non-employees. When the plan was established, Reddy US reserved 500,000 shares for issuance. Under the Plan, stock options may be granted at a price per share not less than the fair market value of the underlying equity shares on the date of grant.

Under the Plan, a total of 295,500 options have been granted to the eligible employees, out of which 2,000 options were forfeited due to an employee leaving the job of the Company. Under this plan the exercise price of the options is US$ 0.18 per share. The options vest in a graded manner over a period of 4 years from the date of the grant with 25% of the options vesting at the end of each year. As of 31 March, 2003, options to purchase 153,685 equity shares were vested and exercisable at US$ 0.18 per share. The weighted average remaining contractual life of the outstanding options is 83 months.

The movement in the options during the year ended 31 March, 2003 is set out below:

	For the year ended 31 March, 2003	**For the year ended 31 March, 2002**
Options outstanding at the beginning of the year	293,500	186,000
Issued	–	109,500
Forfeited/Cancelled	–	(2,000)
Options outstanding at the end of the year	293,500	293,500

During the year ended 31 March, 2003, Reddy US has not recorded any deferred compensation, as the exercise price was equal to the fair market value of the underlying equity shares, as determined by the directors, on the grant date.

Schedule 20 : Notes to Consolidated Accounts (Contd.)

13 LONG-TERM DEPOSITS

Long-term deposits represent advances against the consideration payable for brands acquired and are amortised over a period of ten years in accordance with the terms of the agreements.

14 COMPARATIVE FIGURES

Previous year's figures have been regrouped / reclassified wherever necessary, to conform to current year's classification.

The consolidated financial statements of the current year include the financial statements of the newly acquired subsidiary DREU (Refer Note 6 of Schedule 20) and the proportionate share of the Group's interest in Reddy Kunshan (Refer Note 5 of Schedule 20), a joint venture, which was hitherto consolidated as a subsidiary in accordance with AS 21 issued by the ICAI.

Further, as fully explained in Note 4 of Schedule 20 pursuant to the adoption of AS 23 - Accounting for Investments in Associates in Consolidated Financial Statements, the Company has accounted for its investments in Pathnet and Aurantis under the equity method, which were hitherto accounted for as investments under AS 13.

Accordingly, the current year figures are not directly comparable with those of the previous year.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH, 2003

(All amounts in Indian Rupees thousands, except share data)

CASH FLOWS FROM OPERATING ACTIVITIES	**31 March, 2003**	**31 March, 2002**
Profit before taxation	4,110,140	4,612,856
Adjustments:		
Depreciation	728,678	522,717
Amortisation of long-term deposits	22,750	22,750
Income on redemption of mutual fund units	(6,284)	(19,420)
Unrealised foreign exchange (gain)/loss	81,414	(118,698)
Amortisation of market development expenditure	–	11,748
Deferred revenue expenditure written-off	–	931,354
Provision for decline in long-term investments	1,708	150,656
Long-term investments written off	6	8,215
Equity in loss of associates	28,300	–
Interest income	(339,210)	(103,786)
Dividend income	(175)	(35)
Interest expense	39,078	114,937
Loss on sale/retirement of fixed asset, net	248	27,086
Provision for doubtful debts	93,883	79,208
Provision for doubtful advances	18,642	8,056
Preliminary/Pre-operative expenditure written-off	33,281	500
Operating cash flows before working capital changes	**4,812,459**	**6,248,144**
(Increase)/decrease in sundry debtors	326,006	(1,132,017)
(Increase)/decrease in inventories	(503,792)	(249,251)
(Increase)/decrease in loans and advances	(145,341)	(193,253)
Increase/(decrease) in current liabilities and provisions	414,462	474,840
Cash generated from operations	**4,903,794**	**5,148,463**
Income taxes paid	(682,285)	(456,970)
Net cash provided by operating activities	**4,221,509**	**4,691,493**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(1,755,530)	(1,567,796)
Proceeds from sale of fixed assets	6,662	44,394
Purchase of investments	(2,933,474)	(2,363,549)
Sale of investments	2,939,603	2,363,680
Advances given to joint ventures	–	(39,610)
Interest received	265,226	94,941
Dividends received	175	35
Cash paid for acquisition, net of cash acquired	(347,684)	–
Acquisition of minority interest	(3,208)	–
Net cash used in investing activities	**(1,828,230)**	**(1,467,905)**

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH, 2003

(All amounts in Indian Rupees thousands, except share data)

	31 March, 2003	31 March, 2002
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital (net of share issue expenses)	–	5,782,725
Repayment of debentures	–	(300,000)
Proceeds from long-term borrowings	67,486	22,414
Repayment of long-term borrowings	(8,047)	(1,040,402)
Repayment of short-term borrowings	–	(2,428,896)
Proceeds from short-term borrowing	19,083	–
Interest paid	(39,088)	(167,422)
Dividends paid	(191,290)	(561,676)
Net cash provided by/(used in) financing activities	**(151,856)**	**1,306,743**
Net increase in cash and cash equivalents	2,241,423	4,530,331
Cash and cash equivalents at the beginning of the year	5,123,238	492,233
Effect of exchange gain / (loss) on cash and cash equivalents	(83,790)	100,674
Cash and cash equivalents at the end of the year (Note 1)	**7,280,871**	**5,123,238**

As per our report attached
for Bharat S Raut & Co.
Chartered Accountants

Pradip Kanakia
Partner

Place: New York, USA
Date: 30 May, 2003

for Dr. Reddy's Laboratories Limited

Dr. K. Anji Reddy
Chairman

G. V. Prasad
Executive Vice Chairman & CEO

K. Satish Reddy
Managing Director & COO

Dr. Omkar Goswami
Director

V. S. Vasudevan
Chief Financial Officer

Santosh Kumar Nair
Company Secretary

NOTES :

1. Cash and cash equivalents comprise :

	31 March, 2003	31 March, 2002
Cash in hand	9,453	2,546
Cash in transit	9,975	4,639
Balances with banks		
On current accounts	485,560	97,173
On EEFC current accounts	18,550	7,540
On deposit accounts	6,746,837	5,001,072
On unclaimed dividend accounts	9,808	9,541
On unclaimed fractional share pay order accounts	688	727
	7,280,871	**5,123,238**
Deposits with banks include:		
(i) Margin money for letters of credit and bank guarantees	11,346	6,330
(ii) Balance of unutilised money out of ADS issue	1,512,749	2,479,397

2. During the previous year ended 31 March, 2002, 113,388 equity shares of Rs. 5 each have been allotted pursuant to a scheme of amalgamation of American Remedies Limited with the Company, without payment being received in cash.

FINANCIALS

USGAAP CONSOLDIATED

DR. REDDY’S LABORATORIES LTD.

MANAGEMENT DISCUSSION AND ANALYSIS
US GAAP

(All figures in millions, except EPS)

2002-03: PERFORMANCE HIGHLIGHTS:

- Total revenues grew by 9% to $ 380 million as against $ 350 million in the previous fiscal.
- Fluoxetine capsules 40mg contributed $ 40 million in revenues. This compares with revenues of $ 77 million in the previous fiscal, which included one-time marketing exclusivity revenues. Excluding fluoxetine in both the years, total revenues grew by 25% over the previous fiscal.
- Revenues outside India grew by 10% to $ 244 million as against $ 222 million in the previous fiscal driven primarily by the growth in key markets of Europe, Russia and other US markets.
- Revenues in North America were at $ 123 million as against $ 127 million in the previous fiscal, a marginal decline of 3%. Growth in APIs by 54% as well as the contribution from the launch of generic tizanidine in July 2002 offset the decline in revenues from fluoxetine, post expiry of one-time marketing exclusivity in January 2002.
- Revenues in Europe grew by 79% to $ 29 million as against $ 16 million the previous fiscal. This growth was driven primarily by the acquisition of BMS and Meridian in the UK, presently known as Dr Reddy's Laboratories, EU and Dr. Reddy's Laboratories, UK respectively.
- Revenues in the CIS markets including Russia grew by 30% to $ 44 million as against $ 34 million in the previous fiscal.
- Driven by the improved business mix, the gross profit margin for the year under review was at 57% of total revenues.
- R&D expenditure increased by 85% to $ 29 million as against $ 16 million in the previous fiscal. As a % of revenues, the R&D spend is at 7.6% as against 4.5% in the previous fiscal.
- Net Income was at $ 74 million (20% of revenues) as against $ 104 million (30% of revenues) in the previous fiscal.
- Final dividend of 11 cents per share recommended by the Board.
- Cash and cash equivalents increased to $ 153 million from $107 million in the previous fiscal.

MANAGEMENT DISCUSSION AND ANALYSIS
US GAAP

(All figures in millions, except EPS)

Table 1: Select Financial Data

Particulars	FY03 ($)	FY03 (Rs.)	%	FY02 ($)	FY02 (Rs.)	%	Growth %
Net Product Revenues	380	18,070	100	345	16,409	99	10
License Fees	0	0	0	3	125	1	(100)
Services	0	0	0	2	89	0	(100)
Total Revenues	**380**	**18,070**	**100**	**350**	**16,623**	**100**	9
Cost of revenues	165	7,839	43	145	6,869	41	14
Gross profit	**215**	**10,231**	**57**	**205**	**9,754**	**59**	5
Selling, General & Administrative Expenses	106	5,020	28	77	3,668	22	37
R&D Expenses	29	1,375	8	16	742	4	85
Amortization Expenses	9	419	2	10	488	3	(14)
Forex loss/(gains)	1	70	0	(4)	(209)	(1)	(134)
Total operating expenses	145	6,885	38	99	4,688	28	47
Operating income	**70**	**3,346**	**19**	**107**	**5,066**	**30**	(34)
Equity in loss of affiliates	2	92	1	3	131	1	(29)
Other expenses/(income) net	(14)	(683)	(4)	(3)	(154)	(1)	342
Income before income taxes and minority interest	83	**3,937**	**22**	107	**5,090**	**31**	(23)
Income tax (benefit)/expense	8	398	2	3	154	1	159
Minority interest	0	7	0	0	15	0	(55)
Net income	**74**	**3,532**	**20**	**104**	**4,921**	**30**	(28)
DEPS	**0.97**	**46.16**		**1.36**	**64.62**		
Key Balance Sheet Items							
Cash and cash equivalents	153	7,273		107	5,109		
Accounts receivable, net of allowances	76	3,620		80	3,812		
Inventories	59	2,781		46	2,194		
Property, plant and equipment, net	102	4,830		80	3,799		

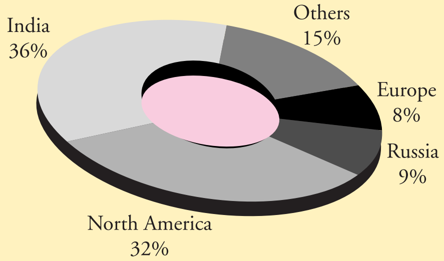
Table 2 : Revenues by Business

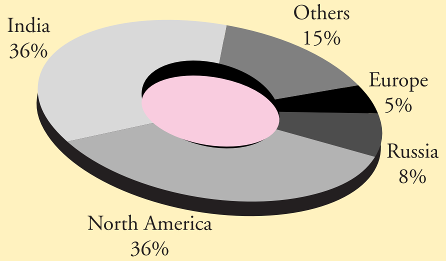
	FY03 $	FY03 INR	as a %	FY02 $	FY02 INR	as a %	Growth %
APIs	**133**	**6,341**	**35**	**110**	**5,237**	**31**	**21**
India	36	1,749	28	35	1,648	31	**6**
International	97	4,592	72	75	3,589	69	**28**
Branded Formulations	**144**	**6,860**	**38**	**127**	**6,035**	**36**	**14**
India	90	4,303	63	84	3,993	66	**8**
International	54	2,557	37	43	2,042	34	**25**
Generics	**90**	**4,284**	**24**	**95**	**4,527**	**27**	**(5)**
Emerging Business	**9**	**428**	**2**	**9**	**429**	**3**	**0**
Custom Chemical Services	**2**	**69**	**0**	**4**	**175**	**1**	**(61)**
Drug Discovery	**0**	**0**	**0**	**3**	**125**	**1**	**(100)**
Others	**2**	**88**	**0**	**2**	**95**	**1**	**(7)**
Total	**380**	**18,070**	**100**	**350**	**16,623**	**100**	**9**

MANAGEMENT DISCUSSION AND ANALYSIS
US GAAP

(All figures in millions, except EPS)

Revenue by Geography

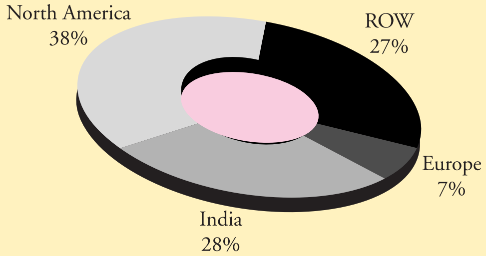


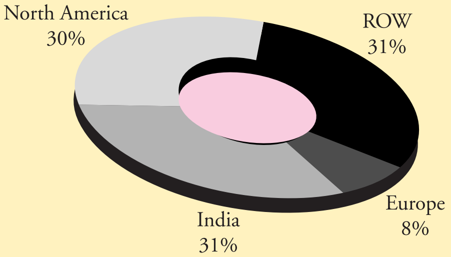


SEGMENTAL REVENUE ANALYSIS

Active Pharmaceutical Ingredients (APIs)

- Revenues grew by 21% to $ 133 million as against $ 110 million in the previous fiscal.
- Revenues outside India grew by 28% to $ 97 million as against $ 75 million in the previous fiscal driven primarily by the growth in North America.
- North America contributed 38% to the total revenues as against 30% in the previous fiscal. Revenues grew by 54% to $ 50 million as against $ 33 million in the previous fiscal driven primarily by the launch of nizatidine.
- During the year, the Company filed 14 US DMFs bringing the total filings to 40.
- Revenues in India grew by 6% to $ 37 million as against $ 35 million in the previous fiscal.





(All figures in millions, except EPS)

Generics

- Revenues in this segment were at $ 90 million as against $ 95 million in the previous fiscal, a marginal decline of 5%.
- North America contributed 80% to the total revenues followed by Europe with a contribution of 19%.
- Fluoxetine capsules 40mg sustained price and market share post expiry of marketing exclusivity in January 2002, contributing revenues of $ 40 million during the year.
- Tizanidine tablets 2 & 4 mg, launched in the US in July 2002, contributed $ 16 million to the revenues.
- Revenues in Europe were driven by the acquisition in UK and key product launches. Total revenues were at $ 17 million as against $ 0.3 million in the previous fiscal.
- Omeprazole capsules, launched in UK in October 2002, was the key contributor, with revenues of $ 6 million.
- During the year, the Company filed 14 ANDAs, including 3 pending acceptance by the USFDA. Of the 14 filings, 10 were Para IV certifications. This takes the total ANDAs pending review by the USFDA to 23.

Branded Formulations - International

- Revenues grew by 25% to $ 54 million driven by the performance of the CIS markets.
- Revenues in Russia increased by 27% to $ 35 million as against $ 28 million in the previous fiscal. This growth by driven primarily by the stable economy and the strength of our investments in the sales and distribution network.
- Revenues in other CIS markets were up by 40% to $ 9 million as against $ 6 million in the previous fiscal.

Table 3: International Formulations Geographic Mix

Country	FY03 $	FY03 INR	as a %	FY02 $	FY02 INR	as a %	Growth %
Russia	35	1,662	65	28	1,312	64	27
Ukraine	3	157	6	2	111	5	42
Kazakhstan	3	145	6	2	96	5	52
Belarus	2	107	4	1	63	3	71
Vietnam	1	62	2	1	67	3	(7)
Others	9	424	17	8	394	20	7
Total	**54**	**2,557**	**100**	**43**	**2,042**	**100**	**25**

MANAGEMENT DISCUSSION AND ANALYSIS
US GAAP

(All figures in millions, except EPS)

Branded Formulations - India

- Revenues were up by 8% to $ 90 million as against $ 84 million in the previous fiscal. The growth has been lower than expected primarily on account of an overall decline in industry growth rate and lower off-take by trade following uncertainty over introduction of Value Added Tax system announced by the Government of India in the month of March.
- As per March ORG MARG, the Company grew at a MAT of 16.3% as against the industry average of 5.7%.

Branded Formulations – India - Revenues by Therapies

Therapeutic Segment	FY03 $	FY03 INR	as a %	FY02 $	FY02 INR	as a %	Growth %
Gastro Intestinal	17	778	18	15	735	18	6
Pain Management	17	818	19	16	781	20	5
Cardiovascular	15	706	16	14	642	16	10
Anti Infectives	10	491	11	10	496	12	(1)
Natural	11	527	12	12	561	14	(6)
Women's Health Care	5	208	5	5	214	5	(3)
Diabetic Care	3	162	4	3	146	4	11
Dermatology	3	157	4	3	125	3	26
Specialty	7	326	8	6	270	7	21
Dental	3	131	3	0	23	1	464
Total	**91**	**4,303**	**100**	**84**	**3,993**	**100**	**8**

Branded Formulations – India - Revenues by Key brands

Brand	FY03 $	FY03 INR	as a % $	FY02 INR	FY02	as a %	Growth %
Nise	14	655	15	12	585	15	12
Omez	10	467	11	10	461	12	1
Stamlo	5	254	6	5	243	6	4
Ciprolet	4	169	4	5	218	5	(22)
Stamlo Beta	3	154	4	3	128	3	20
Enam	3	145	3	3	142	4	2
Antoxid	2	100	2	2	109	3	(9)
Reclide	2	85	2	2	87	2	(2)
Clamp	2	83	2	1	53	1	59
Gaity	2	81	2	0	22	1	274
Others	44	2,110	49	41	1,946	48	8
Total	**91**	**4,303**	**100**	**84**	**3,993**	**100**	**8**

Other Businesses

- Revenues in the diagnostics, critical care & biotechnology segment remain unchanged at $ 9 million.
- Revenues from Custom Chemical Services (CCS) declined to $ 2 million as against $ 4 million in the previous fiscal.

MANAGEMENT DISCUSSION AND ANALYSIS
US GAAP

(All figures in millions, except EPS)

Gross Profit

- Driven by the improved business mix, the Company's gross profit margin was at 57% of the total revenues. This compares with the gross profit margin of 59% in the previous fiscal primarily on account of the fluoxetine one-time marketing exclusivity revenues.

Gross margin contribution %

Operating Expenses

- R&D expenditure increased by 85% to $ 29 million as against $ 16 million in the previous fiscal. As a % of revenues, R&D expenditure is at 7.6% of total revenues as against 4.5% in the previous fiscal. The increase was primarily due to increased expenditure on bio studies and development projects on account of expansion in product pipeline during the year ended March 31, 2003.
- Selling, General & Administration (S,G&A) expenses increased by $ 29 million to $ 106 million during the year. As a % of revenues, S,G&A expenses were at 28% of total revenues as against 22% in the previous fiscal. This increase was largely due to an increase in legal and consultancy fees, software training and development, employee cost, marketing expenses and traveling expenses.
- During the year, the Indian Rupee, the functional currency of the Company, strengthened by 2.5% against the US Dollar resulting in a foreign exchange loss of Rs. 70 million compared with a foreign exchange gain of Rs. 209 million in the previous fiscal.

Other Income

- Other income (net) increased to $ 14 million from $ 3 million in the previous fiscal. This was primarily due to increase in interest income on fixed deposits attributable to increase in funds from operations and conversion of some USD deposits to INR deposits (7% to 7.5%), which earn higher interest compared to USD deposits (2% to 3%).

Net Income

- Net income was at $ 74 million (20% of total revenues) as against $ 104 million (30% of total revenues) in the previous fiscal. This translates to a diluted EPS of Rs. 46.16 as against Rs. 64.62 in the previous fiscal.

NOTE:

(1) All figures in millions, except EPS

(2) All dollar figures based on convenience translation rate of 1USD = Rs. 47.53

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders

Dr. Reddy's Laboratories Limited

We have audited the accompanying consolidated balance sheets of Dr. Reddy's Laboratories Limited and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operation, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dr. Reddy's Laboratories Limited and subsidiaries as of March 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the consolidated financial statements, effective April 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. Also, as discussed in Note 3 to the consolidated financial statements, effective July 1, 2001, the Company adopted the provisions of SFAS No. 141, Business Combinations.

KPMG

Hyderabad, India
May 30, 2003

CONSOLIDATED
BALANCE SHEET

(in thousands, except share data)

	As of March 31, 2002	2003	2003 Convenience translation into US$ (unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	Rs. 5,109,374	Rs. 7,273,398	US$ 153,028
Restricted cash	25,185	26,709	562
Accounts receivable, net of allowances	3,811,699	3,620,020	76,163
Inventories	2,194,275	2,781,384	58,518
Deferred income taxes	199,145	166,510	3,503
Due from related parties	18,477	22,863	481
Other current assets	521,224	1,235,999	26,005
Total current assets	**11,879,379**	**15,126,883**	**318,260**
Property, plant and equipment, net	3,799,112	4,830,480	101,630
Due from related parties	53,592	44,047	927
Investment securities	11,327	8,715	183
Investment in affiliates	262,278	170,184	3,581
Intangible assets	2,865,438	2,867,567	60,332
Other assets	95,861	43,791	921
Total assets	**Rs. 18,966,987**	**Rs. 23,091,667**	**US$ 485,834**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Borrowings from banks	Rs. 99,335	Rs. 146,340	US$ 3,079
Current portion of long-term debt	6,440	143,801	3,025
Trade accounts payable	1,122,657	1,685,382	35,459
Due to related parties	3,500	4,388	92
Taxes payable	99,637	–	–
Accrued expenses	696,051	769,895	16,198
Other current liabilities	333,124	353,606	7,440
Total current liabilities	**2,360,744**	**3,103,412**	**65,294**
Long-term debt, excluding current portion	47,047	40,909	861
Deferred revenue	288,382	288,382	6,067
Deferred income taxes	657,906	700,274	14,733
Other liabilities	155,476	126,849	2,669
Total liabilities	**Rs. 3,509,555**	**Rs. 4,259,826**	**US$ 89,624**
Stockholders' equity:			
Equity shares at Rs. 5 par value; 100,000,000 shares authorized; Issued and outstanding; 76,515,948 shares as of March 31, 2002 and 2003 respectively	382,580	382,580	8,049
Additional paid-in capital	10,085,004	10,085,004	212,182
Retained earnings	4,986,503	8,322,811	175,106
Equity shares held by a controlled trust: 41,400 shares	(4,882)	(4,882)	(103)
Accumulated other comprehensive income	8,227	46,328	975
Total stockholders' equity	**15,457,432**	**18,831,841**	**396,210**
Total liabilities and stockholders' equity	**Rs. 18,966,987**	**Rs. 23,091,667**	**US$ 485,834**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED
STATEMENTS OF OPERATION

(in thousands, except share data)

	Year ended March 31, 2001	2002	2003	2003 Convenience translation into US$ **(unaudited)**
Revenues:				
Product sales, net of allowances for sales returns (includes excise duties of Rs. 733,841, Rs. 789,718 and Rs. 817,135 for the years ended March 31, 2001, 2002 and 2003, respectively)	Rs. 10,974,809	Rs. 16,408,797	Rs. 18,069,812	US$ 380,177
License fees	–	124,757	–	–
Services	–	89,128	–	–
	10,974,809	16,622,682	18,069,812	380,177
Cost of revenues	5,735,847	6,868,958	7,838,932	164,926
Gross profit	5,238,962	9,753,724	10,230,880	215,251
Operating expenses:				
Selling, general and administrative expenses	2,818,870	3,667,587	5,020,316	105,624
Research and development expenses	508,837	741,644	1,374,893	28,927
Amortisation expenses	482,334	487,715	419,439	8,825
Foreign exchange (gain)/loss	(62,105)	(208,965)	70,108	1,475
Total operating expenses	3,747,936	4,687,981	6,884,756	144,851
Operating income	1,491,026	5,065,743	3,346,124	70,400
Equity in loss of affiliates	(31,520)	(130,534)	(92,094)	(1,938)
Other (expense)/income, net	(387,005)	154,480	683,124	14,372
Income before income taxes and minority interest	1,072,501	5,089,689	3,937,154	82,835
Income taxes	(321,396)	(153,844)	(398,062)	(8,375)
Minority interest	(9,155)	(14,803)	(6,734)	(142)
Net income	**Rs. 741,950**	**Rs. 4,921,042**	**Rs. 3,532,358**	**US$ 74,318**
Earnings per equity share				
Basic	11.74	64.73	46.16	0.97
Diluted	11.74	64.62	46.16	0.97
Weighted average number of equity shares used in computing earnings per equity share				
Basic	63,177,560	76,027,565	76,515,948	76,515,948
Diluted	63,177,560	76,149,568	76,516,731	76,516,731

See accompanying notes to the consolidated financial statements.

CONSOLIDATED
STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(in thousands, except share data)

	Equity Shares				Equity Shares held by a Controlled Trust		Accumulaed Other Comprehensive Income	Retained Earnings/ (Accumulated Deficit)	
	No. of Shares	Amount	Additional Paid in Capital	Comprehensive Income	No. of Shares	Amount			Total Stockholders' Equity
Balance as of March 31, 2000	63,177,560	315,889	4,296,154		41,400	Rs. (4,882)	Rs. 1,107	Rs. 18,978	4,627,246
Dividends	–	–	–	–	–	–	–	(133,791)	(133,791)
Common stock issued	–	–	–	–	–	–	–	–	–
Comprehensive income	–	–	–	–	–	–	–	–	–
Net income	–	–	–	Rs. 741,950	–	–	–	741,950	741,950
Translation adjustment	–	–	–	4,816	–	–	4,816	–	4,816
Unrealized gain on investments, net of tax	–	–	–	243	–	–	243	–	243
Comprehensive income	–	–	–	Rs. 747,009	–	–	–	–	–
Balance as of March 31, 2001	**63,177,560**	**315,889**	**4,296,154**		**41,400**	**(4,882)**	**6,166**	**627,137**	**5,240,464**
Dividends	–	–	–	–	–	–	–	(561,676)	(561,676)
Common stock issued for ADS listing	13,225,000	66,125	5,716,600	–	–	–	–	–	5,782,725
Common stock issued for acquisition of minority interest	113,388	566	72,250	–	–	–	–	–	72,816
Comprehensive income	–	–	–	–	–	–	–	–	–
Net income	–	–	–	Rs. 4,921,042	–	–	–	4,921,042	4,921,042
Translation adjustment	–	–	–	2,337	–	–	2,337	–	2,337
Unrealized gain on investments, net of tax	–	–	–	(276)	–	–	(276)	–	(276)
Comprehensive income	–	–	–	Rs. 4,923,103	–	–	–	–	–
Balance as of March 31, 2002	**76,515,948**	**382,580**	**10,085,004**		**41,400**	**(4,882)**	**8,227**	**4,986,503**	**15,457,432**
Dividends	–	–	–	–	–	–	–	(191,290)	(191,290)
Net loss for the quarter ended March 31, 2003 for the change in the fiscal year end of a consolidated subsidiary	–	–	–	–	–	–	–	(4,760)	(4,760)
Comprehensive income	–	–	–	–	–	–	–	–	–
Net income	–	–	–	Rs. 3,532,358	–	–	–	3,532,358	3,532,358
Translation adjustment	–	–	–	38,073	–	–	38,073	–	38,073
Unrealized gain on investments, net of tax	–	–	–	28	–	–	28	–	28
Comprehensive income	–	–	–	Rs. 3,570,459	–	–	–	–	–
Balance as of March 31, 2003 (unaudited)	**76,515,948**	**Rs.** 382,580	Rs. 10,085,004		41,400	Rs. (4,882)	Rs. 46,328	Rs. 8,322,811	Rs. 18,831,841
Convenience translation into US$		**US$ 8,049**	**US$ 212,182**			**US$ (103)**	**US$ 975**	**US$ 175,106**	**US$ 396,210**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED
STATEMENTS OF CASH FLOWS

(in thousands, except share data)

	Year ended March 31, 2001	2002	2003	2003 Convenience translation into US$ (unaudited)
Cash flows from operating activities:				
Net income	Rs. 741,950	Rs. 4,921,042	Rs. 3,532,358	US$ 74,318
Adjustments to reconcile net income to				
net cash from operating activities:				
Deferred tax expense/(benefit)	19,532	(268,589)	547	12
Gain on sale of investments	–	(19,420)	(6,284)	(132)
Depreciation and amortization	895,851	946,280	1,017,813	21,414
Loss on sale of property, plant and equipment	14,177	27,050	248	5
Provision for doubtful accounts receivable	128,406	78,700	93,883	1,975
Allowance for sales returns	57,342	92,130	193,229	4,065
Inventory write-downs.	3,103	103,141	34,239	720
Equity in loss of affiliates	31,520	130,534	92,094	1,938
Write-down of investment	–	8,209	1,679	50
Unrealised exchange (gain)/loss on remeasurement	8,057	(81,926)	79,947	1,667
Minority interest	9,155	14,803	6,734	142
Changes in operating assets and liabilities:				
Accounts receivable	(725,065)	(1,451,643)	159,697	3,360
Inventories	(300,070)	(365,088)	(440,856)	(9,275)
Other assets	(117,721)	(180,960)	(665,278)	(13,997)
Due to/from related parties,net	(26,413)	(11,791)	5,997	126
Trade accounts payable	(295,170)	364,260	584,958	12,307
Accrued expenses	114,341	310,669	66,357	1,396
Deferred revenue	–	218,569	–	–
Taxes payable	19,286	(64,445)	(113,903)	(2,396)
Other liabilities	38,815	(118,740)	(276,727)	(5,822)
Net cash provided by operating activities	**617,096**	**4,652,785**	**4,366,732**	**91,873**
Cash flows from investing activities:				
Restricted cash	27,592	(6,515)	(1,524)	(32)
Expenditure on property, plant and equipment	(488,989)	(1,090,321)	(1,515,721)	(31,890)
Proceeds from sale of property, plant and equipment	68,136	49,301	4,311	91
Purchase of investment securities	(276,186)	(2,450,648)	(2,933,474)	(61,718)
Proceeds from sale of investment securities	–	2,363,680	2,939,603	61,847
Expenditure on intangible assets	(20,000)	(398,440)	(96,999)	(2,041)
Acquisition of minority interest	–	–	(3,208)	(67)
Cash paid for acquisition, net of cash acquired	–	–	(347,684)	(7,315)
Net cash used in investing activities	**(689,447)**	**(1,532,943)**	**(1,954,696)**	**(41,126)**

CONSOLIDATED
STATEMENTS OF CASH FLOWS

(in thousands, except share data)

	Year ended March 31, 2001	2002	2003	2003 Convenience translation into US$ (unaudited)
(Contd.)				
Cash flows from financing activities:				
Proceeds from issuance of equity, net of expenses	–	5,782,725	–	–
Proceeds from/(repayments of) borrowing from banks, net	112,971	(2,469,761)	43,700	919
Proceeds from issuance of long-term debt	219,820	6,141	1,009	21
Repayment of long-term debt	(282,465)	(1,335,546)	(6,440)	(135)
Principal payments under capital lease obligations	(3,506)	(109)	–	–
Dividends	(133,791)	(561,676)	(191,290)	(4,025)
Payment of dividend to minority interest in subsidiary	(709)	–	–	–
Net cash provided by/(used in) financing activities	**(87,680)**	**1,421,774**	**(153,021)**	**(3,219)**
Effect of exchange rate changes on cash	81,501	88,779	(94,991)	(1,999)
Net increase/(decrease) in cash and cash equivalents during the year	(78,530)	4,630,395	2,164,024	45,530
Cash and cash equivalents at the beginning of the year	557,509	478,979	5,109,374	107,498
Cash and cash equivalents at the end of the year	Rs. 478,979	Rs. 5,109,374	Rs. 7,273,398	US$ 153,028
Supplemental disclosures:				
Cash paid for:				
Interest (net of interest capitalized)	Rs. 355,846	Rs. 123,155	Rs. 34,465	US$ 725
Income taxes	296,502	456,970	682,285	14,355
Supplemental schedule of non-cash investing activities:				
Property, plant and equipment purchased on credit during the year	16,301	71,715	167,920	3,533
Non-cash investing activities				
Consideration loan notes issued on acquisition	–	–	136,653	2,875

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data and where otherwise stated)

1 OVERVIEW

Dr. Reddy's Laboratories Limited (DRL) together with its subsidiaries:

- DRL Investments Limited
- Reddy Pharmaceuticals Hong Kong Limited (RPHL)
- Reddy Antilles N.V. (Antilles)
- Reddy US Therapeutics Inc., (Reddy US)
- Dr. Reddy's Laboratories Inc. (DRLI)
- Dr. Reddy's Farmaceutica Do Brazil Ltda. (DRFBL)
- Aurigene Discovery Technologies Limited (ADTL)
- Dr. Reddy's Laboratories (EU) Limited (DRL EU)
- Dr. Reddy's Laboratories (Proprietary) Limited (DRSA)
- Cheminor Investments Limited
- Compact Electric Limited (Compact)
- OOO JV Reddy Biomed Limited (Reddy Biomed)
- Reddy Netherlands B.V. (RNBV)
- Reddy Pharmaceuticals Singapore Pte Ltd. (RPS)
- Reddy Cheminor SA (RCSA)
- Zenovus Biotech Ltd. (ZBL)
- Aurigene Discovery Technologies Inc. (ADTI)
- Dr. Reddy's Laboratories (UK) Limited (DRL UK)
- Kunshan Rotam Reddy Pharmaceutical Co. Ltd. (Reddy Kunshan)

collectively, the Company, is a leading India-based pharmaceutical company headquartered in Hyderabad, India. The Company's principal areas of operation are formulations, active pharmaceutical ingredients and intermediates, generics, diagnostics, critical care and biotechnology and drug discovery. The Company's principal research and development and manufacturing facilities are located in Andhra Pradesh, India with principal marketing facilities in India, Russia, the United States, the United Kingdom, Brazil and France. The Company's shares trade on several stock exchanges in India and on the New York Stock Exchange in the United States from April 11, 2001.

2 SIGNIFICANT ACCOUNTING POLICIES

a) *Basis of preparation*

The accompanying consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States (US GAAP). The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

b) *Functional currency*

The functional currency of the Company, including its consolidated foreign subsidiaries, except Reddy US, DRL EU, DRL UK and ADTI is the Indian rupee, being the currency of the primary economic environment in which the Company operates. The functional currency of Reddy US and ADTI, consolidated subsidiaries, is the US dollar and DRL EU and DRL UK, consolidated subsidiaries, is the Pound Sterling, being the currency of the primary economic environment in which they operate.

The other foreign subsidiaries of the Company, i.e. except Reddy US, DRL EU, DRL UK and ADTI operate as marketing arms of the parent company in the respective countries/regions. Accordingly, the operations of

(in thousands, except share data and where otherwise stated)

SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

these entities are largely restricted to import of finished goods from the parent company in India, sale of these products in the foreign country and remittance of the sale proceeds to the parent. The cash flows realized from sale of goods are readily available for remittance to the parent company and cash is remitted to the parent company on a regular basis. The costs incurred by these entities are primarily the cost of goods imported from the parent. The financing of these subsidiaries is done directly or indirectly by the parent company. Based on an individual and collective evaluation of these economic factors, management has determined that the Indian rupee is the functional currency of these entities.

In respect of the subsidiaries for which the foreign currency is their respective functional currency, the assets and liabilities of such subsidiaries are translated into Indian rupee at the rate of exchange prevailing as at the balance sheet date. Revenues and expenses are translated into Indian rupee at average monthly exchange rates prevailing during the year. Resulting translation adjustments are included in accumulated other comprehensive income.

c) *Convenience translation*

The accompanying financial statements have been prepared in Indian rupees, the national currency of India. Solely for the convenience of the reader, the financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars at the noon buying rate in New York City on March 31, 2003 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of US$ 1 = Rs. 47.53. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollars at such a rate or any other rate.

d) *Principles of consolidation*

The consolidated financial statements include the financial statements of DRL, all of its subsidiaries, which are more than 50% owned and controlled and Dr. Reddy's Research Foundation (Research Foundation), a special purpose entity that is funded by and carries out research activities on behalf of and for the benefit of the Company. The Company does not consolidate entities where the minority shareholders have certain significant participating rights which provide for effective involvement in significant decisions in the ordinary course of business. Such investments are accounted by the equity method of accounting. All material inter-company balances and transactions are eliminated on consolidation.

The Company accounts for investments by the equity method of accounting where it is able to exercise significant influence over the operating and financing policies of the investee. The Company's equity in the income/loss of equity method affiliates, Aurantis Farmaceutica Ltda, Brazil (Aurantis), Reddy Kunshan and Pathnet India Private Limited (Pathnet), is included in the statement of operations. Inter company profits and losses have been eliminated until realized by the investor or investee.

Newly acquired subsidiaries have been included in the consolidated financial statements from dates of acquisition. During the current year, Reddy Biomed, a consolidated subsidiary has changed its accounts closing date from 31 December to 31 March. Accordingly, the Company has eliminated the three month lag and has included the financial statements of Reddy Biomed for the year ended 31 March, 2003. As a result, the results of operations for the quarter ended March 31, 2003, which amounted to a loss of Rs. 4,760 (Roubles 3,113) has been recorded directly to the retained earnings.

e) *Cash equivalents*

The Company considers all highly liquid investments with remaining maturities, at the date of purchase/ investment, of three months or less to be cash equivalents.

SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

f) Revenue recognition

Product sales

Revenue is recognized when significant risks and rewards in respect of ownership of the products are transferred to the customer, generally, the stockists or formulations manufacturers and when the following criteria are met:

- Persuasive evidence of an arrangement exists;
- The price to the buyer is fixed and determinable; and
- Collectibility of the sales price is reasonably assured.

Revenue from domestic sales of formulation products is recognized on dispatch of the product to the stockist by the consignment and clearing and forwarding agent of the Company. Revenue from domestic sales of active pharmaceutical ingredients and intermediates is recognized on dispatch of products to customers, from the factories of the Company. Revenue from export sales is recognized when significant risks and rewards are transferred to the customers, generally on shipment of products.

Revenue from product sales includes excise duty and is shown net of sales tax and applicable discounts and allowances.

Sales of formulations in India are made through clearing and forwarding agents to stockists. Significant risks and rewards in respect of ownership of formulation products is transferred by the Company when the goods are shipped to stockists from clearing and forwarding agents. Clearing and forwarding agents are generally compensated on a commission basis as a percentage of sales made by them.

Sales of active pharmaceutical ingredients and intermediates in India are made directly to the end customers generally, formulation manufacturers, from the factories. Sales of formulations and active pharmaceutical ingredients and intermediates outside India are made directly to the end customers, generally stockists or formulations manufacturers, from the Company or its consolidated subsidiaries.

The Company has entered into marketing arrangements with certain marketing partners for sale of goods. Under such arrangements, the Company sells generic products to the marketing partners at a price agreed in the arrangement. Revenue is recognized on these transactions upon delivery of products to the marketing partners as all the conditions under SAB 101 are met. Subsequently, the marketing partners remits an additional amount upon further sales made by them to the end customer. Such amount is determined as per the terms of the arrangement and is recognized by the Company when the realization is certain under the guidance given in SAB 101.

Allowances for sales returns are estimated and provided for in the year of sales. Such allowances are made based on the historical trends. The Company has the ability to make a reasonable estimate of the amount of future returns due to large volumes of homogeneous transactions and historical experience with similar types of sales of products. In respect of new products launched or expected to be launched, the sales returns are not expected to be different from the existing products as such products relate to the therapeutic categories where established products exist and are sold in the market. Further, the Company evaluates the sales returns of all the products at the end of each reporting period and necessary adjustments, if any, are made. However, no significant revisions have been determined to be necessary till date.

License fees

Non-refundable milestone payments are recognized in the statement of income when earned, in accordance with the terms prescribed in the license agreement and where the Company has no future obligations or

(in thousands, except share data and where otherwise stated)

SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

continuing involvement pursuant to such milestone payment. Non-refundable up-front license fees are deferred and recognized when the milestones are earned, in proportion that the amount of each milestone earned bears to the total milestone amounts agreed in the license agreement. As the upfront license fees are a composite amount and cannot be attributed to a specific molecule, they are amortised over the development period. The milestone payments during the development period increase as the risk involved decreases. The agreed milestone payments reflect the progress of the development of the molecule and may not be spread evenly over the development period. Further, the milestone payments are a fair representation of the extent of progress made in the development of these molecules. Hence, the upfront licence fees are amortised over the development period in proportion to the milestone payments received.

Services

The Company carries out certain sub-contract activities on behalf of other pharmaceutical companies. Revenue from these activites are recognized as per the terms of the contracts when the services are performed.

g) *Shipping and handling costs*

Shipping and handling costs incurred to transport products to customers are included in selling, general and administrative expenses.

h) *Inventories*

Inventories are stated at the lower of cost or market value. Cost is determined using the first-in-first-out method for all categories of inventories except stores and spares, where cost is determined using the weighted average method. Stores and spares comprise engineering spares such as machinery spares and consumables such as lubricants, cotton waste and oils, which are used in operating machines or consumed as indirect materials in the manufacturing process. Cost in the case of raw materials and stores and spares comprises the purchase price and attributable direct costs, less trade discounts. Cost in the case of work-in-process and finished goods comprises direct labour, material costs and production overheads.

A write-down of inventory to the lower of cost or market value at the close of a fiscal period creates a new cost basis and is not marked up based on changes in underlying facts and circumstances.

Inventories are reviewed on a monthly basis for identification and write-off of slow-moving, obsolete and impaired inventory. Such write-downs, if any, are included in cost of goods sold.

i) *Investment securities*

Investment securities consist of available for sale debt and equity securities and non-marketable equity securities accounted for by the cost method.

Available for sale securities are carried at fair value based on quoted market prices. For debt securities where quoted market prices are not available, fair value is determined using pricing techniques such as discounted cash flow analysis. Unrealized holding gains and losses, net of the related tax effect, on available for sale securities are excluded from earnings and are reported as a separate component of stockholders' equity until realized. Decline in the fair value of any available for sale security below cost that is determined to be other than temporary, results in reduction in the carrying amount to fair value. Such impairment is charged to the statement of operations. Realized gains and losses from the sale of available for sale securities are determined on a first-in-first-out method and are included in earnings.

Non-marketable equity securities accounted for by the cost method are stated at cost, less provision for any other than temporary decline in value.

(in thousands, except share data and where otherwise stated)

SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

j) Derivative financial instruments

Derivatives and hedge accounting. On April 1, 2001, the Company adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities as amended, when the rules became effective for companies with fiscal year ending March 31.

The Company enters into forward foreign exchange contracts where the counterparty is generally a bank. The Company purchases forward foreign exchange contracts to mitigate the risk of changes in foreign exchange rates on accounts receivable. Although these contracts are effective as hedges from an economic perspective, they do not qualify for hedge accounting under SFAS No. 133, as amended. Any derivative that is either not designated as a hedge, or is so designated but is ineffective per SFAS No. 133, is marked to market and recognized in income immediately. No initial transition adjustments were required to adopt SFAS No. 133.

k) Property, plant and equipment

Property, plant and equipment including assets acquired under capital lease agreements are stated at cost less accumulated depreciation. The Company depreciates property, plant and equipment over the estimated useful life using the straight-line method. Assets under capital leases are amortized over their estimated useful life or the lease term as appropriate. The estimated useful lives of assets are as follows:

Buildings	
- Factory and administrative buildings	30 to 40 years
- Ancillary structures	3 to 10 years
Plant and machinery	3 to 15 years
Furniture, fixtures and office equipment	4 to 8 years
Vehicles	4 to 5 years
Computer equipment	3 years

Advances paid towards the acquisition of property, plant and equipment outstanding at each balance sheet date and the cost of property, plant and equipment not put to use before such date are disclosed under capital work-in-progress. The interest cost incurred for funding an asset during its construction period is capitalized based on the actual investment in the asset and the average cost of funds. The capitalized interest is included in the cost of the relevant asset and is depreciated over the estimated useful life of the asset.

l) Intangible assets

Intangible assets consist of goodwill representing the excess of purchase cost over the fair value of the net tangible and identified intangible assets of businesses acquired and other acquired intangibles, which include trademarks, customer related intangibles and non-compete arrangements. The acquisition of product brands is recorded as purchase of intangible assets. The assets are recorded on the date of acquisition at cost. Trademarks, marketing know-how, customer related intangibles and non-compete arrangements are amortized over the expected benefit period or the legal life, whichever is lower. Other intangible assets are amortized on the straight-line method over the period during which the benefits are expected to accrue from these assets. Such periods are as follows:

(in thousands, except share data and where otherwise stated)

SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Goodwill	Tested for impairment atleast annually
Trademarks	5 to 10 years
Non-compete arrangements	1.5 to 10 years
Marketing know-how	6 months
Customer-related intangibles	5 years

m) *Impairment or disposal of long-lived assets and long-lived assets to be disposed of*

Impairment or disposal of long-lived assets. Effective April 1, 2002, the Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, it retains the fundamental provisions of SFAS No. 121.

SFAS No. 144 also supersedes the accounting and reporting provisions of Accounting Principles Board (APB) Opinion No. 30, Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. However, SFAS No. 144 retains the requirement of APB Opinion No. 30 to separately report discontinued operations and extends that reporting to a component of an entity that an entity has disposed of, or classified as held-for-sale. SFAS No. 144 requires that the Company measures long-lived assets held-for-sale, at the lower of carrying amount or fair value, less costs to sell. Similarly, under SFAS No. 144, discontinued operations are no longer measured at net realizable value or include amounts for operating losses that have not yet been incurred.

n) *Start-up costs*

Costs of start-up activities including organization costs are expensed as incurred.

o) *Research and development*

Research and development cost is expensed as incurred. Capital expenditure incurred on equipment and facilities acquired or constructed for research and development activities and having alternative future uses, is capitalized as property, plant and equipment when acquired or constructed.

p) *Foreign currency transactions*

Foreign currency transactions are converted into Indian rupees at the rates of exchange prevailing on the date of the respective transactions. Assets and liabilities in foreign currency are converted into Indian rupees at the exchange rate prevailing on the balance sheet date. The resulting exchange gains/losses are included in the statement of income. For entities that operate in a highly inflationary economy, the functional currency is determined as the Indian Rupee.

q) *Stock-based compensation*

The Company uses the intrinsic value based method of APB Opinion No. 25 to account for its employee stock based compensation plans. The Company has therefore adopted pro forma disclosure provisions of SFAS No. 123, Accounting for Stock-based Compensation as amended by SFAS No. 148, Accounting for Stock-based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123.

(in thousands, except share data and where otherwise stated)

SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

r) Income taxes

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of operations in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits the future realization of which is uncertain.

s) Earnings per share

In accordance with SFAS No.128, Earnings per Share, basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period, using the treasury stock method for options and warrants, except where the results would be anti-dilutive.

t) Reclassifications

Certain reclassifications have been made to conform prior period data to the current presentation. These reclassifications had no effect on the reported earnings.

u) Recent accounting pronouncements

In August 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Overtime, the liability is accredited to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard is effective for fiscal years beginning after June 15, 2002. Adoption of SFAS No.143 did not have a material impact on consolidated financial statements of the Company.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections. SFAS No. 145 provides for the rescission of several previously issued accounting standards, new accounting guidance for the accounting for certain lease modifications and various technical corrections that are not substantive in nature to existing pronouncements. SFAS No. 145 was adopted beginning January 1, 2003, except for the provisions relating to the amendment of SFAS No. 13, which were adopted for transactions occurring subsequent to May 15, 2002. Adoption of SFAS No. 145 did not have a material impact on the consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Adoption of SFAS No. 146 did not have a material impact on the consolidated financial statements of the Company.

SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN No. 45 requires a guarantor to include disclosure of certain obligations and if applicable, at the inception of the guarantee, recognize a liability for the fair value of certain other obligations undertaken in issuing a guarantee. The recognition requirements are effective for guarantees issued or modified after December 31, 2002. Adoption of FIN No. 45 did not have any impact on the consolidated financial statements of the Company. The disclosure provisions of FIN No. 45 have been adopted by the Company for the year ended March 31, 2003.

In November 2002, the EITF issued Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how arrangement consideration should be measured and allocated to the separate units of accounting. EITF Issue No. 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Alternatively, the Company may elect to report the change in accounting as a cumulative-effect adjustment. Adoption of EITF Issue No. 00-21 will not have a material impact on the consolidated financial statements of the Company.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure provisions of SFAS No. 148 are applicable for fiscal periods beginning after December 15, 2002. The Company continues to use the intrinsic value based method of APB Opinion No. 25 to account for its employee stock based compensation plans. The disclosure provisions of SFAS No. 148 have been adopted by the Company for the year ended March 31, 2003.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities - an interpretation of Accounting Research Bulletin No. 51. FIN No. 46 is applicable to all variable interest entities created after January 31, 2003. In respect of variable interest entities created before February 1, 2003, FIN No. 46 will be applicable from fiscal periods beginning after June 15, 2003. Adoption of FIN No. 46 will not have any impact on the consolidated financial statements of the Company.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company is evaluating the impact of adoption of SFAS No.149 on its consolidated financial statements.

3 BUSINESS COMBINATIONS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No.141, Business Combinations, which require that the purchase method of accounting be used for all business combinations consummated after June 30, 2001. SFAS No.141 also specifies the criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocated to an assembled workforce may not be accounted separately.

(in thousands, except share data and where otherwise stated)

BUSINESS COMBINATIONS (CONTD.)

Merger with Cheminor

On July 31, 2000, the shareholders of the Company and Cheminor approved a plan of merger. The final court approval for the merger was received in December 2000. The consummation of the combination and the transfer of shares were completed on February 20, 2001. Under the terms of the combination agreement, each outstanding equity share of Cheminor has been exchanged for 0.36 newly issued equity shares of DRL. Accordingly, upon consummation of the merger, 5,142,942 equity shares of the Company were issued to the Cheminor shareholders. The operations of Cheminor have been merged with the Company and Cheminor has ceased to exist as a distinct legal entity.

This business combination has been accounted for under the pooling-of-interests method of accounting and accordingly financial statements presented for all prior periods have been restated to include the results of operations, financial position and cash flow of Cheminor. The adjustments eliminate the effects of intercompany transactions. The effects of conforming Cheminor's accounting policies to those of DRL were not material.

Acquisition of minority interest

American Remedies Limited

Under the scheme of arrangement for a merger with American Remedies Limited ("American Remedies"), the Company acquired the balance of the shares it did not yet own (12.9% interest), reflected as a minority interest, through an exchange of shares. Subsequently, American Remedies has ceased to exist as a separate legal entity. This transaction was consummated on October 26, 2001 and has been accounted under the purchase method as a step acquisition.

As per the scheme of arrangement, one share of the Company (two shares post split) was issued in exchange for every 12 shares of American Remedies. Accordingly, the Company has issued 56,694 (113,388 post split) shares valued at Rs. 1,284.39 per share. The fair value of the shares has been determined, based on the market price of shares over a five day period before and after July 15, 2000, i.e. the date when the Company reached an agreement on the purchase price and when the proposed transaction was announced. However, the consummation was delayed due to the delay in obtaining necessary legal and regulatory approval as required by the Indian Companies Act, to bring the Company and American Remedies into a single legal entity.

The purchase cost of Rs. 72,817, being the fair value of the shares issued, has been allocated as follows:

Current assets	Rs. 6,516
Trade marks	65,340
Other non-current assets	31,183
Total assets	**103,039**
Deferred tax liabilities	23,326
Other liabilities assumed	6,896
Purchase cost	**Rs. 72,817**

Dr. Reddy's Laboratories Inc.

In March 2000, DRLI, a consolidated subsidiary, acquired 25% of its common stock held by a minority shareholder, for a cash consideration of Rs. 1,072. This acquisition has been accounted for by the purchase method. The acquisition resulted in goodwill of Rs. 1,072. The terms of the purchase also provide for contingent consideration not exceeding US$ 14,000 over the next ten years based on achievement of certain specified targets. Such payments

(in thousands, except share data and where otherwise stated)

BUSINESS COMBINATIONS (CONTD.)

would be recorded as goodwill in the periods in which the contingency is resolved in accordance with the consensus reached by the Emerging Issues Task Force on Issue 95-8, Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination. During the years ended March 31, 2002 and 2003, as certain specified targets have been met, DRLI has paid/accrued Rs. 125,940 (USD 2.3 million) and Rs. 66,595 (USD 1.4 million) which has been recorded as goodwill.

Dr. Reddy's Laboratories (EU) Limited

On April 11, 2002, the Company acquired the entire share capital of DRL EU (formerly BMS Laboratories Limited) and its consolidated subsidiary, DRL UK (formerly Meridian Healthcare Limited), for a total consideration of Rs. 644,413 (UK Pounds Sterling 9.16 million). The purchase consideration consists of:

Cash	Rs. 438,216
Loan notes	128,108
Direct acquisition costs	7,739
	574,063
Contingent consideration	70,350
	Rs. 644,413

At the date of acquisition, the Company has recorded the cost of the acquisition as Rs. 574,063, consisting of the cash paid, loan notes issued, and the direct acquisition costs. The agreement includes the payment of a contingent consideration amounting upto Rs. 70,350, which is held in an escrow account. This amount is subject to set-off for certain indemnity claims in respect of legal and tax matters that may arise, pertaining to the periods prior to the acquisition. Therefore, this amount has not been included in the determination of the cost of acquisition initially and the amount which has not been adjusted to the contingency will be included as purchase consideration upon expiration of the escrow period in 2007.

DRL EU and DRL UK are UK based pharmaceutical companies engaged in the manufacture and marketing of generic pharmaceuticals. As a result of the acquisition, DRL has gained entry into the UK generics market. The Company has accounted for the acquisition under the purchase method. Accordingly, the financial results for the period April 11, 2002 through March 31, 2003 have been included in the consolidated financial statements of the Company. The purchase cost of Rs. 574,063 has been allocated as follows:

Current assets	
Cash	Rs. 98,271
Other current assets	269,477
Property, plant and equipment	109,811
Intangibles	
Goodwill	10,217
Trademarks	153,189
Customer-related intangibles	106,946
Non-compete arrangements	26,736
Other intangibles	6,859
Other assets	2,327
Total assets	783,833
Liabilities assumed	(209,770)
Purchase cost	**Rs. 574,063**

(in thousands, except share data and where otherwise stated)

BUSINESS COMBINATIONS (CONTD.)

Pro forma information: The table below reflects unaudited pro forma consolidated results of operations as if the above acquisitions had been made at the beginning of the periods presented below.

	Year ended March 31, 2002 (unaudited)	Year ended March 31, 2003 (unaudited)
Revenues	Rs. 16,637,986	Rs. 18,081,099
Net income	4,923,965	3,530,464
Earnings per equity share:		
Basic	64.77	46.14
Diluted	64.66	46.14
Weighted average number of equity shares used in computing earnings per equity share:		
Basic	76,027,565	76,515,948
Diluted	76,149,568	76,516,731

The unaudited pro forma consolidated results of operations include adjustments to give effect to amortization of intangibles and certain other adjustments. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the purchase been made at the beginning of the periods presented or the future results of the combined operations.

4 GOODWILL AND INTANGIBLE ASSETS

On April 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. Adoption of SFAS No. 142 did not result in reclassification of existing goodwill and intangible assets.

As required by SFAS No. 142, the Company identified its reporting units and assigned assets and liabilities, including goodwill to the reporting units on the date of adoption. Subsequently, the Company compared the fair value of the reporting unit to its carrying value including goodwill, to determine whether goodwill is impaired at the date of adoption. This transitional impairment evaluation did not indicate an impairment loss.

Subsequent to the adoption of SFAS No.142, the Company does not amortize goodwill but will instead test goodwill for impairment at least annually. The carrying value of the goodwill and net other intangible assets on the date of adoption was Rs. 1,473,605 and Rs. 1,276,397 respectively.

Acquired and amortized intangible assets:

	As of March 31, 2003 Gross carrying amount	As of March 31, 2003 Accumulated amortization
Trademarks	Rs. 2,544,525	Rs. 1,166,456
Non-compete arrangements	108,520	85,540
Marketing know-how	80,000	80,000
Customer related intangibles	114,080	22,164
Others	7,618	1,491
	Rs. 2,854,743	**Rs. 1,355,651**

(in thousands, except share data and where otherwise stated)

GOODWILL AND INTANGIBLE ASSETS (CONTD.)

The aggregate amortization expense for the years ended March 31, 2001, 2002 and 2003 was Rs. 482,334, Rs. 487,715 and Rs. 419,439 respectively.

Estimated amortization expense for the next five years with respect to such assets is as follows:

For the year ended March 31,	
2004	Rs. 373,468
2005	333,252
2006	288,528
2007	260,643
2008	243,201

The following table discloses what reported net income and basic and diluted earnings per share would have been in all periods presented, excluding amortization of goodwill:

	Year ended March 31,	
	2002	**2003**
Net income, as reported	Rs. 4,921,042	Rs. 3,532,358
Add: Amortization of goodwill	168,385	–
Net income, as adjusted	**Rs. 5,089,427**	**Rs. 3,532,358**
Earnings per share: Basic		
Earnings per share, as reported	64.73	46.16
Add: Amortization of goodwill	2.21	–
Earnings per share, as adjusted	**66.94**	**46.16**
Earnings per share: Diluted		
Earnings per share, as reported	64.62	46.16
Add: Amortization of goodwill	2.21	–
Earnings per share, as adjusted	**66.83**	**46.16**

5 CASH, CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents comprise cash and cash on deposits placed with banks in the normal course of business operations. Restricted cash represents margin money deposits against guarantees and letters of credit. Restrictions on such deposits are released on the expiry of the terms of guarantee and letters of credit.

6 ACCOUNTS RECEIVABLE

The accounts receivable as of March 31, 2002 and 2003 are stated net of allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts on all accounts receivable, including receivables sold with recourse, based on present and prospective financial condition of the customer and ageing of the accounts receivable after considering historical experience and the current economic environment. Accounts receivable are generally not collateralised.

(in thousands, except share data and where otherwise stated)

ACCOUNTS RECEIVABLE (CONTD.)

The activity in the allowance for doubtful accounts receivable is given below:

	Year ended March 31, 2002	2003
Balance at the beginning of the year	Rs. 183,706	Rs. 151,215
Additional provision	78,700	93,883
Bad debts charged to provision	(111,191)	(103,149)
Balance at the end of the year	**Rs. 151,215**	**Rs. 141,949**

7 INVENTORIES

Inventories consist of the following:

	As of March 31, 2002	2003
Raw materials	Rs. 614,465	Rs. 833,663
Stores and spares	190,922	285,739
Work-in-process	515,958	676,742
Finished goods	872,930	985,240
	Rs. 2,194,275	**Rs. 2,781,384**

During the years ended March 31, 2001, 2002 and 2003 the Company recorded an inventory write-down of Rs. 3,103, Rs. 103,141 and Rs. 34,239 respectively, resulting from a fall in the market value of certain finished goods and write down of certain raw materials and these amounts are included in the cost of goods sold.

8 OTHER ASSETS

Other assets consist of the following:

	As of March 31, 2002	2003
Prepaid expenses	Rs. 37,402	Rs. 182,531
Advances to suppliers	66,039	83,077
Balances with statutory authorities	104,826	93,774
Deposits	86,464	68,916
Others	322,354	851,492
	617,085	1,279,790
Less: Current assets	521,224	1,235,999
	Rs. 95,861	**Rs. 43,791**

Balances with the statutory authorities represent amounts deposited with the excise authorities and the unutilised excise input credits on purchases. These are regularly utilized to offset the excise liability on the goods produced. Accordingly, these balances have been classified as current assets.

Deposits mainly comprise telephone, premises and other deposits. Others mainly represents receivables of duties and income tax deducted at source on interest received by the Company.

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands, except share data and where otherwise stated)

9 PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following:

	As of March 31, 2002	2003
Land	Rs. 137,201	Rs. 190,612
Buildings	1,103,476	1,315,896
Plant and machinery	3,884,526	4,692,699
Furniture, fixtures and equipment	307,487	566,905
Vehicles	95,178	130,640
Computer equipment	191,457	276,315
Capital work-in-progress	513,388	637,880
	6,232,713	7,810,947
Accumulated depreciation and amortization	(2,433,601)	(2,980,467)
	Rs. 3,799,112	**Rs. 4,830,480**

Depreciation expense for the years ended March 31, 2001, 2002 and 2003 was Rs. 413,517, Rs. 458,565 and Rs. 598,374 respectively.

10 INVESTMENT SECURITIES

Investment securities consist of the following:

	As of March 31, 2002				As of March 31, 2003			
	Carrying Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	Carrying Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Equity securities	Rs. 4,692	Rs. 1,897	Rs. (657)	Rs. 5,932	Rs. 4,692	Rs. 1,355	Rs. (80)	Rs. 5,967
Debt securities	25	–	–	25	20	–	–	20
	4,717	1,897	(657)	5,957	4,712	1,355	(80)	5,987
Non-marketable equity securities	5,370	–	–	5,370	2,728	–	–	2,728
	Rs. 10,087	Rs. 1,897	Rs. (657)	Rs. 11,327	Rs. 7,440	Rs. 1,355	Rs. (80)	Rs. 8,715

Debt securities as of March 31, 2003 mature between one through five years. Dividends from securities available for sale, during the years ended March 31, 2001, 2002 and 2003 were Rs. 130, Rs. 35 and Rs. 175 respectively and are included in other income. Gain on sale of mutual funds during the years ended March 31, 2001, 2002 and 2003 were Rs. Nil, Rs. 19,420 and Rs. 6,284 respectively. Proceeds from sale of securities available for sale were Rs. Nil, Rs. 2,363,680 and Rs. 2,939,603 during the years ended March 31, 2001, 2002 and 2003 respectively.

(in thousands, except share data and where otherwise stated)

11 OPERATING LEASES

The Company leases office and residential facilities under operating lease agreements, cancellable at any time and are renewable on a periodic basis at the option of both the lessor and the lessee. Rental expense under those leases was Rs. 30,309, Rs. 52,067 and Rs. 80,627 for the years ended March 31, 2001, 2002 and 2003 respectively.

12 INVESTMENT IN AFFILIATES

Aurantis: During the year ended March 31, 2002, the Company discontinued its association with Aurantis, a 50% joint venture in Brazil. Accordingly, the Company has fully written off the carrying value of the investment amounting to Rs. 45,583 in the previous year.

Reddy Kunshan: Reddy Kunshan is engaged in manufacturing and marketing of active pharmaceutical ingredients and intermediates and formulations in China. During the year ended March 31, 2002, the Company acquired an additional 4.9% interest in Reddy Kunshan for a cash consideration of Rs. 47,532. Consequently, the Company's interest in Reddy Kunshan has increased to 51%.

Three of the directors of the Company are on the board of directors of Reddy Kunshan, which comprises seven directors. Under the terms of the agreement, all decisions with respect to operating activities, significant financing and other activities are taken by the majority approval of at least five of the seven directors of the board. These significant decisions include amendments to the Articles, suspensions of the operations, alterations to the registered capital etc. As the Company does not have the control over the board and as the other partners have significant participating rights, acting on its own, the Company will not be in a position to control or take any significant operating decisions of Reddy Kunshan and would require approval of other shareholders. Therefore, the Company has accounted for its 51% interest by the equity method.

The Company's equity in the loss of Reddy Kunshan for the years ended March 31, 2002 and 2003 was Rs. 47,513 and Rs. 66,177 respectively. The carrying value of the investment in Reddy Kunshan as of March 31, 2002 and 2003 was Rs. 236,361 and Rs. 170,184 respectively.

Pathnet: Pathnet is engaged in the business of setting up medical pathology laboratories. The Company acquired a 49% interest in Pathnet on March 1, 2001 for a consideration of Rs. 4,000. During the year ended March 31, 2002 the Company further invested Rs. 60,310. The Company has accounted its 49% interest in Pathnet by the equity method. The Company's equity in the loss of Pathnet for the years ended March 31, 2002 and 2003 was Rs. 37,438 and Rs. 25,917 respectively. The carrying value of the investment in Pathnet as of March 31, 2002 and 2003 was Rs. 25,917 and Rs. Nil respectively.

13 FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK

Concentration of risk: Financial instruments that potentially subject the Company to concentrations of credit risk consists principally of cash equivalents, accounts receivable and investment securities. The Company's cash resources are invested with financial institutions and commercial corporations with high investment grade credit ratings. Limits have been established by the Company as to the maximum amount of cash that may be invested with any such single entity. To reduce credit risk, the Company performs ongoing credit evaluations of customers.

Pursuant to the terms of an agreement with Par Pharmaceuticals Inc. ("PAR"), the Company supplies certain generic formulations to PAR for further sale to customers in the United States. Under this arrangement the Company sells its products to PAR at an agreed price. Subsequently, PAR remits additional amount upon further sales made by it to the end customer. During the years ended March 31, 2002 and 2003, receivables from PAR under this arrangement aggregated to Rs. 849,594 and Rs. 734,042 representing 22.3% and 20.3% of the total receivables and revenues aggregated to Rs. 4,039,980 and Rs. 3,506,874, representing 24.3% and 19.4% of the total revenues of the Company.

(in thousands, except share data and where otherwise stated)

FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK (CONTD.)

Derivative financial instruments. The Company enters into certain forward foreign exchange contracts where counter party is generally a bank. The Company does not consider the non-performance by the counterparty to be significant.

The following table presents the aggregate contracted principal amounts of the Company's derivative financial instruments outstanding:

	As of March 31,	
	2002	**2003**
Forward exchange contracts (sell)	–	US$ 73,000

The foreign forward exchange contracts mature between one to seven months.

14 RESEARCH AND DEVELOPMENT ARRANGEMENT

The Company undertakes research and development activities through the Research Foundation, a special purpose entity organized as a trust to avail certain tax benefits under the Indian Income Tax Rules. The Research Foundation currently conducts research and development activities primarily for the Company. The operations of the Research Foundation are funded by the Company and as a result this entity has been consolidated in the financial statements.

On February 27, 1997, the Company entered into a formal research and development arrangement with the Research Foundation whereby the Research Foundation will undertake for the Company, basic and applied research in the fields of diabetes, obesity and dypslipidemia (Specified Research). The cost of Specified Research will be funded by the Company. At present the Research Foundation does not undertake any other research for any other entity. The Company will have the first right to use the intellectual property rights relating to patents, copyrights, trademarks and know-how discovered or developed by the Research Foundation during the term of and as a result of work funded by the Company on the Specified Research.

15 BORROWINGS FROM BANKS

The Company has a line of credit of Rs. 3,931,600 and Rs. 3,735,000 as of March 31, 2002 and 2003, from its bankers for working capital requirements. The line of credit is renewable annually. The credit bears interest at the prime rate of the banks, which averaged 12.54% and 10.5% during the years ended March 31, 2002 and 2003 respectively. The facilities are secured by inventories, accounts receivable and certain property and contain financial covenants and restrictions on indebtedness.

16 LONG-TERM DEBT

Long-term debt consists of the following:

	As of March 31,	
	2002	**2003**
Rupee term loans	Rs. 53,487	Rs. 48,057
Loan notes	–	136,653
	53,487	184,710
Less: Current portion	(6,440)	(143,801)
Non-current portion	**Rs. 47,047**	**Rs. 40,909**

Long-term debts other than loan notes are secured by a charge over the property, plant and equipment of the Company and contain financial covenants and restrictions on indebtedness.

(in thousands, except share data and where otherwise stated)

LONG-TERM DEBT (CONTD.)

An interest rate profile of long-term debt is given below:

	Year ended March 31, 2001	2002	2003
Debentures	14.0% to 17.3%	–	–
Foreign currency loans	5.7% to 7.8%	–	–
Loan notes	–	–	4 %
Rupee term loans	2.0% to 18.5%	2.0% to 14.0%	2.0% to 12.0%

Loan notes are payable on demand. A maturity profile of other long-term debt outstanding is as follows:

Maturing in the year ending March 31:

2004	7,148
2005	7,148
2006	7,148
2007	7,148
2008	6,158
Thereafter	13,307
	Rs. 48,057

The estimated fair value amounts of rupee term loans amounts to Rs. 56,679 and Rs. 33,008 as of March 31, 2002 and 2003 respectively.

17 SHAREHOLDERS EQUITY

Equity shares and dividend

The Company presently has only one class of equity shares. For all matters submitted to vote in the shareholders meeting, every holder of equity shares, as reflected in the records of the Company on the date of the shareholders meeting shall have one vote in respect of each share held.

Indian statutes mandate that the dividends shall be declared out of the distributable profits only after the transfer of up to 10% of net income computed in accordance with current regulations to a general reserve. Should the Company declare and pay dividends, such dividends will be paid in Indian rupees to each holder of equity shares in proportion to the number of shares held by him to the total equity shares outstanding as on that date. Indian statutes on foreign exchange govern the remittance of dividend outside India.

In the event of liquidation of the affairs of the Company, all preferential amounts, if any, shall be discharged by the Company. The remaining assets of the Company, after such discharge, shall be distributed to the holders of equity shares in proportion to the number of shares held by them.

Dividends on common stock are recorded as a liability at the point of their approval by the shareholders in the annual general meeting. The shareholders approved dividends of Rs. 133,791, Rs. 561,676 and Rs. 191,290 during the years ended March 31, 2001, 2002 and 2003 respectively. The dividend per share was Rs. 3.87, Rs. 7.38 and Rs. 2.5 during the years ended March 31, 2001, 2002 and 2003 respectively.

Public Offering in the United States of America

On April 11, 2001, the Company made a public offering of its American Depositary Shares (ADSs) to international

SHAREHOLDERS EQUITY (CONTD.)

investors.The offering consisted of 13,225,000 ADSs representing 13,225,000 equity shares (adjusted for share split), at an offering price of US$ 10.04 per ADS amounting to Rs. 5,782,725, net of expenses. The equity shares represented by the ADS carry equivalent rights with respect to voting and dividends as the other equity shares. As a part of this offering, 8,602,152 equity shares of Rs. 5 each allotted and outstanding against Global Depository Receipts issued and outstanding have also been converted to American Depository Shares.

Share split

In September 2001, the shareholders of the Company, approved a two-for-one share split with an effective date of October 25, 2001. All references in the consolidated financial statements to number of shares and per share amounts of the Company's equity shares have been retroactively restated to reflect the increased number of equity shares outstanding as a result of the share split.

Cheminor Employee Welfare Trust

During the year ended March 31, 1997, the Company established a controlled trust called the Cheminor Employee Welfare Trust (Welfare Trust). Under this plan, the Welfare Trust would purchase shares of the Company out of funds borrowed from the Company and would grant these shares to eligible employees. The Welfare Trust has, in the aggregate, purchased 41,400 shares of the Company at a cost of Rs. 4,882. However, no shares have been granted to the employees. The shares held by the Welfare Trust are reported as a reduction from stockholders' equity.

18 DEFERRED REVENUE

The Company had entered into a licensing arrangement with Novo Nordisk A/S in February 1997, whereby the Company has licenced two molecules for further development and conducting clinical trials. Under the arrangement, the Company would receive non-refundable upfront license fee on signing of the agreement and non-refundable payments on achievement of defined milestones. As of March 31, 2002, the Company has unamortised non-refundable upfront licence fee of Rs. 52,832. On July 22, 2002, Novo Nordisk announced that it had suspended clinical trials with respect to one of the compounds due to unsatisfactory results from the trials. However, in respect of the other compound, the trials are progressing. As the upfront payment is a composite amount received for both the compounds and as the fair value for each compound cannot be determined, the entire amount is being deferred and would be amortised over the remaining milestone amounts to be received from the development of the other compound.

In addition, on September 30, 2001 the Company has, in terms of an agreement entered into with Novartis Pharma AG (Novartis), agreed to provide Novartis with an exclusive license to develop, promote, distribute, market and sell certain products to be further developed into drugs for the treatment of specified diseases. Pursuant to the terms of the agreement, the Company has, during the year ended March 31, 2002, received Rs. 235,550 (US$ 5 million) as an up-front license fee. As the up-front license fee did not represent the culmination of a separate earning process, the up-front license fee has been deferred and will be recognized in accordance with its accounting policy proportionately upon the receipt of stated milestones. In June 2002, Novartis decided to discontinue further development of the compound but continued its collaboration with the Company for an additional dual acting insulin sensitiser compound (the backup compound). Under the terms of the agreement, Novartis has the rights for the backup compound, which the Company is in the process of developing. As the agreement is not discontinued, the deferred revenue has not been recognized as revenue in the current year.

19 EMPLOYEE STOCK INCENTIVE PLANS

Dr. Reddy's Employees Stock Option Plan-2002 (the DRL 2002 Plan):

The Company instituted the DRL 2002 Plan for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on September 24, 2001. The Scheme covers all

(in thousands, except share data and where otherwise stated)

EMPLOYEE STOCK INCENTIVE PLANS (CONTD.)

employees of DRL and employees of all its subsidiaries. Under the Scheme, the Compensation Committee of the Board ('the Committee') shall administer DRL 2002 plan and grant stock options to eligible employees of the Company and its subsidiaries. The Committee shall determine the employees eligible for receiving the options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for the options issued on the date of the grant.

The Scheme further provides that in no case shall the Per Share Exercise Price of an option be less than the fair market value on the date of grant. The fair market value of a share on each grant date is defined as the weighted average closing price for 30 days prior to the grant, in the stock exchange where there is highest trading volume during that period. Notwithstanding the foregoing, the Committee may, after getting the approval of the shareholders in the Annual General Meeting, grant options with a Per Share Exercise Price lesser than the fair market value. As the number of shares that an individual employee is entitled to receive and the price of the option are known at the grant date, the scheme is considered as a fixed grant.

Stock option activity under the Plan is as follows:

Year ended March 31, 2002

	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Granted during the period	124,500	Rs. 997.13	Rs. 997.13	59
Forfeited during the period	–	–	–	–
Outstanding at the end of the period	124,500	Rs. 997.13	Rs. 997.13	59
Exercisable at the end of the period	–	–	–	–

Year ended March 31, 2003

	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the period	124,500	Rs. 997.13	Rs. 997.13	47
Granted during the period	433,945	884-1,063.02	1,001.76	75
Forfeited during the period	(14,574)	884-1,063.02	1,001.76	–
Exercised during the period	–	–	–	–
Outstanding at the end of the period	543,871	–	–	–
Exercisable at the end of the period	69,500	Rs. 997.13	Rs. 997.13	47

Reddy US Equity Ownership Plan 2000:

In the fiscal year 2001, Reddy US, a consolidated subsidiary, adopted the Reddy US Therapeutics Inc. 2000 Equity Ownership Plan (the Plan) to provide for issuance of stock options to its employees and certain related non-employees. When the plan was established, Reddy US reserved 500,000 shares for issuance. Under the Plan, stock

(in thousands, except share data and where otherwise stated)

EMPLOYEE STOCK INCENTIVE PLANS (CONTD.)

options may be granted at a price per share not less than the fair market value of the underlying equity shares on the date of grant. The options vest in a graded manner over a period of 4 years from the date of the grant with 25% of the options vesting at the end of each year.

Stock option activity under the Plan was as follows:

Year ended March 31, 2002

	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the period	186,000	US$ 0.18	US$ 0.18	95
Granted during the period	109,500	0.18	0.18	95
Forfeited during the period	(2,000)	0.18	0.18	95
Outstanding at the end of the period	293,500	US$ 0.18	US$ 0.18	95
Exercisable at the end of the period	–	–	–	–

Year ended March 31, 2003

	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the period	293,500	US$ 0.18	US$ 0.18	83
Granted during the period	–	–	–	–
Forfeited during the period	–	–	–	–
Exercised during the period	–	–	–	–
Outstanding at the end of the period	293,500	0.18	0.18	83
Exercisable at the end of the period	153,685	US$ 0.18	US$ 0.18	–

Stock-based compensation. The Company uses the intrinsic value based method of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, to account for its employee stock based compensation plans. The Company has therefore adopted the pro forma disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation as amended by SFAS No. 148, Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123.

(in thousands, except share data and where otherwise stated)

EMPLOYEE STOCK INCENTIVE PLANS (CONTD.)

Had compensation cost been determined in a manner consistent with the fair value approach described in SFAS No. 123, the Company's net income and earnings per share as reported would have been reduced to the pro forma amounts indicated below:

	Year ended March 31, 2002	2003
Net income		
As reported	Rs. 4,921,042	Rs. 3,532,358
Add: Stock-based employee compensation expense included in reported net income, net of tax effect	–	–
Less: Stock-based employee compensation expense determined under fair value based method, net of tax effects	16,748	30,869
Adjusted pro forma	4,904,294	3,501,489
Earnings per share: Basic		
As reported	64.73	46.16
Adjusted pro forma	64.51	45.76
Earnings per share: Diluted		
As reported	64.62	46.16
Adjusted pro forma	64.40	45.76

The fair value of each option is estimated on the date of grant using the Black-Scholes model with the following assumptions.

	Year ended March 31, 2002	2003
Dividend yield	30.0%	40.0%
Expected life	48 months	48 months
Risk free interest rates	8.5%	6.5%
Volatility	50%	37.5%

20 ALLOWANCES FOR SALES RETURNS

Product sales are net of allowances for sales returns. The activity in the allowance for sales returns is given below:

	Year ended March, 31 2001	2002	2003
Balance at the beginning of the year	Rs. 77,902	Rs. 104,497	Rs. 84,897
Additional provision	57,342	92,130	193,229
Sales returns charged to the provision	(30,747)	(111,730)	(189,100)
Balance at the end of the year	**Rs. 104,497**	**Rs. 84,897**	**Rs. 89,026**

21 OTHER (EXPENSE)/INCOME, NET

Other (expense)/income consists of the following:

	Year ended March, 31 2001	2002	2003
Interest expense, net of capitalized interest	Rs. (387,876)	Rs. (4,866)	Rs. (6,678)
Interest income	–	104,103	342,548
Income from redemption of mutual funds	–	19,420	6,284
Other	871	35,823	340,970
	Rs. (387,005)	**Rs. 154,480**	**Rs. 683,124**

Interest cost of Rs. 10,735, Rs. 25,597 and Rs. Nil has been capitalized during the years ended March 31, 2001, 2002 and 2003 respectively.

(in thousands, except share data and where otherwise stated)

22 SHIPPING COSTS

Selling, general and administrative expenses include shipping and handling costs of Rs. 226,544, Rs. 327,903 and Rs. 428,992 for the years ended March 31, 2001, 2002 and 2003 respectively.

23 INCOME TAXES

Income taxes consist of the following:

	Year ended March, 31		
	2001	**2002**	**2003**
Pre-tax income			
Domestic	Rs. 1,075,246	Rs. 4,930,824	Rs. 4,361,775
Foreign	(2,745)	158,865	(424,621)
	1,072,501	**5,089,689**	**3,937,154**
Income tax benefit/(expense) attributable to continuing operations:			
Current taxes:			
Domestic	Rs. (286,727)	Rs. (395,674)	Rs. (402,225)
Foreign	(15,137)	(26,759)	4,710
	(301,864)	**(422,433)**	**(397,515)**
Deferred taxes:			
Domestic	(19,027)	301,830	(44,828)
Foreign	(505)	(33,241)	44,281
	(19,532)	**268,589**	**(547)**
	Rs. (321,396)	**Rs. (153,844)**	**Rs. (398,062)**
Deferred tax benefit/(expense) attributable to other comprehensive income	Rs. (71)	Rs. 71	Rs. (7)

The reported income tax expense differed from amounts computed by applying the enacted tax rates to income/(loss) before income taxes as a result of the following:

	Year ended March, 31		
	2001	**2002**	**2003**
Income/(loss) before income taxes and minority interest	Rs. 1,072,501	Rs. 5,089,689	Rs. 3,937,154
Enacted tax rate in India	39.55%	35.7%	36.75%
Computed expected tax benefit/(expense)	Rs. (424,174)	Rs. (1,817,019)	Rs. (1,446,904)
Effect of:			
Differences between Indian and foreign tax rates	3,995	(1,541)	379
Amortization of goodwill	(62,762)	(56,947)	–
Valuation allowance	(48,906)	(39,942)	(136,499)
Expenses not deductible for tax purposes	(5,406)	(562)	(58,159)
Income exempt from income taxes	270,345	1,582,317	1,054,642
Foreign exchange (loss)/gains	(12,654)	15,450	32,433
Incremental deduction allowed for research and development expenses	49,083	111,054	203,439
Indexation of capital assets	818	950	1,091
Tax rate change	(18,575)	63,913	(12,656)
MAT credit no longer available due to merger	(31,437)	–	–
Others	(41,723)	(11,517)	(35,828)
Income tax benefit/(expense)	**Rs. (321,396)**	**Rs. (153,844)**	**Rs. (398,062)**

(in thousands, except share data and where otherwise stated)

INCOME TAXES (CONTD.)

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities and a description of the items that create these differences is given below:

	As of March 31, 2002	2003
Deferred tax assets:		
Inventory	Rs. 197,745	Rs. 140,948
Deferred revenue	105,663	112,683
Accounts payable	51,988	49,225
Investment in affiliate	28,379	54,028
Operating loss carry-forward	103,070	215,494
Expenses deferred for tax purposes		
Research and development expenses	50,757	52,250
Employee costs	38,121	44,504
Legal costs	135,843	156,816
Start-up costs	26,838	41,778
Others	6,256	6,995
Other current liabilities	22,058	47,006
	766,718	921,727
Less: Valuation allowance	(262,466)	(398,966)
Deferred tax assets	**504,252**	**522,761**
Deferred tax liabilities:		
Property, plant and equipment	(514,910)	(651,381)
Intangible assets	(362,597)	(311,009)
Investment securities	(9,897)	(10,187)
Accounts receivable	(58,284)	(12,432)
Others	(17,325)	(71,516)
Deferred tax liabilities	**(963,013)**	**(1,056,525)**
Net deferred tax assets/(liabilities)	**Rs. (458,761)**	**Rs. (533,764)**

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of the projected future taxable income and tax planning strategy in making this assessment. Based on the level of historical taxable income and projections for future taxable incomes over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not the Company will realize the benefits of those deductible differences, net of the existing valuation allowances. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

A valuation allowance has been established against the deferred tax asset on account of the tax effect of the operating-losses carry forward and other net deferred tax assets of Compact, DRLI, Antilles, RNBV, RPS, Reddy US and Reddy Biomed.

Operating loss carry forwarded comprises business losses and unabsorbed depreciation. The period for which such losses can be carried forward differs from eight years to indefinite. Further, under such tax laws, Compact is eligible for a tax holiday for a period of eight years commencing from the fiscal year 2000. Consequently, Compact will not have taxable profits to offset the operating losses carried forward over the next five years.

(in thousands, except share data and where otherwise stated)

INCOME TAXES (CONTD.)

With regard to DRLI, as future projections of taxable income indicate that the benefits of the deferred tax asset on the operating losses carry forward will not be realized, a valuation allowance has been created.

Valuation allowance has been created with regard to losses arising out of Reddy US as the company specializes in research activities and no income is expected to accrue in the foreseeable future.

The Company has during the year, set up a full valuation allowance against the carry forward losses of Antilles, RNBV, RPS and Reddy Biomed as the management based on future projections believes that it is more likely than not that sufficient profits will not be realised to offset the losses being carried forward at the balance sheet date.

Income exempt from tax represents export earnings exempt for tax purposes and earnings derived from units set up in backward areas for which the Company is eligible for tax concessions under the local laws.

Incremental deduction allowed for research and development expenses represents tax incentive provided by the Government of India for carrying out such activities.

As of March 31, 2003 the Company had a deferred tax asset for operating loss carry-forwards of Rs. 215,494 that expires as follows:

Expiring in the year ending March 31:

2004	Rs.
2005	1,978
2006	3,867
2007	6,729
2008	3,265
Thereafter (2009-2021)	37,403
Thereafter (indefinite)	162,252
	Rs. 215,494

In May 2003, the Indian corporate income tax rate was decreased from 36.75% to 35.875%. The effect of this tax law change, a decrease in the net deferred tax liability as of March 31, 2003 of approximately Rs. 12,111 will be reflected in the next financial period of the Company which includes the date of enactment.

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately, Rs. 252,067, Rs. 255,979 and Rs. 235,515 as of March 31, 2001, 2002 and 2003 respectively. Such earnings are considered to be indefinitely reinvested and accordingly no provision for income taxes has been recorded on the undistributed earnings.

24 EMPLOYEE BENEFIT PLANS

Gratuity benefits: In accordance with applicable Indian laws, the Company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering certain categories of employees. The Gratuity Plan provides a lump sum payment to vested employees, at retirement or termination of employment, an amount based on the respective employee's last drawn salary and the years of employment with the Company. Effective September 1, 1999, the Company established Dr. Reddy's Laboratories Gratuity Fund (the Gratuity Fund). Liabilities with regard to the Gratuity Plan are determined by an actuarial valuation, based upon which the Company makes contributions to the Gratuity Fund. Trustees administer the contributions made to the Gratuity Fund. The amounts contributed to the Gratuity Fund are invested in specific securities as mandated by law and generally consist of federal and state government bonds and the debt instruments of government-owned corporations.

(in thousands, except share data and where otherwise stated)

EMPLOYEE BENEFIT PLANS (CONTD.)

In respect of certain other employees of the Company, the gratuity benefit is provided through annual contribution to a fund managed by the Life Insurance Corporation of India (LIC). Under this scheme, the settlement obligation remains with the Company, although the LIC administers the fund and determines the contribution premium required to be paid by the Company.

The following table sets out the funded status of the Gratuity Plan and the amounts recognized in the Company's financial statements:

	As of March 31,	
	2002	2003
Change in the benefit obligations		
Projected Benefit Obligations (PBO) at the beginning of the year	Rs. 70,351	Rs. 84,434
Service cost	10,329	11,494
Interest cost	7,674	8,368
Actuarial (gain)/ loss	(1,452)	10,496
Benefits paid	(2,468)	(1,498)
PBO at the end of the year	**Rs. 84,434**	**Rs. 113,294**
Change in plan assets		
Fair value of plan assets at the beginning of the year	Rs. 29,450	Rs. 63,195
Actual return on plan assets	7,919	12,726
Employer contributions	34,516	21,961
Benefits paid	(8,690)	(6,400)
Plan assets at the end of the year	**Rs. 63,195**	**Rs. 91,482**
Funded status	Rs. (21,239)	Rs. (21,812)
Unrecognized actuarial loss	23,166	32,087
Unrecognized transitional obligation	14,457	13,687
Net amount recognized	**Rs. 16,384**	**Rs. 23,962**

Net gratuity cost for the years ended March 31, 2001, 2002 and 2003 included the following components:

		Year ended March 31,	
	2001	2002	2003
Service cost	Rs. 6,881	Rs. 10,329	Rs. 11,494
Interest cost	5,892	7,674	8,368
Expected return on assets	(2,147)	(4,090)	(6,885)
Amortization	977	1,004	1,408
Net gratuity cost	**Rs. 11,603**	**Rs. 14,917**	**Rs. 14,385**

The actuarial assumptions used in accounting for the Gratuity plan are:

	As of March 31,	
	2002	2003
Discount rate	10.0%	8.0%
Rate of increase in compensation levels	9.0%	7.0%
Rate of return on plan assets	9.5%	8.0%

(in thousands, except share data and where otherwise stated)

EMPLOYEE BENEFIT PLANS (CONTD.)

Superannuation benefits: Apart from being covered under the Gratuity Plan described above, the senior officers of the Company also participate in a superannuation, a defined contribution plan administered by the LIC. The Company makes annual contributions based on a specified percentage of each covered employee's salary. The Company has no further obligations under the plan beyond its annual contributions. The Company contributed Rs. 5,281, Rs. 11,095 and Rs. 19,395 to the superannuation plan during the years ended March 31, 2001, 2002 and 2003 respectively.

Provident fund benefits: In addition to the above benefits, all employees receive benefits from a provident fund, a defined contribution plan. Both the employee and employer each make monthly contributions to the plan each equal to 12% of the covered employee's salary. The Company has no further obligations under the plan beyond its monthly contributions. The Company contributed Rs. 31,592, Rs. 43,376 and Rs. 47,455 to the provident fund plan during the years ended March 31, 2001, 2002 and 2003 respectively.

25 RELATED PARTY TRANSACTIONS

The Company has entered into transactions with the following related parties:

- Diana Hotels Limited for availing hotel services, AR Chlorides for availing processing services of raw materials and intermediates, Dr. Reddy's Holdings Limited for purchase and sale of active pharmaceutical ingredients and intermediates, Madras Diabetes Research Foundation for undertaking research on our behalf, Dr. Reddy's Heritage Foundation for purchase of services, SR Enterprises for transportation services and Manava Seva Dharma Samvardhani Trust social contribution to which the Company has made contribution. The directors of the Company have either a significant ownership interest, controlling interest or exercise significant influence over these entities (Significant interest entities); and
- Employees, directors of the Company and their relatives.

The following is a summary of significant related party transactions:

	Year ended March 31,		
	2001	**2002**	**2003**
Purchases from:			
Significant interest entities	Rs. 6,792	Rs. 20,335	Rs. 50,943
Sales to:			
Affiliate	2,791	–	–
Significant interest entities	2,480	525	763
Administrative expenses paid to:			
Significant interest entities	7,701	11,400	7,749
Directors and their relatives	8,245	14,671	16,807
Consulting fees paid to a director	4,540	–	–

The Company has the following amounts due from related parties:

	As of March 31,	
	2002	**2003**
Significant interest entities	Rs. 390	Rs. -
Directors and their relatives	2,270	3,680
Employee loans	69,409	63,230
	Rs. 72,069	Rs. 66,910

The Company has the following amounts due to related parties:

	As of March 31,	
	2002	**2003**
Significant interest entities	Rs. 3,500	Rs. 4,388

(in thousands, except share data and where otherwise stated)

RELATED PARTY TRANSACTIONS (CONTD.)

Certain employee loans amounting to Rs. 7,000 and Rs. Nil as of March 31, 2002 and 2003 respectively do not have any fixed repayment terms. Accordingly, the fair value of such loans cannot be determined. The estimated fair value amounts of other employee loans were Rs. 46,096 and Rs. 50,516 as of March 31, 2002 and 2003 respectively. These amounts have been determined using available market information and appropriate valuation methodologies. Considerable judgement is required to develop the estimates of fair value. Thus, the estimates provided herein are not necessarily indicative of the amounts the Company could realize in the market.

The required repayments of employee loans other than those that do not have any fixed repayment terms, as of March 31, 2003 granted for purchase of vehicles and property are given below:

Repayable in the year ending March 31:

2004	Rs. 22,863
2005	14,836
2006	12,807
2007	8,220
2008	3,905
Thereafter	599
	Rs. 63,230

26 COMMITMENTS AND CONTINGENCIES

Capital Commitments: As of March 31, 2002 and 2003, the Company had committed to spend approximately Rs. 821,865 and Rs. 356,827 respectively, under agreements to purchase property and equipment. The amount is net of capital advances paid in respect of such purchases.

Guarantees: The Company adopted the provisions of FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others. The Interpretation requires that the Company recognize the fair value of guarantee and indemnification arrangements issued or modified by the Company after December 31, 2002, if these arrangements are within the scope of that Interpretation. In addition, under previously existing generally accepted accounting principles, the Company continues to monitor the conditions that are subject to the guarantees and indemnifications to identify whether it is probable that a loss has occurred and would recognize any such losses under the guarantees and indemnifications when those losses are estimable.

The Company has entered into a guarantee arrangement, which arose in transactions related to enhancing the credit standing and borrowings of its affiliate Pathnet.

Pathnet, an equity investee accounted for by the equity method, secured a financial assistance of Rs. 250 million from ICICI Bank Ltd. (ICICI Bank). To enhance the credit standing of Pathnet, on 14 December 2001 the Company issued a corporate guarantee amounting to Rs. 122.5 million in favour of ICICI Bank. The guarantee will expire in May 2008 and the liability of the Company may arise in case of non-payment or non-performance of other obligations of Pathnet under its facilities agreements with ICICI Bank.

As of March 31, 2003, it is not probable that the Company will be required to make payments under the guarantee. Thus, no liability has been accrued for a loss related to the Company's obligation under this guarantee arrangement.

Litigations / Contingencies: The Company manufactures and distributes Norfloxacin, a formulations product. Under the Drugs Prices Control Order (DPCO), the Government of India (GOI) has the authority to designate a pharmaceutical product as a 'specified product' and fix the maximum selling price for such product. In 1995, the GOI notified Norfloxacin as a 'specified product' and fixed the maximum selling price. The Company has filed a

COMMITMENTS AND CONTINGENCIES (CONTD.)

legal suit against the notification on the grounds that the rules of the DPCO were not complied with. The matter is currently under litigation in the Andhra Pradesh High Court (the High Court). The High Court has granted an interim order in favour of the Company. Accordingly, the Company continues to sell Norfloxacin at prices in excess of the maximum selling price fixed by the GOI.

In the event that the Company is unsuccessful in the litigation, it will be required to refund the sale proceeds in excess of the maximum selling price to the GOI. As of March 31, 2002 and 2003 this excess is estimated at Rs. 148,562 and Rs. 162,375 respectively.

The Indian Council for Environmental Legal Action filed a writ in 1989 under article 32 of the Constitution of India against the Union of India and others in the Supreme Court of India for the safety of people living in the Patancheru and Bollarum areas of Medak district of Andhra Pradesh. The Company also has been named in the list of polluting industries.

In 1996, the Andhra Pradesh District Judge proposed that the polluting industries compensate farmers in the Patancheru, Bollarum and Jeedimetla areas for discharging effluents which damaged the farmers' agricultural land. The compensation was fixed at Rs. 1.3 per acre for dry land and Rs. 1.7 per acre for wet land over the following three years. Accordingly, the Company has paid a total compensation of Rs. 1,923. The matter is still pending in the courts and the possibility of additional liability is remote. The Company would not be able to recover the compensation paid, even if the decision of the court is in its favour.

Additionally, the Company is also involved in other lawsuits, claims, investigations and proceedings, including patent and commercial matters, which arise in the ordinary course of business. However, there are no such matters pending that the Company expects to be material in relation to its business.

27 SEGMENT REPORTING AND RELATED INFORMATION

a) *Segment information*

The Chief Operating Decision Maker (CODM) evaluates the Company's performance and allocates resources based on an analysis of various performance indicators by product segments. The product segments and the respective performance indicators reviewed by the CODM are as follows:

- Formulations – Revenues by therapeutic product category;
- Active pharmaceutical ingredients and intermediates – Gross profit, revenues by geography and revenues by key products;
- Generics – Gross profit;
- Diagnostics, critical care and biotechnology – Net income; and
- Drug discovery – Revenues and expenses.

The CODM of the Company does not review the total assets for each reportable segment. The property and equipment used in the Company's business, depreciation and amortization expenses, are not fully identifiable with/allocable to individual reportable segments, as certain assets are used interchangeably between segments. The other assets are not specifically allocable to the reportable segments. Consequently, management believes that it is not practicable to provide segment disclosures relating to total assets since allocation among the various reportable segments is not possible.

(in thousands, except share data and where otherwise stated)

SEGMENT REPORTING AND RELATED INFORMATION (CONTD.)

Formulations

Formulations, also referred to as finished dosages, consist of finished pharmaceutical products ready for consumption by the patient. An analysis of revenues by therapeutic category of the formulations segment is given below:

	Year ended March 31,		
	2001	**2002**	**2003**
Gastro – intestinal	Rs. 886,176	Rs. 1,210,185	Rs. 1,346,000
Cardio – vasculars	810,723	1,181,526	1,290,164
Anti – infectives	996,256	992,079	1,086,577
Pain control	703,786	1,030,527	1,207,619
Nutrients	341,387	424,125	551,835
Others	1,242,316	1,226,073	1,321,349
	4,980,644	6,064,515	6,803,544
Intersegment revenues[1]	–	191,036	88,786
Adjustments[2]	384,394	(220,332)	(31,963)
Total revenues	**Rs. 5,365,038**	**Rs. 6,035,219**	**Rs. 6,860,367**
Cost of revenues	Rs. 1,858,851	Rs. 1,907,603	Rs. 2,373,693
Intersegment cost of revenues[3]	333,724	304,598	310,586
Adjustments[2]	85,657	(45,283)	(226,251)
	Rs. 2,278,232	**Rs. 2,166,918**	**Rs. 2,458,028**
Gross profit	Rs. 2,788,069	Rs. 4,043,350	Rs. 4,208,051
Adjustments[2]	298,737	(175,049)	194,288
	Rs. 3,086,806	**Rs. 3,868,301**	**Rs. 4,402,339**

(1) Intersegment revenues comprises transfers to the active pharmaceutical ingredients and intermediates segment and is accounted for at cost to the transferring segment.

(2) The adjustments represent reconciling items to conform the segment information to US GAAP. Such adjustments primarily relate to elimination of sales made to subsidiaries and other adjustments.

(3) Intersegment cost of revenues comprises transfers from the active pharmaceutical ingredients and intermediates segment to formulations and is accounted for at cost to the transferring segment.

Active pharmaceutical ingredients and intermediates

Active pharmaceutical ingredients and intermediates, also known as active pharmaceutical products or bulk drugs, are the principal ingredients for formulations. Active pharmaceutical ingredients and intermediates become formulations when the dosage is fixed in a form ready for human consumption such as a tablet, capsule or liquid using additional inactive ingredients.

Upon consummation of the Company's merger with Cheminor Drugs Limited ("Cheminor"), the performance of active pharmaceutical ingredients and intermediates ("API segment") is viewed on a consolidated basis including DRL and the Cheminor API segment. The CODM currently reviews gross profit along with revenues by geographic segments and key products as performance indicators for the consolidated API segment. Accordingly, to the extent practicable, the previous period has also been presented on the same basis as the new segment information.

(in thousands, except share data and where otherwise stated)

SEGMENT REPORTING AND RELATED INFORMATION (CONTD.)

An analysis of gross profit for the segment is given below.

	Year ended March 31, 2001	2002	2003
Revenues from external customers	Rs. 4,709,228	Rs. 5,060,369	Rs. 5,562,731
Intersegment revenues[1]	376,964	479,960	590,216
Adjustments[2]	(108,900)	(303,169)	187,774
Total revenues	**Rs. 4,977,292**	**Rs. 5,237,160**	**Rs. 6,340,721**
Cost of revenues	Rs. 3,186,555	Rs. 3,403,909	Rs. 3,597,650
Intersegment cost of revenues	–	191,036	88,786
Adjustments[2]	(98,445)	272,570	247,791
	Rs. 3,088,110	**Rs. 3,867,515**	**Rs. 3,934,227**
Gross profit	Rs. 1,899,637	Rs. 1,945,384	Rs. 2,466,511
Adjustments[2]	(10,455)	(575,739)	(60,017)
	Rs. 1,889,182	**Rs. 1,369,645**	**Rs. 2,406,494**

(1) Intersegment revenues comprises transfers to formulations, generics & custom chemical synthesis and are accounted for at cost to the transferring segment.

(2) The adjustments represent reconciling items to conform the segment information to US GAAP. Such adjustments primarily relate to elimination of sales made to subsidiaries and other adjustments.

An analysis of revenue by geography is given below.

	Year ended March 31, 2001	2002	2003
North America	Rs. 1,560,632	Rs. 1,559,810	Rs. 2,397,663
India	1,492,411	1,715,013	1,668,773
Europe	501,941	404,543	465,965
Others	1,154,244	1,624,431	1,728,024
	4,709,228	5,303,797	6,260,425
Adjustments[1]	268,064	(66,637)	80,296
	Rs. 4,977,292	**Rs. 5,237,160**	**Rs. 6,340,721**

(1) The adjustments represent reconciling items to conform the segment information to US GAAP. Such adjustments primarily relate to elimination of sales made to subsidiaries and other adjustments.

(in thousands, except share data and where otherwise stated)

SEGMENT REPORTING AND RELATED INFORMATION (CONTD.)

An analysis of revenues by key products is given below:

	Year ended March 31, 2002	2003
Ciprofloxacin HCL	Rs. 690,511	Rs. 773,177
Nizatidine	303,991	658,667
Ranitidine Hydrochloride Form 1	282,415	475,557
Ibuprofen	383,936	455,792
Naproxen Sodium	285,199	400,774
Ranitidine Hcl	216,818	221,737
Dextromethorphan Hydrobromide	238,156	190,425
Doxazosin Mesylate	116,629	181,448
Sparfloxacin	358,566	175,816
Tizanidine Hydrochloride	8,943	166,872
Naproxen	107,071	160,058
Sertraline HCL	124,411	143,084
Enrofloxacin	175,669	139,857
Losartan Potassium	119,589	125,471
Gatifloxacin	20,213	104,069
Clopidogrel Bisulphate	71,202	94,162
Terbinafine Hydrochloride	68,914	94,027
Atorvastatin Calcium	72,826	88,264
Omeprazole Pellets	121,551	79,986
Domperidone Maleate	92,160	74,741
Lansoprazole Pellets	83,622	69,875
NMCP	76,351	67,285
Pantoprazole Sodium	74,826	63,339
Others	1,143,591	1,336,238
Total	**Rs. 5,237,160**	**Rs. 6,340,721**

Management believes that as a result of changes in the reporting structure upon consummation of the merger with Cheminor, it is not practicable to present an analysis of revenues by key products for the year ended March 31, 2001.

Generics

Generics are generic finished dosages with therapeutic equivalence to branded formulations. The Company entered the global generics market during the year ended March 31, 2001 with the export of Ranitidine-75mg and Oxaprozin to North America.

(in thousands, except share data and where otherwise stated)

SEGMENT REPORTING AND RELATED INFORMATION (CONTD.)

An analysis of gross profit for the segment is given below:

	Year ended March 31,		
	2001	**2002**	**2003**
Revenues	Rs. 229,646	Rs. 4,526,787	Rs. 4,284,192
Less:			
Cost of revenues	82,108	308,241	807,623
Intersegment cost of revenues[1]	43,240	175,362	251,580
	125,348	483,603	1,059,203
Gross Profit	**Rs. 104,298**	**Rs. 4,043,184**	**Rs. 3,224,989**

(1) Intersegment cost of revenues comprises transfers from active pharmaceutical ingredients and intermediates to generics and are accounted for at cost to the transferring segment.

Diagnostics, critical care and biotechnology

Diagnostic pharmaceuticals and equipment and specialist products are produced and marketed by the Company primarily for anti-cancer and critical care. An analysis of net income for the diagnostics, critical care and biotechnology segment is given below:

	Year ended March 31,		
	2001	**2002**	**2003**
Revenues	Rs. 342,193	Rs. 429,062	Rs. 428,179
Cost of revenues	170,765	236,133	233,797
Gross profit	171,428	192,929	194,382
Employee costs	26,544	32,070	55,954
Other selling, general and administrative expenses	88,109	188,850	165,276
Other (income), net	(1,671)	(4,016)	(152)
Net income/(loss)	**Rs. 58,446**	**Rs. (23,975)**	**Rs. (26,696)**

Drug discovery

The Company is involved in drug discovery through the research facilities located in United States & India and Research Foundation. The Company commercializes drugs discovered with other products and also licenses these discoveries to other companies. An analysis of the revenues and expenses of the drug discovery segment is given below:

	Year ended March 31,		
	2001	**2002**	**2003**
Revenues	–	Rs. 107,775	–
Adjustments[1]	–	16,982	–
	–	124,757	–
Research and development expenses	**Rs. 255,898**	**Rs. 394,807**	**Rs. 449,275**

(1) The adjustments represent reconciling items to conform the segment information with US GAAP. Such adjustments primarily relate to deferral of up-front non-refundable license fees.

(in thousands, except share data and where otherwise stated)

SEGMENT REPORTING AND RELATED INFORMATION (CONTD.)

a) *Reconciliation of segment information to entity total*

	Year ended March 31, 2001		Year ended March 31, 2002		Year ended March 31, 2003	
	Revenues	**Gross profit**	**Revenues**	**Gross profit**	**Revenues**	**Gross profit**
Formulations	Rs. 5,365,038	Rs. 3,086,806	Rs. 6,035,219	Rs. 3,868,301	Rs. 6,860,367	Rs. 4,402,339
Active pharmaceutical ingredients and intermediates	4,977,292	1,889,182	5,237,160	1,369,645	6,340,721	2,406,494
Generics	229,646	104,298	4,526,787	4,043,184	4,284,192	3,224,989
Diagnostics, critical care and biotechnology	342,193	171,428	429,062	192,929	428,179	194,382
Drug discovery	–	–	124,757	124,757	–	–
Others	60,640	(12,752)	269,697	154,908	156,353	2,676
	Rs. 10,974,809	**Rs. 5,238,962**	**Rs. 16,622,682**	**Rs. 9,753,724**	**Rs. 18,069,812**	**Rs. 10,230,880**

b) *Analysis of revenue by geography*

The Company's business is organized into five key geographic segments. Revenues are attributable to individual geographic segments based on the location of the customer.

	Year ended March 31,		
	2001	**2002**	**2003**
India	Rs. 5,591,660	Rs. 6,052,055	Rs. 6,488,573
North America	1,786,444	6,037,208	5,852,552
Russia and other countries of the former Soviet Union	1,235,722	1,626,837	2,107,861
Europe	504,349	781,027	1,401,008
Others	1,856,634	2,125,555	2,219,818
	Rs. 10,974,809	**Rs. 16,622,682**	**Rs. 18,069,812**

c) *Analysis of property, plant and equipment by geography*

Property, plant and equipment (net) attributed to individual geographic segments are given below:

	As of March 31,		
	2001	**2002**	**2003**
India	Rs. 3,200,980	Rs. 3,724,535	Rs. 4,577,973
North America	24,536	35,790	106,093
Russia and other countries of the former Soviet Union	14,693	34,574	31,103
Europe	3,113	3,602	111,740
Others	384	611	3,571
	Rs. 3,243,706	**Rs. 3,799,112**	**Rs. 4,830,480**

STATEMENT
UNDER SECTION 212

STATEMENT PURSUANT
TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATING TO SUBSIDIARY COMPANIES

Name of the Subsidiary	DRL Investments Limited	Compact Electric Limited	Reddy Pharmaceuticals Hongkong Limited	OOO JV Reddy Biomed Limites	Reddy Antilles N.V.	Dr. Reddy's Farmaceutica Do Brasil Ltda.	Dr. Reddy's Laboratories Inc.	Reddy Pharmaceuticals Singapore Pte. Ltd.
The Financial Year of the subsidiary company ended on	31.03.2003	31.03.2003	31.03.2003	31.03.2003	31.03.2003	31.03.2003	31.03.2003	31.03.2003
Number of shares in the subsidiary company held by Dr. Reddy Laboratories Limited at the above date								
Equity Shares	50000	17000000	11625000	500000	500000	1121902	400750	*
Preference Shares	0	700,070	–	–	–	–	–	–
Equity Holding	100%	100%	100%	100%	100%	100%	100%	_
Preference Holding	0%	100%	–	–	–	–	–	–
The net Aggregate of profits (losses) of the subsidiary company for it's financial year so far as they concern the members of Dr. Reddy's Laboratories Limited (Rs. in thousands)								
a) Dealt with in the account of Dr. Reddy's Laboratories Limited for the year ended 31.03.2003	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
b) Not dealt with in the account of Dr. Reddy's Laboratories Limited for the year ended 31.03.2003	Rs. (23)	Rs. (15,969)	Rs. (32,514)	Rs. 25,000	Rs. (7,542)	Rs. (8,008)	Rs. (121,787)	Rs. 29,380
The net Aggregate of profits (losses) of the subsidiary company for it's previous financial year so far as they concern the members of Dr. Reddy's Laboratories Limited								
a) Dealt with in the account of Dr. Reddy's Laboratories Limited for the year ended 31.03.2002	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
b) Not dealt with in the account of Dr. Reddy's Laboratories Limited for the year ended 31.03.2002	Rs. (21)	Rs. (7,810)	Rs. (5,003)	Rs. 84,255	Rs. 6,141	Rs. (7,982)	Rs. 28,844	Rs. (3,839)
Changes in the interest of Dr. Reddy's Laboratories Limited, between the end of the financial year and 31 March, 2002	Capital increased	Capital increased	–	Capital increased	–	Capital increased	–	–
Material changes between the end of the financial year and 31 March, 2002	–	–	–	–	–	–	–	–

* Subsidiaries of Reddy Antilles NV
** No concept of number of shares
*** Subsidiary of Aurigene Discovery Technologies Ltd.
**** Subsidiary of Dr. Reddy's Laboratories (EU) Ltd.
***** Subsidiary of Dr. Reddy's Laboratories Inc.
Dr. Reddy's Laboratories (Proprietary) Ltd. has not started any operations during the year.
Note : the financial statements of subsidiaries of the Company prepared according to Schedule VI of the Companies Act, 1956 are annexed with this annual report.

Reddy US Therapeutics Inc.	Reddy Cheminor S.A.	Cheminor Investments Limited	Aurigene Discovery Technologies Ltd.	Zenovus Biotech Pvt. Ltd.	Kunshan Rotam Reddy Pharmaceutical Co. Ltd.	Reddy Netherlands BV	Aurigene Discovery Technologies Inc.	Dr. Reddy's Laboratories (EU) Ltd.	Dr. Reddy's Laboratories (UK) Ltd.	Dr. Reddy's Laboratories (Proprietary) Ltd.
31.03.2003	31.03.2003	31.03.2003	31.03.2003	31.03.2003	31.03.2003	31.03.2003	31.03.2003	31.03.2003	31.03.2003	31.03.2003
*	2494	134513	25000000	3000000	**	*	***	132600	****	*****
–	–	8	–	–	–	–	–	360000	–	–
_	100%	100%	100%	100%	51%	_	_	100%	*	*
–	–	0%	–	–	–	–	–	100%	–	–
Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Rs. (31,529)	Rs. (12,299)	Rs. (2)	Rs. (56,436)	Rs. (2,520)	Rs. (148,324)	Rs. (1,627)	Rs. (1,488)	Rs. (55,573)	Rs. 6,395	–
Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Rs. 9,898	Rs. 4,586	Rs. (2)	–	–	Rs. (65,101)	Rs. (9,342)	–	–	–	–
–	–	–	Capital increased	Capital increased	Became subsidiary	–	New Subsidiary	New Subsidiary	New Subsidiary	New Subsidiary
–	–	–	–	–	–	–	–	–	–	–

for **Dr. Reddy's Laboratories Limited**

Dr. K. Anji Reddy
Chairman

G.V. Prasad
Executive Vice Chairman & CEO

K. Satish Reddy
Managing Director & COO

Dr. Omkar Goswami
Director

V.S. Vasudevan
Chief Financial Officer

Santosh Kumar Nair
Company Secretary

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NOTICE

NOTICE

Notice is hereby given that the 19th Annual General Meeting of the Company will be held on Monday, the 25th day of August, 2003 at 11.30 AM at Convention Centre, Hotel Viceroy, Tank Bund Road, Hyderabad 500 080 to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the profit & loss account for the year ended March 31, 2003; balance sheet as on that date along with the reports of the Directors' and Auditors' thereon and the consolidated financials alongwith the Auditors' Report thereon.
2. To declare dividend for the financial year 2002-2003.
3. To appoint a director in place of Dr. Omkar Goswami, who retires by rotation and being eligible offers himself for reappointment.
4. To appoint a director in place of Dr. V. Mohan, who retires by rotation and being eligible offers himself for reappointment.
5. To take note of the retirement of Dr. A. Venkateswarlu by rotation. Dr. A. Venkateswarlu has expressed his intention not to opt for reappointment and accordingly its expressly resolved not to fill the vacancy.
6. To appoint the Statutory Auditors and fix their remuneration. The retiring auditors M/s. Bharat S Raut & Co. are eligible for reappointment.

SPECIAL BUSINESS:

7. To consider and if thought fit, to pass with or without modification, the following resolution, which will be proposed as a special resolution:

   "RESOLVED THAT subject to regulatory approvals as may be required, the consent of the Company be and is hereby accorded for delisting of the equity shares of the Company from the Hyderabad Stock Exchange Ltd. (Regional Stock Exchange), Madras Stock Exchange Ltd., the Calcutta Stock Exchange Association Ltd. and the Stock Exchange Ahmedabad."

   "RESOLVED FURTHER THAT Board of Directors of the Company be and are hereby authorised to take the necessary steps for delisting of equity shares."

8. To consider and if thought fit, to pass with or without modification, the following resolution, which will be proposed as an ordinary resolution:

   "RESOLVED THAT pursuant to the provisions of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, consent of the Company be and is hereby accorded to the Board of Directors of the Company (hereinafter called "the Board" and which term shall be deemed to include any Committee, which the Board may have constituted or hereinafter constitute to exercise its powers including the powers conferred by this resolution and with the power to delegate such authority to any person or persons), to dispose off movable and/or immovable properties of Company's formulations factory situated at Thiruvandarkoil, Mannvipet, Pondicherry on such terms and in such manner as the Board may think fit."

   "RESOLVED FURTHER THAT the Board be and is hereby authorised to do all such acts, deeds and things and to sign all such documents as may be necessary, expedient and incidental thereto to give effect to this resolution."

NOTICE

NOTES:

1. An explanatory statement pursuant to Section 173 (2) of the Companies Act, 1956 in respect of the special business is annexed hereto.
2. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the Company. The instrument of proxy in order to be effective, must be deposited at the registered office of the Company, duly completed and signed not less than 48 hours before the meeting.
3. The register of members and the share transfer books of the Company will remain closed from August 12, 2003 to August 15, 2003 (both days inclusive) in connection with the payment of dividend for the financial year 2002-2003.
4. Dividend if declared at the annual general meeting, will be payable to those members whose names appear on the Company's register of members as on August 15, 2003.
5. The shareholders are requested to intimate immediately any change in their address or mandates to their depository participants with whom they are maintaining their demat accounts or to the Company Registrars and share transfer agents if the shares are held on certificate form.
6. For the convenience of members and for proper conduct of the meeting, entry to the place of meeting will be regulated by the attendance slip, which is attached with the proxy form. Members are requested to affix their signature at the place provided on the attendance slip and hand over first part of it at the entrance of the venue.
7. Shareholders desiring any information as regards the accounts are requested to write to the Company at an early date so as to enable the management to keep the information ready.
8. The approval for resolution no. 8 has been sought by way of postal ballot. The results of the postal ballot would be announced at the Annual General Meeting.

By the Order of the Board

Place : Hyderabad
Date : July 14, 2003

SANTOSH KUMAR NAIR
Company Secretary

ANNEXURE TO NOTICE

Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956

Item No. 7

Securities and Exchange Board of India (SEBI) has issued guidelines called "Securities and Exchange Board of India (Delisting of Securities Guidelines) 2003". These guidelines permit the Company for voluntary delisting of equity shares from one or more stock exchanges where the shares of the Company are listed.

Pursuant to these guidelines, if the shares of the Company are listed on the Stock Exchange having nation-wide trading terminals i.e. Stock Exchange, Mumbai and National Stock Exchange, the exit opportunity need not be given to the shareholders.

Since there has been very low trading volume in Hyderabad Stock Exchange Ltd. (Regional Stock Exchange), Madras Stock Exchange Ltd., the Calcutta Stock Exchange Association Ltd. and the Stock Exchange Ahmedabad and most of the shares are being traded at the Stock Exchange, Mumbai and National Stock Exchange who have nation-wide trading terminals, it is proposed to delist the equity shares of the Company from Hyderabad Stock Exchange Ltd. (Regional Stock Exchange), Madras Stock Exchange Ltd., the Calcutta Stock Exchange Association Ltd. and the Stock Exchange Ahmedabad.

Your Directors recommend the resolution for your approval.

None of the Directors are deemed to be concerned or interested in the above resolution except as members.

Item No. 8

The Company has a unit for the manufacturing of formulation products at Thiruvandarkoil, Mannvipet, Pondicherry. The contribution of sales of this unit accounted only 9% of the total sales of the Company for the year 2002-2003.

It is proposed to dispose off the Pondicherry unit of the Company in view of the plant not able to meet the new regulatory requirement; the production line is not flexible for different batch sizes and the investment called for in order to make this plant overcome all these difficulties would result in the plant becoming economically unviable.

Pursuant to Section 293(1)(a) of the Companies Act, 1956 disposal of any undertaking of the Company needs sanction of the shareholders in the general meeting.

Pursuant to the provisions of Section 192A of the Companies Act, 1956 read with the Companies (Passing of Resolutions by Postal Ballot) Rules, 2001, the above said approval has to be obtained by way of sending postal ballots to the Shareholders. Accordingly, this resolution is being proposed to seek your consent under Section 293(1)(a) read with Section 192A of the Companies Act, 1956, by way of Postal Ballot as per the requirements of the Companies Act, 1956.

Your Directors recommend the resolution as set out above for your approval. None of the Directors of the Company is, in any way, concerned or interested in the said resolution.

By Order of the Board

Place : Hyderabad
Date : July 14, 2003

SANTOSH KUMAR NAIR
Company Secretary

GLOSSARY

ADS	American Depository Shares
ANDA	Abbreviated New Drug Application
API	Active Pharmaceutical Ingredients
ARL	American Remedies Limited
BSE	Mumbai Stock Exchange
CCD	Critical Care Division
CCS	Custom Chemical Services
CDL	Cheminor Drugs Limited
CDSL	Central Depository Services (India) Limited
CEO	Chief Executive Officer
CFO	Chief Financial Officer
cGMP	Current Good Manufacturing Practices
CIA	Chief Internal Auditor
COO	Chief Operating Officer
DMF	Drug Master File
DP	Depository Participant
DPCO	Drug Price Control Order
DRF	Dr. Reddy's Research Foundation
DRL	Dr. Reddy's Laboratories Limited
EPS	Earning Per Share
ESOS	Employees Stock Option Scheme
GDR	Global Depository Receipts
ICAI	Institute of Chartered Accountants of India
Indian GAAP	Indian Generally Accepted Accounting Principles
IPR	Intellectual Property Rights
IREDA	Indian Renewable Energy Development Agency
M&A	Mergers and Acquisition
NCE	New Chemical Entity
NDDS	New Drug Delivery System
NSDL	National Securities Depository Limited
NYSE	New York Stock Exchange
OTC	Over the Counter
R&D	Research and Development
ROW	Rest of the world
RUSTI	Reddy US Therapeutic Inc.
SBU	Strategic Business Unit
SEBI	Securities Exchange Board of India
SEC	Securities and Exchange Commission
SEFL	Standard Equity Fund Limited
TDC	Technology Development Centre
US GAAP	United States Generally Accepted Accounting Principles
USFDA	United States Food and Drug Administration
VAT	Value Added Tax
WTO	World Trade Organisation

FIVE YEARS AT A GLANCE (US GAAP)

(All figures in Rs. Million except EPS)

Year ending March 31,	2003	2002	2001	2000	1999
Income Statement Data:					
Product sales	18,070	16,409	10,975	7,887	6,504
License fees	–	125	–	89	100
Other	–	89	–	–	–
Total revenues	**18,070**	**16,623**	**10,975**	**7,976**	**6,604**
Cost of revenues	7,839	6,869	5,736	4,752	4,260
Gross profit	**10,231**	**9,754**	**5,239**	**3,225**	**2,344**
as a % of revenues	57	59	48	41	36
Operating Expenses:					
Selling, general and administrative expenses	5,020	3,668	2,819	1,708	1,452
Research and development expenses	1,375	742	509	351	264
Amortization expenses	419	488	482	305	219
Foreign exchange (gain)/loss	70	(209)	(62)	(2)	300
Total operating expenses	6,885	4,688	3,748	2,362	2,235
Operating income	**3,346**	**5,066**	**1,491**	**862**	**109**
as a % of revenues	19	31	14	11	2
Equity in loss of affiliate	(92)	(131)	(32)	(20)	(4)
Other (expense)/income, net	683	154	(387)	(302)	(185)
Income before income tax and minority interest	3,937	5,090	1,073	541	(80)
Income tax benefit/(expense)	(398)	(154)	(321)	(257)	(123)
Minority interest	(7)	(15)	(9)	(1)	24
Net income/(loss)	**3,532**	**4,921**	**742**	**283**	**(178)**
as a % of revenues	20	30	7	4	(3)
Net income/(loss) per equity share					
Basic	46.16	64.73	11.74	4.48	(2.82)
Diluted	46.16	64.62	11.74	4.48	(2.82)
Dividend declared per share	5.0	7.4	1.9	1.9	1.6
Balance Sheet Data:					
Cash and cash equivalents	7,273	5,109	479	558	419
Working capital	12,024	9,519	795	100	442
Total assets	23,092	18,967	11,883	11,165	9,468
Total long-term debt, excluding current portion	41	47	1,003	1,157	816
Total stockholders' equity	18,832	15,457	5,241	4,627	4,480
Additional data:					
Net cash provided by/(used in):					
Operating activities	4,367	4,653	617	633	(121)
Investing activities	(1,955)	(1,533)	(689)	(1,379)	(974)
Financing activities	(153)	1,422	(88)	794	521
Effect of exchange rate changes on cash	(95)	89	82	91	654
Expenditure on property, plant and equipment	(1,516)	(1,090)	489	299	556

Dr. Reddy's Laboratories Limited,
7-1-27, Ameerpet, Hyderabad 500016, Andhra Pradesh, India.

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