

Dr Reddy's Laboratories Ltd.
NYSE:RDY
FY08 and Q4 FY08 Financial Performance Review

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FY08 USGAAP

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Q4 FY08 USGAAP

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All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1USD = Rs 40.02

Extracted from the Audited Income Statement for the year ended March 31, 2008

Particulars	FY08			FY07			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Total Revenues	1,250	50,006	100	1,627	65,095	100	(23)
Cost of revenues	615	24,598	49	855	34,220	53	(28)
Gross profit	635	25,408	51	772	30,876	47	(18)
Selling, General & Administrative Expenses	379	15,175	30	351	14,051	22	8
R&D Expenses ⁽¹⁾	88	3,533	7	62	2,463	4	43
Amortization Expenses	40	1,615	3	39	1,571	2	3
Write down of Intangible assets	62	2,489	5	44	1,770	3	41
Impairment of Goodwill	2	90	0	-	-	-	
Foreign Exchange (gain)/loss, net	(19)	(745)	(1)	(3)	(137)	(0)	445
Other operating (income)/expense net	(3)	(107)	(0)	(2)	(67)	(0)	59
Operating Income	84	3,358	7	280	11,224	17	(70)
Equity in (loss)/income of affiliates, net	0	2	0	(2)	(63)	(0)	
Other income/(expenses), net	1	30	0	(17)	(661)	(1)	
Income before income taxes and minority interest	85	3,390	7	262	10,500	16	(68)
Income taxes (expense)/benefit	32	1,279	3	(29)	(1,177)	(2)	
Minority interest	0	9	0	0	3	0	147
Net income	117	4,678	9	233	9,327	14	(50)
DEPS	0.69	27.73		1.46	58.56		
Exchange rate		40.02			40.02		

Key Balance Sheet Items

	As on 31 Mar 08		As on 31 Mar 07			
Cash and cash equivalents	185	7,421	464	18,588		
Investment in securities (current & non-current)	119	4,756	28	1,105		
Borrowings from banks (Short + Long)	488	19,542	619	24,754		
Accounts receivable, net of allowances	171	6,824	188	7,519		
Inventories	278	11,133	189	7,546		
Property, plant and equipment, net	419	16,765	311	12,428		

- Income recognition under Generics R&D partnership with ICICI Venture amounted to Rs. nil in FY08 compared to Rs. 453 million in FY07. Reimbursement of expenses from Perlecan Pharma Private Limited of Rs. 90 million in FY08 as against Rs 373 million in FY07.

Revenue Mix by Segment
(in millions)

	FY08 \$	FY08 INR	as a %	FY07 \$	FY07 INR	as a %	Growth %
APIs	295	11,805	24	297	11,883	18	(1)
India	59	2,351	20	52	2,077	17	13
International	236	9,454	80	245	9,806	83	(4)
Branded Formulations	381	15,241	30	327	13,087	20	16
India	201	8,060	53	174	6,964	53	16
International	179	7,181	47	153	6,122	47	17
Generics	444	17,782	36	830	33,224	52	(46)
Custom pharmaceutical services	120	4,818	10	165	6,600	10	(27)
Others	9	361	0	8	302	0	20
Total	1,250	50,006	100	1,627	65,095	100	(23)

Revenue Mix by Geography
(in millions)

	FY08 \$	FY08 INR	as a %	FY07 \$	FY07 INR	as a %	Growth %
India	261	10,450	21	229	9,179	14	14
North America	323	12,910	26	708	28,337	44	(54)
Russia	102	4,064	8	90	3,584	6	13
Europe	396	15,858	32	371	14,839	23	7
Others	168	6,724	13	229	9,157	14	(27)
TOTAL	1,250	50,006	100	1,627	65,095	100	(23)

Business Highlights

- o Overall global revenues at Rs. 50 billion in FY08 as against Rs. 65 billion in FY07, representing a decrease of 23%.
- o EBITDA at Rs. 10 billion (\$243 million) in FY08 as against Rs. 16 billion (\$408 million) in FY07.
- o Revenues from North America generics business at Rs. 8 billion (\$201 million) in FY08 as against Rs. 23.6 billion in FY07.
 - o Revenues increase by 39% to Rs. 7.7 billion in FY08 from Rs. 5.6 billion in FY07 excluding the benefit of upsides from Authorized Generics & ondansetron exclusivity.
- o Revenues in branded formulations business increase by 16% to Rs. 15 billion in FY08 from Rs. 13 billion in FY07 driven by growth across key markets.
 - o Revenues from India & Russia in FY08 cross \$200 million & \$100 million milestone respectively.
 - o Revenues from international markets increase by 17% to Rs. 7 billion in FY08, driven by growth in Russia, Romania, Venezuela and Other CIS markets.

- o Revenues from India increase by 16% to Rs. 8 billion in FY08, driven by growth in key brands and new product launches.
- o Revenues from organic Custom Pharmaceuticals Services (CPS) business increase by 53% at Rs. 1.9 billion in FY08 as against Rs. 1.2 billion in FY07.
 - o Overall revenues from CPS business at Rs. 4.8 billion in FY08 as against Rs. 6.6 billion in FY07.
- o Revenues from betapharm at Rs. 8.2 billion in FY08 as compared to Rs. 8 billion in FY07.
 - o Market share of betapharm at 2.96% in Mar 08 as compared to 1.74% in Apr 07.
(Source: Market Report NVI volume, March 2008)

Active Pharmaceutical Ingredients (APIs)

- o Revenues at Rs. 11,805 million in FY08 as against Rs. 11,883 million in FY07. Revenues in FY07 included the benefit of upsides in sertraline & rabeprazole.
- o Revenues outside India at Rs. 9.5 billion in FY 08 as against Rs. 9.8 billion in FY07.
- o Revenues in North America increase by 88% to Rs. 3.8 billion in FY08 from Rs. 2 billion in FY07 primarily led by sales of certain development products & commercialized products.
- o Revenues in India at Rs 2.4 billion in FY08 as against Rs 2.1 billion in FY07. YoY growth of 13% primarily on account of increase in sales of ramipril.
- o Revenues in rest of the world decrease to Rs. 3.1 billion in FY08 from Rs. 5.7 billion in FY07. Growth in key markets offset by normalization of sales in sertraline in FY08 following the upside in FY07.
- o Revenues in Europe at Rs. 2.5 billion in FY08 as against Rs. 2.1 billion in FY07. YOY growth of 19% led by increase in sales of certain development products & commercialized products.
- o The Company filed 23 US DMFs during the year taking the total filings to 127. The company also filed 9 DMFs in Canada, 13 DMFs in Europe and 11 DMFs in RoW.

API - Geographic Mix

(in millions)

	FY08 \$	FY08 INR	as a %	FY07 \$	FY07 INR	as a %	Growth %
North America	96	3,824	32	51	2,030	17	88
India	59	2,351	20	52	2,077	17	13
Europe	63	2,515	21	53	2,117	18	19
ROW	78	3,115	26	141	5,659	48	(45)
TOTAL	295	11,805	100	297	11,883	100	(1)

Generics (North America & Europe)

- o Revenues in this segment at Rs. 17.8 billion in FY08 as against Rs. 33.2 billion in FY07.
- o North America contributed 45% and Europe contributed 55% to the segment revenues.
- o In North America, revenues at Rs. 8 billion (\$201 million) in FY08 as against Rs. 23.6 billion in FY07.
 - o Revenues increase by 39% to Rs. 7.7 billion in FY08 from Rs. 5.6 billion in FY07 excluding the benefit of upsides from Authorized Generics & ondansetron exclusivity.
 - o Revenues from new products launches at Rs. 617 million in FY08; 11 new products (including 2 OTC products) launched in FY 08.
 - o Commenced sales of OTC products ; Revenues for FY08 at Rs. 267 million.
 - o Combined revenues of fexofenadine & finasteride at Rs. 3,871 million in FY 08.
 - o During the year, the Company filed 18 ANDAs taking the total filings to 122. Total of 58 ANDAs pending at the USFDA addressing innovator sales of \$ 78 billion as per IMS December 2007. During the year, the company also received 20 approvals including tentative approvals.
- o In Europe revenues at Rs. 9.7 billion in FY08 as against Rs. 9.6 billion in FY07.
 - o Revenues from betapharm (Germany) at Rs. 8.2 billion (\$205 million) in FY08 as against Rs. 8 billion in FY07. YoY sales volume growth of 26%.
 - o FY08 revenues reflect the impact of (a) higher rebates to insurance companies being deducted from revenues from FY08 onwards ; (b) pricing pressure ; (c) supply constraints for a large part of the year
 - o Improvement in the supply situation in Q4 FY08 results in increase in market share of betapharm to 2.96% in Mar 08 as against 1.74% in Apr 07. (Source: Market Report NVI volume, March 2008)
 - o 8 new products launched during the year.
 - o Revenues from UK market remains unchanged at Rs. 1.4 billion in FY08.
 - o Revenues from Spain at Rs. 51 million in FY08 as against Rs. 61 million in FY07.
 - o During the year the company filed 16 dossiers across Europe.

Generics - Geographic Mix

(in millions)

	FY08 \$	FY08 INR	as a %	FY07 \$	FY07 INR	as a %	Growth %
North America	201	8,024	45	590	23,617	71	(66)
Europe	243	9,715	55	240	9,603	29	1
ROW	1	42	-	0	4	-	1024
TOTAL	444	17,782	100	830	33,224	100	(46)

Branded Formulations - International

- o Revenues at Rs. 7.2 billion, an increase of 17% over FY07. This growth was primarily driven by the performance of Russia, Romania, Venezuela & Other CIS markets.
- o Revenues in Russia increase by 13% to Rs. 4.1 billion (\$102 million) in FY 08 as against Rs 3.6 billion in FY07. This growth was primarily driven by increase in sales of key brands of Keterol, Bion, Omez and new products launches.
 - o Revenues from Russia in FY08 cross \$100 million milestone.
 - o Combined revenues in OTC & Hospital segment contributed 28% to total revenues in FY08.
 - o Improvement in market rank to 14th position. (Source: Pharmexpert MQT March 2008)
 - o The company recorded 18% growth as against the market growth of 17%. (Source: Pharmexpert MAT Dec 2007, retail segment)
- o Revenues in the CIS markets increase by 25% to Rs 1.5 billion in FY08 as against Rs 1.2 billion in FY07. This growth was primarily driven by increase in sales from Ukraine, Kazakhstan & Belarus.
 - o Revenues in Ukraine at Rs. 768 million (\$19 million) for FY08 representing a growth of 25% over the previous year.
- o Revenues in RoW markets increase by 16% to Rs. 1.2 billion as against Rs. 1 billion in FY07. The growth was primarily driven by increase in sales from key markets.
- o Revenues in Central and Eastern Europe increase by 33% to Rs. 501 million as against Rs. 377 million in FY07.
 - o Revenues in Romania at Rs. 466 million (\$12 million) representing a growth of 38% over the previous year.
- o During the year, the company filed 307 dossiers.

Geographic Mix

(in millions)

Country	FY08 \$	FY08 INR	as a %	FY07 \$	FY07 INR	as a %	Growth%
Russia	102	4,064	57	90	3,584	59	13
CIS	37	1,461	20	29	1,168	19	25
Europe (Central & Eastern)	13	501	7	9	377	6	33
ROW	29	1,154	16	25	993	16	16
Total	179	7,181	100	153	6,122	100	17

Branded Formulations - India

- o Revenues in India cross \$200 million milestone in FY08.
- o Revenues in India increase by 16% to Rs. 8.1 billion in FY08 from Rs. 7 billion in FY07. Growth was primarily driven by key brands of Omez, Razo, Stamlo Beta and Reditux.
 - o Revenues from Reditux launched in April 2007 at Rs. 154 million in FY08.
 - o In the rabeprazole category, Razo is the no. 1 prescribed brand among the gastroenterologists as per CMARC Nov-Feb 08.
- o 20 new products launched during the year, contributing Rs. 309 million in revenues.
 - o New product launches in the last 30 months contributed 18% to total revenues in FY08.

Branded Formulations – India - Revenues by Therapies

(in millions)

Therapeutic Segment	FY08			FY07			Growth%
	\$	INR	as a %	\$	INR	as a %	
Gastro Intestinal	39	1,551	19	32	1,288	18	20
Cardiovascular	36	1,451	18	31	1,222	18	19
Pain	25	999	12	24	968	14	3
Oncology	19	747	9	14	548	8	36
Paedia	17	663	8	15	607	9	9
Diabetic Care	14	572	7	12	480	7	19
Anti Infectives	11	438	5	9	368	5	19
Dermatology	10	400	5	9	364	5	10
Nutraceuticals	7	281	3	7	273	4	3
Dental	7	279	3	6	236	3	18
Urology	6	260	3	5	214	3	21
Respiratory	4	179	2	4	141	2	26
Surgery	3	131	2	3	123	2	7
Women's Health Care	2	97	1	3	127	2	(23)
Nephrology	0	11	0	0	4	0	177
Total	201	8,060	100	174	6,964	100	16

Branded Formulations – India - Revenues by Key brands
(in millions)

Brands	FY08			FY07			Growth %
	\$	INR	as a %	\$	INR	as a %	
Omez	24	966	12	21	830	12	16
Nise	22	880	11	22	873	13	1
Stamlo	10	406	5	9	370	5	10
Stamlo Beta	8	305	4	7	268	4	14
Razo	7	291	4	5	211	3	38
Atocor	6	244	3	5	189	3	29
Enam	4	180	2	4	174	3	3
Reditux	4	154	2	-	-	0	
Mintop	4	150	2	3	119	2	26
Reclimet	4	149	2	3	138	2	8
Others	108	4,336	54	95	3,793	54	14
Total	201	8,060	100	174	6,964	100	16

Custom Pharmaceutical Services (CPS)

Revenues from CPS business at Rs. 4.8 billion in FY08 as against Rs. 6.6 billion in FY07.

- o Revenues from organic business increase from Rs. 1.2 billion in FY07 to Rs. 1.9 billion in FY08, driven by growth in customer base and product portfolio. YoY growth of 53%.
- o Revenues from Mexico at Rs. 3 billion in FY08 as against Rs. 5.4 billion in FY07.

Income Statement Highlights

- o Gross profit at Rs. 25.4 billion in FY08 as against Rs. 30.9 billion in FY07. Gross profit margins on total revenues at 51% as against 47% in FY07. In FY07 revenues from authorized generics contributed 22% to total revenues and earned gross margin significantly below company average gross margin.
- o R&D investments (net) at 7% of total revenues in FY08 as against 4% in FY07. Gross R&D investments increase by 10% to Rs. 3.6 billion in FY08 as against Rs. 3.3 billion in FY07. During the year, the Company recognized Rs. 90 million under its R&D partnerships as a benefit to the R&D line item as compared to Rs. 826 million in FY07.
- o Selling, General & Administration (SG&A) expenses increase by 8% to Rs. 15.2 billion in FY08 from Rs. 14.1 billion in FY07. The SG&A ratio to revenue is at 30% in FY08 as against 22% in FY07.
- o Other income (net) at Rs. 30 million in FY08 as against other expenses (net) of Rs. 661 million in FY07. This is primarily on account of net interest expense of Rs. 378 million in FY08 as against net interest expense of Rs. 1,055 million in FY07.
- o Write down of intangibles & impairment of goodwill amounting to Rs. 2.6 billion in FY08 comprising :
 - o Write down of Rs. 128 million of product related intangibles at Spain, recorded in Q4 FY08.
 - o Impairment of goodwill of Rs. 90 million relating to the subsidiary in Atlanta, recorded in Q4 FY08.

- o Write down of Rs. 2.4 billion of product related intangibles at betapharm, recorded in Q3 FY08.
- o Amortization expenses are at Rs. 1.62 billion as compared to Rs. 1.57 billion in FY07. This largely relates to amortization of intangibles in betapharm, Spain (acquisition of products) and acquisition in Mexico.
- o Net income at Rs. 4.7 billion (9% of total revenues) as against Rs. 9.3 billion (14% of total revenues) in FY07. This translates to a diluted EPS of Rs. 27.73 as against Rs. 58.56 in FY07.
- o During FY08, the Company incurred capital expenditure (net) of Rs. 5.6 billion.

All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1USD = Rs 40.02

Q4 FY08 Financial Snapshot

Extracted from the Audited Income Statement for the full year ended March 31, 2008

Particulars	Q4 FY08			Q4 FY07			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Total Revenues	331	13,252	100	389	15,573	100	(15)
Cost of revenues	156	6,229	47	145	5,818	37	7
Gross profit	175	7,023	53	244	9,755	63	(28)
Selling, General & Administrative Expenses	107	4,275	32	86	3,433	22	24
R&D Expenses ⁽¹⁾	26	1,023	8	21	852	5	20
Amortization Expenses	12	475	4	11	451	3	5
Write down of Intangible assets	3	128	1	44	1,770	11	(93)
Impairment of Goodwill	2	90		-	-	0	
Foreign Exchange (gain)/loss, net	(3)	(118)	(1)	(5)	(205)	(1)	(43)
Other operating (income)/expense net	(3)	(106)	(1)	1	25	0	
Operating Income	31	1,257	9	86	3,429	22	(63)
Equity in (loss)/income of affiliates, net	(0)	(0)	(0)	(0)	(14)	(0)	(97)
Other income/(expenses), net	(2)	(62)	(0)	2	98	1	(164)
Income before income taxes and minority interest	30	1,194	9	88	3,513	23	(66)
Income taxes (expense)/benefit	(4)	(168)	(1)	(6)	(260)	(2)	(35)
Minority interest	0	2	0	(0)	(1)	(0)	(274)
Net income	26	1,028	8	81	3,252	21	(68)
DEPS	0.15	6.09		0.51	20.42		
Exchange rate		40.02			40.02		

- (1) Reimbursement of expenses from Perlecan Pharma Private Limited of Rs. 17 million in Q4 FY08 as against Rs. 85 million in Q4 FY07.

Revenue Mix by Segment
(in millions)

	Q4 FY08 \$	Q4 FY08 INR	as a %	Q4 FY07 \$	Q4 FY07 INR	as a %	Growth %
APIs	75	3,012	23	98	3,939	25	(24)
India	14	547	18	12	469	12	17
International	62	2,465	82	87	3,470	88	(29)
Branded Formulations	88	3,521	27	72	2,889	19	22
India	50	1,993	57	40	1,609	56	24
International	38	1,528	43	32	1,281	44	19
Generics	131	5,223	39	167	6,693	43	(22)
Custom pharmaceutical services	34	1,361	10	49	1,945	12	(30)
Others	3	135	1	3	107	1	26
Total	331	13,252	100	389	15,573	100	(15)

Revenue Mix by Geography
(in millions)

	Q4 FY08 \$	Q4 FY08 INR	as a %	Q4 FY07 \$	Q4 FY07 INR	as a %	Growth %
India	64	2,543	19	53	2,123	14	20
North America	111	4,443	34	184	7,369	47	(40)
Russia	19	747	6	18	708	5	6
Europe	116	4,630	35	85	3,414	22	36
Others	22	889	7	49	1,960	13	(55)
TOTAL	331	13,252	100	389	15,573	100	(15)

Business Highlights

- o Overall global revenues at Rs. 13.2 billion in Q4 FY08 as against Rs. 15.6 billion in Q4 FY07, representing a decrease of 15%.
- o Overall EBITDA at Rs. 2.6 billion (\$65 million) in Q4 FY08 as against Rs. 6.2 billion (\$156 million) in Q4 FY07.
- o Revenues from North America generics business at Rs. 2.5 billion in Q4 FY08 as against Rs. 5.6 billion in Q4 FY07.
- o Revenues in branded formulations business increase by 22% to Rs. 3.5 billion in Q4 FY08 from Rs. 2.9 billion in Q4 FY07 driven by growth across key markets.
 - o Revenues from India increase by 24% to Rs. 2 billion in Q4 FY08, driven by growth in key brands.
 - o Revenues from international markets increase by 19% to Rs. 1.5 billion in Q4 FY08, driven by growth in Romania & other CIS markets.

- o Revenues from organic Custom Pharmaceuticals Services (CPS) business increase by 60% at Rs. 698 million in Q4 FY08 as against Rs. 437 million in Q4 FY07.
 - o Overall revenues from CPS business at Rs. 1.4 billion in Q4 FY08 as against Rs. 1.9 billion in Q4 FY07.
- o Revenues from betapharm at Rs. 2.4 billion in Q4 FY08 as against Rs. 747 million in Q4 FY 07.

Income Statement Highlights

- o Gross profit at Rs. 7 billion in Q4 FY08 as against Rs. 9.8 billion in Q4 FY07. Gross profit margins on total revenues at 53% as against 63% in Q4 FY07. In Q4 FY07 revenues from ondansetron exclusivity contributed 16% to total revenues & earned gross margins significantly above company average gross margin.
- o R&D investments (net) at 8% of total revenues in Q4 FY08 as against 5% in Q4 FY07, an increase of 20%. Gross R&D investments increase by 11% to Rs. 1,040 million in Q4 FY08 as against Rs. 937 million in Q4 FY07. During the quarter, the Company recognized Rs. 17 million under its R&D partnerships as a benefit to the R&D line item as compared to Rs. 85 million in Q4 FY07.
- o Selling, General & Administration (SG&A) expenses increase by 24% to Rs. 4.3 billion in Q4 FY08 as against Rs. 3.4 billion in Q4 FY07. The SG&A ratio to revenue is at 32% in Q4 FY08 as against 22% in Q4 FY07.
- o Other expenses (net) at Rs. 62 million in Q4 FY08 as against other income (net) of Rs. 98 million in Q4 FY07.
- o Amortization expenses at Rs. 475 million in Q4 FY08 as compared to Rs. 451 million in Q4 FY07. This majorly relates to intangibles in betapharm, Spain (acquisition of products) and acquisition in Mexico.
- o Net income at Rs. 1 billion (8% of total revenues) as against Rs. 3.3 billion (21% of total revenues) in Q4 FY07.

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