

**Eye of the Storm: Growing Globally in an Age of Disruption****The Conference Board 2007 Global Leadership**

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“Good morning, friends. Let me first thank the organizers for inviting me to be here today. As I thought of the topic for today, I was reflecting on the disruptions that we are going through. Three key disruptions that struck me were Unevenness in Development and the Rise of the East, Globalization Driven by Technology, and the Impact of our Development on the Environment and its Consequences:

The rise of the East – the growth in Asia – is driven by the continued boom in the economies of China and India. While the growth has been great for large numbers of people, there is major unevenness in this growth, and a large section of society remains poor. In fact, their condition will get worse. Even in the advanced economies, the unevenness of growth continues to get worse.

Globalization driven by technology is resulting in what Nandan calls ‘a flattening world’. Competition for every product and service will come from every part of the world. While conventional thought has it that jobs will shift to countries like India, there is also the threat of companies from the West establishing themselves in low-cost economies with ease and alacrity, thereby replicating all the advantages that we traditionally have had, and effectively commoditizing every business. For businesses that depend only on cost competitiveness of low cost economies but without the scale that businesses such as IT/ ITES have, it effectively becomes a race to the bottom.

Finally, the catastrophic changes in the environment that are largely the result of our own success as a species. Global warming and its terrifying consequences are beginning to find the importance that they really deserve from policy-makers globally, thanks to the passionate efforts of people like Al Gore, the former vice president of the USA.

Each of these disruptions is going to have profound impact on all of us. As businesses, we could either turn this into opportunity to create a positive impact and become part of a positive movement in the world, or let these powerful forces swamp us. Let me take you through how we, as a company, look at the situation:

We can group our responses into the following three categories:

1. Bringing Affordability and Accessibility of Drugs to the Masses,
2. Increasing Innovation Capacity to meet Unmet Needs and
3. Joining and Leading Sustainable Business Practices.

We have a Generics business which is both branded and unbranded but essentially involves developing and marketing products equivalent to those which already exist at lower costs, either after patents expire or in markets which allow them to be sold even during the currency of their patents. Our focus here is to provide affordability and access to large numbers of people. In fact, the Indian pharmaceutical industry is today the leading force in the world in providing affordable products to the world. Starting with India, where a Government healthcare system does not exist, the industry has provided pharmaceuticals to our large populations at amongst the lowest prices in the world. We are also part of the solution to AIDS patients worldwide, especially through Government programs in Africa, Brazil and elsewhere. The Clinton Foundation, the Gates Foundation and other non-profits work closely with a number of Indian pharmaceutical companies to provide accessible pharmaceuticals to the worlds' AIDS patients.

Even in the USA, the world's richest country, healthcare is a huge issue, The US healthcare expenditure is increasing at an average of roughly 8% per year, a growth much higher than its GDP. Add to that the fact about 40 million US residents who are without health insurance, an aging population, increase in the prevalence of chronic diseases like diabetes and cardiovascular disease, etc.

But these are just US statistics and a similar situation exists in this part of the world due to the emergence of new diseases like SARS and new resistant variants of Malaria, various constraints in healthcare systems. Perhaps different types of constraints inhibit access to health in each country but, one can nevertheless say that increasing affordability and accessibility to drugs is critical. Combine this with the \$82 bn worth of blockbuster drugs that have gone off patent and the forward-looking number is similar. Now imagine the substantial impact the generics industry has created in making these drugs affordable to a larger population at fraction of these brand prices.

Let me walk you through a case study that provides an alternative viewpoint.

GCSF is the 'generic' name for Amgen's Neupogen, which is indicated for reducing infections in patients with neutropenia. In 2001, Dr. Reddy's launched Grafeel, which is our biogeneric of GCSF. We launched it at a lower price point. The innovator decided to match our price. With a few additional entrants coming in, the price ultimately stabilized at perhaps by 2/3 less than the original price. But more interesting was the impact of the lower price on GCSF usage: the market, in units, grew almost ten-fold. So a 2/3 price-drop was accompanied by a ten-fold increase in volume. However, the fact remains that this particular example shows how affordability and accessibility increased while also increasing total industry profits.

Another example is 'Sparsh' – an initiative to improve affordability and access to cancer patients by Dr Reddy's. Cancer medicines tend to be expensive and many patients actually give up treatment, being unable to afford it. Through this initiative, we offer expensive oncology medicines absolutely free to patients who cannot afford them, through their doctors. Doctors can recommend patients who cannot afford the costs. We have found that the doctors, when given the discretion, actually exercise very good judgment and not only help us in delivering to the most needy patients but, in the process, also become our partners by prescribing our products to the paying segment as well. Thus, we have been able to use the affordability platform and an innovative business model to not only serve society but also build our business.

Our second world-impact aspect is about Innovation. In a flattening world, any global company can come and take advantage of lower costs. Thus, the difference in cost structures is temporary. We, as a company, have recognized this early on and have focused on using innovation as a long-term growth driver. While building a global generics business based on access and affordability, we have used the surpluses to build strong capabilities in developing novel products for unmet medical needs. As an industry, we have also developed the ability to solve the problems that the innovation-based industry is facing.

Let's look at a few statistics: Global pharma and biotech R&D spend has risen sharply, today topping \$100 bn worldwide per year. Furthermore, even of the drugs that do ultimately get approved and launched, only a subset produce lifetime value that exceeds investment. Highly trained Indian scientists, available at lower-than-Western costs, and the lower costs of doing research in India, are part of the solution. A large number of service companies and companies investing in innovation have emerged and are helping global companies to dramatically bring down the cost of research, clinical trials and other aspects of drug development. Thus, the

Indian industry is helping to bring down costs in a flattening world. Also, select Indian companies that have the necessary foresight are building innovative products for the global market, and this will help sustain margins in an increasingly commoditizing market in a flat world.

The last aspect I will discuss today is one of sustainability. It is not enough to improve affordability and accessibility alone, or to increase innovation capacity. These contributions to the world need to be delivered in a sustainable and responsible way.

As a company, we have embraced the Triple Bottom-Line approach to sustainability. The environment is a huge focus at Dr Reddy's. We have invested a very significant amount of resources into reducing the ecological footprint of our operations and, I have to admit, there is lot more to do in this area, which will remain a personal focus for me. We have started creating awareness on how climate change will impact the whole planet and have started looking at all aspects of the problem. We have made a beginning, but there is much left to do.

To summarize: Improving access and affordability to pharmaceutical products globally, creating an innovation driven business to create long term value and, finally, responding to the challenge of the environment are all going to help us grow globally in a sustainable way.”

GV Prasad

Vice Chairman and CEO

Dr. Reddy's Laboratories Ltd.