

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended March 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission File Number: 1-15182

DR. REDDY'S LABORATORIES LIMITED

(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant's name into English)

ANDHRA PRADESH, INDIA
(Jurisdiction of incorporation or organization)

**8-2-337, Road No. 3, Banjara Hills
Hyderabad, Andhra Pradesh 500 034, India
+91-40-49002900**

(Address of principal executive offices)

Umang Vohra, *Chief Financial Officer*, +91-40-49002005, umangvohra@drreddys.com
8-2-337, Road No. 3, Banjara Hills, Hyderabad, Andhra Pradesh 500 034, India
(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

<u>Title of Each Class</u>	<u>Name of Each Exchange on which Registered</u>
American depository shares, each representing one equity share	New York Stock Exchange

Equity Shares*

* **Not for trading, but only in connection with the registration of American depository shares, pursuant to the requirements of the Securities and Exchange Commission.**

Securities registered or to be registered pursuant to Section 12(g) of the Act. None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. None.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

169,252,732 Equity Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities

Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued Other
by the International Accounting Standards Board

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes No

Currency of Presentation and Certain Defined Terms

In this annual report on Form 20-F, references to “\$” or “U.S.\$” or “dollars” or “U.S. dollars” are to the legal currency of the United States and references to “₹” or “rupees” or “Indian rupees” are to the legal currency of India. Our financial statements are presented in Indian rupees and translated into U.S. dollars and are prepared in accordance with International Financial Reporting Standards, or “IFRS”, as issued by the International Accounting Standards Board, or “IASB”. References to “Indian GAAP” are to Indian Generally Accepted Accounting Principles and references to “U.S. GAAP” are to United States Generally Accepted Accounting Principles. References to a particular “fiscal” year are to our fiscal year ended March 31 of such year. References to our “ADSs” are to our American Depositary Shares.

References to “U.S.” or “United States” are to the United States of America, its territories and its possessions. References to “India” are to the Republic of India. References to “EU” are to the European Union. All references to “we,” “us”, “our”, “DRL”, “Dr. Reddy’s” or the “Company” shall mean Dr. Reddy’s Laboratories Limited and its subsidiaries. “Dr. Reddy’s” is a registered trademark of Dr. Reddy’s Laboratories Limited in India. Other trademarks or trade names used in this annual report on Form 20-F are trademarks registered in the name of Dr. Reddy’s Laboratories Limited or are pending before the respective trademark registries. Market share data is based on information provided by IMS Health Inc. (“IMS Health”), a provider of market research to the pharmaceutical industry, unless otherwise stated.

Except as otherwise stated in this report, all translations from Indian rupees to U.S. dollars are based on the noon buying rate in the City of New York on March 31, 2011 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was ₹44.54 per U.S.\$1.00. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. As of July 8, 2011 that rate was ₹44.41 per U.S.\$1.00.

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Information contained in our website, www.drreddys.com, is not part of this Annual Report and no portion of such information is incorporated herein.

Forward-Looking and Cautionary Statement

IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (THE “EXCHANGE ACT”). THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTIONS ENTITLED “RISK FACTORS” AND “OPERATING AND FINANCIAL REVIEW AND PROSPECTS” AND ELSEWHERE IN THIS REPORT. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT’S ANALYSIS ONLY AS OF THE DATE HEREOF. IN ADDITION, READERS SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS ANNUAL REPORT AND IN OUR PERIODIC REPORTS AND OTHER DOCUMENTS FILED AND/OR FURNISHED WITH THE SECURITIES AND EXCHANGE COMMISSION (“SEC”) FROM TIME TO TIME.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A. Selected financial data

You should read the selected consolidated financial data below in conjunction with our consolidated financial statements and the related notes, as well as the section titled “Operating and Financial Review and Prospects,” all of which are included elsewhere in this Annual Report on Form 20-F. The selected consolidated statements of income for the four years ended March 31, 2011, 2010, 2009 and 2008 and the selected consolidated statement of financial position data as of March 31, 2011 and 2010 have been prepared and presented in accordance with IFRS as issued by the IASB, and have been derived from our audited consolidated financial statements and related notes included elsewhere herein. The selected consolidated financial data below has been presented for the four most recent fiscal years. Historical results are not necessarily indicative of future results.

Selected IFRS financial data for the year ended March 31, 2007 have not been included in this Annual Report on Form 20-F because IFRS financial statements for such period have not previously been prepared and could not be without unreasonable effort and expense. We changed our basis of accounting to IFRS during the year ended March 31, 2009 and, in connection therewith, our consolidated financial statements for the year ended March 31, 2008 were restated to conform with IFRS. Prior to adoption of IFRS, we prepared financial statements in accordance with accounting principles generally accepted in the United States of America for purposes of our SEC reporting.

Income Statement Data

	For the Year Ended March 31,				
	2011	2011	2010	2009	2008
	(₹ in millions, U.S.\$ in millions except share and per share data)				
	<i>Convenience translation into U.S.\$</i>				
Revenues	U.S.\$ 1,677	₹ 74,693	₹ 70,277	₹ 69,441	₹ 50,006
Cost of revenues	773	34,430	33,937	32,941	24,598
Gross profit	U.S.\$ 904	₹ 40,263	36,340	36,500	25,408
Selling, general and administrative expenses	532	23,689	22,505	21,020	16,835
Research and development expenses	114	5,060	3,793	4,037	3,533
Impairment loss on other intangible assets	—	—	3,456	3,167	3,011
Impairment loss on goodwill	—	—	5,147	10,856	90
Other (income)/expense, net	(25)	(1,115)	(569)	254	(402)
Results from operating activities	U.S.\$ 284	₹ 12,629	2,008	(2,834)	2,341
Finance (expense)/income, net	(4)	(189)	(3)	(1,186)	521
Share of profit of equity accounted investees, net of income tax	—	3	48	24	2
Profit/(loss) before income tax	279	12,443	2,053	(3,996)	2,864
Income tax (expense)/benefit	(31)	(1,403)	(985)	(1,172)	972

	For the Year Ended March 31,									
	2011	2011	2010	2009	2008					
	(₹ in millions, U.S.\$ in millions except share and per share data)									
	Convenience translation into U.S.\$									
Profit/(loss) for the year	U.S.\$	248	₹	11,040	₹	1,068	₹	(5,168)	₹	3,836
Earnings/(loss) per share										
Basic	U.S.\$	1.47	₹	65.28	₹	6.33	₹	(30.69)	₹	22.88
Diluted	U.S.\$	1.46	₹	64.95	₹	6.30	₹	(30.69)	₹	22.80
Weighted average number of equity shares used in computing earnings/(loss) per equity share*										
Basic				169,128,649		168,706,977		168,349,139		168,075,840
Diluted				169,965,282		169,615,943		168,349,139		168,690,774
Cash dividend per equity share (₹)**		—		11.25		6.25		3.75		3.75

* Each ADR represents one equity share.

** Excludes corporate dividend tax

Statement of Financial Position Data

	As of March 31,					
	2011	2011	2010			
	(₹ in millions, U.S.\$ in millions)					
	Convenience translation into U.S.\$					
Cash and cash equivalents	U.S.\$	129	₹	5,729	₹	6,584
Total assets		2,133		95,005		80,330
Total long term debt, excluding current portion		118		5,271		5,385
Total equity	U.S.\$	1,033	₹	45,990	₹	42,915

Convenience translation

For the convenience of the reader, our consolidated financial statements as of March 31, 2011 have been translated into U.S. dollars at the noon buying rate in New York City on March 31, 2011 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York, of U.S.\$1.00 = ₹44.54. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate.

Exchange Rates

The following table sets forth, for the fiscal years indicated, information concerning the number of Indian rupees for which one U.S. dollar could be exchanged based on the noon buying rate in the City of New York on business days during the period for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The column titled "Average" in the table below is the average of the daily noon buying rate on the last business day of each month during the year.

Year Ended	Period End	Average	High	Low
March 31, 2008	40.02	40.00	43.05	38.48
2009	50.87	46.32	51.96	39.73
2010	44.95	47.36	50.48	44.94
2011	44.54	45.49	47.49	43.90

The following table sets forth the high and low exchange rates for the previous six months and is based on the noon buying rates in the City of New York on business days of each month during such period for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York.

Month	High	Low
October 2010	44.55	44.05
November 2010	45.83	43.90
December 2010	45.54	44.70
January 2011	45.92	44.59
February 2011	45.66	45.06
March 2011	45.24	44.54

On July 8, 2011, the noon buying rate in the city of New York was ₹44.41 per U.S. dollar.

3.B. Capitalization and indebtedness

Not applicable.

3.C. Reasons for the offer and use of proceeds

Not applicable.

3.D. Risk factors

You should carefully consider all of the information set forth in this Form 20-F and the following risk factors that we face and that are faced by our industry. The risks below are not the only ones we face. Additional risks not currently known to us or that we presently deem immaterial may also affect our business operations. Our business, financial condition or results of operations could be materially or adversely affected by any of these risks. This Form 20-F also contains forward-looking statements that involve risks and uncertainties. Our results could materially differ from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face as described below and elsewhere. See “Forward-Looking Statements.”

RISKS RELATING TO OUR COMPANY AND OUR BUSINESS

Failure of our research and development efforts may restrict introduction of new products, which is critical to our business.

Our future results of operations depend, to a significant degree, upon our ability to successfully commercialize additional products in our Pharmaceutical Services and Active Ingredients, Global Generics and Proprietary Products segments. We must develop, test and manufacture generic products as well as prove that our generic products are bio-equivalent or bio-similar to their branded counterparts either directly or in partnership with contract research organizations. All of our products must meet and continue to comply with regulatory and safety standards and receive regulatory approvals; we may be forced to withdraw a product from the market if health or safety concerns arise with respect to such product. The development and commercialization process, particularly with respect to proprietary products, is both time consuming and costly and involves a high degree of business risk. Our products currently under development, if and when fully developed and tested, may not perform as we expect, necessary regulatory approvals may not be obtained in a timely manner, if at all, and we may not be able to successfully and profitably produce and market such products. Our approved products may not achieve expected levels of market acceptance.

To develop our product pipeline, we commit substantial efforts, funds and other resources to research and development, both through our own dedicated resources and our collaborations with third parties. Our ongoing investments in new product launches and research and development for future products could result in higher costs without a proportionate increase in revenues. Our overall profitability depends on our ability to continue developing commercially successful products, and to introduce them on a timely basis in relation to competitor product introductions.

Our dependence on research and development makes it highly important that we recruit and retain high quality researchers, development specialists and other science and technology experts. Should we fail in our efforts, this could adversely affect our ability to continue developing commercially successful products and, thus, our overall profitability.

If we fail to comply fully with government regulations or to maintain continuing regulatory oversight applicable to our research and development activities or regarding the manufacture of our products, it may delay or prevent us from developing or manufacturing our products.

Our research and development activities are heavily regulated. If we fail to comply fully with applicable regulations, then there could be a delay in the submission or approval of potential new products for marketing approval. In addition, the submission of an application to a regulatory authority does not guarantee that a license to market the product will be granted. Each authority may impose its own requirements and/or delay or refuse to grant approval, even when a product has already been approved in another country. In the United States, as well as many of the international markets into which we sell our products, the approval process for a new product is complex, lengthy and expensive. The time taken to obtain approval varies by country but generally takes from six months to several years from the date of application. This registration process increases the cost to us of developing new products and increases the risk that we will not be able to successfully sell such new products.

Also, governmental authorities, including the U.S. Food and Drug Administration (“U.S. FDA”), heavily regulate the manufacturing of our products, including manufacturing quality standards. Periodic audits are conducted on our manufacturing sites, and if the regulatory and quality standards and systems are not found adequate, it could result in an audit observation (on Form 483, if from the U.S. FDA), or a subsequent investigative letter which may require further corrective actions. If we or our third party suppliers fail to comply fully with such regulations or to take corrective actions which are mandated, then there could be a government-enforced shutdown of our production facilities or a Detention Without Physical Examination (“DWPE”) import ban, which in turn could lead to product shortages, or we could be subjected to government fines. Failure to comply fully with such regulations could also lead to a delay in the approval of our new products.

For example, recently our Mexico facility received a warning letter from the U.S. FDA seeking further clarifications on some of their audit observations provided earlier to us in a Form 483 and, thereafter, the U.S. FDA posted on its website a DWPE alert for our Mexico facility. As a consequence of the DWPE alert, our Mexico facility is unable to export intermediates and active pharmaceutical ingredients and steroids to U.S. customers until these matters are resolved to the satisfaction of the U.S. FDA. We are working collaboratively with the U.S. FDA to resolve these matters.

An increasing portion of our portfolio are “biologic” products. Unlike traditional “small-molecule” drugs, biologic drugs cannot be manufactured synthetically, but typically must be produced from living plant or animal micro-organisms. As a result, the production of biologic drugs which meet all regulatory requirements is especially complex. Even slight deviations at any point in the production process may lead to batch failures or recalls. In addition, because the production process is based on living micro-organisms, the process could be affected by contaminants which could impact those micro-organisms. In such an event, production shutdowns and extensive and extended decontamination efforts may be required.

The regulatory requirements are still evolving in many developing markets where we sell or manufacture products, including our bio-similar products. In these markets, the regulatory requirements and the policies and opinions of regulators may at times be unclear, inconsistent or arbitrary due to absence of adequate precedents or for other reasons. As a result, there is increased risk of our inadvertent non-compliance with such regulations, which could lead to government-enforced shutdowns and other sanctions, as well as the withholding or delay of regulatory approvals for new products.

There has been a trend of increased regulatory review of over-the-counter products for safety and efficacy questions, which could potentially affect our over-the-counter products business.

Our over-the-counter products business sells over-the-counter medicines. In recent years, significant questions have arisen regarding the safety, efficacy and potential for misuse of certain over-the-counter medicines. As a result, health authorities around the world have begun to re-evaluate some important over-the-counter products, leading to restrictions on the sale of some of them and even the banning of certain products. For example, in 2010, the U.S. FDA undertook a review of one cough medicine ingredient to consider whether over-the-counter sales of the ingredient remained appropriate. While the U.S. FDA has not, to date, changed the ingredient’s status, further regulatory or legislative action may follow, and litigation sometimes follows actions such as these, particularly in the United States. Additional actions and litigation regarding over-the-counter products are possible in the future. If the U.S. FDA or another regulator were to review one or more of our over-the-counter products for such purposes, it could have a significant adverse effect on our sales of such over-the-counter products and, thus, our overall profitability.

Risks from operations in certain countries susceptible to political or economic instability.

We are a global pharmaceutical company. Although a significant proportion of our sales are in North America (the United States and Canada) and Western Europe, we expect to derive an increasing portion of our sales and future growth from other regions, such as Latin America, Russia and other countries of the former Soviet Union, Central Europe and Eastern Europe, all of which may be more susceptible to political or economic instability.

We monitor significant political, legal and economic developments in these regions and attempt to mitigate our exposure where possible. However, mitigation is not always possible, and our international operations could be adversely affected by political, legal and economic developments, such as changes in capital and exchange controls; expropriation and other restrictive government actions; intellectual property protection and remedy laws; trade regulations; procedures and actions affecting approval, production, pricing and marketing of, reimbursement for and access to our products; and intergovernmental disputes, including embargoes and/or military hostilities.

For example, in recent years Russia and other countries of the former Soviet Union were adversely affected by the global economic crisis and began to experience economic instability characterized by, among other things, liquidity issues and local currency devaluations against the U.S. dollar. We instituted strict credit controls and receivables monitoring mechanisms to mitigate our collection risks and, as a result, we managed to avoid any material write-offs. However, in future periods we may be unable to successfully mitigate these or other risks of political, legal and economic instability, and our international operations could be adversely affected.

During 2011, several countries in Latin America, the Middle East and North Africa have experienced wide-spread civil unrest and political instability. We conduct business in several of these countries, most significantly Venezuela. Such civil unrest or political instability may, among other things: threaten the safe operation of our facilities and operations in those countries; increase our cost of operations in those countries; interrupt or otherwise adversely affect our ability to import our products to such countries; result in our inability to repatriate income or capital from such countries; result in inflation or local currency devaluation; result in changes in laws, regulations and commercial norms; result in delays or denials of necessary governmental approvals; or adversely affect the financial condition of our direct and indirect customers and reimbursement schemes in those countries (e.g., wholesalers, retail pharmacies, government programs, private insurance companies and individual patients), which may reduce sales of our products in those countries. Both the likelihood of such occurrences and their overall impact upon us vary greatly from country to country and are not predictable. Realization of these risks could have an adverse impact on the results of operations and financial condition of our operations located in the affected country.

If we are sued by consumers for defects in our products, it could harm our reputation and thus our profits.

Our business inherently exposes us to potential product liability claims, and the severity and timing of such claims are unpredictable. Notwithstanding pre-clinical and clinical trials conducted during the development of potential products to determine the safety and efficacy of products for use by humans following approval by regulatory authorities, unanticipated side effects may become evident only when drugs and bio-similars are introduced into the marketplace. Due to this fact, our customers and participants in clinical trials may bring lawsuits against us for alleged product defects. In other instances, third parties may perform analyses of published clinical trial results which raise questions regarding the safety of pharmaceutical products, and which may be publicized by the media. Even if such reports are inaccurate or misleading, in whole or in part, they may nonetheless result in claims against us for alleged product defects.

Historically, in the event a patient or group of patients suffered adverse events from taking the generic version of a branded drug in the United States, generic pharmaceutical manufacturers relied on U.S. laws which permitted them to pass that liability back to the innovator pharmaceutical company that originally brought the branded drug to market. However in recent years, courts across the United States have begun to hold the generic manufacturers directly responsible for the safety of their drugs and have found them to be strictly liable for injuries emanating from the use of generics.

Product liability claims, regardless of their merits or the ultimate success of the defense against them, are costly. Although we have obtained product liability coverage with respect to products that we manufacture and the clinical trials that we conduct, if any product liability claim sustained against us is not covered by insurance or exceeds the policy limits, it could harm our business and financial condition. This risk is likely to increase as we develop our own new-patented products in addition to making generic versions of drugs that have been in the market for some time. In addition, the existence or even threat of a major product liability claim could also damage our reputation and affect consumers' views of our other products, thereby negatively affecting our business, financial condition and results of operations.

Product liability insurance coverage for pharmaceutical companies is becoming more expensive and, from time to time, the pharmaceutical industry has experienced difficulty in obtaining desired amounts of product liability insurance coverage. As a result, it is possible that, in the future, we may not be able to obtain the type and amount of coverage we desire at an acceptable price and self-insurance may become the sole commercially reasonable means available for managing the product liability risks of our business.

If we cannot respond adequately to the increased competition we expect to face in the future, we will lose market share and our profits will go down.

Our products face intense competition from products commercialized or under development by competitors in all our business segments based in India and overseas. Many of our competitors have greater financial resources and marketing capabilities than we do. Some of our competitors, especially multinational pharmaceutical companies, have greater experience than we do in clinical testing and human clinical trials of pharmaceutical products and in obtaining regulatory approvals. Our competitors may succeed in developing technologies and products that are more effective, more popular or cheaper than any we may develop or license. These developments could render our technologies and products obsolete or uncompetitive, which would harm our business and financial results. We believe some of our competitors have broader product ranges, stronger sales forces and better segment positioning than us, which enables them to compete effectively.

To the extent that we succeed in being the first to market a generic version of a significant product, and particularly if we obtain the 180-day period of market exclusivity in the United States provided under the Hatch-Waxman Act of 1984, as amended, our sales and profit can be substantially increased in the period following the introduction of such product and prior to a competitor's introduction of the equivalent product or the launch of an authorized generic. Selling prices of generic drugs typically decline, sometimes dramatically, as additional companies receive approvals for a given product and competition intensifies. Our ability to sustain our sales and profitability of any product over time is dependent on both the number of new competitors for such product and the timing of their approvals.

Our generics business is also facing increasing competition from brand-name manufacturers who do not face any significant regulatory approvals or barriers to entry into the generics market. These brand-name companies sell generic versions of their products to the market directly or by acquiring or forming strategic alliances with our competitor generic pharmaceutical companies or by granting them rights to sell "authorized generics." Moreover, brand-name companies continually seek new ways to delay the introduction of generic products and decrease the impact of generic competition, such as filing new patents on drugs whose original patent protection is about to expire, developing patented controlled-release products, changing product claims and product labeling, or developing and marketing as over-the-counter products those branded products which are about to face generic competition.

We are constantly striving to build efficiency in our internal processes and cost structures and to build decisive competitive advantages to face increasing competition on product price and market share. However, these advantages and the long term beneficial impact from such initiatives may not sustain in future.

If we cannot maintain our position in the Indian pharmaceutical industry in the future, we may not be able to attract co-development, outsourcing or licensing partners and may lose market share.

In order to attract multinational corporations into co-development and licensing arrangements, it is necessary for us to maintain the position of a leading pharmaceutical company in India. Multinational corporations have been increasing their outsourcing of both active pharmaceutical ingredients and generic formulations to highly regarded companies that can produce high quality products at low cost that conform to standards set in developed markets. If we cannot maintain our current position in the market, we may not be able to attract outsourcing or licensing partners and may lose market share.

Reforms in the health care industry and the uncertainty associated with pharmaceutical pricing, reimbursement and related matters could adversely affect the marketing, pricing and demand for our products.

Our success will depend in part on the extent to which government and health administration authorities, private health insurers and other third-party payors will pay for our products. Increasing expenditures for health care has been the subject of considerable public attention in almost every jurisdiction where we conduct business. Both private and governmental entities are seeking ways to reduce or contain health care costs by limiting both coverage and the level of reimbursement for new therapeutic products. These pressures are particularly strong given the lingering effects of the recent global economic and financial crisis, including the ongoing debt crisis in certain countries in Europe. In many countries in which we currently operate, including India, pharmaceutical prices are subject to regulation. The existence of government-imposed price controls and mandatory discounts and rebates can limit the revenues we earn from our products. We expect these efforts to continue in the year ended March 31, 2012 as healthcare payors around the globe—in particular government-controlled health authorities, insurance companies and managed care organizations—step up initiatives to reduce the overall cost of healthcare.

In the United States, numerous proposals that would affect changes in the health care system have been introduced in Congress and in some state legislatures, including the enactment in December 2003 of expanded Medicare coverage for drugs, which became effective in January 2006. In March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act (collectively, the “PPACA”), were signed into law. The PPACA is one of the most significant healthcare reform measures in the United States in decades, and is expected to significantly impact the U.S. pharmaceutical industry. We may see an increase in revenues by virtue of the PPACA’s anticipated extension of health insurance to tens of millions of previously uninsured Americans and the prohibitions on denials of health insurance coverage due to pre-existing diseases and on lifetime value limits on insurance policy coverages. However, the PPACA contains various provisions which could adversely affect our business, including the following:

- The PPACA imposes on pharmaceutical manufacturers a variety of additional rebates, discounts and fees. Among other things, the PPACA includes annual, non-deductible fees for entities that manufacture or import certain prescription drugs and biologics. The first year for which the fee will apply is calendar year 2011, and the fee will first be due by September 30 of the following calendar year (i.e., 2012). This fee will be calculated based upon each organization’s percentage share of total branded prescription drug and biologics sales to U.S. government programs (such as Medicare, Medicaid and Veterans’ Affairs and Public Health Service discount programs), and authorized generic products would generally be treated as branded products. In addition, the PPACA changed the computations used to determine Medicaid rebates owed by manufacturers under the Medicaid Drug Rebate Program by redefining the average manufacturer’s price (“AMP”), effective October 1, 2010, and by using 23.1% instead of 15% of AMP for most branded drugs and 13% instead of 11% of AMP for generic drugs, effective January 1, 2010. The PPACA also increased the number of healthcare entities eligible for discounts under the Public Health Service pharmaceutical pricing program.
- The PPACA has pro-generic provisions that could increase competition in the generic pharmaceutical industry and therefore adversely impact our selling prices or costs and reduce our profit margins. Among other things, the PPACA creates an abbreviated pathway to U.S. FDA approval of “biosimilar” biological products and allows the first interchangeable bio-similar biological product 18 months of exclusivity, which could increase competition for our bio-generics business. Conversely, the PPACA has some anti-generic provisions that could adversely affect our bio-generics business, including provisions granting the innovator of a biological drug product 12 years of exclusive use before generic drugs can be approved based on being biosimilar.
- The PPACA makes several important changes to the federal anti-kickback statute, false claims laws, and health care fraud statutes — that may make it easier for the government or whistleblowers to pursue such fraud and abuse violations. In addition, the PPACA increases penalties for fraud and abuse violations. If our past, present or future operations are found to be in violation of any of the laws described above or other similar governmental regulations to which we are subject, we may be subject to the applicable penalty associated with the violation which could adversely affect our ability to operate our business and our financial results.
- To further facilitate the government’s efforts to coordinate and develop comparative clinical effectiveness research, the PPACA establishes a new Patient-Centered Outcomes Research Institute to oversee and identify priorities in such research. The manner in which the comparative research results would be used by third-party payors is uncertain.

On June 28, 2010 the Departments of Health and Human Services, Labor, and the Treasury jointly issued interim final regulations to implement the provisions of PPACA that prohibit the use of preexisting condition exclusions, eliminate lifetime and annual dollar limits on benefits, restrict contract rescissions, and provide patient protections. However, there are many PPACA programs and requirements for which regulations have not yet been issued or consequences are not fully understood. The full impact of the PPACA will be seen as it continues to be implemented, by promulgation of additional regulations and other administrative and judicial actions.

During the year ended March 31, 2011, the PPACA's changes to manufacturer rebates under the Medicaid Drug Rebate Program impacted our U.S. Generics business, but the impact was not material. The manufacturers' fee for calendar year 2011 is based upon our sales of branded prescription drugs and biologics for calendar year 2009, which were below the \$5 million threshold, and thus we are not subject to the fee for calendar year 2011. We are continuing to evaluate the impact of the PPACA and how it may affect our financial condition, results of operations and cash flows.

In Germany, an important market for us, the government has introduced several healthcare reforms in order to control healthcare spending and promote the prescribing of generic drugs. As a result, the prices of generic pharmaceutical products in Germany have declined, impacting our revenues, and may further decline in the future. Furthermore, the shift to a tender (i.e., competitive bidding) based supply model in Germany has led to a significant decline in the prices for our products and impacted our market opportunities in that country. Similar developments may take place in our other key markets. We cannot predict the nature of the measures that may be adopted or their impact on the marketing, pricing and demand for our products.

In addition, governments throughout the world heavily regulate the marketing of products. Most countries also place restrictions on the manner and scope of permissible marketing to physicians, pharmacies and other health care professionals. The effect of such regulations may be to limit the amount of revenue that we may be able to derive from a particular product. Moreover, if we fail to comply fully with such regulations, then civil or criminal actions could be brought against us.

If a regulatory agency amends or withdraws existing approvals to market our products, this may cause our revenues to decline.

Regulatory agencies may at any time reassess the safety and efficacy of our products based on new scientific knowledge or other factors. Such reassessments could result in the amendment or withdrawal of existing approvals to market our products, which in turn could result in a loss of revenue, and could serve as an inducement to bring lawsuits against us. In our bio-generics business, due to the intrinsic nature of biologics, our bio-similarity claims can always be contested by our competitors, the innovator company and/or the applicable regulators.

If we are unable to patent new products and processes or to protect our intellectual property rights or proprietary information, or if we infringe on the patents of others, our business may be materially and adversely impacted.

Our overall profitability depends, among other things, on our ability to continuously and timely introduce new generic as well as proprietary products. Our success will depend, in part, on our ability in the future to obtain patents, protect trade secrets, intellectual property rights and other proprietary information and operate without infringing on the proprietary rights of others. Our competitors may have filed patent applications, or hold issued patents, relating to products or processes that compete with those we are developing, or their patents may impair our ability to successfully develop and commercialize new products.

Our success with our proprietary products depends, in part, on our ability to protect our current and future innovative products and to defend our intellectual property rights. If we fail to adequately protect our intellectual property, competitors may manufacture and market products similar to ours. We have been issued patents covering our innovative products and processes and have filed, and expect to continue to file, patent applications seeking to protect our newly developed technologies and products in various countries, including the United States. Any existing or future patents issued to or licensed by us may not provide us with any competitive advantages for our products or may even be challenged, invalidated or circumvented by competitors. In addition, such patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products.

We also rely on trade secrets, unpatented proprietary know-how and continuing technological innovation that we seek to protect, in part by confidentiality agreements with licensees, suppliers, employees and consultants. It is possible that these agreements will be breached and we will not have adequate remedies for any such breach. Disputes may arise concerning the ownership of intellectual property or the applicability of confidentiality agreements. Furthermore, our trade secrets and proprietary technology may otherwise become known or be independently developed by our competitors or we may not be able to maintain the confidentiality of information relating to such products.

Changes in the regulatory environment may prevent us from utilizing the exclusivity periods that are important to the success of our generic products.

The policy of the U.S. FDA regarding the award of 180 days of market exclusivity to generic manufacturers who challenge patents relating to specific products continues to be the subject of extensive litigation in the United States. During this 180-day market exclusivity period, the generic manufacturer who won exclusivity relating to the specific product usually is the only company marketing that product. The U.S. FDA's current interpretation of the Hatch-Waxman Act of 1984 is to award 180 days of exclusivity to the first generic manufacturer who files a Paragraph IV certification under the Hatch-Waxman Act challenging the patent of the branded product, regardless of whether that generic manufacturer was sued for patent infringement.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare Prescription Drug Act") amended the Hatch-Waxman Act and provides that the 180-day market exclusivity period is triggered by the commercial marketing of the product, as opposed to the old rule under which the exclusivity period was triggered by a final, non-appealable court decision. However, the Medicare Prescription Drug Act also contains forfeiture provisions, which, if met, will deprive the first Paragraph IV filer of exclusivity. As a result, under certain circumstances, we may not be able to exploit our 180-day exclusivity period since it may be forfeited prior to our being able to market the product.

In addition, legal and administrative disputes with respect to triggering dates and shared exclusivities may also prevent us from fully utilizing the exclusivity periods.

If pharmaceutical companies are successful in limiting the use of generics through their legislative, regulatory and other efforts, our sales of generic products may suffer.

Many pharmaceutical companies increasingly have used state and federal legislative and regulatory means to delay generic competition. These efforts have included:

- pursuing new patents for existing products which may be granted just before the expiration of earlier patents, which could extend patent protection for additional years or otherwise delay the launch of generics;
- selling the brand product as an authorized generic, either by the brand company directly, through an affiliate or by a marketing partner;
- using the Citizen Petition process to request amendments to U.S. FDA standards or otherwise delay generic drug approvals;
- seeking changes to U.S. Pharmacopeia, an organization which publishes industry recognized compendia of drug standards;
- attaching patent extension amendments to non-related federal legislation;
- engaging in state-by-state initiatives to enact legislation that restricts the substitution of some generic drugs, which could have an impact on products that we are developing; and
- seeking patents on methods of manufacturing certain active pharmaceutical ingredients.

If pharmaceutical companies or other third parties are successful in limiting the use of generic products through these or other means, our sales of generic products may decline. If we experience a material decline in generic product sales, our results of operations, financial condition and cash flows will suffer.

If competitors are successful in limiting competition for certain authorized generic products through their legislative, regulatory and litigation efforts, our sales of certain generic products may suffer.

Recently, some U.S. generic pharmaceutical companies who obtained rights to market and distribute under a brand manufacturer's NDA a generic alternative of the brand product (i.e., an "authorized generics" arrangement) have experienced challenges to their ability to distribute authorized generics during a competitors' 180-day period of ANDA exclusivity under the Hatch-Waxman Act. These challenges have come in the form of Citizen Petitions filed with the U.S. FDA, lawsuits alleging violation of the antitrust and consumer protection laws, and seeking legislative intervention. For example, in February 2011, legislation was introduced in both the U.S. Senate and the U.S. House of Representatives that would prohibit the marketing of authorized generics during the 180-day period of ANDA exclusivity under the Hatch-Waxman Act. If distribution of authorized generic versions of brand products is otherwise restricted or found unlawful, our results of operations, financial condition and cash flows could be materially adversely affected.

If we are unable to defend ourselves in patent challenges, we could be subject to injunctions preventing us from selling our products, resulting in a decrease in revenues, or we could be subject to substantial liabilities that would lower our profits.

There has been substantial patent related litigation in the pharmaceutical industry concerning the manufacture, use and sale of various products. In the normal course of business, we are regularly subject to lawsuits and the ultimate outcome of litigation could adversely affect our results of operations, financial condition and cash flow. Regardless of regulatory approval, lawsuits are periodically commenced against us with respect to alleged patent infringements by us, such suits often being triggered by our filing of an application for governmental approval, such as an abbreviated new drug application. The expense of any such litigation and the resulting disruption to our business, whether or not we are successful, could harm our business. The uncertainties inherent in patent litigation make it difficult for us to predict the outcome of any such litigation.

If we are unsuccessful in defending ourselves against these suits, we could be subject to injunctions preventing us from selling our products, resulting in a decrease in revenues, or to damages, which may be substantial. An injunction or substantial damages resulting from these suits could adversely affect our consolidated financial position, results of operations or liquidity.

If we elect to sell a generic product prior to the final resolution of outstanding patent litigation, we could be subject to liabilities for damages.

At times we seek approval to market generic products before the expiration of patents for those products, based upon our belief that such patents are invalid, unenforceable, or would not be infringed by our products. As a result, we are involved in patent litigation, the outcome of which could materially adversely affect our business. Based upon a complex analysis of a variety of legal and commercial factors, we may elect to market a generic product even though litigation is still pending. This could be before any court decision is rendered or while an appeal of a lower court decision is pending. To the extent we elect to proceed in this manner, if the final court decision is adverse to us, we could be required to cease the sale of the infringing products and face substantial liability for patent infringement. These damages may be significant as they may be measured by a royalty on our sales or by the profits lost by the patent owner and not by the profits we earned. Because of the discount pricing typically involved with generic pharmaceutical products, patented brand products generally realize a significantly higher profit margin than generic pharmaceutical products. In the case of a willful infringer, the definition of which is unclear, these damages may even be trebled.

For example, in April 2006, we launched, and continue to sell fexofenadine, the generic version of Allegra®, despite the fact that litigation with the company that holds the patents for and sells this branded product is still ongoing. Also, during the year ended March 31, 2009, we incurred damages of approximately ₹916 million as a result of the German Federal Court of Justice upholding the validity of an olanzapine patent held by Eli Lilly. In Canada, we continue to sell olanzapine tablets (the generic version of Eli Lilly's Zyprexa® tablets) through a partnership with Pharmascience, Inc., despite the fact that Pharmascience has agreed to pay damages if Eli Lilly is successful in its olanzapine patent litigation against Novopharm, and our partnership arrangement with Pharmascience would require us to share a portion of any such damages obligation realized by Pharmascience.

Furthermore, there may be risks involved in entering into in-licensing arrangements for products, which are often conditioned upon the licensee's sharing in the patent-related risks. For example, in the case of our brand "Oxycodon beta" in Germany, our supplier, Cimex Pharma AG, required us to enter into a cost sharing agreement under which we will pay up to 20% of the losses resulting from any innovator damage claims.

For business reasons, we continue to examine such product opportunities (i.e., involving non-expired patents) going forward and this could result in patent litigation, the outcomes of which may impact our profitability.

If we do not maintain and increase our arrangements for overseas distribution of our products, our revenues and net income could decrease.

As of March 31, 2011, our products were marketed in numerous countries. In large overseas markets, our products are usually marketed through our subsidiaries or joint ventures. Since we do not have the resources to market and distribute our products ourselves in all our export markets, we also market and distribute our products through third parties by way of marketing and agency arrangements. These arrangements may be terminated by either party providing the other with notice of termination or when the contract regarding the arrangement expires. We may not be able to successfully negotiate these third party arrangements or find suitable joint venture partners in the future. Any of these arrangements may not be available on commercially reasonable terms. Additionally, our marketing partners may make important marketing and other commercialization decisions with respect to products we develop without our input. As a result, many of the variables that may affect our revenues and net income are not exclusively within our control when we enter into arrangements like these.

If we fail to comply with environmental and climate change laws and regulations, or face environmental litigation, our costs may increase or our revenues may decrease.

We may incur substantial costs complying with requirements of environmental laws and regulations. In addition, we may discover currently unknown environmental problems or conditions. In all countries in which we have production facilities, we are subject to significant environmental laws and regulations which govern the discharge, emission, storage, handling and disposal of a variety of substances that may be used in or result from our operations. In the normal course of our business, we are exposed to risks relating to possible releases of hazardous substances into the environment, which could cause environmental or property damage or personal injuries, and which could require remediation of contaminated soil and groundwater, which could cause us to incur substantial remediation costs that could adversely affect our consolidated financial position, results of operations or liquidity.

If any of our plants or the operations of such plants are shut down, it may severely hamper our ability to supply our customers and we may continue to incur costs in complying with regulations, appealing any decision to close our facilities, maintaining production at our existing facilities and continuing to pay labor and other costs, which may continue even if the facility is closed. As a result, our overall operating expenses may increase and our profits may decrease.

There has been increasing worldwide concern about global climate change in recent years. A number of international, national and regional measures to limit greenhouse gas emissions have been enacted. For example, more than 160 nations are signatories to the 1992 Framework Convention on Global Climate Change, commonly known as the "Kyoto Protocol". The Kyoto Protocol is set to expire in 2012. The nations subject to the Kyoto Protocol have not yet reached agreement upon a successor to the Kyoto Protocol, but the parties have "taken note of" the Copenhagen Accord, a voluntary agreement to work to curb climate change. The majority of our manufacturing plants are based in India, which currently has sustainability requirements that are largely voluntary, and therefore we do not anticipate any material impact on our operations in the foreseeable future from climate change laws. However, there can be no assurance that India or other countries in which we operate will not in the future enact legislation focused on reducing climate change that could impact our operations. We intend to keep track of further developments on this in future fiscal periods.

Our equity shares and our ADSs may be subject to market price volatility, and the market price of our equity shares and ADSs may decline disproportionately in response to adverse developments that are unrelated to our operating performance.

Market prices for the securities of Indian pharmaceutical companies, including our own, have historically been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Factors such as the following can have an adverse effect on the market price of our ADSs and equity shares:

- general market conditions,
- speculative trading in our shares and ADSs, and
- developments relating to our peer companies in the pharmaceutical industry.

If the world economy is affected due to terrorism, wars or epidemics, it may adversely affect our business and results of operations.

Several areas of the world, including India, have experienced terrorist acts and retaliatory operations in recent years. If the economy of our key markets (including but not limited to the United States, the United Kingdom, Germany and, among the emerging markets, India and Russia) is affected by such acts, our business and results of operations may be adversely affected as a consequence.

In recent years, Asia experienced outbreaks of avian influenza and Severe Acute Respiratory Syndrome, or “SARS”. In addition, a rising death toll in Mexico from a new strain of Swine Flu led the World Health Organization to declare a public health emergency of international concern. If the economy of our key markets is affected by such outbreaks or other epidemics, our business and results of operations may be adversely affected as a consequence.

If we have difficulty in identifying acquisition candidates or consummating acquisitions, our competitiveness and our growth prospects may be harmed.

In order to enhance our business, we frequently seek to acquire or make strategic investments in complementary businesses or products, or to enter into strategic partnerships or alliances with third parties. It is possible that we may not identify suitable acquisition, strategic investment or strategic partnership candidates, or if we do identify suitable candidates, we may not complete those transactions on terms commercially acceptable to us. We compete with others to acquire companies, and we believe that this competition has intensified and may result in decreased availability or increased prices for suitable acquisition candidates. Even after we identify acquisition candidates and/or announce that we plan to acquire a company, we may ultimately fail to consummate the acquisition. For example, we may be unable to obtain necessary acquisition financing on terms satisfactory to us or may be unable to obtain necessary regulatory approvals, including the approval of antitrust regulatory bodies. The inability to identify suitable acquisition targets or investments or the inability to complete such transactions and the management and financial resources required to pursue such transactions may affect our competitiveness and our growth prospects.

If we acquire other companies, our business may be harmed by difficulties in integration and employee retention, unidentified liabilities of the acquired companies, or obligations incurred in connection with acquisition financings.

All acquisitions involve known and unknown risks that could adversely affect our future revenues and operating results. For example:

- We may fail to successfully integrate our acquisitions in accordance with our business strategy.
- The initial rationale for the acquisition may not remain viable due to a variety of factors, including unforeseen regulatory changes and market dynamics after the acquisition, and this may result in a significant delay and/or reduction in the profitability of the acquisition.

- Integration of acquisitions may divert management’s attention away from our primary product offerings, resulting in the loss of key customers and/or personnel, and may expose us to unanticipated liabilities.
- We may not be able to retain the skilled employees and experienced management that may be necessary to operate the businesses we acquire. If we cannot retain such personnel, we may not be able to locate or hire new skilled employees and experienced management to replace them.
- We may purchase a company that has contingent liabilities that include, among others, known or unknown patent or product liability claims.
- Our acquisition strategy may require us to obtain additional debt or equity financing, resulting in additional leverage, or increased debt obligations as compared to equity, and dilution of ownership.
- We may purchase companies located in jurisdictions where we do not have operations and as a result we may not be able to anticipate local regulations and the impact such regulations have on our business.

In addition, if we make one or more significant acquisitions in which the consideration includes equity shares or other securities, equity interests in us held by holders of the equity shares may be significantly diluted and may result in a dilution of earnings per equity share. If we make one or more significant acquisitions in which the consideration includes cash, we may be required to use a substantial portion of our available cash or incur a significant amount of debt or otherwise arrange additional funds to complete the acquisition, which may result in a decrease in our net income and a consequential reduction in our earnings per equity share.

Our principal shareholders have significant control over us and, if they take actions that are not in the best interests of our minority shareholders, the value of their investment in our ADSs may be harmed.

Our full time directors and members of their immediate families, in the aggregate, beneficially owned 25.65% of our issued shares as at March 31, 2011. As a result, these people, acting in concert, are likely to have the ability to exercise significant control over most matters requiring approval by our shareholders, including the election and removal of directors and significant corporate transactions. This significant control by these directors and their family members could delay, defer or prevent a change in control of us, impede a merger, consolidation, takeover or other business combination involving us, or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, even if that was in our best interest. As a result, the value of the ADSs of our minority shareholders may be adversely affected or our minority shareholders might be deprived of a potential opportunity to sell their ADSs at a premium.

If we improperly handle any of the dangerous materials used in our business and accidents result, we could face significant liabilities that would lower our profits.

We handle dangerous materials including explosive, toxic and combustible materials like sodium azide, acrolein and acetyl chloride. If improperly handled or subjected to the wrong conditions, these materials could hurt our employees and other persons, cause damage to our properties and harm the environment. Also, increases in business and operations in our plants, and the consequent hiring of new employees, can pose increased safety hazards. Such hazards need to be addressed through training, industrial hygiene assessments and other safety measures and, if not carried out, can lead to industrial accidents. Any of the foregoing could subject us to significant litigation, which could lower our profits in the event we were found liable, and could also adversely impact our reputation.

If there is delay and/or failure in supplies of materials, services and finished goods from third parties or failure of finished goods from our key manufacturing sites, it may adversely affect our business and results of operations.

In some of our businesses, we rely on third parties for the timely supply of active pharmaceutical ingredients (“API”), specified raw materials, equipment, formulation or packaging services and maintenance services, and in some cases there could be a single source of supply. For instance, we rely on third party manufacturers for a part of the supply of finished dosages sold in Germany. Although, we actively manage these third party relationships to ensure continuity of supplies and services on time and to our required specifications, events beyond our control could result in the complete or partial failure of supplies and services or in supplies and services not being delivered on time. Any such failure could adversely affect our results of business and results of operations.

In the event that we experience a shortage in our supply of raw materials, we might be unable to fulfill all of the API needs of our Global Generics segment, which could result in a loss of production capacity for this segment. In addition, this could result in a conflict between the API needs of our Global Generics segment and the needs of customers of our Pharmaceutical Services and Active Ingredients segment, some of whom are also our competitors in the Global Generics segment. In either case, we could potentially lose business from adversely affected customers and we could be subjected to lawsuits.

Our key generics manufacturing sites also may have capacity constraints and, at times, we may not be able to generate sufficient supplies of finished goods, which may adversely affect our business or results of operations. Moreover, we may continue to be dependent on vendors, strategic partners and alliance partners for supplies of some of our existing products and new generic launches. Any unanticipated capacity or supply related constraints affecting such vendors, strategic partners or alliance partners can adversely affect our business or results of operations.

If, as we expand into new international markets, we fail to adequately understand and comply with the local laws and customs, these operations may incur losses or otherwise adversely affect our business and results of operations.

Currently, we operate our business in certain countries through subsidiaries and equity investees or through supply and marketing arrangements with our alliance partners. In those countries, where we have limited experience in operating subsidiaries and in reviewing equity investees, we are subject to additional risks related to complying with a wide variety of national and local laws, including restrictions on the import and export of certain intermediates, drugs, technologies and multiple and possibly overlapping tax structures. In addition, we may face competition in certain countries from companies that may have more experience with operations in such countries or with international operations generally. We may also face difficulties integrating new facilities in different countries into our existing operations, as well as integrating employees that we hire in different countries into our existing corporate culture. If we do not effectively manage our operations in these subsidiaries and review equity investees effectively, or if we fail to manage our alliances, we may lose money in these countries and it may adversely affect our business and results of operations.

Fluctuations in exchange rates and interest rate movements may adversely affect our business and results of operations.

Our principal subsidiaries are located in the United States, United Kingdom, Germany, Switzerland, Mexico and Russia and each has significant local operations. A significant portion of our revenues are in currencies other than the Indian rupee, especially the U.S. dollar, euro, rouble and pound sterling, while a significant portion of our costs are in Indian rupees. As a result, if the value of the Indian rupee appreciates relative to these other currencies, our revenues measured in rupees may decrease.

We entered into a bank loan facility in connection with our acquisition of betapharm in the year ended March 31, 2006, although the loans were repaid and the facility was terminated during the year ended March 31, 2011. In the future, we may enter into additional borrowing arrangements in connection with acquisitions or for general working capital purposes. In the event interest rates increase, our costs of borrowing will increase and our results of operations may be adversely affected.

Our success depends on our ability to retain and attract key qualified personnel and, if we are not able to retain them or recruit additional qualified personnel, we may be unable to successfully develop our business.

We are highly dependent on the principal members of our management and scientific staff, the loss of whose services might significantly delay or prevent the achievement of our business or scientific objectives. In India, it is not our practice to enter into employment agreements with our executive officers and key employees that are as extensive as are generally used in the United States, and each of those executive officers and key employees may terminate their employment upon notice and without cause or good reason. Currently, we are not aware of any executive officer's or key employee's departure which has had, or planned departure which is expected to have, any material impact on our operations. Competition among pharmaceutical companies for qualified employees is intense, and the ability to retain and attract qualified individuals is critical to our success. There can be no assurance that we will be able to retain and attract such individuals currently or in the future on acceptable terms, or at all, and the failure to do so would have a material adverse effect on our business, financial condition and results of operations. In addition, we do not maintain "key person" life insurance on any officer, employee or consultant.

We operate in a highly competitive and rapidly consolidating industry.

Our competitors, which include major multinational corporations, are consolidating, and the strength of the combined companies could affect our competitive position in all of our business areas. Furthermore, if one of our competitors or their customers acquires any of our customers or suppliers, we may lose business from the customer or lose a supplier of a critical raw material.

We have grown at a very rapid pace. Our inability to properly manage or support this growth may have a material adverse effect on our business.

We have grown very rapidly over the past few years, including growth through our acquisitions of companies and brands. This growth has significantly increased demands on our processes, systems and people. We have been making additional investments in personnel, systems and internal control processes to help manage our growth. Attracting, retaining and motivating key employees in various departments and locations to support our growth is critical to our business, and competition for these people can be intense. Furthermore, to facilitate our growth, we are carrying out reorganizations to improve our focus on delivery, to build decisive competitive advantages or/and to build sustainable cost structures. There is also an increasing need to manage information and asset related security. If we are unable to hire and retain qualified employees, or if we do not invest in systems and processes to manage and support our rapid growth, the failure to do so may have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in our quarterly revenues, operating results and cash flows may adversely affect the trading price of our shares and ADSs.

Our quarterly revenues, operating results and cash flows have fluctuated significantly in the past and may fluctuate substantially from quarter to quarter in the future. Such fluctuations may result in volatility in the price of our equity shares and our ADSs. Our quarterly revenues, operating results and cash flows may fluctuate as a result of a variety of factors, including but not limited to:

- changes in demand for our products;
- the impact of seasons (weather severity, length and timing) on the price and availability of raw materials which we depend on;
- the timing of regulatory approvals and of launches of new products by us and our competitors, particularly where we obtain the 180-day period of market exclusivity in the United States provided under the Hatch-Waxman Act of 1984;
- changes in our pricing policies or those of our competitors;
- the magnitude and timing of our research and development investments;
- changes in the level of inventories maintained by our customers;
- the geographical mix of our sales and currency exchange rate fluctuations;
- adverse market events leading to impairment of any of our assets; and
- timing of our retailers' promotional programs.

Due to all of the foregoing factors, our revenues, operating results and cash flows are difficult to predict and may not meet the expectations of market analysts and investors. In such an event, the trading price of our shares and ADSs may be materially adversely affected.

Significant disruptions of information technology systems could adversely affect our business.

Our business is dependent upon increasingly complex and interdependent information technology systems, including Internet-based systems, to support business processes as well as internal and external communications. While we mitigate the risks of and facilitate rapid recovery from system-downtimes through backup servers and other arrangements with our vendors, significant breakdown or interruption of these systems, whether due to computer viruses or other causes, may result in the loss of key information and/or disruption of production and business processes, which could materially and adversely affect our business.

In addition, our systems are potentially vulnerable to data security breaches—whether by employees or others—which may expose sensitive data to unauthorized persons. Such data security breaches could lead to the loss of trade secrets or other intellectual property, or could lead to the public exposure of personal information (including sensitive personal information) of our employees, clinical trial patients, customers and others. Such breaches of security could have a material adverse effect on our business, financial condition and results of operations.

Increasing use of social media could give rise to liability or breaches of data security.

We and our business associates are increasingly relying on social media tools as a means of communications. To the extent that we seek as a company to use these tools as a means to communicate about our products or about the diseases our products are intended to treat, there are significant uncertainties as to either the rules that apply to such communications, or as to the interpretations that health authorities will apply to the rules that exist. As a result, despite our efforts to comply with applicable rules, there is a significant risk that our use of social media for such purposes may cause us to nonetheless be found in violation of them. In addition, because of the universal availability of social media tools, our associates may make use of them in ways that may not be sanctioned by us, and which may give rise to liability, or which could lead to the loss of trade secrets or other intellectual property, or could lead to the public exposure of personal information (including sensitive personal information) of our employees, clinical trial patients, customers and others. In either case, such uses of social media could have a material adverse effect on our business, financial condition and results of operations.

A relatively small group of products may represent a significant portion of our net revenues, gross profit or net earnings from time to time.

Sales of a limited number of products may represent a significant portion of our net revenues, gross profit and net earnings. If the volume or pricing of our largest selling products declines in the future, our business, financial position and results of operations could be materially adversely affected.

If our intercompany arrangements are challenged and determined to be inappropriate, our tax liabilities could increase.

We have potential tax exposures resulting from the varying application of statutes, regulations and interpretations, including exposures with respect to manufacturing, research and development, marketing, sales and distribution functions. Although our arrangements are based on accepted tax standards, tax authorities in various jurisdictions may disagree with and subsequently challenge the amount of profits taxed in such jurisdictions, which may increase our tax liabilities and could have a material adverse effect on the results of our operations.

We enter into various agreements in the normal course of business which periodically incorporate provisions whereby we indemnify the other party to the agreement.

In the normal course of business, we periodically enter into agreements with vendors, customers, alliance partners, innovators and others which incorporate terms for indemnification provisions. Our indemnification obligations under such agreements may be unlimited in duration and amount. We maintain insurance coverage which we believe will effectively mitigate our obligations under certain of these indemnification provisions (for example, in the case of outsourced clinical trials). However, should our obligations under an indemnification provision exceed our coverage or should coverage be denied, it could have a material adverse impact on our business, financial position and results of operations.

Current economic conditions may adversely affect our industry, financial position and results of operations.

In recent years, the global economy has experienced volatility and an unfavorable economic environment, and these trends may continue in the future. Reduced consumer spending, or shifting concentrations of payors and their preferences, may force our competitors and us to reduce prices. We have exposure to many different industries and counterparties, including our partners under our alliance, research and promotional services agreements, suppliers of raw materials, drug wholesalers and other customers, who may be unstable or may become unstable in the current economic environment.

Significant changes and volatility in the consumer environment and in the competitive landscape may make it increasingly difficult for us to predict our future revenues and earnings.

We are subject to the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws, which impose restrictions and may carry substantial penalties.

The U.S. Foreign Corrupt Practices Act, the recently enacted U.K. Bribery Act and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to officials for the purpose of obtaining or retaining business. These laws may require not only accurate books and records, but also sufficient controls, policies and processes to ensure business is conducted without the influence of bribery and corruption. Our policies mandate compliance with these anti-bribery laws, which often carry substantial penalties including fines, criminal prosecution and potential debarment from public procurement contracts. Failure to comply may also result in reputational damages. Given the high level of complexity of these laws, however, there is a risk that some provisions may be inadvertently breached, for example through fraudulent or negligent behavior of individual employees, our failure to comply with certain formal documentation requirements or otherwise. Any violation of these laws or allegations of such violations, whether or not merited, could have a material adverse effect on our reputation and could cause the trading price of our ordinary shares and ADSs to decline.

Finally, we operate in certain jurisdictions that have experienced governmental corruption to some degree or are found to be low on the Transparency International Corruption Perceptions Index, in some circumstances, anti-bribery laws may conflict with some local customs and practices. As a result of our policy to comply with the U.S. Foreign Corrupt Practices Act and similar anti-bribery laws, we may be at a competitive disadvantage to competitors that are not subject to, or do not comply with, such laws in jurisdictions that have experienced higher levels of bribery and corruption.

Certain natural disasters, such as drought, floods, earthquakes or volcanic eruptions, could adversely affect our production operations or result in disruptions in distribution channels or supply chains, and cause our revenues to decline.

If flooding, droughts, earthquakes, volcanic eruptions or other natural disasters were to directly damage, destroy or disrupt our manufacturing facilities, it could disrupt our operations, delay new production and shipments of existing inventory or result in costly repairs, replacements or other costs, all of which would negatively impact our business. Our main facilities are situated around Hyderabad, India. This region has experienced earthquakes, floods and droughts in the past and has experienced droughts in recent years. In the event of a drought so serious that the drinking water in the region is limited, the Government of India could cut the supply of water to all industries, including our facilities. This would adversely affect our production operations and reduce our revenues. Even if we take precautions to provide back-up support in the event of such a natural disaster, the disaster may nonetheless affect our facilities, harming production and ultimately our business. Even if our manufacturing facilities are not directly damaged, a large natural disaster may result in disruptions in distribution channels or supply chains. The impact of such occurrences depends on the specific geographic circumstances but could be significant. There is increasing concern that climate change is occurring and may have dramatic effects on human activity without aggressive remediation steps. A modest change in temperature may cause a rising number of natural disasters. We cannot predict the economic impact, if any, of natural disasters or climate change.

RISKS RELATING TO INVESTMENTS IN INDIAN COMPANIES

We are an Indian company. Our headquarters are located in India, a substantial part of our operations are conducted in India and a significant part of our infrastructure and other assets are located in India. In addition, a portion of our total revenues for the year ended March 31, 2011 continued to be derived from sales in India. As a result, the following additional risk factors apply.

A slowdown in economic growth in India may adversely affect our business and results of operations.

Our performance and the quality and growth of our business are necessarily dependent on the health of the overall Indian economy. The Indian economy has grown significantly over the past few years. Any future slowdown in the Indian economy could harm us, our customers and other contractual counterparties. In addition, the Indian economy is in a state of transition. The share of the services sector of the economy is rising while that of the industrial, manufacturing and agricultural sector is declining. It is difficult to gauge the impact of these fundamental economic changes on our business.

If communal disturbances or riots erupt in India, or if regional hostilities increase, this would adversely affect the Indian economy, which our business depends upon.

India has experienced communal disturbances, terrorist attacks and riots during recent years. For example, Mumbai, India's commercial capital, was the target of serial railway bombings in July 2006 as well as the "26/11" attacks on November 26, 2008. Hyderabad, the city in which we are headquartered, was also subjected to terrorist acts in May and August 2007. In May 2008, the city of Jaipur in the state of Rajasthan, India was subjected to a series of co-ordinate bombings. If such disturbances continue or are exacerbated, our operational, sales and marketing activities may be adversely affected.

During the years ended March 31, 2010 and 2011, the state of Andhra Pradesh, where our headquarters is located, experienced political turbulence relating to a separatist movement seeking to bifurcate the existing state of Andhra Pradesh into two separate states of "Telangana" and "Andhra". Due to civil disturbances and "Bandhs" (i.e., political protests in the form of worker strikes) called for, several productive days were lost from forced or precautionary closures of our production units and offices. If there are further strikes, political protests or civil unrest, our business and results of operations may be adversely affected as a consequence.

Additionally, India has from time to time experienced hostilities with neighboring countries. The hostilities have continued sporadically. The hostilities between India and Pakistan are particularly threatening, because both India and Pakistan are nuclear powers. Hostilities and tensions may occur in the future and on a wider scale. These hostilities and tensions could lead to political or economic instability in India and harm our business operations, our future financial performance and the price of our shares and our ADSs.

If wage costs or inflation rise in India, it may adversely affect our competitive advantages over higher cost countries and our profits may decline.

Wage costs in India have historically been significantly lower than wage costs in developed countries and have been one of our competitive strengths. However, wage increases in India may increase our costs, reduce our profit margins and adversely affect our business and results of operations.

Due to various macro-economic factors, the rate of inflation has recently increased in India. According to the economic report released by the Department of Economic Affairs, Ministry of Finance in India, the annual inflation rate in India, as measured by the benchmark wholesale price index, Base 1993-94=100 was 9.4% for the year ended March 31, 2011 (as compared to 9.90% for the year ended March 31, 2010). This trend may continue and the rate of inflation may further rise. We may not be able to pass these costs on to our customers by increasing the price we charge for our products. If this occurs, our profits may decline.

Stringent labor laws may adversely affect our ability to have flexible human resource policies; labor union problems could negatively affect our production capacity and overall profitability.

Labor laws in India are more stringent than in other parts of the world. These laws may restrict our ability to have human resource policies that would allow us to react swiftly to the needs of our business. Approximately 8% of our employees belong to a number of different labor unions. If we experience problems with our labor unions, our production capacity and overall profitability could be negatively affected.

Indian law imposes certain restrictions that limit a holder's ability to transfer the equity shares obtained upon conversion of ADSs and repatriate the proceeds of such transfer, which may cause our ADSs to trade at a premium or discount to the market price of our equity shares.

Under certain circumstances, the Reserve Bank of India must approve the sale of equity shares underlying ADSs by a non-resident of India to a resident of India. The Reserve Bank of India has given general permission to effect sales of existing shares or convertible debentures of an Indian company by a resident to a non-resident, subject to certain conditions, including the price at which the shares may be sold. Additionally, except under certain limited circumstances, if an investor seeks to convert the rupee proceeds from a sale of equity shares in India into foreign currency and then repatriate that foreign currency from India, he or she will have to obtain an additional approval from the Reserve Bank of India for each such transaction. Required approval from the Reserve Bank of India or any other government agency may not be obtained on terms favorable to a non-resident investor or at all.

There are limits and conditions to the deposit of shares into the ADS facility.

Indian legal restrictions may limit the supply of our ADSs. The only way to add to the supply of our ADSs will be through a primary issuance because the depository is not permitted to accept deposits of our outstanding shares and issue ADSs representing those shares. However, an investor in our ADSs who surrenders an ADS and withdraws our shares will be permitted to redeposit those shares in the depository facility in exchange for our ADSs. In addition, an investor who has purchased our shares in the Indian market will be able to deposit them in the ADS program, but only in a number that does not exceed the number of underlying shares that have been withdrawn from and not re-deposited into the depository facility. Moreover, there are restrictions on foreign institutional ownership of our shares as opposed to our ADSs.

There may be less company information available in Indian securities markets than securities markets in developed countries.

There is a difference between the level of regulation and monitoring of the Indian securities markets over the activities of investors, brokers and other participants, as compared to the level of regulation and monitoring of markets in the United States and other developed economies. The Securities and Exchange Board of India is responsible for improving disclosure and other regulatory standards for the Indian securities markets. The Securities and Exchange Board of India has issued regulations and guidelines on disclosure requirements, insider trading and other matters. There may, however, be less publicly available information about Indian companies than is regularly made available by public companies in developed countries, which could affect the market for our equity shares.

Indian stock exchange closures, broker defaults, settlement delays, and Indian Government regulations on stock market operations could affect the market price and liquidity of our equity shares.

The Indian securities markets are smaller than the securities markets in the United States and Europe and have experienced volatility from time to time. The regulation and monitoring of the Indian securities market and the activities of investors, brokers and other participants differ, in some cases significantly, from those in the United States and some European countries. Indian stock exchanges have at times experienced problems, including temporary exchange closures, broker defaults and settlement delays and if similar problems were to recur, they could affect the market price and liquidity of the securities of Indian companies, including our shares. Furthermore, any change in Indian Government regulations of stock markets could affect the market price and liquidity of our shares.

Financial instability in other countries, particularly emerging market countries in Asia, could affect our business and the price and liquidity of our shares and our ADSs.

The Indian markets and the Indian economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can have adverse effects on the securities of companies in other countries, including India. Any worldwide financial instability or any loss of investor confidence in the financial systems of Asian or other emerging markets could increase volatility in Indian financial markets or adversely affect the Indian economy in general. Either of these results could harm our business, our future financial performance and the price of our shares and ADSs.

If U.S. investors in our ADSs are unable to exercise preemptive rights available to our non-U.S. shareholders due to the registration requirements of U.S. securities laws, the investment of such U.S. investors in our ADSs may be diluted.

A company incorporated in India must offer its holders of shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any shares, unless these rights have been waived by at least 75% of the company's shareholders present and voting at a shareholders' general meeting. U.S. investors in our ADSs may be unable to exercise preemptive rights for the shares underlying our ADSs unless a registration statement under the Securities Act of 1933 is effective with respect to the rights or an exemption from the registration requirements of the Securities Act is available. Our decision to file a registration statement will depend on the costs and potential liabilities associated with a registration statement as well as the perceived benefits of enabling U.S. investors in our ADSs to exercise their preemptive rights and any other factors we consider appropriate at the time. We might choose not to file a registration statement under these circumstances. If we issue any of these securities in the future, such securities may be issued to the depositary, which may sell them in the securities markets in India for the benefit of the investors in our ADSs. There can be no assurances as to the value, if any, the depositary would receive upon the sale of these securities. To the extent that U.S. investors in our ADSs are unable to exercise preemptive rights, their proportional interests in us would be reduced.

If there is a change in tax regulations, it may increase our tax liabilities and thus adversely affect our financial results.

Currently, we enjoy various tax benefits and exemptions under Indian tax laws. Any changes in these laws or their application in matters such as tax exemption on exportation income, research and development spending and transfer pricing, may increase our tax liability and thus adversely affect our financial results.

We operate in jurisdictions that impose transfer pricing and other tax-related regulations on us, and any failure to comply could materially and adversely affect our profitability.

We are required to comply with various transfer pricing regulations in India and other countries. Failure to comply with such regulations may impact our effective tax rates and consequently affect our net margins. Additionally, we operate in numerous countries and our failure to comply with the local and municipal tax regimes may result in additional taxes, penalties and enforcement actions from such authorities. In the event that we do not properly comply with transfer pricing and tax-related regulations, our profitability may be adversely affected.

ITEM 4. INFORMATION ON THE COMPANY

4.A. History and development of the company

Dr. Reddy's Laboratories Limited was incorporated in India under the Companies Act, 1956, by its promoter and our current Chairman, Dr. K. Anji Reddy, as a Private Limited Company on February 24, 1984. We were converted to a Public Limited Company on December 6, 1985 and listed on the Indian Stock Exchanges in August 1986 and on the New York Stock Exchange on April 11, 2001. We are registered with the Registrar of Companies, Andhra Pradesh, Hyderabad, India as Company No. 4507 (Company Identification No. U85195AP1984 PLC 004507). Our registered office is situated at 8-2-337, Road No. 3, Banjara Hills, Hyderabad, Andhra Pradesh 500 034, India and the telephone number of our registered office is +91-40-49002900. The name and address of our registered agent in the United States is Dr. Reddy's Laboratories, Inc., 200 Somerset Corporate Boulevard (Bldg II), Bridgewater, New Jersey 08807.

Key business developments:

On April 23, 2010, we launched amlodipine benazepril capsules (2.5 mg/10 mg, 5 mg/10 mg, 5 mg/20 mg and 10mg/20mg), a bioequivalent generic version of Novartis' Lotrel® capsules, in the United States. In September 2009, we entered into a settlement agreement with Novartis for the dismissal of lawsuits in the United States related to amlodipine benazepril. The United States Food and Drug Administration ("U.S. FDA") approved our abbreviated new drug application ("ANDA") for amlodipine benazepril on April 15, 2010. Amlodipine benazepril is indicated for the treatment of hypertension in patients not adequately controlled with either agent and is taken once daily. According to IMS Health, amlodipine benazepril had a total annual market size of \$1.04 billion in the United States at the time of our generic launch.

On May 20, 2010, we launched tacrolimus capsules (0.5 mg, 1 mg and 5 mg), a bioequivalent generic version of Astellas Pharma Inc.'s Prograf® capsules, in the United States. The U.S. FDA approved our ANDA for tacrolimus capsules on May 13, 2010. Tacrolimus is indicated for the prophylaxis of organ rejection in patients receiving allogeneic liver, kidney or heart transplants. According to IMS Health, tacrolimus had a total annual market size of \$955 million in the United States at the time of our generic launch.

In August 2010, Dr. Reddy's Laboratories (Proprietary) Limited became our wholly-owned subsidiary in South Africa as a result of our acquisition of the remaining 40% non-controlling interest from Calshel Investments 214 (Proprietary) Limited. Previously we held a controlling interest of 60% in Dr. Reddy's Laboratories (Proprietary) Limited. South Africa is an important market and we are looking at increasing our presence, especially in the areas of central nervous system disorders, oncology and women's health.

On August 9, 2010, we launched Cresp® — the first biosimilar darbepoetin alfa in the world, and the only darbepoetin alfa in India. Cresp® has been approved in India for the treatment of anemia due to chronic kidney disease and anemia due to chemotherapy. Darbepoetin alfa is a modified version of epoetin alfa (rHuEPO), which is engineered to have a longer half life, increasing (up to 3 times) the time it remains in the blood. This results in a reduced frequency of doses, providing a simpler and more convenient treatment option for patients and physicians as compared to treatment of anemia with epoetin which is the current standard of care in India. Cresp® offers convenient dosing, predictable rise and excellent long term control of hemoglobin.

On October 22, 2010, we launched lansoprazole delayed-release capsules (15 mg and 30 mg), a bioequivalent generic version of Prevacid® Delayed-Release Capsules, in the United States. The U.S. FDA approved our ANDA for lansoprazole delayed-release capsules on October 15, 2010. Lansoprazole is indicated for acid-reflux disorders (gastroesophageal reflux disease), peptic ulcer disease, duodenal ulcers, esophagitis, and Zollinger-Ellison syndrome. According to IMS Health, lansoprazole had a total annual market size of \$1.4 billion in the United States at the time of our generic launch.

On October 25, 2010 we entered into an agreement with Cipla Limited for exclusive marketing rights of a portfolio of over-the-counter and prescription products in the Russian and Ukraine markets. As per the agreement, we have initiated sales and promotion of this portfolio of products from the quarter ended June 30, 2011 in select therapy areas in Russia. We anticipate that sales will be launched in Ukraine in calendar year 2012.

On November 15, 2010, the U.S. District Court of New Jersey granted our motion for summary judgment against AstraZeneca with respect to their claims of our infringement of AstraZeneca's zafirlukast product, Accolate®, clearing the way for the launch of our generic version of the product. On November 18, 2010, the U.S. FDA approved our ANDA for zafirlukast tablets and we launched the product on November 19, 2010. According to IMS Health, zafirlukast had a total annual market size of \$50 million in the United States at the time of our generic launch.

On December 20, 2010 we entered into a licensing, technology transfer, manufacturing and marketing agreement with R-Pharm of Russia. The collaboration is in the area of high-technology and works on a profit sharing model. It entails licensing of manufacturing know-how of products by us, local manufacturing of products in Russia, co-development of high technology products and knowledge sharing between both parties at regular intervals.

In January 2011, we entered into a settlement agreement with AstraZeneca regarding our ANDA submission for a generic version of AstraZeneca's esomeprazole product, Nexium® delayed-release capsules. Under the terms of the agreement, AstraZeneca has granted us a license, subject to regulatory approval, to launch a generic version of esomeprazole delayed-release capsules on May 27, 2014, or earlier in certain circumstances.

On January 20, 2011 we launched pantoprazole sodium delayed-release tablets (20 mg and 40 mg strengths), a bioequivalent generic version of Pfizer Inc.'s Protonix® tablets in the United States. The U.S. FDA approved our ANDA for pantoprazole sodium delayed-release tablets on January 19, 2011. According to IMS Health, pantoprazole had a total annual market size of \$1.8 billion in the United States at the time of our generic launch.

On January 31, 2011, we launched fexofenadine-pseudoephedrine (180/240 mg) in the United States after the Federal District Court for the District of New Jersey lifted the preliminary injunction previously granted to Sanofi-Aventis. The U.S. FDA, which had previously only approved fexofenadine for prescription sales in the United States, approved fexofenadine for over-the-counter sales in the United States in January 2011. We were allowed to liquidate our inventory in the United States after the approval of over-the-counter sales and this limited period launch contributed to our growth for the year ended March 31, 2011.

On March 24, 2011 we issued bonus debentures carrying a face value of ₹5 each in the ratio of 6 debentures for each equity share held by our shareholders as on March 18, 2011. These bonus debentures have a maturity of 36 months, at which time we must redeem them for cash in an amount equal to the face value of ₹5 each plus unpaid interest, if any. These debentures carry interest at the rate of 9.25% per annum, payable at the end of every 12, 24 and 36 months from the date of issue.

On March 25, 2011, we launched levocetirizine tablets (5 mg), a bioequivalent generic version of UCG's Xyzal® tablets, in the United States. The U.S. FDA approved our ANDA for levocetirizine tablets on February 24, 2011. According to IMS Health, levocetirizine had a total annual market size of \$238 million in the United States at the time of our generic launch.

On March 29, 2011, we acquired from GlaxoSmithKline plc ("GSK") a penicillin-based antibiotics manufacturing site in Bristol, Tennessee, U.S.A, the product rights for GSK's Augmentin® (branded and generic) and Amoxil® brands of oral penicillin-based antibiotics in the United States (GSK retained the existing rights for these brands outside the United States), certain raw materials and finished goods inventory associated with Augmentin®, and rights to receive certain transitional services from GSK. The acquisition enables us to enter the U.S. oral antibiotics market with a comprehensive product filing and a dedicated manufacturing site.

On March 31, 2011, through our wholly owned subsidiary Promius Pharma LLC, we entered into a collaboration agreement with Coria Laboratories Limited (a subsidiary of Valeant Pharmaceuticals International, Inc.) ("Coria") for the right to manufacture, distribute and market its Cloderm® (clocortolone pivalate 0.1%) product in the United States. Cloderm® is a cream used for treating dermatological inflammation, and is an existing U.S. FDA approved product. In addition to acquiring all relevant U.S. FDA product regulatory approvals and intellectual property rights (other than trademarks) associated with Cloderm®, we also acquired an underlying raw material supply contract and an exclusive license to use the trademark "Cloderm®" for a period of 8 years. The rights and ownership of this trademark are to be transferred from Coria to us at the end of the 8th year, subject to our payment of all royalties under the contract.

In order to build a robust generics pipeline, in the year ended March 31, 2011 we filed 21 ANDAs in the United States. Cumulatively, we have 179 ANDAs (including ANDAs through partnerships). A total of 76 ANDAs were pending approval at the U.S. FDA, of which 38 are Paragraph IV filings and 10 have first to file status. In our Pharmaceutical Services and Active Ingredients segment we filed 56 Drug Master Files ("DMF") in the year ended March 31, 2011 worldwide, 19 of which were filed in the United States, 7 in Europe and 30 in other countries. As of March 31, 2011, we had made a total of 486 DMF filings worldwide.

During the years ended March 31, 2011, 2010 and 2009, we invested ₹8,849 million, ₹4,068 million and ₹4,426 million (net of sales of capital assets), respectively, in capital expenditures for manufacturing, research and development facilities and other assets. We believe that these investments will create the capacity to support our strategic growth agenda. We also had contractual commitments of approximately ₹3,459 million for capital expenditures. These commitments included approximately ₹3,365 million to be spent in India and ₹94 million in other countries.

During the years ended March 31, 2011, 2010 and 2009, no third party made any public takeover offers in respect of our shares and we did not make any public offers to take over any other company.

4.B. Business overview

Established in 1984, we are an integrated global pharmaceutical company committed to providing affordable and innovative medicines through our three core business segments:

- our Global Generics segment, which includes branded and unbranded prescription and over-the-counter (“OTC”) drug products business;
- our Pharmaceutical Services and Active Ingredients (“PSAI”) segment, which consists of our Active Pharmaceutical Ingredients business and our Custom Pharmaceutical Services business; and
- our Proprietary Products segment, which consists of our Generic Biopharmaceuticals business, our New Chemical Entities (“NCEs”) business, our Differentiated Formulations business and our dermatology focused specialty business operated through Promius™ Pharma.

We have a strong presence in highly regulated markets such as the United States, the United Kingdom and Germany, as well as in emerging markets such as India, Russia, Venezuela, Romania and certain countries of the former Soviet Union.

OUR STRATEGY

The high cost of many medicines puts them out of the reach of millions of people who desperately need them. Our core purpose is to provide affordable and innovative medicines to enable people to lead healthier lives. As a global pharmaceutical company, we take very seriously our responsibility to help alleviate the burden of disease on individuals and on the world. Our strategy to achieve this core purpose is to combine industry-leading science and technology, product offerings and customer service with execution excellence. The key elements of our strategy include:

- **Strengths in Science and Technology**

Our strengths in science and technology range from synthetic organic chemistry, formulation development, biologics development and small molecule based drug discovery. Such expertise enables the creation of unique competitive advantages with an industry-leading intellectual property and technology-leveraged product portfolio.

- **Product Offerings**

- a) **Global Generics:** Through our branded and unbranded Global Generics segment, we offer lower-cost alternatives to highly-priced innovator brands, both directly and through key partnerships.
 - *Branded Generics:* We seek to have a portfolio that is strongly differentiated and offers compelling advantages to doctors and patients.
 - *Unbranded Generics:* We aim to ensure that we deliver first to market products to our customers, including pharmacy chains and distributors, and that they have high product availability from us combined with low inventories, resulting in superior inventory turns while addressing the customers’ needs.

Vertical integration and process innovation ensures that our products remain competitive.

- b) **Pharmaceutical Services and Active Ingredients:** Our Pharmaceutical Services and Active Ingredients (“PSAI”) business is comprised of our Active Pharmaceutical Ingredients (“API”) business and our Custom Pharmaceutical Services (“CPS”) business.
 - Our product offerings in our API business are geared to offer intellectual property and technology-advantaged products to enable launches ahead of others at competitive prices.
 - In our CPS business, we aim to offer niche product service capabilities, technology platforms, and competitive cost structures to innovator companies.

c) **Proprietary Products:** Our Proprietary Products business is comprised of our Differentiated Formulations business and our New Chemical Entity (“NCE”) research business.

- *Differentiated Formulations:* Our emerging Differentiated Formulations portfolio, which consists of new, synergistic combinations as well as technologies that improve safety and/or efficacy by modifying pharmacokinetics of existing medicines, is focused on significant clinically unmet needs. We are also investigating new indications for existing medicines.
- *New Chemical Entities (NCEs):* We are also focused in the discovery, development and commercialization of novel small molecule agents in therapeutic areas such as bacterial infections, metabolic disorders and pain and inflammation.

• **Execution Excellence (Building Blocks)**

Execution excellence provides the framework to create sustainable customer value across all of our activities. We have been investing in the following to achieve this:

- **Lean Manufacturing** — Eliminating waste and reducing cycle time, with a focus on capacity constrained resources.
- **Quality by Design** — Building quality into all processes and using quality tools to eliminate process risks.
- **Principles of the Theory of Constraints** — We apply these principles primarily in supply chain and product development. This ensures high availability with low inventory through a pull-based logistics system. It also ensures speed in product development through critical chain project management.
- **Leadership Development** — Developing leaders, as well as enhancing leadership behavior across the organization.

OUR PRINCIPAL AREAS OF OPERATIONS

The following table shows our revenues and the percentage of total revenues of our segments for the years ended March 31, 2009, 2010 and 2011, respectively:

(₹ in millions, U.S.\$ in millions)

Segment	Year Ended March 31,						
	2009		2010		2011		
Global Generics	₹ 49,790	72%	₹ 48,606	69%	₹ 53,340	71%	U.S. \$ 1,198
Pharmaceutical Services and Active Ingredients	18,758	27%	20,404	29%	19,648	26%	441
Proprietary Products	294	—	513	1%	532	1%	12
Others	599	1%	754	1%	1,173	2%	26
Total Revenues	₹ 69,441	100%	₹ 70,277	100%	₹ 74,693	100%	U.S. \$ 1,677

Global Generics Segment

The production processes for finished dosages are similar, to a certain extent, regardless of whether the finished dosages are to be marketed to highly regulated or less regulated markets. In many cases, the processes share common and interchangeable facilities and employee bases, and use similar raw materials. However, differences remain between highly regulated and less regulated markets in terms of manufacturing, packaging and labeling requirements and the intensity of regulatory oversight, as well as the complexity of patent regimes. While the degree of regulation in certain markets may impact product development, we are observing increasing convergence of development needs throughout both highly regulated and less regulated markets. As a result, when we begin the development of a product, we may not necessarily target it at a particular market, but will instead target the product towards a cluster of markets that will include both highly regulated and less regulated markets.

During the year ended March 31, 2009, we reorganized our worldwide finished dosages businesses to focus on certain key geographies and gradually exited some very small, distributor driven markets. This move represented an important new focus to consolidate and grow our presence in the key geographies where we already had a considerable presence.

Today, we are one of the leading generic pharmaceutical companies in the world. With the integration of all the markets where we are selling generics pharmaceuticals into our Global Generics segment, our front-end business strategies in various markets and our support services in India are increasingly being developed with a view to leverage our global infrastructure.

Our Global Generics segment's revenues were at ₹53,340 million in the year ended March 31, 2011, as compared to ₹48,606 million in the year ended March 31, 2010. The revenue growth was largely led by our key markets of North America (the United States and Canada), Russia and India. This growth was partly offset by a decrease in the German market on account of continuing pricing pressures due to competitive tenders.

The following is a discussion of the key markets in our Global Generics segment.

India

Approximately 22% of our Global Generics segment's revenues in the year ended March 31, 2011 were derived from sales in the Indian market. In India, we mainly focus on the therapeutic categories of gastro-intestinal, cardiovascular, pain management and oncology. Our Global Generics segment's revenues from India increased by 15% to ₹11,690 million for the year ended March 31, 2011, as compared to ₹10,158 million for the year ended March 31, 2010. This growth was primarily attributable to a 4% increase in revenues (amounting to ₹399 million) due to new product launches and an 11% increase in sales volumes of key brands such as: Reditux®, our brand of rituximab; Omez® and Omez DSR®, our brands of omeprazole and its combination with domperidone; Razo® and Razo D®, our brand of rabeprazole and its combination with domperidone; and Rozat®, our brand of rosuvastatin. Key new product launches during the year ended March 31, 2011 included: Cresp®, the world's first biosimilar darbepoetin alfa; Dialex DC®, our brand of chlorpheniramine maleate and codeine; Leon-OZ®, our brand of levofloxacin and ornidazole tablets; Rupanex M®, our brand of rupatidine and montelukast; and Supamove®, our brand of diclofenac and thiocolchicoside.

As of March 31, 2011, we had a total of 271 branded products in India. Our top ten branded products together accounted for 37% of our revenues in India in the year ended March 31, 2011. According to Operations Research Group International Medical Statistics ("ORG IMS"), a provider of market research to the pharmaceutical industry, in its Moving Annual Total ("MAT") report for the 12-month period ended March 31, 2011, our secondary sales (i.e., sales made by our wholesalers to stockists and retailers) in India grew by 9.7% as compared to Indian pharmaceutical market growth of 15.3%. Our direct sales to hospitals and doctors, which bypass retailers, also experienced some additional growth that was not encompassed within IMS Health's secondary sales data. According to ORG IMS in the foregoing MAT report, as of March 31, 2011, we had 44 brands that were ranked either first or second in terms of secondary sales in India in their respective product categories. According to the Center for Marketing and Advertising Research Consultancy, a market research firm, in a report that measured doctors' prescriptions for the period from November 2010 to February 2011, we were ranked ninth in terms of the number of prescriptions generated in India during such period.

The following tables summarize the position of our top 10 brands in the Indian market for the years ended March 31, 2009, 2010 and 2011, respectively:

BRAND	Year Ended March 31,					
	2009		2010		2011	
	Revenues in millions	% Total(1)	Revenues in millions	% Total(1)	Revenues in millions	% Total(1)
Omez	₹ 776	9%	₹ 928	9%	₹ 1,065	9%
Nise	605	7%	690	7%	700	6%
Stamlo	422	5%	473	5%	507	4%
Reditux	199	2%	232	2%	405	3%
Omez-DSR	210	2%	310	3%	377	3%
Stamlo Beta	301	4%	326	3%	328	3%
Razo	214	3%	247	2%	285	2%
Atocor	269	3%	274	3%	278	2%
Mintop	172	2%	196	2%	209	2%
Razo — D	138	2%	169	2%	200	2%
Others	5,172	61%	6,313	62%	7,336	64%
Total	₹ 8,478	100%	₹ 10,158	100%	₹ 11,690	100%

(1) Refers to the brand's revenues from sales in India expressed as a percentage of our total revenues from sales in all of our therapeutic categories in India.

Sales, marketing and distribution network

We generate demand for our products by detailing them to doctors who prescribe them, and meeting with pharmacists to ensure that the pharmacists stock our brands. While we do not sell directly to doctors or pharmacists, our approximately 4,400 sales representatives (which include representatives engaged by us as independent contractors) and front line managers frequently visit doctors and pharmacists throughout the country to detail our products. During the year ended March 31, 2011, we increased our total sales personnel in India by 1,209 including the representatives engaged by us as independent contractors.

We sell our products primarily through clearing and forwarding agents to approximately 2,400 wholesalers who decide which brands to buy based on demand. The wholesalers pay for our products in an agreed credit period and in turn sell these products to retailers. Our clearing and forwarding agents are responsible for transporting our products to the wholesalers. We pay our clearing and forwarding agents on a commission basis. We have insurance policies that cover our products during shipment and storage at clearing and forwarding locations.

Competition

Of the top twenty participants in the Indian formulations market, four are multinational corporations and the rest are Indian corporations. We compete with different companies, depending upon therapeutic and product categories and, within each category, upon dosage strengths and drug delivery. On the basis of sales, we were the 15th largest pharmaceutical company in India, with a market share of 2.15%, according to ORG IMS in its MAT report for the 12-month period ended March 31, 2011. As discussed above, due to the methodology adopted to compile these statistics, we do not believe that these statistics adequately capture the sales performance of one of our largest divisions selling oncology products in India or some of our other divisions' selling products to hospitals and institutions in India which, if captured appropriately, would result in our rank being higher.

Some of the key observations on the performance of the Indian pharmaceutical market, as published by ORG IMS in its MAT report for the period ended March 31, 2011, are as follows:

- The Indian pharmaceutical market registered a growth of 15.3% during the year ended March 31, 2011.
- New products launched in the preceding 24 months accounted for 6.5% of total Indian pharmaceutical growth during the year ended March 31, 2011.
- The top 300 existing brands grew at a rate of 17%, which was marginally higher than the Indian pharmaceutical market's overall average, and continued to account for 33% of the market's total sales.
- Legacy brands are performing better than new molecules.
- There was an increasing emergence of bio-similar products to address the needs of patients in the oncology therapeutic area.

Our principal competitors in the Indian market include Cipla Limited, Ranbaxy Laboratories Limited, GlaxoSmithKline Pharmaceuticals Limited, Cadila Healthcare Limited, Sun Pharmaceutical Industries Limited, Alkem Limited, Mankind Pharma Limited, Pfizer Limited, Abbott India, Lupin Limited, Aristo Pharma Limited, Intas Pharma and Sanofi Aventis.

Government regulations

The manufacturing and marketing of drugs, drug products and cosmetics in India is governed by many statutes, regulations and guidelines, including but not limited to the following:

- The Drugs and Cosmetics Act, 1940 and the Drugs and Cosmetics Rules, 1945;
- The Drugs and Magic Remedies (Objectionable Advertisements) Act, 1954;
- The Narcotic Drugs and Psychotropic Substances Act, 1985;
- The Drugs (Price Control) Order, 1995, read in conjunction with the Essential Commodities Act, 1955; and
- The Medicinal and Toilet Preparations (Excise Duties) Act, 1955.

These regulations govern the testing, manufacturing, packaging, labeling, storing, record-keeping, safety, approval, advertising, promotion, sale and distribution of pharmaceutical products.

Pursuant to the amendments in May 2005 to Schedule Y of the Drugs and Cosmetics Act, 1940, manufacturers of finished dosages are required to submit additional technical data to the Drugs Controller General of India in order to obtain a no-objection certificate for conducting clinical trials as well as to manufacture new drugs for marketing.

All pharmaceutical manufacturers that sell products in India are subject to regulations issued by its Ministry of Health (“MoH”). These regulations govern or influence the testing, manufacturing, packaging, labeling, storing, record-keeping, safety, approval, advertising, promotion, sale and distribution of products.

MoH approval of an application is required before a generic equivalent of an existing or referenced brand drug can be marketed. When processing a generics application, the MoH waives the requirement of conducting complete clinical studies, although it normally requires bio-availability and/or bio-equivalence studies. “Bio-availability” indicates the rate and extent of absorption and levels of concentration of a drug product in the blood stream needed to produce a therapeutic effect. “Bio-equivalence” compares the bioavailability of one drug product with another, and when established, indicates that the rate of absorption and levels of concentration of the active drug substance in the body are the equivalent for the generic drug and the previously approved drug. A generic application may be submitted for a drug on the basis that it is the equivalent of a previously approved drug. Before approving a generic product, the MoH also requires that our procedures and operations conform to cGMP regulations, relating to good manufacturing practices as defined by various countries. We must follow the cGMP regulations at all times during the manufacture of our products. We continue to spend significant time, money and effort in the areas of production and quality testing to help ensure full compliance with cGMP regulations.

The timing of final MoH approval of a generic application depends on various factors, including patent expiration dates, sufficiency of data and regulatory approvals.

Under the present drug policy of the Government of India, certain drugs have been specified under the DPCO as subject to price control. The Government of India established the National Pharmaceutical Pricing Authority (“NPPA”) to control pharmaceutical prices. Under the DPCO, the NPPA has the authority to fix the maximum selling price for specified products. At present, more than 70 drugs and their formulations are categorized as specified products under the DPCO. A limited number of our formulation products fall in this category. Adverse changes in the DPCO list or in the span of price control can affect pricing, and hence, our Indian revenues.

On March 22, 2005, the Government of India passed the Patents (Amendment) Bill, 2005 (the “Amendment”), introducing a product patent regime for food, chemicals and pharmaceuticals in India. The Amendment specifically provides that new medicines (patentability of which is not specifically excluded) for which a patent has been applied for in India on or after January 1, 1995 and for which a patent is granted cannot be manufactured or sold in India by other than the patent holder and its assignees and licensees. This will result in a reduction of new product introductions in India, as well as other countries where similar legislation has been introduced, for all Indian pharmaceutical companies engaged in the development and marketing of generic finished dosages and APIs. Processes for the manufacture of APIs and formulations were patentable in India even prior to the Amendment, so no additional impact is anticipated from patenting of such processes.

Russia and Other Countries of the former Soviet Union

Russia

Russia accounted for 17% of our Global Generics segment’s revenues in the year ended March 31, 2011. Pharmexpert, a market research firm, ranked us 15th in sales in Russia with a market share of 1.5% as of March 31, 2011 in its moving annual total report for the 12 months ended March 31, 2011 (the “Pharmexpert MAT March 2011 report”). Pharmexpert also reported that our Generics revenues from Russia grew by 18.6% in the year ended March 31, 2011, as compared to Russia’s pharmaceutical market growth of 7.5%. We were the top ranked Indian pharmaceutical company in Russia.

The following table provides a summary of the revenues of our top 10 brands in the Russian market for the years ended March 31, 2009, 2010 and 2011, respectively:

Brand	2009		2010		2011	
	Revenues in millions	% Total(1)	Revenues in millions	% Total(1)	Revenues in millions	% Total(1)
Nise	₹ 1,249	21%	₹ 1,862	26%	₹ 2,311	26%
Omez	1,281	21%	1,458	20%	1,554	18%
Ketorol	1,078	18%	1,287	18%	1,376	16%
Ciprolet	701	12%	760	11%	778	9%
Senade	—	0%	—	0%	598	7%
Cetrine	339	6%	408	6%	590	7%
Enam	315	5%	337	5%	299	3%
Exifine	210	4%	220	3%	217	2%
Bion	171	3%	165	2%	201	2%
Mitotax	148	2%	107	1%	120	1%
Others	311	8%	628	8%	898	9%
Total	₹ 5,803	100%	₹ 7,232	100%	₹ 8,942	100%

(1) Refers to the brand’s revenues from sales in Russia expressed as a percentage of our total revenues from all sales in Russia.

Our top four brands, Omez, Nise, Ketorol and Ciprolet, accounted for 69% of our Global Generics segment’s revenues in Russia in the year ended March 31, 2011. Omez (an anti-ulcerant product), Nise and Ketorol (pain management products) and Ciprolet (an anti-infective product) were ranked as the 45th, 15th, 64th and 153th best selling formulation brands, respectively, in the Russian market as of March 31, 2011 by Pharmexpert in its MAT March 2011 report.

Our strategy in Russia is to focus on the therapeutic areas of gastro-intestinal, pain management, anti-infectives, oncology and cardiovascular. Our focus is on building brand leaders in these therapeutic segments. Omez, Ciprolet, Nise and Ketorol continued to be brand leaders in their respective categories, as reported by Pharmexpert in its MAT March 2011 report.

Growth during the year was driven by targeted sales and marketing initiatives to specialists for prescription products and establishing a separate field force to promote certain over-the-counter medicines.

Other Countries of the former Soviet Union

We operate in other countries of the former Soviet Union, including Ukraine, Kazakhstan, Belarus and Uzbekistan. For the year ended March 31, 2011, revenues from these countries accounted for approximately 3% of our total Global Generics segment's revenues. The Global Generics revenues from these countries was ₹1,887 million in the year ended March 31, 2011, as compared to ₹1,821 million in the year ended March 31, 2010. In all of these markets, we operate through third party distributors who purchase our goods and in turn sell them to wholesalers and retail pharmacies.

Sales, marketing and distribution network

During the year ended March 31, 2011, we further expanded our Russian field force.

Our sales and marketing efforts are driven by a team of 401 medical representatives, 38 regional managers, 6 zonal managers and 26 key account managers to detail our products to doctors in 67 cities in Russia. During the year ended March 31, 2011, we increased our field personnel in Russia by 73.

Our Russian OTC division has 147 medical representatives and is focused on establishing a network of relationships with key pharmacy chains and individual pharmacies. Our Russian hospital division has 39 hospital specialists and 17 key account managers, and is focused on expanding our present network of hospitals and institutes.

In the Russian market, credit is generally extended only to customers after they have established a satisfactory history of payment with us. The credit ratings of these customers are based on turnover, payment record and the number of the customers' branches or pharmacies, and are reviewed on a periodic basis. We review the credit terms offered to our key customers and modify them to take into account the current macro-economic scenario in Russia.

Our principal competitors in the Russian market include Berlin Chemi AG, Gedeon Richter Limited, Krka d.d., Teva Pharmaceutical Industries Ltd., Lek-Sandoz Pharmaceuticals (an affiliate of Novartis Pharma A.G.), Ranbaxy Laboratories Limited, Nycomed International Management GmbH and Zentiva N.V. (an affiliate of Sanofi-Aventis S.A.).

Healthcare reforms and reference pricing

The Russian government's prioritization plan for the pharmaceutical market is making a transition from a largely out-of-pocket market to the western European model of centralized reimbursements. In January 2005, Russia's federal drug supply system (the *Dopolnitelnoye lekarstvennoye obespechenoye*, or "DLO") was introduced with the objective of subsidizing medicine expenditures for sectors of the population with low income or certain categories of illnesses. The initial budget provided approximately 10% of the population with state-funded benefits for medicine expenditures. In late 2007, the Russian government decentralized the DLO and split it into two components. The first component, known as the 7 nosologies program, remains centralized and covers expensive treatments for patients with certain severe chronic diseases. The second component, known as the ONLS program, involves regional purchasing and covers the medicines reimbursed for patients who are designated members of vulnerable groups, such as children, pregnant women, veterans and the elderly.

In order to promote local industry, in October 2009 the Russian government announced the Strategy of Pharmaceutical Industry Development in the Russian Federation for the Period Up to the year 2020 (or the "Pharma 2020 plan"), which aims to develop the research, development and manufacturing of pharmaceutical products by Russia's domestic pharmaceutical industry. The goal of the Pharma 2020 plan is to reduce Russia's reliance on imported pharmaceutical products and increase Russia's self-sufficiency in that regard. In March 2011, the Russian government announced the approval of 120 billion rubles (\$4 billion) in financing for the Pharma 2020 plan.

During the year ended March 31, 2010, the Russian government announced a reference pricing regime, pursuant to which a price freeze on certain drugs categorized as "essential" was implemented effective as of April 2010. Pharmaceutical companies have had to register maximum import prices for approximately 5,000 drugs on a list of "Essential and Vital Drugs" (also known as the "ZhNVLS"). During the year ended March 31, 2011, the Russian government announced price re-registration in local currency (Russian roubles) for drugs categorized as "essential" and the new registered prices were effective as of December 10, 2010. Also, effective as of September 1, 2010, the price controls on certain drugs categorized as "non-essential" were removed by the Russian Ministry of Health.

North America (the United States and Canada)

In North America (the United States and Canada), we sell generic drugs which are the chemical and therapeutic equivalents of reference branded drugs, typically sold under their generic chemical names at prices below those of their brand drug equivalents. Generic drugs are finished pharmaceutical products ready for consumption by the patient. These drugs are required to meet the U.S. FDA standards that are similar to those applicable to their brand-name equivalents and must receive regulatory approval prior to their sale.

Generic drugs may be manufactured and marketed only if relevant patents on their brand name equivalents and any additional government-mandated market exclusivity periods have expired, been challenged and invalidated, or otherwise validly circumvented.

Generic pharmaceutical sales have increased significantly in recent years, due in part to an increased awareness and acceptance among consumers, physicians and pharmacists that generic drugs are the equivalent of brand name drugs. Among the factors contributing to this increased awareness are the passage of legislation permitting or encouraging substitution and the publication by regulatory authorities of lists of equivalent drugs, which provide physicians and pharmacists with generic drug alternatives. In addition, various government agencies and many private managed care or insurance programs encourage the substitution of generic drugs for brand-name pharmaceuticals as a cost-savings measure in the purchase of, or reimbursement for, prescription drugs. We believe that these factors, together with the large volume of branded products losing patent protection over the coming years, should lead to continued expansion of the generic pharmaceuticals market as a whole. We intend to capitalize on the opportunities resulting from this expansion of the market by leveraging our product development capabilities, manufacturing capacities inspected by various international regulatory agencies and access to our own APIs, which offer significant supply chain efficiencies.

Revenues from North America (the United States and Canada) generics sales increased by 13% to ₹18,996 million during the year ended March 31, 2011, as compared to ₹16,817 million in the year ended March 31, 2010. During the year ended March 31, 2011, North America (the United States and Canada) accounted for 36% of the total Global Generics segment's sales. The increase in sales for the year ended March 31, 2011 was mostly because of the revenues from new product launches.

During the year ended March 31, 2011, we launched ten new products. The new products included tacrolimus, fexofenadine pseudoephedrine 180/240 mg, amlodipine benazepril and lansoprazole.

Through the coordinated efforts of our teams in the United States and India, we constantly seek to expand our pipeline of generic products. During the year ended March 31, 2011, we filed 21 ANDAs in the United States, including 7 Paragraph IV filings. During the year ended March 31, 2011, the U.S. FDA granted us 14 final ANDA approvals and 5 tentative ANDA approvals. As of March 31, 2011, we had filed a cumulative total of 170 ANDAs in the United States, out of which 75 ANDAs were pending approval at the U.S. FDA, including 14 tentative approvals. The key product approvals during the year ended March 31, 2011 included tacrolimus capsules, amlodipine besylate and benazepril, lansoprazole delayed release capsules and zafirlukast tablets.

Sales, Marketing and Distribution Network

Dr. Reddy's Laboratories, Inc., our wholly-owned subsidiary in the United States, is engaged in the marketing of our generic products in North America (the United States and Canada). In early 2003, we commenced sales of generic products under our own label. We have our own sales and marketing team to market these generic products. Our key account representatives for generic products call on purchasing agents for chain drug stores, drug wholesalers, health maintenance organizations and pharmacy buying groups.

During the year ended March 31, 2011, we completed a reorganization of our North American (the United States and Canada) generics business to centralize all commercial and business functions into our New Jersey office and centralize all operational functions into our Louisiana facility.

In the year ended March 31, 2008, we launched our own OTC products division and successfully introduced ranitidine 150 mg OTC in September 2007, cetirizine 10 mg OTC in January 2008 and omeprazole mg OTC in December 2009. During the year ended March 31, 2011, sales of our OTC business in the United States generated revenues of ₹2,734 million.

In Canada, in the year ended March 31, 2002, we entered into a profit sharing arrangement with distributors to market certain of our generic products. This business generated revenues of ₹596 million during the year ended March 31, 2011.

In April 2008, we acquired BASF's pharmaceutical contract manufacturing business and related facility in Shreveport, Louisiana in the United States of America. This business involves contract manufacturing of generic prescription drugs and OTC products for branded and generic companies in the United States. The acquisition strengthened our supply chain for North America (the United States and Canada) and provides a strong platform for pursuing additional growth opportunities. Expansions to the Shreveport facility are being undertaken as more fully described below under the section titled "*Global Generics Manufacturing and Raw Materials*".

In March 2011, we acquired from GlaxoSmithKline plc ("GSK") a penicillin-based antibiotics manufacturing site in Bristol, Tennessee, U.S.A., the product rights for GSK's *Augmentin*® and *Amoxil*® brands of oral penicillin-based antibiotics in the United States (GSK retained the existing rights for these brands outside the United States), certain raw materials and finished goods inventory associated with *Augmentin*®, and rights to receive certain transitional services from GSK. The acquisition enables us to enter the U.S. oral antibiotics market with a comprehensive product filing and a dedicated manufacturing site.

Competition

Revenues and gross profit derived from the sales of generic pharmaceutical products are affected by certain regulatory and competitive factors. As patents and regulatory exclusivity for brand name products expire, the first off-patent manufacturer to receive regulatory approval for generic equivalents of such products is generally able to achieve significant market penetration. As competing off-patent manufacturers receive regulatory approvals on similar products, market share, revenues and gross profit typically decline, in some cases significantly. Accordingly, the level of market share, revenues and gross profit attributable to a particular generic product is normally related to the number of competitors in that product's market and the timing of that product's regulatory approval and launch, in relation to competing approvals and launches. Consequently, we must continue to develop and introduce new products in a timely and cost-effective manner to maintain our revenues and gross margins. In addition, the other competitive factors critical to this business include price, product quality, prompt delivery, customer service and reputation. Many of our competitors seek to participate in sales of generic products by, among other things, collaborating with other generic pharmaceutical companies or by marketing their own generic equivalent to their branded products. Our major competitors in the U.S. market include Teva Pharmaceutical Industries Limited, Mylan Inc., Watson Pharmaceuticals, Inc., Sandoz, a division of Novartis Pharma A.G., Ranbaxy Laboratories Limited and Caraco Pharmaceuticals Laboratories Limited.

Brand name manufacturers have devised numerous strategies to delay competition from lower cost generic versions of their products. One of these strategies is to change the dosage form or dosing regimen of the brand product prior to generic introduction, which may reduce the demand for the original dosage form as sought by a generic ANDA dossier applicant or create regulatory delays, sometimes significant, while the generic applicant, to the extent possible, amends its ANDA dossier to match the changes in the brand product. In many of these instances, the changes to the brand product may be protected by patent or data exclusivities, further delaying generic introduction. Another strategy is the launch by the innovator or its licensee of an "authorized generic" during the 180-day generic exclusivity period, resulting in two generic products competing for the market rather than just the product that obtained the generic exclusivity. This may result in reduced revenues for the generic company which has been awarded the generic exclusivity period.

Government regulations

U.S. Regulatory Environment

All pharmaceutical manufacturers that sell products in the United States are subject to extensive regulation by the U.S. federal government, principally pursuant to the Federal Food, Drug and Cosmetic Act, the Hatch-Waxman Act, the Generic Drug Enforcement Act and other federal government statutes and regulations. These regulations govern or influence the testing, manufacturing, packaging, labeling, storing, record-keeping, safety, approval, advertising, promotion, sale and distribution of products.

Our facilities and products are periodically inspected by the U.S. FDA, which has extensive enforcement powers over the activities of pharmaceutical manufacturers. Non-compliance with applicable requirements can result in fines, criminal penalties, civil injunction against shipment of products, recall and seizure of products, total or partial suspension of production, sale or import of products, refusal of the U.S. government to enter into supply contracts or to approve new drug applications and criminal prosecution. The U.S. FDA also has the authority to deny or revoke approvals of drug active pharmaceutical ingredients and dosage forms and the power to halt the operations of non-complying manufacturers. Any failure by us to comply with applicable U.S. FDA policies and regulations could have a material adverse effect on the operations in our generics business.

U.S. FDA approval of an ANDA is required before a generic equivalent of an existing or referenced brand drug can be marketed. The ANDA process is abbreviated because when processing an ANDA, the U.S. FDA waives the requirement of conducting complete clinical studies, although it normally requires bio-availability and/or bio-equivalence studies. An ANDA may be submitted for a drug on the basis that it is the equivalent of a previously approved drug or, in the case of a new dosage form, is suitable for use for the indications specified.

An ANDA applicant in the United States is required to review the patents of the innovator listed in the U.S. FDA publication entitled *Approved Drug Products with Therapeutic Equivalence Evaluations*, commonly known as the "Orange Book," and make an appropriate certification. There are several different types of certifications that can be made. A Paragraph IV filing is made when the ANDA applicant believes its product or the use of its product does not infringe on the innovator's patents listed in the Orange Book or where the applicant believes that such patents are not valid or enforceable. The first generic company to file a Paragraph IV filing may be eligible to receive a six-month marketing exclusivity period from the date a court rules the patent is invalid or not infringed. A Paragraph III filing is made when the ANDA applicant does not intend to market its generic product until the patent expiration. A Paragraph II filing is made where the patent has already expired. A Paragraph I filing is made when the innovator has not submitted the required patent information for listing in the Orange Book. Another type of certification is made where a patent claims a method of use, and the ANDA applicant's proposed label does not claim that method of use. When an innovator has listed more than one patent in the Orange Book, the ANDA applicant must file separate certifications as to each patent. Generally, Paragraph IV and Paragraph III filings are made before the product goes off patent, and Paragraph II and Paragraph I filings are made after the patent has expired.

Before approving a product, the FDA also requires that our procedures and operations conform to cGMP regulations, relating to good manufacturing practices as defined in the U.S. Code of Federal Regulations. We must follow cGMP regulations at all times during the manufacture of our products. We continue to spend significant time, money and effort in the areas of production and quality testing to help ensure full compliance with cGMP regulations.

The timing of final U.S. FDA approval of an ANDA depends on a variety of factors, including whether the applicant challenges any listed patents for the drug and whether the brand-name manufacturer is entitled to one or more statutory exclusivity periods, during which the U.S. FDA may be prohibited from accepting applications for, or approving, generic products. In certain circumstances, a regulatory exclusivity period can extend beyond the life of a patent, and thus block ANDAs from being approved on the patent expiration date. For example, in certain circumstances the U.S. FDA may now extend the exclusivity of a product by six months past the date of patent expiration if the manufacturer undertakes studies on the effect of their product in children, a so-called pediatric extension.

In June 2003, the U.S. FDA announced reforms in its generic drug review program with the goal of providing patients with greater and more predictable access to effective, low cost generic alternatives to brand name drugs.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “Medicare Act of 2003”) modified certain provisions of the Hatch-Waxman Act. In particular, significant changes were made to provisions governing 180-day exclusivity and forfeiture thereof. The new statutory provisions governing 180-day exclusivity may or may not apply to an ANDA, depending on whether the first Paragraph IV certification submitted by any applicant for the drug was submitted prior to the enactment of the Medicare Amendments on December 8, 2003.

Where the first Paragraph IV certification was submitted on or after December 8, 2003, the new statutory provisions apply. Under these provisions, 180-day exclusivity is awarded to each ANDA applicant submitting a Paragraph IV certification for the same drug with regard to any patent on the first day that any ANDA applicant submits a Paragraph IV certification for the same drug. The 180-day exclusivity period begins on the date of first commercial marketing of the drug by any of the first applicants. However, a first applicant may forfeit its exclusivity in a variety of ways, including, but not limited to (a) failure to obtain tentative approval within 30 months after the application is filed or (b) failure to market its drug by the later of two dates calculated as follows: (x) 75 days after approval or 30 months after submission of the ANDA, whichever comes first, or (y) 75 days after each patent for which the first applicant is qualified for 180-day exclusivity is either (1) the subject of a final court decision holding that the patent is invalid, not infringed, or unenforceable or (2) withdrawn from listing with the U.S. FDA (court decisions qualify if either the first applicant or any applicant with a tentative approval is a party; a final court decision is a decision by a court of appeals or a decision by a district court that is not appealed). The foregoing is an abbreviated summary of certain provisions of the Medicare Act of 2003, and accordingly it should be consulted for a complete understanding of both the provisions described above and other important provisions related to 180-day exclusivity and forfeiture thereof.

Where the first Paragraph IV certification was submitted prior to enactment of the Medicare Act of 2003, the statutory provisions governing 180-day exclusivity prior to the Medicare Act of 2003 still apply. The U.S. FDA interprets these statutory provisions to award 180-day exclusivity to each ANDA applicant submitting a Paragraph IV certification for the same drug on the same day with regard to the same patent on the first day that any ANDA applicant submits a Paragraph IV certification for the same drug with regard to the same patent. The 180-day exclusivity period begins on the date of first commercial marketing of the drug by any of the first applicants or on the date of a final court decision holding that the patent is invalid, not infringed, or unenforceable, whichever comes first. A final court decision is a decision by a court of appeals or a decision by a district court that is not appealed.

United States Healthcare Reform — Patient Protection and Affordable Care Act

In March 2010, the “Patient Protection and Affordable Care Act”, as amended by the Health Care and Education Affordability Reconciliation Act (collectively, the “PPACA”), was signed into law. The PPACA is one of the most significant healthcare reform measures in the United States in decades, and is expected to significantly impact the U.S. pharmaceutical industry. Among the provisions of the PPACA that may affect our business include the following:

- The PPACA is anticipated to expand healthcare coverage to tens of millions of U.S. citizens, mostly those employed in smaller companies and the unemployed. The PPACA also reduces certain co-payments for Medicaid, a joint federal and state health insurance program for the poor. These changes should provide opportunities for us to increase our pharmaceutical products sales volumes in the long term.
- The PPACA also imposes new rules regarding insurance regulation and access. For example, there will be new regulations governing the insurance industry that will prohibit the denial of coverage due to pre-existing diseases, and ban placing lifetime value limits on insurance policy coverages. Indirectly, these reforms should also provide opportunities for us to improve our pharmaceutical products sales volumes in the long term.

- In addition, the PPACA set forth new regulations relating to biological drugs. Among other things, the PPACA creates an abbreviated pathway to U.S. FDA approval of “bio-similar” biological products and allows the first interchangeable bio-similar product 18 months of exclusivity. These pro-generic provisions may provide increased opportunities for our bio-generics business, but also could increase competition in that field and thus adversely impact the selling prices, costs and/or profit margins for our bio-generics business. Conversely, the PPACA also has some anti-generic provisions, including provisions granting the innovator of a biological drug product 12 years of exclusive use before generic drugs can be approved based on being bio-similar.
- The PPACA imposes on pharmaceutical manufacturers a variety of additional rebates, discounts and fees. Among other things, the PPACA includes annual, non-deductible fees that go into effect in 2011 for entities that manufacture or import certain prescription drugs and biologics. This fee will be calculated based upon each organization’s percentage share of total branded prescription drug sales to U.S. government programs (such as Medicare, Medicaid and Veterans’ Affairs and Public Health Service discount programs), provided that the manufacturer must have at least \$5 million in sales of branded prescription drugs (as defined in the PPACA) or biologics in order to be subject to the fee. Authorized generic products would generally be treated as branded products. The manufacturers’ fee for calendar year 2011 is based upon our sales of branded prescription drugs and biologics for the calendar year 2009, which were below the \$5 million threshold, and thus we are not subject to the fee for calendar year 2011. In addition, the PPACA changes the computations used to determine Medicaid rebates owed by manufacturers under the Medicaid Drug Rebate Program by redefining the average manufacturer’s price (“AMP”), effective October 1, 2010, and by using 23.1% instead of 15% of AMP for most branded drugs and 13% instead of 11% of AMP for generic drugs, effective January 1, 2010. The impact of the Medicaid rebate changes has been accounted for in our consolidated financial statements, but it was not material to our U.S. revenues. The PPACA also increases the number of healthcare entities eligible for discounts under the Public Health Service pharmaceutical pricing program.
- The PPACA makes several important changes to the federal anti-kickback statute, false claims laws, and health care fraud statutes that may make it easier for the government or whistleblowers to pursue such fraud and abuse violations. In addition, the PPACA increases penalties for fraud and abuse violations.
- To further facilitate the government’s efforts to coordinate and develop comparative clinical effectiveness research, the PPACA establishes a new Patient-Centered Outcomes Research Institute to oversee and identify priorities in such research. The manner in which the comparative research results would be used by third-party payors is uncertain.

The full impact of the PPACA will be seen as it continues to be implemented, by promulgation of regulations and other administrative and judicial actions. We are continuing to evaluate the impact of the PPACA and how it may affect our business.

Canada Regulatory Environment

In Canada, we are required to file product dossiers with the country’s regulatory authority for permission to market the generic formulation. The regulatory authorities may inspect our manufacturing facility before approval of the dossier.

Europe

The European Union (the “EU”) presents significant opportunities for the sale of generic drugs. In the EU, the manufacture and sale of pharmaceutical products is regulated in a manner substantially similar to that in the United States. Legal requirements generally prohibit the handling, manufacture, marketing and importation of any pharmaceutical product unless it is properly registered in accordance with applicable law. The registration file relating to any particular product must contain medical data related to product efficacy and safety, including results of clinical testing and references to medical publications, as well as detailed information regarding production methods and quality control. Health ministries are authorized to cancel the registration of a product if it is found to be harmful or ineffective, or manufactured and marketed other than in accordance with registration conditions.

Our sales of generic drugs in Europe for the year ended March 31, 2011 were ₹8,431 million, which accounted for 16% of our Global Generics segment's sales, and represented a decrease of 13% as compared to sales of generic drugs in Europe for the year ended March 31, 2010. This decrease was largely on account of our German operations, which were impacted by lower prices in the market resulting from competitive bidding tenders and other significant changes within the German generic pharmaceutical market, as further explained below. Within Europe, significant sales are generated by beta Holding GmbH ("betapharm"), our German subsidiary. In March 2006, we acquired 100% of betapharm from 3i Group plc, a European private equity firm. This acquisition allowed us to enter the German generics market.

Sales, Marketing and Distribution Network

Germany

In Germany, we sell a broad and diversified range of generic pharmaceutical products under the "betapharm" brand.

Over the last four years, the German pharmaceutical market underwent a significant change. The new healthcare reform (the Statutory Health Insurance (SHI) — Competition Strengthening Act or Wettbewerbsstärkungsgesetz ("GKV — WSG") (an act to strengthen the competition in public health insurance), which was effective as of April 1, 2007, has significantly increased the power of insurance companies and statutory health insurance funds ("SHI funds") to influence dispensing of medicines.

Pursuant to the new law, pharmaceutical products covered by rebate contracts with insurance companies have to be prescribed by physicians and dispensed by pharmacies. This has increased the power of insurance funds. As a result, several SHI funds have entered into rebate contracts with pharmaceutical companies, causing pressure on margins. Pursuant to the rapid shift of the German generic pharmaceutical market towards a tender (i.e., competitive bidding) based supply model, further tenders were announced by several SHI funds during the year ended March 31, 2011. We participated in these tenders through our wholly-owned subsidiary, betapharm.

Traditionally, the SHI fund contracts had the elements of basic rebate and incremental rebates on additional prescriptions generated through persons insured by these SHI funds. Since the new healthcare reforms, the SHI funds have been aggressive in negotiating rebates for their contracts. Consequently, in recent years they have negotiated higher discounts.

With the above-mentioned discount contracts being effective, and further competitive bidding tenders announced by SHI funds, long term changes in the German market's structural framework are ongoing. The German generics market has experienced a shift to a tender based supply model from the previous prescription based model, where the key driver for generating sales had previously been doctors' perceptions and pharmacists' influence. In response to these market changes, betapharm has undergone a comprehensive restructuring of its sales force, with a reduction of more than 200 employees since we acquired it in March 2006.

United Kingdom and other Countries within Europe

We market our generic products in the United Kingdom and other EU countries through our U.K. subsidiary, Dr. Reddy's Laboratories (U.K.) Limited. This subsidiary was formed in the year ended March 31, 2003 after our acquisition of Meridian Healthcare Limited, a United Kingdom based generic pharmaceutical company. We currently market 29 generic products in such countries, representing 103 dosage strengths.

We also seek to expand our presence to other European countries, either directly or through strategic alliances. Other European countries where we have a physical presence and have been able to build our franchise include Romania and Italy. We have a wholly-owned subsidiary in Romania, and our sales in Romania during the year ended March 31, 2011 were ₹712 million.

We market our generic products in Italy through our Italian subsidiary, Dr. Reddy's SRL. This subsidiary was formed in the year ended March 31, 2009 in connection with our acquisition of Jet Generici SRL, a company engaged in sale of generic finished dosages in Italy.

Competition

In Germany, we believe that the companies having rebate contracts with SHI funds are gaining market shares. Our key competitors within the German generics market include the Sandoz group of Novartis Pharma A.G. (including its Hexal, Sandoz and 1A Pharma subsidiaries), the Ratiopharm group of Teva Pharmaceutical Industries Ltd. (including its Ratiopharm and CT Arzneimittel subsidiaries) and the Stada group of Stada Arzneimittel AG (including its Stada and Aliud subsidiaries). With the discount contracts with SHI funds becoming effective, prices have become one of the most important competitive factors.

The United Kingdom is one of the largest markets for generic pharmaceuticals in Europe. It is also one of the most competitive markets, due to its very low barriers to entry. Significant vertical integration exists between wholesalers and retailers, ensuring low prices as long as there are several suppliers. The number of major pharmaceutical companies in the U.K. pharmaceutical market has decreased due to consolidation.

Government regulations

European Union Regulatory Environment

The activities of pharmaceutical companies within the European Union are governed by Directive 2001/83EC as amended. This Directive outlines the legislative framework, including the legal basis of approval, specific licensing procedures, and quality standards including manufacture, patient information and pharmaco-vigilance activities. Our U.K. facilities are licensed and periodically inspected by the U.K. Medicines and Health Care Products Regulatory Agencies (“MHRA”) Inspectorate, which has extensive enforcement powers over the activities of pharmaceutical manufacturers. Non-compliance can result in product recall and closure. In addition, the U.K. MHRA Inspectorate has approved and periodically inspected our manufacturing facility based in Andhra Pradesh, India for the manufacture of generic tablets and capsules for supply to Europe.

All pharmaceutical companies that manufacture and market products in Germany are subject to the rules and regulations defined by the German drug regulator, the Bundesinstitut für Arzneimittel und Medizinprodukte (“BfArM”) and the Federal Drug Authorities. All the licensed facilities of pharmaceutical companies in Germany are periodically inspected by the Federal Drug Authorities, which has extensive enforcement powers over the activities of pharmaceutical companies. Non-compliance can result in closure of the facility. Prior approval of a Marketing Authorization is required to supply products within the European Union. Such Marketing Authorizations may be restricted to one member state then recognized in other member states or can cover the whole of the European Union, depending upon the form of registration elected. In Germany, Marketing Authorizations have to be submitted for approval to the BfArM.

Generic or abridged applications omit full non-clinical and clinical data but contain limited non-clinical and clinical data, depending upon the legal basis of the application or to address a specific issue. The majority of our generic applications are made on the basis of essential similarity although other criteria may be applied. In the case of an essentially similar application, the applicant is required to demonstrate that its generic product contains the same active pharmaceutical ingredients in the same dosage form for the same indication as the innovator product. Specific data is included in the application to demonstrate that the proposed generic product is essentially similar to the innovator product with respect to quality, safe usage and continued efficacy. European Union laws prevents regulatory authorities from accepting applications for approval of generics that rely on the safety and efficacy data of an innovator of a branded product until the expiration of the innovator’s data exclusivity period (currently 6 or 10 years from the first marketing authorization in the European Union). The applicant is also required to demonstrate bio-equivalence with the reference product. Once all these criteria are met, a Marketing Authorization may be considered for grant.

Unlike in the United States, there is no regulatory mechanism within the European Union to challenge any patent protection. Nor is any period of market exclusivity conferred upon the first generic approval. In situations where the period of data exclusivity given to the innovator of a branded product expires before their patent expires, the launch of our product would then be delayed until patent expiration.

In Germany, the government continues to focus on reducing health care spending. During the year ended March 31, 2007, the German government passed the Economic Optimization of Pharmaceutical Care Act (or “Arzneimittelversorgungs-Wirtschaftlichkeitsgesetz” or “AVWG”) which became effective as of May 1, 2006, which was designed to contain increased pharmaceutical costs.

Another German law entitled the “Statutory Health Insurance Competition Strengthening Act” (or “Wettbewerbsstärkungsgesetz” or “GKV — WSG”), which became effective as of April 1, 2007, has significantly increased the ability of insurance companies and SHI funds to influence dispensing of medicines. Pursuant to the GKV — WSG law, pharmaceutical products covered by rebate contracts with insurance companies must be prescribed by physicians and dispensed by pharmacies. This has increased the role of insurance funds in the German pharmaceutical market.

During the fiscal year ended March 31, 2011, the German government introduced a new law entitled “Act on the reorganization of the pharmaceutical market in the public health insurance” (or “Arzneimittel Marktes Neuordnungs Gesetz”, commonly referred to as “AMNOG”), which affects reimbursement of drugs within the Germany’s statutory health care system in order to further control the costs of medical care. The key elements of this law are as follows:

- Historically, the pharmaceutical companies had been free to set the initial asking price for drugs in the German public health system, subject to certain mandatory rebates. Under this new law, a pharmaceutical company will determine the price for a new drug or new therapeutic indication for the first year after launch, but must submit to the Joint Federal Committee (the Gemeinsamer Bundesausschuss or “G-BA”) a benefit assessment dossier on the drug at or prior to its launch. The G-BA will analyze whether the drug shows an additional clinical benefit in comparison to a corresponding established drug (the “appropriate comparator therapy”).
 - If an additional benefit is established, the pharmaceutical company must negotiate the price of the drug with the Federal Association of the health insurance funds. If no agreement is reached in the negotiation, then the price will be determined pursuant to an arbitration procedure. There must be a minimum term of one year.
 - If no additional benefit is established, the drug is immediately included into a group of drugs with comparable pharmaceutical and therapeutic characteristics, for which maximum reimbursement prices have already been set. If this is not possible due to the drug’s novelty, then the pharmaceutical company must negotiate a reimbursement price with the Federal Association of the health insurance funds that may not exceed the costs of the appropriate comparator therapy.
 - The prices determined pursuant to the above procedures will also apply to private insurance agencies, privately insured persons and self-payers, although they may negotiate further discounts.
 - For drugs developed specifically to treat rare medical conditions that are designated as “orphan drugs”, the orphan drug will be presumed to have an additional benefit under certain circumstances.
- A new regulation for packaging size to be fully implemented by 2013. Standard sizes will be based upon the duration of therapies, instead of based on fixed quantity. Three different types of package sizes are now allowed: N1-packages for treatment periods of 10 days; N2-packages for treatment periods of 30 days; and N3-packages for treatment periods of 100 days. During the transition period, discrepancies of 20%, 10% and 5% will be respectively accepted for N1, N2 and N3 packages.
- The law increases the choice to patients by the use of co-payment as an option for patients opting for a non-rebated generic drug.

Impairment

During the year ended March 31, 2009, there were significant changes in the German generic pharmaceutical market which impacted the operations of our German subsidiary betapharm. The biggest change was the shift to a tender based supply model within the German generic pharmaceutical market, as most prominently evidenced by the announcement of a large competitive bidding (or “tender”) process by the Allgemeine Ortskrankenkassen (“AOK”), the largest German statutory health insurance fund (“SHI fund”). In addition, there was a continuing decrease in prices of pharmaceutical products and an increased quantity of discount contracts being negotiated with other SHI funds.

In the AOK tender during the year ended March 31, 2009, we were awarded 8 products (with 33 contracts) covering AOK-insured persons in various regions within Germany, which represented 17% of the overall volume of the products covered by the AOK tender. betapharm was among the top three companies in terms of number of contracts awarded. While our future sales volumes are expected to increase for the products awarded to us under the AOK tender, we expected that our overall profit margins under the AOK tender arrangement were likely to be significantly lower due to decreased prices per unit of product. Also, the products awarded to us in the AOK tender did not include products which we consider to be our key products.

Due to these developments, as at March 31, 2009, we tested the carrying value of our product related intangibles and goodwill for impairment. The impairment test resulted in our recording an impairment loss on certain product related intangibles amounting to ₹3,167 million and impairment loss of ₹10,856 million on goodwill of the betapharm cash generating unit during the year ended March 31, 2009. Furthermore, due to the above adverse market developments and consequential impairment losses recorded by us in our betapharm cash generating unit, we also reviewed the useful life of our indefinite life intangible asset trademark/brand — ‘beta’ and revised it to 12 years.

During the year ended March 31, 2010, the adverse conditions continued in the German generics market, with increasing tender activity by a number of SHI funds (in addition to AOK). The SHI funds opted for tenders to a greater degree than we had anticipated during the year ended March 31, 2009. The final results of a majority of these tenders were announced, with a lower than anticipated success rate for betapharm.

Due to such market conditions, we reassessed the impact of these tenders on our future forecasted sales and profits during the year ended March 31, 2010. As a result of this re-evaluation, the carrying amounts of both the product related intangibles and the betapharm cash generating unit were determined to be higher than their respective recoverable amounts. Accordingly, an impairment loss of ₹2,112 million for the product related intangibles and ₹6,358 million for the betapharm cash generating unit was recognized in our income statement during the year ended March 31, 2010. Of the impairment loss pertaining to the betapharm cash generating unit, ₹5,147 million was allocated to the carrying value of goodwill during the year ended March 31, 2010, thereby impairing the entire carrying value. The remaining ₹1,211 million was allocated to the trademark/brand — ‘beta’, which forms a significant portion of the intangible asset value of the betapharm cash generating unit, during the year ended March 31, 2010.

To offset the impact of reduced prices on betapharm’s profitability, we increased the proportion of betapharm’s products sourced from Indian manufacturing facilities, restructured betapharm’s work force (terminating approximately 200 employees during the year ended March 31, 2010) and reduced betapharm’s selling, general and administrative expenses to achieve a more sustainable structure in light of the current tender-based model and economic climate in Germany.

During the quarter ended December 31, 2010, AOK announced a new set of tenders. Our subsidiary betapharm was awarded the tenders for 12 products in 74 lots. The success rate for betapharm’s bids for this tender was increased as compared to prior years, and our revenue is expected to increase for the products won by us in this tender. However, in view of competitive bidding, the selling prices offered are lower. Due to the inconsequential favorable impact on net margins, we concluded that no adjustment to previously recorded impairments losses were necessary.

Other markets of our Global Generics segment

In March 2009, we announced a realignment of our Global Generics segment’s strategy for finished dosages to focus on certain key geographies, and that we would gradually exit from some of our very small, distributor driven markets. During the year ended March 31, 2010, we exited from all such small, distributor driven markets. The markets we exited accounted for less than 1% of our total company revenues.

The realignment resulting from this exit from small, distribution driven markets represents an important new focus in our Global Generics segment. Not only has this realignment resulted in consolidation and reduction in the complexity of our operations, it will also enable us to significantly enhance our customer service and to increase our market share in the key geographies where we already have a considerable presence.

Our revenues from other markets of this segment were ₹3,365 million in the year ended March 31, 2011, as compared to ₹2,869 million in the year ended March 31, 2010. The other key markets of our Global Generics segment include Venezuela, South Africa, New Zealand, Brazil, Jamaica, Sri Lanka and Vietnam.

Our revenues from Venezuela were ₹1,162 million in the year ended March 31, 2011, as compared to ₹1,105 million in the year ended March 31, 2010, with such increase primarily due to increases in both sales volumes and prices. The increase in prices was largely attributable to Venezuela's high inflation rates during these periods. The benefit of these price increases was partially offset by a devaluation in the exchange rate by the Venezuelan government effective as of January 1, 2011.

In South Africa, we operate through our wholly-owned subsidiary, Dr. Reddy's Laboratories (Proprietary) Limited. Previously we held a controlling interest of 60% and Calshel Investments 214 (Proprietary) Limited held a non-controlling interest of 40% in this entity. During the year ended March 31, 2011, we acquired the 40% non-controlling interest, and the entity became our wholly-owned subsidiary. Our revenues from this country were ₹694 million in the year ended March 31, 2011, as compared to ₹444 million in the year ended March 31, 2010. This increase in revenues was primarily due to an increase in sales volumes of our key brand Omez, our brand of omeprazole, as well as the launch of two new products, moxifloxacin and desloratidine.

In Australia, during the year ended March 31, 2011 we received approvals for three new products, amlodipine, terbinafine and risperidone, and commenced selling the latter two products. In Australia, we operate through Dr. Reddy's Laboratories (Australia) Pty Ltd. which, in past years, was a joint venture in which we owned a 70% equity interest. During the year ended March 31, 2010, we acquired the remaining 30% stake in such joint venture from the minority equityholders, and it is now our wholly-owned subsidiary.

GSK Alliance

During the year ended March 31, 2010, we entered into a strategic partnership with GlaxoSmithKline plc ("GSK") to develop and market select products across emerging markets outside India. This partnership will expand our reach in emerging economies, and leverage our product portfolio and process development strengths with GSK's market knowledge and presence in such markets. The products will be manufactured by us, and will be licensed and supplied to GSK in markets such as Latin America, Africa, the Middle East and Asia Pacific, excluding India. Considering the time required to file the dossiers in various markets, to obtain their approval from the respective authorities and to launch the products, this alliance is expected to make a meaningful contribution to our revenues only after a period of two to three years.

Global Generics Manufacturing and Raw Materials

Manufacturing for our Global Generics segment entails converting active pharmaceutical ingredients ("API") into finished dosages. As of March 31, 2011, we had eight manufacturing facilities within this segment. Six of these facilities are located in India and two are located in the United States (Shreveport, Louisiana and Bristol, Tennessee). We also have one packaging facility in the United Kingdom. Two of the Indian facilities, one each at Hyderabad and Vizag, are also U.S. FDA compliant. During the year ended March 31, 2010, the two facilities in India and the one in Louisiana were inspected by the U.S. FDA and there were no major open audit observations. The manufacturing site in Vizag, India is a state of art facility for the manufacture of injectable form and potent products. The Vizag facility has satisfactorily passed inspection by the National Health Surveillance Agency (also known as "ANVISA") of Brazil and by the German drug regulator Bundesinstitut für Arzneimittel und Medizinprodukte (also known as "BfARM"). These facilities are designed in accordance with Good Manufacturing Practice ("GMP") requirements and are used for the manufacture of tablets and hard gelatin capsules, for sale in India as well as regulated and highly regulated markets.

We manufacture most of our finished products at these facilities and also use third-party manufacturing facilities as we determine necessary. We also purchase some products from approved third parties based on the necessity and requirement of our markets. For each of our products, we endeavor to identify alternate suppliers of our products and the processes applicable to our products.

For the products intended to be sold in highly regulated markets, such as the United States, Europe, Australia, New Zealand, South Africa and Brazil, we are required to identify the suppliers of active raw materials for our products in the drug applications and dossiers. If raw materials for a particular product become unavailable from an approved source specified in a drug application, we are required to qualify a substitute supplier with the regulatory authorities, which could interrupt the manufacturing of the affected product. To the extent practicable, we attempt to identify more than one supplier in each drug application or make plans for alternate vendor development from time to time, considering the supplier's history and future product requirements. However, some raw materials are available only from a single source and, in some of our drug applications, only one supplier of raw materials has been identified, even in instances where multiple sources exist. In addition, we obtain a significant portion of our inactive pharmaceutical ingredients from foreign suppliers. Arrangements with international raw material suppliers are subject to, among other things, respective country regulations, various import duties and other government clearances.

The prices of our raw materials generally fluctuate in line with commodity cycles, though the prices of raw materials used in our Generics business are generally more volatile. Raw material expense forms the largest portion of our operating expenses. We evaluate and manage our commodity price risk exposure through our operating procedures and sourcing policies.

In addition to our manufacturing facilities within India, we have manufacturing and packaging facilities outside India (such as our packaging facility at Beverley, United Kingdom, our manufacturing facilities at Shreveport, Louisiana, and Bristol, Tennessee, U.S.A.) and contract manufacturing sites. All these sites are approved by the respective regulatory bodies in the jurisdictions where they are located. In Germany, betapharm's products are mainly manufactured at our facilities in India and through some contract manufacturers at third party locations. We intend to continue shifting the manufacturing of betapharm products to our facilities in India. The logistics services for storage and distribution in Germany are outsourced to a third party service provider.

Manufacturing of finished dosages for less regulated markets is also subject to strict quality and contamination controls throughout the manufacturing process. We manufacture formulations in various dosage forms including tablets, capsules, injections, liquids and creams. These dosage forms are then packaged, quarantined and subject to stringent quality tests, to assure product quality before release into the market. We manufacture our key brands for our Indian markets at our facilities in Baddi, Himachal Pradesh and Yanam, Pondicherry, to take advantage of certain fiscal benefits offered by the Government of India, which include exemption from income tax and excise duty, in the case of Baddi, Himachal Pradesh, and exemption from income tax, in the case of Yanam, Pondicherry, for a specified period.

All pharmaceutical manufacturers that sell products in any country are subject to regulations issued by the Ministry of Health ("MoH") of the respective country. These regulations govern, or influence the testing, manufacturing, packaging, labeling, storing, record-keeping, safety, approval, advertising, promotion, sale and distribution of products. Our facilities and products are periodically inspected by various regulatory authorities such as the U.S. FDA, the U.K. MHRA, the South African Medicines Control Council, the Brazilian ANVISA, the Romanian National Medicines Agency, the Gulf Co-operation Council group, the Ministry of Health of Kirgystan and the World Health Organization, all of which have extensive enforcement powers over the activities of pharmaceutical manufacturers operating within their jurisdiction.

Product Transfers and Capacity Expansion

To meet growing demand in regulated markets, we are in the process of making one additional finished dosage facility currently serving branded markets U.S. FDA compliant. This will ease the pressure and optimize the capacities across our plants. Furthermore, we are also in the process of expanding our existing facilities and setting up new manufacturing facilities, including a plant which is part of a Special Economic Zone.

Shreveport Expansion

In July 2010, we entered into an agreement with the state of Louisiana, in the United States of America, to expand our Shreveport operations with tax incentives and support from the state and local governments. The project aims to retain over 161 jobs while adding approximately 73 new jobs, and represents a capital investment of up to U.S.\$16.5 million.

The plans to expand the scope and scale of our Shreveport facility are driven by a combination of several factors including, among other considerations, the strategic fit of the products and capabilities of the site with our corporate growth objectives, the work ethic of the people of North Louisiana, and the state and local tax incentives offered to us.

The 300,000-square-foot Shreveport facility is the largest producer of silver sulfadiazine cream and the second-largest producer of ibuprofen for the North American (the United States and Canada) market. This planned expansion will allow us to support multiple new products at the site.

Pharmaceutical Services and Active Ingredients Segment (“PSAI”)

Our PSAI segment accounted for 26% of our total revenues for the year ended March 31, 2011. This segment includes active pharmaceutical ingredients and intermediates (“API”), also known as active pharmaceutical products or bulk drugs, which are the principal ingredients for finished pharmaceutical products. This segment also includes contract research services and the manufacture and sale of API and steroids in accordance with specific customer requirements.

API become finished pharmaceutical products when the dosages are fixed in a form ready for human consumption (such as a tablet, capsule or liquid) using additional inactive ingredients. We produce and market more than 100 different APIs in numerous markets. We export API to emerging markets, as well as developed markets, covering more than 80 countries. Our principal markets in this business segment include North America (the United States and Canada) and Europe. Our PSAI segment’s API business is operated independently from our Global Generics segment and, in addition to supplying API to our Global Generics segment, our PSAI segment sells API to third parties for use in creating generic products, subject to any patent rights of other third parties. Our PSAI segment’s API business also manufactures and supplies all of the API requirements of our pharmaceutical services business. The research and development group within our API business contributes to our business by creating intellectual property (principally with respect to novel and non-infringing manufacturing processes and intermediates), providing research intended to reduce the cost of production of our products and developing approximately 15-20 new products every year.

The pharmaceutical services (contract research and manufacturing) arm of our PSAI segment was established in 2001 to leverage our strength in process chemistry to serve the niche segment of the pharmaceutical and fine chemicals industry. Over the years, our business strategy in this area has evolved to focus on the marketing of process development and manufacturing services. Our objective is to be the preferred partner for innovator pharmaceutical companies, providing a complete range of services that are necessary to take their innovations to the market speedily and more efficiently. The focus is to leverage our skills in process development, analytical development, formulation development and Current Good Manufacturing Practice (“cGMP”) manufacturing to serve various needs of innovator pharmaceutical companies. We have positioned our PSAI segment’s Custom Pharmaceutical Services business to be the partner of choice for large and emerging innovator companies across the globe, with service offerings spanning the entire value chain of pharmaceutical services.

Sales, Marketing and Distribution

Emerging Markets. India is an important emerging market, accounting for 13% of the PSAI segment’s revenues in the year ended March 31, 2011. In India, we market our API products to Indian and multinational companies, many of whom are also our competitors in our Global Generics segment. In India, our top six products are ciprofloxacin, ranitidine, clopidogrel, ramipril, losartan potassium and ibuprofen. The market in India is highly competitive, with severe pricing pressure and competition from cheaper Chinese imports in several products.

In India, our sales team works closely with our sales agents to market our products. We market our products through these sales agents, commonly referred to as “indenting agents,” with a focus on regional sales and marketing. The sales are made directly from the factory.

Our sales to other emerging markets were ₹6,838 million for the year ended March 31, 2011. Our other key emerging markets include Israel, Turkey, Brazil, Mexico, South Korea, Japan, Bangladesh, Malaysia, Saudi Arabia, Argentina, Australia, Jordan, Egypt, Thailand, Chile, Singapore, China, Taiwan, Peru, Uruguay, Indonesia, Tunisia and Colombia. While we work through our agents in these markets, our zonal marketing managers also interact directly with our key customers in order to service their requirements. Our strategy is to build relationships with top customers in each of these markets and partner with them in product launches by providing timely technical and analytical support.

Developed Markets. Our principal markets are North America (the United States and Canada) and Europe. In the United States and Europe, over the next two years, a large number of products are expected to lose patent protection, providing growth opportunities for our API business. We have been marketing API in the United States for over a decade. We market through our subsidiaries in the United States and Europe. These subsidiaries are engaged in all aspects of marketing activity and support our customers' pursuit of regulatory approval for their products, focusing on building long-term relationships with the customers.

With respect to API, we filed 70 DMFs worldwide in the year ended March 31, 2011, 21 of which were filed in the United States, 3 in Canada, 16 in Europe and 30 in other countries. With these filings, we have a total of 173 U.S. DMFs filed as of March 31, 2011. Also, as of March 31, 2011, we had filed 102 DMFs in Europe and had 38 certificates of suitability granted by European authorities.

Including our "Rest of the World" markets (i.e., all markets other than North America, Europe, Russia and other countries of the former Soviet Union and India), as of March 31, 2011, we have made a total of 476 filings worldwide. For most of these, we are either already supplying commercial quantities or development quantities of API to various generic formulators.

For our custom pharmaceutical services line of business, we have focused business development teams dedicated to our key geographies of North America (the United States and Canada), the European Union and Asia Pacific. These teams target large and emerging innovator companies to build long-term business relationships focused on catering to their outsourcing needs.

Manufacturing and Raw Materials

The infrastructure for our PSAI segment consists of six U.S. FDA-inspected plants in India, a U.S. FDA-inspected plant in Mexico, a U.S. FDA-inspected plant in Mirfield, United Kingdom and three technology development centers, two of which are in Hyderabad, India and one of which is in Cambridge, United Kingdom.

India. All of the facilities in India are located in the state of Andhra Pradesh. With over 840 reactors of different sizes offering 2.6 million liters of reaction volume annually, we have the flexibility to produce quantities that range from a few kilograms to several metric tons. The manufacturing process consumes a wide variety of raw materials that we obtain from sources that comply with the requirements of regulatory authorities in the markets to which we supply our products. We procure raw materials on the basis of our requirement planning cycles. We utilize a broad base of suppliers in order to minimize risk arising from dependence on a single supplier. We also source several APIs from third party suppliers for the emerging markets to optimally utilize our in-house manufacturing capacities for the developed markets, which are more profitable relative to the emerging markets. During the year ended March 31, 2011, approximately 5% of our total revenues resulted from sales of API procured from third-party suppliers. We maintain stringent quality controls when procuring materials from third-party suppliers.

Our API outsourcing activities were improved during the year ended March 31, 2011 as a result of a new initiative to strengthen our relationships with our API vendors, who we view as our business partners, through a dedicated quality assurance team. This initiative has helped us maintain a strong and sustaining supply chain. In line with our philosophy of ensuring that our business partners grow with us, we have implemented a strong infrastructure to improve the performance of our partners, both in volume and quality. This includes a dedicated team of professionals from our technical, quality and commercial teams working with the partners, as well as a dedicated quality laboratory and a development laboratory. This has further helped us to mitigate risks due to single source and quality related issues.

The prices of our raw materials generally fluctuate in line with commodity cycles, though the prices of raw materials used in our active pharmaceutical ingredients business are generally more volatile. Raw material expense forms the largest portion of our operating expenses. We evaluate and manage our commodity price risk exposure through our operating procedures and sourcing policies.

Mexico. Our U.S. FDA inspected plant in Mexico was acquired from Roche during the year ended March 31, 2006. In addition to manufacturing the active pharmaceutical ingredients naproxen and naproxen sodium and a range of intermediates, the Mexico facility synthesizes steroids for use in pharmaceutical and veterinary products.

For our contract research services, we have well-resourced synthetic organic chemistry laboratories, analytical laboratories and kilo laboratories at our technology development centers at Miyapur and Jeedimetla in Hyderabad. We have added a new crystallization laboratory that enhances our technical capability to study finishing stages of API manufacturing and process safety. Our chemists and engineers understand cGMP manufacturing and regulatory requirements for synthesis, manufacture and formulation of a NCE from the pre-clinical stage to commercialization. To complete the full value chain in development services, we also provide formulation development services. We now have facilities for pre-formulation and formulation development, analytical development, clinical trial supplies, pilot scale and product regulatory support. Larger quantities of APIs are sourced from API plants in India and Mexico.

The Dowpharma Small Molecules business, which we acquired from The Dow Chemical Company in April 2008, continues to offer niche capabilities, such as biocatalysis, chemocatalysis and hydroformulation, to provide cost effective solutions for chiral molecules. We are leveraging the acquired business and intangibles (including customer contracts, associated API products, process technology and know-how, technology licensing rights, trademarks and other intellectual property) to provide services and products to our existing customers, as well as new customers. The approximately 80 employees who joined us as a part of the acquisition have been integrated within our business. The non-exclusive license to Dow's Pfēnex Expression Technology™ for biocatalysis development, also acquired as part of the acquisition, continues to offer us opportunities to provide technology leveraged manufacturing services to innovators, including major global pharmaceutical companies. Our contract research and manufacturing business is uniquely positioned in the market where it utilizes assets (both in terms of physical assets and technical know-how) of a vertically integrated pharmaceutical company and combines this with the service model which we built over the last few years.

Competition

The global API market can broadly be divided into highly regulated and less regulated markets. The less regulated markets offer low entry barriers in terms of regulatory requirements and intellectual property rights. The highly regulated markets, like the United States and Europe, have high entry barriers in terms of intellectual property rights and regulatory requirements, including facility approvals. As a result, there is a premium for quality and regulatory compliance along with relatively greater stability for both volumes and prices. During the year ended March 31, 2011, the competitive environment for the API industry underwent significant changes. These changes included increased consolidation in the global generics industry and vertical integration of some key generic pharmaceutical companies. As an API supplier, we compete with a number of manufacturers within and outside India, which vary in size. Our main competitors in this segment are Hetero Drugs Limited, Divi's Laboratories Limited, Aurobindo Pharma Limited, Ranbaxy Laboratories Limited, Cipla Limited, Matrix Laboratories Limited, Sun Pharmaceutical Industries Limited and MSN Laboratories Limited, all based in India. In addition, we experience competition from European and Chinese manufacturers, as well as from Teva Pharmaceuticals Industries Limited, based in Israel.

With respect to our custom pharmaceuticals business, we believe that contract manufacturing is a significant opportunity for Indian pharmaceutical companies, based on their strengths of a skilled workforce and a low-cost manufacturing infrastructure. Key competitors in India include Divi's Laboratories Limited, Dishman Pharmaceuticals & Chemicals Limited, Jubilant Organosys Limited and Nicholas Piramal India Limited. Key competitors from outside India include Lonza Group, Koninklijke DSM N.V., Albany Molecular Research, Inc., Patheon, Inc. and Cardinal Health, Inc. We distinguish ourselves from our key competitors by offering a wider range of cost effective services spanning the entire pharmaceutical value chain. Growth in contract manufacturing is likely to be driven by increasing outsourcing of late-stage and off-patent molecules by large pharmaceutical companies to compete with generics. India is emerging as an alliance and outsourcing destination of choice for global pharmaceutical companies. Companies such as Roche, Bayer, Aventis, Novartis, Eli Lilly, Merck Sereno and GlaxoSmithKline are all executing plans to make India the regional hub for API and supply of bulk drugs.

Government regulations

All pharmaceutical companies that manufacture and market products in India are subject to various national and state laws and regulations, which principally include the Drugs and Cosmetics Act, 1940, the Drugs (Prices Control) Order, 1995, various environmental laws, labor laws and other government statutes and regulations. These regulations govern the testing, manufacturing, packaging, labeling, storing, record-keeping, safety, approval, advertising, promotion, sale and distribution of pharmaceutical products.

In India, manufacturing licenses for drugs and pharmaceuticals are generally issued by state drug authorities. Under the Drugs and Cosmetics Act, 1940, the state drug administration agencies are empowered to issue manufacturing licenses for drugs if they are approved for marketing in India by the Drug Controller General of India (“DCGI”). Prior to granting licenses for any new drugs or combinations of new drugs, the DCGI clearance has to be obtained in accordance with the Drugs and Cosmetics Act, 1940.

Our PSAI segment is subject to a number of government regulations with respect to pricing and patents as discussed below in our Global Generics segment.

We submit a DMF for active pharmaceutical ingredients to be commercialized in the United States. Any drug product for which an ANDA is being filed must have a DMF in place with respect to a particular supplier supplying the underlying API. The manufacturing facilities are inspected by the U.S. FDA to assess compliance with Current Good Manufacturing Practice regulations (“cGMP”). The manufacturing facilities and production procedures utilized at the manufacturing facilities must meet U.S. FDA standards before products may be exported to the United States. Eight of our manufacturing facilities are inspected by the U.S. FDA. For European markets, we submit a European DMF and, where applicable, obtain a certificate of suitability from the European Directorate for the Quality of Medicines.

Proprietary Products Segment

Our Proprietary Products segment involves the discovery of new chemical entities and differentiated formulations for subsequent commercialization and out-licensing. It also involves our specialty pharmaceuticals business which launched sales and marketing operations for in-licensed dermatology products in the year ended March 31, 2009.

During the year ended March 31, 2011, we leveraged our semi-virtual research and development model to expand our portfolio of drug discovery, differentiated and specialty formulations programs. This was achieved by efficiently collaborating with discovery biotechnology companies and service providers, and tapping their expertise in the niche areas of our interest. We also successfully progressed towards building a sustainable mix of proprietary, branded research and development portfolio with significantly reduced fixed costs.

Proprietary Products business

In our Proprietary Products segment, we actively pursue discovery and development of new molecules, sometimes referred to as “New Chemical Entities” (or “NCEs”) and differentiated formulations. Our research and development programs focus on the following therapeutic areas:

- metabolic disorders;
- cardiovascular disorders;
- bacterial infections;
- dermatological indications; and
- pain and inflammation.

Our principal research laboratory is based in Hyderabad, India. As of March 31, 2011, we employed a total of 75 scientists, including approximately 11 scientists who held Ph.D. degrees, across all of this segment's locations. For NCEs, differentiated and specialty formulations, we pursue an integrated research strategy through a mix of translational, formulation and analytical research at our laboratories. Our research strategy focuses on discovery of new molecular targets, designing of screening assays to screen promising molecules and developing novel formulations of currently marketed drugs or combinations thereof to address unmet medical needs.

While we continue to seek licensing and development arrangements with third parties to further develop our product pipeline, we also conduct clinical development of some candidate drugs ourselves, which will enable us to derive higher value for our products. Our goal is to balance internal development of our own product candidates with in-licensing of promising compounds that complement our strengths. We also pursue licensing and joint development of some of our lead compounds with companies looking to implement their own product portfolio.

Alliances and Partnerships

In September 2005, we entered into a co-development and commercialization agreement with Denmark based Rheoscience A/S for the joint development and commercialization of Balaglitazone (DRF 2593), a partial PPAR-gamma agonist, for the treatment of type 2 diabetes. In the year ended March 31, 2009, we agreed with Rheoscience to amend the terms of this agreement. Under the terms of the amended agreement, we and Rheoscience will share costs for Phase III development according to certain pre-determined formulas. The parties will also share eventual revenues, whether from direct sales of products by either party or from third parties who may be responsible for marketing the product in certain countries. The agreement is valid for a period of ten years from the date of commercialization. We retain the right to supply clinical development and commercial quantities of the requisite active pharmaceutical ingredients on an arm's-length basis to all parties that commercialize DRF 2593. DRF 2593 commenced the first Phase III clinical trials in August 2007, which was completed in December 2009. The future strategy with respect to this molecule is currently being developed. In order to obtain approval from either the U.S. FDA or its European counterpart, the European Medicines Agency, many Phase III clinical trials will be required to be conducted over several years (the precise duration of which will be decided by the applicable regulatory authorities, after reviewing some of our Phase III clinical trials data).

In April 2010, we completed Phase I clinical studies for DRL 17822, a selective inhibitor of cholesterylester transfer protein (or "CETP"), for the treatment of dyslipidemia, atherosclerosis and associated cardiovascular diseases. The compound showed potent elevation in high-density lipoprotein (or "HDL") cholesterol and reduction of atherosclerotic plaques in animals, and has a clean safety profile in preclinical studies. We also conducted Phase II enabling non-clinical studies during the year ended March 31, 2011, and filed a clinical trial application for conducting Phase II studies with the U.S. FDA.

During the year ended March 31, 2011, we entered into collaborations with discovery biotechnology companies to initiate new chemical entities ("NCEs") and differentiated formulations programs in the therapeutic areas of our interest.

During the year ended March 31, 2011, we initiated a Phase III clinical trial for DRL-NAB-P2 targeting onchomycosis and filed Investigational New Drug ("IND") applications with the U.S. FDA for DFA-02 targeting bacterial infections, DRL-NAB-P5 targeting Psoriasis and DRL-NAB-P6 also targeting Psoriasis.

Our investments into research and development of NCEs, differentiated formulations and specialty formulations have been consistently focused towards developing promising therapeutics. The compounds currently under active development in our pipeline include:

Compound	Therapeutic Area	Status	Remarks
New Chemical Entities (NCEs)			
DRF 2593	Metabolic disorders	Phase III	In Phase III clinical testing for Type 2 diabetes partnered with Nordic Biosciences
DRL 17822	Metabolic disorders/ Cardiovascular disorders	Phase II	Targeting dyslipidemia / atherosclerosis
Differentiated and Specialty Formulations			
DRL-NAB-P2	Onchomycosis	Phase III	In Phase III clinical testing for Onchomycosis
DRL-NAB-P5	Psoriasis	Clinical	Targeting Psoriasis
DRL-NAB-P6	Psoriasis	Clinical	Targeting Psoriasis
DFA-02	Anti-Infectives	Clinical	Targeting bacterial infections
DFP-02	Migraine	Clinical	Targeting Migraines

Patents. The status of our patents filed and issued as of March 31, 2011 is summarized below:

Category	USPTO(1) (Filed)	USPTO(1) (Granted)	PCT(2) (Filed)	India (Filed)	India (Granted)
Anti-diabetic	85	15	62	117	45
Anti-cancer	18	10	14	45	15
Anti-bacterial	8	6	10	22	4
Anti-inflammation/Cardiovascular	40	20	28	21	2
Anti-ulcerant	1	1	—	1	—
Miscellaneous	4	1	3	23	8
Differentiated formulations	3 (provisional)	—	4	2 (provisional)	—
TOTAL	159	53	121	231	74

- (1) “USPTO” means the United States Patent and Trademark Office.
- (2) “PCT” means the Patent Cooperation Treaty, an international treaty that facilitates foreign patent filings for residents of member countries when obtaining patents in other member countries.

Stages of Testing Development. The stages of testing required before a pharmaceutical product can be marketed in the United States are generally as follows:

Stage of Development	Description
Preclinical	Animal studies and laboratory tests to evaluate safety and efficacy, demonstrate activity of a product candidate and identify its chemical and physical properties.
Phase I	Clinical studies to test safety and pharmacokinetic profile of a drug in humans.
Phase II	Clinical studies conducted with groups of patients to determine preliminary efficacy, dosage and expanded evidence of safety.
Phase III	Larger scale clinical studies conducted in patients to provide sufficient data for statistical proof of efficacy and safety.

For ethical, scientific and legal reasons, animal studies are required in the discovery and safety evaluation of new medicines. Preclinical tests assess the potential safety and efficacy of a product candidate in animal models. The results of these studies must be submitted to the U.S. FDA as part of an Investigational New Drug (“IND”) application before human testing may proceed.

U.S. law further requires that studies conducted to support approval for product marketing be “adequate and well controlled.” In general, this means that either a placebo or a product already approved for the treatment of the disease or condition under study must be used as a reference control. Studies must also be conducted in compliance with good clinical practice requirements, and adverse event and other reporting requirements must be followed.

The clinical trial process can take five to ten years or more to complete, and there can be no assurance that the data collected will be in compliance with good clinical practice regulations, will demonstrate that the product is safe or effective, or, in the case of a biologic product, pure and potent, or will provide sufficient data to support U.S. FDA approval of the product. The U.S. FDA may place clinical trials on hold at any point in this process if, among other reasons, it concludes that clinical subjects are being exposed to an unacceptable health risk. Trials may also be terminated by institutional review boards, which must review and approve all research involving human subjects. Side effects or adverse events that are reported during clinical trials can delay, impede, or prevent marketing authorization.

Competition

The pharmaceutical and biotechnology industries are highly competitive. We face intense competition from organizations such as large pharmaceutical companies, biotechnology companies and academic and research organizations. The major pharmaceutical organizations competing with us have greater capital resources, larger overall research and development staff and facilities and considerably more experience in drug development. Biotechnology companies competing with us may have these advantages as well.

In addition to competition for collaborators and investors, these companies and institutions also compete with us in recruiting and retaining highly qualified scientific and management personnel.

Government regulations

Virtually all pharmaceutical and biologics products that we or our collaborative partners develop will require regulatory approval by governmental agencies prior to commercialization. The nature and extent to which these regulations apply varies depending on the nature of the products and also vary from country to country. In particular, human pharmaceutical products are subject to rigorous pre-clinical and clinical testing and other approval procedures by the relevant regulatory agency. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary widely from country to country.

In India, under the Drugs and Cosmetics Act, 1940, the regulation of the manufacture, sale and distribution of drugs is primarily the concern of the state authorities while the Central Drug Control Administration is responsible for approval of new drugs, clinical trials in the country, establishing the standards for drugs, control over the quality of imported drugs, coordination of the activities of state drug control organizations and providing expert advice with a view of bringing about the uniformity in the enforcement of the Drugs and Cosmetics Act, 1940.

For marketing a drug in the United States, we or our partners will be subject to regulatory requirements governing human clinical trials, marketing approval and post-marketing activities for pharmaceutical products and biologics. Various federal and, in some cases, state statutes and regulations also govern or influence the manufacturing, safety, labeling, storage, record-keeping and marketing of these products. The process of obtaining these approvals and the subsequent compliance with applicable statutes and regulations is time consuming and requires substantial resources, and the approval outcome is uncertain.

Generally, in order to gain U.S. FDA approval, a company first must conduct pre-clinical studies in the laboratory and in animal models to gain preliminary information on a compound's activity and to identify any safety problems. Pre-clinical studies must be conducted in accordance with U.S. FDA regulations. The results of these studies are submitted as part of an IND application that the U.S. FDA must review before human clinical trials of an investigational drug can start. If the U.S. FDA does not respond with any questions, a drug developer can commence clinical trials thirty days after the submission of an IND.

In order to eventually commercialize any products, we or our collaborator first will be required to sponsor and file an IND and will be responsible for initiating and overseeing the clinical studies to demonstrate the safety and efficacy that is necessary to obtain U.S. FDA marketing approval. Clinical trials are normally done in three phases and generally take several years, but may take longer to complete. The clinical trials have to be designed taking into account the applicable U.S. FDA guidelines. Furthermore, the U.S. FDA may suspend clinical trials at any time if the U.S. FDA believes that the subjects participating in trials are being exposed to unacceptable risks or if the U.S. FDA finds deficiencies in the conduct of the trials or other problems with our product under development.

After completion of clinical trials of a new product, U.S. FDA marketing approval must be obtained. If the product is classified as a new pharmaceutical, we or our collaborator will be required to file a New Drug Application (“NDA”), and receive approval before commercial marketing of the drug. The testing and approval processes require substantial time and effort. NDAs submitted to the U.S. FDA can take several years to obtain approval and the U.S. FDA is not obligated to grant approval at all.

Even if U.S. FDA regulatory clearances are obtained, a marketed product is subject to continual review. If and when the U.S. FDA approves any of our or our collaborators’ products under development, the manufacture and marketing of these products will be subject to continuing regulation, including compliance with cGMP, adverse event reporting requirements and prohibitions on promoting a product for unapproved uses. Later discovery of previously unknown problems or failure to comply with the applicable regulatory requirements may result in restrictions on the marketing of a product or withdrawal of the product from the market as well as possible civil or criminal sanctions. Various federal and, in some cases, state statutes and regulations also govern or influence the manufacturing, safety, labeling, storage, record keeping and marketing of pharmaceutical products.

Our research and development processes involve the controlled use of hazardous materials and controlled substances. We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of these materials and waste products.

Promius Pharma

Promius Pharma is our subsidiary in Bridgewater, New Jersey in the United States of America focusing on our U.S. Specialty Business — i.e., development and sales of branded specialty products. It has a portfolio of in-licensed patented dermatology products and off-patent cardiovascular products. It also has an internal pipeline of dermatology products that are in different stages of development. Promius Pharma’s current portfolio contains innovative products for the treatment of seborrheic dermatitis, onychomycosis, acne, psoriasis and androgenic alopecia. It has commercialized three products: EpiCeram®, which is a skin barrier emulsion for the treatment of atopic dermatitis; Scytera™, which is foam for the treatment of psoriasis; and Promiseb™, which is a cream for the treatment for seborrheic dermatitis. Over the last year, since the business has been launched, Promius Pharma has been able to enter into successful partnerships with companies such as Ceragenix, Foamix, Sinclair and Antares for in-licensing of products. It also leverages on our research, development and manufacturing facilities at Hyderabad, India. Promius Pharma also works with various third party research organizations in conducting product development, pre-clinical and clinical studies. Promius Pharma has approximately 50 sales representatives in the field. Its sales force targets physicians in the field of dermatology and is supported by a direct marketing team and a public relations program. In addition to its sales force, Promius Pharma’s account managers also call on purchasing agents for drug wholesalers and chain drug stores.

The manufacturing of Promius Pharma’s products has been outsourced to third party manufacturers based in the United States and Europe. The third party manufacturers are responsible for sourcing the raw materials required for manufacturing the products. However, in some cases we source the active pharmaceutical ingredients and supply them to the third party manufacturer. The logistics services for storage and distribution have also been outsourced to a third party service provider.

On March 31, 2011, through our wholly owned subsidiary Promius Pharma LLC, we entered into a collaboration agreement with Coria Laboratories Limited (a subsidiary of Valeant Pharmaceuticals International, Inc.) (“Coria”) for the right to manufacture, distribute and market its Cloderm® (clocortolone pivalate 0.1%) product in the United States. Cloderm® is a cream used for treating dermatological inflammation, and is an existing U.S. FDA approved product. In addition to acquiring all relevant U.S. FDA product regulatory approvals and intellectual property rights (other than trademarks) associated with Cloderm®, we also acquired an underlying raw material supply contract and an exclusive license to use the trademark “Cloderm®” for a period of 8 years. The rights and ownership of this trademark are to be transferred from Coria to us at the end of the 8th year, subject to our payment of all royalties under the contract. Consideration for these transactions includes an upfront payment of ₹1,605 million (U.S. \$36 million) in cash and contingent consideration in the form of a royalty equal to 4% of our net sales of Cloderm® in the United States during the 8 year trademark license period.

4.C. Organizational structure

Dr. Reddy's Laboratories Limited is the parent company in our group. We had the following subsidiary companies where our direct and indirect ownership was more than 50% as of March 31, 2011:

Name of Subsidiary	Country of Incorporation	Percentage of Direct/ Indirect Ownership Interest
DRL Investments Limited	India	100%
Reddy Pharmaceuticals Hong Kong Limited	Hong Kong	100%
OOO JV Reddy Biomed Limited	Russia	100%
Reddy Antilles N.V.	Netherlands	100%
Reddy Netherlands B.V.	Netherlands	100%(1)
Reddy US Therapeutics, Inc.	U.S.A.	100%(1)
Dr. Reddy's Laboratories, Inc.	U.S.A.	100%(10)
Dr. Reddy's Farmaceutica do Brasil Ltda	Brazil	100%
Cheminor Investments Limited	India	100%
Aurigene Discovery Technologies Limited	India	100%
Aurigene Discovery Technologies, Inc.	U.S.A.	100%(3)
Kunshan Rotam Reddy Pharmaceutical Co. Limited	China	51.33%(4)
Dr. Reddy's Laboratories (EU) Limited	United Kingdom	100%(10)
Dr. Reddy's Laboratories (U.K.) Limited	United Kingdom	100%(5)
Dr. Reddy's Laboratories (Proprietary) Limited	South Africa	100%(12)
Reddy Cheminor S.A.	France	100%(2)
OOO Dr. Reddy's Laboratories Limited	Russia	100%
Dr. Reddy's Bio-sciences Limited	India	100%
Promius Pharma LLC (formerly Reddy Pharmaceuticals, LLC)	U.S.A.	100%(6)
Trigenesis Therapeutics, Inc.	U.S.A.	100%
Industrias Quimicas Falcon de Mexico, SA de CV	Mexico	100%
Reddy Holding GmbH	Germany	100%(7)
Lacock Holdings Limited	Cyprus	100%
betapharm Arzneimittel GmbH	Germany	100%(8)
beta Healthcare Solutions GmbH	Germany	100%(8)
beta institut fur sozialmedizinische Forschung und Entwicklung GmbH	Germany	100%(8)
Reddy Pharma Iberia SA	Spain	100%
Reddy Pharma Italia SPA	Italy	100%(7)
Dr. Reddy's Laboratories (Australia) Pty Ltd.	Australia	100%
Dr. Reddy's Laboratories SA	Switzerland	100%
Eurobridge Consulting B.V.	Netherlands	100%(1)
OOO DRS LLC	Russia	100%(9)
Aurigene Discovery Technologies(Malaysia) Sdn, Bhd	Malaysia	100%(3)
Dr. Reddy's New Zealand Limited (formerly Affordable Healthcare Limited)	New Zealand	100%(10)
Dr. Reddy's Laboratories Ilac Ticaret Limited	Turkey	100%
Dr. Reddy's SRL (formerly Jet Generici SRL)	Italy	100%(11)
Chirotech Technology Limited	United Kingdom	100%(5)
Dr. Reddy's Laboratories Louisiana LLC	U.S.A.	100%(6)
Dr. Reddy's Pharma SEZ Limited	India	100%
Dr. Reddy's Laboratories International SA	Switzerland	100%(8)
Idea2Enterprises (India) Pvt. Limited	India	100%
Dr. Reddy's Laboratories Romania SRL	Romania	100%(10)
I-Ven Pharma Capital Limited	India	100%(13)
Dr. Reddy's Venezuela, C.A	Venezuela	100%(13)
Dr. Reddy's Laboratories Tennessee, LLC	U.S.A	100%(6)

(1) Indirectly owned through Reddy Antilles N.V.

- (2) Subsidiary under liquidation.
- (3) Indirectly owned through Aurigene Discovery Technologies Limited.
- (4) Kunshan Rotam Reddy Pharmaceutical Co. Limited is a subsidiary as we hold a 51.33% stake; However, we account for this investment by the equity method and do not consolidate it in our financial statements.
- (5) Indirectly owned through Dr. Reddy's Laboratories (EU) Limited.
- (6) Indirectly owned through Dr. Reddy's Laboratories, Inc.
- (7) Indirectly owned through Lacock Holdings Limited.
- (8) Indirectly owned through Reddy Holding GmbH.
- (9) Indirectly owned through Eurobridge Consulting B.V.
- (10) Indirectly owned through Dr. Reddy's Laboratories SA.
- (11) Indirectly owned through Reddy Pharma Italia SPA.
- (12) We acquired the 40% non-controlling interest in August 2010.
- (13) Indirectly owned through DRL Investments Limited

Macred India Private Limited, India was our wholly-owned subsidiary until July 19, 2010, at which time we sold an 80% controlling interest in the entity and retained a 20% non-controlling interest.

4.D. Property, plant and equipment

The following table sets forth current information relating to our principal facilities:

Location	Approximate Area (Square feet)	Built up Area (Square feet)	Certifications	Installed Capacity	Actual Production
Pharmaceutical Services and Active Ingredients					
Bollaram, Andhra Pradesh, India	734,013	369,008	U.S. FDA and EUGMP	3,831 ⁽⁸⁾⁽¹¹⁾	3,267 ⁽⁸⁾⁽¹¹⁾
Bollaram, Andhra Pradesh, India	648,173	383,542	U.S. FDA and EUGMP	See above ⁽¹¹⁾	See above ⁽¹¹⁾
Bollaram, Andhra Pradesh, India	715,610	217,515	U.S. FDA and EUGMP	See above ⁽¹¹⁾	See above ⁽¹¹⁾
Jeedimetla, Andhra Pradesh, India	228,033	102,464	U.S. FDA and EUGMP	See above ⁽¹¹⁾	See above ⁽¹¹⁾
Miryalaguda, Andhra Pradesh, India	3,402,907	447,693	U.S. FDA and EUGMP	See above ⁽¹¹⁾	See above ⁽¹¹⁾
Pydibheemavaram, Andhra Pradesh, India	2,668,465	1,007,643	U.S. FDA and EUGMP	See above ⁽¹¹⁾	See above ⁽¹¹⁾
Pydibheemavaram, Andhra Pradesh, India	792,786	54,338		See above ⁽¹¹⁾	See above ⁽¹¹⁾
Miyapur, Andhra Pradesh, India	113,256	85,736	ISO 27001: 2005 Information Security Management System	N/A	N/A
Jeedimetla, Andhra Pradesh, India	68,825	23,538	ISO 27001: 2005 Information Security Management System	N/A	N/A
Global Generics					
Cuernavaca, Mexico	2,774,378	1,345,488	⁽¹⁾	3,500 ⁽⁸⁾	2,000 ⁽⁸⁾
Mirfield, United Kingdom	1,785,960	653,400	ISO 9001:2008, MHRA (UK) and U.S. FDA	⁽¹²⁾	⁽¹²⁾
Cambridge, United Kingdom ⁽⁵⁾	9,383	9,383		N/A	N/A
Bollaram, Andhra Pradesh, India	217,729	103,894	⁽²⁾	5,581 ⁽⁶⁾⁽⁷⁾⁽¹³⁾	4,282 ⁽⁶⁾⁽¹³⁾
Bachupally, Andhra Pradesh, India	1,306,372	425,554	⁽³⁾	See above ⁽¹³⁾	See above ⁽¹³⁾
Yanam, Pondicherry, India	457,000	34,526	—	See above ⁽¹³⁾	See above ⁽¹³⁾
Baddi, Himachal Pradesh, India	786,261	148,711	—	See above ⁽¹³⁾	See above ⁽¹³⁾
Bachupally, Andhra Pradesh, India	798,982	105,924	⁽²⁾	13,852 ⁽⁹⁾	6,951 ⁽⁹⁾
Bachupally, Andhra Pradesh, India	783,823	496,201	⁽⁴⁾	11,727 ⁽⁶⁾⁽¹⁰⁾	6,656 ⁽⁶⁾
Duvvada, Andhra Pradesh, India	691,322	73,334		N/A	N/A
Visakhapatnam, Andhra Pradesh, India					
Beverley, East Yorkshire, United Kingdom	81,000	32,500	U.K. Medicine Control Agency, British Retail Consortium	N/A	N/A
Shreveport, Louisiana, United States	1,817,123	335,000	U.S. FDA	5,875 ⁽⁶⁾⁽¹⁰⁾	2,078 ⁽⁶⁾
Bristol, TN, United States	1,742,400	390,000	U.S. FDA	2,460 ⁽⁶⁾⁽¹⁰⁾	5 ⁽⁶⁾
Proprietary Products⁽¹⁰⁾					
Miyapur, Andhra Pradesh, India	445,401	153,577	—	N/A	N/A

- (1) U.S. FDA; Therapeutic Goods Administration, Australia; Danish Medicines Agency, Denmark; U.S. Prescription Drug Marketing Act; Ministry of Health, Labour and Welfare, Japan; Secretaría de Salud y Asistencia, Mexico.
- (2) Ministry of Health, Uganda; Brazilian National Agency of Sanitary Surveillance (“ANVISA”), Brazil; National Medicines Agency, Romania; Ministry of Health, Ukraine; Gulf Cooperation Council (“GCC”) group of countries.
- (3) Medicine Control Council, Republic of South Africa; The State Company for Marketing Drugs and Medical Appliances, Ministry of Health, Iraq; Sultanate of Oman, Ministry of Health, Muscat; Ministry of Health, State of Bahrain; State Pharmaceutical Inspection, Republic of Latvia; Pharmaceutical and Herbal Medicines, Registration and Control Administrations, Ministry of Health, Kuwait.

National Medicines Agency, Romania; Ministry of Health, Ukraine; Ministry of Health, Indonesia; Health Authorities, Nigeria; Ministry of Health, Kirgystan; World Health Organization, cGMP; ANVISA, Brazil; Medicines and Health Care Products Regulatory Agencies (“MHRA”), U.K., British Retail Consortium; Danish Medicines Agency.

- (4) U.S. FDA; Medicines and Healthcare Products Regulatory Agency, U.K.; Ministry of Health, UAE; Medicines Control Council, South Africa; ANVISA, Brazil; National Medicines Agency, Romania; Danish Medicines Agency, Environmental Management System ISO 14001; Occupational Health and Safety Management System — OHSAS 18001; Quality Management System-ISO 9001:2000.

- (5) Leased facilities.
- (6) Million units.
- (7) On a single shift basis.
- (8) Tons.
- (9) Grams.
- (10) Three shift basis
- (11) Represents the aggregate capacity and production for the first seven facilities listed in this table under PSAI.
- (12) Capacity and production at this facility is not separately tracked.
- (13) Represents the aggregate capacity and production for the first four facilities listed in this table under Global Generics.

Except as indicated in the notes above, we own all of our facilities. All properties mentioned above, including leased properties, are either used for manufacturing and packaging of pharmaceutical products or for research and development activities. In addition, we have sales, marketing and administrative offices, which are leased properties. We believe that our facilities are optimally utilized.

Global Generics

We are in the process of completing construction of another manufacturing plant at Baddi, Himachal Pradesh, India, in addition to a plant which already existed at this location. The new plant is intended for the manufacture of tablet and capsule finished dosages for our Global Generics segment. The project at Baddi is eligible for certain financial benefits, which include exemption from income tax for a specific period, offered by the Government of India to encourage industrial growth in the state of Himachal Pradesh, India.

We have completed construction of a facility at a Special Economic Zone located in Visakhapatnam, Andhra Pradesh, India for the manufacture of oral and injectable cytotoxic finished dosages for our Global Generics segment. In November 2009, the U.S. FDA audited this facility and declared that we had resolved all Form 483 open items, enabling us to initiate the manufacture and supply of products from this facility to the United States, subject to the approval of product specific ANDAs. During June 2010, we commenced operations at this facility by manufacturing and exporting anastrozole tablets.

We are in the process of constructing a manufacturing plant at Devunipalavalasa, Ranastharam Mandal, Andhra Pradesh, India, where our property has been designated as a Special Economic Zone under the applicable laws of the Government of India. The new plant is intended for the manufacture of new molecules, and certain high volume products of our Global Generics segment.

Pharmaceutical Services and Active Ingredients

We are in the process of establishing a plant in a Special Economic Zone in Andhra Pradesh, India for the manufacture of APIs. The plant will be adjacent to an existing plant, in a newly acquired area of approximately 250 acres under a Pharmaceutical-Sector specific Special Economic Zone for fiscal benefits. The formal governmental approval for designating the property as a Special Economic Zone has been obtained. The project is proposed to be developed in a phased manner, subject to all regulatory approvals.

We have working capital facilities with banks and, in order to secure those facilities, we have created encumbrance charges on certain of our immovable and movable properties. We are subject to significant national and state environmental laws and regulations which govern the discharge, emission, storage, handling and disposal of a variety of substances that may be used in or result from our operations at the above facilities. Non-compliance with the applicable laws and regulations may subject us to penalties and may also result in the closure of our facilities.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

We are an emerging global pharmaceutical company with proven research capabilities. We derive our revenues from the sale of finished dosage forms, active pharmaceutical ingredients and intermediates, development and manufacturing services provided to innovator pharmaceutical and biotechnology companies, and license fees from our proprietary products segment.

The Chief Operating Decision Maker (“CODM”) evaluates our performance and allocates resources based on an analysis of various performance indicators by reportable segments. Our reportable segments are as follows:

- Global Generics;
- Pharmaceutical Services and Active Ingredients (“PSAI”); and
- Proprietary Products.

Global Generics: This segment consists of finished pharmaceutical products ready for consumption by the patient, marketed under a brand name (branded formulations) or as generic finished dosages with therapeutic equivalence to branded formulations (generics). This reportable segment was formed through the combination and re-organization of our former Formulations and Generics segments in the year ended March 31, 2009.

Pharmaceutical Services and Active Ingredients (“PSAI”): This segment includes active pharmaceutical ingredients and intermediates, also known as active pharmaceutical products or bulk drugs, which are the principal ingredients for finished pharmaceutical products. Active pharmaceutical ingredients and intermediates become finished pharmaceutical products when the dosages are fixed in a form ready for human consumption, such as a tablet, capsule or liquid using additional inactive ingredients. This segment also includes contract research services and the manufacture and sale of active pharmaceutical ingredients and steroids in accordance with specific customer requirements. This segment has been formed by aggregating our former Active Pharmaceutical Ingredients and Intermediates segment and Custom Pharmaceutical Services segment.

Proprietary Products: This segment involves the discovery of new chemical entities for subsequent commercialization and out-licensing. It also involves our specialty pharmaceuticals business, which conducts sales and marketing operations for in-licensed and co-developed dermatology products.

The CODM reviews revenue and gross profit as the performance indicator. The measurement of each segment’s revenues, expenses and assets is consistent with the accounting policies that are used in preparation of our consolidated financial statements.

Critical Accounting Policies

Critical accounting policies are those most important to the portrayal of our financial condition and results and that require the most exercise of our judgment. We consider the policies discussed under the following paragraphs to be critical for an understanding of our financial statements. Our significant accounting policies and application of these are discussed in detail in Notes 2 and 3 to our consolidated financial statements.

Accounting estimates and judgments

While preparing financial statements in conformity with IFRS, we make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses, disclosure of contingent liabilities at the statement of financial position date and the reported amount of income and expenses for the reporting period. Financial reporting results rely on our estimate of the effect of certain matters that are inherently uncertain. Future events rarely develop exactly as forecast and the best estimates require adjustments, as actual results may differ from these estimates under different assumptions or conditions. We continually evaluate these estimates and assumptions based on the most recently available information.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as below:

- Assessment of functional currency for foreign operations;
- Financial instruments;
- Measurement of recoverable amounts of cash-generating units;
- Provisions and contingencies;
- Sales returns, rebates and charge back provisions;
- Evaluation of recoverability of deferred tax assets;
- Business combinations; and
- Contingencies.

Revenue

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods includes excise duty and is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts and allowances. Revenue includes shipping and handling costs billed to the customer.

Revenue from domestic sales of generic products is recognized upon delivery of products to distributors by our clearing and forwarding agents. Revenue from domestic sales of active pharmaceutical ingredients and intermediates is recognized on delivery of products to customers, from our factories. Revenue from export sales is recognized when the significant risks and rewards of ownership of products are transferred to the customers, which occurs upon delivery of the products to the customers unless the terms of the applicable contract provide for specific revenue generating activities to be completed, in which case revenue is recognized once all such activities are completed.

Sales of generic products in India are made through clearing and forwarding agents to distributors. Significant risks and rewards in respect of ownership of generic products are transferred by us when the goods are delivered to distributors 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 our factories. Significant risks and rewards in respect of ownership of active pharmaceutical ingredients are transferred by us on delivery of the products to the customers. Sales of active pharmaceutical ingredients and intermediates outside India are made directly to the end customers (generally distributors or formulations manufacturers) from the parent company or its consolidated subsidiaries. Significant risks and rewards in respect of ownership of active pharmaceutical ingredients are transferred by us upon delivery of the products to the customers, unless the terms of the applicable contract provide for specific revenue generating activities to be completed, in which case revenue is recognized once all such activities are completed.

We have entered into marketing arrangements with certain marketing partners for sale of goods in certain overseas territories. Under such arrangements, we sell generic products to the marketing partners at a price agreed upon in the arrangement and are also entitled to a profit share which is over and above the agreed price, on the basis of the marketing partner's ultimate net sale proceeds.

Revenue under profit sharing arrangements is recognized when our business partners send us a valid confirmation of the amounts that are owed to us. Arrangements with our business partners typically require the business partner to provide confirmation on inventory status and net sales computations for the products covered under the arrangement, together with an indicative date for payment. Such confirmation from the business partners is typically received in the quarter following the quarter in which the actual underlying sales of the products were made by them. The collection of the profit share becomes probable, and a reliable measurement of the profit share becomes possible, only after the receipt of such confirmation. Accordingly, the timing of revenue recognition corresponds with the receipt of such confirmation. Due to the immateriality of any individual profit share payment, we generally verify the statements received from our business partners by performing overall confirmatory procedures, such as ensuring monthly availability of stock statements, and certain other analytical procedures. Additionally, as part of our arrangements, we typically reserve the right to have third parties conduct audits to verify the statements received from our business partners.

Revenues include amounts derived from product out-licensing agreements. These arrangements typically consist of an initial up-front payment upon inception of the license and subsequent payments dependent on achieving certain milestones in accordance with the terms prescribed in the agreement. Non-refundable up-front license fees received in connection with product out-licensing agreements are deferred and recognized over the period in which we have continuing substantive performance obligations. Milestone payments which are non-refundable and contingent on achieving certain clinical milestones are recognized as revenues either on achievement of such milestones, if the milestones are considered substantive, or over the period we have continuing substantive performance obligations, if the milestones are not considered substantive. If milestone payments are creditable against future royalty payments, the milestones are deferred and released over the period in which the royalties are anticipated to be paid.

Set forth below are the main items that accounted for a reduction in our gross revenue for the year ended March 31, 2011. The following discussion refers to the operations of our U.S. Generics business. It is in our U.S. Generics business that this particular feature of the pharmaceutical industry (i.e., returns, chargebacks, rebates, discounts and Medicaid payments) is significant to our financial statements. The estimates of "gross-to-net" adjustments for our operations in India and other countries outside of the U.S. relate mainly to sales return allowances in all such operations and certain rebates to healthcare insurance providers specific to our German operations. The pattern of such sales return allowances is generally consistent with our gross sales. In Germany, the rebates to healthcare insurance providers mentioned above are contractually fixed in nature and do not involve significant estimations by us.

- Chargebacks. Chargebacks are issued to wholesalers for the difference between our invoice price to the wholesaler and the contract price through which the product is resold in the retail part of the supply chain. The information that we consider for establishing a chargeback accrual includes the historical average chargeback rate over a period of time, current contract prices with wholesalers and other customers, and estimated inventory holding by the wholesaler. With this methodology, we believe that the results are more realistic and closest to the potential chargeback claims that may be received in the future period relating to inventory on which a claim is yet to be received as at the end of the reporting period. In addition, as part of our books closure process, a chargeback validation is performed in which we track and reconcile the volume of sold inventory for which we should carry an appropriate provision for chargeback. We procure the inventory holding statements and data through an electronic data interface with our wholesalers (representing approximately 90% of the total sales volumes on which chargebacks are applicable) as part of this reconciliation. On the basis of this volume reconciliation, chargeback accrual is validated. For the chargeback rate computation, we consider different contract prices for each product across our customer base. This chargeback rate is adjusted (if necessary) on a periodic basis for expected future price reductions.

- Rebates. Rebates (direct and indirect) are generally provided to customers as an incentive to stock and sell our products. Rebate amounts are based on a customer's purchases made during an applicable period. Rebates are paid to wholesalers, chain drug stores, health maintenance organizations or pharmacy buying groups under a contract with us. We determine our estimates of rebate accruals primarily based on the contracts entered into with our wholesalers and other direct customers and the information received from them for secondary sales made by them. For direct rebates, liability is accrued whenever we invoice to direct customers. For indirect rebates, the accruals are based on a representative weighted average percentage of the contracted rebate amount applied to inventory sold and delivered by us to wholesalers or other direct customers.
- Sales Return Allowances. We account for sales returns by recording a provision based on our estimate of expected sales returns. We deal in various products and operate in various markets. Accordingly, our estimate of sales returns is determined primarily by our experience in these markets. In respect of established products, we determine an estimate of sales returns provision primarily based on historical experience of such sales returns. Additionally, other factors that we consider in determining the estimate include levels of inventory in the distribution channel, estimated shelf life, product discontinuances, price changes of competitive products, and introduction of competitive new products, to the extent each of these factors impact our business and markets. We consider all of these factors and adjust the sales return provision to reflect our actual experience. With respect to new products introduced by us, those have historically been either extensions of an existing product line where we have historical experience or in a general therapeutic category where established products exist and are sold either by us or our competitors.

We have not yet introduced products in a new therapeutic category where the sales returns experience of such products by us or our competitors (as we understand based on industry publications) is not known. The amount of sales returns for our newly launched products have not historically differed significantly from sales returns experience of the then current products marketed by us or our competitors (as we understand based on industry publications). Accordingly, we do not expect sales returns for new products to be significantly different from expected sales returns of current products. We evaluate sales returns of all our products at the end of each reporting period and record necessary adjustments, if any.

- Medicaid Payments. We estimate the portion of our sales that may get dispensed to customers covered under Medicaid programs based on the proportion of units sold in the previous two quarters for which a Medicaid claim could be received as compared to the total number of units sold in the previous two quarters. The proportion is based on an analysis of the actual Medicaid claims received for the preceding four quarters. In addition, we also apply the same percentage on the derived estimated inventory sold and delivered by us to our wholesalers and other direct customers to arrive at the potential volume of products on which a Medicaid claim could be received. We use this approach because we believe that it corresponds to the approximate six month time period it takes for us to receive claims from the various Medicaid programs. After estimating the number of units on which a Medicaid claim is to be paid, we use the latest available Medicaid reimbursement rate per unit to calculate the Medicaid accrual. In the case of new products, accruals are done based on specific inputs from our marketing team or data from the publications of IMS Health, a company which provides information on the pharmaceutical industry.
- Shelf Stock Adjustments. Shelf stock adjustments, which are common in our industry, are given to compensate our customers for falling prices due to additional competitive products. These take the form of contractually agreed "price protection" or "shelf stock adjustment" clauses in our agreements with direct customers. Such shelf stock adjustments are accrued and paid when the prices of certain products decline as a result of increased competition upon the expiration of limited competition or exclusivity periods.
- Cash Discounts. We offer cash discounts to our customers, generally at 2% of the gross sales price, as an incentive for paying within invoice terms, which generally range from 45 to 90 days. Accruals for such cash discounts do not involve any significant variables, and the estimates are based on the gross sales price and agreed cash discount percentage at the time of invoicing.

We believe our estimation processes are reasonable methods of determining accruals for the “gross-to-net” adjustments. Chargeback accrual accounts for the highest element among the “gross-to-net” adjustments, and constituted approximately 82% of such “gross-to-net” adjustments for our U.S. Generics business for the year ended March 31, 2011. For the purpose of the following discussion, we are therefore restricting our explanations to this specific element. While chargeback accruals depend on multiple variables, the most pertinent variables are our estimates of inventories on which a chargeback claim is yet to be received and the unit price at which the chargeback will be processed. To determine the chargeback accrual applicable for a reporting period, we perform the following procedures to calculate these two variables:

- (a) Estimated inventory — Inventory volumes on which a chargeback claim that is expected to be received in the future are determined using the validation process and methodology described above (see “Chargebacks” above). When such a validation process is performed, we note that the difference represents an immaterial variation. Therefore, we believe that our estimation process in regard to this variable is reasonable.
- (b) Unit pricing rate — As at any point in time, inventory volumes on which we carry our chargeback accrual represents approximately 1.5 months of sales volumes. Therefore, the sensitivity of price changes on our chargeback accrual relates to only such volumes. Assuming that the chargebacks were processed within such period, we analyzed the impact of changes of prices for the periods beginning April 1, 2011, 2010 and 2009, respectively, and ended March 31, 2011, 2010 and 2009, respectively, on our estimated inventory levels computed based on the methodology mentioned above (see “Chargebacks” above). We noted that the impact on net sales on account of such price variation was negligible.

In view of this, we believe that the calculations are not subject to a level of uncertainty that warrants a probability-based approach. Accordingly, we believe that we have been reasonable in our estimates for future chargeback claims and that the amounts of reversals or adjustments made in the current period pertaining to the previous year’s accruals are immaterial. Further, this data is not determinable except on occurrence of specific instances or events during a period, which warrant an adjustment to be made for such accruals. A roll-forward for each major accrual for our U.S. Generics operations is presented in Item 5.A. (“Operating Results”) below for our fiscal years ended March 31, 2009, 2010 and 2011, respectively.

Returns primarily relate to expired products which the customer has the right to return for a period of 12 months following the expiration date of such product. Such returned products are destroyed and credit notes are issued to the customer for the products returned. We account for sales returns accrual by recording an allowance for sales returns concurrent with the recognition of revenue at the time of a product sale. This allowance is based on our estimate of expected sales returns. We deal in various products and operate in various markets. Accordingly, our estimate of sales returns is determined primarily by our historical experience in the markets in which we operate. With respect to established products, we consider our historical experience of sales returns, levels of inventory in the distribution channel, estimated shelf life, product discontinuances, price changes of competitive products, and the introduction of competitive new products, to the extent each of these factors impact our business and markets. With respect to new products introduced by us, such products have historically been either extensions of an existing line of product where we have historical experience or in therapeutic categories where established products exist and are sold either by us or our competitors.

A roll-forward for each major accrual for our U.S. Generics operations is presented below for our fiscal years ended March 31, 2009, 2010 and 2011, respectively:

(All Values in U.S.\$ Millions)

Particulars	Chargebacks	Rebates	Medicaid	Sales Return
Beginning balance: April 1, 2008	59	26	4	6
Current provisions relating to sales in current year	440	47	4	5
Provisions and adjustments relating to sales in prior years	*	(5)	2	—
Credits and payments**	(441)	(38)	(4)	(3)
Ending balance: March 31, 2009	58	30	6	8
Beginning Balance: April 1, 2009	58	30	6	8
Current provisions relating to sales in current year	578	57	9	5

<u>Particulars</u>	<u>Chargebacks</u>	<u>Rebates</u>	<u>Medicaid</u>	<u>Sales Return</u>
Provisions and adjustments relating to sales in prior years	*	2	(3)	(1)
Credits and payments**	(580)	(68)	(9)	(4)
Ending Balance: March 31, 2010	56	21	3	8
Beginning Balance: April 1, 2010	56	21	3	8
Current provisions relating to sales in current year	644	104	6	6
Provisions and adjustments relating to sales in prior years	*	2	1	—
Credits and payments**	(620)	(87)	(6)	(5)
Ending Balance: March 31, 2011	80	40	4	9

* Currently, we do not separately track provisions and adjustments, in each case to the extent relating to prior years for chargebacks. However, the adjustments are expected to be non-material. The volumes used to calculate the closing balance of chargebacks represent an average 1.5 months equivalent of sales, which corresponds to the pending chargeback claims yet to be processed.

** Currently, we do not separately track the credits and payments, in each case to the extent relating to prior years for chargebacks, rebates, medicaid payments or sales returns.

Services

Revenue from services rendered, which primarily relate to contract research, is recognized in profit or loss as the underlying services are performed. Upfront non-refundable payments received under these arrangements are deferred and recognized as revenue over the expected period over which the related services are expected to be performed.

Export entitlements

Export entitlements from government authorities are recognized in profit or loss when the right to receive credit as per the terms of the scheme is established in respect of the exports made by us, and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments consists of investments in mutual funds, equity and debt securities, trade receivables, certain other assets, cash and cash equivalents, loans and borrowings, trade payables and certain other liabilities.

Non-derivative financial assets

Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs, except for those instruments that are designated as being fair value through profit and loss upon initial recognition. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents

Cash and cash equivalents consist of current cash balances and time deposits with banks. Bank overdrafts that are repayable on demand and form an integral part of our cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Held-to-maturity investments

If we have the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held to maturity financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to the initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses. As at March 31, 2011, we did not have any held-to-maturity investments.

Available-for-sale financial assets

Our investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized directly in other comprehensive income/(loss) and presented within equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if we manage such investments and make purchase and sale decisions based on their fair value in accordance with our documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is expected in one year or less in the normal operating cycle of the business if longer.

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less or in the normal operating cycle of the business if longer, they are classified as current assets.

Others

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

We derecognize a financial asset when the contractual right to the cash flows from that asset expires, or when there is a transfer of the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, we have a legal right to offset the amount and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Non-derivative financial liabilities

We initially recognize debt instruments issued on the date that they originate. All other financial liabilities are recognized initially on the trade date, which is the date that we become a party to the contractual provisions of the instrument.

We derecognize a financial liability when its contractual obligations are discharged, cancelled or expired. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized as profit or loss.

Non-derivative financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to the initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Derivative financial instruments

We hold derivative financial instruments to hedge our foreign currency exposure. Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

Changes in the fair value of a derivative hedging instrument designated as a cash flow hedge are recognized directly in other comprehensive income/(loss) and presented within equity, to the extent that the hedge is effective. Upon the initial designation of the derivative as a hedging instrument, we formally document the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. We make an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% - 125% relative to the gain or loss on the hedged items. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income/(loss), remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognized in other comprehensive income/(loss), is transferred to the carrying amount of the asset when it is recognized. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income/(loss) is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Accounting policy on foreign currency risk

In addition to the use of derivative financial instruments to hedge foreign currency exposure, we designate certain non-derivative financial liabilities, denominated in foreign currencies, as hedges against foreign currency exposures associated with highly probable forecasted foreign currency sales transactions. Accordingly, exchange differences arising on translation of such non-derivative liabilities are recognized directly in other comprehensive income/(loss) and presented within equity, to the extent that the hedge is effective. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income/(loss) remains there until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income/(loss) is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Economic hedges

We do not apply hedge accounting to certain derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognized in profit or loss as part of foreign currency gains and losses. We have adopted the recent amendments made to IFRS No. 7 “*Financial Instruments — Disclosure*”, with respect to the disclosure of the fair value hierarchy for financial instruments that are measured at fair value as at the reporting date in the statement of financial position, and accordingly necessary disclosures have been made in these consolidated financial statements.

Foreign currency

Functional currency

The consolidated financial statements are presented in Indian rupees, which is the functional currency of our parent company, DRL. Functional currency of an entity is the currency of the primary economic environment in which the entity operates.

In respect of all non-Indian subsidiaries that operate as marketing arms of our parent company in their respective countries/regions, the functional currency has been determined to be the functional currency of our parent company (i.e., the Indian rupee). Accordingly, the operations of these subsidiaries are largely restricted to the import of finished goods from our parent company in India, sale of these products in the foreign country and remittance of the sale proceeds to our parent company. The cash flows realized from sale of goods are readily available for remittance to our parent company and cash is remitted to our parent company on a regular basis. The costs incurred by these subsidiaries are primarily the cost of goods imported from our parent company. The financing of these subsidiaries is done directly or indirectly by our parent company.

In respect of subsidiaries whose operations are self contained and integrated within their respective countries/regions, the functional currency has been determined to be the local currency of those countries/regions.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of entities within our company group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for receipts and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising upon retranslation are recognized in profit or loss, except for differences arising upon qualifying cash flow hedges, which are recognized in other comprehensive income/(loss) and presented within equity.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising upon acquisition, are translated to reporting currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Indian rupees at the monthly average exchange rates prevailing during the year.

Foreign currency differences are recognized in other comprehensive income/(loss) and presented within equity. Such differences have been recognized in the foreign currency translation reserve ("FCTR"). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of the net investment in the foreign operation and are recognized in other comprehensive income/(loss) presented within equity.

Business combinations

Business combinations occurring on or after April 1, 2009 are accounted for by applying the acquisition method. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, we take into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgment is applied in determining the acquisition date and determining whether control is transferred from one party to another.

We measure goodwill at the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Consideration transferred includes the fair values of the assets transferred, liabilities incurred by us to the previous owners of the acquiree, and equity interests issued by us. Consideration transferred also includes the fair value of any contingent consideration. A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably. We measure any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree. Transaction costs that we incur in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

Intangible assets

Goodwill

Goodwill arising upon the acquisition of subsidiaries represents the fair value of the consideration, including the recognized amount of any non-controlling interest in the acquirer, less the net recognized amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities assumed, all measured as of the acquisition date. Such goodwill is included in intangible assets. When the fair value of the consideration paid is less than the fair value of the net assets acquired, a bargain purchase gain is recognized immediately in profit or loss.

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders, and therefore no goodwill is recognized as a result of such transactions.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment and any impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying value of the equity accounted investee.

Research and development

Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are recognized in profit or loss when incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if:

- development costs can be measured reliably,
- the product or process is technically and commercially feasible,
- future economic benefits are probable and ascertainable, and
- we intend to complete development and to use or sell the asset, and have sufficient resources to do so.

The expenditures capitalized include the cost of materials and other costs directly attributable to preparing the asset for its intended use. Other development expenditures are recognized in profit or loss as incurred.

Our internal drug development expenditures are capitalized only if they meet the recognition criteria as mentioned above. Where regulatory and other uncertainties are such that the criteria are not met, the expenditures are recognized in profit or loss as incurred. This is almost invariably the case prior to approval of the drug by the relevant regulatory authority. Where the recognition criteria are met, however, intangible assets are capitalized and amortized on a straight-line basis over their useful economic lives from product launch. As of March 31, 2011, no internal drug development expenditure amounts have met the recognition criteria.

In conducting our research and development activities related to NCE and proprietary products, we seek to optimize our expenditures and to limit our risk exposures. Most of our current research and development projects related to NCEs and proprietary products are at an early discovery phase where project costs are insignificant and cannot be directly identified to any specific project, as these costs generally represent staff and common facility costs. These early development stage exploratory projects are numerous and are characterized by uncertainty with respect to timing and cost of completion. At such time as a research and development project related to an NCE or proprietary product progresses into the more costly clinical study phases, where the costs can be tracked separately, such project is considered to be significant if:

- (a) it is expected to account for more than 10% of our total research and development costs; and
- (b) the costs and efforts to develop the project can be reasonably estimated and the product resulting from the project has a high probability of launch.

Historically, none of our development projects have met the significance thresholds listed above.

A substantial portion of our current research and development activities relates to the development of bio-equivalent generic products, which do not require clinical trials to be conducted prior to the filing by us of applications with regulatory authorities to allow the marketing and sale of such products. Our total research and development costs for the year ended March 31, 2011 were ₹5,060 million, which was approximately 7% of our total revenue for the year. The amounts spent on research and development related to our bio-equivalent products for the years ended March 31, 2011, 2010 and 2009 represented approximately 79%, 83% and 85%, respectively, of our total research and development expenditures.

For each of our bio-equivalent generic product research and development projects, the timing and cost of completion varies depending on numerous factors, including among others: the intellectual property patented by the innovator for the applicable product; the patent regimes of the countries in which we seek to market the product; our development strategy for such product; the complexity of the molecule for such product; and the time required to address any development challenges that arise during the development process. For any particular bio-equivalent generic product, these factors and other product launch requirements may vary across the numerous geographies in which we seek to market the product. In addition, bio-equivalent research and development projects often may relate to a number of different therapeutic areas. At a particular point of time, we tend to have a very high number of bio-equivalent generic product research and development projects ongoing simultaneously, in various developmental stages, with the exact number of such active projects changing regularly. As a result, we believe it would be impractical for us to state the exact number of ongoing projects and the estimated timing or cost to complete such projects.

Payments to in-license products and compounds from third parties generally taking the form of up-front payments and milestones are capitalized. Our criteria for capitalization of such assets are consistent with the guidance given in paragraph 25 of International Accounting Standard 38 ("IAS 38") (i.e., receipt of economic benefits out of the separately purchased transaction is considered to be probable). Historically, whenever we have purchased or in-licensed products, either regulatory approval for the products were available from our counterparties or there were other contractual terms providing for a refund should the regulatory approvals not be received.

The amortization of such assets is generally on a straight-line basis, over their useful economic lives. If we become entitled to a refund under the terms of an in-license contract, the amount is recognized when the right to receive the refund is established. In such an event, any consequential difference as compared to the carrying value of the asset is recognized in our Statement of Income.

Intangible assets relating to products in development, other intangible assets not available for use and intangible assets having indefinite useful life are subject to impairment testing at each statement of financial position date. All other intangible assets are tested for impairment when there are indications that the carrying value may not be recoverable. Any impairment losses are recognized immediately in the profit or loss.

De-recognition of intangible assets

Intangible assets are de-recognized either on their disposal or where no future economic benefits are expected from their use or disposal. Losses arising on such de-recognition are recorded in profit or loss, and are measured as the difference between the net disposal proceeds, if any, and the carrying amount of respective assets as on the date of de-recognition.

Other intangible assets

Other intangible assets that are acquired by us, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate.

Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than for goodwill, intangible assets not available for use and intangible assets having indefinite life, from the date that they are available for use.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis.

All impairment losses are recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in other comprehensive income/(loss) and presented within equity.

Non-financial assets

The carrying amounts of our non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives, or that are not yet available for use, an impairment test is performed each year at March 31.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

Income tax

Income tax expense consists of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising upon the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Litigations

We are involved in disputes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings, including patent and commercial matters that arise from time to time in the ordinary course of business. Most of the claims involve complex issues. We assess the need to make a provision for a liability for such claims and record a provision when we determine that a loss related to a matter is both probable and reasonably estimable.

Because litigation and other contingencies are inherently unpredictable, our assessment can involve judgments about future events. Often, these issues are subject to uncertainties and therefore the probability of a loss, if any, being sustained and an estimate of the amount of any loss are difficult to ascertain. We also believe that disclosure of the amount of damages sought by plaintiffs, if that is known, would not be meaningful with respect to those legal proceedings. This is due to a number of factors, including: the stage of the proceedings (in many cases trial dates have not been set) and the overall length and extent of pre-trial discovery; the entitlement of the parties to an action to appeal a decision; clarity as to theories of liability; damages and governing law; uncertainties in timing of litigation; and the possible need for further legal proceedings to establish the appropriate amount of damages, if any.

Consequently, for a majority of these claims, it is not possible to make a reasonable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings. In these cases, we disclose information with respect to the nature and facts of the case.

Other provisions

We recognize a provision if, as a result of a past event, we have a present legal or constructive obligation that can be estimated reliably, and it is probable (i.e., more likely than not) that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Restructuring

A provision for restructuring is recognized when we have approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by us from a contract are lower than the unavoidable cost of meeting our obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, we recognize any impairment loss on the assets associated with that contract.

Reimbursement rights

Expected reimbursements for expenditures required to settle a provision are recognized only when receipt of such reimbursements is virtually certain. Such reimbursements are recognized as a separate asset in the statement of financial position, with a corresponding credit to the specific expense for which the provision has been made.

5.A. Operating results

The following table sets forth, for the periods indicated, our consolidated revenues by segment:

	(₹ in millions)					
	For the Year Ended March 31,					
	2009		2010		2011	
	Revenues	Revenues % to total	Revenues	Revenues % to total	Revenues	Revenues % to total
Global Generics	₹ 49,790	72	₹ 48,606	69	₹ 53,340	71
Pharmaceutical Services and Active Ingredients	18,758	27	20,404	29	19,648	26
Proprietary Products	294	—	513	1	532	1
Others	599	1	754	1	1,173	2
Total	₹ 69,441	100	₹ 70,277	100	₹ 74,693	100

The following table sets forth, for the periods indicated, our gross profits by segment:

	(₹ in millions)					
	For the Year Ended March 31,					
	2009		2010		2011	
	Gross profit	Gross profit % to Revenue	Gross profit	Gross profit % to Revenue	Gross profit	Gross profit % to Revenue
Global Generics	₹ 30,448	61	₹ 29,146	60	₹ 34,499	65
Pharmaceutical Services and Active Ingredients	5,595	30	6,660	33	5,105	26
Proprietary Products	196	67	396	77	382	72
Others	261	44	138	18	277	24
Total	₹ 36,500	53	₹ 36,340	52	₹ 40,263	54

The following table sets forth, for the periods indicated, financial data as percentages of total revenues and the increase (or decrease) by item as a percentage of the amount over the comparable period in the previous years.

	Percentage of Sales			Percentage Increase/(Decrease)	
	For the Year Ended March 31,			For the Year Ended March 31,	
	2009	2010	2011	2009 to 2010	2010 to 2011
Revenues	100	100	100	1	6
Gross profit	53	52	54	—	—
Selling, general and administrative expenses	30	32	32	7	5
Research and development expenses	6	5	7	(6)	33
Impairment loss on other intangible assets	5	5	0	9	NC
Impairment loss on goodwill	16	7	0	NC	NC
Other (income)/expense, net	—	(1)	(2)	NC	NC
Results from operating activities	(4)	4	17	NC	NC
Finance income/(expense), net	(2)	—	—	NC	NC
Profit/(loss) before income taxes	(6)	4	17	NC	NC
Income tax (expense)/benefit, net	(2)	(1)	(2)	NC	NC
Profit/(loss) for the period	(8)	3	15	NC	NC

NC = Not comparable

Fiscal Year Ended March 31, 2011 Compared to Fiscal Year Ended March 31, 2010

Revenues

- Our overall consolidated revenues were ₹74,693 million for the year ended March 31, 2011, an increase of 6% as compared to ₹70,277 million for the year ended March 31, 2010. Revenue growth for the year ended March 31, 2011 was largely driven by our Global Generics segment.

The following table sets forth, for the periods indicated, our consolidated revenues by geography:

	(₹ in millions)					
	For the Year Ended March 31,					
	2009		2010		2011	
	Revenues	Revenues % to total	Revenues	Revenues % to total	Revenues	Revenues % to total
North America (the United States and Canada)	₹ 24,012	35	₹ 21,269	30	₹ 23,260	31
Europe	18,047	26	16,779	24	16,058	21
Russia and other countries of the former Soviet Union	7,623	11	9,119	13	10,858	15
India	11,460	16	12,808	18	14,314	19
Others	8,299	12	10,302	15	10,203	14
Total	₹ 69,441	100	₹ 70,277	100	₹ 74,693	100

- Revenues from our Global Generics segment were ₹53,340 million for the year ended March 31, 2011, an increase of 10% as compared to ₹48,606 million for the year ended March 31, 2010. North America (the United States and Canada), Germany, India and Russia were the four key markets for our Global Generics segment, contributing approximately 85% of the revenues of this segment for the year ended March 31, 2011.
- Revenues from our PSAI segment were ₹19,648 million for the year ended March 31, 2011, representing a decrease of 4% from this segment's revenues for the year ended March 31, 2010.
- During the year ended March 31, 2011, the average Indian rupee/U.S.\$ exchange rate and the average Indian Rupee/Euro exchange rate appreciated by approximately 4% and 10%, respectively, compared to the average exchange rates in the year ended March 31, 2010. This change in the exchange rates resulted in lower reported revenue growth rates because of the decrease in rupee realization from sales in U.S. dollars and Euros.
- Our provision for sales returns during the year ended March 31, 2011 was ₹731 million, as compared to ₹932 million during the year ended March 31, 2010. This decrease in our provision was primarily due to lower sales returns processed by us during the year ended March 31, 2011, as compared to our earlier estimates. Consistent with our accounting policy for creating provisions for sales returns (discussed in Note 3.1 of our consolidated financial statements), we periodically assess the adequacy of our allowance for sales returns based on the criteria discussed in our Critical Accounting Policies, as well as sales returns actually processed during the year. As we progressed through the year ended March 31, 2011, we noted a decrease in our returns and, accordingly, reevaluated our estimate. The decrease in sales returns was partly attributed to a one-time return in the U.S. market due to a product odor issue during the year ended March 31, 2010 which did not re-occur during the year ended March 31, 2011. For further information regarding our sales return provisions, see Note 22 to our consolidated financial statements.

Revenues Segment analysis

Global Generics

Revenues from our Global Generics segment were ₹53,340 million for the year ended March 31, 2011, an increase of 10% as compared to ₹48,606 million for the year ended March 31, 2010. North America (the United States and Canada), Germany, India and Russia were the four key markets for our Global Generics segment, contributing approximately 85% of the revenues of this segment for the year ended March 31, 2011. The revenue growth was largely led by our key markets of North America (the United States and Canada), Russia and India. This growth was partly offset by the decrease in the Germany market on account of increasing pricing pressures due to competitive tenders.

North America (the United States and Canada). Our revenues from North America (the United States and Canada) for the year ended March 31, 2011 were ₹18,996 million, representing an increase of 13% as compared to our revenues of ₹16,817 million for the year ended March 31, 2010. In absolute dollar currency terms (i.e., without taking into account the effect of currency exchange rates), such revenues grew by 18% in the year ended March 31, 2011 as compared to the year ended March 31, 2010. The growth was driven by new products launched in the year ended March 31, 2011. During the year ended March 31, 2011, we launched 11 new products, with some of the key ones being: amlodipine benazapril, tacrolimus, lansoprazole, fexofenadine pseudoephedrine (180/240 mg) and zafirlukast. We launched fexofenadine-pseudoephedrine (180/240 mg) on January 31, 2011 after the District Court of New Jersey lifted the preliminary injunction previously granted to Sanofi-Aventis. The U.S. FDA, which had previously only approved fexofenadine for prescription sales in the United States, approved fexofenadine for over-the-counter sales in the United States in January 2011. We were allowed to liquidate our inventory in the United States after the U.S. FDA'S approval of over-the-counter sales and this limited period launch contributed to our growth for the year ended March 31, 2011. According to IMS Health, twenty five products in our prescription portfolio are ranked among the top 3 in U.S. market shares for the year ended March 31, 2011.

During the year ended March 31, 2011, over-the-counter products constituted approximately 14% of our total revenue in North America (the United States and Canada). Key over-the-counter products in this segment include omeprazole magnesium and ranitidine. We expect to introduce more new over-the-counter products in this segment, and expect them to be a key growth driver, in the future.

During the year ended March 31, 2011, we made 21 new ANDA filings, bringing our cumulative ANDA filings to 179. We now have 76 ANDAs pending approval at the U.S. FDA, out of which 38 are Paragraph IV filings and 10 have first to file status. We expect that our growth in North America (the United States and Canada) will largely be fueled by revenues from new product launches.

India. Our revenues from India for the year ended March 31, 2011 were ₹11,690 million, representing a growth of 15% over the year ended March 31, 2010. This growth was driven by sales volume growth of 11% across key brands and contribution from new products launched in the year ended March 31, 2011 of 4%. A total of 48 new products were launched by us in India, including one bio-similar product — darbepoetin alfa (Cresp®). Bio-similar products are one of our key growth drivers in India and currently represent approximately 5% of our India revenues. Reditux®, our first brand of bio-similar product launched three years ago, was the first, and still continues to be the only, bio-similar monoclonal antibody in the world. In the year ended March 31, 2011, Reditux® registered a significant growth of 74% over the year ended March 31, 2010 and is now among our top 5 brands in India. In the near to medium term, we expect the growth of our business in India to be in line with the overall India market growth, and to be driven largely by volume growth across products and contribution from new product launches.

Russia. Revenues from Russia for the year ended March 31, 2011 were ₹8,942 million, representing an increase of 24% over the year ended March 31, 2010. In absolute Roubles currency terms (i.e., without taking into account the effect of currency exchange rates), such revenues grew by 29% in the year ended March 31, 2011 as compared to the year ended March 31, 2010. The growth was largely driven by volume growth and new products launched in the year ended March 31, 2011. We launched 7 new brands in Russia during the year ended March 31, 2011, with many being over-the-counter (“OTC”) products. OTC products represent approximately 25% of our overall sales in Russia and we intend to further strengthen our OTC product sales by continuous branding initiatives. According to Pharmexpert, a market research firm, in its “Pharmexpert MAT March 2011” report, our prescription secondary sales (i.e., sales made by our wholesalers to stockists and retailers) for the year ended March 31, 2011 increased by 19% as compared to the Russian pharmaceutical market's overall growth rate of 7.5%. Consequently, our rank in the Russian pharmaceutical market has improved from 16th as of March 31, 2010 to 15th as of March 31, 2011.

Other Countries of the former Soviet Union. Revenues from other countries of the former Soviet Union for the year ended March 31, 2011 were ₹1,916 million, representing growth of 2% over the year ended March 31, 2010.

Germany. Revenues from Germany for the year ended March 31, 2011 were ₹5,457 million, representing a decline of 25% over the year ended March 31, 2010. The decline was largely due to the continuing pricing challenges resulting from the continuing shift of the German generic pharmaceutical market towards a tender (i.e., competitive bidding) based supply model. In the year ended March 31, 2010, we took measures to restructure our German business (conducted through betapharm and Reddy Holding GmbH) and reduced our workforce by more than 200 personnel. This restructuring significantly improved our operating cash flows from Germany. We expect our business in Germany to remain challenging due to the continuous pricing pressure of a tender based supply business model.

Other Markets. Revenues from our “Rest of the World” markets (i.e., all markets other than North America, Europe, Russia and other countries of the former Soviet Union and India) were ₹6,369 million in the year ended March 31, 2011, representing a growth of 22% over the year ended March 31, 2010. Our “Rest of the World” markets include markets such as Venezuela, South-Africa, Australia and New Zealand, as well as various other small markets.

Pharmaceutical Services and Active Ingredients (“PSAI”)

Revenues from our PSAI segment were ₹19,648 million for the year ended March 31, 2011, representing a decrease of 4% from the year ended March 31, 2010. The modest growth in our Active Pharmaceutical Ingredients business, driven by new product launches, was offset by pricing pressures in our existing products. The revenue decline in our Custom Pharmaceutical Services business was largely due to decreased customer orders, resulting from large pharmaceutical companies and bio-technology companies rationing their investments in research and development. During the year ended March 31, 2011, we filed 56 DMFs globally, including 19 in the United States, 7 in Europe and 30 in Russia, India and our “Rest of the World” markets (i.e., all markets other than North America, Europe, Russia and other countries of the former Soviet Union and India). Accordingly, our cumulative total DMF filings were 486 worldwide as of March 31, 2011. In our Active Pharmaceutical Ingredients business we expect the growth to be driven by new product launches offset by the continuous pricing pressure on existing products, while in our Custom Pharmaceutical Services business we expect a slow recovery of our business.

Gross Margin

Our gross profit increased to ₹40,263 million for the year ended March 31, 2011, from ₹36,340 million for the year ended March 31, 2010. Gross margin as a percentage of total revenues was 54% for the year ended March 31, 2011, as compared to 52% for the year ended March 31, 2010. This increase was largely driven by high margin new products resulting in favorable changes in the products mix (i.e., an increase in the proportion of sales of higher gross margin products and a decrease in the proportion of sales of lower gross margin products) of our Global Generics segment in North America (the United States and Canada) for the year ended March 31, 2011.

Gross margin include credits of various export related incentive schemes granted by the Government of India of ₹1,491 million for the year ended March 31, 2011, as compared to ₹573 million for the year ended March 31, 2010. The magnitude of such credits that will be available to us in the future will depend on the Government of India’s fiscal policies, which are based on macro-economic considerations. If the Government of India reduces the amount of such credits or otherwise modifies or alters the relevant schemes in any manner adverse to us, without a proportionate compensation in any other form, our gross margins may be adversely impacted.

Global Generics

Gross margin for our Global Generics segment increased to 65% for the year ended March 31, 2011, as compared to 60% for the year ended March 31, 2010. This growth was largely due to high margin new products in North America (the United States and Canada) resulting in favorable changes in our products mix (i.e., an increase in the proportion of sales of higher gross margin products and a decrease in the proportion of sales of lower gross margin products) in this segment.

Pharmaceutical Services and Active Ingredients

Gross margin for our PSAI segment decreased to 26% for the year ended March 31, 2011, as compared to 33% for the year ended March 31, 2010. This decrease in gross margin was primarily due to pricing pressures experienced by our existing products in our Active Pharmaceutical Ingredients business and unfavorable changes in the services mix (i.e., an increase in the proportion of sales of lower gross margin services and a decrease in the proportion of sales of higher gross margin services) of our Custom Pharmaceutical Services business.

Selling, general and administrative expenses

Selling, general and administrative expenses as a percentage of total revenues were 32% for the year ended March 31, 2011, which is the same as the percentage for the year ended March 31, 2010. Selling, general and administrative expenses increased by 5% to ₹23,689 million for the year ended March 31, 2011, as compared to ₹22,505 million for the year ended March 31, 2010. The increase was primarily on account of higher legal expenses in the United States attributable to fexofenadine related litigation costs; OTC related marketing expenditures in Russia and other countries of the former Soviet Union; and expenditures related to establishing a new field force in India. However, these increases in expenses were partially offset by cost decreases attributable to the restructuring of our German business (conducted through betapharm and Reddy Holding GmbH) and related workforce reductions during the year ended March 31, 2010.

Furthermore, amortization expenses decreased by 20% to ₹1,186 million for the year ended March 31, 2011, from ₹1,479 million for the year ended March 31, 2010. This decrease in amortization expenses was because we did not record any write-downs of assets of the betapharm cash generating unit in the year ended March 31, 2011, as compared to write-downs of ₹3,456 million of intangible assets and ₹5,147 million of goodwill of our betapharm cash generating unit in the year ended March 31, 2010.

Research and development expenses

Research and development expenses increased by 33% to ₹5,060 million during the year ended March 31, 2011, as compared to ₹3,793 million during the year ended March 31, 2010. Our research and development expenditures accounted for 7% of our total revenues during the year ended March 31, 2011, as compared to 5% during the year ended March 31, 2010. This increase in costs was primarily due to higher research and development expenditures in our Global Generics segment for the year ended March 31, 2011.

Impairment loss on other intangible assets and goodwill

No impairment was recorded during the year ended March 31, 2011.

During the year ended March 31, 2009, there were significant changes in the German generic pharmaceuticals market that impacted the operations of our German subsidiary betapharm. The biggest change was the shift to a tender based supply model within the German generic pharmaceutical market, as most prominently evidenced by the announcement of a large competitive bidding (or “tender”) process by the Allgemeine Ortskrankenkassen (“AOK”), the largest German statutory health insurance fund (“SHI fund”). In addition, there was a continuing decrease in prices of pharmaceutical products and an increased quantity of discount contracts being negotiated with other SHI funds.

Further tenders were announced by several of the SHI funds during the year ended March 31, 2010. We participated in these tenders through our wholly owned German subsidiary, betapharm. The final results of a majority of these tenders indicated a lower than anticipated success rate for betapharm.

Due to these results, we re-assessed the impact of such tenders on our future sales and profits in the German market. In light of further deterioration of prices and adverse market conditions in Germany due to the rapid shift of the German generic pharmaceutical market towards a tender (i.e., competitive bidding) based supply model, we recorded an impairment loss of:

- ₹2,112 million for product related intangibles;
- ₹5,147 million towards the carrying value of goodwill; and
- ₹1,211 million towards our trademark/brand — ‘beta’, which forms a significant portion of the intangible asset value of the betapharm cash generating unit.

Accordingly, during the year ended March 31, 2010, we recorded a write-down of intangible assets of ₹3,456 million and a write-down of goodwill of ₹5,147 million. In the year ended March 31, 2009, we recorded a write-down of intangible assets of ₹3,167 million and a write down of goodwill of ₹10,856 million. In the year ended March 31, 2011, we did not record any further write-downs of assets of the betapharm cash generating unit.

Other (income)/expense, net

In the year ended March 31, 2011, our net other income was ₹1,115 million, as compared to net other income of ₹569 million in the year ended March 31, 2010. Our net other income in the year ended March 31, 2011 was primarily higher on account of a profit from the sale of land amounting to ₹292 million and a benefit of negative goodwill of ₹73 million realized in accordance with purchase price allocation accounting under IFRS on account of our acquisition of a penicillin-based antibiotics manufacturing site in Bristol, Tennessee, U.S.A from GlaxoSmithKline plc.

Results from operating activities

As a result of the foregoing, our earnings from operating activities were ₹12,629 million for the year ended March 31, 2011, as compared to ₹2,008 million for the year ended March 31, 2010. Our earnings from operating activities for the year ended March 31, 2010 were significantly lower due to the above referenced write-down of intangible assets of the betapharm cash generating unit of ₹3,456 million and write-down of goodwill of the betapharm cash generating unit of ₹5,147 million.

Finance (expense)/income, net

For the year ended March 31, 2011, our net finance expense was ₹189 million, as compared to net finance expense of ₹3 million for the year ended March 31, 2010.

Foreign exchange loss was ₹57 million for the year ended March 31, 2011, as compared to a foreign exchange gain of ₹72 million for the year ended March 31, 2010.

Net interest expense was ₹127 million for the year ended March 31, 2011, as compared to ₹123 million for the year ended March 31, 2010.

Profit on sale of investments was ₹68 million for the year ended March 31, 2011, as compared to ₹48 million for the year ended March 31, 2010.

Profit/(loss) before income taxes

The foregoing resulted in a profit (before income tax) of ₹12,443 million for the year ended March 31, 2011, as compared to ₹2,053 million for the year ended March 31, 2010. Our profit (before income tax) for the year ended March 31, 2010 was significantly lower due to the above referenced write-down of intangible assets of the betapharm cash generating unit of ₹3,456 million and write-down of goodwill of the betapharm cash generating unit of ₹5,147 million.

Income tax expense

Income tax expense was ₹1,403 million for the year ended March 31, 2011, as compared to an income tax expense of ₹985 million for the year ended March 31, 2010.

The increase in our income tax expense was primarily attributable to the following factors:

- A tax benefit that arose for the year ended March 31, 2010 in our German operations (primarily on account of the significant reversal of deferred tax liability on intangibles corresponding to the impairment charge recorded in betapharm) did not exist during the year ended March 31, 2011.
- A higher proportion of our profits for the year ended March 31, 2011 were taxed in jurisdictions with higher tax rates as compared to the year ended March 31, 2010.

During the year ended March 31, 2010, the German tax authorities concluded their preliminary tax audits for betapharm, covering the years ended March 31, 2001 through March 31, 2004, and objected to certain tax positions taken in those years' income tax returns filed by betapharm. Our estimate of the additional tax liability that could arise on conclusion of the tax audits is ₹302 million (EUR 5 million). Accordingly, we recorded the amount as additional tax expense in our income statement for the year ended March 31, 2010. As part of the acquisition of betapharm during the year ended March 31, 2006, we acquired certain pre-existing income tax liabilities pertaining to betapharm for the fiscal periods prior to the date of the closing of the acquisition (in March 2006). Accordingly, the terms of the Sale and Purchase Agreement provided that ₹324 million (EUR 6 million) of the purchase consideration would be set aside in an escrow account, to fund against certain indemnity claims by us in respect of legal and tax matters that may arise covering such pre-acquisition periods. The right to make tax related indemnity claims under the Sale and Purchase Agreement only applies with respect to taxable periods from January 1, 2004 until November 30, 2005, and lapses and is time barred at the end of the seven year anniversary of the closing of the acquisition (in March 2013). To the extent that the tax audits cover periods not subject to the indemnity rights under the Sale and Purchase Agreement, we have additional indemnity rights pursuant to a tax indemnity agreement with Santo Holdings, the owner of betapharm prior to 3i Group plc.

Upon receipt of such preliminary tax notices, we initiated the process of exercising such indemnity rights against the sellers of betapharm and Santo Holdings and have concluded that as of March 31, 2011 recovery of the full tax amounts demanded by the German tax authorities is virtually certain. Accordingly, a separate asset of ₹302 million (EUR 5 million) representing such indemnity rights has been recorded as part of "other assets" in the statement of financial position, with a corresponding credit to the current tax expense.

Profit/(loss) for the period

As a result of the foregoing, our net result was a profit of ₹11,040 million for the year ended March 31, 2011, as compared to a net profit of ₹1,068 million, for the year ended March 31, 2010. Our profit for the year ended March 31, 2010 was significantly lower due to the above referenced write-down of intangible assets of the betapharm cash generating unit of ₹3,456 million and a write-down of goodwill of the betapharm cash generating unit of ₹5,147 million.

Fiscal Year Ended March 31, 2010 Compared to Fiscal Year Ended March 31, 2009

Revenues

- Our overall revenues increased by 1% to ₹70,277 million for the year ended March 31, 2010, as compared to ₹69,441 million for the year ended March 31, 2009. Excluding revenues from sumatriptan (the authorized generic version of Imitrex®, for which we had exclusivity in the market for four months during the year ended March 31, 2009), our total revenues grew by 9% to ₹67,734 million in the year ended March 31, 2010, as compared to ₹62,253 million in the year ended March 31, 2009. For the year ended March 31, 2010, 82% of our total revenue was derived from markets outside of India, with 18% of our total revenue derived from India. The allocation of revenues among geographies changed considerably from the year ended March 31, 2009 to the year ended March 31, 2010, primarily due to decreased revenues from sales of sumatriptan in the United States. As a result, North America (the United States and Canada) accounted for 30% of our total revenues in the year ended March 31, 2010, as compared to 35% of our total revenues in the year ended March 31, 2009. Europe accounted for 24% of our total revenues for the year ended March 31, 2010, as compared to 26% for the year ended March 31, 2009. Russia and other countries of the former Soviet Union accounted for 13% of our total revenues for the year ended March 31, 2010, as compared to 11% for the year ended March 31, 2009. India accounted for 18% of our total revenues during the year ended March 31, 2010, as compared to 17% during the year ended March 31, 2009.

- Revenues from our Global Generics segment were ₹48,606 million for the year ended March 31, 2010, as compared to ₹49,790 million for the year ended March 31, 2009. This decrease was primarily due to a decrease in revenues from sales of sumatriptan in the United States, from ₹7,188 million for the year ended March 31, 2009 to ₹2,543 million for the year ended March 31, 2010. This decrease in sumatriptan revenues was partially offset by increased revenues from our other markets, including India and Russia.
- Revenues from our Pharmaceutical Services and Active Ingredients segment increased by 9% to ₹20,404 million during the year ended March 31, 2010, as compared to ₹18,758 million during the year ended March 31, 2009. The increase primarily resulted from growth in revenues from Europe by 8% and from our “Rest of the World” markets (i.e., all markets other than North America, Europe, Russia and other countries of the former Soviet Union and India) by 17%.
- For the year ended March 31, 2010, on an average basis, the Indian rupee depreciated by approximately 3% against the U.S. dollar compared to the average exchange rate for the year ended March 31, 2009. Excluding the impact of changes in foreign currency exchange rates and changes in the mark to market value of cash-flow hedges (i.e., derivative contracts to hedge against foreign currency risks), our total revenues fell by 1% to ₹69,968 million for the year ended March 31, 2010, as compared to ₹70,896 million for the year ended March 31, 2009.
- Our provision for sales returns during the year ended March 31, 2010 was ₹932 million, as compared to ₹663 million during the year ended March 31, 2009. This increase in our provision was primarily due to greater than expected returns processed by us during the year ended March 31, 2010, as compared to our earlier estimates. Consistent with our accounting policy for creating provisions for sales returns (discussed in Note 3.1. of our consolidated financial statements), we periodically assess the adequacy of our allowance for sales returns based on the criteria discussed in our Critical Accounting Policies, as well as sales returns actually processed during the year ended March 31, 2010. As we progressed through the year ended March 31, 2010, we noted an increase in our returns and, accordingly, reevaluated our estimate. The increase in sales returns was partly attributed to a one-time return in the U.S. market due to a product odor issue. In addition, the increase in sales returns was also significantly due to growth in our sales volumes and revenues. There was a 9% increase in our total revenues for the year ended March 31, 2010 over the year ended March 31, 2009, excluding the sales of sumatriptan. This increase in returns is reflected both in our higher incremental provision created and higher actual returns processed in the year ended March 31, 2010 as compared to the year ended March 31, 2009. For further information regarding our sales return provisions, see Note 22 to our consolidated financial statements.

Revenues Segment analysis

Global Generics

For the year ended March 31, 2010, our Global Generics segment accounted for 69% of our total revenues, as compared to 72% for the year ended March 31, 2009. Revenues in this segment decreased by 2% to ₹48,606 million for the year ended March 31, 2010, as compared to ₹49,790 million for the year ended March 31, 2009. Excluding the impact of movements in foreign currency exchange rates and changes in mark to market values of cash-flow hedges (i.e., derivative contracts to hedge against foreign currency risks), the revenues of this segment decreased by 3% to ₹48,838 million for the year ended March 31, 2010, as compared to ₹50,590 million for the year ended March 31, 2009.

Revenues from North America (the United States and Canada) in this segment decreased by 15% to ₹16,817 million for the year ended March 31, 2010, as compared to ₹19,843 million for the year ended March 31, 2009. This decrease was primarily due to the launch of sumatriptan, our authorized generic version of Imitrex®, in the year ended March 31, 2009, which generated revenues of ₹7,188 million for the year ended March 31, 2009, as compared to ₹2,543 million for the year ended March 31, 2010. Excluding the revenues from sumatriptan, our revenues in this segment from North America (the United States and Canada) grew by 13% to ₹14,274 million for the year ended March 31, 2010, as compared to ₹12,655 million for the year ended March 31, 2009. The increase was mainly due to new product launches, including nateglinide, omeprazole magnesium (OTC) and fluoxetine DR, which generated revenues of ₹763 million during the year ended March 31, 2010. Revenues from our OTC business in this segment increased by 59% to ₹1,575 million for the year ended March 31, 2010, as compared to ₹992 million for the year ended March 31, 2009.

Revenues from India constituted 21% of this segment's total revenues for the year ended March 31, 2010, as compared to 17% for the year ended March 31, 2009. Revenues in this segment from India increased by 20% to ₹10,158 million for the year ended March 31, 2010, as compared to ₹8,478 million for the year ended March 31, 2009. This growth of 20% was primarily attributable to a 6% increase in revenues (amounting to ₹489 million) due to new product launches and a 16% increase in sales volumes of key brands (such as Omez and Omez DR, our brands of omeprazole, Razo and Razo D, our brand of rabeprazole, Reditux, our brand of rituximab, and Nise, our brand of nimesulide), which was partially offset by a decrease of 2% in average prices. Revenues from Europe in this segment decreased by 19% to ₹9,643 million for the year ended March 31, 2010, as compared to ₹11,886 million for the year ended March 31, 2009. Revenues of betapharm decreased to ₹7,298 million for the year ended March 31, 2010, as compared to ₹9,854 million for the year ended March 31, 2009. This decrease was primarily due to lower sales volumes and severe pricing pressures resulting from the rapid shift of the German generic pharmaceutical market towards a tender (i.e., competitive bidding) based supply model.

Revenues from Russia in this segment increased by 25% to ₹7,232 million for the year ended March 31, 2010, as compared to ₹5,803 million for the year ended March 31, 2009. This increase was largely on account of an increase in the prices of our key brands in the Russian market.

Revenues from other countries of the former Soviet Union in this segment increased by 4% to ₹1,887 million for the year ended March 31, 2010, as compared to ₹1,821 million for the year ended March 31, 2009.

Revenues from other markets in this segment increased by 46% to ₹2,869 million for the year ended March 31, 2010, as compared to ₹1,960 million for the year ended March 31, 2009. This increase was primarily due to increases in revenues from Venezuela, New Zealand and South Africa.

Pharmaceutical Services and Active Ingredients ("PSAI")

For the year ended March 31, 2010, our PSAI segment accounted for 29% of our total revenues, as compared to 27% for the year ended March 31, 2009. Revenues in this segment increased by 9% to ₹20,404 million for the year ended March 31, 2010, as compared to ₹18,758 million for the year ended March 31, 2009. Excluding the impact of movements in foreign currency exchange rates and changes in market values of cash-flow hedges (i.e., derivative contracts to hedge against foreign currency risks), the revenues of this segment increased by 2% to ₹19,875 million for the year ended March 31, 2010, as compared to ₹19,412 million for the year ended March 31, 2009.

Revenues in this segment from Europe increased by 8% to ₹6,652 million for the year ended March 31, 2010, as compared to ₹6,160 million for the year ended March 31, 2009. The increase was primarily due to increased sales of gemcitabine, clopidogrel and montelukast, all products that we were able to launch ahead of our competitors, which was partially offset by a decrease in the prices of our other products in Europe.

Revenues in this segment from North America (the United States and Canada) decreased by 5% to ₹3,673 million for the year ended March 31, 2010, as compared to ₹3,875 million for the year ended March 31, 2009. The decrease was primarily due to a decrease in sales volumes of naproxen, finasteride, ibuprofen and montelukast, which was partially offset by an increase in sales volumes of certain of our other products.

Revenues in this segment from our "Rest of the World" markets (i.e., all markets other than North America, Europe, Russia and other countries of the former Soviet Union and India) increased by 17% to ₹7,433 million for the year ended March 31, 2010, as compared to ₹6,340 million for the year ended March 31, 2009. This increase was primarily due to an increase in sales from Israel, Turkey, Brazil and Japan.

During the year ended March 31, 2010, revenues from India accounted for 13% of our revenues from this segment. Revenues in this segment from India increased by 11% to ₹2,646 million for the year ended March 31, 2010, as compared to ₹2,383 million for the year ended March 31, 2009, largely due to increases in prices of our products.

Gross Margin

Total gross margin as a percentage of total revenues was 52% for the year ended March 31, 2010, as compared to 53% for the year ended March 31, 2009. Total gross margin decreased to ₹36,340 million for the year ended March 31, 2010, from ₹36,500 million for the year ended March 31, 2009. The decrease in gross margin was primarily due to a decrease in revenues from sales of sumatriptan, which generated a significantly higher margin than the average margin for our products.

Global Generics

Gross margin of this segment decreased to 60% of this segment's revenues for the year ended March 31, 2010, as compared to 61% of this segment's revenues for the year ended March 31, 2009. Excluding the impact of derivative instruments designated as cash-flow hedges (i.e., derivative contracts to hedge against foreign currency risks), the gross margin of this segment was 60% of this segment's revenues for the year ended March 31, 2010, as compared to 61.8% of this segment's revenues for the year ended March 31, 2009. This decrease was due to lower revenues from sumatriptan, our authorized generic version of Imitrex®, which was launched during the year ended March 31, 2009 and for which exclusivity ended in August 2009, partially offset by margin improvements in this segment's Russian sales and margins for new products launched in our North America (the United States and Canada) business.

Pharmaceutical Services and Active Ingredients

Gross margin of this segment increased to 33% of this segment's revenues for the year ended March 31, 2010, as compared to 30% of this segment's revenues for the year ended March 31, 2009. Excluding the impact of cash-flow hedges (i.e., derivative contracts to hedge against foreign currency risks), the gross margin of this segment was 32.5% of this segment's revenues for the year ended March 31, 2010, as compared to 33% of this segment's revenues for the year ended March 31, 2009. This increase in gross margin was primarily due to cost improvement initiatives taken in this segment's business, which was partially offset by severe pricing pressures in this segment's business resulting from increased competition.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by 7% to ₹22,505 million for the year ended March 31, 2010, as compared to ₹21,020 million for the year ended March 31, 2009. During the year ended March 31, 2010, we recorded a one-time charge of ₹885 million related to termination benefits payable to certain employees in Germany. During the year ended March 31, 2010, we also closed our research facility in Atlanta, Georgia in the United States of America, and announced a re-organization of our North American (the United States and Canada) generics business in Charlotte, North Carolina in the United States of America, which triggered one time closure related costs. Our selling and administrative expenses otherwise remained flat, primarily due to increases in salaries in our India business, offset by a decrease in overall costs in Germany due to restructuring.

Amortization expenses were ₹1,479 million during the year ended March 31, 2010, as compared to ₹1,503 million during the year ended March 31, 2009.

Research and development expenses

Research and development expenses decreased by 6% to ₹3,793 million during the year ended March 31, 2010, as compared to ₹4,037 million during the year ended March 31, 2009. As a percentage of our total revenues, our research and development expenditures decreased to 5% during the year ended March 31, 2010, as compared to 6% during the year ended March 31, 2009. The decrease in research and development expenses was due to lower project expenses and bio-study costs, as the number of projects that reached completion were lower as compared to the year ended March 31, 2009. In the year ended March 31, 2010, we also calibrated our research and development expenditures processes to reduce our investments in projects where expenditures were high and relative risk was greater.

Impairment loss on other intangible assets and goodwill

During the year ended March 31, 2009, there were significant changes in the German generic pharmaceutical market that impacted the operations of our German subsidiary betapharm. The biggest change was the shift to a tender based supply model within the German generic pharmaceutical market, as most prominently evidenced by the announcement of a large competitive bidding (or “tender”) process by the Allgemeine Ortskrankenkassen (“AOK”), the largest German statutory health insurance fund (“SHI fund”). In addition, there was a continuing decrease in prices of pharmaceutical products and an increased quantity of discount contracts being negotiated with other SHI funds.

In the AOK tender, we were awarded 8 products (with 33 contracts) covering AOK-insured persons in various regions within Germany, which represented 17% of the overall volume of the products covered by the AOK tender. betapharm was among the top three companies in terms of number of contracts awarded. While our future sales volumes are expected to increase for the products awarded to us under the AOK tender, we expect that our overall profit margins under the AOK tender arrangement will be significantly lower due to decreased prices per unit of product. Also, the products awarded to us in the AOK tender did not include products that we consider to be our key products.

Due to these developments, as at March 31, 2009, we tested the carrying value of our product related intangibles and goodwill for impairment. The impairment test resulted in our recording an impairment loss on certain product related intangibles amounting to ₹3,167 million and impairment loss of ₹10,856 million on goodwill of the betapharm cash generating unit during the year ended March 31, 2009.

Pursuant to the ongoing reforms in the German generic pharmaceutical market as referenced earlier, further tenders were announced by several of the State Healthcare Insurance (“SHI”) funds during the year ended March 31, 2010. We participated in these tenders through our wholly owned subsidiary betapharm. The final results of a majority of these tenders indicated a lower than anticipated success rate for betapharm.

Due to these results, we re-assessed the impact of such tenders on our future sales and profits in the German market. In light of further deterioration of prices and adverse market conditions in Germany due to the rapid shift of the German generic pharmaceutical market towards a tender (i.e., competitive bidding) based supply model, we recorded an impairment loss of:

- ₹2,112 million for product related intangibles;
- ₹5,147 million towards the carrying value of goodwill; and
- ₹1,211 million towards our trademark/brand — ‘beta’, which forms a significant portion of the intangible asset value of the betapharm cash generating unit.

Accordingly, during the year ended March 31, 2010, we recorded a write-down of intangible assets of ₹3,456 million and a write-down of goodwill of ₹5,147 million. In the year ended March 31, 2009, we recorded a write-down of intangible assets of ₹3,167 million and a write down of goodwill of ₹10,856 million.

De-recognition of intangible assets

In April 2008, we acquired BASF Corporation’s pharmaceutical contract manufacturing business and manufacturing facility in Shreveport, Louisiana in the United States of America. As part of the purchase price, ₹482 million was allocated to “customer related intangible assets” and “product-related intangibles”. ₹142 million of this allocation pertained to a contract with Par Pharmaceuticals Inc. (“Par”) relating to sales of ibuprofen to Par. During the year ended March 31, 2010, there was clear evidence of a decline in sales of ibuprofen to Par. Accordingly, as of December 31, 2009 we wrote off the remaining intangible asset of ₹133 million pertaining to this product and customer, as we expect no economic benefits from the use or disposal of these contracts in future periods. The amount derecognized is disclosed as part of “impairment loss on other intangible assets” in our consolidated income statement.

Other (income)/expense, net

In the year ended March 31, 2010, our net other income was ₹569 million, as compared to net other expense of ₹254 million in the year ended March 31, 2009. The higher net other expenses in the year ended March 31, 2009 was largely due to an expense of ₹916 million for liquidated damages paid to Eli Lilly arising out of an unfavorable court decision relating to its olanzapine patent in Germany, explained further in Item 8.a. below under the heading “Legal Proceedings”.

Results from operating activities

As a result of the foregoing, our results from operating activities was a profit of ₹2,008 million for the year ended March 31, 2010, as compared to a loss of ₹2,834 million for the year ended March 31, 2009.

Finance (expense)/income, net

For the year ended March 31, 2010, our net finance expense was ₹3 million, as compared to net finance expense of ₹1,186 million for the year ended March 31, 2009.

For the year ended March 31, 2010, our finance expense, excluding foreign exchange gain/loss, decreased by 86% to ₹75 million, as compared to ₹553 million for the year ended March 31, 2009. The decrease was attributable to a decrease in our interest expense by 64% during the year ended March 31, 2010, due to a decline in interest rates and repayment of long term borrowings.

Foreign exchange gain was ₹72 million for the year ended March 31, 2010, as compared to a foreign exchange loss of ₹634 million for the year ended March 31, 2009. Foreign exchange gain was primarily due to depreciation of the Indian rupee/U.S. dollar exchange rate by 3% during the year ended March 31, 2010. Our foreign exchange loss during the year ended March 31, 2009 was primarily due to depreciation of the Indian rupee/U.S. dollar exchange rate by 14% during such period. Such depreciation resulted in losses on short U.S.\$/INR derivative contracts and translation losses on outstanding packing credit loans in foreign currencies.

Profit/(loss) before income taxes

The foregoing resulted in a profit (before income tax) of ₹2,053 million for the year ended March 31, 2010, as compared to a loss of ₹3,996 million for the year ended March 31, 2009.

Income tax expense

Income tax expense was ₹985 million for the year ended March 31, 2010, as compared to an income tax expense of ₹1,172 million for the year ended March 31, 2009.

Income tax expenses were lower primarily on account of a higher proportion of our profits for the year ended March 31, 2010 being taxed in jurisdictions with lower tax rates as compared to the year ended March 31, 2009. Additionally, taxable profits in our North American (the United States and Canada) business for the year ended March 31, 2010 were lower than those in the year ended March 31, 2009, largely on account of the expiration of market exclusivity for some of our high margin products during the year ended March 31, 2010. Furthermore, a tax benefit that arose for the year ended March 31, 2009 in our German operations (largely on account of a provision for damages in our olanzapine litigation with Eli Lilly in Germany) did not exist during the year ended March 31, 2010. The decrease in tax expenses was partially offset by reduced research and development expenditures, resulting in lower weighted deductions under Indian tax laws, and reduction in the proportion of our profits derived from tax exempted manufacturing units in India.

During the year ended March 31, 2010, the German tax authorities concluded their preliminary tax audits for betapharm, covering the years ended March 31, 2001 through March 31, 2004, and objected to certain tax positions taken in those years' income tax returns filed by betapharm. Our estimate of the additional tax liability that could arise on conclusion of the tax audits, which are expected to be completed shortly, is ₹302 million (EUR 5 million). Accordingly, we recorded the amount as additional tax expense in our income statement for the year ended March 31, 2010. As part of the acquisition of betapharm during the year ended March 31, 2006, we acquired certain pre-existing income tax liabilities pertaining to betapharm for the fiscal periods prior to the date of the closing of the acquisition (in March 2006). Accordingly, the terms of the Sale and Purchase Agreement provided that ₹324 million (EUR 6 million) of the purchase consideration would be set aside in an escrow account, to fund against certain indemnity claims by us in respect of legal and tax matters that may arise covering such pre-acquisition periods. The right to make tax related indemnity claims under the Sale and Purchase Agreement only applies with respect to taxable periods from January 1, 2004 until November 30, 2005, and lapses and is time barred at the end of the seven year anniversary of the closing of the acquisition (in March 2013). To the extent that the tax audits cover periods not subject to the indemnity rights under the Sale and Purchase Agreement, we have additional indemnity rights pursuant to a tax indemnity agreement with Santo Holdings, the owner of betapharm prior to 3i Group plc.

Upon receipt of such preliminary tax notices, we initiated the process of exercising such indemnity rights against the sellers of betapharm and Santo Holdings and have concluded that as of March 31, 2010 recovery of the full tax amounts demanded by the German tax authorities is virtually certain. Accordingly, a separate asset of ₹302 million (EUR 5 million) representing such indemnity rights has been recorded as part of “other assets” in the statement of financial position, with a corresponding credit to the current tax expense.

Profit/(loss) for the period

As a result of the foregoing, our net result was a profit of ₹1,068 million for the year ended March 31, 2010, as compared to a net loss of ₹5,168 million for the year ended March 31, 2009.

Fiscal Year Ended March 31, 2009 Compared to Fiscal Year Ended March 31, 2008

Certain amounts in the years ended March 31, 2009 and 2008 have been reclassified/regrouped to conform to the presentation of the year ended March 31, 2010. The explanations below have been suitably modified in line with such reclassifications.

Revenues

- Our overall revenues increased by 39% to ₹69,441 million in the year ended March 31, 2009, from ₹50,006 million in the year ended March 31, 2008. Excluding revenues from a unit of the Dow Chemical Company associated with its United Kingdom sites in Mirfield and Cambridge (hereinafter referred to as the “Dow Pharma Unit”), BASF’s manufacturing facility in Shreveport, Louisiana in the United States of America and related pharmaceutical contract manufacturing business (hereinafter referred to as the “Shreveport facility”) and Jet Generici SRL (hereinafter referred to as “Jet Generici”), each of which was acquired in April 2008, revenues grew by 33% to ₹66,644 million during the year ended March 31, 2009. During the year ended March 31, 2009, we launched sumatriptan (an authorized generic version of Imitrex®) in the United States, which accounted for ₹7,188 million of our consolidated revenues. Excluding the revenues from sumatriptan and revenues from the Dow Pharma Unit, the Shreveport facility and Jet Generici, our revenues increased by 19% to ₹59,456 million during the year ended March 31, 2009.
- Revenues from our Global Generics segment increased by 51% to ₹49,790 million during the year ended March 31, 2009, from ₹32,872 million in the year ended March 31, 2008. The increase primarily resulted from an increase in revenues from North America (the United States and Canada), Russia and our “rest of the world” markets. Excluding revenues of ₹1,684 million from the Shreveport facility and ₹92 million from Jet Generici, each of which was acquired in April 2008, revenues from our Global Generics segment increased by 46% to ₹48,014 million during the year ended March 31, 2009. During the year ended March 31, 2009, we launched sumatriptan (an authorized generic version of Imitrex®) in the United States, which accounted for ₹7,188 million of our consolidated revenues. Excluding the revenues from sumatriptan sales and revenues from the Shreveport facility and Jet Generici, our Global Generics revenues grew by 24% to ₹40,826 million during the year ended March 31, 2009.
- Revenues from our Pharmaceutical Services and Active Ingredients segment increased by 13% to ₹18,758 million during the year ended March 31, 2009, from ₹16,623 million during the year ended March 31, 2008. Excluding revenues from the Dow Pharma Unit acquired in April 2008 of ₹1,021 million, revenues from this segment increased by 7% compared to the year ended March 31, 2008. The increase primarily resulted from growth in revenues from our “rest of the world” markets (i.e., all markets other than North America, Europe, Russia and other countries of the former Soviet Union and India) by 20% and from North America (the United States and Canada) by 16%.
- For the year ended March 31, 2009, we received 35% of our total revenues from North America (the United States and Canada), 26% of our revenues from Europe, 17% of our revenues from India, 11% of our revenues from Russia and other countries of the former Soviet Union and 11% of our revenues from other countries.

- For the year ended March 31, 2009, on an average basis, the Indian rupee depreciated by approximately 14% against the U.S. dollar compared to the average exchange rate for the year ended March 31, 2008. This depreciation had a positive impact on our sales because of the increase in rupee realization from sales denominated in U.S. dollars. However, this positive impact was partially offset due to mark to market losses upon maturity of foreign currency derivative contracts, which were acquired to mitigate the risks of foreign currency volatility. The foregoing mark to market losses on foreign currency derivative contracts resulted in a net decrease in our revenues by ₹1,455 million during the year ended March 31, 2009. Excluding the impact of such mark to market losses, our total revenues grew by 42% to ₹70,896 million for the year ended March 31, 2009 from ₹50,006 million for the year ended March 31, 2008.

Revenues Segment analysis

Global Generics

For the year ended March 31, 2009, this segment accounted for 72% of our total revenues, as compared to 66% for the year ended March 31, 2008. Revenues in this segment increased by 51% to ₹49,790 million for the year ended March 31, 2009 from ₹32,872 million for the year ended March 31, 2008. Excluding revenues from the Shreveport facility and Jet Generics, each of which was acquired in April 2008, revenues in this segment increased by 46% to ₹48,014 million for the year ended March 31, 2009 from ₹32,872 million for the year ended March 31, 2008.

Revenues from North America (the United States and Canada) in this segment increased by 152% to ₹19,843 million for the year ended March 31, 2009, from ₹7,873 million in the year ended March 31, 2008. This increase was primarily due to increases in revenues from the launch of sumatriptan, our authorized generic version of Imitrex®, in the year ended March 31, 2009, which generated revenues of ₹7,188 million for such period. Excluding the revenues from sumatriptan sales, our revenues in this segment from North America (the United States and Canada) grew by 61% to ₹12,655 million for the year ended March 31, 2009. The increase was mainly due to strengthening of the U.S. dollar as compared to the Indian rupee and higher volumes for our key products such as fexofenadine, simvastatin, omeprazole, pravastatin, and citalopram.

Revenues from India constituted 17% of this segment's total revenues for the year ended March 31, 2009, as compared to 25% for the year ended March 31, 2008. Revenues in this segment from India increased by 5% to ₹8,478 million for the year ended March 31, 2009 from ₹8,060 million for the year ended March 31, 2008. The increase in revenues was due to increases in sales volumes of key brands such as Stamlo, our brand of amlodipine, Omez and Omez DR, our brands of omeprazole, Reditux, our brand of rituximab, and Razo, our brand of rabeprazole, which increases were partially offset by decreases in sales volumes of Nise, our brand of nimesulide. New products launched in India during the year ended March 31, 2009 generated revenues of ₹232 million in this segment for such period.

Revenues from Europe in this segment increased by 16% to ₹11,886 million for the year ended March 31, 2009, as compared to ₹10,216 million for the year ended March 31, 2008. Revenues of betapharm increased to ₹9,854 million for the year ended March 31, 2009 from ₹8,189 million for the year ended March 31, 2008. This increase was primarily due to favorable exchange rates, higher volumes for key products and seasonal sales of Grippeimpfstoff beta (vaccine).

Revenues from Russia in this segment increased by 43% to ₹5,803 million for the year ended March 31, 2009, from ₹4,064 million for the year ended March 31, 2008. This increase was due to higher sales volumes as well as higher prices of our key brands Nise, our brand of nimesulide, Omez, our brand of omeprazole, Cetrine, our brand of cetirizine, and Ketorol, our brand of ketorolac.

Revenues from other countries of the former Soviet Union in this segment increased by 25% to ₹1,821 million for the year ended March 31, 2009, as compared to ₹1,461 million for the year ended March 31, 2008. This increase was primarily due to an increase in revenues from Ukraine, Kazakhstan and Uzbekistan.

Revenues from other markets in this segment increased by 64% to ₹1,959 million for the year ended March 31, 2009, as compared to ₹1,197 million for the year ended March 31, 2008. This increase was due to increases in revenues from Venezuela and South Africa as a result of the launch of clopidogrel and higher sales of Ciproc and Omez.

Excluding the impact of mark to market loss on cash-flow hedges (i.e., derivative contracts to hedge against foreign currency risks) of ₹800 million, for the year ended March 31, 2009, this segment's revenue increased by 54% to ₹50,590 million for the year ended March 31, 2009, as compared to ₹32,872 million for the year ended March 31, 2008.

Pharmaceutical Services and Active Ingredients ("PSAI")

For the year ended March 31, 2009, this segment accounted for 27% of our total revenues, as compared to 33% for the year ended March 31, 2008. Revenues in this segment increased by 13% to ₹18,758 million for the year ended March 31, 2009, as compared to ₹16,623 million for the year ended March 31, 2008. Excluding revenues from the Dow Pharma Unit acquired in April 2008, revenues from this segment increased to ₹17,737 million for the year ended March 31, 2009 from ₹16,623 million for the year ended March 31, 2008.

Revenues in this segment from Europe increased by 9% to ₹6,160 million for the year ended March 31, 2009, as compared to ₹5,647 million for the year ended March 31, 2008. The increase was primarily due to increased sales of gemcitabine and sumatriptan, which were partially offset by a decrease in the sales of olanzapine and ramipril.

Revenues in this segment from North America (the United States and Canada) increased by 16% to ₹3,875 million for the year ended March 31, 2009 from ₹3,350 million for the year ended March 31, 2008. The increase was primarily due to increased sales of montelukast, rabeprazole sodium and naproxen, which were partially offset by a decrease in sales of ranitidine hydrochloride and ibuprofen.

Revenues in this segment from our "Rest of the world" markets (i.e., all markets other than North America, Europe, Russia and other countries of the former Soviet Union and India) increased by 20% to ₹6,340 million for the year ended March 31, 2009 from ₹5,274 million for the year ended March 31, 2008. This increase was primarily due to an increase in sales of naproxen and ciprofloxacin and the launch of the new product clopidogrel during the year ended March 31, 2009.

For the year ended March 31, 2009, revenues in this segment from India accounted for 13% of our revenues from this segment, as compared to 14% for the year ended March 31, 2008. Revenues in this segment from India increased by 1% to ₹2,383 million for the year ended March 31, 2009, as compared to ₹2,352 million for the year ended March 31, 2008.

Excluding the impact of mark to market losses on cash-flow hedges (i.e., derivative contracts to hedge against foreign currency risks) of ₹655 million, for the year ended March 31, 2009, this segment's revenue increased by 17% to ₹19,413 million for the year ended March 31, 2009 from ₹16,623 million for the year ended March 31, 2008.

Gross Margin

Total gross margin as a percentage of total revenues was 53% for the year ended March 31, 2009, as compared to 51% for the year ended March 31, 2008. Total gross margin increased to ₹36,500 million for the year ended March 31, 2009, from ₹25,408 million for the year ended March 31, 2008.

Global Generics

Gross margin of this segment increased to 61% of this segment's revenues for the year ended March 31, 2009, as compared to 60% of this segment's revenues for the year ended March 31, 2008. The increase was primarily due to the launch of sumatriptan, our authorized generic version of Imitrex®, which increase was partially offset by the decrease due to hedging losses (i.e., losses on foreign currency derivatives) of ₹800 million.

Pharmaceutical Services and Active Ingredients

Gross margin of this segment decreased to 30% of this segment's revenues for the year ended March 31, 2009, as compared to 34% of this segment's revenues for the year ended March 31, 2008. The decrease in gross margin was mainly due to hedging losses (i.e., losses on foreign currency derivatives) of ₹655 million. Excluding the impact of hedging losses, the gross margin of this segment was 33% of this segment's revenues for the year ended March 31, 2009, as compared to 34% of this segment's revenues for the year ended March 31, 2008. The decrease in gross margin was due to a change in product mix (i.e., an increase in the proportion of sales of lower gross margin products, such as Naproxen and Naproxen sodium, and a decrease in the proportion of sales of higher gross margin products, such as olanzapine and finasteride) for the year ended March 31, 2009.

Selling, general and administrative expenses

Selling, general and administrative expenses as a percentage of total revenues were 30% for the year ended March 31, 2009, as compared to 34% for the year ended March 31, 2008. Selling, general and administrative expenses increased by 25% to ₹21,020 million for the year ended March 31, 2009, from ₹16,835 million for the year ended March 31, 2008. The increase was in part attributable to an increase in employee costs by 19% due to annual raises and increases in head count arising both out of our three acquisitions and normal additions, as well as an increase in legal and professional expenses due to product related regulatory activities undertaken during the year ended March 31, 2009. The increase was also partly attributable to an increase in marketing expenses by 30% as a result of higher marketing expenses of our Proprietary Products business, growth in shipping costs, higher commission on sales (due to increased revenues), and higher advertisement expenses for campaigns undertaken in Russia, Belarus, Ukraine and Germany.

Furthermore, amortization expenses decreased by 6% to ₹1,503 million for the year ended March 31, 2009, from ₹1,588 million for the year ended March 31, 2008. The reduction was primarily due to reduced amortization at betapharm for certain product related intangibles due to write-downs recorded in March 31, 2008, and was partially offset by an increase in amortization expenses of ₹165 million for the year ended March 31, 2009 due to our acquisition of the Dow Pharma Unit, the Shreveport facility and Jet Generici.

Research and development expenses

Research and development costs increased by 14% to ₹4,037 million for the year ended March 31, 2009, from ₹3,533 million for the year ended March 31, 2008. As a percentage of revenues, research and development expenditures accounted for 6% of our total revenue in the year ended March 31, 2009, as compared to 7% for the year ended March 31, 2008. This increase in costs was primarily due to an increase in development activities in our Global Generics and Proprietary Products segments during the year ended March 31, 2009.

Impairment loss on other Intangible Assets and Goodwill

During the year ended March 31, 2009, there were significant changes in the generics market related to our German subsidiary betapharm. These changes included the announcement of a large competitive bidding (or "tender") process from AOK (the largest German State Healthcare ("SHI") fund), a continuing decrease in the reference prices of pharmaceutical products and increased quantity of discount contracts being negotiated with SHI funds. AOK's tender process represents a shift to a tender based supply model within the German generics market. We were awarded 8 products representing 33 contracts covering the AOK-insured persons in various regions within Germany, which represented 17% of the overall volume of the products covered by the AOK tender. While our future sales volumes are expected to increase for the products awarded to us under the tender, the expected overall price realization under the tender arrangement will be significantly lower due to decreased price per unit of product. Also, the products awarded did not include our key products.

Due to these developments, as at March 31, 2009, we tested the carrying value of our product related intangibles for impairment. The impairment testing indicated that the carrying values of certain product-related intangibles were higher than their recoverable value, resulting in us recording an impairment loss on certain product related intangibles amounting to ₹3,167 million during the year ended March 31, 2009.

As at March 31, 2009, we also performed our annual impairment analysis related to the betapharm cash generating unit, comprised of the above product related intangibles, the indefinite life trademark brand —'beta' and acquired goodwill. The recoverable value of our betapharm cash generating unit was based on its fair value less costs to sell, which was higher than its value in use. The impairment testing indicated that the carrying value of the betapharm cash generating unit was higher than its recoverable value, resulting in us recording an impairment loss of goodwill amounting to ₹10,856 million during the year ended March 31, 2009.

Other (income)/expense, net

Other expense was ₹254 million for the year ended March 31, 2009, as compared to income of ₹402 million for the year ended March 31, 2008. This was primarily due to the ₹916 million provided as payable to Eli Lilly to settle its patent infringement claims arising from our sales of olanzapine in Germany. This was partially offset by income of ₹150 million on account of negative goodwill resulting from the acquisition of the Dowpharma Small Molecule business and Mirfield plant, as well as an increase in other income by ₹512 million primarily due to an increase in sales of spent chemicals, royalty income and other miscellaneous income.

Results from operating activities

As a result of the foregoing, our results from operating activities decreased to a loss of ₹2,834 million for the year ended March 31, 2009, as compared to a profit of ₹2,341 million for the year ended March 31, 2008.

Finance income/(expense), net

For the year ended March 31, 2009, our net finance expense was ₹1,186 million, as compared to net finance income of ₹521 million for the year ended March 31, 2008.

For the year ended March 31, 2009, our finance income, excluding foreign exchange gain/loss, decreased by 44% to ₹482 million from ₹862 million for the year ended March 31, 2008. The decrease was attributable to a decrease in our interest income from fixed deposits resulting from a decrease in our fixed deposits base, which was partially offset by an increase in gains on sales of investments. For the year ended March 31, 2009, our interest expense decreased by 4% to ₹1,034 million, from ₹1,080 million for the year ended March 31, 2008.

Foreign exchange loss was ₹634 million for the year ended March 31, 2009 as compared to a foreign exchange gain of ₹738 million for the year ended March 31, 2008, primarily due to depreciation of the Indian rupee/U.S. dollar exchange rate by 14% during the year ended March 31, 2009. Such depreciation resulted in losses on short U.S.\$/INR derivative contracts and translation losses on outstanding packing credit loans in foreign currencies.

Profit/(loss) before income taxes

The foregoing resulted in a loss before income tax of ₹3,996 million for the year ended March 31, 2009, as compared to profit of ₹2,864 million for the year ended March 31, 2008.

Income tax expense

Income tax expense was ₹1,172 million for the year ended March 31, 2009, as compared to an income tax benefit of ₹972 million for the year ended March 31, 2008. The increase in the tax expense for the year ended March 31, 2009 was largely due to higher taxable profits in our North America (the United States and Canada) and India businesses, which were partially offset by certain tax benefits. These tax benefits included a benefit attributable to losses in our German operations (primarily due to ₹916 million paid to Eli Lilly to settle its patent infringement claims arising from our sales of olanzapine in Germany) and a benefit due to reversal of deferred tax liability of ₹983 million as a result of an impairment charge of betapharm intangibles of ₹3,167 million. The tax benefit in the year ended March 31, 2008 was primarily on account of a reversal of deferred tax liability of ₹1,505 million, which was due to a reduction in tax rates in Germany, and a release of a deferred tax liability of ₹895 million, which was due to the write-down of intangibles amounting to ₹2,883 million.

Profit/(loss) for the period

As a result of the foregoing, our net result was a loss of ₹5,168 million for the year ended March 31, 2009, as compared to net profit of ₹3,836 million for the year ended March 31, 2008.

Recent Accounting Pronouncements

Standards issued but not yet effective and not yet adopted

In November 2009, the IASB issued IFRS 9, “*Financial instruments*”, to introduce certain new requirements for classifying and measuring financial assets. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications — those measured at amortized cost and those measured at fair value. The standard along with proposed expansion of IFRS 9 for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment, and hedge accounting will be applicable for annual periods beginning on or after January 1, 2013, although entities are permitted to adopt earlier. We are evaluating the impact which this new standard will have on our consolidated financial statements.

In November 2009, the IASB issued IFRIC 19, “*Extinguishing Financial Liabilities with Equity Instruments*”, to introduce requirements when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity’s shares and other equity instruments to settle the financial liability fully or partially. This Interpretation is effective for annual periods beginning on or after July 1, 2010.

In May 2011, the IASB issued new standards and amendments on consolidated financial statements and joint arrangements. The following are new standards and amendments:

- IFRS 10, “*Consolidated financial statements*”.
- IFRS 11, “*Joint arrangements*”.
- IFRS 12, “*Disclosure of interests in other entities*”.
- IAS 27 (Revised 2011), “*Consolidated and separate financial statements*”, which has been amended for the issuance of IFRS 10 but retains the current guidance on separate financial statements.
- IAS 28 (Revised 2011), “*Investments in associates*”, which has been amended for conforming changes on the basis of the issuance of IFRS 10 and IFRS 11.

All the standards mentioned above are effective for annual periods beginning on or after January 1, 2013; earlier application is permitted as long as each of the other standards in this group is also early applied. We are in the process of determining the impact of these amendments on our consolidated financial statements.

On June 16, 2011, the IASB issued an amendment to IAS-19 “*Employee benefits*”, which amended the standard as follows:

- It requires recognition of changes in the net defined benefit liability/(asset), including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of re-measurements in other comprehensive income, plan amendments, curtailments and settlements.
- It introduced enhanced disclosures about defined benefit plans.
- It modified accounting for termination benefits, including distinguishing benefits provided in exchange for services from benefits provided in exchange for the termination of employment, and it affected the recognition and measurement of termination benefits.

- It provided clarification regarding various issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk-sharing and conditional indexation features.
- It incorporated, without change, the IFRS Interpretations Committee's requirements set forth in IFRIC 14 "IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

These amendments are effective for annual periods beginning on or after January 1, 2013; earlier application is permitted. We are in the process of determining the impact of these amendments on our consolidated financial statements.

5.B. Liquidity and capital resources

Liquidity

We have primarily financed our operations through cash flows generated from operations and through short-term borrowings for working capital. Our principal liquidity and capital needs are for making investments, the purchase of property, plant and equipment, regular business operations and drug discovery.

Our principal sources of short-term liquidity are internally generated funds and short-term borrowings, which we believe are sufficient to meet our working capital requirements and currently anticipated capital expenditures over the near term. As part of our growth strategy, we continue to review opportunities to acquire companies, complementary technologies or product rights. To fund the acquisition of betapharm in Germany in the year ended March 31, 2006, we borrowed Euro 400 million under a bank loan facility with a maturity period of five years.

The following table summarizes our statements of cash flows for the periods presented:

	Year Ended March 31,		
	2011	2010	2009
	₹ in millions		
Net cash provided by/(used in):			
Operating activities	₹ 8,009	₹ 13,226	₹ 4,505
Investing activities	(8,658)	(6,998)	(3,472)
Financing activities	(377)	(5,307)	(2,527)
Net increase/(decrease) in cash and cash equivalents	₹ (1,026)	₹ 921	₹ (1,494)
Effect of exchange rate changes on cash	₹ 141	₹ 246	₹ (114)

In addition to cash, inventory and our balance of accounts receivable, our unused sources of liquidity included approximately ₹13,089 million in available credit under revolving credit facilities with banks as of March 31, 2011. We had no other material unused sources of liquidity at that time.

Cash Flow from Operating Activities

The net result of our operating activities was a cash inflow of ₹8,009 million for the year ended March 31, 2011, as compared to a cash inflow of ₹13,226 million and ₹4,505 million for the years ended March 31, 2010 and 2009, respectively.

The net cash provided by our operating activities decreased significantly during the year ended March 31, 2011, as compared to the year ended March 31, 2010, primarily due to the following reasons:

- A number of new products were launched in the year ended March 31, 2011, which required significant cash outflows. As a result of increased accounts receivable and inventory from these launches, our working capital balance increased during such period, but the resulting cash inflows were not fully realized during such period.

The net cash provided by our operating activities increased significantly during the year ended March 31, 2010, as compared to the year ended March 31, 2009, primarily due to the following reasons:

- Our business performance improved during the year ended March 31, 2010, resulting in earnings before interest expense, tax expense, depreciation, impairment and amortization of ₹14,939 million, as compared to ₹14,529 million and ₹9,656 million for the years ended March 31, 2009 and 2008, respectively.
- During the year ended March 31, 2010, our accounts receivables collections improved and we collected accounts receivable due from sales of sumatriptan, which had been outstanding as at March 31, 2009. As a result, our accounts receivable balance as at March 31, 2010 was ₹900 million less than the balance as at March 31, 2009. In contrast, our accounts receivable balance as at March 31, 2009 was ₹7,348 million higher than the balance as at March 31, 2008.
- There was a smaller increase in our inventory during the year ended March 31, 2010 as compared to the year ended March 31, 2009.

Cash Flow from Investing Activities

Our net cash used in investing activities during the year ended March 31, 2011 was ₹8,658 million, as compared to ₹6,998 million and ₹3,472 million during the years ended March 31, 2010 and 2009, respectively.

Our net cash used in investing activities increased during the year ended March 31, 2011, as compared to the year ended March 31, 2010, primarily due to the following reasons:

- Cash paid for our acquisition from GlaxoSmithKline plc (“GSK”) of its penicillin-based antibiotics manufacturing facility in Bristol, Tennessee, United States, the product rights for the Augmentin® (branded and generic) and Amoxil® brands of oral penicillin-based antibiotics in the United States (GSK retained the existing rights for these brands outside the United States), certain raw material and finished goods inventory associated with Augmentin®, and certain transitional services from GSK, all for a total consideration of ₹1,169 million. There were no expenditures for business acquisitions during the year ended March 31, 2010.
- Cash outflows for investments in property, plant and equipment for the year ended March 31, 2011 were ₹9,066 million, an increase of ₹4,937 million as compared to our investments in the year ended March 31, 2010. Increased investments in property, plant and equipment during the year ended March 31, 2011 was in line with our capacity expansion plans and establishment of new production facilities.
- The cash payment of ₹2,530 million to the beneficial owners of I-VEN Pharma Capital Limited (“I-VEN”) for settlement of the payment due in respect of our exercise of the portfolio termination value option under our research and development agreement with I-VEN (as further described in Note 21 in the consolidated financial statements).
- The above mentioned cash outflows were partially offset by an increased cash inflow on account of sale of investments amounting to ₹6,651 million.

Our net cash used by investing activities increased significantly during the year ended March 31, 2010, as compared to the year ended March 31, 2009, primarily due to the following reasons:

- Net cash outflow on purchases of investment securities which were ₹3,009 million for the year ended March 31, 2010, as compared to net cash inflows of ₹4,377 million from sales of investment securities for the year ended March 31, 2009.

- There were no cash outflows for acquisition of businesses during the year ended March 31, 2010, while we spent ₹3,089 million during the year ended March 31, 2009 to acquire: a unit of the Dow Chemical Company associated with its United Kingdom sites in Mirfield and Cambridge; BASF's manufacturing facility in Shreveport, Louisiana, U.S.A. and related pharmaceutical contract manufacturing business; and Jet Generici SRL.
- Our cash outflows for investment in property, plant and equipment for the year ended March 31, 2010 were ₹4,129 million and were lower by ₹378 million as compared to our investments in the year ended March 31, 2009.

Cash Flows from Financing Activities

Our net cash outflow as a result of financing activities was ₹377 million during the year ended March 31, 2011, as compared to a net cash outflow as a result of financing activities of ₹5,307 million and ₹2,527 million during the years ended March 31, 2010 and 2009, respectively.

The decrease in net cash outflow from financing activities was primarily due to:

- A ₹12,541 million increase in short term borrowings during the year ended March 31, 2011, as compared to a decrease of ₹83 million during the year ended March 31, 2010. The increase in short term borrowings was for our working capital needs and for re-payment of a loan taken to fund the acquisition of betapharm in Germany in the year ended March 31, 2006 (for further details, please refer to note 18 of the consolidated financial statements).
- Such increase in short term borrowings was offset by increases in cash outflow due to the repayment of long term debt of ₹5,463 million (a loan taken to fund the acquisition of betapharm in Germany in the year ended March 31, 2006).
- A cash amount of ₹525 million paid to acquire the remaining 40% non-controlling interest in our subsidiary, Dr. Reddy's Laboratories (Proprietary) Limited, during the year ended March 31, 2011.

Our cash outflows as a result of financing activities primarily pertained to our repayment of long term debt amounting to ₹3,479 million and ₹1,925 million (largely attributable to the repayment of debt for our betapharm acquisition) during the years ended March 31, 2010 and 2009, respectively, and ₹80 million spent on the acquisition of non-controlling interests during the year ended March 31, 2010. The above cash outflows were partly offset due to a reduction in our short term borrowings used to finance our working capital requirements during the year ended March 31, 2010.

Principal obligations

The following table summarizes our principal debt obligations (excluding capital lease obligations) outstanding as of March 31, 2011:

	Payments due by period (₹ in millions)			
	Total	Less than 1 year	1-5 years	More than 5 years
Financial Contractual Obligations				
Short-term borrowings from banks	₹ 18,289	₹ 18,289	₹ —	₹ —
Long term debt				
Bonus debentures	5,078	—	5,078	—
Total obligations	₹ 23,367	₹ 18,289	₹ 5,078	₹ —

Annual rate of interest

Short term borrowings

(All amounts in ₹ millions)

As at March 31, 2011				
	<u>Outstanding balance</u>	<u>Weighted average interest rate</u>	<u>Average amount outstanding</u>	<u>Maximum amount outstanding</u>
Rupee borrowings	950	8.75%	238	950
Borrowings on transfer of receivables	825	LIBOR+75-100 bps	387	978
Other foreign currency borrowings	16,514	LIBOR+ 50 - 175 bps 5% to 8%	12,022	17,071

(All amounts in ₹ millions)

As at March 31, 2010				
	<u>Outstanding balance</u>	<u>Weighted average interest rate</u>	<u>Average amount outstanding</u>	<u>Maximum amount outstanding</u>
Rupee borrowings	42	5%	2,102	3,940
Borrowings on transfer of receivables	—	—	—	—
Other foreign currency borrowings	5,562	LIBOR+ 40 - 75 bps	1,693	5,562

Long term borrowings

As at March 31, 2011	
Bonus debentures	9.25%

Subject to obtaining certain regulatory approvals, there are no legal or economic restrictions on the transfer of funds between us and our subsidiaries or for the transfer of funds in the form of cash dividends, loans or advances.

The maturities of our short-term borrowings from banks vary from one month to approximately twelve months. Our objective in determining the borrowing maturity is to ensure a balance between flexibility, cost and the continuing availability of funds.

Cash and cash equivalents are held in Indian rupees, U.S. dollars, U.K. pounds sterling, Brazilian real, Euros, Russian roubles, South African rand, Hong Kong dollars, New Zealand dollars, Malaysian ringgits and Swiss francs.

As of March 31, 2011 and 2010, we had committed to spend approximately ₹3,459 million and ₹2,948 million, respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of such purchases. These commitments will be funded through the cash flows generated from operations.

5.C. Research and development, patents and licenses, etc.

Research and Development

Our research and development activities can be classified into several categories, which run parallel to the activities in our principal areas of operations:

- **Global Generics**, where our research and development activities are directed at the development of product formulations, process validation, bioequivalence testing and other data needed to prepare a growing list of drugs that are equivalent to numerous brand name products for sale in the emerging markets or whose patents and regulatory exclusivity periods have expired or are nearing expiration in the highly regulated markets of the United States and Europe. Global Generics also include our biologics business, where research and development activities are directed at the development of biologics products for the emerging as well as highly regulated markets. Our new biologics research and development facility caters to the highest development standards, including cGMP, Good Laboratory Practices and bio-safety level IIA.
- **Pharmaceutical Services and Active Ingredients**, where our research and development activities concentrate on development of chemical processes for the synthesis of active pharmaceutical ingredients and intermediates (“API”) for use in our Global Generics segment and for sales in the emerging and developed markets to third parties. Our research and development activities also support our custom pharmaceutical line of business, where we continue to leverage the strength of our process chemistry and finished dosage development expertise to target innovator as well as emerging pharmaceutical companies. The research and development is directed toward providing services to support the entire pharmaceutical value chain — from discovery all the way to the market.
- **Proprietary Products**, where we are actively pursuing discovery and development of new molecules, sometimes referred to as a “new chemical entity” or “NCE”, and differentiated formulations. Our research programs focus on the following therapeutic areas:
 - Metabolic disorders
 - Cardiovascular disorders
 - Bacterial infections
 - Pain and inflammation
- In the years ended March 31, 2011, 2010 and 2009, we expended ₹5,060 million, ₹3,793 million and ₹4,037 million, respectively, on research and development activities.

Patents, Trademarks and Licenses

We have filed and been issued numerous patents in our principal areas of operations: Pharmaceutical Services and Active Ingredients and Proprietary Products. We expect to continue to file patent applications seeking to protect our innovations and novel processes in several countries, including the United States. Any existing or future patents issued to or licensed by us may not provide us with any competitive advantages for our products or may even be challenged, invalidated or circumvented by our competitors. In addition, such patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products. As of March 31, 2011, we had registered more than 500 trademarks with the Registrar of Trademarks in India. We have also filed registration applications for non-U.S. trademarks in other countries in which we do business. We market several products under licenses in several countries where we operate.

5.D. Trend Information

Please see “Item 5: Operating and Financial Review and Prospects” and “Item 4. Information on the Company” for trend information.

5.E. Off-balance sheet arrangements

None

5.F. Tabular Disclosure of Contractual Obligations

The following summarizes our contractual obligations as of March 31, 2011 and the effect such obligations are expected to have on our liquidity and cash flows in future periods.

Contractual Obligations	Total	Payments Due by Period (₹ in millions)			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations	₹ 631	₹ 216	₹ 285	₹ 130	—
Capital lease obligations	256	12	20	31	₹ 193
Purchase obligations					
Agreements to purchase property and equipment and other capital commitments(1)	3,459	3,459	—	—	—
Borrowings from banks	18,289	18,289	—	—	—
Long term debt obligations	5,078	—	5,078	—	—
Estimated interest payable on long-term debt (2)	1,399	470	929	—	—
Post retirement benefits obligations (3)	1,339	105	205	256	773
Total contractual obligations	₹ 30,451	₹ 22,551	₹ 6,517	₹ 417	₹ 966

- (1) These amounts are net of capital advances paid in respect of such purchases and are expected to be funded from internally generated funds.
- (2) Disclosure of estimated interest payments for future periods is only with respect to our long term debt obligations, as the projected interest payments with respect to our short term borrowings and other obligations cannot be reasonably estimated because they are subject to fluctuation in actual utilization of borrowings depending on our daily funding requirements. The estimated interest costs are based on March 31, 2011 applicable benchmark rates and are subject to fluctuation in the future.
- (3) Post retirement benefits obligations in the “More than 5 years” column are estimated for a maximum of 10 years

5.G. Safe harbor

See page 3.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. Directors and senior management

The list of our directors and executive officers and their respective age and position as of March 31, 2011 was as follows:

Directors

Name(1)	Age (in yrs)	Position
Dr. K. Anji Reddy(2)	72	Chairman
Mr. G.V. Prasad(2),(3)	51	Chief Executive Officer and Vice Chairman
Mr. Satish Reddy(2),(4)	44	Chief Operating Officer and Managing Director
Mr. Anupam Puri	65	Director
Dr. J.P. Moreau	63	Director
Ms. Kalpana Morparia	62	Director
Dr. Omkar Goswami	54	Director
Mr. Ravi Bhoothalingam	65	Director
Dr. Bruce L. A. Carter	68	Director
Dr. Ashok S. Ganguly	76	Director

- (1) Except for Dr. K. Anji Reddy, Mr. G.V. Prasad and Mr. Satish Reddy, all of the directors are independent directors under the corporate governance rules of the New York Stock Exchange.
- (2) Full-time director.
- (3) Son-in-law of Dr. K. Anji Reddy.
- (4) Son of Dr. K. Anji Reddy.

Executive Officers

Our policy is to classify our officers as “executive officers” if they have membership on our Management Council. Our Management Council consists of various business and functional heads and is our senior management organization. As of March 31, 2011, the Management Council consisted of:

Name and Designation	Education/ Degrees Held	Age	Experience in years	Date of commencement of employment	Particulars of last employment
G.V. Prasad ⁽¹⁾ Vice Chairman and Chief Executive Officer	B. Sc.(Chem. Eng.), M.S. (Indl. Admn.)	51	27	June 30, 1990	Promoter Director, Benzex Labs Private Limited
Satish Reddy ⁽²⁾ Managing Director and Chief Operating Officer	B. Tech., M.S. (Medicinal Chemistry)	44	19	January 18, 1993	Director, Globe Organics Limited
Abhijit Mukherjee President — Global Generics	B. Tech. (Chem.)	53	31	January 15, 2003	President, Atul Limited
Amit Patel Senior Vice President — North America Generics	B.A.S, BS (Eco), MBA	36	13	August 6, 2003	V P Corporate Development, CTIS Inc
Dr. Cartikeya Reddy Senior Vice President and Head of Biologics	B. Tech, M.S., Ph.D.	41	20	July 20, 2004	Senior Engineer, Genetech Inc.
K. B. Sankara Rao Executive Vice President — Integrated Product Development	M. Pharma	57	33	September 29, 1986	Production Executive, Cipla Limited
Saumen Chakraborty President and Global Head — Quality, HR and IT	B.Sc. (H), PGDM	50	27	July 2, 2001	Vice President, Tecumseh Products India Private Limited
Umang Vohra Chief Financial Officer	B.E., MBA	40	16	February 18, 2002	Manager, Pepsico India
Vilas Dholye Executive Vice President — Formulations Manufacturing	B. Tech. (Chem.)	62	37	December 18, 2000	Vice President, Pidilite Industries Limited
Dr. Raghav Chari Senior Vice President — Proprietary Products	M.S. (Physics), Ph.D.	41	14	September 25, 2006	Head Corporate Strategy, NPS Pharmaceuticals Limited
Dr. R. Ananthanarayanan President, Pharmaceutical Services and Active Ingredients	B.Pharm, Ph.D.	46	23	August 6, 2010	President, Aurosource, USA

(1) Son-in-law of Dr. K. Anji Reddy.

(2) Son of Dr. K. Anji Reddy.

There was no arrangement or understanding with major shareholders, customers, suppliers or others pursuant to which any director or executive officer referred to above was selected as a director or member of senior management.

Biographies

Directors

Dr. K. Anji Reddy is our founder and Chairman of our Board of Directors. He is also the founder of Dr. Reddy's Research Foundation and Dr. Reddy's Foundation for Human and Social Development. He has a Bachelor of Science degree in Technology of Pharmaceuticals and Fine Chemicals from the University of Bombay and a Ph.D. in Chemical Engineering from National Chemical Laboratories, Pune. He has six years experience with Indian Drugs and Pharmaceuticals Limited in the manufacturing and implementation of new technologies in bulk drugs. He is a member of the Board of Trade as well as the Prime Minister's Task force on pharmaceuticals and knowledge-based industries. The Government of India bestowed, two of India's prestigious civilian honors upon him, the "Padma Shri" in 2001 and the "Padma Bhushan" in 2011, for his distinguished service in the field of trade and commerce. In addition to positions held in our subsidiaries and joint ventures, he is a Director in Green Park Hotels & Resorts Limited (formerly known as Diana Hotels Limited), Araku Originals Limited and Pathenco APS.

Mr. G.V. Prasad is a member of our Board of Directors and serves as our Vice-Chairman and Chief Executive Officer. He was the Managing Director of Cheminor Drugs Limited, a Dr. Reddy's Group Company, prior to its merger with us. He has a Bachelor of Science degree in Chemical Engineering from Illinois Institute of Technology, Chicago in the United States of America, and an M.S. in Industrial Administration from Purdue University, Indiana in United States of America. He is also an active member of several associations including the National Committee on Drugs and Pharmaceuticals. In addition to positions held in our subsidiaries and joint ventures, he is a Director of Green Park Hotels & Resorts Limited (formerly known as Diana Hotels Limited), Infotech Enterprises Limited and Acumen Fund in the United States of America.

Mr. Satish Reddy is a member of our Board of Directors and serves as our Managing Director and Chief Operating Officer. He has a Master of Science degree in Medicinal Chemistry from Purdue University, Indiana in the United States of America and a Bachelor of Technology degree in Chemical Engineering from Osmania University, Hyderabad. He is the member of the Confederation of Indian Industries for Andhra Pradesh. In addition to positions held in our subsidiaries and joint ventures, he is also a Director of Green Park Hotels & Resorts Limited (formerly known as Diana Hotels Limited).

Mr. Anupam Puri has been a member of our Board of Directors since 2002. He retired from McKinsey & Company in late 2000. He was a Director and played a variety of other leadership roles during his 30-year career there. Before joining McKinsey & Company, he was Advisor for Industrial Development to the President of Algeria, and consultant to General Electric's Center for Advanced Studies. He holds a Bachelor of Arts degree in Economics from St. Stephen's College, Delhi University, and Master of Arts and M. Phil. degrees from Oxford University. He is also on the Board of Directors of Mahindra & Mahindra Limited, Tech Mahindra Limited, Mumbai Mantra Media Limited and our U.S. subsidiary Dr. Reddy's Laboratories Inc.

Dr. Omkar Goswami has been a member of our Board of Directors since 2000. He is a founder and Chairman of CERG Advisory Private Limited, a corporate advisory and economic research and consulting company. He was a senior consultant and chief economist at the Confederation of Indian Industry for six years. 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. He 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 Ph.D. degree from Oxford University. He is also a Director on the Boards of Infosys Technologies Limited, DSP BlackRock Investment Managers Pvt. Limited, Crompton Greaves Limited, IDFC Limited, Ambuja Cements Limited, Max New York Life Insurance Company Limited, Godrej Consumer Products Limited, Cairn India Limited, Max India Limited and Avantha Power and Infrastructure Limited.

Mr. Ravi Bhoothalingam has been a member of our Board of Directors since 2000. He has served as the President of The Oberoi Group and was responsible for its worldwide operations. He has also served as the Head of Personnel at BAT Plc, Managing Director of VST Industries Limited, and as a Director of ITC Limited. He holds a Bachelor of Science degree in Physics from St. Stephens College, Delhi and a Master of Experimental Psychology degree from Gonville and Caius College, Cambridge University. He is also a Director on the Board of Sona Koyo Steering Systems Limited.

Dr. J.P. Moreau joined our Board as a member on May 18, 2007. In October 1976, Dr. Moreau founded Biomeasure Incorporated, based near Boston, Massachusetts, and was its President and Chief Executive Officer. Prior to that, he worked as Executive Vice-President and Chief Scientific Officer of the IPSEN Group where he was responsible for the Group's research and development programs in Paris, London, Barcelona and Boston. He was a Vice-President, Research of IPSEN Group from April 1994, and had been a member of its Executive Committee. Dr. Moreau has a degree in chemistry from the University of Orléans and a D.Sc in biochemistry. He has also conducted post-doctorate research at the École polytechnique. He has published over 50 articles in scientific journals and is named as an inventor or co-inventor in more than 30 patents. He is a regular speaker at scientific conferences and a member of Nitto Denko Scientific Advisory Board. Dr. Moreau was also responsible for establishing Kinerton Ltd. in Ireland in March 1989, a wholesale manufacturer of therapeutic peptides. He is also a Director on the Board of Phytomedics Inc. in the United States of America.

Ms. Kalpana Morparia joined our Board as a member on June 5, 2007. Ms. Morparia is Chief Executive Officer of J.P. Morgan India. Ms. Morparia leads the Business Groups (Investment Banking, Asset Management, Treasury Services and Principal Investment Management) and Service Groups (Global Research, Finance, Technology and Operations) in India. Ms. Morparia is a member of J.P. Morgan's global strategy team headquartered in New York, and is one of the key drivers of J.P. Morgan's international expansion initiative. Prior to becoming Chief Executive Officer of J.P. Morgan India, Ms. Morparia served as Vice Chair on the Board of ICICI Group. She was a Joint Managing Director of ICICI Group from 2001 to 2007. Ms. Morparia has also served as Chief Strategy and Communications Officer — ICICI Group. Ms. Morparia has been with the ICICI Group since 1975. A graduate in law from Bombay University, Ms. Morparia has served on several committees constituted by the Government of India. Ms. Morparia was named one of "The 50 Most Powerful Women in International Business" by Fortune magazine in 2008 and one of the 25 most powerful women in Indian business by Business Today, a leading Indian business journal, in the years 2004, 2005, 2006 and 2008. Ms. Morparia was also named one of the "The 100 Most Powerful Women" by Forbes Magazine in 2006. She also serves on the Board of Bennett, Coleman & Co. Limited and CMC Limited.

Dr. Bruce L.A. Carter joined our Board as a member on July 21, 2008. Dr. Carter was the Chairman of the Board and the former Chief Executive Officer of ZymoGenetics, Inc. in Seattle, Washington, in the United States of America. Dr. Carter was appointed as Chairman of the Board of ZymoGenetics in April 2005. From April, 1998 to January, 2009, he served as Chief Executive Officer of ZymoGenetics. Dr. Carter first joined ZymoGenetics in 1986 as Vice President of Research and Development. In 1988, Novo Nordisk acquired ZymoGenetics and, in 1994, Dr. Carter was promoted to Corporate Executive Vice President and Chief Scientific Officer for Novo Nordisk A/S, the then parent company of ZymoGenetics. Dr. Carter led the negotiations that established ZymoGenetics as an independent company from Novo Nordisk in 2000. Dr. Carter held various positions of increasing responsibility at G.D. Searle & Co., Ltd. from 1982 to 1986 and was a Lecturer at Trinity College, University of Dublin from 1975 to 1982. Dr. Carter received a B.Sc. with Honors in Botany from the University of Nottingham, England, and a Ph.D. in Microbiology from Queen Elizabeth College, University of London. Dr. Carter is the Executive Chairman of ImmuneDesign Corp. in the United States of America and also on the Board of Directors of QLT Inc. in Canada, TB Alliance in the United States of America and Xencor Inc. in the United States of America.

Dr. Ashok S. Ganguly joined our Board as a member on October 23, 2009. Dr. Ashok Ganguly is the Chairman of ABP Private Ltd. (formerly Ananda Bazar Patrika Group), and was a Director on the Central Board of the Reserve Bank of India from 2001 to 2009. Dr. Ganguly's principal professional career spanned 35 years with Unilever Plc/NV. He was the Chairman of Hindustan Lever Ltd. from 1980 to 1990 and a member of the Unilever Board of Directors from 1990 to 1997 with responsibility for world-wide research and technology. He is a former member of the Board of British Airways Plc (1996-2005). He has served on several public bodies, the principal among them being as a member of the Science Advisory Council to the Prime Minister of India (1985-89) and the U.K. Advisory Board of Research Councils (1991-94). Currently, he is a member of the Prime Minister's Council on Trade and Industry, Investment Commission and the India-U.S.A. CEO Council, set up by the Prime Minister of India and the President of the United States of America. He is also a member of the National Knowledge Commission to the Prime Minister. He is a recipient of the "Padma Bhushan" as well as the "Padma Vibhushan", two of India's prestigious civilian honors. At present he serves as a member of the Rajya Sabha, the upper house of the Parliament of India. Dr. Ganguly also serves as a non-executive director of Mahindra & Mahindra Limited and Wipro Limited.

Executive Officers

Mr. Abhijit Mukherjee is the President and head of our Global Generics segment. Before joining us, he worked with Atul Limited for 10 years, where he held numerous positions of increasing responsibility. In his last assignment there he was President, Bulk Chemicals and Intermediates Business, and Managing Director, Atul Products Limited. He started his career as a management trainee in Hindustan Lever Limited ("HLL") and worked at that company for 13 years, including three years in a Unilever company. He was primarily involved in technical assignments in the aroma chemicals business in HLL and Unilever and also in detergents and sulphonation plants of HLL. He holds a degree in Chemical Engineering from the Indian Institute of Technology in Kharagpur, India.

Mr. Amit Patel is our Senior Vice President and Head of North America Generics business. He is responsible for executing our company's strategic efforts in the North American generics market. Prior to joining us in 2003, Amit was co-founder and Chief Executive Officer of a healthcare services startup called MedOnTime that was later acquired by CTIS Inc., at which he served as Vice President of Corporate Development. Earlier, he was a strategy consultant with Marakon Associates where he focused on value-based management and mergers and acquisition. He received a Bachelor of Science degree in Economics from the Wharton School of Business at the University of Pennsylvania, a Bachelor of Applied Science degree in Systems Engineering from the Moore School at the University of Pennsylvania, and a Master of Business Administration degree from Harvard Business School.

Dr. Cartikeya Reddy is a Senior Vice President and he heads our Biologics division, which focuses on the development of biosimilar molecules for the Indian and global markets. Prior to joining us in 2004, Mr. Reddy worked with Genentech Inc., where he was a Group Leader in the area of Cell Culture Process Development. Before that, he was with the Biotechnology Division of Bayer Corporation, where he successfully led teams in the areas of Bioprocess Development and pilot scale manufacturing. Mr. Reddy holds a Master of Science degree and Ph.D. in Chemical Engineering from the University of Illinois, Urbana-Champaign, and was a Visiting Scholar at the Massachusetts Institute of Technology in Cambridge, Massachusetts, United States of America. He also graduated with a Bachelor of Technology degree in Chemical Engineering from the Indian Institute of Technology in Chennai, India.

Mr. K.B. Sankara Rao is an Executive Vice President and head of our Integrated Product Development business. Mr. Rao was appointed to this position in February 2004. He is responsible for directing our strategies for new product development in the areas of generics, branded generics, specialty, NCE formulations and active pharmaceutical ingredients. Mr. Rao began his career with us in 1986. Since then, he has held a series of leadership roles in manufacturing, research and development, quality, projects and supply-chain management, in addition to revitalizing our new product development function using the Six-Sigma process. Mr. Rao was also instrumental in the design and implementation of the "Self-Managed Team" — a concept arguably unique in the pharmaceutical industry. He is a life-member of the Indian Pharmaceutical Association, the Controlled Release Society and the Indian Pharmacy Graduates Association. He is also a member of the Confederation of Indian Industry ("CII") Southern Region Quality and Productivity Sub-committee, as well as the CII Sohrabji Godrej Green Business Centre, Hyderabad, Environment and Recycling Council. Mr. Rao holds a Masters degree in Pharmacy from Andhra University.

Mr. Saumen Chakraborty is the President and global head of our Quality, Human Resources and Information Technology functions. In this role, he is responsible for our Quality, Information Technology, Business Process Excellence, Human Resources, Corporate Communications and Supply Chain Effectiveness functions. Prior to this role, he was head of the Global Generics Operations along with Integrated Product Development across the organization. Mr. Chakraborty joined us in 2001 as Global Chief of Human Resources. He later took over as Chief Financial Officer in 2006 and then became our President — Corporate and Global Generics Operations in early 2009. He has 27 years of experience in strategic and operational aspects of management. Prior to joining us, he held various line manager, human resources and other positions, including Senior Manager (Finance and Accounts) in Eicher, and Vice President (Operations) in Tecumseh. A member of various industry forums, including the Confederation of Indian Industry and the National HRD Network, he graduated with honors as the valedictorian of his class from Visva-Bharati University in Physics, and went on to pursue management from the Indian Institute of Management, Ahmedabad. He continues to be responsible for Information Technology and Business Process Excellence.

Mr. Umang Vohra is our Chief Financial Officer and has over 16 years of experience across various functions within finance, strategic planning and corporate development. He is responsible for managing our organization's global finance functions including among others Accounts and Controlling, Taxation, Compliance, Secretarial, Investor Relations and Treasury. He joined us in 2002, and has been part of several of our key initiatives like acquisitions, research and development, de-risking transactions, and operational improvements and migration to IFRS in our accounting, governance and finance processes. Prior to joining us, Mr. Vohra worked with Eicher and PepsiCo India. Mr. Vohra has a base degree in computer engineering and he holds an MBA with a specialization in Finance from TA Pai Institute of Management (TAPMI), India.

Mr. Vilas Dholye is an Executive Vice President and head of our Formulations Manufacturing function. He has over 35 years of experience in operations and projects management. Mr. Dholye joined our organization in 2000 and was responsible for all aspects of our API manufacturing operations. He has over the last few years been responsible for implementing business process excellence and enterprise resource planning projects. Prior to joining us, Mr. Dholye worked with Pidilite Industries, Gharda Chemicals, Humphrey and Glasgow (Now Jacob Engineering) and Asian Paints, among other companies. Vilas holds a Chemical Engineering degree from the University Institute of Chemical Technology, Mumbai.

Dr. Raghav Chari is a Senior Vice President and head of our Proprietary Products segment and is responsible for developing a viable portfolio of products across our New Chemical Entities and Differentiated Formulations businesses. Dr. Chari joined us in 2006 as Vice President- Corporate Development for our New Chemical Entities and Specialty business and has helped shape our Proprietary Products business strategy while developing strong alliance platforms. He started his career with McKinsey and Company, where he spent several years as an Associate, Engagement Manager and finally Associate Principal in McKinsey's Pharmaceuticals and Medical Products practice. After McKinsey, he took leadership roles in strategy and business development with several smaller biotech companies. Prior to joining us, he was the head of the Corporate Strategy function at NPS Pharmaceuticals. Dr. Chari is a graduate in Mathematics and Physics from the California Institute of Technology and holds a Ph.D in Theoretical Physics from Princeton University.

Dr. R Ananthanarayanan is our President — Pharmaceutical Services and Active Ingredients (PSAI) effective as of August 6, 2010. Prior to joining us, Dr. Ananthanarayanan was President - Custom Research and Development and Manufacturing Services (CRAMS) — Aurosource division for APIs and Finished Dosage of Aurobindo Pharma, New Jersey, USA. He was also a key leadership member on the Executive Management Committee at Piramal Healthcare Ltd. and was the President and Head of Pharma Solutions business. He worked with Piramal Healthcare for over 7 years and was involved since the inception of its Pharma Solutions business. Prior to joining Piramal Healthcare, Dr. Ananthanarayanan was Managing Director — Asia and Head of Global Sourcing for Galpharm International Ltd, a U.K. based manufacturer/distributor of specialty pharmaceuticals and baby products. He has over 20 years of experience in the pharmaceutical industry with specialization in research and development, manufacturing operations, regulatory affairs, quality assurance, business development, global strategic sourcing, and mergers and acquisitions. Dr. Ananthanarayanan received a Ph.D in Pharmaceutical Technology and a Bachelor's degree in Pharmaceutical Sciences from the University of Mumbai, India.

6.B. Compensation

Directors' compensation

Full-Time Directors. The compensation of our Chairman, Chief Executive Officer and Chief Operating Officer (who we refer to as our “full-time directors”) is divided into salary, commission and benefits. They are not eligible to participate in our stock option plan. The nomination, governance and compensation committee of the Board of Directors initially recommends the compensation for full-time directors. If the Board of Directors (the “Board”) approves the recommendation, it is then submitted to the shareholders for approval at the general shareholders meeting.

On July 28, 2006, our shareholders re-appointed Dr. K. Anji Reddy as Chairman effective as of July 13, 2006, and Mr. G.V. Prasad as Vice Chairman and Chief Executive Officer effective as of January 30, 2006. On July 24, 2007, our shareholders re-appointed Mr. Satish Reddy as Managing Director and Chief Operating Officer effective as of October 1, 2007. Our Managing Director and COO and Vice Chairman and Chief Executive Officer are each entitled to receive a maximum commission of up to 0.75% of our net profit (as defined under the Indian Companies Act, 1956) for the fiscal year. Our Chairman is entitled to receive a maximum commission of up to 1.0% of our net profit (as defined under the Indian Companies Act, 1956) for the fiscal year. The nomination, governance and compensation committee, which is composed of independent directors, recommends the commission for our Chairman, Vice Chairman and Chief Executive Officer and Managing Director and COO within the limits of 1%, 0.75% and 0.75%, respectively, of the net profits (as defined under the Indian Companies Act, 1956) for each fiscal year.

Non-Full Time Directors. Each of our non-full time directors receives an attendance fee of ₹5,000 (U.S.\$112.12) for every Board meeting and Board committee meeting they attend. In the year ended March 31, 2011, we paid an aggregate of ₹405,000 (U.S.\$9,081.74) to our non-full time directors as attendance fees. Non-full time directors are also eligible to receive a commission on our net profit (as defined under the Indian Companies Act, 1956) for each fiscal year. Our shareholders have approved a maximum commission of up to 0.5% of the net profits (as defined under the Indian Companies Act, 1956) for each fiscal year for all non-full time directors in a year. The Board determines the entitlement of each of the non-full time directors to commission within the overall limit. The non-full time directors were granted stock options under the Dr. Reddy's Employees Stock Option Scheme, 2002 and Dr. Reddy's Employees ADR Stock Option Scheme, 2007 in the year ended March 31, 2011 as provided in the table below.

For the year ended March 31, 2011, the directors were entitled to the following amounts as compensation:

(Amounts ₹ in millions, except number of stock options)

<u>Name of the Director</u>	<u>Attendance fees</u>	<u>Commission</u>	<u>Salary</u>	<u>Perquisites</u>	<u>Total</u>	<u>Number of Stock Options(1)</u>
Dr. K. Anji Reddy	₹ —	₹ 100	₹ 5	₹ 1	₹ 106	—
Mr. G.V. Prasad	—	73	4	1	78	—
Mr. Satish Reddy	—	73	4	1	78	—
Mr. Anupam Puri	*	3	—	—	3	2,400
Dr. J.P. Moreau	*	3	—	—	3	2,400
Ms. Kalpana Morparia	*	3	—	—	3	2,400
Dr. Omkar Goswami	*	3	—	—	3	2,400
Mr. Ravi Bhoothalingam	*	3	—	—	3	2,400
Dr. Bruce L. A. Carter	*	3	—	—	3	2,400
Dr. Ashok S. Ganguly	*	3	—	—	3	2,400

* Attendance fees were paid only to non-full time directors and ranged from ₹25 thousand to ₹95 thousand, depending upon their attendance in Board and committee meetings. As a result of rounding to the nearest million, such attendance fees do not appear in the above table.

(1) The options granted to non-full time directors during the year ended March 31, 2011 have an exercise price of ₹5 per option, vest in one year, and expire five years from the date of vesting.

Executive officers' compensation

The initial compensation to all our executive officers is determined through appointment letters issued at the time of employment. The appointment letter provides the initial amount of salary and benefits the executive officer will receive as well as a confidentiality provision and a non-compete provision applicable during the course of the executive officer's employment with us. We provide salary, certain perquisites, retirement benefits, stock options and variable pay to our executive officers. The nomination, governance and compensation committee of the Board reviews the compensation of executive officers on a periodic basis.

All of our employees at the managerial and staff levels are eligible to participate in a variable pay program, which consists of performance bonuses based on the performance of their function or business unit, and a profit sharing plan through which part of our profits can be shared with our employees. Our variable pay program is aimed at rewarding performance of the individual, business unit/function and the organization, with significantly higher rewards for superior performances.

We also have two employee stock option schemes: the Dr. Reddy's Employees Stock Option Scheme, 2002 and the Dr. Reddy's Employees ADR Stock Option Scheme, 2007. The stock option schemes are applicable to all of our employees and directors and employees and directors of our subsidiaries. The stock option schemes are not applicable to promoter directors, promoter employees and persons holding 2% or more of our outstanding share capital. The nomination, governance and compensation committee of the Board of Directors awards options pursuant to the stock option schemes based on the employee's performance appraisal. Some employees have also been granted options upon joining us.

Compensation for executive officers who are full time directors is summarized in the table under "Directors' compensation" above. The following table presents the annual compensation paid for services rendered to us for the year ended March 31, 2011 and stock options held by all of our other executive officers as of March 31, 2011:

Compensation for Executive Officers

<u>Name</u>	<u>Compensation (₹ in millions)</u>	<u>No. of Options held</u>	<u>Fiscal Year of Grant</u>	<u>Exercise Price (₹)</u>	<u>Expiration Date (See note no.)</u>
Abhijit Mukherjee	20.7	2,000	2008	5	(1)
		2,000	2009	5	(1)
		2,000	2009	5	(2)
		2,000	2010	5	(1)
		2,000	2010	5	(2)
		2,000	2010	5	(3)
		2,000	2011	5	(1)
		2,000	2011	5	(2)
		2,000	2011	5	(3)
		2,000	2011	5	(4)
Amit Patel	20.75	1,375	2008	5	(1)
		1,250	2009	5	(1)
		1,250	2009	5	(2)
		1,500	2010	5	(1)
		1,500	2010	5	(2)
		1,500	2010	5	(3)
		1,250	2011	5	(1)
		1,250	2011	5	(2)
		1,250	2011	5	(3)
		1,250	2011	5	(4)
Cartikeya Reddy	12.07	1,000	2008	5	(1)
		1,250	2009	5	(1)
		1,250	2009	5	(2)
		1,250	2010	5	(1)
		1,250	2010	5	(2)
		1,250	2010	5	(3)
		1,125	2011	5	(1)
		1,125	2011	5	(2)
		1,125	2011	5	(3)
		1,125	2011	5	(4)

<u>Name</u>	<u>Compensation (₹ in millions)</u>	<u>No. of Options held</u>	<u>Fiscal Year of Grant</u>	<u>Exercise Price (₹)</u>	<u>Expiration Date (See note no.)</u>
K. B. Sankara Rao	12.52	1,500	2008	5	(1)
		1,250	2009	5	(1)
		1,250	2009	5	(2)
		1,250	2010	5	(1)
		1,250	2010	5	(2)
		1,250	2010	5	(3)
		875	2011	5	(1)
		875	2011	5	(2)
		875	2011	5	(3)
		875	2011	5	(4)
Saumen Chakraborty	18.57	2,000	2008	5	(1)
		2,000	2009	5	(1)
		2,000	2009	5	(2)
		2,000	2010	5	(1)
		2,000	2010	5	(2)
		2,000	2010	5	(3)
		1,625	2011	5	(1)
		1,625	2011	5	(2)
		1,625	2011	5	(3)
		1,625	2011	5	(4)
Umang Vohra	11.42	750	2008	5	(1)
		875	2009	5	(1)
		875	2009	5	(2)
		1,250	2010	5	(1)
		1,250	2010	5	(2)
		1,250	2010	5	(3)
		1,125	2011	5	(1)
		1,125	2011	5	(2)
		1,125	2011	5	(3)
		1,125	2011	5	(4)
Vilas M. Dholye	11.27	700	2008	5	(1)
		400	2009	5	(1)
		400	2009	5	(2)
		1,250	2010	5	(1)
		1,250	2010	5	(2)
		1,250	2010	5	(3)
		875	2011	5	(1)
		875	2011	5	(2)
		875	2011	5	(3)
		875	2011	5	(4)
Dr. Raghav Chari	19.25	500	2008	5	(1)
		750	2009	5	(1)
		750	2009	5	(2)
		1,000	2010	5	(1)
		1,000	2010	5	(2)
		1,000	2010	5	(3)
		1,125	2011	5	(1)
		1,125	2011	5	(2)
		1,125	2011	5	(3)
		1,125	2011	5	(4)
Dr. Ananthnarayanan	9.93	—	—	—	—

- (1) The expiration date is five years from the date of vesting. The options vest in one year.
- (2) The expiration date is five years from the date of vesting. The options vest in two years.
- (3) The expiration date is five years from the date of vesting. The options vest in three years.
- (4) The expiration date is five years from the date of vesting. The options vest in four years.

Retirement benefits.

We provide the following benefit plans to our employees:

Gratuity benefits: In accordance with applicable Indian laws, we provide 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, at an amount based on the respective employee’s last drawn salary and the years of employment with us. Effective September 1, 1999, we established the Dr. Reddy’s Laboratories Gratuity Fund (the “Gratuity Fund”). Liability with regard to the Gratuity Plan is determined by an actuarial valuation, based upon which we make 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 Indian law and generally consist of federal and state Indian Government bonds and the debt instruments of Indian Government-owned corporations.

The net periodic benefit costs recognized by us were ₹63 million and ₹69 million during the years ended March 31, 2010 and 2011, respectively.

Superannuation benefits. Apart from being covered under the Gratuity Plan described above, our senior officers also participate in superannuation, a defined contribution plan administered by the Life Insurance Corporation of India. We make annual contributions based on a specified percentage of each covered employee’s salary. We have no further obligations under the plan beyond our annual contributions. We contributed ₹47 million and ₹49 million to the superannuation plan during the years ended March 31, 2010 and 2011, 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 equal to 12% of the covered employee’s basic salary. We have no further obligations under the plan beyond our monthly contributions. We contributed ₹195 million and ₹258 million to the provident fund plan during the years ended March 31, 2010 and 2011, respectively.

401(k) retirement savings plans. In the United States, we sponsor a defined contribution 401(k) retirement savings plan for all eligible employees who meet minimum age and service requirements. We contributed ₹70 million and ₹70 million to this 401(k) retirement savings plan for the years ended March 31, 2010 and 2011, respectively.

National Insurance contributions. In the United Kingdom, certain social security benefits (such as pension, unemployment and disability) are funded by employers and employees through mandatory National Insurance contributions. We sponsor a defined contribution plan for such National Insurance contributions. The contribution amounts are determined based upon the employee’s base salary. We have no further obligations under the plan beyond our monthly contributions. We contributed ₹78 million and ₹80 million to the U.K. National Insurance scheme during the years ended March 31, 2010 and 2011, respectively.

Pension plans. All employees of Industrias Quimicas Falcon de Mexico, SA de CV (“Falcon”), our subsidiary in Mexico, are governed by a defined benefit pension plan. The pension plan provides a payment to vested employees at retirement or termination of employment. This payment is based on the employee’s integrated salary and is paid in the form of a monthly pension over a period of 20 years computed based on a predefined formula. Liabilities in respect of the pension plan are determined by an actuarial valuation, based on which we make contributions to the pension plan fund. This fund is administered by a third party who is provided guidance by a technical committee formed by senior employees of Falcon.

Long service benefit recognition. During the year ended March 31, 2011 we introduced a new post-employment defined benefit scheme under which all eligible employees of our parent company who have completed a specified service tenure with our parent company would be eligible for a “Long Service Cash Award” at the time of their employment separation. The amount of such cash payment would be based on the respective employee’s last drawn salary and the specified number of years of employment with our parent company. We have valued the liability associated with this scheme through an independent actuary. During the years ended March 31, 2010 and 2011, we recorded a liability of ₹53 million and ₹10 million, respectively, under the scheme.

6.C. Board practices

Our Articles of Association require us to have a minimum of three and a maximum of 20 directors. As of March 31, 2011, we had ten directors on our Board, of which seven were non-full time independent directors.

The Companies Act, 1956 and our Articles of Association require that at least two-thirds of our directors be subject to re-election by our shareholders in rotation. At every annual general meeting, one-third of the directors who are subject to re-election must retire and, if eligible for re-election, may be reappointed at the annual general meeting.

The terms of each of our directors and their expected expiration dates are provided in the table below:

Name	Expiration of		Period of Service
	Current	Term of Office	
Dr. K. Anji Reddy ⁽¹⁾⁽⁴⁾	July 12, 2016	5 years	27 years
Mr. Satish Reddy ⁽¹⁾	September 30, 2012	5 years	18 years
Mr. G.V. Prasad ⁽¹⁾⁽⁴⁾	January 29, 2016	5 years	25 years
Mr. Anupam Puri ⁽²⁾	Retirement by rotation	Due for retirement by rotation in 2011	9 years
Dr. J. P. Moreau ⁽²⁾⁽³⁾	Retirement by rotation	Due for retirement by rotation in 2013	4 years
Ms. Kalpana Morparia ⁽²⁾⁽³⁾	Retirement by rotation	Due for retirement by rotation in 2014	4 years
Dr. Omkar Goswami ⁽²⁾	Retirement by rotation	Due for retirement by rotation in 2012	10.5 years
Mr. Ravi Bhoothalingam ⁽²⁾	Retirement by rotation	Due for retirement by rotation in 2012	10.5 years
Dr. Bruce L. A. Carter ⁽²⁾	Retirement by rotation	Due for retirement by rotation in 2011	3 years
Dr. Ashok S. Ganguly ⁽²⁾	Retirement by rotation	Due for retirement by rotation in 2013	1.5 year

(1) Full time director.

(2) Non-full time independent director.

(3) Reappointed at the 26th Annual General Meeting of Shareholders held on July 23, 2010.

(4) Reappointed by the Board of Directors at their meeting held on January 25, 2011 for a further period of five years, subject to approval by our shareholders at their next annual general meeting scheduled on July 21, 2011.

The terms of the contracts with our full-time directors are also disclosed to all of our shareholders in the notice of the general meeting. The directors are not eligible for any termination benefit on the termination of their tenure with us.

Committees of the Board

Committees appointed by the Board focus on specific areas and take decisions within the authority delegated to them. 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. We had seven Board-level Committees as of March 31, 2011:

- Audit Committee.
- Nomination, Governance and Compensation Committee.
- Science, Technology and Operations Committee.
- Risk Management Committee.
- Shareholders' Grievance Committee.
- Management Committee.
- Investment Committee.

The Board of Directors, in their annual board retreat held on August 23 and 24, 2010, decided to rename and reconstitute the Governance and Compensation Committee and renamed it as the Nomination, Governance and Compensation Committee, with membership of only independent directors.

The Board at the aforesaid meeting also formed two new committees — the Science, Technology and Operations Committee and the Risk Management Committee — each of which has membership of only independent directors.

Audit Committee. Our management is primarily responsible for our internal controls and financial reporting process. Our independent registered public accounting firm is responsible for performing independent audits of our financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and for issuing reports based on such audits. The Board has entrusted the Audit Committee to supervise these processes and thus ensure accurate and timely disclosures that maintain the transparency, integrity and quality of financial controls and reporting.

The Audit Committee consists of the following three non-full time, independent directors:

- Dr. Omkar Goswami (Chairman);
- Ms. Kalpana Morparia; and
- Mr. Ravi Bhoothalingam.

Our Company Secretary is the Secretary of the Audit Committee. This Committee met on five occasions during the year ended March 31, 2011. Our independent registered public accounting firm was present at all Audit Committee meetings during the year.

The primary responsibilities of the Audit Committee are to:

- Supervise the financial reporting process;
- Review our financial results, along with the related public filings, before recommending them to the Board;
- Review the adequacy of our internal controls, including the plan, scope and performance of our internal audit function;
- Discuss with management our major policies with respect to risk assessment and risk management;
- Hold discussions with our independent registered public accounting firm 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 with listing requirements with respect to the financial statements;
- Recommend the appointment and removal of our independent registered public accounting firm and their fees;
- Review the independence of our independent registered public accounting firm;
- Ensure that adequate safeguards have been taken for legal compliance both for us and for our Indian and foreign subsidiaries;
- Review related party transactions;
- Review the functioning of our whistle blower policies and procedures; and
- Implement compliance with all applicable provisions of the Sarbanes-Oxley Act of 2002.

Governance and Compensation Committee. Prior to its reconstitution and renaming effective as of August 2010, the Governance and Compensation Committee considered and recommended to the Board the compensation of the full time directors and executives, and also reviewed the remuneration package that we offered to different grades/levels of our employees. The Compensation Committee also administered our Employee Stock Option Schemes.

The Governance and Compensation Committee consisted of the following non-full time, independent directors:

- Mr. Anupam Puri (Chairman);
- Dr. Bruce Carter;
- Dr. J.P. Moreau;
- Ms. Kalpana Morparia;
- Dr. Omkar Goswami; and
- Mr. Ravi Bhoothalingam.

The Global Chief of Human Resources was the Secretary of the Committee. The Governance and Compensation Committee met twice during the year ended March 31, 2011.

Nomination, Governance and Compensation Committee. The Board of Directors, in their annual board retreat held on August 23 and 24, 2010, decided to rename and reconstitute the Governance and Compensation Committee and renamed it as the Nomination, Governance and Compensation Committee, with membership of only independent directors. The primary function of the Nomination, Governance and Compensation Committee is to:

- Examine the structure, composition and functioning of the Board, and recommend changes, as necessary, to improve the Board's effectiveness;
- Assess our policies and processes in key areas of corporate governance, other than those explicitly assigned to other Board Committees, with a view to ensuring that we are at the forefront of good corporate governance; and
- Regularly examine ways to strengthen our organizational health, by improving the hiring, retention, motivation, development, deployment and behavior of management and other employees. In this context, the Committee also reviews the framework and processes for motivating and rewarding performance at all levels of the organization, the resulting compensation awards, and make appropriate proposals for Board approval. In particular, it recommends all forms of compensation to be granted to our directors, executive officers and senior management employees.

The Nomination, Governance and Compensation Committee also administers our Employee Stock Option Schemes. The Nomination, Governance and Compensation Committee consists of the following non-full time, independent directors:

- Mr. Anupam Puri (Chairman);
- Dr. Ashok S. Ganguly;
- Ms. Kalpana Morparia; and
- Mr. Ravi Bhoothalingam.

The Corporate Officer responsible for Human Resources is the Secretary of the Committee. The Nomination, Governance and Compensation Committee met two times during the year ended March 31, 2011.

Science, Technology and Operations Committee. The Board of Directors, in their annual board retreat held on August 23 and 24, 2010, had formed the Science, Technology and Operations Committee, with membership of only independent directors.

The primary function of the Science, Technology and Operations Committee is to:

- Advise the Board and our management on scientific, medical and technical matters and operations involving our development and discovery programs (generic and proprietary), including major internal projects, business development opportunities, interaction with academic and other outside research organizations;
- Assist the Board and our management to stay abreast of novel scientific and technologies developments and innovations and anticipate emerging concepts and trends in therapeutic research and development, to help assure that we make well-informed choices in committing our resources;
- Assist the Board and our management in creation of valuable intellectual property;
- Review the status of non-infringement patent challenges; and
- Assist the Board and our management in building and nurturing science in our organization in accordance with our business strategy.

The Science, Technology and Operations Committee consist of the following non-full time, independent directors:

- Dr. Ashok S. Ganguly (Chairman);
- Mr. Anupam Puri;
- Dr. Bruce L.A. Carter; and
- Dr. J.P. Moreau

The Corporate Officers heading Intellectual Property Development Operations, Proprietary Products and Biologics are the Secretary of the Committee with regard to their respective businesses. The Science, Technology and Operations Committee met two times during the year ended March 31, 2011.

Risk Management Committee. The Board of Directors, in their annual board retreat held on August 23 and 24, 2010, formed the Risk Management Committee with membership of only independent Directors.

The primary function of the Risk Management Committee is to:

- Ensure that it is apprised of the most significant risks along with the action management is taking and how it is ensuring effective Enterprise Risk Management;
- Discuss with senior management our Enterprise Risk Management and provide oversight as may be needed; and
- Review risk disclosure statements in any public documents or disclosures.

The Risk Management Committee consists of the following non-full time, independent directors:

- Dr. Bruce L.A. Carter (Chairman);
- Dr. J.P. Moreau; and
- Dr. Omkar Goswami

Our Chief Financial Officer is the Secretary of the Risk Management Committee. This Committee met on two occasions during the year ended March 31, 2011.

6.D. Employees

The following table sets forth the number of our employees as at March 31, 2011, 2010 and 2009.

As at March 31, 2011

	<u>North America</u>	<u>Europe</u>	<u>Rest of the World</u>	<u>Total</u>
Manufacturing ⁽¹⁾	232	74	5,992	6,298
Sales and Marketing ⁽²⁾	119	88	4,640	4,847
Research and Development	8	30	1,890	1,928
Others ⁽³⁾	61	159	1,630	1,850
Total	420	351	14,152	14,923

As at March 31, 2010

	<u>North America</u>	<u>Europe</u>	<u>Rest of the World</u>	<u>Total</u>
Manufacturing ⁽¹⁾	163	53	5,524	5,740
Sales and Marketing ⁽²⁾	102	88	3,873	4,063
Research and Development	6	27	1,753	1,786
Others ⁽³⁾	44	231	1,591	1,866
Total	315	399	12,741	13,455

As at March 31, 2009

	North America	Europe	Rest of the World	Total
Manufacturing ⁽¹⁾	105	89	3,686	3,880
Sales and Marketing ⁽²⁾	85	235	3,594	3,914
Research and Development	18	24	1,455	1,497
Others ⁽³⁾	121	197	1,619	1,937
Total	329	545	10,354	11,228

(1) Includes quality, technical services and warehouse.

(2) Includes business development.

(3) Includes shared services, corporate business development and the intellectual property management team.

We have not experienced any material work stoppages in the last two fiscal years and we consider our relationship with our employees and labor unions to be good. Approximately 8% of our employees belong to labor unions. We did not experience any strikes at our manufacturing facilities in the years ended March 31, 2011 and 2010.

6.E. Share ownership

The following table sets forth, as of March 31, 2011 for each of our directors and executive officers, the total number of our equity shares and options owned by them:

Name	No. of Shares Held (1), (3)	% of Outstanding Capital	No. of Options Held
Dr. K. Anji Reddy (2),(4)	600,956	0.36%	—
Mr. G.V. Prasad (4)	1,365,840	0.81%	—
Mr. Satish Reddy (4)	1,205,832	0.71%	—
Mr. Anupam Puri (ADRs)(5)	16,498	0.01%	2,402
Dr. J.P. Moreau (ADRs)(5)	6,000	—	2,400
Dr. Omkar Goswami(5)	18,000	0.01%	2,400
Ms. Kalpana Morparia(5)	6,000	—	2,400
Mr. Ravi Bhoothalingam(5)	18,000	0.01%	2,400
Dr. Bruce L.A. Carter (ADRs)(5)	7,000	—	2,400
Dr. Ashok S. Ganguly(5)	—	—	2,400
Abhijit Mukherjee	28,093	0.01%	20,000
Amit Patel	—	—	13,375
Cartikeya Reddy	5,575	—	11,750
K. B. Sankara Rao	64,438	0.04%	11,250
R. Ananthanarayanan	—	—	—
Saumen Chakraborty	24,500	0.02%	18,500
Umang Vohra	5,990	—	10,750
Vilas M. Dholye	1,910	—	8,750
Dr. Raghav Chari	—	—	9,500

(1) Shares held in their individual name only.

(2) Does not include shares held beneficially. See Item 7.A. for beneficial ownership of shares by this individual.

(3) All shares have voting rights.

(4) Not eligible for grant of Stock Options.

(5) These options were granted in the years ended March 31, 2010 and 2011 with an exercise price of ₹5 each. These options vests at the end of one year from the date of grant and expire at the end of five years from the date of vesting.

Employee Stock Incentive Plans

We have adopted a number of stock option incentive plans covering either our ordinary shares or our ADSs, and we are currently operating under the Dr. Reddy's Employees Stock Option Plan-2002 and the Dr. Reddy's Employees ADR Stock Option Plan-2007. In the year ended March 31, 2011, options to purchase ordinary shares and ADSs were awarded to various executive officers and directors under these two plans as follows: an aggregate of 342,730 options were granted having an average exercise price of ₹5 per share or ADS and no options were granted at a fair market value based exercise price. Each option granted had an expiration date of five years from the vesting date, and each grant (excluding the grants to Board members, which vest in one year) provided for time-based vesting in 25% increments over four years. As of March 31, 2011, options were outstanding under these two plans for an aggregate of approximately 821,720 shares and ADSs with an average exercise price of ₹5 per share or ADS and approximately 21,000 shares and ADSs with an average exercise price of ₹444 per share or ADS.

In addition, our subsidiary Aurigene Discovery Technologies Limited ("Aurigene") adopted the Aurigene Discovery Technologies Ltd. Employee Stock Option Plan 2003 to provide for issuance of stock options to eligible employees of Aurigene and its subsidiary, Aurigene Discovery Technologies Inc. In the year ended March 31, 2011, no options were awarded under this plan. As of March 31, 2011, options were outstanding under this plan for an aggregate of approximately 1,009,090 shares of Aurigene with an average exercise price of ₹11.94 per share.

For the years ended March 31, 2011 and 2010, ₹265 million and ₹226 million, respectively, has been recorded as employee share-based payment expense under all of our employee stock incentive plans. As of March 31, 2011, there was approximately ₹167 million of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of 2.59 years.

For further information regarding our options and stock option incentive plans, see Note 20 to our consolidated financial statements.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. Major shareholders

All of our equity shares have the same voting rights. As of March 31, 2011, a total of 25.65% of our equity shares were held by the following parties:

- Dr. K. Anji Reddy (Chairman),
- Mr. G.V. Prasad (Vice Chairman and Chief Executive Officer),
- Mr. Satish Reddy (Managing Director and Chief Operating Officer),
- Mrs. K. Samrajyam, wife of Dr. K. Anji Reddy, and Mrs. G. Anuradha, wife of Mr. G.V. Prasad (hereafter collectively referred as the "Family Members"), and
- Dr. Reddy's Holdings Limited (formerly known as Dr. Reddy's Holdings Private Limited) (a company in which Dr. K. Anji Reddy owns 40% of the equity and the remainder is held by Mr. G.V. Prasad, Mr. Satish Reddy and the Family Members).

The following table sets forth information regarding the beneficial ownership of our shares by the foregoing persons as of March 31, 2011:

Name	Equity Shares Beneficially Owned (1)	
	Number of Shares	Percentage of Shares
Dr. K. Anji Reddy (2)	39,729,284	23.47%
Mr. G.V. Prasad	1,365,840	0.81%
Mr. Satish Reddy	1,205,832	0.71%
Family Members	1,116,856	0.66%
Subtotal	43,417,812	25.65%
Others/public float	125,834,920	74.35%
Total number of shares outstanding	169,252,732	100.00%

- (1) Beneficial ownership is determined in accordance with rules of the U.S. Securities and Exchange Commission, which provides that shares are beneficially owned by any person who has or shares voting or investment power with respect to the shares. All information with respect to the beneficial ownership of any principal shareholder has been furnished by that shareholder and, unless otherwise indicated below, we believe that persons named in the table have sole voting and sole investment power with respect to all shares shown as beneficially owned, subject to community property laws where applicable.
- (2) Dr. Reddy's Holdings Limited owns 39,128,328 of our equity shares. Dr. K. Anji Reddy owns 40% of Dr. Reddy's Holdings Limited. The remainder is owned by Mr. G.V. Prasad, Mr. Satish Reddy and the Family Members. The entire amount beneficially owned by Dr. Reddy's Holdings Limited is included in the amount shown as beneficially owned by Dr. K. Anji Reddy. An aggregate of 2,100,000 of such equity shares held by Dr. Reddy's Holdings Limited were pledged as on March 31, 2011.

As otherwise stated above and to the best of our knowledge, we are not owned or controlled directly or indirectly by any government or by any other corporation or by any other natural or legal persons. We are not aware of any arrangement, the consummation of which may at a subsequent date result in a change in our control.

The following shareholders held more than 5% of our equity shares as of:

Name	March 31, 2011		March 31, 2010		March 31, 2009	
	No. of equity shares held	% of equity shares held	No. of equity shares held	% of equity shares held	No. of equity shares held	% of equity shares held
Dr. Reddy's Holdings Limited	39,128,328	23.12	39,128,328	23.17	39,978,328	23.74
Life Insurance Corporation of India and its associates	13,579,378	8.02	18,871,794	11.18	21,723,498	12.89

As of March 31, 2011, we had 169,252,732 outstanding equity shares. As of March 31, 2011, there were 79,790 record holders of our equity shares listed and traded on the Indian stock exchanges. Our American Depositary Shares ("ADSs") are listed on the New York Stock Exchange. One ADS represents one equity share of ₹5 par value per share. As of March 31, 2011, 18.74% of our issued and outstanding equity shares were held by ADS holders. On March 31, 2011 we had approximately 14,272 ADS holders of record in the United States.

7.B. Related party transactions

We have entered into transactions with the following related parties:

- Green Park Hotel and Resorts Limited (formerly known as Diana Hotels Limited) for hotel services;
- A.R. Life Sciences Private Limited for processing services of raw materials and intermediates;
- Dr. Reddy's Holdings Limited for the purchase and sale of active pharmaceutical ingredients;

- Dr. Reddy's Foundation for Human and Social Development towards contributions for social development;
- Institute of Life Science towards contributions for social development;
- K.K. Enterprises for packaging services for formulation products;
- SR Enterprises for transportation services; and
- Dr. Reddy's Laboratories Gratuity Fund.

These are enterprises over which key management personnel have control or significant influence ("significant interest entities"). Additionally, we have also provided and taken loans and advances from significant interest entities.

We have also entered into cancellable operating lease transactions with our directors and their relatives.

The following is a summary of significant related party transactions:

	(Amounts in ₹ millions)		
	Year Ended March 31,		
	2011	2010	2009
Purchases from significant interest entities in the ordinary course	₹ 486	₹ 275	₹ 290
Sales to significant interest entities in the ordinary course	391	156	135
Services to significant interest entities	—	4	—
Contribution to a significant interest entity towards social development and research and development	125	151	124
Hotel expenses paid to significant interest entities	20	13	13
Advances paid to significant interest entities for purchase of land ⁽¹⁾	—	367	400
Short term loan taken from and repaid to significant interest entities	—	—	60
Interest paid on loan taken from significant interest entities	—	—	2
Compensation paid to key management personnel	494	511	460
Lease rental paid under cancellable operating leases to directors and their relatives	29	27	26

⁽¹⁾ This does not include amounts paid as at March 31, 2011, 2010 and 2009 of ₹0 million, ₹1,447 million and ₹1,080 million, respectively, as advances towards the purchase of land from significant interest entities, which has been recorded under capital work-in-progress in our statement of financial position.

The above table does not include the following transactions between us and our key management personnel:

- During the year ended March 31, 2010, we exchanged a parcel of land owned by us for another parcel of land of equivalent size that adjoins our research facility, owned by our key management personnel. We concluded that this exchange transaction lacks commercial substance and have accordingly recorded the land acquired at the carrying amount of the land transferred, with no profit or loss being recorded.
- During the year ended March 31, 2010, we purchased land from a significant interest entity for a purchase price of ₹21 million.

We have the following amounts due from related parties:

	(Amounts in ₹ millions)	
	As at March 31,	
	2011	2010
Significant interest entities	₹ 114	₹ 44
Key management personnel	5	5

The above table as at March 31, 2011 and 2010 does not include amount of ₹0 million and ₹1,447 million, respectively, paid as an advance towards the purchase of land from a significant interest entity, which has been disclosed under capital work-in-progress in the statements of financial position in our consolidated financial statements.

As at March 31, 2010, we had advanced ₹1,447 million for the purchase of land from a significant interest entity, which was disclosed as part of capital work-in-progress and included in the property, plant and equipment in our audited consolidated financial statements for the year ended March 31, 2010. The acquisition of such land was expected to be consummated through the acquisition of shares of a special purpose entity that was formed through a court approved scheme of arrangement during the year ended March 31, 2010.

During the year ended March 31, 2011, we completed the acquisition of this special purpose entity and therefore obtained control over the land. Consequently, an amount of ₹1,447 million has been classified out of “capital work-in-progress” and included as cost of land acquired as at March 31, 2011.

We have the following amounts due to related parties:

	(Amounts in ₹ millions)	
	As at March 31,	
	2011	2010
Significant interest entities	₹ 81	₹ 20

7.C. Interests of experts and counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8.A. Consolidated statements and other financial information

The following financial statements and auditors’ report appear under Item 18 of this Annual Report on Form 20-F and are incorporated herein by reference:

- Report of Independent Registered Public Accounting Firm
- Consolidated statement of financial position as of March 31, 2011 and 2010
- Consolidated income statement for the years ended March 31, 2011, 2010 and 2009
- Consolidated statement of comprehensive income/(loss) for the years ended March 31, 2011, 2010 and 2009
- Consolidated statement of changes in equity for the years ended March 31, 2011, 2010 and 2009
- Consolidated cash flow statement for the years ended March 31, 2011, 2010 and 2009
- Notes to the consolidated financial statements

Our financial statements included in this Annual Report on Form 20-F have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The financial statements included herein are for our three most recent fiscal years.

Amount of Export Sales

For the year ended March 31, 2011, our export revenues were ₹57,469 million, and accounted for 82% of our total revenues.

Legal Proceedings

We are involved in disputes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings, including patent and commercial matters that arise from time to time in the ordinary course of business. The more significant matters are discussed below.

Most of the claims involve complex issues. Often, these issues are subject to uncertainties and therefore the probability of a loss, if any, being sustained and an estimate of the amount of any loss are difficult to ascertain. Consequently, for a majority of these claims, it is not possible to make a reasonable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings. This is due to a number of factors including: the stage of the proceedings (in many cases trial dates have not been set) and the overall length and extent of pre-trial discovery; the entitlement of the parties to an action to appeal a decision; clarity as to theories of liability; damages and governing law; uncertainties in timing of litigation; and the possible need for further legal proceedings to establish the appropriate amount of damages, if any.

In these cases, we disclose information with respect to the nature and facts of the case. We also believe that disclosure of the amount sought by plaintiffs, if that is known, would not be meaningful with respect to those legal proceedings.

However, although there can be no assurance regarding the outcome of any of the legal proceedings or investigations referred to in this Section 8.A., we do not expect any such legal proceedings or investigations to have a materially adverse effect on our financial position. However, if one or more of such proceedings were to result in judgments against us, such judgments could be material to our results of operations in a given period.

Product and patent related matters

Norfloxacin litigation

We manufacture and distribute Norfloxacin, a formulations product. Under the Drugs Prices Control Order, 1995 (the "DPCO"), the Government of India has the authority to designate a pharmaceutical product as a "specified product" and fix the maximum selling price for such product. In 1995, the Government of India issued a notification and designated Norfloxacin as a "specified product" and fixed the maximum selling price. In 1996, we filed a statutory Form III before the Government of India for the upward revision of the maximum selling price and a legal suit in the Andhra Pradesh High Court (the "High Court") challenging the validity of the designation on the grounds that the applicable rules of the DPCO were not complied with while fixing the maximum selling price. The High Court had previously granted an interim order in our favor; however, it subsequently dismissed the case in April 2004. We filed a review petition in the High Court in April 2004, which was also dismissed by the High Court in October 2004. Subsequently, we appealed to the Supreme Court of India, New Delhi (the "Supreme Court") by filing a Special Leave Petition, which is currently pending.

During the year ended March 31, 2006, we received a notice from the Government of India demanding the recovery of the price which we charged for sales of Norfloxacin in excess of the maximum selling price fixed by the Government of India, amounting to ₹285 million including interest thereon. We filed a writ petition in the High Court challenging this demand order. The High Court admitted the writ petition and granted an interim order, directing us to deposit 50% of the principal amount claimed by the Government of India, which amounted to ₹77 million. We deposited this amount with the Government of India in November 2005 and are awaiting the outcome of our appeal with the Supreme Court. In February 2008, the High Court directed us to deposit an additional amount of ₹30 million, which was deposited by us in March 2008. We have fully provided for the potential liability related to the principal amount demanded by the Government of India. In the event that we are unsuccessful in our litigation in the Supreme Court, we will be required to remit the sale proceeds in excess of the maximum selling price to the Government of India including penalties or interest, if any, which amounts are not readily ascertainable.

Fexofenadine United States litigation

In April 2006, we launched its fexofenadine hydrochloride 30 mg, 60 mg and 180 mg tablet products, which are generic versions of Sanofi-Aventis' ("Aventis") Allegra® tablets. We are presently defending patent infringement actions brought by Aventis and Albany Molecular Research ("AMR") in the United States District Court for the District of New Jersey. There are three formulation patents, three method of use patents, and three synthetic process patents which are at issue in the litigation. We have obtained summary judgment with respect to two of the formulation patents. Teva Pharmaceuticals Industries Limited ("Teva") and Barr Pharmaceuticals, Inc. ("Barr") were defending a similar action in the same court. In September 2005, pursuant to an agreement with Barr, Teva launched its fexofenadine hydrochloride 30 mg, 60 mg and 180 mg tablet products, which are AB-rated (bioequivalent) to Aventis' Allegra® tablets. Aventis brought patent infringement actions against Teva and its active pharmaceutical ingredients ("API") supplier in the United States District Court for the District of New Jersey. There were three formulation patents, three use patents, and two API patents at issue in the litigation. Teva obtained summary judgment in respect of each of the formulation patents. On January 27, 2006, the District Court denied Aventis' motion for a preliminary injunction against Teva and its API supplier on the three use patents, finding those patents likely to be invalid, and one of the API patents, finding that patent likely to be not infringed. The issues presented during Teva's hearing are likely to be substantially similar to those which will be presented with respect to our fexofenadine hydrochloride tablet products. Subsequent to the preliminary injunction hearing, Aventis sued Teva and Barr for infringement of a new patent claiming polymorphic forms of fexofenadine.

We utilize an internally developed polymorph and have not been sued for infringement of the new patent. On November 18, 2008, Teva and Barr announced settlement of their litigation with Aventis. On September 9, 2009, AMR added a new process patent to the litigation. This new process patent is related to the manufacturing of the active ingredient contained in the group of tablets being sold under the Allegra® franchise (which include Allegra®, Allegra-D 12® and Allegra-D 24®).

Subsequent to our receipt of the U.S. FDA approval in March 2010 for our ANDA relating to fexofenadine-pseudoephedrine higher strength (the generic version of Allegra-D 24®), AMR and Aventis sought a preliminary injunction against us in the District Court of New Jersey to withhold the launch of our generic version of Allegra D24® product in the U.S. market, arguing that they were likely to prevail on their claim that we infringed AMR's U.S. Patent No. 7,390,906. In June 2010, the District Court of New Jersey issued the requested preliminary injunction against us. Sanofi-Aventis and AMR posted security of U.S \$40 with the District Court of New Jersey towards the possibility that the injunction had been wrongfully granted. The security posted shall remain in place until further order of the Court. Pending the final outcome of the case, we have not recorded any asset in our consolidated financial statements in connection with this product in the United States.

On January 28, 2011, the District Court of New Jersey ruled that, based on Sanofi-Aventis and AMR's likely inability to prove infringement by our products, the preliminary injunction issued in June 2010 should be dissolved. However, Aventis and AMR have the right to appeal this order in the Federal Circuit of the United States Court of Appeals. We subsequently launched sales of our generic version of Allegra-D 24®. Although the preliminary injunction has been removed, all such sales are at risk pending final resolution of the litigation. Additionally, on April 27, 2011, a trial was held regarding two of the listed formulation patents 6039974 and 5738872 (on Allegra® and Allegra-D 12® products) that were asserted against us. We presented non-infringement and invalidity arguments for both. A decision on this trial is not expected until July 2011. If Aventis and AMR are ultimately successful in their allegation of patent infringement, we could be required to pay damages related to fexofenadine hydrochloride and fexofenadine-pseudoephedrine tablet sales made by us, and could also be prohibited from selling these products in the future.

Alendronate Sodium, Germany litigation

In February 2006, MSD Overseas Manufacturing Co. ("MSD"), an entity affiliated with Merck & Co. Inc. ("Merck"), initiated infringement proceedings against betapharm before the German Civil Court of Mannheim alleging infringement of the supplementary protection certificate on the basic patent for Fosamax® (MSD's brand name for alendronate sodium) (the "first MSD patent"). betapharm and some other companies are selling generic versions of this product in Germany. MSD's patent, which expired in April 2008, was nullified in June 2006 by the German Federal Patent Court. However, MSD filed an appeal against this decision at the German Federal Supreme Court. The German Civil Court of Mannheim decided to stay the proceedings against betapharm until the German Federal Supreme Court has decided upon the validity of the patent.

In March 2007, the European Patent Office granted Merck a patent, which will expire on July 17, 2018 covering the use of alendronate sodium for the treatment of osteoporosis (the "second MSD patent"). betapharm filed protective writs to prevent a preliminary injunction without a hearing. betapharm also filed an opposition against this new patent at the European Patent Office which revoked the second MSD patent on March 18, 2009. Merck filed notice of appeal of such revocation. In August 2007, Merck initiated patent infringement proceedings against betapharm before the German civil court of Düsseldorf, which decided to stay the proceedings until a final decision of the European Patent Office is rendered.

There are other jurisdictions within Europe where the second MSD patent has already been revoked. As a result of this, we continue selling our generic version of Fosamax[®]. If Merck is ultimately successful in its allegations of patent infringement, we could be required to pay damages related to sales of our generic version of Fosamax[®] in Germany, and could also be prohibited from selling these products in the future.

On May 9, 2011, betapharm signed a settlement agreement with Merck, MSD's parent, releasing each party from all past, present or future claims arising directly or indirectly with respect to the litigation regarding the first MSD patent and the second MSD patent, without any financial or legal liability. With this settlement, all litigation with respect to these patents and the related products in Germany has ended.

Oxycodon, Germany litigation

We have been selling "Oxycodon beta" (generic oxycontin) in Germany since 2007. We have for some time been aware of litigation with respect to one of our suppliers and licensors of generic oxycontin, who has also been supplying this product to several other generic pharmaceutical companies in Germany. In April 2007, there were nullity/opposition as well as infringement proceedings filed separately against this supplier on two formulation patents by the innovator.

Subsequently, our supplier and all licensees had jointly filed a nullity petition at the German Federal Patent Court. During the nullity proceedings, in the case of the first patent, the Federal Patent Court in 2009 revoked the patent. The innovator appealed this decision and currently this proceeding is pending at the Federal Court of Justice. On the second patent, opposition was filed by various parties with the Opposition Division, and in its oral proceedings in April 2008, the Division maintained the patent. Appeals of this decision were filed by both the patentee and the opponents (including our supplier) and oral proceedings took place in October 2009 and October 2010. In October 2010, the Board of Appeal referred this to an enlarged Board and its decision is currently pending.

The innovator has since then also filed an infringement action for both of the two formulation patents against our supplier in the German Civil Court of Mannheim as well as in Switzerland (where the product is manufactured). The German court in Mannheim in its first decision in August 2008 held that our supplier's product was non-infringing. This decision was appealed by the innovator to the higher District Court of Karlsruhe, and a decision on this appeal is expected to be issued later in 2011.

In the second week of January 2011, the innovator initiated a separate (secondary) legal action against us. It is understood that a similar action has also been initiated against all other licensees and that such an action is only a legal/procedural matter and does not have any change in impact on the main cases. We have also signed a cost sharing agreement under which the supplier will share a portion of the losses resulting from any innovator damage claim. As of March 31, 2011, based on a legal evaluation, we continue to sell this product.

Olanzapine, Canada litigation

We supply certain generic products, including olanzapine tablets (the generic version of Eli Lilly's Zyprexa[®] tablets), to Pharmascience, Inc. for sale in Canada. Several generic pharmaceutical manufacturers have challenged the validity of the Zyprexa[®] patents in Canada. In June 2007, the Canadian Federal Court held that the invalidity allegation of one such challenger, Novopharm Ltd., was justified and denied Eli Lilly's request for an order prohibiting sale of the product. Eli Lilly responded by suing Novopharm for patent infringement. Eli Lilly also sued Pharmascience for patent infringement, but that litigation was dismissed after the parties agreed to be bound by the final outcome in the Novopharm case. As reflected in Eli Lilly's regulatory filings, the settlement allows Pharmascience to market olanzapine tablets subject to a contingent damages obligation should Eli Lilly be successful in its litigation against Novopharm. Our agreement with Pharmascience includes a provision under which we share a portion of all cost and expense incurred as a result of settling lawsuits or paying damages that arise as a consequence of selling the products. For the preceding reasons, we are exposed to potential damages in an amount that may equal our profit share derived from sale of the product.

During October, 2009, the Canadian Federal Court decided in the Novopharm case that Eli Lilly's patent for Zyprexa® is invalid. On November 3, 2009, Eli Lilly filed an appeal. This decision was, however, reversed in part by the Canadian Federal Court of Appeal on July 21, 2010 and remanded for further consideration. We continue to sell the product to Pharmascience. Because the Canadian Federal Court's decision on Eli Lilly's appeal is pending, management continues to believe that the outcome of this litigation cannot be predicted. However, if Eli Lilly is ultimately successful in its allegations of patent infringement against Novopharm, we could be required to repay Pharmascience a portion of the damages it incurs related to the above product sales.

Ceragenix Bankruptcy Litigation

In November 2007, we entered into a Distribution and Supply Agreement with Ceragenix Pharmaceuticals, Inc. and Ceragenix Corporation (collectively, "Ceragenix."). Under this agreement, we made up-front and milestone payments of U.S.\$5 million and commenced distribution of the dermatological product EpiCeram®, a skin barrier emulsion device, in the United States and its territories. As of March 31, 2011, we carried a balance intangible value of U.S.\$2.8 million relating to these payments.

In June 2010, Ceragenix (both entities) filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code. In July 2010, Ceragenix filed a motion for entry of an interim order and, subsequently, filed a motion for entry of a final order authorizing the execution of an asset purchase agreement (executed on November 10, 2010) with PuraCap Pharmaceutical LLC to sell, among other things, the patent rights, certain business assets and intellectual property relating to EpiCeram® and to terminate our rights under the Distribution and Supply Agreement. We objected to the proposed sale and termination on various grounds and Ceragenix withdrew the motion. On June 24, 2011, the United States Bankruptcy Court for the District of Colorado permitted Ceragenix to sell the patent rights, certain business assets and intellectual property relating to EpiCeram® to PuraCap Pharmaceutical LLC and to terminate our rights under the Distribution and Supply Agreement. However the court had ordered Ceragenix to pay U.S.\$2.75 million to us, out of the sales proceeds of the above mentioned assets and intellectual property, as compensation for the termination of the Distribution and Supply Agreement.

Styptovit-K litigation

During the first quarter of the year ended March 31, 2011, the Competition Appellate Tribunal of India issued a preliminary notice of inquiry alleging that we engaged in an unfair trade practice with respect to the manufacture and marketing of Styptovit and Styptovit-K (our branded versions of adrenochrome monosemicarbazone-ascorbic acid-calcium phosphate-menadione-rutin) by launching new versions of these products which omitted any active pharmaceutical ingredients which would have caused them to be subject to price control under Indian law. On December 1, 2010, the Competition Appellate Tribunal of India dismissed the case.

Environmental matter

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 Bollaram areas of Medak district of Andhra Pradesh. We have been named in the list of polluting industries along with 229 others. In 1996, the Andhra Pradesh District Judge proposed that the polluting industries compensate farmers in the Patancheru, Bollaram and Jeedimetla areas for discharging effluents which damaged the farmers' agricultural land. The compensation was fixed at ₹1.30 million per acre for dry land and ₹1.70 million per acre for wet land. Accordingly, we have paid total compensation of ₹3 million. The matter is pending in the courts and the possibility of additional liability is remote. We would not be able to recover the compensation paid, even if the decision of the court is in our favor.

Indirect taxes related matter

During the year ended March 31, 2003, the Central Excise Authorities of India (the "Authorities") issued a demand notice to one of our vendors regarding the assessable value of products supplied by this vendor to us. We were named as a co-defendant in this demand notice. The Authorities demanded payment of ₹176 million from the vendor, including penalties of ₹90 million. Through the same notice, the Authorities issued a penalty claim of ₹70 million against us. During the year ended March 31, 2005, the Authorities issued an additional notice to this vendor demanding ₹226 million from the vendor, including penalty of ₹51 million.

Through the same notice, the Authorities issued a penalty claim of ₹7 million against us. Furthermore, during the year ended March 31, 2006, the Authorities issued an additional notice to this vendor demanding ₹34 million. We have filed appeals against these notices. In August and September 2006, we attended the hearings conducted by the Customs, Excise and Service Tax Appellate Tribunal (the “CESTAT”) on this matter. In October 2006, the CESTAT passed an order in our favor setting aside all of the above demand notices. In July 2007, the Authorities appealed against CESTAT’s order in the Supreme Court of India, New Delhi. The matter is pending in the Supreme Court of India, New Delhi.

Regulatory matters

In November 2007, the Attorneys General of the State of Florida and the Commonwealth of Virginia each issued subpoenas to our U.S. subsidiary, Dr. Reddy’s Laboratories, Inc. (“DRLI”). In March 2008, the Attorney General of the State of Michigan issued a Civil Investigative Demand (“CID”) to DRLI. These subpoenas and the CID generally required the production of documents and information relating to the development, sales and marketing of the products ranitidine, fluoxetine and buspirone, all of which were sold by Par Pharmaceuticals Inc. (“Par”) pursuant to an agreement between Par and DRLI. DRLI has responded to the initial requests. On July 8, 2011, we were notified that the Attorneys General intended to conclude their respective investigations on the matter, and that we would be voluntarily dismissed without prejudice from the legal action.

Other

Additionally, we and our affiliates are involved in other disputes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings, including patent and commercial matters that arise from time to time in the ordinary course of business. We do not believe that there are any such pending matters that will have any material adverse effect on our financial position, results of operations or cash flows in any given accounting period.

Dividend Policy

In the years ended March 31, 2009, 2010 and 2011, we paid cash dividends of ₹3.75, ₹6.25 and ₹11.25, respectively, per equity share. Every year our Board of Directors recommends the amount of dividends to be paid to shareholders, if any, based upon conditions then existing, including our earnings, financial condition, capital requirements and other factors. In our Board of Directors’ meeting held on May 13, 2011, the Board of Directors proposed a dividend in the aggregate amount of ₹2,214 million (including an aggregate amount of ₹309 million to pay the dividend tax imposed on the distribution of such dividends), which would amount to a total dividend per share of ₹11.25. The Board’s dividend proposal is subject to the approval of our shareholders.

Holders of our ADSs are entitled to receive dividends payable on the equity shares represented by such ADSs. Cash dividends on equity shares represented by ADSs are paid to the depository in Indian rupees and are converted by the depository into U.S. dollars and distributed, net of depository fees, taxes, if any, and expenses, to the holders of such ADSs.

Bonus Debentures

On March 31, 2010, our Board of Directors approved a scheme for the issuance of bonus debentures (“in-kind”, i.e., for no cash consideration) to our shareholders to be effected by way of capitalization of our retained earnings. The scheme was subject to the successful receipt of necessary approvals of our shareholders, the High Court of Andhra Pradesh, India and other identified regulatory authorities as mentioned in the scheme. All necessary approvals to effectuate the scheme, including that of the High Court, were received during the year ended March 31, 2011. Accordingly, on March 24, 2011, we issued these debentures to the shareholders of our Company. A summary of the terms of the issuance is as follows:

- Fully paid up bonus debentures carrying a face value of ₹5 each were issued to our shareholders in the ratio of 6 bonus debentures for each equity share held by such shareholder on March 18, 2011.
- The bonus debentures are unsecured and are not convertible into our equity shares.

- We delivered cash in the aggregate value of the bonus debentures into an escrow account of a merchant banker in India appointed by our Board of Directors. The merchant banker received such amount for and on behalf of and in trust for the shareholders who are entitled to receive bonus debentures. Upon receipt of such amount, the merchant banker paid the amount to us, for and on behalf of the shareholders as consideration for the allotment of debentures to them.
- These bonus debentures have a maturity of 36 months, at which time we must redeem them for cash in an amount equal to the face value of ₹5 each, plus unpaid interest, if any.
- These bonus debentures carry an interest rate of 9.25% per annum, payable at the end of every 12, 24 and 36 months from the date of issue.
- These bonus debentures are listed on stock exchanges in India so as to provide liquidity for the holders.
- Issuance of these bonus debentures will be treated as a “deemed dividend” under section 2 (22) (b) of the Indian Income Tax Act, 1961 and accordingly, we will be required to pay a dividend distribution tax.
- Under Indian Corporate Law and as per the terms of the approved bonus debenture scheme, we have created a statutory reserve (the “Debenture Redemption Reserve”) in which we are required to deposit a portion of our profits made during each year prior to the maturity date of the bonus debentures until the aggregate amount retained in such reserve equals 50% of the face value of the debentures then issued and outstanding. The funds in the Debenture Redemption Reserve shall be used only to redeem the debentures for so long as they are issued and outstanding.

We have accounted for the issuance of such debentures as a pro-rata distribution to the owners acting in their capacity as owners on a collective basis. Accordingly, we have measured the value of such financial instrument at fair value on the date of issuance which corresponds to the value of the bonus debentures issued on March 24, 2011. We have disclosed the issuances as a reduction from retained earnings in the consolidated statement of changes in equity with a corresponding credit to “loans and borrowings” for the value of the financial liability recognized. Furthermore, in relation to the above mentioned scheme, we incurred costs of ₹51 million in directly attributable transaction costs payable to financial advisors. This amount has been accounted for as a reduction from the bonus debenture liability on the date of issuance of the bonus debentures and is being amortized over a period of three years using the effective interest rate method. The associated cash flows for the delivery of cash to the merchant banker and the subsequent receipt of the same for and on behalf of the shareholders upon issuance of the bonus debentures has been disclosed separately in the consolidated statement of cash flows as part of financing activities.

Further, the dividend distribution tax paid by us on behalf of the owners in the amount of ₹843 million has been recorded as part of a reduction from retained earnings in the consolidated statement of changes in equity for the year ended March 31, 2011. We have set aside ₹19 million in debenture redemption reserves out of the profits made during the year ended March 31, 2011 and have recorded such transfer in the consolidated statement of changes in equity for the year ended March 31, 2011.

The regulatory framework in India governing issuance of ADRs by an Indian company does not permit the issuance of ADRs with any debt instrument (including non-convertible rupee denominated debentures) as the underlying security. Therefore, the depository of our ADRs (the “Depository”) cannot issue depository receipts (such as ADRs) with respect to the bonus debentures issued under our scheme. Therefore, in accordance with the deposit agreement between us and the Depository, the bonus debentures issuable in respect of the shares underlying our ADRs have been distributed to the Depository, who sold such bonus debentures on April 8, 2011. The Depository converted the net proceeds from such sale into U.S. dollars and, on June 23, 2011, distributed all such U.S. dollars, less any applicable taxes, fees and expenses incurred and/or provided for under the Deposit Agreement, to the registered holders of ADRs entitled thereto in the same manner as it would ordinarily distribute cash dividends under the deposit agreement.

8.B. Significant changes

Alendronate Sodium, Germany litigation

On May 9, 2011, our wholly-owned subsidiary betapharm signed a settlement agreement with Merck & Co. Inc., parent of MSD Overseas Manufacturing Co., releasing each party from all past, present or future claims arising directly or indirectly with respect to the two patents relating to alendronate sodium which had been the subject of litigations between them, without any financial or legal liability. With this settlement, all litigation with respect to these patents and the related products in Germany has ended. For additional details, please see Item 8.a. above under the heading “*Legal Proceedings — Product and patent related matters — Alendronate Sodium, Germany litigation*”.

Ceragenix Bankruptcy Litigation

On June 24, 2011, the United States Bankruptcy Court for the District of Colorado permitted Ceragenix Pharmaceuticals, Inc. and Ceragenix Corporation (collectively, “Ceragenix”) to sell the patent rights, certain business assets and intellectual property relating to the dermatological product EpiCeram® to PuraCap Pharmaceutical LLC and to terminate our rights under our Distribution and Supply Agreement with Ceragenix. However, the court ordered Ceragenix to pay U.S.\$2.75 million to us, out of the sales proceeds of the above mentioned assets and intellectual property, as compensation for the termination of the Distribution and Supply Agreement. For additional details, please see Item 8.a. above under the heading “*Legal Proceedings — Product and patent related matters — Ceragenix Bankruptcy Litigation*”.

Voluntary retirement scheme

On June 20, 2011, we announced a voluntary retirement scheme (i.e., a termination benefit) applicable to certain eligible employees of our parent company. As per the scheme, employees whose voluntary retirement is accepted by us will be paid an amount computed based on the methodology mentioned in the scheme, with the maximum amount restricted to ₹0.8 million per employee. The financial impact of termination benefits amount is expected to be approximately ₹135 million.

Letter from the U.S. Food and Drug Administration

The U.S. FDA inspected our Cuernavaca facility in Mexico in November 2010 and issued to us a Form 483 with observations. We responded to the Form 483 observations by implementing a number of corrective actions. On June 3, 2011, the U.S. FDA issued to us a warning letter asking for additional data and corrective actions to the four items listed in the warning letter. Additionally, on June 28, 2011, the U.S. FDA posted on its website an import alert, or Detention Without Physical Examination (“DWPE”) alert. The Mexico facility produces intermediates and active pharmaceutical ingredients and steroids. As a consequence of the DWPE alert, our Mexico facility will not be able to export intermediates and active pharmaceutical ingredients and steroids to U.S. customers until such time as the concerns raised by the U.S. FDA in their warning letter are addressed to their satisfaction and the DWPE alert is lifted. The impact to our revenues for the year ending March 31, 2012 from API sales to U.S. customers affected by this DWPE, and to our generic products which include API impacted by this DWPE, would not be material to our business as a whole even if the DWPE remained in effect throughout the year ending March 31, 2012. Further details of the warning letter and the DWPE alert are available on the U.S. FDA website.

We responded to the U.S. FDA’s warning letter within the stipulated time-frame. We are working collaboratively with the U.S. FDA to resolve the matters contained in the warning letter. Nonetheless, we cannot be assured that satisfying the U.S. FDA’s concerns will not take longer than currently anticipated or that the U.S. FDA will not request additional corrective actions that would result in the DWPE remaining in effect longer than currently anticipated.

Approval for Fondaparinux Sodium Injection

On July 11, 2011, the United States Food and Drug Administration (“U.S. FDA”) approved our abbreviated new drug application (“ANDA”) for fondaparinux sodium injection. We are in the process of launching the product in the United States. Fondaparinux is a generic version of GlaxoSmithKline plc’s Arixtra® injection.

ITEM 9. THE OFFER AND LISTING

9.A. Offer and listing details

Information Regarding Price History

The following tables set forth the price history for our shares on the Bombay Stock Exchange Limited, (“BSE”) and for our ADSs on the New York Stock Exchange (“NYSE”).

Year Ended March 31,	BSE		NYSE	
	Price Per Equity Share(1)		Price Per ADS(1)	
	High (₹)	Low (₹)	High (U.S.\$)	Low (U.S.\$)
2011	1855.00	1160.00	41.80	24.17
2010	1,317.90	476.10	29.23	9.17
2009	739.00	357.00	16.95	7.27
2008	760.00	501.00	18.66	13.07
2007	877.00	608.00	19.06	12.31

Quarter Ended	BSE		NYSE	
	Price Per Equity Share		Price Per ADS	
	High (₹)	Low (₹)	High (U.S.\$)	Low (U.S.\$)
June 30, 2009	800.00	476.10	16.98	9.17
September 30, 2009	1,018.50	696.00	20.88	15.12
December 31, 2009	1,241.90	891.50	26.54	18.55
March 31, 2010	1,317.90	1,051.20	29.23	23.13
June 30, 2010	1,515.00	1,160.00	33.14	24.17
September 30, 2010	1,558.00	1,304.50	33.59	27.55
December 31, 2010	1,855.00	1,445.00	41.80	32.92
March 31, 2011	1,728.90	1,451.25	38.10	32.58

Month Ended	BSE		NYSE	
	Price Per Equity Share(1)		Price Per ADS(1)	
	High (₹)	Low (₹)	High (U.S.\$)	Low (U.S.\$)
October 31, 2010	1,670.00	1,445.00	38.06	32.92
November 30, 2010	1,814.00	1,666.05	40.25	37.73
December 31, 2010	1,855.00	1,618.00	41.80	34.85
January 31, 2011	1,728.90	1,526.00	38.10	33.93
February 28, 2011	1,640.00	1,451.25	35.64	32.58
March 31, 2011	1,675.00	1,492.00	37.53	33.52

Source: www.bseindia.com and www.adr.com, respectively.

9.B. Plan of distribution

Not applicable.

9.C. Markets

Markets on Which Our Shares Trade

Our equity shares are traded on the Bombay Stock Exchange Limited (“BSE”) and National Stock Exchange of India Limited (“NSE”), or collectively, the “Indian Stock Exchanges.” Our American Depositary Shares (or “ADSs”), as evidenced by American Depositary Receipts (or “ADRs”), are traded in the United States on the New York Stock Exchange (“NYSE”), under the ticker symbol “RDY.” Each ADS represents one equity share. Our ADSs began trading on the NYSE on April 11, 2001. Our shareholders approved the delisting of our shares from the Hyderabad Stock Exchange Limited, The Stock Exchange, Ahmedabad, The Madras Stock Exchange Limited, and The Calcutta Stock Exchange Association Limited at the general shareholders meeting held on August 25, 2003.

Markets on Which Our Debentures Trade

Further, our recently issued unsecured, redeemable, non-convertible, fully paid up bonus debentures (as described in Section 8.A. above) began trading on the Indian Stock Exchanges effective April 7, 2011. These bonus debentures are not registered in the United States and are publicly traded solely in India.

9.D. Selling shareholders

Not applicable.

9.E. Dilution

Not applicable.

9.F. Expenses of the issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10.A. Share capital

Not applicable.

10.B. Memorandum and articles of association

Dr. Reddy’s Laboratories Limited was incorporated under the Indian Companies Act, 1956. We are registered with the Registrar of Companies, Andhra Pradesh, Hyderabad, India as Company No. 4507 (Company Identification No. L85195AP1984PLC0004507). Our registered office is located at 8-2-337, Road No. 3, Banjara Hills Hyderabad, Andhra Pradesh 500 034, India and the telephone number of our registered office is +91-40-49002900. The summary of our Articles of Association and Memorandum of Association that is included in our registration statement on Form F-1 filed with the U.S. Securities and Exchange Commission (the “SEC”) on April 11, 2001, together with copies of the Articles of Association and Memorandum of Association that are included in our registration statement on Form F-1, are incorporated herein by reference.

The Memorandum and Articles of Association were amended at the 17th Annual General Meeting held on September 24, 2001, 18th Annual General Meeting held on August 26, 2002, the 20th Annual General Meeting held on July 28, 2004 and the 22nd Annual General Meeting held on July 28, 2006. A full description of these amendments was given in the Form 20-F filed with the SEC on September 30, 2003, September 30, 2004 and October 2, 2006, which description is incorporated herein by reference. The Memorandum and Articles of Association were further amended at the 22nd Annual General Meeting held on July 28, 2006 to increase the authorized share capital in connection with the stock split effected in the form of a stock dividend that occurred on August 30, 2006.

The Memorandum and Articles of Association were further amended in accordance with the terms of an Order of the High Court of Judicature Andhra Pradesh dated June 12, 2009 to effect an increase in our parent company's authorized share capital pursuant to the amalgamation of Perlecan Pharma Private Limited into our parent company. In a related order dated June 12, 2009, the High Court concluded that there was no need to have a shareholders' meeting in order to affect such amendment.

The Memorandum and Articles of Association were further amended in accordance with the terms of an Order of the High Court of Judicature Andhra Pradesh dated July 19, 2010 to provide for the capitalization or utilization of undistributed profit or retained earnings or security premium account or any other reserve or fund of ours with the approval of our shareholders in connection with our bonus debentures.

10.C. Material contracts

Other than the contracts entered into in the ordinary course of business, there are no material contracts to which we or any of our direct and indirect subsidiaries is a party for the two years immediately preceding the date of this Form 20-F.

10.D. Exchange controls

Foreign investment in Indian securities, whether in the form of foreign direct investment or in the form of portfolio investment, is governed by the Foreign Exchange Management Act, 1999, as amended ("FEMA"), and the rules, regulations and notifications issued thereunder. Set forth below is a summary of the restrictions on transfers applicable to both foreign direct investments and portfolio investments, including the requirements under Indian law applicable to the issuance and transfer of ADSs.

Foreign Direct Investment

The Foreign Direct Investment Policy under the Reserve Bank of India's ("RBI") Automatic Route enables Indian companies (other than those specifically excluded thereunder) to issue shares to persons who reside outside of India without prior permission from the RBI, except in cases where there are ceilings of investments in certain industry sectors and subject to certain conditions.

The Department of Industrial Policy and Promotion, a part of the Ministry of Commerce and Industry, issued detailed guidelines in January 1997 for consideration of foreign direct investment proposals by the Foreign Investment Promotion Board (the "Guidelines"). The basic objective of the Guidelines is to improve the transparency and objectivity of the Foreign Investment Promotion Board's consideration of proposals. However, since these are administrative guidelines and have not been codified as either law or regulations, they are not legally binding with respect to any recommendation made by the Foreign Investment Promotion Board or with respect to any decision taken by the Government of India in cases involving foreign direct investment.

Under the Guidelines, sector specific guidelines for foreign direct investment and the levels of permitted equity participation have been established. In February 2000, the Department of Industrial Policy and Promotion issued a notification that foreign ownership of up to 50%, 51%, 74% or 100%, depending on the category of industry, would be allowed without prior permission of the Foreign Investment Promotion Board and, in certain cases, without prior permission of the RBI. Over a period of time, the Government of India has relaxed the restrictions on foreign investment, including the revision of the investment cap to 26% in the insurance sector and 74% subject to RBI guidelines for setting up branches/subsidiaries of foreign banks in the private banking sector.

In May 1994, the Government of India announced that purchases by foreign investors of ADSs, as evidenced by ADRs, and foreign currency convertible bonds of Indian companies would be treated as foreign direct investment in the equity issued by Indian companies for such offerings. Therefore, offerings that involve the issuance of equity that results in Foreign Direct Investors holding more than the stipulated percentage of direct foreign investments (which depends on the category of industry) would require approval from the Foreign Investment Promotion Board.

In addition, offerings by Indian companies of any such securities to foreign investors require Foreign Investment Promotion Board approval, whether or not the stipulated percentage limit would be reached if the proceeds will be used for investment in specified industries.

For investments in the pharmaceutical sector, the Foreign Direct Investment limit is 100%. Thus, foreign ownership of up to 100% of our equity shares would be allowed without prior permission of the Foreign Investment Promotion Board and, in certain cases, with prior permission of the RBI.

Portfolio Investment Scheme

Investments by persons of Indian nationality or origin residing outside of India (also known as Non-Resident Indians or “NRIs”) or registered Foreign Institutional Investors (“FIIs”) made through a stock exchange are known as portfolio investments (“Portfolio Investments”).

Portfolio Investments by NRIs

A variety of methods for investing in shares of Indian companies are available to NRIs. These methods allow NRIs to make portfolio investments in existing shares and other securities of Indian companies on a basis not generally available to other foreign investors.

The RBI no longer recognizes overseas corporate bodies (“OCBs”) as an eligible class of investment vehicle under various circumstances under the RBI’s foreign exchange regulations.

Portfolio Investments by FIIs

In September 1992, the Government of India issued guidelines that enable FIIs, including institutions such as pension funds, investment trusts, asset management companies, nominee companies and incorporated/institutional portfolio managers, to invest in all of the securities traded on the primary and secondary markets in India. Under the guidelines, FIIs are required to obtain an initial registration from the Securities and Exchange Board of India (“SEBI”), and a general permission from the RBI to engage in transactions regulated under the Foreign Exchange Management Act. FIIs must also comply with the provisions of the SEBI (Foreign Institutional Investors Regulations) 1995. When it receives the initial registration, the FII also obtains general permission from the RBI to engage in transactions regulated under the Foreign Exchange Management Act. Together, the initial registration and the RBI’s general permission enable the registered FII to: (i) buy (subject to the ownership restrictions discussed below) and sell unrestricted securities issued by Indian companies; (ii) realize capital gains on investments made through the initial amount invested in India; (iii) participate in rights offerings for shares; (iv) appoint a domestic custodian for custody of investments held; and (v) repatriate the capital, capital gains, dividends, interest income and any other compensation received pursuant to rights offerings of shares. The current policy with respect to purchase or sale of securities of an Indian company by an FII is in Schedule 2 and Regulation 5(2) of the Foreign Exchange Management (Transfer or Issue of Securities by a Person Resident Outside India) Regulations, 2000.

Ownership restrictions

The SEBI and the RBI regulations restrict portfolio investments in Indian companies by FIIs, NRIs and OCBs, all of which we refer to as “foreign portfolio investors.” Under current Indian law, FIIs in the aggregate may hold not more than 24.0% of the equity shares of an Indian company, and NRIs in the aggregate may hold not more than 10.0% of the shares of an Indian company through portfolio investments. The 24.0% limit referred to above can be increased to sectoral cap/statutory limits as applicable if a resolution is passed by the board of directors of the company followed by a special resolution passed by the shareholders of the company to that effect. The 10.0% limit referred to above may be increased to 24.0% if the shareholders of the company pass a special resolution to that effect. No single FII may hold more than 10.0% of the shares of an Indian company and no single NRI may hold more than 5.0% of the shares of an Indian company.

Our shareholders have passed a resolution enhancing the limits of portfolio investment by FIIs in the aggregate to 49%. NRIs in the aggregate may hold not more than 10.0% of our equity shares through portfolio investments. Holders of ADSs are not subject to the rules governing FIIs unless they convert their ADSs into equity shares.

As of March 31, 2011, FII’s are holding 25.90% and NRI’s 1.63% of our equity shares.

Under the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 (the "Takeover Code"), upon the acquisition of more than 5%, 10%, 14%, 54% or 74% of the outstanding shares or voting rights of a publicly-listed Indian company, the acquirer is required to disclose the aggregate of his shareholding or voting rights in that target company to such company. The target company and the acquirer are required to notify all of the stock exchanges on which the shares of such company are listed. For these purposes, an "acquirer" means any person or entity who, directly or indirectly, either alone or acting in concert with any other person or entity, acquires or agrees to acquire shares or voting rights in, or control over, a target company.

A person or entity who holds more than 15% of the shares or voting rights in any company is required to make an annual disclosure of his, her or its holdings to that company, which in turn is required to disclose the same to each of the stock exchanges on which the company's shares are listed. A holder of our ADSs would be subject to these notification requirements.

Upon the acquisition of 15% or more of such shares or voting rights, or upon acquiring control of the company, the acquirer is required to make a public announcement offering to purchase from the other shareholders at least a further 20% of all the outstanding shares of the company at a minimum offer price determined pursuant to the Takeover Code. If an acquirer holding more than 15% but less than 55% of shares acquires 5% or more shares during a fiscal year, the acquirer is required to make a public announcement offering to purchase from the other shareholders at least 20% of all the outstanding shares of the company at a minimum offer price determined pursuant to the Takeover Code. Any further acquisition of outstanding shares or voting rights of a publicly listed company by an acquirer who holds more than 55% but less than 75% of shares or voting rights (or where the company concerned has obtained the initial listing of shares by making an offer of at least 10% of the issue size to the public pursuant to Rule 19(2)(b) of the Securities Contracts (Regulations) Rules 1957, less than 90% of the shares or voting right of the company) also requires the making of an open offer to acquire such number of shares as would not result in the public shareholding being reduced to below the minimum specified in the listing agreement. Where the public shareholding in the target company may be reduced to a level below the limit specified in the listing agreement the acquirer may acquire such shares or voting rights only in accordance with guidelines or regulations regarding delisting of securities specified by SEBI.

Since we are a listed company in India, the provisions of the Takeover Code will apply to us and to any person acquiring our equity shares or voting rights in our company. However, the Takeover Code provides for a specific exemption to holders of ADSs from the requirements of making a public announcement for a tender offer. This exemption will apply to a holder of ADSs so long as he, she or it does not convert the ADSs into the underlying equity shares. We have entered into listing agreements with each of the Indian stock exchanges on which our equity shares are listed. Each of the listing agreements provides that if a person or entity acquires or agrees to acquire 5% or more of the voting rights of our equity shares, the purchaser shall report its holding to us and we must, in accordance with the provisions of the Takeover Code, report it's holding to the relevant stock exchanges.

Although the provisions of the listing agreements entered into between us and the Indian stock exchanges on which our equity shares are listed will not apply to equity shares represented by ADSs, holders of ADSs may be required to comply with such notification and disclosure obligations pursuant to the provisions of the Deposit Agreement to be entered into by such holders, our company and a depository.

Subsequent transfer of shares

A person resident outside India holding the shares or debentures of an Indian company may transfer the shares or debentures so held by him, in compliance with the conditions specified in the relevant Schedule of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 as follows:

- (i) A person resident outside India, not being a NRI or an OCB, may transfer by way of sale or gift the shares or convertible debentures held by him or it to any person resident outside India;
- (ii) A NRI may transfer by way of sale or gift, the shares or convertible debentures held by that person to another NRI only; provided that the person to whom the shares are being transferred has obtained prior permission of the Government of India to acquire the shares if he has a previous venture or tie up in India through an investment in shares or debentures or a technical collaboration or a trade mark agreement or investment by whatever name called in the same field or allied field in which the Indian company whose shares are being transferred is engaged. Provided further that the restriction in clauses (i) and (ii) shall not apply to the transfer of shares to international financial institutions such as Asian Development Bank ("ADB"), International Finance Corporation ("IFC"), Commonwealth Development Corporation ("CDC"), Deutsche Entwicklungs Gessellschaft ("DEG") and transfer of shares of an Indian company engaged in the Information Technology sector.

- (iii) A person resident outside India holding the shares or convertible debentures of an Indian company in accordance with the said Regulations, (a) may transfer the same to a person resident in India by way of gift; or (b) may sell the same on a recognized Stock Exchange in India through a registered broker.

Restrictions for subsequent transfers of shares of Indian companies between residents and non-residents (other than OCBs) were relaxed significantly as of October 2004. As a result, for a transfer between a resident and a non-resident of securities of an Indian company, no prior approval of either the RBI or the Government of India is required, as long as certain conditions are met.

ADS guidelines

Shares of Indian companies represented by ADSs may be approved for issuance to foreign investors by the Government of India under the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993 (the "1993 Scheme"), as modified from time to time, promulgated by the Government of India. The 1993 Scheme is in addition but without prejudice to the other policies or facilities, as described below, relating to investments in Indian companies by foreign investors. The issuance of ADSs pursuant to the 1993 Scheme also affords to holders of the ADSs the benefits of Section 115AC of the Income Tax Act, 1961 for purpose of the application of Indian tax laws. In March 2001, the RBI issued a notification permitting, subject to certain conditions, two-way fungibility of ADSs. This notification provides that ADSs converted into Indian shares can be converted back into ADSs, subject to compliance with certain requirements and the limits of sectoral caps.

Fungibility of ADSs

A registered broker in India can purchase shares of an Indian company that issued ADSs, on behalf of a person residing outside India, for the purposes of converting the shares into ADSs. However, such conversion of equity shares into ADSs is possible only if the following conditions are satisfied:

- (i) the shares are purchased on a recognized stock exchange;
- (ii) the shares are purchased with the permission of the Custodian to the ADS offering of the Indian company and are deposited with the Custodian;
- (iii) The custodian has been authorized to accept shares from non-resident investors for reissuance of ADSs;
- (iv) the shares purchased for conversion into ADSs do not exceed the number of shares that were released by the Custodian pursuant to conversions of ADSs into equity shares under the Depository Agreement; and
- (v) a non-resident investor, broker, the Custodian and the Depository comply with the provisions of the Scheme for Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993 and the related guidelines issued by the Central Government from time to time.

Transfer of ADSs

A person resident outside India may transfer ADSs held in Indian companies to another person resident outside India without any permission. A person resident in India is not permitted to hold ADSs of an Indian company, except in connection with the exercise of stock options.

Shareholders resident outside India who intend to sell or otherwise transfer equity shares within India should seek the advice of Indian counsel to understand the requirements applicable at that time.

The RBI placed various restrictions on the eligibility of OCBs to make investments in Indian companies in AP (DIR) Series Circular No. 14 dated September 16, 2003. For further information on these restrictions, the circular is available on www.rbi.org.in for review.

10.E. Taxation

Indian Taxation

General. The following summary is based on the law and practice of the Income-tax Act, 1961 (the “Income-tax Act”), including the special tax regime contained in Sections 115AC and 115ACA of the Income-tax Act read with the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993 (collectively, the “Income-tax Act Scheme”), as amended on January 19, 2000. The Income-tax Act is amended every year by the Finance Act of the relevant year. Some or all of the tax consequences of Sections 115AC and 115ACA may be amended or changed by future amendments to the Income-tax Act.

We believe this information is materially complete as of the date hereof. However, this summary is not intended to constitute an authoritative analysis of the individual tax consequences to non-resident holders or employees under Indian law for the acquisition, ownership and sale of ADSs and equity shares. *Each prospective investor should consult tax advisors with respect to taxation in India or their respective locations on acquisition, ownership or disposing of equity shares or ADSs.*

Residence. For purposes of the Income-tax Act, an individual is considered to be a resident of India during any fiscal year (i.e., April 1 to March 31) if he or she is in India in that year for:

- a period or periods of at least 182 days; or
- at least 60 days and, within the four preceding fiscal years has been in India for a period or periods amounting to at least 365 days.

The period of 60 days referred to above shall be 182 days in case of a citizen of India or a Person of Indian Origin living outside India who is visiting India.

A company is a resident of India under the Income-tax Act if it is formed or registered in India or the control and the management of its affairs is situated wholly in India. Individuals and companies that are not residents of India would be treated as non-residents for purposes of the Income-tax Act.

Taxation of Distributions.

a) As per Section 10(34) of the Income-tax Act, dividends paid by Indian Companies on or after April 1, 2003 to their shareholders (whether resident in India or not) are not subject to tax in the hands of the shareholders. However, the Indian company paying the dividend is subject to a dividend distribution tax at the rate of 16.61% including applicable surcharges and the special levy called the “Education and Higher Education Cess (education cess)”, on the total amount it distributes, declares or pays as a dividend.

b) Any distributions of additional ADSs or equity shares by way of bonus shares (i.e., stock dividends) to resident or non-resident holders will not be subject to Indian tax.

Taxation of Capital Gains. The following is a brief summary of capital gains taxation of non-resident holders and resident employees relating to the sale of ADSs and equity shares received upon redemption of ADSs. The relevant provisions are contained mainly in sections 10(36), 10(38), 45, 47(viia), 111A, 115AC and 115ACA, of the Income-tax Act, in conjunction with the Income-tax Scheme. *You should consult your own tax advisor concerning the tax consequences of your particular situation.*

A non-resident investor transferring our ADS or equity shares, whether transferred in India or outside India to a non-resident investor, will not be liable for income taxes arising from capital gains on such ADS or equity shares under the provisions of the Income-tax Act in certain circumstances. Equity shares (including equity shares issuable on the conversion of the ADSs) held by the non-resident investor for a period of more than 12 months are treated as long-term capital assets. If the equity shares are held for a period of less than 12 months from the date of conversion of the ADSs, the capital gains arising on the sale thereof is to be treated as short-term capital gains.

Capital gains are taxed as follows:

- gains from a sale of ADSs outside India by a non-resident to another non-resident are not taxable in India;
- long-term capital gains realized by a resident from the transfer of the ADSs will be subject to tax at the rate of 10%, plus the applicable surcharge and education cess; short-term capital gains on such a transfer will be taxed at graduated rates with a maximum of 30%, plus the applicable surcharge and education cess;
- long-term capital gains realized by a non-resident upon the sale of equity shares obtained from the conversion of ADSs are subject to tax at a rate of 10%, excluding the applicable surcharge and education cess; and short-term capital gains on such a transfer will be taxed at the maximum marginal rate of tax applicable to the seller, excluding surcharges and education cess, if the sale of such equity shares is settled outside of a recognized stock exchange in India;
- long-term capital gain realized by a non-resident upon the sale of equity shares obtained from the conversion of ADSs is exempt from tax and any short term capital gain is taxed at 15%, plus the applicable surcharge and education cess, if the sale of such equity shares is settled on a recognized stock exchange and securities transaction tax ("STT") is paid on such sale.

As per Section 10(38) of the Income-tax Act, long term capital gains arising from the transfer of equity shares on or after October 1, 2004 in a company completed through a recognized stock exchange in India and on which sale the STT has been paid are exempt from Indian tax.

As per Section 111A of the Income-tax Act, short term capital gains arising from the transfer of equity shares on or after October 1, 2004 in a company completed through a recognized stock exchange in India are subject to tax at a rate of 15%, plus applicable surcharge and education cess.

Purchase or sale of equity shares of a company listed on a recognized stock exchange in India is subject to a security transaction tax of 0.125% of the transaction value for any delivery based transaction and 0.025% for any non-delivery based transaction.

The applicable provisions of the Income Tax Act, in the case of non-residents, may offset the above taxes, except the STT. The capital gains tax is computed by applying the appropriate tax rates to the difference between the sale price and the purchase price of the equity shares or ADSs. Under the Income-tax Scheme, the purchase price of equity shares in an Indian listed company received in exchange for ADSs will be the market price of the underlying shares on the date that the Depository gives notice to the custodian of the delivery of the equity shares in exchange for the corresponding ADSs, or the "stepped up" basis purchase price. The market price will be the price of the equity shares prevailing on the Stock Exchange, Mumbai or the National Stock Exchange. There is no corresponding provision under the Income-tax Act in relation to the "stepped up" basis for the purchase price of equity shares. However, the tax department in India has not denied this benefit. In the event that the tax department denies this benefit, the original purchase price of ADSs would be considered the purchase price for computing the capital gains tax.

According to the Income-tax Scheme, a non-resident holder's holding period for the purposes of determining the applicable Indian capital gains tax rate relating to equity shares received in exchange for ADSs commences on the date of the notice of the redemption by the Depository to the custodian. However, the Income-tax Scheme does not address this issue in the case of resident employees, and it is therefore unclear as to when the holding period for the purposes of determining capital gains tax commences for such a resident employee.

The Income-tax Scheme provides that if the equity shares are sold on a recognized stock exchange in India against payment in Indian rupees, they will no longer be eligible for the preferential tax treatment.

It is unclear as to whether section 115AC of the Income Tax Act and the rest of the Income-tax Scheme are applicable to a non-resident who acquires equity shares outside India from a non-resident holder of equity shares after receipt of the equity shares upon redemption of the ADSs.

It is unclear as to whether capital gains derived from the sale of subscription rights or other rights by a non-resident holder not entitled to an exemption under a tax treaty will be subject to Indian capital gains tax. If such subscription rights or other rights are deemed by the Indian tax authorities to be situated within India, the gains realized on the sale of such subscription rights or other rights will be subject to Indian taxation. The capital gains realized on the sale of such subscription rights or other rights, which will generally be in the nature of short-term capital gains, will be subject to tax (i) at variable rates with a maximum rate of 40%, excluding the prevailing surcharge and education cess, in the case of a foreign company and (ii) at the rate of 30.9% including the applicable education cess in the case of resident employees.

Withholding Tax on Capital Gains. Any gain realized by a non-resident or resident employee on the sale of equity shares is subject to Indian capital gains tax, which, in the case of a non-resident is to be withheld at the source by the buyer. However, as per the provisions of Section 196D(2) of the Income-tax Act, no withholding tax is required to be deducted from any income by way of capital gains arising to FIIs (as defined in Section 115AD of the Act) on the transfer of securities (as defined in Section 115AD of the Act).

Buy-back of Securities. Indian companies are not subject to any tax on the buy-back of their shares. However, the shareholders are taxed on any resulting gains. We are required to deduct tax at source according to the capital gains tax liability of a non-resident shareholder.

Stamp Duty and Transfer Tax. Upon issuance of the equity shares underlying our ADSs, we are required to pay a stamp duty of 0.1% per share of the issue price of the underlying equity shares. A transfer of ADSs is not subject to Indian stamp duty. A sale of equity shares in physical form by a non-resident holder is also subject to Indian stamp duty at the rate of 0.25% of the market value of the equity shares on the trade date, although customarily such tax is borne by the transferee. Shares must be traded in dematerialized form. The transfer of shares in dematerialized form is currently not subject to stamp duty.

Wealth Tax. The holding of the ADSs and the holding of underlying equity shares by resident and non-resident holders will be exempt from Indian wealth tax. Non-resident holders are advised to consult their own tax advisors regarding the taxation of ADS in their country of residence.

Gift Tax and Estate Duty. Currently, there are no gift taxes or estate duties. These taxes and duties could be restored in future. Non-resident holders are advised to consult their own tax advisors regarding this issue.

Service Tax. Brokerage or commission paid to stockbrokers in connection with the sale or purchase of shares is subject to a service tax of 10.3%. The stockbroker is responsible for collecting the service tax from the shareholder and paying it to the relevant authority.

United States Federal Taxation

The following is a summary of the material U.S. federal income and estate tax consequences that may be relevant with respect to the acquisition, ownership and disposition of equity shares or ADSs and is for general information only. This summary addresses the U.S. federal income and estate tax considerations of holders that are U.S. holders. "U.S. holders" are beneficial holders of equity shares or ADSs who are (i) citizens or residents of the United States, (ii) corporations (or other entities treated as corporations for U.S. federal tax purposes) created in or under the laws of the United States or any state thereof or any political subdivision thereof or therein, (iii) estates, the income of which is subject to U.S. federal income taxation regardless of its source, and (iv) trusts for which a U.S. court exercises primary supervision and a U.S. person has the authority to control all substantial decisions or has a valid election under applicable U.S. Treasury regulations to be treated as a U.S. person. This summary is limited to U.S. holders who will hold equity shares or ADSs as capital assets for U.S. federal income tax purposes, generally for investment. In addition, this summary is limited to U.S. holders who are not resident in India for purposes of the Convention between the Government of the United States of America and the Government of the Republic of India for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income. If a partnership holds the equity shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partner in a partnership holding equity shares or ADSs should consult his, her or its own tax advisor.

This summary does not address tax considerations applicable to holders that may be subject to special tax rules, such as banks, insurance companies, financial institutions, dealers in securities or currencies, tax-exempt entities, persons that will hold equity shares or ADSs as a position in a “straddle” or as part of a “hedging” or “conversion” transaction for tax purposes, persons that have a “functional currency” other than the U.S. dollar or holders of 10% or more, by voting power or value, of the shares of our company. This summary is based on the U.S. Internal Revenue Code of 1986, as amended and as in effect on the date of this Annual Report on Form 20-F and on United States Treasury Regulations in effect or, in some cases, proposed, as of the date of this Annual Report on Form 20-F, as well as judicial and administrative interpretations thereof available on or before such date, and is based in part on the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. All of the foregoing are subject to change, which change could apply retroactively, or the Internal Revenue Service may interpret existing authorities differently, any of which could affect the tax consequences described below. This summary does not address the U.S. federal tax laws other than income or estate or U.S. state or local or non-local U.S. tax laws.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN TAX ADVISOR WITH RESPECT TO THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF ACQUIRING, OWNING OR DISPOSING OF EQUITY SHARES OR ADSS.

Ownership of ADSs. For U.S. federal income tax purposes, holders of ADSs will be treated as the holders of equity shares represented by such ADSs.

Dividends. Subject to the passive investment company rules described below, except for ADSs or equity shares, if any, distributed pro rata to all shareholders of our company, including holders of ADSs, the gross amount of any distributions of cash or property with respect to ADSs or equity shares (before reduction for any Indian withholding taxes) will generally be included in income by a U.S. holder as foreign source dividend income at the time of receipt, which in the case of a U.S. holder of ADSs generally should be the date of receipt by the Depositary, to the extent such distributions are made from our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. holders. To the extent, if any, that the amount of any distribution by us exceeds our current and accumulated earnings and profits (as determined under U.S. federal income tax principles) such excess will be treated first as a tax-free return of capital to the extent of the U.S. holder’s tax basis in the equity shares or ADSs, and thereafter as capital gain.

Subject to certain limitations, dividends paid to non-corporate U.S. holders, including individuals, may be eligible for a reduced rate of taxation if we are deemed to be a “qualified foreign corporation” for United States federal income tax purposes and certain holding period requirements are met. A qualified foreign corporation includes a foreign corporation if (1) its shares (or, according to legislative history, its ADSs) are readily tradable on an established securities market in the United States or (2) it is eligible for the benefits under a comprehensive income tax treaty with the United States. In addition, a corporation is not a qualified foreign corporation if it is a passive foreign investment company (as discussed below) for either its taxable year in which the dividend is paid or the preceding taxable year. The ADSs are traded on the New York Stock Exchange. Due to the absence of specific statutory provisions addressing ADSs, however, there can be no assurance that we are a qualified foreign corporation solely as a result of our listing on the New York Stock Exchange. Nonetheless, we may be eligible for benefits under the comprehensive income tax treaty between India and the United States. Absent congressional action to extend these rules, the reduced rate of taxation will not apply to dividends received in taxable years beginning after December 31, 2012. Each U.S. holder should consult its own tax advisor regarding the treatment of dividends and such holder’s eligibility for a reduced rate of taxation.

Subject to certain conditions and limitations, any Indian withholding tax imposed upon distributors paid to a U.S. holder with respect to ADSs or equity shares should be eligible for credit against the U.S. holder's federal income tax liability. Alternatively, a U.S. holder may claim a deduction for such amount, but only for a year in which a U.S. holder does not claim a credit with respect to any foreign income taxes. The overall limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, distributions on ADSs or equity shares will be foreign source income, and will be "passive category income" or "general category income" for purposes of computing the United States foreign tax credit allowable to a U.S. holder.

If dividends are paid in Indian rupees, the amount of the dividend distribution included in the income of a U.S. holder will be in the U.S. dollar value of the payments made in Indian rupees, determined at a spot exchange rate between Indian rupees and U.S. dollars applicable to the date such dividend is included in the income of the U.S. holder, regardless of whether the payment is in fact converted into U.S. dollars. Generally, gain or loss, if any, resulting from currency exchange fluctuations during the period from the date the dividend is paid to the date such payment is converted into U.S. dollars will be treated as U.S. source ordinary income or loss.

Sale or exchange of equity shares or ADSs. Subject to the passive foreign investment company rules described below, U.S. holder generally will recognize gain or loss on the sale or exchange of equity shares or ADSs equal to the difference between the amount realized on such sale or exchange and the U.S. holder's adjusted tax basis in the equity shares or ADSs, as the case may be. Such gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the equity shares or ADSs, as the case may be, were held for more than one year. Gain or loss, if any, recognized by a U.S. holder generally will be treated as U.S. source passive category income or loss for U.S. foreign tax credit purposes. Capital gains realized by a U.S. holder upon the sale of equity shares (but not ADSs) may be subject to certain tax in India. See "Taxation-Indian Taxation-Taxation of Capital Gains." Due to limitations on foreign tax credits, however, a U.S. holder may not be able to utilize any such taxes as a credit against the U.S. holder's federal income tax liability.

Estate taxes. An individual shareholder who is a citizen or resident of the United States for U.S. federal estate tax purposes will have the value of the equity shares or ADSs held by such holder included in his or her gross estate for U.S. federal estate tax purposes. An individual holder who actually pays Indian estate tax with respect to the equity shares will, however, be entitled to credit the amount of such tax against his or her U.S. federal estate tax liability, subject to a number of conditions and limitations.

Backup withholding tax and information reporting requirements. Any dividends paid, or proceeds on a sale of, equity shares or ADSs to or by a U.S. holder may be subject to U.S. information reporting, and a backup withholding tax (currently at a rate of 28%) may apply unless the holder establishes that he, she or it is an exempt recipient or provides a U.S. taxpayer identification number and certifies that such holder is not subject to backup withholding and otherwise complies with any applicable backup withholding requirements. Any amount withheld under the backup withholding rules will be allowed as a refund or credit against the holder's U.S. federal income tax liability, provided that the required information is timely furnished to the Internal Revenue Service.

Recent U.S. legislation has expanded the situations in which U.S. holders are required to report certain non-U.S. investments. U.S. holders should consult their own advisors regarding any reporting requirements that may arise as a result of their acquiring, owning or disposing of shares or ADSs.

Passive foreign investment company. A non-U.S. corporation will be classified as a passive foreign investment company for U.S. Federal income tax purposes if either:

- 75% or more of its gross income for the taxable year is passive income; or
- on average for the taxable year by value, or, if it is not a publicly traded corporation and so elects, by adjusted basis, if 50% or more of its assets produce or are held for the production of passive income.

We do not believe that we will be treated as a passive foreign investment company for the current taxable year. Since this determination is made on an annual basis, however, no assurance can be given that we will not be considered a passive foreign investment company in future taxable years. If we were to be a passive foreign investment company for any taxable year, U.S. holders would be required to either:

- pay an interest charge together with tax calculated at ordinary income rates (which may be higher than the ordinary income rates that otherwise apply to U.S. holders) on “excess distributions,” as the term is defined in relevant provisions of the U.S. tax laws, and on any gain on a sale or other disposition of ADSs or equity shares;
- if a “qualified electing fund election” (as the term is defined in relevant provisions of the U.S. tax laws) is made to include in their taxable income their pro rata share of undistributed amounts of our income; or
- if the equity shares are “marketable stock” and a mark-to-market election is made, to mark-to-market the equity shares each taxable year and recognize ordinary gain and, to the extent of prior ordinary gain, ordinary loss for the increase or decrease in market value for such taxable year.

If we are treated as a passive foreign investment company, we do not plan to provide information necessary for the U.S. holder to make a “qualified electing fund” election.

THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF EQUITY SHARES OR ADSS. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR CONCERNING THE TAX CONSEQUENCES TO YOU BASED ON YOUR PARTICULAR SITUATION.

10.F. Dividends and paying agents

Not applicable.

10.G. Statements by experts

Not applicable.

10.H. Documents on display

This report and other information filed or to be filed by us can be inspected and copied at the public reference facilities maintained by the SEC at Room 1200, 450 Fifth Street, Washington, DC, U.S.A. These reports and other information may also be accessed via the SEC’s website at www.sec.gov.

Additionally, documents referred to in this Form 20-F may be inspected at our corporate office, which is located at 8-2-337, Road No. 3, Banjara Hills, Hyderabad, 500 034, India.

10.I. Subsidiary information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss of future earnings or fair values or future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rates and other market changes that affect market risk sensitive instruments. Market risk is attributable to all market risk sensitive financial instruments including foreign currency receivables and payables and long term debt. We are exposed to market risk primarily related to foreign exchange rate risk, interest rate risk and the market value of our investments. Thus, our exposure to market risk is a function of investing and borrowing activities and revenue generating and operating activities in foreign currency. The objective of market risk management is to avoid excessive exposure in our foreign currency revenues and costs.

Our Board of Directors and its Audit Committee are responsible for overseeing our risk assessment and management policies. Our major market risks of foreign exchange, interest rate and counter-party risk are managed centrally by our group treasury department, which evaluates and exercises independent control over the entire process of market risk management.

We have a written treasury policy, and we do regular reconciliations of our positions with our counter-parties. In addition, internal audits of the treasury function are performed at regular intervals.

Components of Market Risk

Foreign Exchange Rate Risk

Our exchange risk arises from our foreign operations, foreign currency revenues and expenses (primarily in U.S. dollars, British pounds sterling and euros) and foreign currency borrowings in U.S. dollars and euros. A significant portion of our revenues are in these foreign currencies, while a significant portion of our costs are in Indian rupees. As a result, if the value of the Indian rupee appreciates relative to these foreign currencies, our revenues measured in rupees may decrease. The exchange rate between the Indian rupee and these foreign currencies has changed substantially in recent periods and may continue to fluctuate substantially in the future. Consequently, we use derivative financial instruments, such as foreign exchange forward and option contracts, to mitigate the risk of changes in foreign currency exchange rates based upon our forecasted cash flows and trade receivables.

As of March 31, 2011, we had Indian rupee/U.S. dollar forward contracts to sell in the amount of U.S.\$232 million. As of March 31, 2011, we also had outstanding Indian rupee/U.S. dollar foreign currency options, which are classified as cash flow hedges, of U.S.\$345 million.

Sensitivity Analysis of Exchange Rate Risk.

As a result of our forward and option contracts, a 10% decrease/increase in the respective exchange rates of each of the currencies underlying such contracts would have resulted in an approximately ₹1,592 million increase/decrease in our total equity and an approximately ₹1,057 million increase/decrease in our net profit as at March 31, 2011.

For a detailed analysis of our foreign exchange rate risk, please refer to Note 32 in our consolidated financial statements.

Commodity Rate Risk

Our exposure to market risk with respect to commodity prices primarily arises from the fact that we are a purchaser and seller of active pharmaceutical ingredients and the components for such active pharmaceutical ingredients. These are commodity products whose prices can fluctuate sharply over short periods of time. The prices of our raw materials generally fluctuate in line with commodity cycles, though the prices of raw materials used in our active pharmaceutical ingredients business are generally more volatile. Raw material expense forms the largest portion of our operating expenses. We evaluate and manage our commodity price risk exposure through our operating procedures and sourcing policies.

We do not use any derivative financial instruments or futures contracts to hedge our exposure to fluctuations in commodity prices.

Interest Rate Risk

As of March 31, 2011 we had a loan of ₹5,758 million carrying an interest rate of LIBOR plus 52-80 bps. This loan exposes us to risks of changes in interest rates. Our treasury department monitors the interest rate movement and manages the interest rate risk based on its policies, which include entering into interest rate swaps as considered necessary. As of March 31, 2011, we had not entered into any interest rate swaps to hedge our interest rate risk.

Interest Rate Profile.

An interest rate profile of long-term debt is given below:

	For the Year Ended March 31,		
	2011	2010	2009
Foreign Currency Loans	—	Euribor +70bps and Libor +70 bps	Euribor +70bps or Libor +70 bps
Rupee Term Loans*	—	2%	2%
Bonus Debentures	9.25%	—	—

* Loan received at a subsidized rate of interest from Indian Renewable Energy Development Agency Limited promoting use of alternative sources of energy.

Maturity profile.

The aggregate maturities of interest-bearing loans and borrowings, based on contractual maturities, as of March 31, 2011 are as follows:

(Amounts in ₹ millions)

Maturing in the year ending March 31,	Rupee term loan	Foreign currency loan	Obligation under finance lease	Debentures	Total
2012	—	—	12	—	12
2013	—	—	10	—	10
2014	—	—	10	5,078	5,088
2015	—	—	10	—	10
2016	—	—	10	—	10
Thereafter	—	—	204	—	204
	₹ —	₹ —	₹ 256	₹ 5,078	₹ 5,334

Counter-Party Risk

Counter-party risk encompasses settlement risk on derivative contracts and credit risk on cash and time deposits. Exposure to these risks is closely monitored and kept within predetermined parameters. Our group treasury department does not expect any losses from non-performance by these counter-parties.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities.

On March 24, 2011 we issued bonus debentures carrying a face value of ₹5 each in the ratio of 6 debentures for each equity share held by our shareholders as on March 18, 2011. These debentures will have a maturity of 36 months, at which time we must redeem them for cash in an amount equal to the face value of ₹5 each plus unpaid interest, if any.

The regulatory framework in India governing issuance of ADRs by an Indian company does not permit the issuance of ADRs with any debt instrument (including non-convertible rupee denominated debentures) as the underlying security. Therefore, the depositary of our ADRs (the “Depositary”) cannot issue depositary receipts (such as ADRs) with respect to the bonus debentures issued under our scheme. Therefore, in accordance with the deposit agreement between us and the Depositary, the bonus debentures issuable in respect of the shares underlying our ADRs have been distributed to the Depositary, who sold such bonus debentures on April 8, 2011. The Depositary converted the net proceeds from such sale into U.S. dollars and, on June 23, 2011, distributed all such U.S. dollars, less any applicable taxes, fees and expenses incurred and/or provided for under the deposit agreement, to the registered holders of ADRs entitled thereto in the same manner as it would ordinarily distribute cash dividends under the deposit agreement.

For additional details, please see Item 8.a. above under the heading “*Dividend Policy — Bonus Debentures*”.

B. Warrants and Rights.

Not applicable.

C. Other Securities.

Not applicable.

D. American Depositary Shares.

Fees and Charges for Holders of American Depositary Shares

J.P. Morgan Chase Bank, N.A., as the depositary for our ADSs (the “Depositary”), collects fees for the issuance and cancellation of ADSs from the holders of our ADSs, or intermediaries acting on their behalf, against the deposit or withdrawal of ordinary shares in the custodian account. The depositary also collects the following fees from holders of ADRs or intermediaries acting in their behalf:

Category (as defined by SEC)	Depositary actions	Associated Fee
(a) Depositing or substituting the underlying shares	Issuing ADSs upon deposits of shares, including deposits and issuances in respect of share distributions, stock splits, rights, mergers, exchanges of securities or any other transaction or event or other distribution affecting the ADSs or the deposited shares.	U.S.\$5.00 for each 100 ADSs (or portion thereof) evidenced by the new shares deposited.
(b) Receiving or distributing dividends	Distribution of dividends.	U.S.\$0.02 or less per ADSs (U.S.\$2.00 per 100 ADSs).
(c) Selling or exercising rights	Distribution or sale of securities.	U.S.\$5.00 for each 100 ADSs (or portion thereof), the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities.

Category (as defined by SEC)	Depository actions	Associated Fee
(d) Withdrawing an underlying security	Acceptance of ADSs surrendered for withdrawal of deposited shares.	U.S.\$5.00 for each 100 ADSs (or portion thereof) evidenced by the shares withdrawn.
(e) Transferring, splitting or grouping receipts	Transfers, combining or grouping of depository receipts.	U.S.\$1.50 per ADS.
(f) General depository services, particularly those charged on an annual basis.	Other services performed by the depository in administering the ADSs.	U.S.\$0.02 per ADS (or portion thereof) not more than once each calendar year.
(g) Other	Expenses incurred on behalf of holders in connection with: <ul style="list-style-type: none"> • compliance with foreign exchange control regulations or any law or regulation relating to foreign investment; • the depository's or its custodian's compliance with applicable law, rule or regulation; • stock transfer or other taxes and other governmental charges; • cable, telex, facsimile transmission/delivery; • expenses of the depository in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency); or • any other charge payable by depository or its agents. 	The amount of such expenses incurred by the Depository.

As provided in the Deposit Agreement, the Depository may charge fees for making cash and other distributions to holders by deduction from distributable amounts or by selling a portion of the distributable property. The Depository may generally refuse to provide services until its fees for those services are paid.

Fees made by Depository to us

Direct Payments

The Depository has agreed to reimburse certain reasonable expenses related to our ADS program and incurred by us in connection with the program. In the year ended March 31, 2011, the Depository reimbursed us an amount of U.S.\$547,082 towards such expenses. The amounts the depository reimburses are not related to the fees collected by the depository from ADS holders. Under certain circumstances, including termination of our ADS program prior to May 11, 2015, we are required to repay to the Depository amounts reimbursed in prior periods. The table below sets forth the types of expenses that the Depository has agreed to reimburse us for and the amounts reimbursed during the fiscal year ended March 31, 2011.

Category of Expenses	Amount Reimbursed during the Year Ended March 31, 2011
-----------------------------	---

Legal and accounting fees incurred in connection with preparation of Form 20-F and ongoing SEC compliance and listing requirements	U.S.\$547,082
Listing fees	None
Investor relations	None
Advertising and public relations	None
Broker reimbursements ⁽¹⁾	None

⁽¹⁾ Broker reimbursements are fees payable to Broadridge Financial Solutions, Inc. and other service providers for the distribution of hard copy materials to beneficial ADS holders in the Depositary Trust Company. Corporate material includes information related to shareholders' meetings and related voting instruction cards.

Indirect Payments

As part of its service to us, the Depositary has agreed to waive fees for the standard costs associated with the administration of our ADS program, associated operating expenses and investor relations advice which are estimated to total U.S.\$300,000. The Depositary has also paid the following expenses on our behalf: U.S.\$140,206. Under certain circumstances, including termination of our ADS program prior to May 11, 2015, we are required to repay to the Depositary amounts waived and/or expenses paid in prior periods. The table below sets forth the fees that the Depositary has agreed to waive and/or expenses that the Depositary has paid during the year ended March 31, 2011.

Category Expenses	Amount Reimbursed during the Year Ended March 31, 2011
Third-party expenses paid directly	U.S.\$38,000 towards NYSE listing fee and U.S.\$102,206 towards broker reimbursements, postage, printing and Depositary Trust Company report fees
Fees waived	Up to U.S.\$300,000 per year.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Modification in the rights of security holders

None.

Use of Proceeds

In November 2006, we completed a public offering of our American Depositary Shares (“ADS”) to investors. The offering consisted of 14,300,000 ADSs representing 14,300,000 equity shares having a par value of ₹5 each, at an offer price of U.S.\$16.00 per ADS. The proceeds of the offering (including sales pursuant to the underwriters’ over-allotment option, but prior to the underwriting discount and commissions and expenses of the offering) were U.S.\$228.8 million. We paid underwriting discounts and commission of approximately U.S.\$4.0 million. Accordingly, the net proceeds from the offering after underwriting discounts and commissions was approximately U.S.\$224.8 million. None of the net proceeds from the public offering were paid, directly or indirectly, to any of our directors, officers or general partners or any of their associates, or to any persons owning ten percent or more of any class of our equity securities, or any affiliates.

Out of the total net proceeds of U.S.\$224.8 million that was raised, U.S.\$23.9 million was utilized in the year ended March 31, 2007. Out of the balance proceeds of U.S.\$200.9 million (₹8,733 million), ₹2,725 million was utilized during the year ended March 31, 2008 to meet our working capital and capital expenditure requirements.

The remaining proceeds of ₹6,008 million were utilized for working capital requirements and funding the business acquisitions made by us during the year ended March 31, 2009.

ITEM 15. CONTROLS AND PROCEDURES

(a) *Disclosure Controls and Procedures*

As of the end of the period covered by this Annual Report on Form 20-F, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act).

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective, as of March 31, 2011, to provide reasonable assurance that the information required to be disclosed in filings and submissions under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure.

(b) *Management’s Annual Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the SEC, internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

Our internal control over financial reporting is supported by written policies and procedures, that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of March 31, 2011 based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the “COSO Framework”). Our management’s assessment of the effectiveness of our internal control over financial reporting excludes the evaluation of the internal controls over financial reporting of the acquired penicillin manufacturing business which was acquired from Glaxosmithkline LLC and Glaxo Group Limited on March 29, 2011, associated with total assets of ₹1,388 million and total revenue of ₹0 million included in our consolidated financial statements as of and for the year ended March 31, 2011.

Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of March 31, 2011.

The effectiveness of our internal control over financial reporting as of March 31, 2011 has been audited by KPMG, the independent registered public accounting firm that audited our financial statements, as stated in their report, a copy of which is included in this annual report on Form 20-F.

/s/ G. V. Prasad
Vice-Chairman and Chief Executive Officer

/s/ Umang Vohra
Chief Financial Officer

(c) *Attestation Report of the Registered Public Accounting Firm.*

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Dr. Reddy's Laboratories Limited:

We have audited Dr. Reddy's Laboratories Limited's ("the Company") internal control over financial reporting as of March 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Dr. Reddy's Laboratories Limited's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by International Accounting Standards Board (IFRS). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Dr. Reddy's Laboratories Limited maintained, in all material respects, effective internal control over financial reporting as of March 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Dr. Reddy's Laboratories Limited acquired a penicillin manufacturing business from Glaxosmithkline LLC and Glaxo Group Limited during the year ended March 31, 2011, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of March 31, 2011, the acquired business' internal control over financial reporting associated with total assets of ₹1,388 million and total revenues of ₹Nil included in the consolidated financial statements of the Company as of and for the year ended March 31, 2011. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of the acquired business.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of Dr. Reddy's Laboratories Limited and subsidiaries as of March 31, 2011 and 2010, and the related consolidated income statements, statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended March 31, 2011, and our report dated July 20, 2011 expressed an unqualified opinion on those consolidated financial statements.

KPMG

Hyderabad, India.

July 20, 2011

ITEM 16. [RESERVED]

ITEM 16.A. AUDIT COMMITTEE FINANCIAL EXPERT

The Audit Committee of our Board of Directors is composed of independent directors and brings in expertise in the fields of finance, economics, human resource development, strategy and management. Please see “Item 6. Directors, Senior Management and Employees” for the experience and qualifications of the members of the Audit Committee of our Board of Directors. As of March 31, 2011, no member of the Audit Committee of our Board of Directors met the requirements to be an audit committee financial expert under the SEC definition. We believe that the combined knowledge, skills and experience of the Board of Directors and their authority to engage outside experts as they deem appropriate to provide them with advice on the matters related to their responsibilities, enable them, as a group, to act effectively in the fulfillment of their tasks and responsibilities required under the Sarbanes-Oxley Act of 2002.

ITEM 16.B. CODE OF ETHICS

We have adopted a code of business ethics applicable to our executive officers, directors and all other employees. This code has been revised, updated and adopted effective as of May 7, 2008. The code is also available on our corporate website, at <http://www.drreddys.com/investors/pdf/cobe-booklet-2011.pdf>. Information contained in our website, www.drreddys.com, is not part of this Annual Report and no portion of such information is incorporated herein. Any waivers of this code for executive officers or directors will be disclosed through furnishing a Form 6-K to the SEC. In addition, the Audit Committee of our Board of Directors has approved a whistleblower policy, which functions in coordination with our code of business ethics and provides an anonymous means for employees and others to communicate with various designated personnel, including the Audit Committee of our Board of Directors.

ITEM 16.C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth for the years ended March 31, 2011, 2010 and 2009, the fees paid to our principal accountant and its associated entities for various services they provided us in these periods.

Type of Service	Year Ended			Description of Services
	March 31, 2011	March 31, 2010	March 31, 2009	
			(₹ in millions)	
Audit fees	₹ 61.36	₹ 58.60	₹ 57.28	Audit and review of financial statements
Audit related fees		—	—	Financial and tax due diligence services
Tax fees	2.93	5.05	1.46	Tax returns filing and transfer pricing related services
All other fees	1.45	2.37	0.11	Statutory certifications, subscription to databases, etc.
Total	₹ 65.74	₹ 66.02	₹ 58.85	

In accordance with the requirement of the charter of the Audit Committee of our Board of Directors, we obtain the prior approval of the Audit Committee on every occasion we engage our principal accountants or their associated entities to provide us any non-audit services. We disclose to the Audit Committee of our Board of Directors the nature of services that are provided and the fees to be paid for the services. The fees listed in the above table as “Tax fees” and “All other fees” were approved by the Audit Committee of our Board of Directors.

ITEM 16.D. EXEMPTION FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

We have not sought any exemption from the listing standards for audit committees applicable to us as a foreign private issuer.

ITEM 16.E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

During the year ended March 31, 2011, there was no purchase made by or on behalf of us or any affiliated purchaser of shares of any class of our securities that are registered by us pursuant to Section 12 of the Exchange Act.

ITEM 16.F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

None

ITEM 16.G. CORPORATE GOVERNANCE

Companies listed on the New York Stock Exchange ("NYSE") must comply with certain standards regarding corporate governance as codified in Section 303A of the NYSE's Listed Company Manual. Listed companies that are foreign private issuers (as such term is defined in Rule 3b-4 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are permitted to follow home country practice in lieu of the provisions of Section 303A, except that such companies are required to comply with the requirements of Sections 303A.06, 303A.11 and 303A.12(b) and (c), which are as follows:

- (i) establish an independent audit committee that has specified responsibilities;
- (ii) provide prompt certification by its chief executive officer of any non-compliance with any corporate governance rules;
- (iii) provide periodic written affirmations to the NYSE with respect to its corporate governance practices; and
- (iv) provide a brief description of significant differences between its corporate governance practices and those followed by U.S. companies.

The following table compares our principal corporate governance practices to those required of U.S. NYSE listed companies.

<u>Standard for U.S. NYSE Listed Companies</u>	<u>Our practice</u>
Listed companies must have a majority of "independent directors," as defined by the NYSE.	We comply with this standard. Seven of our ten directors are "independent directors," as defined by the NYSE.
The non-management directors of each listed company must meet at regularly scheduled executive sessions without management.	We comply with this standard. Our non-management directors meet periodically without management directors in scheduled executive sessions.
Listed companies must have a nominating/corporate governance committee composed entirely of independent directors. The nominating/corporate governance committee must have a written charter that is made available on the listed company's website and that addresses the committee's purpose and responsibilities, subject to the minimum purpose and responsibilities established by the NYSE, and an annual evaluation of the committee.	We have a Nomination, Governance and Compensation Committee composed entirely of independent directors which meets these requirements. The committee has a written charter that meets these requirements. We do not have a practice of evaluating the performance of the Nomination, Governance and Compensation Committee.
Listed companies must have a compensation committee composed entirely of independent directors. The compensation committee must have a written charter that is made available on the listed company's website and that addresses the committee's purpose and responsibilities, subject to the minimum purpose and responsibilities established by the NYSE, and an annual evaluation of the committee.	We have a Nomination, Governance and Compensation Committee composed entirely of independent directors which meets these requirements. The committee has a written charter that meets these requirements. We do not have a practice of evaluating the performance of our Nomination, Governance and Compensation Committee.

Standard for U.S. NYSE Listed Companies

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act

The audit committee must have a minimum of three members all being independent directors. The audit committee must have a written charter that is made available on the listed company's website and that addresses the committee's purpose and responsibilities, subject to the minimum purpose and responsibilities established by the NYSE, and an annual evaluation of the committee.

Each listed company must have an internal audit function.

Shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with limited exceptions.

Listed companies must adopt and disclose corporate governance guidelines.

All listed companies, U.S. and foreign, must adopt and disclose a code of business conduct and ethics for directors, officers and employees that is made available on the listed company's website and, and promptly disclose any waivers of the code for directors or executive officers.

Listed foreign private issuers must disclose any significant ways in which their corporate governance practices differ from those followed by domestic companies under NYSE listing standards.

Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards, qualifying the certification to the extent necessary.

Each listed company CEO must promptly notify the NYSE in writing after any executive officer or director of the listed company becomes aware of any non-compliance with any applicable provisions of this Section 303A.

Our practice

Our Audit Committee satisfies the requirements of Rule 10A-3 under the Exchange Act.

We have an Audit Committee composed of three members, all being independent directors. The committee has a written charter that meets these requirements. We also have an internal audit function. We do not have a practice of evaluating the performance of our Audit Committee.

We have an internal audit function.

We comply with this standard. Our Employee Stock Option Plans were approved by our shareholders.

We have not adopted corporate governance guidelines.

We comply with this standard. More details on our Code of Business Conduct and Ethics are given under Item 16.B.

This requirement is being addressed by way of this table.

We do not have such a practice.

There have been no such instances.

Standard for U.S. NYSE Listed Companies

Each listed company must submit an executed Written Affirmation annually to the NYSE. In addition, each listed company must submit an interim Written Affirmation each time that any of the following occurs:

- an audit committee member who was deemed independent is no longer independent;
- a member has been added to the audit committee;
- the listed company or a member of its audit committee is eligible to rely on and is choosing to rely on a Securities Exchange Act Rule 10A-3 (“Rule 10A-3”) exemption;
- the listed company or a member of its audit committee is no longer eligible to rely on or is choosing to no longer rely on a previously applicable Rule 10A-3 exemption;
- a member has been removed from the listed company’s audit committee resulting in the company no longer having a Rule 10A-3 compliant audit committee; or
- the listed company determined that it no longer qualifies as a foreign private issuer and will be considered a domestic company under Section 303A.

The annual and interim Written Affirmations must be in the form specified by the NYSE.

Our practice

We filed our most recent annual written affirmation, in the form specified by NYSE on September 28, 2010.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

The following financial statement and auditor's report for the year ended March 31, 2011 are incorporated herein by reference and are included in this Item 18 of this report on Form 20-F:

• <u>Report of Independent Registered Public Accounting Firm</u>	F - 1
• <u>Consolidated statement of financial position as of March 31, 2011 and 2010</u>	F - 2
• <u>Consolidated income statements for the years ended March 31, 2011, 2010 and 2009</u>	F - 4
• <u>Consolidated statement of comprehensive income/(loss) for the years ended March 31, 2011, 2010 and 2009</u>	F - 5
• <u>Consolidated statements of changes in equity for the years ended March 31, 2011, 2010 and 2009</u>	F - 6
• <u>Consolidated cash flow statements for the years ended March 31, 2011, 2010 and 2009</u>	F - 8
• <u>Notes to the consolidated financial statements</u>	F - 10

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Dr. Reddy's Laboratories Limited:

We have audited the accompanying consolidated statement of financial position of Dr. Reddy's Laboratories Limited and subsidiaries ("the Company") as of March 31, 2011 and 2010 and the related consolidated income statements, statements of comprehensive income/ (loss), changes in equity and cash flows for each of the years in the three-year period ended March 31, 2011. 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 the standards of the Public Company Accounting Oversight Board (United States). 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three year period ended March 31, 2011, in conformity with International Financial Reporting Standards as issued by International Accounting Standards Board (IFRS).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight board (United States), Dr. Reddy's Laboratories Limited internal control over financial reporting as of March 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated July 20, 2011 expressed an unqualified opinion on the effectiveness of Dr. Reddy's Laboratories Limited's internal control over financial reporting. This report on the effectiveness of internal control over financial reporting as of March 31, 2011, contains an explanatory paragraph that states that management's assessment of the effectiveness of internal control over financial reporting and our audit of internal control over financial reporting of the Company excludes an evaluation of internal control over financial reporting of the acquired penicillin manufacturing from Glaxosmithkline LLC and Glaxo Group Limited.

KPMG

Hyderabad, India

July 20, 2011

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in millions, except share and per share data)

Particulars	Note	As of		
		March 31, 2011	March 31, 2011	March 31, 2010
		<i>Unaudited convenience translation into U.S.\$ (See Note 2.d)</i>		
ASSETS				
Current assets				
Cash and cash equivalents	15	U.S.\$ 129 ₹	5,729 ₹	6,584
Other investments	11	1	33	3,600
Trade receivables, net	13	395	17,615	11,960
Inventories	12	361	16,059	13,371
Derivative financial instruments	31	18	784	573
Current tax assets		10	442	530
Other current assets	14	156	6,931	5,445
Total current assets		U.S.\$ 1,069 ₹	47,593 ₹	42,063
Non-current assets				
Property, plant and equipment	7	666	29,642	22,459
Goodwill	8	49	2,180	2,174
Other intangible assets	9	293	13,066	11,799
Investment in equity accounted investees	10	7	313	310
Deferred income tax assets	28	43	1,935	1,282
Other non-current assets	14	6	276	243
Total non-current assets		U.S.\$ 1,064 ₹	47,412 ₹	38,267
Total assets		U.S.\$ 2,133 ₹	95,005 ₹	80,330
LIABILITIES AND EQUITY				
Current liabilities				
Trade payables	23	U.S.\$ 190 ₹	8,480 ₹	9,322
Current income tax liabilities		28	1,231	1,432
Bank overdraft	15	2	69	39
Short-term borrowings	18	409	18,220	5,565
Long-term borrowings, current portion	18	—	12	3,706
Provisions	22	29	1,314	1,094
Other current liabilities	24	262	11,689	7,864
Total current liabilities		U.S.\$ 921 ₹	41,015 ₹	29,022
Non-current liabilities				
Long-term loans and borrowings, excluding current portion	18	U.S.\$ 118 ₹	5,271 ₹	5,385
Provisions	22	1	41	39
Deferred tax liabilities	28	45	2,022	2,720
Other liabilities	24	15	666	249
Total non-current liabilities		U.S.\$ 180 ₹	8,000 ₹	8,393
Total liabilities		U.S.\$ 1,100 ₹	49,015 ₹	37,415

The accompanying notes form an integral part of these consolidated financial statements.

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in millions, except share and per share data)

Particulars	Note	As of		
		March 31, 2011	March 31, 2011	March 31, 2010
		<i>Unaudited convenience translation into U.S.\$ (See Note 2.d)</i>		
Equity				
Share capital	16	U.S.\$ 19	₹ 846	₹ 844
Share premium		464	20,683	20,429
Other components of equity		75	3,326	2,920
Share based payment reserve		16	730	692
Equity shares held by controlled trust		—	(5)	(5)
Retained earnings		458	20,391	18,035
Debenture redemption reserve		—	19	—
Total equity attributable to:				
Equity holders of the Company		U.S.\$ 1,033	₹ 45,990	₹ 42,915
Non-controlling interests		—	—	—
Total equity		U.S.\$ 1,033	₹ 45,990	₹ 42,915
Total liabilities and equity		U.S.\$ 2,133	₹ 95,005	₹ 80,330

The accompanying notes form an integral part of these consolidated financial statements.

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
(in millions, except share and per share data)

Particulars	Note	For the year ended March 31,			
		2011	2011	2010	2009
		<i>Unaudited Convenience Translation into U.S.\$ (See Note 2.d.)</i>			
Revenues	25	U.S.\$ 1,677	₹ 74,693	₹ 70,277	₹ 69,441
Cost of revenues		773	34,430	33,937	32,941
Gross profit		U.S.\$ 904	₹ 40,263	₹ 36,340	₹ 36,500
Selling, general and administrative expenses		532	23,689	22,505	21,020
Research and development expenses		114	5,060	3,793	4,037
Impairment loss on other intangible assets	9	—	—	3,456	3,167
Impairment loss on goodwill	8	—	—	5,147	10,856
Other (income)/expense, net	26	(25)	(1,115)	(569)	254
Total operating expenses, net		U.S.\$ 620	₹ 27,634	₹ 34,332	₹ 39,334
Results from operating activities		284	12,629	2,008	(2,834)
Finance expense	27	(8)	(362)	(372)	(1,668)
Finance income	27	4	173	369	482
Finance (expense)/income, net		(4)	(189)	(3)	(1,186)
Share of profit of equity accounted investees, net of income tax	10	—	3	48	24
Profit/(loss) before income tax		279	12,443	2,053	(3,996)
Income tax (expense)/benefit	28	(31)	(1,403)	(985)	(1,172)
Profit/(loss) for the year		248	₹ 11,040	₹ 1,068	₹ (5,168)
Attributable to:					
Equity holders of the Company		248	11,040	1,068	(5,168)
Non-controlling interests		—	—	—	—
Profit/(loss) for the year		248	₹ 11,040	₹ 1,068	₹ (5,168)
Earnings/(loss) per share	17				
Basic		U.S.\$ 1.47	₹ 65.28	₹ 6.33	₹ (30.69)
Diluted		U.S.\$ 1.46	₹ 64.95	₹ 6.30	₹ (30.69)
Weighted average number of equity shares used in computing earnings/(loss) per equity share	17				
Basic			169,128,649	168,706,977	168,349,139
Diluted			169,965,282	169,615,943	168,349,139

The accompanying notes form an integral part of these consolidated financial statements.

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in millions, except share and per share data)

Particulars	For the year ended March 31,			
	2011	2011	2010	2009
	<i>Unaudited Convenience Translation into U.S.\$ (See Note 2.d.)</i>			
Profit/(loss) for the year	U.S.\$ 248	₹ 11,040	₹ 1,068	₹ (5,168)
Other comprehensive income/(loss)				
Changes in fair value of available for sale financial instruments	U.S.\$ —	₹ 7	₹ 13	₹ 18
Foreign currency translation adjustments	9	421	241	642
Effective portion of changes in fair value of cash flow hedges, net	1	37	745	(227)
Income tax on other comprehensive income	(1)	(59)	(102)	32
Other comprehensive income/(loss) for the year, net of income tax	U.S.\$ 9	₹ 406	₹ 897	₹ 465
Total comprehensive income/(loss) for the year	U.S.\$ 257	₹ 11,446	₹ 1,965	₹ (4,703)
Attributable to:				
Equity holders of the Company	257	11,446	1,965	(4,703)
Non-controlling interests	—	—	—	—
Total comprehensive income/(loss) for the year	U.S.\$ 257	₹ 11,446	₹ 1,965	₹ (4,703)

The accompanying notes form an integral part of these consolidated financial statements.

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(in millions, except share and per share data)

Particulars	Share capital		Share premium	Fair value	Foreign	Hedging
	Shares	Amount	Amount	reserve	currency translation reserve	reserve
Balance as of April 1, 2008	168,172,746	₹ 841	₹ 20,036	₹ (2)	₹ 1,567	(7)
Issue of equity shares on exercise of options	296,031	1	168	—	—	—
Net change in fair value of other investments, net of tax expense of ₹5	—	—	—	13	—	—
Foreign currency translation differences, net of tax expense of ₹41	—	—	—	—	601	—
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of ₹78	—	—	—	—	—	(149)
Share based payment expense	—	—	—	—	—	—
Dividend paid (including corporate dividend tax)	—	—	—	—	—	—
Profit/(loss) for the period	—	—	—	—	—	—
Acquisition of non-controlling interests	—	—	—	—	—	—
Issuance of bonus debentures (including corporate dividend tax)	—	—	—	—	—	—
Debt Redemption Reserve	—	—	—	—	—	—
Balance as of March 31, 2009	168,468,777	₹ 842	₹ 20,204	₹ 11	₹ 2,168	₹ (156)
Balance as of April 1, 2009		₹ 842	₹ 20,204	₹ 11	₹ 2,168	₹ (156)
Issue of equity share on exercise of options	168,468,777	2	225	—	—	—
Net change in fair value of other investments, net of tax expense of ₹—	376,608	—	—	13	—	—
Foreign currency translation differences, net of tax benefit of ₹150	—	—	—	—	391	—
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of ₹252	—	—	—	—	—	493
Share based payment expense	—	—	—	—	—	—
Dividend paid (including corporate dividend tax)	—	—	—	—	—	—
Profit/(loss) for the period	—	—	—	—	—	—
Acquisition of non-controlling interests	—	—	—	—	—	—
Issuance of bonus debentures (including corporate dividend tax)	—	—	—	—	—	—
Debt Redemption Reserve	—	—	—	—	—	—
Balance as of March 31, 2010	168,845,385	₹ 844	₹ 20,429	₹ 24	₹ 2,559	₹ 337
Balance as of April 1, 2010	168,845,385	₹ 844	₹ 20,429	₹ 24	₹ 2,559	₹ 337
Issue of equity shares on exercise of options	407,347	2	254	—	—	—
Net change in fair value of other investments, net of tax expense of ₹—	—	—	—	7	—	—
Foreign currency translation differences, net of tax expense of ₹59	—	—	—	—	362	—
Effective portion of changes in fair value of cash flow hedges, net of tax expense of ₹—	—	—	—	—	—	37
Share based payment expense	—	—	—	—	—	—
Dividend paid (including corporate dividend tax)	—	—	—	—	—	—
Profit/(loss) for the period	—	—	—	—	—	—
Acquisition of non-controlling interests	—	—	—	—	—	—
Issuance of bonus debentures (including corporate dividend tax)	—	—	—	—	—	—
Debt Redemption Reserve	—	—	—	—	—	—
Balance as of March 31, 2011	169,252,732	₹ 846	₹ 20,683	₹ 31	₹ 2,921	₹ 374
Convenience translation into U.S. \$		19	464	1	66	8

The accompanying notes form an integral part of these consolidated financial statements.

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(in millions, except share and per share data)

[Continued from above table, first column repeated]

<u>Particulars</u>	<u>Share based payment reserve Amount</u>	<u>Equity shares held by a controlled trust* Amount</u>	<u>Retained earnings Amount</u>	<u>Debenture Redemption reserve Amount</u>	<u>Non- controlling interests Amount</u>	<u>Total Amount</u>
Balance as of April 1, 2008	₹ 709	₹ (5)	₹ 24,211	₹ —	₹ —	₹ 47,350
Issue of equity shares on exercise of options	(164)	—	—	—	—	5
Net change in fair value of other investments, net of tax expense of ₹5	—	—	—	—	—	13
Foreign currency translation differences, net of tax expense of ₹41	—	—	—	—	—	601
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of ₹78	—	—	—	—	—	(149)
Share based payment expense	131	—	—	—	—	131
Dividend paid (including corporate dividend tax)	—	—	(738)	—	—	(738)
Profit/(loss) for the period	—	—	(5,168)	—	—	(5,168)
Acquisition of non-controlling interests	—	—	—	—	—	—
Issuance of bonus debentures (including corporate dividend tax)	—	—	—	—	—	—
Debenture Redemption Reserve	—	—	—	—	—	—
Balance as of March 31, 2009	<u>₹ 676</u>	<u>₹ (5)</u>	<u>₹ 18,305</u>	<u>₹ —</u>	<u>₹ —</u>	<u>₹ 42,045</u>
Balance as of April 1, 2009	₹ 676	₹ (5)	₹ 18,305	₹ —	₹ —	₹ 42,045
Issue of equity share on exercise of options	(210)	—	—	—	—	17
Net change in fair value of other investments, net of tax expense of ₹—	—	—	—	—	—	13
Foreign currency translation differences, net of tax expense of ₹150	—	—	—	—	—	391
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of ₹252	—	—	—	—	—	493
Share based payment expense	226	—	—	—	—	226
Dividend paid (including corporate dividend tax)	—	—	(1,233)	—	—	(1,233)
Profit/(loss) for the period	—	—	1,068	—	—	1,068
Acquisition of non-controlling interests	—	—	(105)	—	—	(105)
Issuance of bonus debentures (including corporate dividend tax)	—	—	—	—	—	—
Debenture Redemption Reserve	—	—	—	—	—	—
Balance as of March 31, 2010	<u>₹ 692</u>	<u>₹ (5)</u>	<u>₹ 18,035</u>	<u>₹ —</u>	<u>₹ —</u>	<u>₹ 42,915</u>
Balance as of April 1, 2010	₹ 692	₹ (5)	₹ 18,035	₹ —	₹ —	₹ 42,915
Issue of equity shares on exercise of options	(227)	—	—	—	—	29
Net change in fair value of other investments, net of tax expense of ₹—	—	—	—	—	—	7
Foreign currency translation differences, net of tax expense of ₹59	—	—	—	—	—	362
Effective portion of changes in fair value of cash flow hedges, net of tax expense of ₹—	—	—	—	—	—	37
Share based payment expense	265	—	—	—	—	265
Dividend paid (including corporate dividend tax)	—	—	(2,219)	—	—	(2,219)
Profit/(loss) for the period	—	—	11,040	—	—	11,040
Acquisition of non-controlling interests	—	—	(525)	—	—	(525)
Issuance of bonus debentures (including corporate dividend tax)	—	—	(5,921)	—	—	(5,921)
Debenture Redemption Reserve	—	—	(19)	19	—	—
Balance as of March 31, 2011	<u>₹ 730</u>	<u>₹ (5)</u>	<u>₹ 20,391</u>	<u>₹ 19</u>	<u>₹ —</u>	<u>₹ 45,990</u>
Convenience translation into U.S. \$	<u>16</u>	<u>—</u>	<u>458</u>	<u>—</u>	<u>—</u>	<u>1,033</u>

* The number of equity shares held by a controlled trust as of April 1, 2008, March 31, 2009, April 1, 2009, March 31, 2010, April 1, 2010 and March 31, 2011.

The accompanying notes form an integral part of these consolidated financial statements.

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions, except share and per share data)

	For the year ended March 31,			
	2011	2011	2010	2009
	<i>Unaudited Convenience translation into U.S.\$ (See Note 2.d.)</i>			
Cash flows from/(used in) operating activities:				
Profit/(loss) for the year	U.S.\$ 248	₹ 11,040	₹ 1,068	₹ (5,168)
Adjustments for:				
Income tax expense/(benefit)	31	1,403	985	1,172
Dividend and profit on sale of investments	(2)	(68)	(48)	(136)
Depreciation and amortization	93	4,148	4,160	3,814
Impairment loss on other intangible assets	—	—	3,456	3,167
Impairment loss on goodwill	—	—	5,147	10,856
Inventory write-downs	28	1,237	1,011	833
Allowance for doubtful trade receivables	4	162	169	148
Loss/(Profit) on sale of property, plant and equipment, net	(6)	(271)	24	(15)
Provision for sales returns	16	731	932	663
Share of profit of equity accounted investees	—	(3)	(48)	(24)
Unrealized exchange (gain)/loss, net	(24)	(1,072)	399	(416)
Interest expense, net	4	200	123	688
Share based payment expense	6	265	226	131
Negative goodwill on acquisition of business	(2)	(73)	—	(150)
<i>Changes in operating assets and liabilities:</i>				
Trade receivables	(103)	(4,579)	900	(7,348)
Inventories	(81)	(3,624)	(1,593)	(1,939)
Other assets	—	(19)	(2,130)	1,051
Trade payables	26	1,154	1,251	(223)
Other liabilities and provisions	7	330	25	192
Income tax paid	(66)	(2,952)	(2,831)	(2,791)
Net cash from operating activities	U.S.\$ 180	₹ 8,009	₹ 13,226	₹ 4,505
Cash flows from/(used in) investing activities:				
Expenditures on property, plant and equipment	(204)	(9,066)	(4,129)	(4,507)
Proceeds from sale of property, plant and equipment	8	348	61	81
Purchase of other investments	(201)	(8,960)	(24,111)	(12,021)
Proceeds from sale of other investments	283	12,602	21,102	16,398
Expenditure on other intangible assets	(57)	(2,540)	(154)	(254)
Payment of contingent consideration for acquisition of business	—	—	—	(83)
Cash paid for acquisition of business, net of cash acquired	(26)	(1,169)	—	(3,089)
Cash paid for acquisition of equity accounted investee, net of cash acquired	—	—	—	(372)
Interest received	3	127	233	375
Net cash used in investing activities	U.S.\$ (194)	₹ (8,658)	₹ (6,998)	₹ (3,472)
Cash flows from/(used in) financing activities:				
Interest paid	(8)	(366)	(449)	(1,132)
Proceeds from issuance of equity shares	1	29	17	5
Proceeds from short term loans and borrowings, net	281	12,541	(83)	1,263
Repayment of long term loans and borrowings	(201)	(8,942)	(3,479)	(1,925)
Dividend paid (including corporate dividend tax) ⁽¹⁾	(69)	(3,063)	(1,233)	(738)
Transfers into escrow account for issuance of bonus debentures ⁽¹⁾	(114)	(5,078)	—	—
Proceeds from issuance of bonus debentures ⁽¹⁾	114	5,078	—	—
Costs of issuance of bonus debentures ⁽¹⁾	(1)	(51)	—	—
Cash paid for acquisition of non-controlling interests	(12)	(525)	(80)	—
Net cash used in financing activities	U.S.\$ (8)	₹ (377)	₹ (5,307)	₹ (2,527)
Net increase/(decrease) in cash and cash equivalents	(23)	(1,026)	921	(1,494)
Effect of exchange rate changes on cash and cash equivalents	3	141	246	(114)
Cash and cash equivalents at the beginning of the period	147	6,545	5,378	6,986
Cash and cash equivalents at the end of the period	U.S.\$ 127	₹ 5,660	₹ 6,545	₹ 5,378

Note:

⁽¹⁾ Refer to Note 34 below for further details on the bonus debentures scheme.

The accompanying notes form an integral part of these consolidated financial statements.

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions, except share and per share data)

Supplemental schedule of non-cash investing and financing activities:

	Year Ended March 31,			
	2011	2011	2010	2009
	<i>Unaudited Convenience translation into U.S.\$ (See Note 2.d.)</i>			
Property, plant and equipment and intangibles purchased on credit during the year, including contingent consideration on purchase of intangibles	U.S.\$ 46	₹ 2,055	₹ 2,990	₹ 427
Property, plant and equipment purchased under capital lease	—	7	—	—
Contingent consideration payable on acquisition of non-controlling interests	—	—	25	—

The accompanying notes form an integral part of these consolidated financial statements.

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data and where otherwise stated)

1. Reporting entity

Dr. Reddy's Laboratories Limited ("DRL" or the "parent company") together with its subsidiaries (collectively, the "Company") is a leading India-based pharmaceutical company headquartered and having its registered office in Hyderabad, Andhra Pradesh, India. The Company's principal areas of operation are in pharmaceutical services and active ingredients, global generics, and proprietary products. The Company's principal research and development facilities are located in Andhra Pradesh, India, and Cambridge, United Kingdom; its principal manufacturing facilities are located in Andhra Pradesh, India, Himachal Pradesh, India, Cuernavaca-Cuautla, Mexico, Mirfield, United Kingdom, Louisiana, United States and Tennessee, United States; and its principal marketing facilities are located in India, Russia, the United States, the United Kingdom and Germany. The Company's shares trade on the Bombay Stock Exchange and the National Stock Exchange in India and, since April 11, 2001, also on the New York Stock Exchange in the United States. As explained in Note 34 of these consolidated financial statements, during the year ended March 31, 2011, the Company issued bonus debentures. These bonus debentures have been listed on the Bombay Stock Exchange and the National Stock Exchange in India since April 7, 2011.

2. Basis of preparation of financial statements

a. Statement of compliance

These consolidated financial statements as at and for the year ended March 31, 2011 have been prepared in accordance with the International Financial Reporting Standards and its interpretations ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been prepared for the Company as a going concern on the basis of relevant IFRS that are effective or available for early adoption at the Company's annual reporting date, March 31, 2011. These consolidated financial statements were authorized for issuance by the Company's Board of Directors on July 13, 2011.

b. Basis of measurement

These consolidated financial statements have been prepared on the historical cost convention and on an accrual basis, except for the following:

- derivative financial instruments that are measured at fair value;
- financial instruments that are designated as being at fair value through profit or loss account upon initial recognition are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- employee defined benefit assets are recognized as the net total of the fair value of plan assets, plus unrecognized past service cost and unrecognized actuarial losses, less unrecognized actuarial gains and the present value of the defined benefit obligation; and
- long term borrowings, except obligations under finance leases that are measured at amortized cost using the effective interest rate method.

c. Functional and presentation currency

The consolidated financial statements are presented in Indian rupees, which is the functional currency of the parent company. All financial information presented in Indian rupees has been rounded to the nearest million. The functional currency of an entity is the currency of the primary economic environment in which the entity operates.

In respect of all non-Indian subsidiaries that operate as marketing arms of the parent company in their respective countries/regions, the functional currency has been determined to be the functional currency of the parent company (i.e., the Indian rupee). Accordingly, the operations of 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 company. 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 company. The financing of these subsidiaries is done directly or indirectly by the parent company.

In respect of subsidiaries and associates whose operations are self-contained and integrated within their respective countries/regions, the functional currency has been determined to be the local currency of those countries/regions.

d. Convenience translation (unaudited)

The accompanying consolidated financial statements have been prepared in Indian rupees. Solely for the convenience of the reader, the consolidated financial statements as of March 31, 2011 have been translated into United States dollars at the noon buying rate in New York City on March 31, 2011 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of U.S.\$1.00 = ₹44.54. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. Such convenience translation is unaudited.

e. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data and where otherwise stated)

2. Basis of preparation of financial statements (continued)

e. Use of estimates and judgments (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 3(b) — Assessment of functional currency for foreign operations
- Note 3(c) and 31 — Financial instruments
- Notes 3(f) and 8 — Measurement of recoverable amounts of cash-generating units
- Note 3(k) — Provisions and contingencies
- Note 3(l) — Sales returns, rebates and charge back provisions
- Note 3(n) — Evaluation of recoverability of deferred tax assets
- Note 6 — Business combinations
- Note 37 — Contingencies

3. Significant accounting policies

a. Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company. Non-controlling interests ("NCI") represent part of the comprehensive income and net assets of subsidiaries that are not, directly or indirectly, owned by the Company. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interest, even if doing so causes the non-controlling interests to have a deficit balance.

Special purpose entities

The Company has established one special purpose entity ("SPE") for business purposes. Although the Company may not directly or indirectly own any shares in a SPE, the SPE is nonetheless consolidated if, based on an evaluation of the substance of its relationship with the Company and the SPE's risks and rewards, the Company concludes that it controls the SPE. SPEs controlled by the Company were established under terms that impose strict limitations on the decision-making powers of the SPE's management and that result in the Company receiving the majority of the benefits related to the SPE's operations and net assets, being exposed to risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

Associates and jointly controlled entities (equity accounted investees)

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Investments in associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognized at cost. The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Company's share of the income and expenses and equity changes of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to zero and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

The Company does not consolidate entities where the NCI holders have certain significant participating rights that provide for effective involvement in significant decisions in the ordinary course of business of such entities. Investments in such entities are accounted by the equity method of accounting.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Acquisition of non-controlling interests

Acquisitions of some or all of the NCIs are accounted for as a transaction with equity holders in their capacity as equity holders. Consequently, the difference arising between the fair value of the purchase consideration paid and the carrying value of the NCI is recorded as an adjustment to retained earnings that is attributable to the parent company. The associated cash flows are classified as financing activities. Therefore, no goodwill is recognized as a result of such transactions.

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data and where otherwise stated)

3. Significant accounting policies (continued)

a. Basis of consolidation (continued)

Loss of Control

Upon the loss of control, the Company derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in the income statement. If the Company retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset, depending on the level of influence retained.

b. Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of entities within the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for receipts and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising upon retranslation are recognized in profit or loss, except for differences arising upon qualifying cash flow hedges, which are recognized in other comprehensive income/(loss) and presented within equity.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of the net investment in the foreign operation and are recognized in other comprehensive income/(loss) presented within equity as a part of foreign currency translation reserve adjustments.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising upon acquisition, are translated to the reporting currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the reporting currency at the monthly average exchange rates prevailing during the year.

Foreign currency differences are recognized in other comprehensive income/(loss) and presented within equity. Such differences have been recognized in the foreign currency translation reserve ("FCTR"). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

c. Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments consist of investments in mutual funds, equity and debt securities, trade receivables, certain other assets, cash and cash equivalents, loans and borrowings, and trade payables and certain other liabilities.

Non-derivative financial assets

Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs, except for those instruments that are designated as being fair value through profit and loss upon initial recognition. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents

Cash and cash equivalents consist of current cash balances and time deposits with banks. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Held-to-maturity investments

If the Company has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held to maturity financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses. As at March 31, 2011, the Company did not have any held-to-maturity investments.

Available-for-sale financial assets

The Company's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income/(loss) and presented within equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data and where otherwise stated)

3. Significant accounting policies (continued)

c. Financial instruments (continued)

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is expected in one year or less in the normal operating cycle of the business if longer.

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, or in the normal operating cycle of the business if longer, they are classified as current assets.

Others

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

The Company derecognizes a financial asset when the contractual right to the cash flows from that asset expires, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Non-derivative financial liabilities

The Company initially recognizes debt instruments issued on the date that they originate. All other financial liabilities are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized as profit or loss.

Non-derivative financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Non-derivative hedging instruments

In addition to the use of derivative financial instruments to hedge foreign currency exposure, the Company designates certain non-derivative financial liabilities, denominated in foreign currencies, as hedges against foreign currency exposures associated with highly probable forecasted sales transactions denominated in foreign currencies. Use of such instruments are limited to only hedging foreign currency exposures, and are not used as hedging instruments for other types of risks that the Company is exposed to.

Accordingly, exchange differences arising on translation of such non-derivative liabilities are recognized directly in other comprehensive income/(loss) and presented within equity as part of the hedging reserve, to the extent that the hedge is considered to be effective. Upon initial designation, of the derivative as a hedging instrument, the Company formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% — 125% relative to the gain or loss on the hedged items. For a cash flow hedge of a forecast transaction, percentage relative to the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income/(loss), remains there until the forecast transaction occurs. When on the hedged item is a non-financial asset, the amount recognized in other comprehensive income/(loss), is transferred to the carrying amount of the asset when it is recognized. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income/(loss) is transferred to profit or loss in the same period that the hedged item affects profit or loss.

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data and where otherwise stated)

3. Significant accounting policies (continued)

c. Financial instruments (continued)

Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency exposure. Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below:

Cash flow hedges

Changes in the fair value of a derivative hedging instrument designated as a cash flow hedge are recognized directly in other comprehensive income/(loss) and presented within equity, to the extent that the hedge is effective. Upon initial designation of the derivative as a hedging instrument, the Company formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% — 125% relative to the gain or loss on the hedged items. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income/(loss) remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognized in other comprehensive income/(loss) is transferred to the carrying amount of the asset when it is recognized. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases, the amount recognized in other comprehensive income/(loss) is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Accounting policy on foreign currency risk

In addition to the use of derivative financial instruments to hedge foreign currency exposure, the Company designates certain non-derivative financial liabilities, denominated in foreign currencies, as hedges against foreign currency exposures associated with highly probable forecasted foreign currency sales transactions.

Accordingly, exchange differences arising on translation of such non-derivative liabilities are recognized directly in other comprehensive income/(loss) and presented within equity, to the extent that the hedge is effective. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income/(loss) remains there until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income/(loss) is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Economic hedges

The Company does not apply hedge accounting to certain derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognized in profit or loss as part of foreign currency gains and losses.

As discussed further in these consolidated financial statements, the Company has adopted the recent amendments made to IFRS 7 "Financial Instruments — Disclosure", with respect to the disclosure of the fair value hierarchy for financial instruments that are measured at fair value as at the reporting date in the statement of financial position, and accordingly necessary disclosures have been made in these consolidated financial statements.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and stock options are recognized as a deduction from equity, net of any tax effects.

d. Business combinations

Business combinations occurring on or after April 1, 2009 are accounted for by applying the acquisition method. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Company takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data and where otherwise stated)

3. Significant accounting policies (continued)

d. Business combinations (continued)

The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Company to the previous owners of the acquiree, and equity interests issued by the Company. Consideration transferred also includes the fair value of any contingent consideration. A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably. The Company measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree. Transaction costs that the Company incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees and other professional and consulting fees, are expensed as incurred.

e. Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and other costs directly attributable to bringing the asset to a working condition for its intended use. Borrowing costs that are directly attributable to the construction or production of a qualifying asset are capitalized as part of the cost of that asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses upon disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other income/expense, net" in profit or loss.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of repairs and maintenance are recognized in profit or loss as incurred.

Items of property, plant and equipment acquired through exchange of non-monetary assets are measured at fair value, unless the exchange transaction lacks commercial substance or the fair value of either the asset received or asset given up is not reliably measurable, in which case the asset exchanged is recorded at the carrying amount of the asset given up.

Depreciation

Depreciation is recognized in profit or loss over the estimated useful lives of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	
- Factory and administrative buildings	25 - 50 years
- Ancillary structures	3 - 15 years
Plant and equipment	3 - 15 years
Furniture, fixtures and office equipment	4 - 10 years
Vehicles	4 - 5 years
Computer equipment	3 - 5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Software for internal use, which is primarily acquired from third-party vendors, including consultancy charges for implementing the software, is capitalized. Subsequent costs are charged to the profit or loss as incurred. The capitalized costs are amortized over the estimated useful life of the software.

Advances paid towards the acquisition of property, plant and equipment outstanding at each statements of financial position date and the cost of property, plant and equipment not put to use before such date are disclosed under capital work-in-progress.

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data and where otherwise stated)

3. Significant accounting policies (continued)

f. Intangible assets

Goodwill arising upon the acquisition of subsidiaries represents the fair value of the consideration including the recognized amount of any non-controlling interest in the acquirer, less the net recognized amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities assumed, all measured at acquisition date. When the fair value of the consideration paid is less than the fair value of the net assets acquired, a bargain purchase gain is recognized immediately in profit or loss.

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognized as a result of such transactions.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying value of the equity accounted investee.

Research and development

Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are recognized in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if:

- development costs can be measured reliably,
- the product or process is technically and commercially feasible,
- future economic benefits are probable and ascertainable, and
- the Company intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditures to be capitalized include the cost of materials and other costs directly attributable to preparing the asset for its intended use. Other development expenditures are recognized in profit or loss as incurred.

In conducting its research and development activities related to new chemical entities ("NCEs") and proprietary products, the Company seeks to optimize its expenditures and to limit its risk exposures. Most of the Company's current research and development projects related to NCEs and proprietary products are at an early discovery phase where project costs are insignificant and cannot be directly identified to any specific project, as these costs generally represent staff and common facility costs. These early development stage exploratory projects are numerous and are characterized by uncertainty with respect to timing and cost of completion. At such time as a research and development project related to an NCE or proprietary product progresses into the more costly clinical study phases, where the costs can be tracked separately, such project is considered to be significant if:

- (a) it is expected to account for more than 10% of the Company's total research and development costs; and
- (b) the costs and efforts to develop the project can be reasonably estimated and the product resulting from the project has a high probability of launch.

Historically, none of the Company's development projects have met the significance thresholds listed above.

Payments to in-license products and compounds from third parties generally taking the form of up-front payments and milestones are capitalized. The Company's criteria for capitalization of such assets are consistent with the guidance given in paragraph 25 of International Accounting Standard 38 ("IAS 38") (i.e., receipt of economic benefits out of the separately purchased transaction is considered to be probable). Historically, wherever the Company has purchased or in-licensed products, either regulatory approval for the products were available from the Company's counterparties or there were other contractual terms providing for a refund should the regulatory approvals not be received.

The amortization of such assets is generally on a straight-line basis, over their useful economic lives. If the Company becomes entitled to a refund under the terms of an in-license contract, the amount is recognized when the right to receive the refund is established. In such an event, any consequential difference as compared to the carrying value of the asset is recognized in the Company's Statement of Income.

Intangible assets relating to products in development, other intangible assets not available for use and intangible assets having indefinite useful life are subject to impairment testing at each statements of financial position date. All other intangible assets are tested for impairment when there are indications that the carrying value may not be recoverable. Any impairment losses are recognized immediately in profit or loss.

De-recognition of intangible assets

Intangible assets are de-recognized either on their disposal or where no future economic benefits are expected from their use or disposal. Losses arising on such de-recognition are recorded in profit or loss, and are measured as the difference between the net disposal proceeds, if any, and the carrying amount of respective intangible assets as on the date of de-recognition.

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data and where otherwise stated)

3. Significant accounting policies (continued)

f. Intangible assets (continued)

Other intangible assets

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate.

Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than for goodwill, intangible assets not available for use and intangible assets having indefinite life, from the date that they are available for use. The estimated useful lives are as follows:

Trademarks	3 - 12 years
Product related intangibles	6 - 15 years
Beneficial toll manufacturing contract	2 years
Non-competition arrangements	1.5 - 10 years
Marketing rights	3 - 16 years
Customer-related intangibles	2 - 11 years
Technology related intangibles	3 - 13 years
Other intangibles	5 - 15 years

g. Leases

At the inception of a lease, the lease arrangement is classified as either a finance lease or an operating lease, based on the substance of the lease arrangement.

Finance leases

A finance lease is recognized as an asset and a liability at the commencement of the lease, at the lower of the fair value of the asset and the present value of the minimum lease payments. Initial direct costs, if any, are also capitalized and, subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating leases

Other leases are operating leases, and the leased assets are not recognized on the Company's statements of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

h. Inventories

Inventories consist of raw materials, stores and spares, work in progress and finished goods and are measured at the lower of cost and net realizable value. The cost of all categories of inventories, except stores and spares, is based on the first-in first-out principle. Stores and spares consists of packing materials, engineering spares (such as machinery spare parts) and consumables (such as lubricants, cotton waste and oils), which are used in operating machines or consumed as indirect materials in the manufacturing process, where cost is based on a weighted average method. Cost includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The factors that the Company considers in determining the allowance for slow moving, obsolete and other non-saleable inventory includes estimated shelf life, planned product discontinuances, price changes, ageing of inventory and introduction of competitive new products, to the extent each of these factors impact the Company's business and markets. The Company considers all these factors and adjusts the inventory provision to reflect its actual experience on a periodic basis.

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3. Significant accounting policies (continued)

i. Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis.

All impairment losses are recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in other comprehensive income/(loss) and presented within equity.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, an impairment test is performed each year at March 31.

The recoverable amount of an asset or cash-generating unit (as defined below) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination is, for the purpose of impairment testing, allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

j. Employee benefits

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to recognized provident funds and approved superannuation schemes which are defined contribution plans are recognized as an employee benefit expense in profit or loss as and when the services are received from the employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of an approved gratuity plan, which is a defined benefit plan, and certain other defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on risk free government bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the net total of any cumulative unrecognized net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

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3. Significant accounting policies (continued)

j. Employee benefits (continued)

The Company recognizes actuarial gains and losses using the corridor method. Under this method, to the extent that any cumulative unrecognized actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognized in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized.

Termination benefits

Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Other long term benefits

Eligible employees of a consolidated subsidiary are entitled to payments that are payable twelve months or more after the end of the period in which the employees render the related service. The Company's net obligation in respect of such plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current period; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on risk free government bond that has a maturity date approximating the term of the obligation and is denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. Actuarial losses and past service costs that arise are recognized immediately in profit or loss.

Compensated leave of absence

Eligible employees are entitled to accumulate compensated absences up to prescribed limits in accordance with the Company's policy and receive cash in lieu thereof. The Company measures the expected cost of accumulating compensated absences as the additional amount that the Company expects to pay as a result of the unused entitlement that has accumulated at the statements of financial position date. Such measurement is based on actuarial valuation as at the statements of financial position date carried out by a qualified actuary.

Share-based payment transactions

The grant date fair value of options granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The expense is recorded for each separately vesting portion of the award as if the award was, in substance, multiple awards. The increase in equity recognized in connection with a share based payment transaction is presented as a separate component in equity. The amount recognized as an expense is adjusted to reflect the actual number of stock options that vest.

k. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Restructuring

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

Reimbursement rights

Expected reimbursements for expenditures required to settle a provision are recognized only when receipt of such reimbursements is virtually certain. Such reimbursements are recognized as a separate asset in the statement of financial position, with a corresponding credit to the specific expense for which the provision has been made.

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3. Significant accounting policies (continued)

1. Revenue

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods includes excise duty and is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts and allowances. Revenue includes shipping and handling costs billed to the customer.

Revenue from domestic sales of generic products is recognized upon delivery of products to distributors by clearing and forwarding agents of the Company. Revenue from domestic sales of active pharmaceutical ingredients and intermediates is recognized on delivery of products to customers, from the factories of the Company. Revenue from export sales is recognized when the significant risks and rewards of ownership of products are transferred to the customers, which occurs upon delivery of the products to the customers unless the terms of the applicable contract provide for specific revenue generating activities to be completed, in which case revenue is recognized once all such activities are completed.

Sales of generic products in India are made through clearing and forwarding agents to distributors. Significant risks and rewards in respect of ownership of generic products are transferred by the Company when the goods are delivered to distributors 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 of the Company. Significant risks and rewards in respect of ownership of active pharmaceutical ingredients are transferred by the Company upon delivery of the products to the customers. Sales of active pharmaceutical ingredients and intermediates outside India are made directly to the end customers (generally distributors or formulations manufacturers) from the parent company or its consolidated subsidiaries. Significant risks and rewards in respect of ownership of active pharmaceutical ingredients are transferred by the Company upon delivery of the products to the customers, unless the terms of the applicable contract provide for specific revenue generating activities to be completed, in which case revenue is recognized once all such activities are completed.

The Company has entered into marketing arrangements with certain business partners for sale of goods in certain overseas territories. Under such arrangements, the Company sells generic products to the business partners at a price agreed upon in the arrangement and is also entitled to a profit share which is over and above the agreed price, on the basis of the marketing partner's ultimate net sale proceeds. Revenue in an amount equal to the agreed price is recognized on these transactions upon delivery of products to the business partners. An additional amount representing the profit share is recognized as revenue only when the collectability of the profit share becomes probable and a reliable measure of the profit share is available. Revenue under profit sharing arrangements is recognized when the Company's business partners send a valid confirmation of the amounts that are owed to the Company. Arrangements with the Company's business partners typically require the business partner to provide confirmation on inventory status and net sales computations for the products covered under the arrangement, together with an indicative date for payment. Such confirmation from the business partners is typically received in the quarter following the quarter in which the actual underlying sales of the products were made by them. The collection of the profit share becomes probable, and a reliable measurement of the profit share becomes possible, only after the receipt of such confirmation. Accordingly, the timing of revenue recognition corresponds with the receipt of such confirmation.

Revenues include amounts derived from product out-licensing agreements. These arrangements typically consist of an initial up-front payment on inception of the license and subsequent payments dependent on achieving certain milestones in accordance with the terms prescribed in the agreement. Non-refundable up-front license fees received in connection with product out-licensing agreements are deferred and recognized over the period in which the Company has continuing substantive performance obligations. Milestone payments which are non-refundable and contingent on achieving certain clinical milestones are recognized as revenues either on achievement of such milestones, if the milestones are considered substantive, or over the period the Company has continuing substantive performance obligations, if the milestones are not considered substantive. If milestone payments are creditable against future royalty payments, the milestones are deferred and released over the period in which the royalties are anticipated to be paid.

Provisions for chargeback, rebates, discounts and medicaid payments are estimated and provided for in the year of sales and recorded as reduction of revenue. A chargeback claim is a claim made by the wholesaler for the difference between the price at which the product is initially invoiced to the wholesaler and the net price at which it is agreed to be procured from the Company. Provisions for such chargebacks are accrued and estimated based on historical average chargeback rate actually claimed over a period of time, current contract prices with wholesalers/other customers and estimated inventory holding by the wholesaler. Such provisions are presented as a reduction of trade receivable.

Shelf stock adjustments are credits issued to customers to reflect decreases in the selling price of products sold by the Company, and are accrued and paid when the prices of certain products decline as a result of increased competition upon the expiration of limited competition or exclusivity periods. These credits are customary in the pharmaceutical industry, and are intended to reduce the customer inventory cost to better reflect the current market prices. The determination to grant a shelf stock adjustment to a customer is based on the terms of the applicable contract, which may or may not specifically limit the age of the stock on which a credit would be offered.

Returns primarily relate to expired products, which the customer has the right to return for a period of 12 months following the expiration date. Such returned products are destroyed and credit notes are issued to the customer for the products returned. The Company accounts for sales returns accrual by recording an allowance for sales returns concurrent with the recognition of revenue at the time of a product sale. This allowance is based on the Company's estimate of expected sales returns. The Company deals in various products and operates in various markets. Accordingly, estimate of sales returns is determined primarily by the Company's historical experience in the markets in which the Company operates. With respect to established products, the Company considers its historical experience of sales returns, levels of inventory in the distribution channel, estimated shelf life, product discontinuances, price changes of competitive products, and the introduction of competitive new products, to the extent each of these factors impact the Company's business and markets. With respect to new products introduced by the Company, such products have historically been either extensions of an existing line of product where the Company has historical experience or in therapeutic categories where established products exist and are sold either by the Company or the Company's competitors. Due to the immateriality of any

individual profit share payment, the Company generally verifies the statements received from its business partners by performing overall confirmatory procedures, such as ensuring monthly availability of stock statements, and certain other analytical procedures. Additionally, as part of its arrangements, the Company typically reserves the right to have third parties conduct audits to verify the statements received from its business partners.

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3. Significant accounting policies (continued)

l. Revenue (continued)

Services

Revenue from services rendered, which primarily relate to contract research, is recognized in profit or loss as the underlying services are performed. Upfront non-refundable payments received under these arrangements are deferred and recognized as revenue over the expected period over which the related services are expected to be performed.

Export entitlements

Export entitlements from government authorities are recognized in profit or loss when the right to receive credit as per the terms of the scheme is established in respect of the exports made by the Company, and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.

m. Finance income and expense

Finance income consists of interest income on funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established. The associated cash flows are classified as investing activities in the statement of cash flows.

Finance expenses consist of interest expense on loans and borrowings and impairment losses recognized on financial assets. Borrowing costs are recognized in profit or loss using the effective interest method. The associated cash flows are classified as financing activities in the statement of cash flows.

Foreign currency gains and losses are reported on a net basis. This includes changes in the fair value of foreign exchange derivative instruments, which are accounted at fair value through profit or loss.

n. Income tax

Income tax expense consists of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising upon the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Withholding tax arising out of payment of dividend to shareholders under the Indian Income tax regulations are not considered as tax expense for the Company and all such taxes are recognized in the statement of changes in equity as part of the associated dividend payment.

o. Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which includes all stock options granted to employees.

p. Government grants

The Company recognizes government grants only when there is reasonable assurance that the conditions attached to them will be complied with, and the grants will be received. Government grants received in relation to assets are presented as a reduction to the carrying amount of the related asset.

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3. Significant accounting policies (continued)

q. Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer that makes strategic decisions.

r. Recent accounting pronouncements

Standards issued but not yet effective and not early adopted by the Company

- In November 2009, the IASB issued IFRS 9, “*Financial instruments*”, to introduce certain new requirements for classifying and measuring financial assets. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications — those measured at amortized cost and those measured at fair value. The standard, along with proposed expansion of IFRS 9 for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment, and hedge accounting, will be applicable for annual periods beginning on or after January 1, 2013, although entities are permitted to adopt earlier. The Company is evaluating the impact which this new standard will have on the Company’s consolidated financial statements.
- In November 2009, the IASB issued IFRIC 19, “*Extinguishing Financial Liabilities with Equity Instruments*”; to introduce requirements when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity’s shares and other equity instruments to settle the financial liability fully or partially. This interpretation is effective from annual periods beginning on or after July 1, 2010.
- In May 2011, the IASB issued new standards and amendments on consolidated financial statements and joint arrangements. The following are new standards and amendments:
 - IFRS 10, “*Consolidated financial statements*”.
 - IFRS 11, “*Joint arrangements*”.
 - IFRS 12, “*Disclosure of interests in other entities*”.
 - IAS 27 (Revised 2011), “*Consolidated and separate financial statements*”, which has been amended for the issuance of IFRS 10 but retains the current guidance on separate financial statements.
 - IAS 28 (Revised 2011), “*Investments in associates*”, which has been amended for conforming changes on the basis of the issuance of IFRS 10 and IFRS 11.

All the standards mentioned above are effective for annual periods beginning on or after January 1, 2013; earlier application is permitted as long as each of the other standards in this group is also early applied. The Company is in the process of determining the impact of these amendments on its consolidated financial statements.

- On June 16, 2011 the IASB issued an amendment to IAS-19 “*Employee benefits*”, which amended the standard as follows:
 - It requires recognition of changes in the net defined benefit liability/(asset), including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of re-measurements in other comprehensive income, plan amendments, curtailments and settlements.
 - It introduce enhanced disclosures about defined benefit plans.
 - It modified accounting for termination benefits, including distinguishing benefits provided in exchange for services from benefits provided in exchange for the termination of employment, and it affected the recognition and measurement of termination benefits.
 - It provided clarification regarding various issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk-sharing and conditional indexation features.
 - It incorporated, without change, the IFRS Interpretations Committee’s requirements set forth in IFRIC 14 “*IAS 19— The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*”.

These amendments are effective for annual periods beginning on or after January 1, 2013; earlier application is permitted. The Company is in the process of determining the impact of these amendments on its consolidated financial statements.

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4. Determination of fair values

The Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of a business combination, and those acquired through exchange of non-monetary assets, are based on appraised market values and replacement cost determined by an external valuer.

(ii) Intangible assets

The fair value of trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of these brands, patents or trademarks being owned ("relief of royalty method"). The fair value of customer related, technology related, product related and other intangibles acquired in a business combination has been determined using the multi-period excess earnings method after deduction of a fair return on other assets that are part of creating the related cash flows.

(iii) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(iv) Investments in equity and debt securities and units of mutual funds

The fair value of available-for-sale marketable equity securities is determined by reference to their quoted market price at the reporting date. For debt securities where quoted market prices are not available, fair value is determined using pricing techniques such as discounted cash flow analysis.

In respect of investments in mutual funds, the fair values represent net asset value as stated by the issuers of these mutual fund units in the published statements. Net asset values represent the price at which the issuer will issue further units in the mutual fund and the price at which issuers will redeem such units from the investors.

Accordingly, such net asset values are analogous to fair market value with respect to these investments, as transactions of these mutual funds are carried out at such prices between investors and the issuers of these units of mutual funds.

(v) Derivatives

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of foreign currency option contracts is determined based on the appropriate valuation techniques, considering the terms of the contract.

(vi) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements. The Company's long term borrowings have floating rates of interest, and accordingly their fair value approximates carrying value.

(vii) Share-based payment transactions

The fair value of employee stock options is measured using the Black-Scholes Merton valuation model. Measurement inputs include share price on grant date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), expected life of the instrument (based on historical experience), expected dividends, and the risk free interest rate (based on government bonds).

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5. Segment reporting

The Chief Operating Decision Maker (“CODM”) evaluates the Company’s performance and allocates resources based on an analysis of various performance indicators by reportable segments. The Company’s reportable segments are as follows:

- Pharmaceutical Services and Active Ingredients (“PSAI”);
- Global Generics; and
- Proprietary Products.

Pharmaceutical Services and Active Ingredients (“PSAI”): This segment includes active pharmaceutical ingredients and intermediaries, also known as active pharmaceutical products or bulk drugs, which are the principal ingredients for finished pharmaceutical products. Active pharmaceutical ingredients and intermediaries become finished pharmaceutical products when the dosages are fixed in a form ready for human consumption, such as a tablet, capsule or liquid using additional inactive ingredients. This segment also includes contract research services and the manufacture and sale of active pharmaceutical ingredients and steroids in accordance with the specific customer requirements.

Global Generics: This segment consists of finished pharmaceutical products ready for consumption by the patient, marketed under a brand name (branded formulations) or as generic finished dosages with therapeutic equivalence to branded formulations (generics). This reportable segment was formed through the combination and re-organization of the Company’s former Formulations and Generics segments in the year ended March 31, 2009.

Proprietary Products: This segment involves the discovery of new chemical entities for subsequent commercialization and out-licensing. It also involves the Company’s specialty pharmaceuticals business, which engages in sales and marketing operations for in-licensed and co-developed dermatology products.

The CODM reviews revenue and gross profit as the performance indicator, and does not review the total assets and liabilities for each reportable segment.

The measurement of each segment’s revenues, expenses and assets is consistent with the accounting policies that are used in preparation of the Company’s consolidated financial statements.

Information about segments: Reportable segments	For the years ended March 31,								
	PSAI			Global Generics			Proprietary Products		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Segment revenue ⁽¹⁾	₹19,648	₹20,404	₹18,758	₹53,340	₹48,606	₹49,790	₹ 532	₹ 513	₹ 294
Gross profit	₹ 5,105	₹ 6,660	₹ 5,595	₹34,499	₹29,146	₹30,448	₹ 382	₹ 396	₹ 196
Selling, general and administrative expenses									
Research and development expenses									
Impairment loss on other intangible assets									
Impairment loss on goodwill									
Other (income)/expense, net									
Results from operating activities									
Finance expense/(income), net									
Share of profit of equity accounted investees, net of income tax									
Profit/(loss) before income tax									
Income tax (expense)/benefit									
Profit/(loss) for the year									

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5. Segment reporting (continued)

[Continued from above table, first column(s) repeated]

Information about segments: Reportable segments	For the years ended March 31,					
	Others			Total		
	2011	2010	2009	2011	2010	2009
Segment revenue ⁽¹⁾	₹ 1,173	₹ 754	₹ 599	₹ 74,693	₹ 70,277	₹ 69,441
Gross profit	₹ 277	₹ 138	₹ 261	₹ 40,263	₹ 36,340	₹ 36,500
Selling, general and administrative expenses				23,689	22,505	21,020
Research and development expenses				5,060	3,793	4,037
Impairment loss on other intangible assets				—	3,456	3,167
Impairment loss on goodwill				—	5,147	10,856
Other expense/(income), net				(1,115)	(569)	254
Results from operating activities				12,629	2,008	(2,834)
Finance (expense)/income, net				(189)	(3)	(1,186)
Share of profit of equity accounted investees, net of income tax				3	48	24
Profit/(loss) before income tax				12,443	2,053	(3,996)
Income tax (expense)/benefit				(1,403)	(985)	(1,172)
Profit/(loss) for the year				₹ 11,040	₹ 1,068	₹ (5,168)

(1) Segment revenue for the year ended March 31, 2011 does not include inter-segment revenues from PSAI to Global Generics which is accounted for at a cost of ₹3,146 (as compared to ₹2,780 and ₹2,371 for the years ended March 31, 2010 and 2009, respectively) and inter-segment revenues from Global Generics to PSAI which is accounted for at a cost of ₹9 (as compared to ₹17 and ₹18 for the years ended March 31, 2010 and 2009, respectively).

Analysis of revenue by geography within the Global Generics Segment:

The following table shows the distribution of the Company's revenues by geography, based on the location of the customer:

	For the year ended March 31,		
	2011	2010	2009
India	₹ 11,690	₹ 10,158	₹ 8,478
North America	18,996	16,817	19,843
Russia and other countries of the former Soviet Union	10,858	9,119	7,623
Europe	8,431	9,643	11,886
Others	3,365	2,869	1,960
	₹ 53,340	₹ 48,606	₹ 49,790

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5. Segment reporting (continued)

Analysis of depreciation and amortization by reportable segments:

	For the year ended March 31,		
	2011	2010	2009
PSAI	₹ 1,413	₹ 1,360	₹ 1,138
Global Generics	2,437	2,476	2,399
Proprietary Products	109	141	139
Others	189	183	138
	₹ 4,148	₹ 4,160	₹ 3,814

The above depreciation and amortization does not include the impairment loss on other intangible assets of ₹0, ₹3,456, and ₹3,167 for the years ended March 31, 2011, 2010 and 2009, respectively, which relates to the Global Generics segment's generics business. The above depreciation and amortization also does not include the impairment of goodwill of ₹0, ₹5,147 and ₹10,856 for the years ended March 31, 2011, 2010 and 2009, respectively, which relates to the Company's Global Generics segment's generics business.

Analysis of property, plant and equipment and other intangible assets acquired by reportable segments:

	For the year ended March 31,	
	2011	2010
PSAI	₹ 3,940	₹ 1,652
Global Generics	5,944	5,033
Proprietary Products	1,831	15
Others	556	623
	₹ 12,271	₹ 7,323

Analysis of revenue by geography:

The following table shows the distribution of the Company's revenues by geography, based on the location of the customer:

	For the year ended March 31,		
	2011	2010	2009
India	₹ 14,314	₹ 12,808	₹ 11,460
North America	23,260	21,269	24,012
Russia and other countries of the former Soviet Union	10,858	9,119	7,623
Europe	16,058	16,779	18,047
Others	10,203	10,302	8,299
	₹ 74,693	₹ 70,277	₹ 69,441

Analysis of assets by geography:

The following table shows the distribution of the Company's assets by geography, based on the location of assets:

	As of March 31,	
	2011	2010
India	₹ 52,056	₹ 46,994
North America	20,222	12,090
Russia and other countries of the former Soviet Union	4,824	3,608
Europe	17,051	16,871
Others	852	767
	₹ 95,005	₹ 80,330

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5. Segment reporting (continued)

Analysis of property, plant and equipment and other intangible assets acquired by geography:

The following table shows the distribution of the Company's acquisitions of property, plant and equipment including capital work in progress and other intangible assets by geography, based on the location of the property, plant and equipment and other intangible assets:

	For the year ended March 31,	
	2011	2010
India	₹ 8,875	₹ 6,866
North America	3,249	258
Russia and other countries of the former Soviet Union	12	11
Europe	111	169
Others	24	19
	₹ 12,271	₹ 7,323

An analysis of revenues by key products in the Company's PSAI segment is given below:

	For the year ended March 31,		
	2011	2010	2009
Clopidogrel	₹ 1,458	₹ 1,118	₹ 1,143
Atorvastatin	1,371	292	208
Naproxen	1,194	490	1,068
Gemcitabine	991	1,224	697
Ciprofloxacin	853	1,054	1,031
Finasteride	750	1,204	1,127
Ramipril	662	559	815
Escitalopram Oxalate	627	224	121
Ranitidine	568	487	355
Rabeprazole	528	717	419
Others	10,646	13,035	11,774
Total	₹ 19,648	₹ 20,404	₹ 18,758

An analysis of revenues by key products in the Company's Global Generics segment is given below:

	For the year ended March 31,		
	2011	2010	2009
Omeprazole	₹ 8,501	₹ 6,289	₹ 5,231
Nimesulide	3,543	2,874	2,165
Fexofenadine (hcl and pseudoephedrine)	2,432	1,673	2,855
Ciprofloxacin	2,302	2,178	1,572
Ketorolac	1,811	1,593	1,297
Tacrolimus	1,739	—	—
Simvastatin	1,361	2,047	2,350
Ranitidine	1,298	1,157	809
Ibuprofen	1,194	1,100	1,000
Ceterizine	1,096	730	638
Others	28,063	28,981	31,873
Total	₹ 53,340	₹ 48,606	₹ 49,790

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6. Business combination and other acquisitions

a. Acquisition of GSK's manufacturing facility in Bristol, Tennessee, U.S.A and product rights

On November 23, 2010, the Company through its wholly owned subsidiary, Dr. Reddy's Laboratories Tennessee LLC, entered into an asset purchase agreement with Glaxosmithkline LLC and Glaxo Group Limited (collectively, "GSK") for the acquisition of GSK's penicillin-based antibiotics manufacturing facility in Bristol, Tennessee, U.S.A, the U.S. FDA approved product related rights over GSK's Augmentin® (branded and generic) and Amoxil® (brand) brands of oral penicillin-based antibiotics in the United States (GSK retained the existing rights for these brands outside the United States), certain raw materials and finished goods inventory associated with Augmentin®, and rights to receive certain transitional services from GSK. The transaction was subsequently consummated on March 29, 2011. The total cash consideration for the transaction amounted to ₹1,169 (U.S. \$26). Through this acquisition, the Company entered the U.S penicillin-containing antibacterial market segment, thereby broadening its portfolio in North America. The Company has accounted this transaction as an acquisition of business in accordance with IFRS No. 3, Business Combinations (Revised), as the integrated set of assets acquired constitutes a business as defined in the standard. Accordingly, the financial results of this acquired business for the period from March 29, 2011 to March 31, 2011 have been included in the consolidated financial statements of the Company. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Particulars	Recognized values on acquisition
Property, plant and equipment	₹ 688
Intangible assets	321
Inventories	146
Other assets	132
Deferred tax liability	(45)
Net identifiable assets and liabilities	₹ 1,242
Negative goodwill recognized in other expense/(income), net ⁽¹⁾	(73)
Consideration paid in cash	<u>₹ 1,169</u>

(1) The negative goodwill on acquisition is attributable mainly to lower amounts paid towards intangible and other assets.

No pro-forma information is disclosed in the consolidated financial statements for the year ended March 31, 2011 as the acquisition is immaterial.

b. Acquisition of the entire equity interest of Perlecan Pharma Private Limited

In September 2005, the Company announced the formation of an integrated drug development company, Perlecan Pharma Private Limited ("Perlecan Pharma"), as a joint venture with Citigroup Venture Capital International Growth Partnership Mauritius Limited ("Citigroup Venture") and ICICI Venture Funds Management Company ("ICICI Venture"). Perlecan Pharma is engaged in the clinical development and out-licensing of new chemical entity ("NCE") assets. Under the terms of the joint venture agreement, Citigroup Venture and ICICI Venture each committed to contribute ₹1,004 (U.S.\$23) and the Company committed to contribute ₹340 (U.S.\$8) towards equity in Perlecan Pharma. The arrangement was subject to certain closing conditions which were completed on March 27, 2006, resulting in an amendment of certain terms of the joint venture agreement.

As a result, as of March 31, 2006, the Company owned approximately 14.28% of the equity of Perlecan Pharma. In addition, Perlecan Pharma issued warrants to the Company to purchase 45 million equity shares of Perlecan Pharma, at an exercise price of ₹1.00 per equity share, the exercise of which was contingent upon the success of certain research and development milestones to be achieved by Perlecan Pharma. If the warrants were fully exercised then the Company would have owned approximately 62.5% of the equity of Perlecan Pharma. Furthermore, three out of seven directors on the Board of Directors of Perlecan Pharma were designated by the Company. In addition, as per the terms of the joint venture agreement, the Company had the first right to conduct product development and clinical trials on behalf of Perlecan Pharma on an arm's length basis subject to the final decision by the board of directors of Perlecan Pharma. Considering these factors the Company has accounted for its investment in Perlecan Pharma in accordance with IAS 28, "Investments in Associates".

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6. Business combination and other acquisitions (continued)

As of March 31, 2006, the Company and the other two investors had invested ₹101 (U.S.\$2) and ₹605 (U.S.\$14), respectively in Perlecan Pharma. The Company was also committed to invest an additional amount of ₹239 (U.S.\$5) as its proportionate equity contribution in the future. As per the terms of the amended agreement, the Company was to be reimbursed by Perlecan Pharma for research and development costs of ₹231 that were incurred by the Company prior to closing of the initial investment. The Company's share in the loss of Perlecan Pharma for the period from March 28, 2006 through March 31, 2006 amounted to ₹40. The reimbursement for research and development costs incurred by the Company prior to the closing was applied to reduce the carrying value of the equity investment in Perlecan Pharma as of March 31, 2006 to zero, with the remaining balance of ₹170, recognized as 'other liability' as of March 31, 2006 (representing the Company's commitment to make additional equity investments in Perlecan Pharma).

During the year ended March 31, 2007, the Company and the other two investors invested additional amounts of ₹69 and ₹413, respectively, in Perlecan Pharma. As a result, as of March 31, 2007, the Company's ownership of Perlecan Pharma increased to approximately 14.31%. The Company's share in the loss of Perlecan Pharma for the year ended March 31, 2007 amounted to ₹63. As of March 31, 2007, the carrying value of the Company's investment in Perlecan Pharma was ₹3 and the other liability balance was ₹170.

The Company's share in the loss of Perlecan Pharma for the year ended March 31, 2008 amounted to ₹13. As of March 31, 2008, the carrying value of Company's investment in Perlecan Pharma was ₹zero; the other liability balance was ₹180.

On July 30, 2008, the Company acquired the entire equity interest (85.69%) of Citigroup Venture and ICICI Venture in Perlecan Pharma for a total cash consideration of ₹758. Consequently, Perlecan Pharma became a consolidated subsidiary of the Company. The Company evaluated the acquisition in accordance with IFRS No. 3, "Business Combinations" and concluded that the acquired set of assets did not qualify to be a business and, therefore, accounted for this as an asset acquisition. Accordingly, the purchase price was allocated to the following assets:

Particulars	Recognized values on acquisition
Current assets, net (includes ₹386 of cash and cash equivalents)	₹ 408
Intangible assets	82
Deferred tax asset	268
Total consideration paid	₹ 758

As a result of this acquisition, the "other liability" balance of ₹180 was recognized in the March 31, 2009 income statement as a credit to research and development expenses.

During the year ended March 31, 2010, the Company concluded a legal reorganization to amalgamate its wholly-owned subsidiary, Perlecan Pharma, into its own operations. The appropriate High Court approval was received by the Company during the year ended March 31, 2010, which states that the Company is able to offset the carry-forward tax losses of Perlecan Pharma against the taxable income of the Company for periods effective from January 1, 2006. Accordingly, the Company has recorded an amount of ₹268, representing the tax benefit arising from the carried forward tax losses of Perlecan Pharma, as a reduction to its current tax liability with an offset to the existing deferred tax asset recognized for the tax losses of Perlecan Pharma as at March 31, 2009.

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7. Property, plant and equipment

The following is a summary of the change in carrying value of property, plant and equipment.

	Land	Buildings	Plant and equipment	Computer equipment	Furniture, fixtures and office equipment	Vehicles	Total
Balance as at April 1, 2009	₹ 1,937	₹ 5,581	₹ 16,459	₹ 1,115	₹ 910	₹ 489	₹ 26,491
Additions through business combination	—	—	—	—	—	—	—
Other additions	98	579	2,866	186	83	92	3,904
Disposals	—	(20)	(219)	(127)	(25)	(89)	(480)
Effect of changes in foreign exchange rates	(15)	(173)	(33)	(33)	17	1	(236)
Balance as at March 31, 2010	₹ 2,020	₹ 5,967	₹ 19,073	₹ 1,141	₹ 985	₹ 493	₹ 29,679
Balance as at April 1, 2010	₹ 2,020	₹ 5,967	₹ 19,073	₹ 1,141	₹ 985	₹ 493	₹ 29,679
Additions through business combination	56	435	170	10	6	—	677
Other additions	1,542	1,513	4,569	213	307	194	8,338
Disposals	(33)	(26)	(154)	(115)	(24)	(98)	(450)
Effect of changes in foreign exchange rates	13	20	68	10	4	—	115
Balance as at March 31, 2011	₹ 3,598	₹ 7,909	₹ 23,726	₹ 1,259	₹ 1,278	₹ 589	₹ 38,359
Depreciation							
Balance as at April 1, 2009	₹ —	₹ 839	₹ 7,366	₹ 561	₹ 856	₹ 266	₹ 9,888
Depreciation for the year	—	236	1,990	232	120	103	2,681
Disposals	—	(10)	(152)	(130)	(22)	(81)	(395)
Effect of changes in foreign exchange rates	—	(14)	(15)	(21)	(36)	(1)	(87)
Balance as at March 31, 2010	₹ —	₹ 1,051	₹ 9,189	₹ 642	₹ 918	₹ 287	₹ 12,087
Balance as at April 1, 2010	₹ —	₹ 1,051	₹ 9,189	₹ 642	₹ 918	₹ 287	₹ 12,087
Depreciation for the year	—	271	2,229	225	125	112	2,962
Disposals	—	(18)	(135)	(113)	(23)	(84)	(373)
Effect of changes in foreign exchange rates	—	6	18	11	4	(1)	38
Balance as at March 31, 2011	₹ —	₹ 1,310	₹ 11,301	₹ 765	₹ 1,024	₹ 314	₹ 14,714
Net carrying value							
As at April 1, 2009	1,937	4,742	9,093	554	54	223	16,603
As at March 31, 2010	2,020	4,916	9,884	499	67	206	17,592
Add: Capital-work-in progress							4,867
							22,459
As at March 31, 2011	₹ 3,598	₹ 6,599	₹ 12,425	₹ 494	₹ 254	₹ 275	₹ 23,645
Add: Capital-work-in progress							₹ 5,997
							₹ 29,642

(1) Capital-work-in progress as on March 31, 2011 includes ₹11 acquired through business combination.

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7. Property, plant and equipment (continued)

Government grants

During the year ended March 31, 2011, the Company obtained the approval for its claim towards certain grants associated with construction of a manufacturing facility in the United States from the State of Louisiana amounting to ₹47 (U.S.\$1). As per the terms of the grant, the State of Louisiana has placed certain ongoing conditions on the Company, requiring a minimum cost to be incurred and also providing employment for a minimum number of people. In proportion to the actual cost incurred, the Company has accrued the proportionate share of the grant as a reduction from the carrying value of property, plant and equipment.

Capital commitments

As of March 31, 2011 and 2010, the Company was committed to spend approximately ₹3,459 and ₹2,948, respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of such purchases.

Interest capitalization

During the years ended March 31, 2011 and 2010, the Company capitalized interest cost of ₹70 and ₹67, respectively. The rate for capitalization of interest cost for the years ended March 31, 2011 and 2010 was approximately 1% and 4.5%, respectively.

Assets acquired under finance leases

Property, plant and equipment include ₹302 and ₹279 (including accumulated depreciation of ₹80 and ₹62) of assets acquired under finance leases as of March 31, 2011 and 2010, respectively.

8. Goodwill

Goodwill arising upon business acquisitions is not amortized but tested for impairment at least annually or more frequently if there is any indication that the cash generating unit to which goodwill is allocated is impaired.

The following table presents the changes in goodwill during the years ended March 31, 2011 and 2010:

	<u>As of March 31,</u>	
	<u>2011</u>	<u>2010</u>
Opening balance ⁽¹⁾	₹ 18,267	₹ 18,246
Goodwill arising on business combinations	—	—
Effect of translation adjustments	6	21
Closing balance ⁽¹⁾	<u>₹ 18,273</u>	<u>₹ 18,267</u>
Less: Impairment loss ⁽²⁾	<u>(16,093)</u>	<u>(16,093)</u>
	<u>₹ 2,180</u>	<u>₹ 2,174</u>

(1) This does not include goodwill arising upon investment in associate of ₹181, as at March 31, 2011 and 2010, which is included in the carrying value of the investment in the equity accounted investees.

(2) The impairment loss includes ₹0 and ₹5,147 for the years ended March 31, 2011 and 2010, respectively, which relates to the Company's German subsidiary, betapharm, which is part of the Global Generics segment (refer to Note 9 for details).

For the purpose of impairment testing, goodwill is allocated to a cash generating unit ("CGU") representing the lowest level within the Company at which goodwill is monitored for internal management purposes, and which is not higher than the Company's operating segment. Goodwill allocated to cash generating units are tested for impairment at least annually. Accordingly, goodwill has been allocated for impairment testing purposes to the following cash generating units identified by the Company:

- PSAI- Active Pharmaceutical operations
- Global Generics- North America Operations
- Global Generics- Italy Operations
- Global Generics- Branded Formulations
- Global Generics- European Operations
- Global Generics- betapharm CGU
- Global Generics- Shreveport Operations

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8. Goodwill (continued)

The carrying amount of goodwill (other than those arising upon investment in associate) was allocated to cash generating units as follows:

	<u>As of March 31,</u>	
	<u>2011</u>	<u>2010</u>
PSAI- Active Pharmaceutical operations	₹ 997	₹ 997
Global Generics- North America Operations	731	731
Global Generics- Italy Operations	157	157
Global Generics- Branded Formulations	168	168
Others	127	121
	<u>₹ 2,180</u>	<u>₹ 2,174</u>

The recoverable amounts of the above cash generating units have been assessed using a value-in-use model. Value in use is calculated as the net present value of the projected post-tax cash flows plus a terminal value of the cash generating unit to which the goodwill is allocated. Initially a post-tax discount rate is applied to calculate the net present value of the post-tax cash flows. Key assumptions on which the Company has based its determinations of value-in-use include:

- a) Estimated cash flows for five years based on formal/approved internal management budgets.
- b) Terminal value arrived by extrapolating last forecasted year cash flows to perpetuity, using a constant long-term growth rate of 0%. This long-term growth rate takes into consideration external macroeconomic sources of data. Such long-term growth rate considered does not exceed that of the relevant business and industry sector.
- c) The post-tax discount rates used are based on the Company's weighted average cost of capital.
- d) Value-in-use is calculated using after tax assumptions. The use of after tax assumptions does not result in a value-in-use that is materially different from the value-in-use that would result if the calculation was performed using before tax assumptions. The after tax discount rate used is 11%. The before tax discount rate, determined based on the value-in-use derived from the use of after tax assumptions, is 12%.

The Company believes that any reasonably possible change in the key assumptions on which a recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

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9. Other intangible assets

The following is a summary of changes in carrying value of other intangible assets:

	Trademarks with finite useful life	Product related intangibles	Beneficial toll manufacturing contracts	Technology related intangibles
Gross carrying value/cost				
Balance as at April 1, 2009	₹ 9,489	₹ 15,971	₹ 776	₹ 657
Additions through business combinations	—	—	—	—
Other additions	—	2,701	—	—
Effect of changes in foreign exchange rates	(719)	(1,317)	(80)	(41)
Balance as at March 31, 2010	₹ 8,770	₹ 17,355	₹ 696	₹ 616
Balance as at April 1, 2010	₹ 8,770	₹ 17,355	₹ 696	₹ 616
Additions through business combinations	—	321	—	—
Other additions	—	1,777	—	14
Deletions	—	(3)	—	—
Effect of changes in foreign exchange rates	301	550	34	116
Balance as at March 31, 2011	₹ 9,071	₹ 20,000	₹ 730	₹ 746
Amortization/Impairment loss				
Balance as at April 1, 2009	₹ 2,558	₹ 9,267	₹ 776	₹ 83
Amortization for the year	577	596	—	97
Impairment loss	1,211	2,112	—	—
Effect of changes in foreign exchange rates	(174)	(948)	(80)	(14)
Balance as at March 31, 2010	₹ 4,172	₹ 11,027	₹ 696	₹ 166
Balance as at April 1, 2010	₹ 4,172	₹ 11,027	₹ 696	₹ 166
Amortization for the year	418	573	—	84
Impairment loss	—	—	—	—
Effect of changes in foreign exchange rates	100	405	34	5
Balance as at March 31, 2011	₹ 4,690	₹ 12,005	₹ 730	₹ 255
Net carrying amount				
As at April 1, 2009	6,931	6,704	—	574
As at March 31, 2010	4,598	6,328	—	450
As at March 31, 2011	₹ 4,381	₹ 7,995	₹ —	₹ 491

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9. Other intangible assets (continued)

[Continued from above table, first column(s) repeated]

	<u>Customer related intangibles</u>	<u>Others</u>	<u>Total</u>
Gross carrying value/cost			
Balance as at April 1, 2009	₹ 707	₹ 387	₹ 27,987
Additions through business combinations	—	—	—
Other additions	12	118	2,831
Effect of changes in foreign exchange rates	(51)	(8)	(2,216)
Balance as at March 31, 2010	₹ 668	₹ 497	₹ 28,602
Balance as at April 1, 2010	₹ 668	₹ 497	₹ 28,602
Additions through business combinations	—	—	321
Other additions	13	—	1,804
Deletions	—	(50)	(53)
Effect of changes in foreign exchange rates	5	(78)	928
Balance as at March 31, 2011	₹ 686	₹ 369	₹ 31,602
Amortization/Impairment loss			
Balance as at April 1, 2009	₹ 227	₹ 197	₹ 13,108
Amortization for the year	155	54	1,479
Impairment loss	133	—	3,456
Effect of changes in foreign exchange rates	(21)	(3)	(1,240)
Balance as at March 31, 2010	₹ 494	₹ 248	₹ 16,803
Balance as at April 1, 2010	₹ 494	₹ 248	₹ 16,803
Amortization for the year	66	45	1,186
Impairment loss	—	—	—
Effect of changes in foreign exchange rates	2	1	547
Balance as at March 31, 2011	₹ 562	₹ 294	₹ 18,536
Net carrying amount			
As at April 1, 2009	480	190	14,879
As at March 31, 2010	174	249	11,799
As at March 31, 2011	₹ 124	₹ 75	₹ 13,066

The selling, general and administrative expenses included ₹1,186, ₹1,479 and ₹1,503 of amortization of other intangible assets for the years ended March 31, 2011, 2010 and 2009, respectively. The weighted average remaining useful life of other intangibles was approximately 8.48 years as at March 31, 2011.

On March 31, 2011, the Company, through its wholly owned subsidiary Promius Pharma LLC, entered into an agreement with Coria Laboratories Limited (a subsidiary of Valeant Pharmaceuticals International, Inc.) ("Coria") for the right to manufacture, distribute and market its Cloderm® (clocortolone pivalate 0.1%) product in the United States. Cloderm® is a cream used for treating dermatological inflammation, and is an existing U.S. FDA approved product. In addition to acquiring all relevant U.S. FDA product regulatory approvals and intellectual property rights (other than trademarks) associated with the Cloderm® product, the Company also acquired an underlying raw material supply contract and an exclusive license to use the trademark "Cloderm®" for a period of 8 years. The rights and ownership of this trademark would get transferred from Coria to the Company at the end of the 8th year, subject to payment of all royalties under the contract by the Company. Considerations for these transactions includes an upfront payment of ₹1,605 (U.S. \$36) in cash and contingent consideration in the form of a royalty equal to 4% of the Company's net sales of Cloderm® in the United States during the 8 year trademark license period.

Since the integrated set of assets acquired as part of these transactions does not meet the definition of a business, the acquisition has been recorded as a purchase of an integrated set of complementary intangible assets with similar economic useful lives. Furthermore, contingent payments associated with future sales have also been considered as an element of cost, as they are directly associated with the acquisition of absolute control over the product related intangibles and do not relate to any substantive future activities either by the Company or Coria. Accordingly an amount of ₹171 (U.S. \$4) has been measured as management's best estimate of the present value for the royalty payments over the 8 year trademark license period.

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9. Other intangible assets (continued)

Product related intangibles acquired during the year ended March 31, 2010 includes an amount of ₹2,680 (U.S. \$57), representing the value of re-acquired rights on the product portfolio that arose upon the exercise by I-VEN Pharma Capital Limited ("I-VEN") of the portfolio termination value option under its research and development agreement with the Company entered into during the year ended March 31, 2005, as amended. Refer to Note 21 of these consolidated financial statements for further details.

Impairment losses recorded during the year ended March 31, 2009

During the year ended March 31, 2009, there were significant changes in the generics market related to the Company's German subsidiary, betapharm Arzneimittel GmbH ("betapharm"). These changes included a decrease in the reference prices of its products, increased quantity of discount contracts being negotiated with State Healthcare Insurance ("SHI") funds, and announcement of a large competitive bidding sale (or "tender") process from the Allgemeine Ortskrankenkassen ("AOK"), one of the largest SHI funds in Germany. Due to these adverse market developments, as at March 31, 2009, the Company tested the carrying value of its product related intangibles, being the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable value of the above product-related intangibles were determined as the higher of its value in use and its fair value less costs to sell. This resulted in the fair value less costs to sell being the recoverable value of such intangibles. The impairment testing indicated that the carrying values of certain product-related intangibles were higher than their recoverable value, resulting in the Company recording an impairment loss on certain product related intangibles amounting to ₹3,167 during the year ended March 31, 2009.

As at March 31, 2009, the Company also performed its annual impairment analysis related to the betapharm cash-generating unit, comprised of the above product related intangibles, the indefinite life trademark/brand —'beta' and acquired goodwill. The recoverable value of the betapharm cash-generating unit was based on its fair value less costs to sell, which was higher than its value in use. The impairment testing indicated that the carrying value of the betapharm cash-generating unit was higher than its recoverable value, resulting in the Company recording an impairment loss of goodwill amounting to ₹10,856 during the year ended March 31, 2009.

Impairment losses recorded during the year ended March 31, 2010

Pursuant to the ongoing reforms in the German generic pharmaceutical market as referenced above, further tenders were announced by several SHI funds during the year ended March 31, 2010. The Company had participated in these tenders through its wholly-owned subsidiary betapharm. The final results of a majority of these tenders were announced during the period ended December 31, 2009, with a lower than anticipated success rate for betapharm. As a result of the increasing usage of tender processes by SHI funds, the Company expects contracts awarded in tenders to account for a significant portion of future sales in the German generics pharmaceutical market, at a rate which is comparatively higher than the assumptions the Company had made earlier during the year ended March 31, 2009.

Due to these results, management has reassessed the impact of these tenders on its future forecasted sales and profits in the German generic pharmaceutical market and has determined it appropriate to significantly revise its estimates for fiscal years ended March 31, 2011 and thereafter. Accordingly, and in light of further deterioration and adverse market conditions in the German generic pharmaceuticals market as at December 31, 2009, the Company has reassessed the recoverable amounts of betapharm's product-related intangibles, the cash generating unit which comprises these product-related intangibles, its trademark/brand "beta" and the related acquired goodwill (collectively referred to as the "betapharm CGU"). The recoverable amount of both the product-related intangibles and the betapharm CGU was based on their fair value less costs to sell, which was higher than its value in use. As a result of this re-evaluation, the carrying amounts of both the product-related intangibles and the betapharm CGU were determined to be higher than their respective recoverable amounts. Accordingly, an impairment loss of ₹2,112 for the product related intangibles and ₹6,358 for goodwill in the betapharm CGU has been recognized in the profit or loss. Of the impairment loss pertaining to the betapharm CGU, ₹5,147 has been allocated to the carrying value of goodwill, thereby impairing the entire carrying value and the remaining ₹1,211 has been allocated to the trademark/brand —'beta', which forms a significant portion of the betapharm CGU. No further impairment indicators were identified up to March 31, 2010.

The above impairment losses relate to the Company's Global Generics segment.

The Company used the discounted cash flow approach to calculate the fair value less cost to sell, with the assistance of independent appraisers. The key assumptions considered in the calculation are as follows:

- Revenue projections are based on the approved revised budgets for the fiscal year ended March 31, 2011, based on management's analysis of current orders booked and the actual performance of Betapharm during recent months. These projections take into account the expected long term growth rate in the German generics industry. Accordingly, based on the industry reports and other information, the Company projects a constant 1% decline in revenue on a year-on-year basis for betapharm's existing products.
- The net cash flows have been discounted based on a post-tax discounting tax rate ranging from 7.44% to 9.34%.

During the year ended March 31, 2011 the Company participated in the new tender announced by the AOK (renewal of the tender products which were part of the AOK tender announced during the year ended March 31, 2009). The Company was successful in winning 12 products in the tender. The Company concluded that, due to the inconsequential favorable impact on its net margins, no adjustment to previously recorded impairments losses were necessary.

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9. Other intangible assets (continued)

Change in estimated useful life of indefinite life trademark/brand — 'beta'

Due to the adverse market developments in the German generic pharmaceutical market as referenced above, and consequential impairment losses recorded by the Company during the year ended March 31, 2009 in its betapharm CGU, the Company reviewed the useful life of its indefinite life intangible asset trademark/brand — "beta". The carrying amount of this intangible was ₹6,926 as at March 31, 2009, and the Company determined it to be a finite life intangible asset with a useful life of 12 years. The effect of this change in the amortization expense has been recognized from and after April 1, 2009.

De-recognition of intangible assets

The Company acquired BASF Corporation's pharmaceutical contract manufacturing business and manufacturing facility in Shreveport, Louisiana, in April 2008. As part of the purchase price, ₹482 was allocated to "customer related intangible assets" and "product-related intangibles". ₹142 of the above allocation pertains to a contract with Par Pharmaceuticals Inc. ("Par") relating to sales of ibuprofen to Par. During the year ended March 31, 2010, there has been clear evidence of a decline in sales of ibuprofen to Par. Accordingly, as at December 31, 2009 the Company has written off the remaining carrying amount of ₹133 pertaining to this product and customer, as it expects no economic benefits from the use or disposal of these contracts in future periods. The amount derecognized is disclosed as part of "impairment loss on other intangible assets" in the Company's consolidated income statement.

10. Investment in equity accounted investees

The Company's share of profit in equity accounted investees for the years ended March 31, 2011, 2010 and 2009 was ₹3, ₹48 and ₹24, respectively.

Reddy Kunshan (Joint venture)

KunshanRotam Reddy Pharmaceuticals Co. Limited ("Reddy Kunshan") is engaged in manufacturing and marketing of active pharmaceutical ingredients and intermediaries and formulations in China. The Company's interest in Reddy Kunshan was 51.3% as of March 31, 2011 and 2010. Three directors of the Company are on the board of directors of Reddy Kunshan, which consists of seven directors. Under the terms of the joint venture agreement, all major decisions with respect to operating activities, significant financing and other activities are taken by the approval of at least five of the seven directors of Reddy Kunshan's board. As the Company does not control Reddy Kunshan's board and the other partners have significant participating rights, the Company's interest in Reddy Kunshan has been accounted for under the equity method of accounting.

Summary financial information of Reddy Kunshan, as translated into the reporting currency of the Company and not adjusted for the percentage ownership held by the Company, is as follows:

	As of/for the year ended March 31,		
	2011	2010	2009
Ownership	51.3%	51.3%	51.3%
Total current assets	₹ 548	₹ 428	₹ 427
Total non-current assets	190	191	217
Total assets	₹ 738	₹ 619	₹ 644
Equity	₹ 379	₹ 373	₹ 298
Total current liabilities	359	245	345
Total non-current liabilities	—	1	1
Total liabilities	₹ 359	₹ 246	₹ 346
Revenues	₹ 818	₹ 791	₹ 611
Expenses	812	697	563
Profit for the year	₹ 6	₹ 94	₹ 48

The Company's share of profits in Reddy Kunshan for the years ended March 31, 2011, 2010 and 2009 was ₹3, ₹48 and ₹25, respectively. The carrying value of the Company's investment in Reddy Kunshan as of March 31, 2011 and 2010 was ₹313 and ₹310, respectively. The translation adjustment arising out of translation of foreign currency balances amounted to ₹232 and ₹228 for the years ended March 31, 2011 and 2010, respectively.

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11. Other investments

Other investments consist of investments in units of mutual funds, debt securities and equity securities that are classified as available for sale assets. The details of such investments as of March 31, 2011 were as follows:

	<u>Cost</u>	<u>Gain/(loss) recognized directly in equity</u>	<u>Fair value</u>
Investment in units of mutual funds	₹ —	₹ —	₹ —
Investment in equity securities	3	30	33
Investment in certificate of deposits	—	—	—
	<u>₹ 3</u>	<u>₹ 30</u>	<u>₹ 33</u>

The details of such investments as of March 31, 2010 were as follows:

	<u>Cost</u>	<u>Gain/(loss) recognized directly in equity</u>	<u>Fair value</u>
Investments in units of mutual funds	₹ 3,276	₹ —	₹ 3,276
Investment in equity securities	3	22	25
Investment in certificate of deposits	298	1	299
	<u>₹ 3,577</u>	<u>₹ 23</u>	<u>₹ 3,600</u>

12. Inventories

Inventories consist of the following:

	<u>As of March 31,</u>	
	<u>2011</u>	<u>2010</u>
Raw materials	₹ 4,777	₹ 4,000
Packing materials, stores and spares	1,115	979
Work-in-progress	4,220	3,883
Finished goods	5,947	4,509
Total inventories	<u>₹ 16,059</u>	<u>₹ 13,371</u>

Inventories as of March 31, 2011 includes inventories of ₹146 acquired through business combination.

During the years ended March 31, 2011, 2010 and 2009, the Company recorded inventory write-downs of ₹1,237, ₹1,011 and ₹833, respectively. These adjustments were included in cost of revenues. Cost of revenues for March 31, 2011, 2010 and 2009 include raw materials, consumables and changes in finished goods and work in progress recognized in the income statement amounting to ₹22,411, ₹23,656 and ₹23,760, respectively. The above table includes inventories amounting to ₹1,045 and ₹814, which are carried at fair value less cost to sell as at March 31, 2011 and 2010, respectively.

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13. Trade receivables

	As of March 31,	
	2011	2010
Trade receivables due from related parties	₹ 101	₹ 44
Other trade receivables	17,973	12,332
	₹ 18,074	₹ 12,376
Less: Allowance for doubtful trade receivables	(459)	(416)
Trade receivables, net	₹ 17,615	₹ 11,960

The Company maintains an allowance for impairment of doubtful accounts based on financial condition of the customer, ageing of the customer accounts receivable, historical experience of collections from customers and the current economic environment. The activity in the allowance for impairment of trade account receivables is given below:

	Year Ended March 31,	
	2011	2010
Balance at the beginning of the year	₹ 416	₹ 342
Provision for doubtful trade receivables	162	169
Trade receivables written off and charged to allowance	(119)	(95)
Balance at the end of the year	₹ 459	₹ 416

14. Other assets

Other assets consist of the following:

	As of March 31,	
	2011	2010
Current		
Prepaid expenses	₹ 512	₹ 270
Advance payments to vendors	491	586
Balances and receivables from statutory authorities ⁽¹⁾	3,228	2,727
Due from related parties	—	5
Deposits	118	118
Advance to employees	44	46
Export benefits receivable ⁽²⁾	1,156	571
Others	1,382	1,122
	6,931	5,445
Non-current		
Deposits	228	197
Others	48	46
	276	243
	₹ 7,207	₹ 5,688

(1) Balances and receivables from statutory authorities primarily consist of amounts deposited with the excise authorities of India and the unutilized excise input credits on purchases. These are regularly utilized to offset the Indian excise and service tax liability on goods produced by and services provided by the Company. Accordingly, these balances have been classified as current assets.

(2) Refer to Note 3.1. for details regarding export entitlements.

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15. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	As of March 31,	
	2011	2010
Cash balances	₹ 10	₹ 9
Balances with banks	5,247	3,296
Time deposit balances with banks	472	3,279
Cash and cash equivalents on the statements of financial position	5,729	6,584
Bank overdrafts used for cash management purposes	(69)	(39)
Cash and cash equivalents in the cash flow statement	₹ 5,660	₹ 6,545

Balances with banks included restricted cash of ₹253 and ₹19, respectively, for the years ended March 31, 2011 and 2010, which consisted of:

- ₹20 and ₹19 as of March 31, 2011 and 2010, respectively, representing amounts in the Company's unclaimed dividend account, which are therefore restricted;
- ₹150 million as of March 31, 2011, representing amounts in an escrow account for settlement of the payment due in respect of the Company's exercise of the portfolio termination value option under its research and development agreement with I-VEN Pharma Capital Limited (Refer to Note 21 for details); and
- ₹83 as of March 31, 2011, representing amounts deposited as security for a bond executed for an environmental liability relating to the Company's site in Mirfield, United Kingdom (Refer to Note 22 for details).

16. Equity

	Year Ended March 31,	
	2011	2010
Par value per share	₹ 5	₹ 5
Authorized share capital	1,200	1,200
Fully paid up capital		
As at April 1	844	842
Add: Shares issued on exercise of stock options	2	2
As at March 31	₹ 846	₹ 844

The Company presently has only one class of equity shares. For all matters submitted to vote in a shareholders meeting of the Company, every holder of an equity share, 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. During the year ended March 31, 2010 the parent company's authorized share capital was increased by ₹200 to enable a legal reorganization to amalgamate Perlecan Pharma Private Limited with and into the parent company.

Indian law mandates that any dividends shall be declared out of the distributable profits only after the transfer of up to 10% of net income (as computed in accordance with then-current regulations) to a general reserve. Should the Company declare and pay any dividends, such dividends will be paid in Indian rupees to each holder of equity shares in proportion to the number of shares held to the total equity shares outstanding as on that date. Indian law on foreign exchange governs the remittance of dividends outside India.

In the event of liquidation of the Company, all preferential amounts, if any, shall be discharged by the Company. The remaining assets of the Company shall be distributed to the holders of equity shares in proportion to the number of shares held to the total equity shares outstanding as on that date.

Final dividends on equity shares (including dividend tax on distribution of such dividends) are recorded as a liability on the date of their approval by the shareholders and interim dividends are recorded as a liability on the date of declaration by the Company's Board of Directors. The Company paid dividends (including dividend tax thereon) of ₹2,219, ₹1,233 and ₹738 during the years ended March 31, 2011, 2010 and 2009, respectively. The dividend per share was ₹11.25, ₹11.25 and ₹6.25 during the years ended March 31, 2011, 2010 and 2009, respectively.

At the Company's Board of Directors' meeting held on May 13, 2011, the Board proposed a dividend in the aggregate amount of ₹2,214, including the applicable dividend tax on distribution of such dividends amounting to ₹309 (the dividend per share amounting to ₹11.25), all of which is subject to the approval of the Company's shareholders.

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17. Earnings/(loss) per share

Basic earnings/(loss) per share

The calculation of basic earnings per share for the years ended March 31, 2011, 2010 and 2009 was based on the profit/(loss) attributable to equity shareholders of ₹11,040, ₹1,068 and ₹(5,168), respectively, and the weighted average number of equity shares outstanding, calculated as follows:

Basic earnings/(loss) per share

	Year Ended March 31,		
	2011	2010	2009
Issued equity shares as of April 1	168,845,385	168,468,777	168,172,746
Effect of shares issued on exercise of stock options	283,264	238,200	176,393
Weighted average number of equity shares as of March 31	169,128,649	168,706,977	168,349,139

Diluted earnings/(loss) per share

The calculation of diluted earnings per share for the years ended March 31, 2011, 2010 and 2009 was based on the profit/(loss) attributable to equity shareholders of ₹11,040, ₹1,068 and ₹(5,168), respectively, and the weighted average number of equity shares outstanding, calculated as follows:

	Year Ended March 31,		
	2011	2010	2009
Weighted average number of equity shares (Basic)	169,128,649	168,706,977	168,349,139
Dilutive effect of outstanding stock options	836,633	908,966	—
Weighted average number of equity shares (Diluted)	169,965,282	169,615,943	168,349,139

As the Company incurred a net loss for the year ended March 31, 2009, 722,656 ordinary shares arising out of potential exercise of outstanding stock options were not included in the computation of diluted loss per share, as their effect was anti-dilutive.

18. Loans and borrowings

Short term loans and borrowings

The Company has undrawn lines of credit of ₹13,089 and ₹7,850 as of March 31, 2011 and 2010, respectively, from its bankers for working capital requirements. These lines of credit are renewable annually. The Company has the right to draw upon these lines of credit based on its requirements.

The interest rate profile of short term borrowings from banks is given below:

	As at	
	March 31, 2011	March 31, 2010
Rupee borrowings	8.75%	5.00%
Borrowings on transfer of receivables	LIBOR+75-100bps	—
Foreign currency borrowings	LIBOR+ 50 - 175bps	LIBOR+ 40 -75bps
	EURIBOR+50-100bps	
	5% to 8%	

Short term borrowings as of March 31, 2011 includes:

Transfer of financial asset

During the year ended March 31, 2011, the Company entered into an arrangement with Citibank, India in which the Company transferred ₹2,215 (U.S \$49) of short term trade receivables in return for obtaining short term funds. As part of the transaction, the Company provided Citibank with credit indemnities over the expected losses of those receivables. Since the Company has retained substantially all of the risks and rewards of ownership of the trade receivables, including the contractual rights to the associated cash flows, the Company continues to recognize the full carrying amount of the receivables and has recognized the cash received in respect of the transaction as short term borrowings. As of March 31, 2011, the carrying amount of the transferred short-term receivables which are subject to this arrangement is ₹838 (U.S \$18.78) and the carrying amount of the associated liability is ₹825 (U.S \$18.50).

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18. Loans and borrowings (continued)

Short-term borrowings — hedging instruments

During the year ended March 31, 2011, the Company borrowed foreign currency denominated short-term loans amounting to ₹8,398. Contemporaneous with such borrowings, the Company documented an effective cash flow hedge relationship between the foreign currency exposure associated with such foreign currency borrowings and for the probable anticipated foreign currency sales transactions. Accordingly, the foreign exchange differences arising from re-measurement of these loans have been recognized as a component of equity within the “hedging reserve”.

Long term loans and borrowings

Long term loans and borrowings consist of the following:

	As at March 31,	
	2011	2010
Rupee term loan ⁽¹⁾	₹ —	₹ 1
Foreign currency loan ^{(2), (3)}	—	8,838
Obligations under finance leases	256	252
Bonus debentures	5,027	—
	5,283	9,091
 Less: Current portion		
Rupee term loan ⁽¹⁾	—	1
Foreign currency loan ^{(2), (3)}	—	3,690
Obligations under finance leases	12	15
	12	3,706
 Non-current portion		
Rupee term loan ⁽¹⁾	—	—
Foreign currency loan ^{(2), (3)}	—	5,148
Obligations under finance leases	244	237
Bonus debentures	5,027	—
	₹ 5,271	₹ 5,385

(1) “Rupee term loan” represents a loan from the Indian Renewable Energy Development Agency Limited which is secured by way of hypothecation of specific movable assets pertaining to the Company’s solar grid interactive power plant located in Bachupally, Hyderabad. The outstanding amount of such loan was fully re-paid during the year ended March 31, 2011. Consequently, the financial liability has been derecognized during the current period.

(2) “Foreign currency loan” represents the carrying amount of a Euro denominated loan originally received from Citibank, N.A., Hong Kong in March 2006 to fund the acquisition of betapharm. As part of the facility, the Company had incurred an amount of ₹429 as initial debt issuance costs, which is being amortized over the debt period using the effective interest method. On December 22, 2010, the Company repaid the loan prior to its maturity by making a payment of ₹7,111. The Company obtained a release letter from Citibank for such loan satisfaction on January 4, 2011. Accordingly, the loan liability has been derecognized from the consolidated financial statements and the difference between the carrying amount of the loan (at amortized cost) and the amount paid on the date of satisfaction amounting to ₹73 has been recognized as loss on extinguishment of debt disclosed within finance cost in the consolidated statement of income.

With respect to this loan, the Company was required to comply with certain financial covenants, which includes limits on capital expenditures and/maintenance of financial ratios (computed based on the Company’s Indian GAAP financial statements) as defined in the loan agreement. Such financial ratio requirements include: (a) Consolidated Net Debt to Consolidated Earnings Before Interest, Tax, Depreciation and Amortization (“EBITDA”) not to exceed 3.5:1, and (b) Consolidated EBITDA to Consolidated Interest Expenses shall not be less than 3.75:1. The Company was in compliance with such financial covenants up to the date of satisfaction of the loan.

(3) During the year ended March 31, 2011, the Company repaid ₹8,926 of foreign currency loans (consisting of Euro 141 and U.S.\$8), ₹1 of Rupee term loans and ₹14 of obligations under capital leases. During the year ended March 31, 2010, the Company repaid ₹3,457 of foreign currency loans (consisting of Euro 50 and U.S.\$3), ₹6 of rupee term loans and ₹16 of obligations under finance leases.

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18. Loans and borrowings (continued)

Issuance of bonus debentures

	March 31,	
	2011	2010
Proceeds from issuance of bonus debentures	5,078	—
Issuance cost	(51)	—
Initial recognized amount	<u>5,027</u>	<u>—</u>

As explained in Note 34 of these consolidated financial statements, the Company during the year ended March 31, 2011 issued unsecured redeemable bonus debentures amounting to ₹5,078. In relation to the issuance, the Company has incurred directly attributable transaction cost amounting to ₹51. The bonus debentures do not carry the right to vote or the right to participate in any of the distributable profits or residual assets of the Company, except that the holders of the bonus debentures participate only to the extent of the face value of the instrument plus accrued and unpaid interest thereon. These bonus debentures are mandatorily redeemable at the face value on March 23, 2014 and the Company is obliged to pay the holders of its bonus debentures an annual interest payment equal to 9.25% of the face value thereof on March 24 of each year until (and including upon) maturity. These bonus debentures are measured at amortized cost using the effective interest rate method as at March 31, 2011.

The interest rate profile of long-term loans and borrowings is given below:

	March 31,	
	2011	2010
Rupee borrowings	—%	2.00%
Foreign currency borrowings	—%	EURIBOR + 70 bps and LIBOR+70 bps
Bonus debentures	9.25%	—

The aggregate maturities of interest-bearing loans and borrowings, based on contractual maturities, as of March 31, 2011 were as follows:

Maturing in the year ending March 31,	Rupee term loan	Foreign currency loan	Obligation under finance lease	Debentures	Total
2012	₹ —	₹ —	₹ 12	₹ —	₹ 12
2013	—	—	10	—	10
2014	—	—	10	5,078	5,088
2015	—	—	10	—	10
2016	—	—	10	—	10
Thereafter	—	—	204	—	204
	<u>₹ —</u>	<u>₹ —</u>	<u>₹ 256</u>	<u>₹ 5,078</u>	<u>₹ 5,334</u>

The aggregate maturities of interest-bearing loans and borrowings, based on contractual maturities, as of March 31, 2010 were as follows:

Maturing in the year ending March 31,	Rupee term loan	Foreign currency loan	Obligation under finance lease	Total
2011	₹ 1	₹ 3,690	₹ 15	₹ 3,706
2012	—	5,148	8	5,156
2013	—	—	8	8
2014	—	—	8	8
2015	—	—	9	9
Thereafter	—	—	204	204
	<u>₹ 1</u>	<u>₹ 8,838</u>	<u>₹ 252</u>	<u>₹ 9,091</u>

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18. Loans and borrowings (continued)

Obligations under finance leases

The Company has leased buildings and vehicles under finance leases. Future minimum lease payments under finance leases as at March 31, 2011 were as follows:

Particulars	Present value of minimum lease payments	Interest	Future minimum lease payments
Not later than one year	₹ 12	₹ 2	₹ 14
Between one and five years	51	6	57
More than five years	193	1	194
	<u>₹ 256</u>	<u>₹ 9</u>	<u>₹ 265</u>

Future minimum lease payments under finance leases as at March 31, 2010 were as follows:

Particulars	Present value of minimum lease payments	Interest	Future minimum lease payments
Not later than one year	₹ 15	₹ 1	₹ 16
Between one and five years	33	—	33
More than five years	204	1	205
	<u>₹ 252</u>	<u>₹ 2</u>	<u>₹ 254</u>

19. Employee benefits

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 in India. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment. The amount of payment is based on the respective employee's last drawn salary and the years of employment with the Company. Effective September 1, 1999, the Company established the Dr. Reddy's Laboratories Gratuity Fund (the "Gratuity Fund"). Liabilities in respect of 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. 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 debt instruments of Indian government-owned corporations.

The components of gratuity cost recognized in the income statement for the years ended March 31, 2011, 2010 and 2009 consists of the following:

	Year Ended March 31,		
	2011	2010	2009
Service cost	₹ 63	₹ 52	₹ 43
Interest cost	37	30	27
Expected return on plan assets	(33)	(25)	(22)
Recognized net actuarial (gain)/loss	<u>2</u>	<u>6</u>	<u>—</u>
Gratuity cost recognized in income statement	<u>₹ 69</u>	<u>₹ 63</u>	<u>₹ 48</u>

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19. Employee benefits (continued)

Details of the employee benefits obligation and plan assets are provided below:

	As of March 31,	
	2011	2010
Present value of unfunded obligations	₹ 25	₹ 21
Present value of funded obligations	585	452
Total present value of obligations	610	473
Fair value of plan assets	(490)	(449)
Present value of net obligations	120	24
Unrecognized actuarial gains and (losses)	(134)	(60)
Recognized (asset)/liability	₹ (14)	₹ (36)

Details of changes in the present value of defined benefit obligation are as follows:

	As of March 31,	
	2011	2010
Defined benefit obligations at the beginning of the year	₹ 473	₹ 404
Service cost	63	52
Interest cost	37	30
Actuarial (gain)/loss	81	18
Benefits paid	(44)	(31)
Defined benefit obligation at the end of the year	₹ 610	₹ 473

Details of changes in the fair value of plan assets are as follows:

	As of March 31,	
	2011	2010
Fair value of plan assets at the beginning of the year	₹ 449	₹ 334
Expected return on plan assets	33	25
Employer contributions	47	94
Benefits paid	(44)	(31)
Actuarial gain/(loss)	5	27
Plan assets at the end of the year	₹ 490	₹ 449

Experience adjustments:

	Year Ended March 31,			
	2011	2010	2009	2008
Defined benefit obligation	₹ 610	₹ 473	₹ 404	₹ 322
Plan assets	490	449	334	289
Surplus/(deficit)	(120)	(24)	(70)	(33)
Experience adjustments on plan liabilities	28	28	18	36
Experience adjustments on plan assets	5	27	(7)	15

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
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19. Employee benefits (continued)

Summary of the actuarial assumptions: The actuarial assumptions used in accounting for the Gratuity Plan are as follows:

The assumptions used to determine benefit obligations:

	Year Ended March 31,		
	2011	2010	2009
Discount rate	7.95%	7.50%	7.15%
Rate of compensation increase	9% per annum for first 2 years and 8% per annum thereafter	8% per annum for first 2 years and 6% per annum thereafter	8% per annum for first 3 years and 6% per annum thereafter
Expected long-term return on plan assets	7.50%	7.50%	7.50%

The assumptions used to determine gratuity cost:

	Year Ended March 31,		
	2011	2010	2009
Discount rate	7.50%	7.15%	7.80%
Rate of compensation increase	8% per annum for first 2 years and 6% per annum thereafter	8% per annum for first 3 years and 6% per annum thereafter	8% to 10% per annum for first 4 years and 6% per annum thereafter
Expected long-term return on plan assets	7.50%	7.50%	7.50%

Contributions: The Company expects to contribute ₹65 to its gratuity fund during the year ending March 31, 2012.

Plan assets: The Gratuity Plan's weighted-average asset allocation at March 31, 2011 and 2010, by asset category, was as follows:

	As of March 31,	
	2011	2010
Debt securities	—	1%
Funds managed by insurers	99%	96%
Others	1%	3%

Pension plan

All employees of the Company's Mexican subsidiary, Industrias Quimicas Falcon de Mexico ("Falcon"), are entitled to a pension plan in the form of a defined benefit pension plan. The Falcon pension plan provides for payment to vested employees at retirement or termination of employment. This payment is based on the employee's integrated salary and is paid in the form of a monthly pension over a period of 20 years computed based upon a pre-defined formula. Liabilities in respect of the pension plan are determined by an actuarial valuation, based on which the Company makes contributions to the pension plan fund. This fund is administered by a third party, who is provided guidance by a technical committee formed by senior employees of Falcon.

The components of net pension cost recognized in the income statement for the years ended March 31, 2011, 2010 and 2009 consist of the following:

	Year Ended March 31,		
	2011	2010	2009
Service cost	₹ 16	₹ 14	₹ 12
Interest cost	25	24	18
Expected return on plan assets	(27)	(20)	(15)
Actuarial (gain)/loss	6	8	5
Pension cost recognized in income statement	₹ 20	₹ 26	₹ 20

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19. Employee benefits (continued)

Details of the employee benefits obligation and plan assets are provided below:

	As of March 31,	
	2011	2010
Present value of unfunded obligations	₹ 27	₹ 26
Present value of funded obligations	332	284
Total present value of obligations	359	310
Fair value of plan assets	(259)	(249)
Present value of net obligations	100	61
Unrecognized actuarial losses	(127)	(91)
Recognized asset	₹ (27)	₹ (30)

Details of changes in the present value of defined benefit obligation are as follows:

	As of March 31,	
	2011	2010
Defined benefit obligations at the beginning of the year	₹ 310	₹ 244
Service cost	16	14
Interest cost	25	24
Actuarial (gain)/loss	26	34
Benefits paid	(18)	(6)
Defined benefit obligation at the end of the year	₹ 359	₹ 310

Details of changes in the fair value of plan assets are as follows:

	As of March 31,	
	2011	2010
Fair value of plan assets at the beginning of the year	₹ 249	₹ 176
Expected return on plan assets	27	20
Employer contributions	17	21
Benefits paid	(18)	(6)
Actuarial gain/(loss)	(16)	38
Plan assets at the end of the year	₹ 259	₹ 249

Experience adjustments

	Year Ended March 31,			
	2011	2010	2009	2008
Defined benefit obligation	₹ 359	₹ 310	₹ 244	₹ 253
Plan assets	259	249	176	213
Surplus/(deficit)	(100)	(61)	(68)	(40)
Experience adjustments on plan liabilities	12	1	80	40
Experience adjustments on plan assets	(23)	35	(46)	(21)

Contributions: The Company expects to contribute ₹40 to the Falcon pension fund during the year ending March 31, 2012.

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19. Employee benefits (continued)

Pension plan (continued)

Summary of the actuarial assumptions: The actuarial assumptions used in accounting for the Falcon pension plan are as follows:

Assumptions used to determine pension benefit obligations:

	Year Ended March 31,		
	2011	2010	2009
Discount rate	7.75%	7.91%	9.50%
Rate of compensation increase	4.50%	4.50%	4.50%
Expected long-term return on plan assets	9.75%	10.50%	10.50%

Assumptions used to determine pension cost:

	Year Ended March 31,		
	2011	2010	2009
Discount rate	7.91%	9.50%	7.50%
Rate of compensation increase	4.50%	4.50%	4.50%
Expected long-term return on plan assets	10.50%	10.50%	10.50%

Plan assets: The Falcon pension plan's weighted-average asset allocation at March 31, 2011 and 2010, by asset category is as follows:

	As of March 31,	
	2011	2010
Equity	51%	51%
Others	49%	49%

Superannuation benefits

Apart from being covered under the Gratuity Plan described above, the senior officers of the Company also participate in superannuation, a defined contribution plan administered by the Life Insurance Corporation. 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 ₹49, ₹47 and ₹44 to the superannuation plan during the years ended March 31, 2011, March 31, 2010 and 2009, respectively.

Provident fund benefits

In addition to the above benefits, all employees of the Company receive benefits from a provident fund, a defined contribution plan. Both the employee and employer each make monthly contributions to a government administered fund 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 ₹258, ₹195 and ₹160 to the provident fund plan during the years ended March 31, 2011, 2010 and 2009, respectively.

Other contribution plans

In the United States, the Company sponsors a defined contribution 401(k) retirement savings plan for all eligible employees who meet minimum age and service requirements. The Company contributed ₹70, ₹70 and ₹54 to the 401(k) retirement savings plan during the years ended March 31, 2011, 2010 and 2009, respectively.

In the United Kingdom, certain social security benefits (such as pension, unemployment and disability) are funded by employers and employees through mandatory National Insurance contributions.

The contribution amounts are determined based upon the employee's salary. The Company has no further obligations under the plan beyond its monthly contributions. The Company contributed ₹80, ₹78 and ₹70 to the National Insurance during the years ended March 31, 2011, 2010 and 2009, respectively.

Employee benefit expenses, including share based payments, incurred during the years ended March 31, 2011, 2010 and 2009 amounted to ₹14,109, ₹12,843 and ₹10,525, respectively.

Long service benefit recognition

During the year ended March 31, 2010, the Company introduced a new post-employment defined benefit scheme under which all eligible employees of the parent company who have completed the specified service tenure with the Company would be eligible for a "Long Service Cash Award" at the time of their employment separation. The amount of such cash payment would be based on the respective employee's last drawn salary and the specified number of years of employment with the Company. Accordingly the Company has valued the liability through an independent actuary. During the years ended March 31, 2011 and 2010, the Company recorded liabilities of ₹10, and ₹53, respectively, under the scheme.

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19. Employee benefits (continued)

Long service benefit recognition (continued)

The components of such benefit cost recognized in the income statement for the years ended March 31, 2011 and 2010 consists of the following:

	Year Ended March 31,		
	2011	2010	2009
Service cost	₹ 6	₹ —	₹ —
Interest cost	4	—	—
Expected return on plan assets	—	—	—
Actuarial (gain)/loss	—	—	—
Past service cost	—	53	—
Pension cost recognized in income statement	₹ 10	₹ 53	₹ —

Details of the employee benefits obligation and plan assets are provided below:

	As of March 31,	
	2011	2010
Present value of unfunded obligations	₹ 69	₹ 53
Present value of funded obligations	—	—
Total present value of obligations	69	53
Fair value of plan assets	—	—
Present value of net obligations	69	53
Unrecognized actuarial losses	(8)	—
Recognized Liability	₹ 61	₹ 53

Details of changes in the present value of defined benefit obligation are as follows:

	As of March 31,	
	2011	2010
Defined benefit obligations at the beginning of the year	₹ 53	₹ —
Service cost	6	—
Interest cost	4	—
Actuarial (gain)/loss	8	—
Past service cost	—	53
Benefits paid	(2)	—
Defined benefit obligation at the end of the year	₹ 69	₹ 53

The Company has not earmarked any specific assets for such defined benefit obligation and, accordingly, it is unfunded.

Experience adjustments:

	Year Ended March 31,			
	2011	2010	2009	2008
Defined benefit obligation	₹ 69	₹ 53	₹ —	₹ —
Plan assets	—	—	—	—
Surplus/(deficit)	(69)	(53)	—	—
Experience adjustments on plan liabilities	1	—	—	—
Experience adjustments on plan assets	—	—	—	—

Contributions: The Company expects to contribute ₹10 during the year ending March 31, 2012.

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
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19. Employee benefits (continued)

Long service benefit recognition (continued)

Summary of the actuarial assumptions: The actuarial assumptions used in accounting for the long service benefit cost are as follows:

Assumptions used to determine defined benefit obligations:

	Year Ended March 31,		
	2011	2010	2009
Discount rate	7.95%	7.50%	—
Rate of compensation increase	9% per annum for first 2 years and 8% per annum thereafter	8% per annum for first 2 years and 6% per annum thereafter	—
Expected long-term return on plan assets	—	—	—

The assumptions used to determine long service benefit cost:

	2011	2010	2009
	Discount rate	7.50%	7.50%
Rate of compensation increase	8% per annum for first 2 years and 6% per annum thereafter	8% per annum for first 2 years and 6% per annum thereafter	—
Expected long-term return on plan assets	—	—	—

Long term incentive plan

During the year ended March 31, 2011, Aurigene Discovery Technologies Limited (a 100% holding subsidiary of the Company) introduced a new long term employment defined benefit scheme under which all eligible employees of Aurigene Discovery Technologies Limited will be incentivized based on the year on year growth in the profitability of Aurigene Discovery Technologies Limited. Payment to all the eligible employees will be made three years after they fall due. Accordingly, the Company has valued the liability through an independent actuary. During the year ended March 31, 2011, the Company recorded a liability of ₹40 under the scheme.

Severance payments of German subsidiaries

In Germany, many statutory health insurance funds (“SHI funds”) and other health insurance providers have been announcing new competitive bidding tenders which continue to cause pressure on the Company’s existing level of revenues due to a steep decrease in product prices. The Company believes that this is leading to a business model of “high volumes and low margins” in the German generic pharmaceutical market.

On account of these developments and other significant adverse events in the German generic pharmaceutical market, during the year ended March 31, 2010 the Company implemented workforce reductions and restructuring of the Company’s German subsidiaries, betapharm Arzneimittel GmbH (“betapharm”) and Reddy Holding GmbH, to achieve a more sustainable workforce structure in light of the current situation within the German generic pharmaceuticals industry. Accordingly, during the year ended March 31, 2010, the management and the works councils (i.e., organizations representing workers) of betapharm and Reddy Holding GmbH entered into “reconciliation of interest” agreements that set out the overall termination benefits payable to identified employees. Accordingly, an amount of ₹885 (Euro 13.2) was recorded as termination benefits included as part of “Selling, general and administrative expenses” in the consolidated income statement for the year ended March 31, 2010.

DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES
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20. 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 pursuant to the special resolution approved by the shareholders in the Annual General Meeting held on September 24, 2001. The DRL 2002 Plan covers all employees of DRL and its subsidiaries and directors (excluding promoter directors) of DRL and its subsidiaries (collectively, "eligible employees"). The compensation committee of the Board of DRL (the "Compensation Committee") administers the DRL 2002 Plan and grants stock options to eligible employees. The Compensation Committee determines which eligible employees will receive options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for all options issued on the date of grant. The options issued under the DRL 2002 Plan vest in periods ranging between one and four years and generally have a maximum contractual term of five years.

The DRL 2002 Plan was amended on July 28, 2004 at the annual general meeting of shareholders to provide for stock option grants in two categories:

Category A: 1,721,700 stock options out of the total of 2,295,478 options reserved for grant having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 573,778 stock options out of the total of 2,295,478 options reserved for grant having an exercise price equal to the par value of the underlying equity shares (i.e., ₹5 per option).

The DRL 2002 Plan was further amended on July 27, 2005 at the annual general meeting of shareholders to provide for stock option grants in two categories:

Category A: 300,000 stock options out of the total of 2,295,478 options reserved for grant having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 1,995,478 stock options out of the total of 2,295,478 options reserved for grant having an exercise price equal to the par value of the underlying equity shares (i.e., ₹5 per option).

Under the DRL 2002 Plan, the exercise price of the fair market value options granted under Category A above is determined based on the 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 Compensation Committee may, after obtaining the approval of the shareholders in the annual general meeting, grant options with a per share exercise price other than fair market value and par value of the equity shares.

After the stock split effected in the form of stock dividend issued by the Company in August 2006, the DRL 2002 Plan provides for stock options granted in the above two categories as follows:

Particulars	Number of Options granted under category A	Number of Options granted under category B	Total
Options reserved under original Plan	300,000	1,995,478	2,295,478
Options exercised prior to stock dividend date (A)	94,061	147,793	241,854
Balance of shares that can be allotted exercise of options (B)	205,939	1,847,685	2,053,624
Options arising from stock dividend (C)	205,939	1,847,685	2,053,624
Options reserved after stock dividend (A+B+C)	505,939	3,843,163	4,349,102

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20. Employee stock incentive plans (continued)

Stock options activity under the DRL 2002 Plan for the two categories of options is as follows:

Category A — Fair Market Value Options	Year Ended March 31, 2011			
	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	100,000	₹ 362.50-531.51	₹ 403.02	38
Granted during the year	—	—	—	—
Expired/forfeited during the period	(9,000)	373.50-531.51	443.73	—
Exercised during the period	(70,000)	362.50-442.50	385.36	—
Outstanding at the end of the period	21,000	₹ 373.50-448	₹ 444.45	67
Exercisable at the end of the period	11,000	₹ 373.50-448	₹ 441.23	55

Category B — Par Value Options	Year Ended March 31, 2011			
	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	785,007	₹ 5.00	₹ 5.00	72
Granted during the period	284,070	5.00	5.00	91
Expired/forfeited during the period	(78,620)	5.00	5.00	—
Exercised during the period	(293,296)	5.00	5.00	—
Outstanding at the end of the period	697,161	₹ 5.00	₹ 5.00	72
Exercisable at the end of the period	52,106	₹ 5.00	₹ 5.00	41

Category A — Fair Market Value Options	Year Ended March 31, 2010			
	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	136,410	₹ 362.50-531.51	₹ 417.51	42
Granted during the year	—	—	—	—
Expired/forfeited during the period	(3,670)	442.50- 531.51	512.11	—
Exercised during the period	(32,740)	373.50- 531.51	451.17	—
Outstanding at the end of the period	100,000	₹ 362.50-531.51	₹ 403.02	38
Exercisable at the end of the period	80,000	₹ 362.50-531.51	₹ 391.78	27

Category B — Par Value Options	Year Ended March 31, 2010			
	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	778,486	₹ 5.00	₹ 5.00	72
Granted during the period	359,840	5.00	5.00	91
Expired/forfeited during the period	(83,608)	5.00	5.00	—
Exercised during the period	(269,711)	5.00	5.00	—
Outstanding at the end of the period	785,007	₹ 5.00	₹ 5.00	72
Exercisable at the end of the period	79,647	₹ 5.00	₹ 5.00	41

The weighted average grant date fair value of fair market value options granted under category A above of the DRL 2002 Plan during the year ended March 31, 2011 was ₹0. The weighted average grant date fair value of par value options granted under category B above of the DRL 2002 Plan during the years ended March 31, 2011 and 2010 was ₹920 and ₹447.32, respectively. The aggregate intrinsic value of options exercised under the DRL 2002 Plan (both category A and B) during the years ended March 31, 2011 and 2010 was ₹489 and ₹229, respectively. The weighted average share price on the date of exercise of options during the years ended March 31, 2011 and 2010 was ₹1,425.60 and ₹810.65, respectively. As of March 31, 2011, options outstanding and exercisable under the DRL 2002 Plan (both category A and B) had an aggregate intrinsic value of ₹1,164 and ₹98, respectively.

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20. Employee stock incentive plans (continued)

Dr. Reddy's Employees ADR Stock Option Scheme, 2007 (the "DRL 2007 Plan"):

The Company instituted the DRL 2007 Plan for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on July 27, 2005. The DRL 2007 Plan became effective upon its approval by the Board of Directors on January 22, 2007. The DRL 2007 Plan covers all employees of DRL and its subsidiaries and directors (excluding promoter directors) of DRL and its subsidiaries (collectively, "eligible employees"). The Compensation Committee administers the DRL 2007 Plan and grants stock options to eligible employees. The Compensation Committee determines which eligible employees will receive 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 all options issued on the date of grant. The options issued under DRL 2007 Plan vest in periods ranging between one and four years and generally have a maximum contractual term of five years.

The DRL 2007 Plan provides for option grants in two categories:

Category A: 382,695 stock options out of the total of 1,530,779 stock options reserved for grant having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 1,148,084 stock options out of the total of 1,530,779 stock options reserved for grant having an exercise price equal to the par value of the underlying equity shares (i.e., ₹5 per option).

	Year Ended March 31, 2011			
	Shares arising out of options	Range of exercise prices	Weighted- average exercise price	Weighted-average remaining contractual life (months)
Category B — Par Value Options				
Outstanding at the beginning of the period	112,390	₹ 5.00	₹ 5.00	74
Granted during the period	58,660	5.00	5.00	89
Expired/forfeited during the period	(2,440)	5.00	5.00	—
Exercised during the period	(44,051)	5.00	5.00	—
Outstanding at the end of the period	124,559	₹ 5.00	₹ 5.00	74
Exercisable at the end of the period	3,364	₹ 5.00	₹ 5.00	49
	Year Ended March 31, 2010			
	Shares arising out of options	Range of exercise prices	Weighted- average exercise price	Weighted-average remaining contractual life (months)
Category B — Par Value Options				
Outstanding at the beginning of the period	156,577	₹ 5.00	₹ 5.00	71
Granted during the period	74,600	5.00	5.00	91
Expired/forfeited during the period	(44,630)	5.00	5.00	—
Exercised during the period	(74,157)	5.00	5.00	—
Outstanding at the end of the period	112,390	₹ 5.00	₹ 5.00	74
Exercisable at the end of the period	2,250	₹ 5.00	₹ 5.00	47

The weighted average grant date fair value of par value options granted under category B of the DRL 2007 Plan during the years ended March 31, 2011 and 2010 was ₹920 and ₹447.32, respectively. The aggregate intrinsic value of options exercised under the DRL 2007 Plan during the year ended March 31, 2011 and 2010 was ₹62 and ₹57 respectively. The weighted average share price on the date of exercise of options during the year ended March 31, 2011 and 2010 was ₹1,425 and ₹768.82, respectively. As of March 31, 2011, options outstanding under the DRL 2007 Plan had an aggregate intrinsic value of ₹203 and options exercisable under the DRL 2007 Plan had an aggregate intrinsic value of ₹5.

The fair value of stock options granted under the DRL 2002 Plan and DRL 2007 Plan has been measured using the Black Scholes Merton model at the date of the grant.

The Black-Scholes Merton model includes assumptions regarding dividend yields, expected volatility, expected terms and risk free interest rates. In respect of par value options granted under category B, the expected term of an option (or "option life") is estimated based on the vesting term, contractual term, as well as expected exercise behaviour of the employees receiving the option. In respect of fair market value options granted under category A, the option life is estimated based on the simplified method. Expected volatility of the option is based on historical volatility, during a period equivalent to the option life, of the observed market prices of the Company's publicly traded equity shares. Dividend yield of the options is based on recent dividend activity. Risk-free interest rates are based on the government securities yield in effect at the time of the grant. These assumptions reflect management's best estimates, but these assumptions involve inherent market uncertainties based on market conditions generally outside of the Company's control. As a result, if other assumptions had been used in the current period, stock-based compensation expense could have been materially impacted. Further, if management uses different assumptions in future periods, stock based compensation expense could be materially impacted in future years.

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20. Employee stock incentive plans (continued)

The estimated fair value of stock options is charged to income on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was in-substance, multiple awards.

The weighted average grant date fair value of all the options granted under the DRL 2002 plan (both category — A and B) was ₹920 and ₹447.32 for the years ended March 31, 2011 and 2010, respectively.

The weighted average inputs used in computing the fair value of such grants were as follows:

	Year Ended March 31, 2011	Year Ended March 31, 2010
Expected volatility	34.34%	36.45%
Exercise price	₹ 5	₹ 5
Option life	2.43 years	2.44 years
Risk-free interest rate	6.04%	5.05%
Expected dividends	0.4%	0.82%
Grant date share price	₹ 1,242.55	₹ 612.95

As explained further in Note 34, during the current year, the Company has effected a scheme for issuance of bonus debentures to the shareholders of the Company. As per the terms of this approved scheme, the Compensation Committee of the Board of Directors of the Company have been authorized to reduce the existing exercise price of Category A- Fair market value options by ₹30 per instrument as and when considered appropriate. However, the Compensation Committee did not approve any such reduction at any time during the year ended March 31, 2011.

Pending the final decision of the Compensation Committee, no modifications of the existing scheme has been effected during the year ended March 31, 2011 to the employee equity settled share based payment.

Aurigene Discovery Technologies Ltd. Employee Stock Option Plan 2003 (the "Aurigene ESOP Plan"):

Aurigene Discovery Technologies Limited ("Aurigene"), a consolidated subsidiary, adopted the Aurigene ESOP Plan to provide for issuance of stock options to employees of Aurigene and its subsidiary, Aurigene Discovery Technologies Inc., who have completed one full year of service with Aurigene and its subsidiary. Aurigene has reserved 4,550,000 of its ordinary shares for issuance under this plan. Under the Aurigene ESOP Plan, stock options may be granted at an exercise price as determined by Aurigene's compensation committee. The options issued under the Aurigene ESOP Plan vest in periods ranging from one to three years, including certain options which vest immediately on grant, and generally have a maximum contractual term of three years.

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20. Employee stock incentive plans (continued)

During the year ended March 31, 2008, the Aurigene ESOP Plan was amended to increase the total number of options reserved for issuance to 7,500,000 and to provide for Aurigene's recovery of the Fringe Benefit Tax from employees upon the exercise of their stock options.

	Year Ended March 31, 2011			
	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	1,012,331	₹ 10-14.99	₹ 11.95	34
Granted during the year	—	—	—	—
Exercised during the year	—	—	—	—
Expired/forfeited during the period	(3,241)	10-14.99	11.63	—
Outstanding at the end of the period	<u>1,009,090</u>	<u>₹ 10-14.99</u>	<u>₹ 11.94</u>	<u>21</u>
Exercisable at the end of the period	1,009,090	₹ 10-14.99	₹ 11.94	21
	Year Ended March 31, 2010			
	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	2,916,263	₹ 10-14.99	₹ 13.99	33
Granted during the year	—	—	—	—
Exercised during the year	(1,899,943)	10	10	—
Expired/forfeited during the period	(3,989)	10-14.99	11.63	—
Outstanding at the end of the period	<u>1,012,331</u>	<u>₹ 10-14.99</u>	<u>₹ 11.95</u>	<u>34</u>
Exercisable at the end of the period	850,237	₹ 10-14.99	₹ 11.36	31

As of March 31, 2011, options outstanding and exercisable under this Plan had an aggregate intrinsic value of ₹33.

Aurigene Discovery Technologies Limited, Management Group Stock Grant Plan (the "Aurigene Management Plan").

In the year ended March 31, 2004, Aurigene adopted the Aurigene Management Plan to provide for issuance of stock options to management employees of Aurigene and its subsidiary Aurigene Discovery Technologies Inc. Aurigene has reserved 2,950,000 of its ordinary shares for issuance under this plan. Under the Aurigene Management Plan, stock options may be granted at an exercise price as determined by Aurigene's compensation committee. As of March 31, 2008, there were no stock options outstanding under the Aurigene Management Plan. The plan was closed by a resolution of the shareholders in January 2008.

For the years ended March 31, 2011, 2010 and 2009, ₹265, ₹226 and ₹131, respectively, has been recorded as employee share-based payment expense under all employee stock incentive plans of the Company. As of March 31, 2011, there is approximately ₹167 of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of 2.59 years.

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21. Research and development arrangements

During the year ended March 31, 2005, the Company entered into an agreement with I-VEN Pharma Capital Limited ("I-VEN") for the joint development and commercialization of a portfolio of 36 generic drug products. As per the terms of the agreement, I-VEN had a right to fund up to 50% of the project costs (development, registration and legal costs) related to these products and the related U.S. Abbreviated New Drug Applications ("ANDA") filed or to be filed, subject to a maximum contribution of U.S.\$56. Upon successful commercialization of these products, the Company was required to pay I-VEN a royalty on net sales at agreed rates for a period of 5 years from the date of commercialization of each product.

The first tranche of ₹985 (U.S.\$23) was funded by I-VEN on March 28, 2005. This amount received from I-VEN was initially recorded as an advance and subsequently credited in the income statement as a reduction of research and development expenses upon completion of specific milestones as detailed in the agreement. A milestone (i.e., a product filing as per the terms of the agreement) was considered to be completed once the appropriate ANDA was submitted by the Company to the U.S. FDA. Achievement of a milestone entitled the Company to reduce the advance and credit research and development expenses in a fixed amount equal to I-VEN's share of the research and development costs of the product (which varied depending on whether the ANDA was a Paragraph III or Paragraph IV filing). Accordingly, based on product filings made by the Company through March 31, 2007, an aggregate amount of ₹933 has been credited to research and development expense during the years ended March 31, 2005, 2006 and 2007.

As per the agreement, in April 2010 and upon successful achievement of certain performance milestones specified in the agreement (e.g., successful commercialization of a specified number of products, and achievement of specified sales milestones), I-VEN had a one-time right to require the Company to pay I-VEN a portfolio termination value amount for such portfolio of products. In the event I-VEN exercised this portfolio termination value option, then it would not be entitled to the sales-based royalty payment for the remaining contractual years.

During the year ended March 31, 2010, the Company and I-VEN reached an agreement for I-VEN to exercise the portfolio termination value option for a portfolio termination value amount of ₹2,680 (U.S.\$57). Accordingly, the Company recorded an asset of ₹2,680 (U.S.\$57) (in the form of a portfolio product related intangibles essentially representing a relief from future royalty costs payable to I-VEN) and an equivalent liability representing consideration payable to I-VEN.

On October 1, 2010, the Company, DRL Investments Limited (a wholly owned subsidiary of Dr. Reddy's) and I-VEN's beneficial interest holders consummated and settled the transaction by restructuring it as a purchase of the controlling interest in I-VEN by DRL Investments Limited in exchange for payment to the I-VEN beneficial interest holders of ₹2,680, including an amount of ₹150 set aside in an escrow fund for a period of 15 months for the purpose of funding certain indemnification obligations of such beneficial interest holders.

Accordingly, the amount paid of ₹2,530 has been disclosed as a settlement of liability eligible for de-recognition. Further, the amount of ₹150 set aside in an escrow has been disclosed as restricted cash included as a part of cash and cash equivalents and the liability of an equal amount continues to be disclosed as a part of current liabilities in the financial statements.

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22. Provisions

Provisions consist of the following:

	As at March 31,	
	2011	2010
Sales returns	₹ 980	₹ 839
Environmental liability	41	39
Legal	334	255
	<u>₹ 1,355</u>	<u>₹ 1,133</u>

The details of changes in provisions during the year ended March 31, 2011 are as follows:

Particulars	Allowance for sales return ⁽¹⁾	Environmental Liability ⁽²⁾	Legal	Total
Balance as at April 1, 2010	₹ 839	₹ 39	₹ 255	₹ 1,133
Provision made during the year	731	2	79	812
Provisions acquired in business combinations	—	—	—	—
Provision used during the year	(590)	—	—	(590)
Balance as at March 31, 2011	<u>₹ 980</u>	<u>₹ 41</u>	<u>₹ 334</u>	<u>₹ 1,355</u>
Current	₹ 980	₹ —	₹ 334	₹ 1,314
Non-current	—	41	—	41
	<u>₹ 980</u>	<u>₹ 41</u>	<u>₹ 334</u>	<u>₹ 1,355</u>

- (1) Provision for sales returns is accounted by recording a provision based on the Company's estimate of expected sales returns. See Note 3.k. for details.
- (2) As a result of the acquisition of a unit of The Dow Chemical Company, the Company assumed a liability for contamination of the Mirfield site acquired amounting to ₹39. Because the seller is required to indemnify the Company for this liability, a corresponding asset has also been recorded in the statements of financial position. During the year ended March 31, 2011, the Company was required to provide security for such environmental liabilities and, accordingly, the Company has deposited ₹83 as additional security.

The details of changes in provisions during the year ended March 31, 2010 are as follows:

Particulars	Allowance for sales return	Environmental Liability	Legal	Total
Balance as at April 1, 2009	₹ 815	₹ 42	₹ 1,113	₹ 1,970
Provision made during the year	932	—	119	1,051
Provisions acquired in business combinations	—	—	—	—
Provision used during the year	(908)	(3)	(977)	(1,888)
Balance as at March 31, 2010	<u>₹ 839</u>	<u>₹ 39</u>	<u>₹ 255</u>	<u>₹ 1,133</u>
Current	₹ 839	₹ —	₹ 255	₹ 1,094
Non-current	—	39	—	39
	<u>₹ 839</u>	<u>₹ 39</u>	<u>₹ 255</u>	<u>₹ 1,133</u>

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22. Provisions (continued)

The details of changes in provisions during the year ended March 31, 2009 are as follows:

Particulars	Allowance for sales return	Environmental Liability	Legal	Total
Balance as at April 1, 2008	₹ 627	₹ —	₹ 123	₹ 750
Provision made during the year	663	—	990	1,653
Provisions acquired in business combinations	—	422	—	42
Provision utilized during the year	(475)	—	—	(475)
Balance as at March 31, 2009	<u>815</u>	<u>42</u>	<u>1,113</u>	<u>1,970</u>
Current	815	—	1,113	1,928
Non-current	—	42	—	42
	<u>₹ 815</u>	<u>₹ 42</u>	<u>₹ 1,113</u>	<u>₹ 1,970</u>

23. Trade payables

Trade payables consist of the following:

	As at March 31,	
	2011	2010
Trade payables due to related parties	₹ 81	₹ 20
Trade payables	8,399	9,302
	<u>₹ 8,480</u>	<u>₹ 9,322</u>

24. Other liabilities

Other liabilities consist of the following:

	As at March 31,	
	2011	2010
Current		
Advance from customers	₹ 399	₹ 245
Statutory dues payable	235	372
Accrued expenses	7,140	5,743
Deferred revenue	104	107
Others	3,811	1,397
	<u>11,689</u>	<u>7,864</u>
Non-current		
Statutory dues payable	₹ 45	₹ 48
Deferred revenue	328	42
Others	293	159
	<u>666</u>	<u>249</u>
	<u>₹ 12,355</u>	<u>₹ 8,113</u>

25. Revenue

Revenue consists of the following:

	Year Ended March 31,		
	2011	2010	2009
Sales	₹ 72,952	₹ 68,616	₹ 68,381
Services	1,741	1,661	1,060
	<u>₹ 74,693</u>	<u>₹ 70,277</u>	<u>₹ 69,441</u>

Revenue includes excise duties of ₹356, ₹316 and ₹422 for the years ended March 31, 2011, 2010 and 2009, respectively.

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26. Other (income)/expense, net

Other expense/(income), net consist of the following:

	Year Ended March 31,		
	2011	2010	2009
Loss/(Profit) on sale of property, plant and equipment, net	₹ (271)	₹ 24	₹ (15)
Sale of spent chemical	(255)	(209)	(211)
Negative goodwill on acquisition of business	(73)	—	(150)
Miscellaneous income	(596)	(432)	(286)
Settlement of legal claim from innovator ^{(1) (2)}	80	48	916
	<u>₹ (1,115)</u>	<u>₹ (569)</u>	<u>₹ 254</u>

- (1) During the year ended March 31, 2008, Eli Lilly's German patent covering olanzapine was invalidated by the German Patent Court. Eli Lilly, the innovator, appealed this decision before the German Federal Court of Justice. The Company's German subsidiary, betapharm and certain other competitors had launched olanzapine products in Germany pending the decision from the German Federal Court of Justice. Eli Lilly filed an application for an interim order against betapharm claiming patent infringement at the court in Düsseldorf, Germany. However, in August 2008, the court decided not to grant the interim order due to lack of urgency. In December 2008, the Federal Court of Justice overruled the German Patent Court and decided to maintain the olanzapine patent in favor of Eli Lilly, the innovator. The Company subsequently stopped marketing this product in the German market. As part of the litigation, Eli Lilly claimed damages resulting from the sales of the Company's olanzapine product. In settlement of such claims, the Company agreed to pay compensation to Eli Lilly the amount of ₹916. Accordingly, the Company has recorded a liability towards this claim the amount of ₹916. During the year ended March 31, 2010, the Company paid such amount.
- (2) During the year ended March 31, 2011, the Company recorded an amount of ₹80 as its best estimate of the probable liability arising out of the Company's olanzapine litigation in Canada (Refer to Note 37 for details). The total provision as at March 31, 2011 on this matter is ₹128.

27. Finance (expense)/income, net

Finance (expense)/income, net consist of the following:

	Year Ended March 31,		
	2011	2010	2009
Interest income	₹ 105	₹ 249	₹ 346
Dividend and profit on sale of investments, net	68	48	136
Foreign exchange gain, net	—	72	—
	<u>173</u>	<u>369</u>	<u>482</u>
Foreign exchange loss, net	(57)	—	(634)
Interest expense on borrowings	(232)	(372)	(1,034)
Loss on extinguishment of debt	(73)	—	—
	<u>(362)</u>	<u>(372)</u>	<u>(1,668)</u>
	<u>₹ (189)</u>	<u>₹ (3)</u>	<u>₹ (1,186)</u>

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28. Income taxes

a. Income tax (expense)/benefit recognized in the income statement.

Income tax (expense)/benefit recognized in the income statement consist of the following:

	Year Ended March 31,		
	2011	2010	2009
Current tax (expense)			
Domestic	₹ (2,253)	₹ (2,552)	₹ (1,549)
Foreign	(673)	(684)	(1,182)
	<u>(2,926)</u>	<u>(3,236)</u>	<u>(2,731)</u>
Deferred tax (expense)/benefit			
Domestic	698	79	(166)
Foreign	825	2,172	1,725
	<u>1,523</u>	<u>2,251</u>	<u>1,559</u>
Total income tax (expense)/benefit in income statement	<u>₹ (1,403)</u>	<u>₹ (985)</u>	<u>₹ (1,172)</u>

b. Income tax (expense)/benefit recognized directly in equity

Income tax (expense)/benefit recognized directly in equity consist of the following:

	Year Ended March 31,		
	2011	2010	2009
Tax effect on changes in the fair value of other investments	₹ —	₹ —	₹ (5)
Tax effect on foreign currency translation differences	(59)	150	(41)
Tax effect on effective portion of change in fair value of cash flow hedges	—	(252)	78
	<u>₹ (59)</u>	<u>₹ (102)</u>	<u>₹ 32</u>

c. Reconciliation of effective tax rate

The following is a reconciliation of the Company's effective tax rates for the years ended March 31, 2011, 2010 and 2009:

	2011	2010	2009
Profit/(loss) before income taxes	₹ 12,443	₹ 2,053	₹ (3,996)
Enacted tax rates in India	33.22%	33.99%	33.99%
Computed expected tax (expense)/benefit	(4,134)	(698)	1,359
Effect of:			
Differences between Indian and foreign tax rates	791	562	24
Impairment of goodwill	—	(1,598)	(3,371)
Unrecognized deferred tax assets	(230)	(134)	(303)
Expenses not deductible for tax purposes	(207)	(87)	(119)
Share-based payment expense not deductible for tax purposes	(72)	(55)	(31)
Interest expense not deductible for tax purposes	(18)	(32)	(55)
Income exempt from income taxes ⁽¹⁾	714	746	831
Foreign exchange differences	105	(142)	30
Incremental deduction allowed for research and development costs ⁽²⁾	1,422	409	510
Effect of change in tax laws and rate	103	(77)	29
Others	123	121	(76)
Income tax (expense)/benefit	<u>₹ (1,403)</u>	<u>₹ (985)</u>	<u>₹ (1,172)</u>

- (1) Income exempt from taxes above represents benefits from certain significant tax incentives provided to export oriented units (i.e., a unit that exports its production to customers outside India) and units located in certain specified less developed geographical areas under the Indian tax laws. These incentives presently pertain to an exemption from payment of Indian corporate income taxes for certain units of the Company for a specified eligible period (referred to as the "tax holiday" period). These tax holiday periods for the Company's units expire in various years ranging from the year ended March 31, 2011 through the year ending March 31, 2016.
- (2) Incremental deduction allowed for research and development costs represents tax incentive provided by the Government of India for carrying out such activities.

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28. Income taxes (continued)

As described in detail in Note 34 of these consolidated financial statements, during the year ended March 31, 2011 the Company issued bonus debentures to its shareholders. This scheme and the Indian tax laws recognize this transaction as a dividend that is subject to withholding tax whose economic substance is payment of tax by the Company on behalf of its shareholders. Accordingly, an amount of ₹843 of tax arising out of such transaction has been recorded as part of such issued bonus debenture in the statement of changes in equity for the year ended March 31, 2011.

During the year ended March 31, 2010, the German tax authorities concluded their preliminary tax audits for betapharm, covering the fiscal years 2001 to 2004, and have objected to certain tax positions taken in those years' income tax returns filed by betapharm. Management's best estimate of the additional tax liability that could arise on conclusion of the tax audits, which is expected to be completed in the near future, is ₹302 (EUR 5). Accordingly, the Company recorded the amount as additional current tax expense in the income statement for the year ended March 31, 2010. Included as part of the Company's acquisition of betapharm during the year ended March 31, 2006 were certain pre-existing income tax contingencies pertaining to betapharm for the fiscal periods prior to the date of the closing of the acquisition (in March 2006). Accordingly, the terms of the Sale and Purchase Agreement provided that a certain portion of the purchase consideration amounting to ₹324 (EUR 6) would be set aside in an escrow account, to be set off against certain indemnity claims by the Company in respect of legal and tax matters that may arise covering such pre-acquisition periods. The right to make tax related indemnity claims under the Sale and Purchase Agreement only applies with respect to taxable periods from January 1, 2004 until November 30, 2005. The indemnity right becomes time barred at the end of the seven year anniversary of the closing of the acquisition (in March 2013) and therefore lapses at the end of such period. To the extent that the tax audits cover periods not subject to the indemnity rights under the Sale and Purchase Agreement, the Company has additional indemnity rights pursuant to a tax indemnity agreement with Santo Holdings, the owner of betapharm prior to 3i Group plc.

Upon receipt of such preliminary tax demands, the Company initiated the process of exercising such indemnity rights against the sellers of betapharm and has concluded that as of March 31, 2011, the Company's recovery of the full tax amounts demanded by the German tax authorities continues to be virtually certain. Accordingly, a separate asset amounting to ₹302 (EUR 5) representing such indemnity rights against the sellers has been recorded as part of "other assets" in the consolidated statement of financial position.

There are certain income-tax related legal proceedings that are pending against the Company. Potential liabilities, if any, have been adequately provided for, and the Company does not currently estimate any material incremental tax liability in respect of these matters.

d. Unrecognized deferred tax assets and liabilities

Changes in unrecognized deferred tax assets and liabilities during the years ended March 31, 2011 and 2010 are summarized below:

	As at April 1, 2009	Additions	Expired/ Recognition	As at March 31, 2010	Additions	Expired/ Recognition	As at March 31, 2011
Deductible temporary differences, net	183	(53)	(6)	124	10	—	134
Tax losses	938	206	(13)	1,131	220	(176)	1,175
	1,121	153	(19)	1,255	230	(176)	1,309

During the year ended March 31, 2011, the Company did not recognize deferred tax assets on tax losses of ₹220 pertaining to Reddy US Therapeutics, Inc., Reddy Netherlands BV, Aurigene Discovery Technologies Inc., APR LLC, Reddy Pharma Iberia SA, Dr. Reddy's Laboratories (Australia) Pty Ltd., Eurobridge Consulting B.V., Reddy Antilles N.V., Dr. Reddy's SRL, Aurigene Discovery Technologies (Malaysia), Sdn Bhd, Dr. Reddy's Farmaceutica Do Brasil Ltda, Chirotech Technologies Limited, OOO Dr. Reddy Biomed Limited, OOO DRS LLC, Reddy Pharma Italia SPA, Reddy Cheminor SA, Reddy Pharmaceuticals Hongkong Limited, Dr. Reddy's Laboratories ILAC Ticaret Limited, Dr. Reddy's Laboratories International SA and Trigenesis Therapeutics, Inc. Based on future projections, the Company believes that it is not probable that future taxable profits will be available against which the Company can utilize these benefits. The above tax losses expire at various dates ranging from 2016 through 2031.

Deferred tax liabilities amounting to ₹5,183 and ₹2,657 have not been recognized on temporary differences as at March 31, 2011 and 2010, respectively, related to investments in subsidiaries and branches because it is probable that the temporary differences will not reverse in the foreseeable future.

During the year ended March 31, 2011, tax losses in certain tax jurisdictions have expired. The aforementioned amount of ₹176 represents expiration of tax losses in Trigenesis Therapeutics, Inc, Dr Reddy's SRL, Reddy Pharma Iberia SA, and Dr. Reddy's Laboratories (Australia) Pty Ltd.

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28. Income taxes (continued)

e. Deferred tax assets and liabilities

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities and a description of the items that created these differences is given below:

	As of March 31,	
	2011	2010
Deferred tax assets		
Inventories	₹ 819	₹ 602
Trade receivables	174	233
Operating tax loss carry-forward	1,233	950
Other current liabilities	137	100
Minimum alternate tax	862	—
Others	286	294
Total deferred tax assets	₹ 3,511	₹ 2,179
Deferred tax liabilities		
Property, plant and equipment	₹ (700)	₹ (589)
Other intangible assets	(2,463)	(2,464)
Others	(435)	(564)
Total deferred tax liabilities	₹ (3,598)	₹ (3,617)
Net deferred tax asset/(liability)	₹ (87)	₹ (1,438)

In assessing the realizability of the deferred income tax assets, management considers whether some portion or all of the deferred income tax assets will not be realized. The ultimate realization of the deferred income tax assets and tax loss carry forwards is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategy in making this assessment. Based on the level of historical taxable income and projections of future taxable income over the periods in which the deferred tax assets are deductible, management believes that the Company will realize the benefits of those recognized deductible differences and tax loss carry forwards. The amount of deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

Operating loss carry forward consists of business losses, unabsorbed depreciation and unabsorbed interest carry-forwards. A portion of this total loss can be carried indefinitely and the remaining amounts expire at various dates ranging from 2016 through 2031. The period for which such losses can be carried forward differs from three years to indefinite.

f. Movement in temporary differences during the years ended March 31, 2011 and 2010.

	As at April 1, 2009	Movement ⁽¹⁾	Recognized in equity	Acquired in business combination	As at March 31, 2010
Deferred tax assets					
Inventories	₹ 480	₹ 122	₹ —	₹ —	₹ 602
Minimum alternate tax	—	—	—	—	—
Trade receivables	175	58	—	—	233
Operating loss carry-forward	1,126	(176)	—	—	950
Other current liabilities	201	(101)	—	—	100
Others	240	(71)	125	—	294
Total deferred tax assets	₹ 2,222	₹ (168)	₹ 125	₹ —	₹ 2,179
Deferred tax liabilities					
Property, plant and equipment	(969)	380	—	—	(589)
Other intangible assets	(4,437)	1,973	—	—	(2,464)
Others	(227)	(84)	(253)	—	(564)
Total deferred tax liabilities	₹ (5,633)	₹ 2,269	₹ (253)	₹ —	₹ (3,617)
Net deferred tax assets/(liabilities)	₹ (3,411)	₹ 2,101	₹ (128)	₹ —	₹ (1,438)

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28. Income taxes (continued)

[Continued from above table, first column(s) repeated]

	Movement ⁽¹⁾	Recognized in equity	Acquired in business combination	As at March 31, 2011
Deferred tax assets				
Inventories	₹ 217	₹ —	₹ —	₹ 819
Minimum alternate tax	862	—	—	862
Trade receivables	(59)	—	—	174
Operating loss carry-forward ⁽²⁾	283	—	—	1,233
Other current liabilities	37	—	—	137
Others	(8)	—	—	286
Total deferred tax assets	₹ 1,332	₹ —	₹ —	₹ 3,511
Deferred tax liabilities				
Property, plant and equipment	₹ (111)	₹ —	₹ —	₹ (700)
Other intangible assets	46	—	(45)	(2,463)
Others	198	(69)	—	(435)
Total deferred tax liabilities	₹ 133	₹ (69)	₹ (45)	₹ (3,598)
Net deferred tax assets/(liabilities)	₹ 1,465	₹ (69)	₹ (45)	₹ (87)

- (1) Movement during the years ended March 31, 2011 and 2010 includes the amounts of ₹58 and ₹150, respectively, which represent exchange differences arising due to foreign currency translations.
- (2) The year ended March 31, 2010 included an adjustment of ₹268, relating to the legal reorganization to amalgamate its wholly-owned subsidiary, Perlecan Pharma Private Limited, into the Company as explained above in Note 6 of these consolidated financial statements.

As per Indian tax laws, companies are liable for a Minimum Alternative Tax when current tax computed under normal provisions of the Income Tax Act, 1961 ("Tax Act") is determined to be below the current minimum tax computed under section 115JB of the Tax Act. Such credit is eligible to be carried forward and set-off against the future tax liabilities over a period of 10 years.

As explained in Note 6 of these consolidated financial statements, during the year ended March 31, 2011 the Company consummated a business combination involving certain assets of GSK. As part of the purchase price allocation, the company has recognised a deferred tax liability arising on account of acquired intangible assets amounting to ₹45.

29. Operating leases

The Company leases offices, residential facilities and vehicles under operating lease agreements that are renewable on a periodic basis at the option of both the lessor and the lessee. Some of these leases include rent escalation clauses. Rental expense under these leases was ₹419, ₹519 and ₹383 for the years ended March 31, 2011, 2010 and 2009, respectively.

The schedule of future minimum rental payments in respect of non-cancellable operating leases is set out below:

	As of March 31,		
	2011	2010	2009
Less than one year	₹ 216	₹ 162	₹ 173
Between one and five years	415	318	345
More than five years	—	—	—
	₹ 631	₹ 480	₹ 518

Deferred rental obligations under these leases were ₹7, ₹55 and ₹17 as at March 31, 2011, 2010 and 2009, respectively.

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30. Related parties

The Company has entered into transactions with the following related parties:

- Green Park Hotel and Resorts Limited (formerly known as Diana Hotels Limited) for hotel services;
- A.R. Life Sciences Private Limited for availing processing services of raw materials and intermediates;
- Dr. Reddy's Holdings Limited for the purchase and sale of active pharmaceutical ingredients;
- Dr. Reddy's Foundation for Human and Social Development towards contributions for social development;
- Institute of Life Science towards contributions for social development;
- K.K Enterprises for availing packaging services for formulation products;
- SR Enterprises for transportation services; and
- Dr. Reddy's Laboratories Gratuity Fund.

These are enterprises over which key management personnel have control or significant influence ("significant interest entities"). "Key management personnel" consists of the Company's Directors and Management council members.

The Company has also entered into cancellable operating lease transactions with key management personnel and their relatives.

The Company contributes to the Dr. Reddy's Laboratories Gratuity Fund (the "Gratuity Fund"), which maintains the plan assets of the Company's Gratuity Plan for the benefit of its employees. See Note 19 for information on transactions between the Company and the Gratuity Fund.

The following is a summary of significant related party transactions:

	Year Ended March 31,		
	2011	2010	2009
Purchases from significant interest entities	₹ 486	₹ 275	₹ 290
Sales to significant interest entities	391	156	135
Services to significant interest entities	—	4	—
Contribution to a significant interest entity towards social development and research and development	125	151	124
Hotel expenses paid to significant interest entities	20	13	13
Advances paid to significant interest entities for purchase of land	—	367	400
Short term loan taken and repaid to significant interest entities	—	—	60
Interest paid on loan taken from significant interest entities	—	—	2
Lease rental paid to key management personnel and their relatives	29	27	26

The above table does not include the following transactions between key management personnel and the Company:

- During the year ended March 31, 2010, the Company exchanged a parcel of land owned by it for another parcel of land of equivalent size that adjoins its research facility, owned by the Company's key management personnel. The Company concluded that this exchange transaction lacks commercial substance and has accordingly recorded the land acquired at the carrying amount of the land transferred, with no profit or loss being recorded.
- During the year ended March 31, 2010, the Company purchased land from a significant interest entity for a purchase price of ₹21.

The following table describes the components of compensation paid to key management personnel:

	Year Ended March 31,		
	2011	2010	2009
Salaries and other benefits	₹ 161	₹ 228	₹ 260
Contributions to defined contribution plans	10	7	8
Commission to directors	267	240	174
Share-based payments	56	36	18
Total	₹ 494	₹ 511	₹ 460

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30. Related parties (Continued)

Some of the key management personnel of the Company are also covered under the Company's Gratuity Plan along with the other employees of the Company. Proportionate amounts of gratuity accrued under the Company's Gratuity Plan have not been separately computed or included in the above disclosure.

The Company has the following amounts due from related parties:

	As at March 31,	
	2011	2010
Significant interest entities	114	44
Key management personnel	5	5

The above table as at March 31, 2011 and 2010 does not include amounts of ₹0 and ₹1,447, respectively, paid as an advance towards the purchase of land from a significant interest entity, which has been disclosed under capital work-in-progress in the statements of financial position.

As at March 31, 2010, the Company had advanced ₹1,447 for the purchase of land from a significant interest entity, which was disclosed as part of capital work-in-progress and included in the property, plant and equipment in the Company's audited consolidated financial statements for the year ended March 31, 2010. The acquisition of such land was expected to be consummated through the acquisition of shares of a special purpose entity that was formed through a court approved scheme of arrangement during the year ended March 31, 2010.

During the year ended March 31, 2011, the Company completed the acquisition of this special purpose entity and has therefore obtained control over the land. Consequently, an amount of ₹1,447 has been classified out of "capital work-in-progress" and included as cost of land acquired as at March 31, 2011.

The Company has the following amounts due to related parties:

	As at March 31,	
	2011	2010
Significant interest entities	₹ 81	₹ 20
Key management personnel	1	—

31. Financial instruments

Financial instruments by category

The carrying value and fair value of financial instruments by each category as at March 31, 2011 were as follows:

	Note	Loans and receivables	Available for sale	Trade and other payables	Derivate financial instruments	Total carrying value	Total fair value
Assets:							
Cash and cash equivalents	15	₹ 5,729	₹ —	₹ —	₹ —	₹ 5,729	₹ 5,729
Other investments	11	—	33	—	—	33	33
Trade receivables	13	17,615	—	—	—	17,615	17,615
Derivative financial asset		—	—	—	784	784	784
Other assets	14	1,820	—	—	—	1,820	1,820
Total		₹ 25,164	₹ 33	₹ —	₹ 784	₹ 25,981	₹ 25,981
Liabilities:							
Trade payables	23	—	—	8,480	—	8,480	8,480
Derivative financial liability		—	—	—	—	—	—
Long-term loans and borrowings	18	—	—	5,283	—	5,283	5,283
Bank overdraft, short-term loans and borrowings		—	—	18,289	—	18,289	18,289
Other liabilities and provisions	22 & 24	—	—	12,315	—	12,315	12,315
Total		₹ —	₹ —	₹ 44,367	₹ —	₹ 44,367	₹ 44,367

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31. Financial instruments(continued)

The carrying value and fair value of financial instruments by each category as at March 31, 2010 were as follows:

	Note	Loans and receivables	Available for sale	Trade and other payables	Derivate financial instruments	Total carrying value	Total fair value
Assets:							
Cash and cash equivalents	15	₹ 6,584	₹ —	₹ —	₹ —	₹ 6,584	₹ 6,584
Other investments	11	—	3,600	—	—	3,600	3,600
Trade receivables	13	11,960	—	—	—	11,960	11,960
Derivative financial asset		—	—	—	573	573	573
Other assets	14	2,869	—	—	—	2,869	2,869
Total		₹ 21,413	₹ 3,600	₹ —	₹ 573	₹ 25,586	₹ 25,586
Liabilities:							
Trade payables	23	—	—	9,322	—	9,322	9,322
Derivative financial instruments		—	—	—	—	—	—
Long-term loans and borrowings	18	—	—	9,091	—	9,091	9,091
Bank overdraft, short-term loans and borrowings		—	—	5,604	—	5,604	5,604
Other liabilities and provisions	22 & 24	—	—	8,379	—	8,379	8,379
Total		₹ —	₹ —	₹ 32,396	₹ —	₹ 32,396	₹ 32,396

Fair value hierarchy

Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 — Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The following table presents the fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of March 31, 2011:

Particulars	Level 1	Level 2	Level 3	Total
Available for sale — Financial asset — Investments in units of mutual funds	₹ —	₹ —	₹ —	₹ —
Available for sale — Financial asset-Investment in equity securities	33	—	—	33
Available for sale — Financial asset-Investment in certificate of deposits	—	—	—	—
Derivative financial instruments- gains on outstanding foreign exchange forward and option contracts	—	784	—	784

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31. Financial instruments (continued)

The following table presents fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of March 31, 2010:

Particulars	Level 1	Level 2	Level 3	Total
Available for sale — Financial asset - Investments in units of mutual funds	₹ 3,276	₹ —	₹ —	₹ 3,276
Available for sale — Financial asset-Investment in equity securities	25	—	—	25
Available for sale — Financial asset-Investment in certificate of deposits	—	299	—	299
Derivative financial instruments- gains on outstanding foreign exchange forward and option contracts	—	573	—	573

Derivative financial instruments

The Company uses derivative financial instruments such as foreign exchange forward and option contracts to mitigate the risk of changes in foreign exchange rates on trade receivables and forecasted cash flows denominated in certain foreign currencies. The counterparty for these contracts is generally a bank or a financial institution. The following table gives details in respect of the notional amount of outstanding foreign exchange forward and option contracts:

	As of March 31,	
	2011	2010
Forward contracts		
In U.S. Dollars (Sell)	10,346	7,453
In U.S. Dollars (Buy)	201	—
In Euro (Sell)*	317	—
In GBP (Sell)*	—	—
Option contracts		
In U.S. Dollars	15,385	18,589

* Represents currency exchange contracts for U.S. Dollars.

The Company recognized a net foreign exchange gain on derivative financial instruments of ₹359, and ₹1,056, for the years ended March 31, 2011 and 2010, respectively, and a net foreign exchange loss of ₹714 during the year ended March 31, 2009. These amounts are included in finance expense/(income).

In respect of foreign currency derivative contracts designated as cash flow hedges, the Company has recorded a net gain of ₹1, a net gain of ₹745, and a net loss of ₹227 as a component of equity as at March 31, 2011, 2010 and 2009, respectively, and a net gain of ₹497, a net gain of ₹75 and a net loss of ₹1,455 as part of revenue during the years ended March 31, 2011, 2010 and 2009, respectively.

In addition to the use of derivative financial instruments, the Company has during the year ended March 31, 2011, designated certain foreign currency borrowings from banks and financial institutions as an effective hedging instrument against the foreign currency exposure associated with anticipated highly probable foreign currency sales transactions. Consequent to such designation, the associated foreign currency exchange differences on re-measurement of such loans amounting to ₹37 have been recognized as part of 'hedging reserve' with the statement of comprehensive income in the consolidated financial statements.

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31. Financial instruments (continued)

The forward exchange contracts and option contracts mature between one to twelve months. The table below summarizes the notional amounts of derivative financial instruments into relevant maturity groupings based on the remaining period as at the statements of financial position date:

	As of March 31,	
	2011	2010
Sell:		
Not later than one month	₹ 6,382	₹ 8,980
Later than one month and not later than three months	7,180	3,053
Later than three months and not later than six months	3,790	4,580
Later than six month and not later than one year	8,696	9,429
Total	₹ 26,048	₹ 26,042
Buy:		
Not later than one month	201	—
Later than one month and not later than three months	—	—
Later than three months and not later than six months	—	—
Later than six month and not later than one year	—	—
Total	₹ 201	₹ —

32. Financial risk management

The Company's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk. The Company's primary risk management focus is to minimize potential adverse effects of market risk on its financial performance. The Company's risk management assessment and policies and processes are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor such risks and compliance with the same. Risk assessment and management policies and processes are reviewed regularly to reflect changes in market conditions and the Company's activities. The Board of Directors and the Audit Committee is responsible for overseeing Company's risk assessment and management policies and processes.

a. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities. Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the creditworthiness of customers to which the Company grants credit terms in the normal course of business. The Company establishes an allowance for doubtful debts and impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the customer, including the default risk of the industry and country, in which the customer operates, also has an influence on credit risk assessment. Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the creditworthiness of customers to which the Company grants credit terms in the normal course of business.

Investments

The Company limits its exposure to credit risk by generally investing in liquid securities and only with counterparties that have a good credit rating. The Company does not expect any losses from non-performance by these counter-parties, and does not have any significant concentration of exposures to specific industry sectors or specific country risks.

Financial assets that are neither past due nor impaired

None of the Company's cash equivalents, including time deposits with banks, were past due or impaired as at March 31, 2011. Of the total trade receivables, ₹13,992 as at March 31, 2011 and ₹9,014 as at March 31, 2010 consisted of customer balances which were neither past due nor impaired.

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32. Financial risk management (continued)

Financial assets that are past due but not impaired

The Company's credit period for customers generally ranges from 20 – 180 days. The age analysis of the trade receivables has been considered from the date of the invoice. The aging of trade receivables that are past due, net of allowance for doubtful receivables, is given below:

Period (in days)	As of March 31,	
	2011	2010
1 – 90	₹ 3,218	₹ 2,604
90 – 180	275	224
More than 180	130	118
Total	₹ 3,623	₹ 2,946

See Note 13 for the activity in the allowance for impairment of trade account receivables.

Other than trade receivables, the Company has no class of financial assets that is past due but not impaired.

b. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by ensuring, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk to the Company's reputation.

As of March 31, 2011 and 2010, the Company had unutilized credit limits from banks of ₹13,089 and ₹7,850, respectively.

As of March 31, 2011, the Company had working capital of ₹6,578 including cash and cash equivalents of ₹5,729 and investments in available-for-sale financial assets of ₹33. As of March 31, 2010, the Company had working capital of ₹13,041, including cash and cash equivalents of ₹6,584 and investment in available-for-sale financial assets of ₹3,600.

The table below provides details regarding the contractual maturities of significant financial liabilities (other than long term loans, borrowings and obligations under finance leases which have been disclosed in Note 18) as at March 31, 2011:

Particulars	2012	2013	2014	2015	Thereafter	Total
Trade payables	₹ 8,480	₹ —	₹ —	₹ —	₹ —	₹ 8,480
Bank overdraft, short-term loans and borrowings	18,289	—	—	—	—	18,289
Other liabilities and provisions	12,117	—	—	—	293	12,410

The table below provides details regarding the contractual maturities of significant financial liabilities (other than long term loans, borrowings and obligations under finance leases which have been disclosed in Note 18) as at March 31, 2010:

Particulars	2011	2012	2013	2014	Thereafter	Total
Trade payables	₹ 9,322	₹ —	₹ —	₹ —	₹ —	₹ 9,322
Bank overdraft, short-term loans and borrowings	5,604	—	—	—	—	5,604
Other liabilities and provisions	8,220	—	—	—	159	8,379

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32. Financial risk management (continued)

c. Market risk

Market risk is the risk of loss of future earnings or fair values or future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rates and other market changes that affect market risk-sensitive instruments. Market risk is attributable to all market risk-sensitive financial instruments including foreign currency receivables and payables and short term/or long-term debt. The Company is exposed to market risk primarily related to foreign exchange rate risk, interest rate risk and the market value of its investments. Thus, the Company's exposure to market risk is a function of investing and borrowing activities and revenue generating and operating activities in foreign currencies.

Foreign exchange risk

The Company's exchange risk arises from its foreign operations, foreign currency revenues and expenses, (primarily in U.S. dollars, British pound sterling and euros) and foreign currency borrowings (in U.S. dollars and euros). A significant portion of the Company's revenues are in these foreign currencies, while a significant portion of its costs are in Indian rupees. As a result, if the value of the Indian rupee appreciates relative to these foreign currencies, the Company's revenues measured in rupees may decrease. The exchange rate between the Indian rupee and these foreign currencies has changed substantially in recent periods and may continue to fluctuate substantially in the future. Consequently, the Company uses both derivative and non-derivative financial instruments, such as foreign exchange forward option contracts and foreign currency financial liabilities, to mitigate the risk of changes in foreign currency exchange rates in respect of its forecasted cash flows and trade receivables.

The details in respect of the outstanding foreign exchange forward and option contracts are given in Note 31 above.

In respect of the Company's forward and option contracts, a 10% decrease/increase in the respective exchange rates of each of the currencies underlying such contracts would have resulted in:

- an approximately ₹1,592 increase/decrease in the Company's hedging reserve and an approximately ₹1,057 increase/decrease in the Company's net profit as at March 31, 2011;
- an approximately ₹1,888 increase/decrease in the Company's hedging reserve and an approximately ₹746 increase/decrease in the Company's net profit as at March 31, 2010; and
- an approximately ₹617 increase/decrease in the Company's hedging reserve and an approximately ₹448 increase/decrease in the Company's net profit as at March 31, 2009.

During the year ended March 31, 2011, the Company borrowed foreign currency short-term loans amounting to ₹8,398. As a consequence of such borrowings, the Company has documented an effective cash flow hedge relationship for the foreign currency exposure associated with such foreign currency borrowings and for the probable anticipated foreign currency sales transactions. Accordingly, the foreign exchange differences arising from re-measurement of these foreign currency monetary items before translation into the reporting currency of the Company has been recognized as a component of equity within the "hedging reserve".

In respect of the Company's foreign currency borrowings documented as an effective cash flow hedge relationship, a 10% decrease/increase in the respective exchange rates of each of the currencies underlying such borrowings would have resulted in an approximately ₹840 increase/decrease in the Company's hedging reserve as at March 31, 2011.

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32. Financial risk management (continued)

c. Market risk(continued)

The following table analyzes foreign currency risk from financial instruments as at March 31, 2011:

	<u>U.S. Dollars</u>	<u>Euro</u>	<u>Others ⁽¹⁾</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	₹ 3,002	₹ 49	₹ 977	₹ 4,028
Trade receivables	8,136	977	4,410	13,523
Other assets	68	3	200	271
Total	₹ 11,206	₹ 1,029	₹ 5,587	₹ 17,822
Liabilities:				
Trade payables	₹ 303	₹ 2	₹ 275	₹ 580
Long-term loans and borrowings	7	—	—	7
Bank overdraft, short-term loans and borrowings	12,613	2,378	2,271	17,262
Other liabilities and provisions	1,031	2	1,295	2,328
Total	₹ 13,954	₹ 2,382	₹ 3,841	₹ 20,177

(1) Others include currencies such as Russian roubles, British pound sterling, Swiss franc, New Zealand dollars, Venezuela bolivar, etc.

The following table analyzes foreign currency risk from financial instruments as at March 31, 2010:

	<u>U.S. Dollars</u>	<u>Euro</u>	<u>Others ⁽¹⁾</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	₹ 515	₹ —	₹ 1,232	₹ 1,747
Trade receivables	4,591	667	3,662	8,920
Other assets	154	3	175	332
Total	₹ 5,260	₹ 670	₹ 5,069	₹ 10,999
Liabilities:				
Trade payables	₹ 996	₹ 76	₹ 166	₹ 1,238
Long-term loans and borrowings	354	—	—	354
Bank overdraft, short-term loans and borrowings	4,580	—	—	4,580
Other liabilities and provisions	1,634	—	707	2,341
Total	₹ 7,564	₹ 76	₹ 873	₹ 8,513

(1) Others include currencies such as Russian roubles, British pounds sterling, Swiss francs, New Zealand dollars, Venezuela bolivar, etc.

For the years ended March 31, 2011, 2010 and 2009, every 10% depreciation/appreciation in the exchange rate between the Indian rupee and the respective currencies underlying forward and option contracts would affect the Company's net loss/profit by approximately ₹234, ₹248 and ₹763, respectively.

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32. Financial risk management (continued)

Interest rate risk

As of March 31, 2011 the Company had loans of ₹5,758 carrying interests rate of LIBOR plus 52-80 bps. These loans expose the Company to risk of changes in interest rates. The Company's treasury department monitors the interest rate movement and manages the interest rate risk based on its policies, which include entering into interest rate swaps as considered necessary. As of March 31, 2011, the Company had not entered into any interest rate swaps to hedge its interest rate risk.

As of March 31, 2010, the Company had a loan of Euros 141 at an interest rate of Euribor plus 70 basis points and another loan of U.S.\$8 at an interest rate of Libor plus 70 basis points. These loans exposed the Company to risk of changes in interest rates.

For details of the Company's short-term and long term loans and borrowings, including interest rate profiles, refer to Note 18 above.

The Company's investments in time deposits with banks and short-term liquid mutual funds are for short durations, and therefore do not expose the Company to significant interest rates risk.

For the years ended March 31, 2011, 2010 and 2009, every 10 basis points increase or decrease in the interest rate applicable to its loans, borrowings and investments would affect the Company's net loss/profit by approximately ₹16, ₹11 and ₹14, respectively.

Commodity rate risk

Exposure to market risk with respect to commodity prices primarily arises from the Company's purchases and sales of active pharmaceutical ingredients, including the raw material components for such active pharmaceutical ingredients. These are commodity products, whose prices may fluctuate significantly over short periods of time. The prices of the Company's raw materials generally fluctuate in line with commodity cycles, although the prices of raw materials used in the Company's active pharmaceutical ingredients business are generally more volatile. Cost of raw materials forms the largest portion of the Company's operating expenses. Commodity price risk exposure is evaluated and managed through operating procedures and sourcing policies. The Company has historically not entered into any derivative financial instruments or futures contracts to hedge exposure to fluctuations in commodity prices.

33. Acquisition of non-controlling interest

Dr. Reddy's Laboratories (Proprietary) Limited

During the year ended March 31, 2011, the Company acquired the non-controlling interest of 40% in Dr. Reddy's Laboratories (Proprietary) Limited from Calshelf Investments 214 (Proprietary) Limited, as a result of which it became the Company wholly-owned subsidiary. The total purchase consideration was ₹525 (or, in South African Rand, ZAR 81).

Acquisition of the non-controlling interest has been recorded as a treasury transaction as part of the Consolidated Statement of Changes in Equity, as it represents changes in ownership interest without the loss of control by the Company. The difference between the carrying value of such non-controlling interest and the consideration paid by the Company is recognized as a reduction from retained earnings and attributed to the shareholders of the Company.

Aurigene Discovery Technologies Limited

During the year ended March 31, 2010, 1,899,943 options issued under the Aurigene ESOP Plan were exercised by employees and, accordingly, a corresponding number of equity shares of Aurigene Discovery Technologies Limited were issued, consequently giving rise to a non-controlling interest in the Company's previously wholly-owned subsidiary Aurigene Discovery Technologies Limited.

Immediately following the issuance of such shares, the Company acquired the non-controlling interest from the holders at a price of ₹46 per share. Acquisition of the non-controlling interest has been recorded as a treasury transaction, and accordingly, the difference between the carrying value of such non-controlling interest and the consideration paid by the Company was recognized as a reduction from retained earnings.

Dr. Reddy's Laboratories (Australia) Pty. Limited

During the year ended March 31, 2010, the Company entered into an agreement with Biogenerics Australia Pty. Limited for the acquisition of their non-controlling interest in Dr. Reddy's Laboratories (Australia) Pty. Limited ("DRLA"). The total purchase consideration is ₹37 (AUD 1), which includes an amount of ₹25 (AUD 0.3) contingent upon DRLA achieving certain sales targets on or before December 31, 2010 or upon the listing of a certain number of products under the Pharmaceutical Benefit Scheme in Australia by March 31, 2012.

During the year ended March 31, 2011, DRLA did not achieve the sales milestone upon which the consideration of ₹14 was contingent. In accordance with requirements of IFRS 3 (2008), the Company has recorded the change in contingent consideration as a part of other (income)/expense in its consolidated income statement.

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34. Bonus Debentures

On March 31, 2010, the Company's Board of Directors approved a scheme for the issuance of bonus debentures ("in-kind", i.e., for no cash consideration) to its shareholders to be effected by way of capitalization of its retained earnings. The scheme was subject to the successful receipt of necessary approvals of the Company's shareholders, the High Court of Andhra Pradesh, India and other identified regulatory authorities as mentioned in the scheme. All necessary approvals to effectuate the scheme, including that of the High Court, were received during the year ended March 31, 2011. Accordingly, on March 24, 2011, the Company issued these debentures to the shareholders of the Company.

The following is a summary of the key terms of the issuance:

Particulars	No. of instruments issued	Face value	Currency	Interest Rate	Maturity	Aggregate Face Amount	Redemption price
Unsecured, non-convertible, redeemable debentures	1,015,516,392	₹5 each	₹(Indian Rupee)	9.25% per annum	36 months	₹ 5,078	₹5 each (plus interest)

A summary of certain additional terms of the issuance is as follows:

- Fully paid up bonus debentures carrying a face value of ₹5 each were issued to the Company's shareholders in the ratio of 6 bonus debentures for each equity share held by such shareholders on March 18, 2011.
- The bonus debentures are unsecured and are not convertible into equity shares of the Company.
- The Company delivered cash in the aggregate value of the bonus debentures into an escrow account of a merchant banker in India appointed by the Company's Board of Directors. The merchant banker received such amount for and on behalf of and in trust for the shareholders who are entitled to receive bonus debentures. Upon receipt of such amount, the merchant banker paid the amount to the Company, for and on behalf of the shareholders as consideration for the allotment of debentures to them.
- These bonus debentures have a maturity of 36 months, at which time the Company must redeem them for cash in an amount equal to the face value of ₹5 each plus unpaid interest, if any.
- These bonus debentures carry an interest rate of 9.25% per annum. The interest on the debentures shall be paid at the end of every 12, 24, and 36 months from the date of issue.
- These bonus debentures are listed on stock exchanges in India so as to provide liquidity for the holders.
- Issuance of these bonus debentures will be treated as a "deemed dividend" under section 2 (22) (b) of the Indian Income Tax Act, 1961 and accordingly, the Company will be required to pay a dividend distribution tax.
- Under Indian Corporate Law and as per the terms of the approved bonus debenture scheme, the Company has created a statutory reserve (the "Debenture Redemption Reserve") in which it is required to deposit a portion of its profits made during each year prior to the maturity date of the bonus debentures until the aggregate amount retained in such reserve equals 50% of the face value of the debentures then issued and outstanding. The funds in the Debenture Redemption Reserve shall be used only to redeem the debentures for so long as they are issued and outstanding.

The Company has accounted for the issuance of such debentures as a pro-rata distribution to the owners acting in the capacity as owners on a collective basis. Accordingly, the Company has measured the value of such financial instrument at fair value on the date of issuance which corresponds to the value of the bonus debentures issued on March 24, 2011. and the Company has disclosed the issuances as a reduction from retained earnings in the consolidated statement of changes in equity with a corresponding credit to "loans and borrowings" for the value of the financial liability recognized. Furthermore, in relation to the above mentioned scheme, the Company incurred costs of ₹51 in directly attributable transaction costs payable to financial advisors. This amount has been accounted for as a reduction from debenture liability on the date of issuance of the bonus debentures and is being amortized over a period of three years using the effective interest rate method. The associated cash flows for the delivery of cash to the merchant banker and the subsequent receipt of the same for and on behalf of the shareholders upon issuance of the bonus debentures has been disclosed separately in the consolidated statement of cash flows as part of financing activities.

Further, the dividend distribution tax paid by the Company on behalf of the owners in the amount of ₹843 has been recorded as part of a reduction from retained earnings in the consolidated statement of changes in equity for the year ended March 31, 2011. The Company has set aside ₹19 in debenture redemption reserves out of the profits made during the year ended March 31, 2011 and has recorded such transfer in the consolidated statement of changes in equity for the year ended March 31, 2011.

The Company transferred ₹19 from the profits made during the year ended March 31, 2011 into the Debenture Redemption Reserve and recorded the transfer through the statement of comprehensive income and statement of changes in equity.

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34. Bonus Debentures (continued)

The regulatory framework in India governing issuance of ADRs by an Indian company does not permit the issuance of ADRs with any debt instrument (including non-convertible rupee denominated debentures) as the underlying security. Therefore, the depository of the Company's ADRs (the "Depository") cannot issue depository receipts (such as ADRs) with respect to the bonus debentures issued under the Company's bonus debenture scheme. Therefore, in accordance with the deposit agreement between the Company and the Depository, the bonus debentures issuable in respect of the shares underlying the Company's ADRs have been distributed to the Depository, who will sold such bonus debentures on April 8, 2011. The Depository converted the net proceeds from such sale into U.S. dollars and, on June 23, 2011, distributed such U.S. dollars, less any applicable taxes, fees and expenses incurred and/or provided for under the deposit agreement, to the registered holders of ADRs entitled thereto in the same manner as it would ordinarily distribute cash dividends under the deposit agreement.

35. Change in currency translation rate in Venezuela

The Company's Venezuela operations are primarily restricted to the import by Dr. Reddy's Venezuela, C.A. of pharmaceutical products from the parent company or other subsidiaries of the Company for the purpose of supply in the local market, Venezuela. The operations are conducted as an extension of the parent company and, accordingly, the functional currency of that operation has been determined as the Indian rupee since its formation.

In the recent past, the inflationary trends in Venezuela have been volatile. On January 8, 2010, the Venezuelan government announced the devaluation of the Bolivar Fuerte ("VEF"), the currency of Venezuela. The official exchange rate of 2.15 VEF to the U.S. dollar, in effect since 2005, was replaced effective January 11, 2010, with a dual-rate regime. The two-tiered official exchange rates was (1) the "essentials rate" at VEF 2.60 per U.S. dollar for items designated by the Venezuelan government as "essential items" (such as food, medicine, and heavy machinery; remittances to relatives settled abroad; and public sector imports, including school supplies, science, and technology needs) and (2) the "non-essentials rate" at VEF 4.30 per U.S. dollar applied to other items in the economy. Therefore, effective January 1, 2010, the country was "hyperinflationary" (a label generally considered to apply if the cumulative three-year inflation exceeds 100%). The Company's products were exchanged at the "essentials rate" and, accordingly, the Company used VEF 2.60 per U.S. dollar in recording its VEF denominated transactions for the applicable periods, and the resulting exchange gains/losses were recorded through profit or loss. On December 30, 2010, the Foreign Exchange Administration Commission of Venezuela (commonly referred to as the "CADIVI") enacted a decree (exchange agreement No.14) to further devalue the exchange rate from 2.6 VEF per U.S. dollar to 4.3 VEF per U.S. dollar effective January 1, 2011, thereby repealing the essential rate. Furthermore, on January 13, 2011, the CADIVI issued another decree to interpret the transitional requirements for the use of the new official exchange rate and described that if the following conditions were satisfied, the use of the pre-devaluation rate of 2.60 VEF per U.S. dollar would be permissible:

- For fund repatriation — to the extent the CADIVI has issued approvals in the form of approvals of Autorización de Liquidación de Divisas ("ALD") and which have been sent to and received by the Banco Central de Venezuela by December 31, 2010; and
- For foreign currency acquisition — to the extent the CADIVI had issued an Authorization of Foreign Currency Acquisition ("AAD") by December 31, 2010 and the approval relates to imports for the health and food sectors or certain other specified purposes.

The Company has not applied the requirements of IAS 29 "Financial reporting in hyperinflationary economies" as the functional currency of the Venezuelan operation is the Indian Rupee. Furthermore, the Company secured sufficient approvals for the use of the essential rate for the year ended March 31, 2011; the value of these approvals exceed the net value of VEF denominated monetary items as of March 31, 2011. Accordingly, all monetary items in the Company's Venezuelan operations are translated into the functional currency at the preferential rate of 2.6 VEF per U.S.\$.

36. Restructuring activities

North American operation — Charlotte

In February, 2010, the Company announced a restructuring plan to transition its supply chain management and logistics functions from the existing facilities at Charlotte, North Carolina to its manufacturing facility at Shreveport, Louisiana, in order to bring greater coordination and integration in its North American operations. The restructuring plan included early termination of the operating lease for the facility occupied at Charlotte and also included termination of certain identified employees. Therefore, the Company has recorded an amount of ₹108 (U.S.\$2.3) during the year ended March 31, 2010 as part of this restructuring, which includes the onerous portion of the lease obligations arising on account of such contract termination and also the termination benefits payable to the terminated employees.

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37. Contingencies

Litigations, etc.

The Company is involved in disputes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings, including patent and commercial matters that arise from time to time in the ordinary course of business. The more significant matters are discussed below. Most of the claims involve complex issues. Often, these issues are subject to uncertainties and therefore the probability of a loss (if any) being sustained, and an estimate of the amount of any loss, is difficult to ascertain. Consequently, for a majority of these claims, it is not possible to make a reasonable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings. This is due to a number of factors, including: the stage of the proceedings (in many cases trial dates have not been set) and the overall length and extent of pre-trial discovery; the entitlement of the parties to an action to appeal a decision; clarity as to theories of liability; damages and governing law; uncertainties in timing of litigation; and the possible need for further legal proceedings to establish the appropriate amount of damages, if any. In these cases, the Company discloses information with respect to the nature and facts of the case. The Company also believes that disclosure of the amount sought by plaintiffs, if that is known, would not be meaningful with respect to those legal proceedings.

Although there can be no assurance regarding the outcome of any of the legal proceedings or investigations referred to in this Note 37 to the consolidated financial statements, the Company does not expect them to have a materially adverse effect on its financial position. However, if one or more of such proceedings were to result in judgments against the Company, such judgments could be material to its results of operations in a given period.

Product and patent related matters

Norfloxacin litigation

The Company manufactures and distributes Norfloxacin, a formulations product. Under the Drugs Prices Control Order (the "DPCO"), the Government of India has the authority to designate a pharmaceutical product as a "specified product" and fix the maximum selling price for such product. In 1995, the Government of India issued a notification and designated Norfloxacin as a "specified product" and fixed the maximum selling price. In 1996, the Company filed a statutory Form III before the Government of India for the upward revision of the maximum selling price and a legal suit in the Andhra Pradesh High Court (the "High Court") challenging the validity of the designation on the grounds that the applicable rules of the DPCO were not complied with while fixing the maximum selling price. The High Court had previously granted an interim order in favor of the Company; however it subsequently dismissed the case in April 2004. The Company filed a review petition in the High Court in April 2004 which was also dismissed by the High Court in October 2004. Subsequently, the Company appealed to the Supreme Court of India, New Delhi (the "Supreme Court") by filing a Special Leave Petition, which is currently pending.

During the year ended March 31, 2006, the Company received a notice from the Government of India demanding the recovery of the price charged by the Company for sales of Norfloxacin in excess of the maximum selling price fixed by the Government of India, amounting to ₹285 including interest thereon. The Company filed a writ petition in the High Court challenging this demand order. The High Court admitted the writ petition and granted an interim order, directing the Company to deposit 50% of the principal amount claimed by the Government of India, which amounted to ₹77. The Company deposited this amount with the Government of India in November 2005 and is awaiting the outcome of its appeal with the Supreme Court. In February 2008, the High Court directed the Company to deposit an additional amount of ₹30, which was deposited by the Company in March 2008. Additionally in November 2010, the High Court allowed the Company's application to include additional legal grounds that the Company believes will strengthen its defense against the demand. The Company has fully provided for the potential liability related to the principal amount demanded by the Government of India. In the event the Company is unsuccessful in its litigation in the Supreme Court, it will be required to remit the sale proceeds in excess of the maximum selling price to the Government of India including penalties or interest, if any, which amounts are not readily ascertainable.

Styptovit-K litigation

During the first quarter of the year ended March 31, 2011, the Competition Appellate Tribunal of India issued a preliminary notice of inquiry alleging that the Company engaged in an unfair trade practice with respect to the manufacture and marketing of Styptovit and Styptovit-K (the Company's branded versions of adrenochrome monosemicarbazone-ascorbic acid-calcium phosphate-menadiolone-rutin) by launching new versions of these products which omitted any active pharmaceutical ingredients which would have caused them to be subject to price control under Indian law. On December 1, 2010, the Competition Appellate Tribunal of India dismissed the case.

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37. Contingencies (continued)

Product and patent related matters (continued)

Fexofenadine United States litigation

In April 2006, the Company launched its fexofenadine hydrochloride 30 mg, 60 mg and 180 mg tablet products, which are generic versions of Sanofi-Aventis' ("Aventis") Allegra® tablets. The Company is presently defending patent infringement actions brought by Aventis and Albany Molecular Research ("AMR") in the United States District Court for the District of New Jersey. There are three formulation patents, three methods of use patents, and three synthetic process patents which are at issue in the litigation. The Company has obtained summary judgment with respect to two of the formulation patents. Teva Pharmaceuticals Industries Limited ("Teva") and Barr Pharmaceuticals, Inc. ("Barr") were defending a similar action in the same court. In September 2005, pursuant to an agreement with Barr, Teva launched its fexofenadine hydrochloride 30 mg, 60 mg and 180 mg tablet products, which are AB-rated (bioequivalent) to Aventis' Allegra® tablets. Aventis brought patent infringement actions against Teva and its active pharmaceutical ingredients ("API") supplier in the United States District Court for the District of New Jersey. There were three formulation patents, three use patents, and two API patents at issue in the litigation. Teva obtained summary judgment in respect of each of the formulation patents. On January 27, 2006, the District Court denied Aventis' motion for a preliminary injunction against Teva and its API supplier on the three use patents, finding those patents likely to be invalid, and one of the API patents, finding that patent likely to be not infringed. The issues presented during Teva's hearing are likely to be substantially similar to those which will be presented with respect to the Company's fexofenadine hydrochloride tablet products. Subsequent to the preliminary injunction hearing, Aventis sued Teva and Barr for infringement of a new patent claiming polymorphic forms of fexofenadine.

The Company utilizes an internally developed polymorph and has not been sued for infringement of the new patent. On November 18, 2008, Teva and Barr announced settlement of their litigation with Aventis. On September 9, 2009, AMR added a new process patent to the litigation. This new process patent is related to the manufacturing of the active ingredient contained in the group of tablets being sold under the Allegra® franchise (which include Allegra®, Allegra-D 12® and Allegra-D 24®). Subsequent to the receipt of the U.S. FDA approval in March 2010 for the Company's ANDA relating to fexofenadine-pseudoephedrine higher strength (the generic version of Allegra-D 24®), AMR and Aventis sought a preliminary injunction against the Company in the District Court of New Jersey to withhold the launch of the Company's product.

Subsequent to the receipt of the U.S. FDA approval in March 2010 for the Company's ANDA relating to fexofenadine-pseudoephedrine higher strength (the generic version of Allegra-D 24®), AMR and Aventis sought a preliminary injunction against the Company in the District Court of New Jersey to withhold the launch of the Company's generic version of Allegra D24® product in the U.S. market, arguing that they were likely to prevail on their claim that the Company infringed AMR's U.S. Patent No. 7,390,906. In June 2010, the District Court of New Jersey issued the requested preliminarily injunction against the Company. Sanofi-Aventis and AMR posted security of U.S \$40 with the District Court of New Jersey towards the possibility that the injunction had been wrongfully granted. The security posted shall remain in place until further order of the Court. Pending the final outcome of the case, the Company has not recorded any asset in the consolidated financial statements in connection with this product in the United States.

On January 28, 2011, the District Court of New Jersey ruled that, based on Sanofi-Aventis and AMR's likely inability to prove infringement by the Company's products, the preliminary injunction issued in June 2010 should be dissolved. However, Aventis and AMR have the right to appeal this order in the Federal Circuit of the United States Court of Appeals. The Company subsequently launched sales of its generic version of Allegra-D 24®. Although the preliminary injunction has been removed, all such sales are at risk pending final resolution of the litigation. Additionally, on April 27, 2011 a trial was held regarding two of the listed formulation patents 6039974 and 5738872 (on Allegra-D and Allegra-D 12 products) that were asserted against the Company. The Company presented non-infringement and invalidity arguments for both. A decision on this trial is not expected until July 2011. If Aventis and AMR are ultimately successful in their allegation of patent infringement, the Company could be required to pay damages related to fexofenadine hydrochloride and fexofenadine-pseudoephedrine tablet sales made by the Company, and could also be prohibited from selling these products in the future.

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37. Contingencies (continued)

Product and patent related matters (continued)

Alendronate Sodium, Germany litigation

In February 2006, MSD Overseas Manufacturing Co. ("MSD"), an entity affiliated with Merck & Co Inc. ("Merck"), initiated infringement proceedings against betapharm before the German Civil Court of Mannheim alleging infringement of the supplementary protection certificate on the basic patent for Fosamax[®] (MSD's brand name for alendronate sodium) (the "first MSD patent"). betapharm and some other companies are selling generic versions of this product in Germany. MSD's patent, which expired in April 2008, was nullified in June 2006 by the German Federal Patent Court. However, MSD filed an appeal against this decision at the German Federal Supreme Court. The German Civil Court of Mannheim decided to stay the proceedings against betapharm until the German Federal Supreme Court has decided upon the validity of the patent.

In March 2007, the European Patent Office granted Merck a patent, which will expire on July 17, 2018, covering the use of alendronate sodium for the treatment of osteoporosis (the "second MSD patent"). betapharm filed protective writs to prevent a preliminary injunction without a hearing. betapharm also filed an opposition against this second MSD patent at the European Patent Office, which revoked the second MSD patent on March 18, 2009. Merck filed notice of appeal of such revocation, and a final decision is not expected before 2011. In August 2007, Merck initiated patent infringement proceedings against betapharm before the German civil court of Düsseldorf, which decided to stay the proceedings until a final decision of the European Patent Office is rendered.

There are other jurisdictions within Europe where the second MSD patent has already been revoked. As a result of this, the Company continues selling its generic version of Fosamax. If Merck is ultimately successful in its allegations of patent infringement, the Company could be required to pay damages related to the above product sales made by the Company, and could also be prohibited from selling these products in the future.

On May 9, 2011, betapharm signed a settlement agreement with Merck, MSD's parent, releasing each party from all past, present or future claims arising directly or indirectly with respect to the litigation regarding the first MSD patent and the second MSD patent, without any financial or legal liability. With this settlement, all litigation with respect to these patents and the related products in Germany has ended.

Oxycodon, Germany litigation

The Company has been selling "Oxycodon beta" (generic oxycontin) in Germany since 2007. The Company has for some time been aware of litigation with respect to one of its suppliers and licensors of generic oxycontin, who has also been supplying this product to several other generic pharmaceutical companies in Germany. In April 2007, there were nullity/opposition as well as infringement proceedings filed separately against this supplier on two formulation patents by the innovator.

Subsequently, the Company's supplier and all licensees had jointly filed a nullity petition at the German Federal Patent Court. During the nullity proceedings, in the case of the first patent, the Federal Patent Court in 2009 revoked the patent. The innovator appealed this decision and currently this proceeding is pending at the Federal Court of Justice. On the second patent, opposition was filed by various parties with the Opposition Division, and in its oral proceedings in April 2008, the Division maintained the patent. Appeals of this decision were filed by both the patentee and the opponents (including the Company's supplier) and oral proceedings took place in October 2009 and October 2010. In October 2010, the Board of Appeal referred this to an enlarged Board and its decision is currently pending.

The innovator has since then also filed an infringement action for both of the two formulation patents against the Company's supplier in the German Civil Court of Mannheim as well as in Switzerland (where the product is manufactured). The German court in Mannheim in its first decision in August 2008 held that the Company's supplier's product was non-infringing. This decision was appealed by the innovator to the higher District Court of Karlsruhe, and a decision on this appeal is expected to be issued later in 2011.

In the second week of January 2011, the innovator initiated a separate (secondary) legal action against the Company. It is understood that a similar action has also been initiated against all other licensees and that such an action is only a legal/procedural matter and does not have any change in impact on the main cases. The Company has also signed a cost sharing agreement under which the supplier will share a portion of the losses resulting from any innovator damage claim. As of March 31, 2011, based on a legal evaluation, the Company continues to sell this product.

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37. Contingencies (continued)

Product and patent related matters (continued)

Olanzapine, Canada litigation

The Company supplies certain generic products, including olanzapine tablets (the generic version of Eli Lilly's Zyprexa® tablets), to Pharmascience, Inc. for sale in Canada. Several generic pharmaceutical manufacturers have challenged the validity of the Zyprexa® patents in Canada. In June 2007, the Canadian Federal Court held that the invalidity allegation of one such challenger, Novopharm Ltd., was justified and denied Eli Lilly's request for an order prohibiting sale of the product. Eli Lilly responded by suing Novopharm for patent infringement. Eli Lilly also sued Pharmascience for patent infringement, but that litigation was dismissed after the parties agreed to be bound by the final outcome in the Novopharm case. As reflected in Eli Lilly's regulatory filings, the settlement allows Pharmascience to market olanzapine tablets subject to a contingent damages obligation should Eli Lilly be successful in its litigation against Novopharm. The Company's agreement with Pharmascience includes a provision under which the Company shares a portion of all cost and expense incurred as a result of settling lawsuits or paying damages that arise as a consequence of selling the products.

For the preceding reasons, the Company is exposed to potential damages in an amount that may equal the Company's profit share derived from sale of the product. During October 2009, the Canadian Federal Court decided, in the Novopharm case, that Eli Lilly's patent for Zyprexa is invalid. This decision was, however, reversed in part by the Federal Court of Appeal on July 21, 2010 and remanded for further consideration. Pending the final decision, the Company continues to sell the product to Pharmascience and remains exposed to potential damages in an amount that may equal the Company's profit share derived from sale of the product.

Ceragenix Bankruptcy Litigation

In November 2007, the Company entered into a Distribution and Supply Agreement with Ceragenix Pharmaceuticals, Inc. and Ceragenix Corporation (collectively, "Ceragenix."). Under this agreement, the Company made up-front and milestone payments of U.S.\$5 and commenced distribution of the dermatological product EpiCeram, a skin barrier emulsion device, in the United States and its territories. As of March 31, 2011, the Company carried a balance intangible value of U.S.\$2.8 relating to these payments.

In June 2010, Ceragenix (both entities) filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code. In July 2010, Ceragenix filed a motion for entry of an interim order and, subsequently, filed a motion for entry of a final order authorizing the execution of an asset purchase agreement (executed on November 10, 2010) with PuraCap Pharmaceutical LLC to sell, among other things, the patent rights, certain business assets and intellectual property relating to EpiCeram® to PuraCap Pharmaceutical LLC and to terminate the Company's rights under the Distribution and Supply Agreement. The Company objected to the proposed sale and termination on various grounds and Ceragenix withdrew the motion.

On June 24, 2011 the United States Bankruptcy Court for the District of Colorado permitted Ceragenix to sell the patent rights, certain business assets and intellectual property relating to EpiCeram® to PuraCap Pharmaceutical LLC and to terminate the Company's rights under the Distribution and Supply Agreement. However the court had ordered Ceragenix to pay U.S.\$2.75 to the Company out of the sales proceeds of the above mentioned assets and intellectual property, as compensation for the termination of the Distribution and Supply Agreement.

Environmental matter

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 Bollaram areas of Medak district of Andhra Pradesh. The Company 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, Bollaram and Jeedimetla areas for discharging effluents which damaged the farmers' agricultural land. The compensation was fixed at ₹1.30 per acre for dry land and ₹1.70 per acre for wet land. Accordingly, the Company has paid a total compensation of ₹3. The matter is pending in the courts and the possibility of additional liability is remote. The Company will not be able to recover the compensation paid, even if the decision of the court is in favor of the Company.

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37. Contingencies (continued)

Product and patent related matters (continued)

Indirect taxes related matter

During the year ended March 31, 2003, the Central Excise Authorities of India (the "Authorities") issued a demand notice to a vendor of the Company regarding the assessable value of products supplied by this vendor to the Company. The Company has been named as a co-defendant in this demand notice. The Authorities demanded payment of ₹176 from the vendor, including penalties of ₹90. Through the same notice, the Authorities issued a penalty claim of ₹70 against the Company. During the year ended March 31, 2005, the Authorities issued an additional notice to this vendor demanding ₹226 from the vendor, including a penalty of ₹51. Through the same notice, the Authorities issued a penalty claim of ₹7 against the Company. Furthermore, during the year ended March 31, 2006, the Authorities issued an additional notice to this vendor demanding ₹34. The Company has filed appeals against these notices. In August and September 2006, the Company attended the hearings conducted by the Customs, Excise and Service Tax Appellate Tribunal (the "CESTAT") on this matter. In October 2006, the CESTAT passed an order in favor of the Company setting aside all of the above demand notices. In July 2007, the Authorities appealed against CESTAT's order in the Supreme Court of India, New Delhi. The matter is pending in the Supreme Court of India, New Delhi.

Regulatory matters

In November 2007, the Attorneys General of the State of Florida and the Commonwealth of Virginia each issued subpoenas to the Company's U.S. subsidiary, Dr. Reddy's Laboratories, Inc. ("DRLI"). In March 2008, the Attorney General of the State of Michigan issued a Civil Investigative Demand ("CID") to DRLI. These subpoenas and the CID generally required the production of documents and information relating to the development, sales and marketing of the products ranitidine, fluoxetine and buspirone, all of which were sold by Par Pharmaceuticals Inc. ("Par") pursuant to an agreement between Par and DRLI. DRLI has responded to the initial requests. On July 8, 2011, the Company was notified that the Attorneys General intended to conclude their respective investigations of the Company, and that the Company would be voluntarily dismissed without prejudice from the legal action.

Other

Additionally, the Company and its affiliates are involved in other disputes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings, including patent and commercial matters that arise from time to time in the ordinary course of business. The Company does not believe that there are any such pending matters that will have any material adverse effect on its financial position, results of operations or cash flows in any given accounting period.

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38. Nature of Expense

The following table shows the expenses by nature:

For the year ended March 31, 2011				
Particulars	Cost of revenues	Selling, general and administrative expenses	Research and development expenses	Total
Employee benefits	₹ 5,037	₹ 7,964	₹ 1,108	₹ 14,109
Depreciation and amortization	2,172	1,635	341	4,148
For the year ended March 31, 2010				
Particulars	Cost of revenues	Selling, general and administrative expenses	Research and development expenses	Total
Employee benefits	₹ 4,162	₹ 7,840	₹ 841	₹ 12,843
Depreciation and amortization	1,878	1,925	357	4,160
For the year ended March 31, 2009				
Particulars	Cost of revenues	Selling, general and administrative expenses	Research and development expenses	Total
Employee benefits	₹ 3,571	₹ 6,214	₹ 740	₹ 10,525
Depreciation and amortization	1,474	1,887	453	3,814

39. Subsequent events

Alendronate Sodium, Germany litigation

On May 9, 2011, the Company's wholly-owned subsidiary betapharm signed a settlement agreement with Merck & Co. Inc., parent of MSD Overseas Manufacturing Co., releasing each party from all past, present or future claims arising directly or indirectly with respect to the two patents relating to alendronate sodium which had been the subject of litigations between them, without any financial or legal liability. With this settlement, all litigation with respect to these patents and the related products in Germany has ended (refer to Note 37 for additional details).

Ceragenix Bankruptcy Litigation

On June 24, 2011 the United States Bankruptcy Court for the District of Colorado permitted Ceragenix Pharmaceuticals, Inc. and Ceragenix Corporation (collectively, "Ceragenix") to sell the patent rights, certain business assets and intellectual property relating to the dermatological product EpiCeram® to PuraCap Pharmaceutical LLC and to terminate the Company's rights under its Distribution and Supply Agreement with Ceragenix. However the court ordered Ceragenix to pay U.S.\$2.75 to the Company out of the sales proceeds of the above mentioned assets and intellectual property, as compensation for the termination of the Distribution and Supply Agreement (refer to Note 37 for additional details).

Voluntary retirement scheme

On June 20, 2011, the Company announced a voluntary retirement scheme (i.e., a termination benefit) applicable to certain eligible employees of the parent company. As per the scheme, employees whose voluntary retirement is accepted by the Company will be paid an amount computed based on the methodology mentioned in the scheme, with the maximum amount restricted to ₹0.8 per employee. The financial impact of termination benefits is expected to be approximately ₹135.

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39. Subsequent events (continued)

Letter from the U.S. Food and Drug Administration

The U.S. FDA inspected the Company's Cuernavaca facility in Mexico in November 2010 and issued to the Company a Form 483 with observations. The Company responded to the Form 483 observations by implementing a number of corrective actions. On June 3, 2011, the U.S. FDA issued to the Company a warning letter asking for additional data and corrective actions to the four items listed in the warning letter. Additionally, on June 28, 2011, the U.S. FDA posted on its website an import alert, or Detention Without Physical Examination ("DWPE") alert. The Mexico facility produces intermediates and active pharmaceutical ingredients and steroids. As a consequence of the DWPE alert, the Company's Mexico facility will not be able to export intermediates and active pharmaceutical ingredients and steroids to U.S. customers until such time as the concerns raised by the U.S. FDA in their warning letter are addressed to their satisfaction and the DWPE alert is lifted. The impact to the Company's revenues for the year ending March 31, 2012 from API sales to U.S. customers affected by this DWPE, and to the Company's generic products which include API impacted by this DWPE, would not be material to the Company's business as a whole even if the DWPE remained in effect throughout the year ending March 31, 2012. Further details of the warning letter and the DWPE alert are available on the U.S. FDA website.

The Company responded to the U.S. FDA's warning letter within the stipulated time-frame. The Company is working collaboratively with the U.S. FDA to resolve the matters contained in the warning letter. Nonetheless, the Company cannot be assured that satisfying the U.S. FDA's concerns will not take longer than currently anticipated or that the U.S. FDA will not request additional corrective actions that would result in the DWPE remaining in effect longer than currently anticipated.

Approval for Fondaparinux Sodium Injection

On July 11, 2011, the U.S. FDA approved the Company's abbreviated new drug application ("ANDA") for fondaparinux sodium injection. The Company is in the process of launching the product in the United States. Fondaparinux is a generic version of GlaxoSmithKline plc's Arixtra® injection.

Item 19. EXHIBITS

Exhibit Number	Description of Exhibits
1.1.*/***/*****	Memorandum and Articles of Association of the Registrant dated February 4, 1984.
1.2.*/***	Certificate of Incorporation of the Registrant dated February 24, 1984.
1.3.*/***	Amended Certificate of Incorporation of the Registrant dated December 6, 1985.
1.4.*****	Amendment to Memorandum and Articles of Association of the Registrant dated June 12, 2009 (regarding an increase in our authorized share capital pursuant to the amalgamation of Perlecan Pharma Private Limited into Dr. Reddy's Laboratories Limited, its parent company).
1.5.	Amendment to Memorandum and Articles of Association of the Registrant dated July 19, 2010.
2.1.*	Form of Deposit Agreement, including the form of American Depositary Receipt, among Registrant, Morgan Guaranty Trust Company as Depositary, and holders from time to time of American Depositary Receipts Issued there under, including the form of American Depositary.
2.2.	Order of the Hon'bl High Court of Andhra Pradesh, India dated July 19, 2010 (regarding Amendment to Memorandum and Articles of Association of the Registrant and capitalization or utilization of undistributed profit or retained earnings or security premium account or any other reserve or fund in connection with our bonus debentures).
2.3.	Scheme of Arrangement between the Registrant and its members for issue of bonus debentures, including Notice of Meeting of Members to approve same dated April 29, 2010 and Explanatory Statement dated April 29, 2010.
2.4.	Debenture Trust Deed dated March 16, 2011 between the Registrant and IDBI Trusteeship Services Limited (regarding trustee services for our bonus debentures).
2.5.	Liquidity Facility Services Agreement dated April 2, 2011 between the Registrant and DSP Merrill Lynch Capital Limited (regarding liquidity facility for our bonus debentures).
4.1.*	Agreement by and between Dr. Reddy's Laboratories Limited and Dr. Reddy's Research Foundation regarding the undertaking of research dated February 27, 1997.
4.2.**	Dr. Reddy's Laboratories Limited Employee Stock Option Scheme, 2002.
4.3****	Sale and Purchase Agreement Regarding the Entire Share Capital of Beta Holding GmbH dated February 15th/16th 2006
4.4.*****	Dr. Reddy's Employees ADR Stock Option Scheme, 2007.
8.	List of subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm
99.1	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
99.3	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.4	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Previously filed on March 26, 2001 with the SEC along with Form F-1

** Previously filed on October 31, 2002 with the SEC along with Form S-8.

*** Previously filed with the Company's Form 20-F for the fiscal year ended March 31, 2003.

**** Previously filed with the Company's Form 20-F/A for the fiscal year ended March 31, 2006 pursuant to a request for confidential treatment.

***** Previously filed with the Company's Form 20-F for the fiscal year ended March 31, 2006.

***** Previously filed with the Company's Form 20-F for the fiscal year ended March 31, 2010.

***** Previously filed on March 5, 2007 with the SEC along with Form S-8.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

DR. REDDY'S LABORATORIES LIMITED

By: /s/ G.V. Prasad

G.V. Prasad

Vice Chairman and Chief Executive Officer

By: /s/ Umang Vohra

Umang Vohra

Chief Financial Officer

Hyderabad, India
July 20, 2011

UNDER THE COMPANIES ACT 1956

(1 OF 1956)

COMPANY LIMITED BY SHARES

MEMORANDUM OF ASSOCIATION

OF

Dr. REDDY'S LABORATORIES LIMITED

- I. The name of the Company is **"Dr. REDDY'S LABORATORIES LIMITED"**.
- II. The Registered Office of the Company will be situated in the State of Andhra Pradesh.
- III. The Objects for which the Company is established are the following.
 - (A) The Main objects to be pursued by the Company on its incorporation are:
 1. To carry on the business of manufacture, sell, deal, export and import in all types of Chemicals, Drugs, Pharmaceuticals, Pesticides and Dyestuffs and other intermediaries.
 2. To carry on the research and developmental activities to develop new products and substitute for imported products and to develop and maintain testing house and laboratory for own use and for others.
 3. To carry on the business of Consulting Engineers in chemical, Pharmaceutical and Dyestuff Industries.
 4. To carry on the business of Manufacturer, Exporter, Importer, Whole Sale and Retails Sellers, Dealers in and to do Research and Development in Dermocosmetic products and its intermediates.
 5. To carry on and undertake the business of investing its funds in equity and preference shares, stocks, bonds debentures (convertible and non-convertible) of new projects and securities of all kinds and every description of well established and sound companies, to subscribe to capital issues of joint stock companies, ventures, industries, units, trading concerns whether old or new as the company may think fit and to assist them by granting financial accommodation by way of loans/advances to industrial concerns and to assist Industrial enterprises in creation, expansion and modernisation upon terms whatsoever and to act as finance brokers, merchants and commission agents and to deal in Govt. securities including Govt. bonds, loans, National savings certificates, post office, saving schemes, units of investments, etc., including units of Unit Trust of India.
 6. To promote industrial finance, deposit or lend money, securities and properties to or with any company body corporate, firm, person or association whether falling under the same management or otherwise, in accordance with and to the extent permissible under the provisions contained in Sections 370 & 372 of the Companies Act, 1956, with or without security and on such terms as may be determined from time to time. However, the Company shall not carry on the business of Banking as defined under the Banking Regulation Act, 1949; and to carry on and undertake the business of finance, investment and trading, hire purchase, leasing and to finance lease operations of all kinds, purchasing, selling, hiring or letting on hire of all kinds of plant and machinery and equipment that the Company may think fit and to assist in financing operations of all and every kind of description of hire purchase or deferred payment or similar transactions and to subsidise finance or assist in subsidising or financing the sale and maintenance of any goods, articles, or commodities of all and every kind of description upon any terms whatsoever and to purchase or otherwise deal in all forms of immovable and movable property including lands and buildings, plant and machinery, Equipment, ships, aircraft, automobiles computers and all consumer, commercial and industrial items and to lease or otherwise deal with them in any manner whatsoever including release thereof regardless of whether the property purchase and lease be new and/or used.

7. To provide a package of investment/merchant banking services by acting as managers to Public Issue Securities, by underwriting Securities, act as Issue House and to carry on the business of Registrars to investment schemes, Money Managers to secure and extend market support by conducting surveys, collecting data, information and reports and to act as general traders and agents, to carry on the agency business and warehousing indenting and dealership of business.
8. To carry on the business of manufacturing, buying, selling, importing, exporting of and generally dealing in all types of surgical, medical, dental and scientific equipment, instruments and accessories, and diagnostic kits and Re-agents diagnostic equipments, healthcare aids and accessories, healthcare products and instruments and to carry on research and development of healthcare including diagnostic systems.
9. To establish, run and maintain hospitals, diagnostic centers, nursing homes, mobile medical service centers and any medical and healthcare institutions and to promote research and development in these areas.
10. To carry on the business as exporters and dealers in all kinds of electronic and electrical equipments, devices, and components including computers, video terminals, computer peripherals, data processing systems, export systems, uninterruptible power supply systems medical equipments and all kinds of electronic assemblies, sub-assemblies and components; telecommunication equipments devices and accessories used in communication; all types of office equipments including photocopiers, airconditioners, water and aircoolers, fire and burglar alarms accounting machines, cash registers and electronic point of sales systems and domestic appliances like radios televisions, refrigerators; heaters, cooking range etc., and to develop systems software and provide consultancy, maintenance and service support and to promote research and development in all the above fields.

(B) The Objects incidental or ancillary to the attainment of the above main objects are:

1. To amalgamate or enter into partnership or profit sharing arrangement with and to co-operate in a way with or assist or take over or subsidises any company, firm or person.
2. To enter into agreement and contracts with any individuals, firms, companies, or other organisation for technical, financial or any other assistance for carrying out all or any of the objects of the Company.
3. To establish and maintain any agencies in India or any part of the world for the conduct of the business of the Company or for the sale of any materials or things for the time being at the disposal of the Company for sale.
4. To advertise and about means of making known or promoting the use of all or any of the manufacturers products or goods of the company or any articles, or goods traded or dealt in by the Company any way as may be expedient including the posting of bills in relation thereto, and the issue of circulars, books, pamphlets and price lists and the conducting of competitions, exhibitions and giving of prizes, rewards and donations.
5. To apply for purchase or otherwise acquire and protect, prolong and renew trade marks, trade names, designs, secret processes, patent rights, "BREVETS D INVENTION" licenses, protections and concessions which may appears likely to be advantageous or useful to the Company and to spend money in experimenting and testing and improving or seeking to improve any patents, inventions or rights which the company may acquire or propose to acquire or develop.
6. To enter into any arrangement for sharing profits, union of interest co-operations, joint venture, reciprocal concession or otherwise with any person, firm or company carrying on or engaged in, or about to carry on or engage in any business of or transaction which this Company is authorised to carry on or engage in or any business or undertaking or transaction which may seem capable of being carried on or conducted so as directly or indirectly to benefit the company and to lend money, to guarantee the contracts or otherwise, assist, any person, firm or company and to takeover or otherwise acquire and holds shares or securities of any such person, firm or company and to sell, hold, reissue with or without guarantee or otherwise deal with the same.
7. To enter into any arrangement with Government or State, Authority, Municipal, Local or otherwise that may seem conducive to the Company's objects or any of them and to obtain from any such Government or State or Authority, any rights, privileges and concessions which may seem conducive to the Company's objects or any of them.

8. To undertake and carry on any business, transaction or operation commonly undertaken or carried on by promoters of companies, Concessionaires, contractors for public and other works or merchants.
9. To purchase or otherwise acquire and undertake the whole or any part of the business, property rights, and liabilities of any person, firm or company, carrying on any business, which this company is authorised to carry on or possessed of property or rights, suitable for any of the purposes of the Company, and to purchase, acquire, apply for, hold, sell shares, stock, debentures or debenture stock of any such person, firm or company, and to conduct, make or carry into effect any arrangement in regard to the winding up of the business of any such person, firm or company.
10. To construct, acquire, establish, provide, maintain and administer, factories, estates, buildings, water reservoirs, sheds, pumping installations, generating installations, pipelines, garages, storage and accommodation of descriptions in connection with the business of the Company.
11. To apply, for tender purchase or otherwise acquire any contracts and concessions for or in relation to the constructions, erection, carrying out equipment, improvement, management, administration or control of works and conveniences and undertake, execute, carryout, dispose of or otherwise turn to account the same.
12. To buy, lessor otherwise acquire lands, buildings, and other immovable property and to sell, lease, mortgage or hypothecate or otherwise dispose of all or any of the property and assets of the company on such terms, and conditions as the company may think fit.
13. To amalgamate with any company or companies having objects altogether or in part similar to those of this Company.
14. To pay all costs, charges and expenses of and incidental to the promotion and formation, registration and establishment of the Company and issue of its capital including any underwriting or other commission, brokers fee and charges in connection therewith including costs, expenses of negotiations and contracts and arrangements made prior to and in anticipation of the formation and incorporation of the Company.
15. To remunerate or make donations to (by cash or other assets, or by the allotment of fully or partly paid shares, or by a call or option on shares, debentures debenture stock or securities of this or any other company, or in any other manner) whether out of the company's capital, profits or otherwise to any person of firm or company for services rendered or to rendered in introducing any property or business to the Company or placing or assisting to place or guaranteeing the subscription or any shares, debentures, debenture or other securities of the company or for any other reasons which the company may think proper.
16. To undertake and execute any trusts, the undertaking whereof may seem desirable either gratuitously or otherwise.
17. Subject to the Banking Regulation Act, 1949, to draw, make issue, accept and to endorse, discount and negotiate promissory notes, hundies, bills of exchange, bills of landing, delivery orders, warrants, warehouse keepers, certificates and other negotiable or commercial mercantile instruments connected with the business of the company.
18. To open accounts or accounts with individuals firm or company or with any bank or banks and to pay into and to withdraw moneys from such account or accounts.
19. Subject to the provisions of the companies Act, 1956, to invest, apply for acquiring or otherwise employ moneys belonging to, entrusted to or at the disposal of the Company upon securities and shares or without security upon such terms as may be thought proper, and from time to time to vary such transactions in such manner as the company may think fit.
20. To lend or deposit moneys belonging to or entrusted to or at the disposal of the Company to such person or company and in particular to customers and others having dealings with the Company with or without security, upon terms as may be thought proper and to guarantee the performance of contracts by such person or company, but not to do the business of banking as defined in the Banking Regulation Act, 1949.

21. To make advances upon for the purchase of materials, goods, machinery, stores and other articles required for the purpose of the Company.
22. Subject to the provisions of Section 58A of the Companies Act, 1956, to borrow or raise money with or without security or to receive money on deposit at interest, or otherwise, in such manner as the company may think fit and in particular by the issue of debentures or debentures stock perpetual or otherwise, including debentures or debenture stock convertible into shares of this or any other company and in security of any such money so borrowed, raised or received to mortgage, pledge or charge the whole or any part of the property, assets or revenue of the company present or future including its uncalled capital and to purchase, redeem or pay off any securities.
23. Subject to the provisions of the Companies Act, 1956, to sell, mortgage, assign or lease and in any other manner, deal with or dispose of the undertakings or property of the Company or any part thereof, whether movable or immovable for such consideration as the company may think fit, and in particular for shares, debentures and other securities of any other company having objects altogether or in part similar to those of the Company.
24. To improve, manage, work, develop, alter, exchange, lease, mortgage, turn to account, abandon or otherwise deal with all or any part of the property, rights and concessions of the Company.
25. To employ workers or employees and to provide for welfare of the employees or ex-employees of the Company and their wives, widows, families, or the dependents or connections of such person by building of houses, dwelling or by grants of money, pensions, gratuity, bonus, payment towards insurance or other payment, or by creating from time to time, subscribing and contributing towards place instruction or recreation, hospital and dispensaries, medical and other attendance and other assistance as the company shall think fit.
26. Subject to the provisions of the companies Act, 1956, and the constitution of India, to subscribe or contribute or otherwise to assist to guarantee money to charitable, benevolent, religious, scientific, national or other institutions or objects or for any exhibition or for any public general useful objects.
27. To distribute any of the property of the company amongst the members in species or kind upon the winding up of the company.
28. To acquire and run any industrial concern, factory or mills as the Company may deem fit to attain the main objects.
29. To do all such other things as are incidental to, or conducive to the attainment, of the above main objective or any of them.

C. OTHER OBJECTS:

1. To carry on the business of Distributors, Dealers, Wholesalers, Retailers, Commission Agents, Manufacturers, Representatives for all types of products.
2. To carry on the business of professionals for all types of services.
3. To carry on the business of design, engineering and execution and implementation of various types of projects on contract or turnkey basis and to acquire the designing or technical know-how.
4. To cultivate, grow, produce or deal in any vegetable products and to carry on the business of farmers, dairy man, milk contractors, dairy farmers, millers, surveyors and vendors of milk cream, cheese, butter and poultry and provision of all kinds, growers of and dealers in corn, lay and straw, seeds men and nursery men and to buy, sell and trade in any goods usually traded and of the above business or other business associated with the farming interest which may be advantageously carried on by the company.

5. To carry on the business of manufacturers, fabricators, erectors, dealers of in all types of chemical equipment, pumps, valves, storage tanks etc. required by the chemical and pharmaceutical industry.
 6. To purchase plant, machinery, tools and implements from time to time and he selling or disposing of the same.
 7. To transact or carry on all kinds of agency business and in particular, in relation to the investment of money, the sale of property and collection and receipt of money, or otherwise of any assets, funds and business under any agreement.
 8. To carry on and undertake the business of investing its funds in equity and preference shares, stocks, bonds, debentures (convertible and non-convertible) of new projects and securities of all kinds and every description of well established and sound companies, to subscribe to capital issues of joint stock companies, ventures, industries, units, trading concerns whether old or new as the company may think fit and to assist them by granting financial accommodation by way of loans/advances to industrial concerns and to assist industrial enterprises in creation, expansion and modernization upon terms whatsoever and to act as finance brokers, merchants and commission agents and to deal in Govt. Securities including Govt. bonds, loans, National savings certificates, post office saving schemes, units of investments etc., including units of Unit Trust of India.
 9. To promote industrial finance, deposit or lend money, securities and properties to or with any company, body corporate, firm person or association whether falling under the same management otherwise, in accordance with and to the extent permissible under the provisions contained in Section 370&372 of the, Companies Act, 1956, with or without security and on such terms as may be determined from time to time. However, the company shall not carry on the business of Banking as defined under the Banking Regulation Act. 1949; and to carry on and undertake the business of finance, investment and trading, hire purchase, leasing and to finance lease operations of all kinds, purchasing, selling, hiring or letting on hire of all kinds of plant and machinery and equipment that the Company may think fit and to assist in financing operations of all and every kind of description of hire purchase or deferred payment or similar transactions and to subsidize finance or assist in subsidising or financing the sale and maintenance of any goods, articles or commodities of all and every kind of description upon any terms whatsoever and to purchase or otherwise deal in all forms of immovable and movable property, including lands and buildings, plant and machinery, equipment, ships, aircraft, automobiles computers and all consumer, commercial and industrial items and to lease or otherwise deal with them in any manner whatsoever including release there of regardless of whether the property purchased and leased be now and /or used.
 10. To provide a package of investment/merchant banking services by acting as manages to public issue securities, by underwriting securities, act as Issue House and to carry on the business of registrars to investment schemes, Money managers to secure and extend market support by conducting surveys, collecting data, information and reports and to act as general traders and agents, to carry on the agency business and warehousing indenting and dealership of business.
- IV. The liability of the members of the company is limited.
- V. a. The authorised share capital of the company is Rs.120,00,00,000/- (Rs. One Hundred and Twenty Crores Only) divided into 24,00,00,000 equity shares of Rs.5/- (Rs. Five only) each.
- b. The company has power from time to issue shares, Hybrids, Derivatives, Options, Quasi-equity instruments, with differential rights, or to increase, consolidate, sub-divide, exchange, reduce and also to purchase any of its shares whether or not redeemable and to make payments out of its capital in respect of such purchase or otherwise alter its share capital as equity or non voting equity shares or preference shares and to attach to any classes of such shares preferences, rights, privileges or priorities in payment of dividends or distribution of assets or otherwise, over any other shares and to subject the same to any restriction, limitation or condition and to vary the regulation of the company, as for apportioning the right to participate in profits in any manner subject to the provision of the Act and consent of the appropriate authorities if required, being obtained before doing so.

We the several persons whose names, addresses and description are subscribed hereto are desirous of being formed into a company in pursuance of the Memorandum of Association and we respectively agree to take the number of shares in the Capital of the Company set opposite to our respective names.

S. No.	Name, Addresses, Descriptions and occupations of the subscribers	No. of equity Shares taken by subscriber	Name, address, description occupation and signature of witness.
1.	Dr. KALLAM ANJI REDDY S/o. Venkata Reddy 6/3/347/6, Dwarakapuri Colony, Hyderabad — 500 004. Occ: Industrialist	10 (Ten only)	
2.	KALLAM SAMRAJYAM W/o. Anji Reddy 6/3/347/6, Dwarakapuri Colony, Hyderabad — 500 004. Occ: Housewife	10 (Ten only)	G.S.S. SRINIVAS Chartered Accountant S/o. Sri. G. Balakrishna Rao 5-2-422, Hyderbasti, R.P Road, Secunderabad.

Place: Hyderabad

Date: 4th February 1984.

UNDER THE COMPANIES ACT, 1956

(1 OF 1956)

COMPANY LIMITED BY SHARES

ARTICLES OF ASSOCIATION

OF

Dr. REDDY'S LABORATORIES LIMITED

PRELIMINARY

1. Table 'A' not to apply

The regulations contained in Table A' in the first schedule of the companies Act, 1956, shall not apply to the company, but the regulations for the management of the company and for the observance for the Members thereof and their representatives shall subject to any exercise of the statutory powers of the company, with reference to the repeal or alternation of, or addition to, its regulations by special resolution, as prescribed by the said companies Act, 1956, be such as are contained in these Articles.

2. Interpretation

Unless the context otherwise requires words or expressions contained in these Articles shall bear the same meaning as in the Act or any statutory modification thereof.

The marginal notes hereto shall not effect the construction hereof and unless there be something in the subject or context inconsistent therewith in these Articles.

"The Act" means the companies Act, 1956 as amended from time to time.

"The Article" means these Articles of Association as originally registered or as may from time to time be altered.

"The Company" means **Dr. REDDY'S LABORATORIES LIMITED.**

"The Directors" means the Board of Directors of the Company for the time being.

"The Board of Directors" or "the Board" means the Board of Directors for the time being of the Company.

"The Managing Director" means the Managing Director appointed as such for the time being of the company.

"Month" means calendar month.

"Proxy" means an instrument under which any person is authorised to vote for a member at a general meeting on a poll and includes Attorney duly constituted under a Power of Attorney.

"The Office" means the Registered Office of the Company for the time being.

"The Registrar" means the Register of Members to be kept pursuant to Section 150 of the Act.

“The Registrar” means the Registrar of Companies, Andhra Pradesh, Hyderabad.

“The Secretary” means the duly qualified Secretary appointed as such for the time being of the Company pursuant to Section 383 A of the Act.

“Seal” means the common seal for the time being of the Company.

“In Writing” and “Written” shall include printing, lithography and other modes of representing or reproducing words in a visible form. Words importing the singular number only include the plural number and vice-versa. Words importing the masculine gender only include the feminine gender. Words importing persons include corporations.

CAPITAL AND SHARES

3.
 - a. The Authorised share capital of the company shall be as stated in Clause V of the memorandum of Association of the Company.
 - b. Subject to the provisions of these Articles and of section 81 of the Act, shares shall be under the control of the Directors who may allot or otherwise dispose of the same to such persons on such terms and conditions as the Directors think fit.
 - c. The company in General Meeting may, from time to time increase the capital by the creation of new shares of such amount as may be deemed expedient.
 - d. The company may from time to time allocate funds from its Free Reserves or Share Premium account or any other means of finance or issue debt instruments for raising funds for buy-back of its shares and the same is not to be considered as reduction of Capital. The Company may also exchange voting shares for non-voting shares or for any other securities.
 - e. Sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum, so however, that in the sub-division the proportion between the amount paid and the amount, if any, un paid on each reduced shares shall be the same as it was in the case of the shares from which the reduced shares is derived;
 - f. The shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled provided however the cancellation of shares in pursuance of the exercise of this power shall not be deemed to the a reduction of share capital within the meaning of the Act.
 - g. The powers conferred under the Articles 3, a,b,c,d,e, and f shall be exercised by the Company in General Meeting and shall not require to be confirmed by the Court.
4.

Conditions regarding issue of new shares

Subject to the provisions of section 86 of the Act, the new shares shall be issued upon such terms and conditions and with such rights and privileges annexed thereto as the company in general meeting shall prescribe, and in particular such shares may be issued with a preferential or qualified right to dividends and in the distribution of assets of the company.
5.

Commission for placing shares

The company may, subject to compliance with the provision of section 76 of the Act, exercise the power of paying commission.

6. Brokerage
- The company may pay on the issue of shares or debentures, such brokerage as may be lawful.
7. Power to issue shares at a premium or discount
- The Company in General Meeting may determine that any shares (whether forming part of the original capital or of any increased capital of the company) shall be offered to such persons (whether members or not) in such proportion and such terms and conditions and (subject to compliance with the provisions of Section 78 and 79 of the Act) either at a premium or at par or at a discount, as such general meeting shall determine and with full power to give any person (whether a member or not) the option to call for or be allotted shares of any class of the company either at a premium or at par or (subject to compliance with the provisions of Section 78 of the Act) at a discount in either case such option being exercisable at such time and for such consideration as may be directed by such General Meeting or the Company in General Meeting may make any other provisions whatsoever for the issue, allotment or disposal of any shares.
8. Power to issue Redeemable Preference Shares
- Subject to the provisions of Section 80 of the Act, such new shares may be issued as Preference Shares which are at the option of the Company are liable to be redeemed, and the resolution authorising such issue shall prescribe the manner, terms and conditions of redemption subject however to the following conditions:
- a. no such shares shall be redeemed except out of profits of the company which would otherwise be available for dividend or out of the proceeds of a fresh issue of shares made for the purpose of redemption;
 - b. no such shares shall be redeemed unless they are fully paid;
 - c. The premium, if any, payable on redemption shall have been provided for, out of the profits of the company or company's share premium account before the shares are redeemed;
 - d. Where any such shares are redeemed otherwise than out of the proceeds of a fresh issue, there shall out of profits which would otherwise have been available for dividend be transferred to a reserve fund, to be called "the Capital Redemption Reserve Fund", a sum equal to the amount required for redeeming the shares, and the provisions of the Act relating to the reduction of the share capital of the Company shall, except as provided in Section 80 of the Act, apply as if the Capital Redemption Reserve Fund were paid up Share Capital of the Company;
 - e. The preference shares shall confer the rights on the holders thereof to be paid out of the profits that may at any time be determined to be distributed among members a fixed cumulative dividend at the rate of 11% per annum, free of company's tax (but subject to deduction of tax at source at the prescribed rates) on the capital for the time being paid up thereon in priority to the Equity shares;
 - f. The preference shares shall confer the rights on the holders thereof, on winding up, to the repayment of the capital and of any arrears of the fixed cumulative dividend set out in Clause (e) above, whether earned, declared or not, upto the commencement of the winding up in priority to the Equity Shares, out of the surplus assets of the company, but shall not confer any further rights to participate in the profits or assets of the company.
 - g. In calculating any fixed percentages on the paid up capital of such preference shares, such percentages shall be calculated upto and as on the date of redemption;

- h. The preference shares shall be redeemable at par on the expiry of 15 years from the date of allotment thereof, but the company may at its option and at any time after 12 years from the date of allotment of such preference shares, on giving not less than three months' notice to the holders of such shares redeem at par the whole or any part of the said shares together with a sum equal to the arrears, if any, of the fixed cumulative dividend thereon whether earned, declared or not, upto the date of redemption thereof out of the moneys of the company which may lawfully be applied for that purpose, provided that if the company shall at any time determine to redeem a part only of such shares for the time being outstanding, the shares to be so redeemed shall be determined by a draw to be made in such manner as may be decided by the Board of Directors, provided that:
 - i. in no event the company shall create further preference shares or issue any further preference share capital to rank in priority to the existing preference shares;
 - ii. in the event of the company creating and/or issuing in future any further preference shares ranking pari-passu with or subordinate to the said preference shares, it would do so only with the consent in writing of the holders of not less than three fourths of the said preference shares then outstanding or with the sanction of a special resolution passed at a separate meeting of the holders of the said preference shares then outstanding.
 - i. The company shall forthwith give to the holders of the shares liable for redemption notice in writing of its intention to redeem the same and fix a time and place for the redemption and surrender of the certificates of the shares so to be redeemed;
 - j. At the time and place so fixed each holder of such shares shall be bound to surrender to the company the certificate(s) for his shares to be redeemed and the company shall pay to him the amount payable in respect of such redemption and where any such certificate(s) comprises any shares which are not liable for redemption the company shall issue to the holder thereof a fresh certificate; and
 - k. In the event of the company creating and / or issuing preference shares in future ranking pari passu with or in priority to the redeemable preference shares, it should do so only with the consent in writing of the holders of the said shares then outstanding or with the sanction of a special resolution passed at a separate meeting of the holders of such redeemable preference shares.
9. Instalment on shares to be duly paid If, by the conditions of allotment of any shares, the whole or part of the amount or issue price thereof shall be payable by instalments, every such instalment shall, when due, be paid to the company by the person who for the time being shall be the member registered in respect of the share or by his executor or administrator
- 10 Liability of Joint holder of shares Members who are registered jointly in respect of a share shall be severally as well as jointly liable for the payment of all instalments and calls due in respect of such share.
- 11 New shares to be offered to existing members When at any time subsequent to the adoption of these Articles it is proposed to increase the subscribed capital of the company by the issue of new shares then subject to any directions to the contrary which may be given by the company in general meeting and subject to those directions such new shares shall be offered to the persons who at the date of the offer are holders of the Equity shares in the company, in proportion, as nearly

as circumstances admit, to the capital paid up on those shares at the date; and such offer shall be made by a notice specifying the member of shares offered and limiting a time not being less than 15 days from the date of the offer within which offer, if not accepted will be deemed to have been declined. After the expiry of the time specified in the notice aforesaid or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose of them in such manner as they think most beneficial to the Company. Option or right to call of shares shall not be given to any person or persons without the sanction of the company in general meeting.

Notwithstanding anything herein contained, the new shares aforesaid may be offered to any person, whether or not those persons include the persons who, at the date of the offer, are holders of the Equity Shares of the Company, in any manner whatsoever;

- a. if special Resolution to that effect is passed by the company in general meeting; or
- b. where no such special resolution is passed, if the votes cast (whether on a show of hands or on a poll, as the case may be) in favour of the proposal contained in the resolution moved at the general meeting sanctioning the issue of such shares (including the casting vote, if any, of the Chairman) by members who being entitled so to do vote in person or where proxies are allowed, by proxy, exceed the votes, if any, cast against the proposal by members so entitled and voting and the Central Government is satisfied, on an application made by the Board of Directors in that behalf that the proposal is most beneficial to the company.

12 Trusts not recognised

Save as herein otherwise provided the company shall be entitled to treat the member registered in respect of any shares as the absolute owner thereof and accordingly shall not, except as ordered by a Court of competent jurisdiction or as by statute required, be bound to recognize any equitable or other claim to or interest in such share on the part of any other person.

12A

Subject to the applicable provisions of the Companies Act, 1956 or any other applicable provisions as may be stipulated by any regulatory authorities ("Relevant Laws"), the Company may buy its own securities and the Board shall have powers to buy the securities as stipulated under the relevant laws."

CERTIFICATES

13 Certificate of shares

The certificate of title of shares shall be issued under the seal of the company which shall be affixed in the presence of and signed by (i) two Directors or persons acting on behalf of the Directors under a duly registered power of attorney and (ii) the secretary or some other person appointed by the Board for the purpose; provided that at least one of the aforesaid two Directors shall be a person other than a Managing or whole-time Director. A Director may sign a share certificate by affixing his signature thereon by means of any machine, equipment or other mechanical means such as engraving in metal or lithography.

PROVIDED ALWAYS that, notwithstanding anything contained in this Article, every certificate and every document of title to shares, executed and issued whether for the first time or in renewal of or in exchange for an existing share certificate or other document of title, shall be so executed and issued under the authority of the Board of Directors in accordance with the Companies (Issue of Share Certificates) Rules, 1960, or such other provisions of the Act or Rules made, thereunder, or any statutory modification or reenactment thereof for the time being in force.

14. Member's right to certificate

Every member shall be entitled to one certificate for all shares registered in his name or if the Directors so approve to several certificates each one or more shares. In the case of transfers, the company shall issue the certificate within one month of the lodgment of transfer.

- 15 To which joint holder certificates to be issued The certificate of shares registered in the name of two or more persons shall be delivered to the person first named on the Register in respect of such joint holding.

INTEREST OUT OF CAPITAL

- 16 Interest out of capital Where any shares are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant, which cannot be made profitable for a lengthy period, the company may pay interest on so much of that share capital as is for the time being paid up, for the period, at the rate and subject to the conditions and restrictions provided by section 208 of the Act, and may charge the same to capital as part of the cost of construction of the work or building or the provision of plant.

CALLS

- 17 Calls The Directors may, from time to time, subject to the terms on which any shares may have been issued, and subject to Section 91 of the Act, make such calls as they think fit upon the members in respect of all moneys unpaid on the shares held by them respectively, and not by the conditions of allotment thereof made payable at fixed times, and each member shall pay the amount of every call so made on him to the person and at the time and place appointed by the Directors. A call may be made payable by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorizing such call was passed.
- 18 Restriction on power to make calls and notice No call shall be made payable within one month, after the last preceding call was payable. Not less than thirty days notice of any call shall be given specifying the time and place of payment and to whom such call be paid.
- 19 When interest on call or instalment payable If the sum payable in respect of any call or instalment be not paid on or before the day appointed for payment thereof, the holder for the time being of the share in respect of which the call shall have been made or the instalment shall be due shall pay interest for the same at the rate of 12% per annum from the day appointed for the payment thereof to the time of the actual payment or at such other lower rate as the Directors may determine. The Directors shall be at liberty to waive payment of any such interest wholly or in part.
- 20 Amount payable at fixed times or by instalments payable as calls If by the terms of issue of any shares or otherwise, any amount is made payable at any fixed time or by instalment at fixed times, whether on account of the amount of the share or by way of premium, every such amount or instalment shall be payable as if it were a call duly made by the Directors and of which due notice had been given and all the provisions herein contained in respect of calls shall relate to such amount or instalment accordingly.
- 21 Evidence in action by the company against Shareholders Subject to the provision of the Act and these Articles, on the trial or hearing of any action or suit brought by the Company against any Shareholder or his representative to recover any debt or money claimed to be due to the Company in respect of his shares it will be sufficient to prove that the name of the defendant is or was, when the claim arose, on the register of the company as a holder, or one of the holders, of the shares in respect of which such claim is made, and that the amount claimed is not entered as paid in the books of the company and it shall not be necessary to prove the appointment of the Directors who made any call, nor that a quorum of Directors was present at the meeting at which the call was made nor that the meeting at which the call was made duly convened or constituted nor any other matter whatsoever, but the proof of the matters aforesaid shall be conclusive evidence of the debt.

- 22 Payment of calls in advance The Directors may, if they think fit, receive from any member willing to advance the same, all or any part of the money due upon the shares held by him beyond the sums actually called for, and upon the money so paid in advance, or so much thereof as from time to time exceeds the amount of the calls then made upon the shares in respect of which such advance has been made, the company may pay interest at such rate (not being more than twelve percent per annum) as the Directors think fit, Money so paid in excess of the amount of calls shall not rank for dividends, or confer a right to participate in profits or exercise voting rights. The Directors may at any time repay the amount so advanced upon giving to such member not less than three months notice in writing.
- 23 Partial payment not to preclude forfeiture Neither the receipt by the Company of a portion of any money shall from time to time be due from any member to the Company in respect of his shares, either by way of principal or interest nor any indulgence granted by the company in respect of the payment of any such money, shall preclude the company from thereafter proceeding to enforce a forfeiture of such shares as hereinafter provided.
- 24 A call may be revoked or postponed at the discretion of the Directors.

FORFEITURE, SURRENDER AND LIEN

- 25 If call or instalment not paid notice may be given If any member fails to pay the whole or any part of any call or instalment or any money due in respect of any shares either by way of principal or interest on or before the day appointed for the payment of the same or any extension thereof, the Directors may at any time thereafter during such time as the call or instalment remains unpaid or decree remains unsatisfied serve a notice on such member or remains unpaid or decree remains unsatisfied serve a notice on such member or on the person (if any) entitled to share by transmission, requiring him to pay such call or instalment or such part thereof or other moneys as remain unpaid together with any interest that may have accrued and all expenses (legal or otherwise) that may have been incurred by the company by reason of such nonpayment.
- 26 Terms of forfeiture The notice aforesaid shall name a day (not being less than fourteen days from the date of service of the notice) and places or place and at which the money is to be paid and the notice shall also state that in the event of the non-payment of such money at the time and place appointed, the shares in respect of which the same is owing will be liable to be forfeited.
- 27 In default of payment shares may be forfeited If the requisition of any such notice shall not be complied with, every or any share in respect of which the notice is given may at any time thereafter, before payment of all calls or instalments, interest and expenses due in respect thereof, be forfeited by a resolution of the Directors to that effect.
- 28 Notice of forfeiture to member and register When any share is declared to be forfeited, notice of forfeiture shall be given to the member in whose name it stood immediately prior to forfeiture and an entry of the forfeiture with the date thereof, shall forthwith be made in the Register but no forfeiture shall be in any manner invalidated by any omission or neglect to give such notice or to make any entry as aforesaid.
- 29 Forfeited shares to become property of the company Every share so forfeited as aforesaid shall thereupon be the property of the company and may be sold, or otherwise disposed of either to the original holder thereof or to any other person upon such terms and in such manner as the Board shall think fit.
- 30 Power to annual forfeiture The Directors may at any time before any share so forfeited, shall have been sold, or otherwise disposed of, annul the forfeiture thereof upon such conditions as they, may think fit.

- 31 Members shall be liable to pay money owing, at the time of forfeiture and interest Any member whose share may be forfeited shall notwithstanding the forfeiture, be liable to pay and shall forthwith pay to the company all calls and other moneys owing upon the shares at the time of the forfeiture together with interest thereon from the time of the forfeiture, until payment, at nine percent per annum, and the Directors may enforce the payment thereof if they think fit, but shall not be under any obligation to do so.
- 32 Effect of forfeiture The forfeiture of a share shall involve the extinction of all interest in and also of, all claims and demands against the company in respect of the share and all other rights incidental to the share, except only such of those rights as by these Articles are expressly saved.
- 33 Certificate of forfeiture A certificate in writing under the hand of a Director or the secretary that the call or other moneys in respect of a share was or were due and payable and notice thereof given and that default in payment of the call or other moneys was made, and that the forfeiture of the shares was made, by a resolution of the Directors to that effect, shall be conclusive evidence of the facts stated therein as against all persons entitled to such shares.
- 34 Title of purchaser of forfeited shares The company may receive the consideration, given for the share on any sale or other disposition thereof and the person to whom such share is sold, or disposed of may be registered as the holder of the share and he shall not be bound to see to the application of the consideration, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale, or other disposal of the same.
- 35 Directors may accept surrender of shares The Directors may at any time, subject to the provisions of the Act, accept the surrender of any share from or by a member desirous of surrendering on such terms as the Directors may think fit.
- 36 Company's lien on shares The company shall have no lien on its fully paid-up shares. In the case of partly paid-up shares, the company shall have a lien only to the extent of all moneys called or payable at a fixed time in respect of such shares, otherwise such partly paid-up shares shall be free from any lien of the company. Any lien on shares shall extend to all dividends from time to time declared in respect of such shares. Unless otherwise agreed, the registration of a transfer of share shall operate as a waiver of the Company's lien, if any, on such shares. The Board of Directors may at any time declare any shares to be wholly or in part exempt from the provision of this Article.
37. As to enforcing lien by sale For the purpose of enforcing, such lien, the Board of Directors may sell the shares subject thereto in such manner as they think fit, but no sale shall be made unless the sum in respect of which the lien exists is presently payable and until notice in writing of the intention to sell shall have been served on such member, his executors or administrators or his committee, curator bonis, or other legal representatives as the case may be, and default shall have been made by him or them in the payment of the sum payable as aforesaid for fourteen days after the date of service of such notice. To give effect to any such sale the Board may authorise some person to transfer the shares sold to the purchaser thereof and the purchaser shall be registered as a holder of the shares comprised in any such transfer. Upon any such sale as aforesaid, the existing certificate(s) in respect of the shares sold shall stand cancelled and become null and void and of no effect, and the Directors shall be entitled to issue a new certificate or certificates in lieu thereof to the purchaser or purchasers concerned.
38. Application of proceeds of sale The net proceeds of the sale shall be received by the company and on the payment of the costs of such sale be applied in payment of such part of the amount in respect of which the lien exists as is presently payable and the residue if any, shall subject to like lien for sums not presently payable as existed upon the shares before the sale, be paid to the person entitled to the shares at the date of the sale.

FOREIGN REGISTER OF MEMBERS AND DEBENTURE-HOLDERS

- 39 Foreign Register of Members and form The company shall have power to keep foreign register of members or debenture holders in any country or state outside India as may be decided by the Board from time to time. If any shares are to be entered in any such register, the instrument of transfer shall be in a form recognised under the law of such country or state or in such form as may be approved by the Board.

TRANSFER AND TRANSMISSION OF SHARES

- 40 Form of transfer Shares in the company shall be transferred in accordance with the provisions of the Section 108 of the Act by an instrument in writing in the prescribed form under the companies (Central Government's General Rules and Forms, 1956) or any statutory modification thereof for the time being in force.
- 41 Directors may refuse to register transfer Subject to the right of appeal as conferred by Section III of the Act, the Directors, may, at their own absolute and uncontrolled discretion and without assigning any reason decline to register or acknowledge any transfer of shares and in particular may so decline in any case in which the company has lien upon the shares or any of them or whilst any moneys in respect of the shares desired to be transferred or any of them remain unpaid or unless the transferee is approved by the Directors and such refusal shall not be affected by the fact that the proposed transferee is already a member. Provided that registration of a transfer shall not be refused on the grounds of the transferor being either alone or jointly with any person or persons indebted to the company on any account whatsoever except a lien. The registration of a transfer shall be conclusive evidence of the approval of the Directors of the transferee.
- 42 Notice to transferee and transferor on refusal to transfer shares If the Board of Directors refuse to register a transfer of any shares, they shall within one month from the date on which the transfer was lodged with the company send to the transferee and the transferor notice of the refusal.
- 43 Custody of the instrument of transfer The instrument of transfer shall after registration be retained by the Company and shall remain in its custody. All instruments of transfer which the Directors may decline to register, shall be returned to the persons depositing the same.
- 44 Closure of transfer books etc., The Directors shall have power, on giving not less than thirty days previous notice by advertisement as required by Section 154 of the Act, to close the Register of Members or the Register of Debenture holders for such period or periods of time not exceeding in the whole 45 days in each year but not exceeding 30 days at a time as they may deem fit.
- 45 Title of shares of deceased holder The executor or administrator of a deceased member or holder of a succession certificate shall be the only persons recognised by the company as having any title to his shares and the Company shall not be bound to recognise such executor or administrator or holder of a succession certificate unless such executor or administrator shall have first obtained probate, letters of administration or other legal representation as the case may be from a duly constituted court in India, or from any authority empowered by any law to grant such other legal representation; provided that in any case where the Board in their absolute discretion think fit, the Board may dispense with the production of Probate or Letters of Administration or other legal representation and under the next Article register the name of any person who claims to be absolutely entitled to the shares standing in the name of a deceased member upon such terms as to indemnity or otherwise as the Directors may deem fit.

- 46 Registration of persons entitled to share otherwise than by transfer (transmission) Subject to the provision of the Act and these Articles any person becoming entitled to a share in consequence of the death, bankruptcy, or insolvency of any member or by any lawful means other than by a transfer in accordance with these presents may with the consent of the Directors which they shall not be under any obligation to give upon producing such evidence that he sustains the character in respect of which he proposes to act under this Article, or of his title, as the Board may think sufficient and upon giving such indemnity as the Directors may require either be registered himself as the holder of the shares or elect to have some person nominated by him and approved by the Board, registered as such holder, provided nevertheless that if such person shall elect to have his nominee registered he shall testify the execution, by his nominee of instrument of transfer of the shares in accordance with the provisions herein contained, and until he does so, he shall not be free from any liability in respect of the share. This Article is hereinafter referred to be "The Transmission Article".
- 47 Refusal to Register Transmission of share Subject to the provisions of the Act and these Articles, the Directors shall have the same right to refuse to register a person entitled by transmission to any shares or his nominee as if he were the transferee names in any ordinary transfer presented for registration.
- 48 Board may require evidence of transmission Every transmission of a share shall be verified in such manner as the Directors may require and the company may refuse to register any such transmission until the same be so verified or unless such indemnity be given to the company with regard to such registration which the Board at its discretion shall consider sufficient provided nevertheless that there shall not be any obligation on the company or the board to accept any indemnity.
- 49 Fee on transfer or transmission No fee shall be charged for the following:
- i. for registration of transfers, sub-division and consolidation of Certificates and for letters of allotment and for split, consolidation renewal and pucca transfer receipts into denominations corresponding to the market units of trading.
 - ii. for sub-division of renounceable letter of right:
 - iii. for issue of New Certificates in replacement of those which are old, decrepit or worn out or when the cages on the reverse for recording transfers have been fully utilised.
 - iv. for registration of any power of attorney, probate, letters of administration, marriage or death certificates or for similar other documents.
- 49A. "The Board of Directors or a committee thereof can refuse a request by a member to split his/her shares into shares of smaller lots unless such split is for making his/her holding into market lot".
- 50 The Company not liable for disregard of a notice prohibiting registration of a transfer The Company shall incur no liability or responsibility whatever in consequence of their registering or giving effect to any transfer of shares made, or purporting to be made, by any apparent legal owner thereof (as shown or appearing or claiming any equitable right title or interest to or in the same shares notwithstanding that the company have had notice of such equitable right, title or interest or notice prohibition registrations of such transfer, and may have entered such notice or referred thereto in any book of the company; and the company shall not be bound or required to regard or attend or give effect to notice which may be given to them of any equitable right, title or interest or be under any liability whatsoever for refusing or neglecting to do so; though it may have been entered or referred to in some books of the company, but the company shall nevertheless be at liberty to regard and attend to such notice and give effect thereto if the Directors shall so think fit.

**INCREASE, REDUCTION AND ALTERATION IN AUTHORISED ISSUED
AND SUBSCRIBED CAPITAL**

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| 51 | Increase of authorised share capital | The company may from time to time in general meeting by a resolution which may be special or ordinary resolution alter the conditions of its memorandum by increase of authorised share capital by creation of new shares of such amount as it thinks expedient. |
| 52 | Redeemable preference shares
increase of subscribed capital | The company may from time to time in general meeting by special resolution increase its subscribed share capital by issue of new shares upon such terms and conditions and with such rights and privileges annexed thereto as by the general meeting issuing the same shall be directed and in particular subject to the provisions of Articles 3 to 11 thereof such shares may be issued with a preferential or qualified right to dividends and in the distribution of the assets of the company provided always that any preference shares may be issued in the terms that they are or at the option of the company are to be liable to be redeemed and on such terms and conditions of redemption as may be prescribed. |
| 53 | Increased capital same as
original capital | Except so far as may be otherwise provided by the condition of issue or by these present any capital raised by the creation of new shares shall be considered part of the original capital and shall be subject to the provisions herein contained with reference to the payment of call and instalment transfer and transmission, forfeiture, lien, surrender, voting and otherwise. |
| 54 | Provisions in case of redeemable
preference shares | Notwithstanding anything contained to these Articles in the case of the issue of Redeemable preference shares under the provisions of Article 52 hereof the provisions of section 80 of the Act shall apply. |
| 55 | Reduction of capital | The company may (subject to the provisions of section 100 to 105 of the Act) from time to time by special resolution reduce its share capital or any capital redemption reserve account or share premium account in any way authorised by law and in particular may pay off any paid up share capital upon the footing that it may be called up again; or otherwise, and may if and as far as if necessary alter its Memorandum by reducing the amount of its shares capital and of its shares accordingly. |
| 56 | Consolidation division and sub-
division | <p>The company may in general meeting alter the conditions of Memorandum as follows:</p> <ul style="list-style-type: none">a. Consolidation and divide all or any of its share capital into shares of larger amount than its existing shares.b. Sub-divide its shares or any of them into shares of smaller amount than originally fixed by the Memorandum, subject nevertheless to the provisions of section 94(i) (d) of the Act and of these Articles.c. Cancel shares which, at the date of the passing of the resolution in that behalf have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled. |
| 57 | Issue of further Pari-Passu Shares not
to affect the right of shares already
issued | The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of the issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith, but in no respect in priority thereto. |

MODIFICATION OF CLASS RIGHTS

58 Power to modify rights

If at any time the capital by reason of the issue of preference shares or otherwise is divided into different classes of share, all or any of the rights and privilege attached to each class may, subject to the provisions of section 106 and 107 of Act, be modified /abrogated with

- a. The consent of the holders of not less than three fourths of the issued shares of that class, or
- b. The sanction of special resolution passed at a separate meeting of the holders of the issued shares of that class.

To every such separate meetings, the provisions herein contained as to general meeting shall mutates mutandis apply.

JOINT HOLDERS

59 Joint holders

Where two or more persons are registered as the holders of any shares, they shall be deemed to hold the same as joint tenants with benefits of the survivorship subject to the following and other provisions contained in the these Articles.

- a. The company shall be entitled to decline to register more than four persons as the joint holders of any share.
- b. The joint holders of any shares shall be liable severally as well as jointly for and in respect of all calls and other payments which ought to be made in respect o such shares.
- c. On the death of any such joint holders the survivor or survivors shall be the only persons or persons recognised by the company as having any title or interest in the share but the Directors may require such evidence of death as they deem fit and nothing herein contained shall be taken to release the estate, of deceased joint holder from any liability on shares held by him jointly with any other person or persons.
- d. Any of the joint holders may give effectual receipt of any dividends or other moneys payable in respect of such shares.
- e. Only the person whose name stands first in the Register as one of the joint holders of any shares, shall be entitled to the delivery of the certificate relating to such shares or to receive documents (which expression shall be deemed to include documents referred to in Article 154) from the Company and any documents served on or sent to such person shall be deemed as good service on all the joint holders.
- f. Any one of two or more joint holders may vote at any meetin either personally or by proxy in respect of such shares as if he were solely entitled thereto and if more than one of such joint holders be present at any meeting personally or by proxy, then one of such persons so present whose names stands first or higher (as the case may be) on the Register in respect of such share shall alone be entitled to vote in respect thereof but other or others of the joint holders shall be entitled to be present at any meeting personally Several executors or administrators of a deceased member in whose (deceased member's) sole name any shares stand shall for the purpose of this sub article be deemed joint holders.

BORROWING POWERS

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| 60 | Power to borrow | Subject to the provisions of Section 58A, 58B, 292 and 293 and other provisions of the Act and these Articles and without prejudice to the other powers conferred by these Articles, the Directors shall have the power from time to time at their discretion to accept deposits from members of the company either in advance on calls or otherwise and generally to raise or borrow or secure the payment of any sum of money for the purpose of the company provided that the aggregate of the amount borrowed (apart from temporary loans as defined in Section 293 of the Act obtained from the company's bankers in the ordinary course of business) and remaining outstanding and undischarged at the time, shall not, without the consent of the company general meeting exceed the aggregate of the paid up capital of the Company and its free reserves, that is to say reserves not set apart for any specific purpose. |
| 61 | Condition on which money may be borrowed | Subject to the provisions of the Act and these Articles, the Board may raise and secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular by the issue of bonds perpetual or redeemable debentures, debenture stock or any mortgage or charge or other security on the whole or any part of the property of the company (both present and future) including its uncalled capital for the time being. |
| 62 | Bonds, debenture etc., to be under the control of Directors | Any Bond, stock or other securities issued or to be issued by the Company shall be under the control of the directors who may issue upon such terms and conditions and in such manner and for such consideration as they shall consider to be for the benefit of the company. |
| 63 | Securities may be assemble free from equities | Debentures, debenture stock, bonds and other securities may be made assemble free from any equities between the company and the person to whom the same way be issued. |
| 64 | Issue at discount etc., or with special privilege | Any bonds, debentures, debenture stock, or other securities may be issued at a discount, premium or otherwise and with any special privilege and conditions as to redemption, surrender, drawing allotment of shares attending at General Meeting provided that debentures with the right of conversion into shares shall not be issued except in conformity with the provisions of section 81(3) of the Act. |
| 65 | Indemnity may be given | Subject to the provisions of the Act and these Articles if the Directors or any other person shall incur or be about to incur any liability or surety for the payment of any sum primarily due from the company, the board may execute or cause to be executed any mortgage charge or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the director or person so becoming liable as aforesaid from and against any loss in respect of such liability. |
| 66 | Mortgage of Uncalled capital | If any uncalled capital of the Company is included in or charged by any mortgage or other security the Board of Directors shall subject to the provisions of the Act and these Articles make calls on the members in respect of the uncalled capital in trust for the person in whose favour such mortgage or security is executed. |

GENERAL MEETING

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| 67 | Annual General Meeting | Subject to the provisions of the Act, the company shall hold from time to time as provided by the Act in addition to any other meeting a general as its Annual General Meeting. The provisions of Section 166 read with Section 210 of the Act shall apply to such Annual General Meeting. |
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68	Annual General Meeting when to be held	Every Annual General Meeting shall be called for a time during business hours and on such day (not being a public holiday) as the Directors may from time to time determine and it shall be held either at the Registered Office of the Company or at any place within the city town or village in which the office of the company for the time being is situated.
69	Extraordinary General Meeting	<p>a. All General Meetings other than Annual General Meeting shall be called Extraordinary General Meetings.</p> <p>b. The Board of Directors may, whenever it thinks fit, call an Extraordinary General Meeting.</p>
70	Calling of Extraordinary General Meeting or requisition	The board of directors shall on due requisition of members in accordance with section 169(4) of the Act, forthwith proceed to call an Extraordinary General Meeting and the provisions of Section 169 of the Act, shall apply in respect of such meeting.
71	Notice of Meeting	Save as permitted under Section 171(2) of the Act, a General Meeting of the company may be called by giving not less than twenty one days notice in writing.
72	Special Business	<p>a. In the case of an Annual General Meeting the business to be transacted at the meeting shall be deemed special, with the exception of business relating to:</p> <p>i. The consideration of the accounts, balance sheet and profit and loss account and the report of the Board of Directors and of the auditors;</p> <p>ii. the declaration of a dividend;</p> <p>iii. the appointment of directors in the place of those retiring and</p> <p>iv. The appointment of and the fixing of the remuneration of the auditors.</p> <p>In the case of any other meeting all business shall be deemed special</p> <p>b. Where any items of business to be transacted at the meeting are deemed to be special as aforesaid, there shall be annexed to the notice material facts regarding each such item of business including in particular, the nature and extent of the interest if any, therein of every Director of the company.</p> <p>Provided that where any item of special business as aforesaid to be transacted at a meeting of the company relates to, or affects any other company the extent of shareholding interest in that other company or every director of the company shall also be set out in the explanatory statement, if the extent of such shareholding interest is not less than twenty percent of the paid-up share capital of that other company.</p> <p>C. Where any item of business to be transacted at any general meeting of the company consist of according of approval to any document, the time and place where the document can be inspected shall be specified in the statement aforesaid.</p>
73	Contents and service of notice	Notice of every meeting shall be given to the members and to such other person or persons as required by and in accordance with Section 172 and 173 of the Act and it shall be served in the manner authorised by section 53 of the Act.

PROCEEDINGS AT GENERAL MEETING

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| 74 | Quorum of General Meeting | At least five members entitled to vote and present in person shall be quorum for a General Meeting. No. business shall be transacted at any General Meeting unless the quorum requisite be present at the commencement of a business. |
| 75 | If quorum not present meeting to be dissolved or adjourned | If within half an hour from the time appointed for holding a meeting of the company, a quorum is not present, the meeting if called upon at the requisition of members, shall stand dissolved. In any other case the meeting shall stand adjourned to the same day in the next week (not being a public holiday) at the same time and place, or to such other day and at such other time and place as the Board may determine. |
| 76 | Adjourned Meeting to transact business | If at any adjourned meeting also a quorum is not present within half an hour of the time appointed for holding the meeting the members present, whatever their number (not being less than two) shall be the quorum and shall have power to decide upon all the matters which could properly have been disposed of at the meeting for which the adjournment took place. |
| 77 | Chairman of the Meeting | The Chairman (if any) of the Board of Directors shall, if present preside as Chairman at every General Meeting whether Annual or Extraordinary but if there be no such Chairman, or in case of his absence or refusal any one of the Directors present, shall be chosen to be the Chairman of the Meeting. |
| 78 | Member a Chairman | If at any meeting a quorum of members shall be present and the Chair shall not be taken by the Chairman of the Board or by a Director at the expiration of half an hour from the time appointed for holding the meeting or if before the expiration of half an hour from the time appointed for holding the meeting all the directors shall decline to take the chair, the member present shall on a show of hands choose one of the their own number to the Chairman of the meeting. |
| 79 | Business confined to election of chairman whilst chair vacant | No business shall be discussed at any General Meeting except the election of the Chairman whilst the Chair is vacant. If a poll is demanded on the election of the Chairman it shall be taken forthwith in accordance with the provisions of the Act and these Articles. |
| 80 | Chairman with consent may adjourn meeting | The Chairman may with the consent of any meeting at which quorum is present, and shall if so directed by the meeting adjourn any meeting from time to time and from place to place but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. |
| 81 | Notice to be given where a meeting adjourned | When a meeting is adjourned for thirty days or more notice of the adjourned meeting shall be given as in the case of original meeting. Save as aforesaid it shall not be necessary to give any notice of the adjournment or of the business to be transacted at the adjourned meeting. |
| 82 | Resolution how decided | At any General Meeting provisions of Section 177 and 185 of the Act shall apply provided that in case of equality of votes whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is demanded, shall be entitled to a casting vote in addition to his own vote or votes to which he may be entitled as a member. |
| 83 | Time of taking poll | a. (1) A poll demanded on a question of adjournment shall be taken forthwith.

(2) A poll demanded on any other question (not being a question relating to the election of a Chairman which is provided for above) shall be taken at such time not being later than forty eight hours from the time when the demand was made, as the Chairman may direct. |

Other business may proceed notwithstanding demand of poll	b) The demand of poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which a poll has been demanded.
Scrutineers at poll	<p>c. (1) Where a poll is to be taken the Chairman of the meeting shall appoint two scrutineers to scrutinist the votes given on the poll and to report thereon to him.</p> <p>(2) The Chairman shall have power, at any time before the result of the poll is declared, to remove a scrutineer from office and to fill vacancies in the office of the scrutineers arising from such removal or from any other cause.</p> <p>(3) Of the two scrutineers, one shall always be a member (not being an Officer or Employee of the Company) present at the meeting.</p>
84 Reports, Statement and register to be laid on table	At every Annual General Meeting of the Company there shall be laid on the table, the Directors report and audited statement of accounts, Auditors report, the proxy register with the proxies and the Register of Director's share holdings mentioned under Section 307 of the Act. The Auditors' Report shall be read before the members in such General Meeting and shall be open to inspection by any member of the Company.
85 Minutes of General and Board Meeting	The Board shall cause minutes of all proceedings of every general meeting and of all proceedings of every meeting of the Board of Directors or of every committee of the board to be kept in accordance with section 193 of the Act.
86 Inspection of minute books of general meeting	The books containing the minutes of the proceedings of general meetings of the company shall be kept at the office of the company and be open to the inspection of members as prescribed by section 196 of the Act.
VOTES OF MEMBERS	
87 Votes may be given by proxy	Subject to the provisions of the Act, and these Articles, votes may be given either personally or by proxy or in the case of a body corporate by a representative duly authorised under section 187 of the Act, and Article 89 hereof.
88 Voting rights	<p>Subject to the provisions of the Act, (and in particular of Sections 87 and 92 (2) thereof) and these Articles;</p> <ol style="list-style-type: none"> 1. Upon a show of hands every member holding equity shares and entitled to vote and present in person (including an attorney or a representative of a body corporate as mentioned in Article 89) shall have one vote. 2. Upon a poll the voting right of every member holding equity shares and entitled to vote and present in person (including a body corporate present as aforesaid) or by proxy shall be in proportion to his share in the paid-up equity capital of the company. 3. The voting right of every member holding preference shares if any shall upon a show of hands or upon a poll be subject to the provisions, limitations and restrictions laid down in Section 87 of the Act.
89 No voting by proxy on show of hands	No member not personally present shall be entitled to vote on a show of hands unless such member is a body corporate present by attorney or by representative duly authorised under section 187 of the Act in which case attorney or representative may vote on show of hands as if he were an individual member of the company.

90	Restriction on exercise of rights	Subject to the provisions of the Act, no member shall be entitled to voting right in respect of any shares registered in his name on which any calls or other sums presently payable by him, have not been paid or in regard to which the company has exercised any right or lien.
91	Votes in respect of deceased, insolvent members	Any person entitled under the Transmission clause (Article 46 hereof) to transfer any shares, may vote at any general meeting in respect thereof as if he was the registered holder of such shares, provided that at least forty-eight hours before the time of holding the meeting or adjourned meeting, as the case may be, at which he proposes to vote he shall satisfy the Board of his right to transfer such shares unless the Board shall have previously admitted his right to vote at such meeting in respect thereof.
92	Right of member to use his votes differently	On a poll taken at a meeting of the company, a member entitled to more than one vote, or his proxy, or other person entitled to vote for him as the case may be need not if he votes, use all votes in the same manner.
93	How members non composment is or minors may vote	If any shareholder be lunatic, idiot or non composment is the votes in respect of his share or shares shall be cast by his committee or other legal guardian and if any shares are registered in the name of minor through his guardian, the vote in respect of such shares shall be cast by that guardian or any one of the guardians if more than one.
94	Instrument appointing a proxy to be deposit at the office	The instrument appointing a proxy and the power of Attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority shall be deposited at the office not less than forty-eight hours before the time for holding the meetings at which the persons named in the instrument proposes to vote and in default the instrument of proxy shall be treated as valid.
95	Form of proxy	An instrument appointing a proxy shall be in either of the forms in Schedule IX to the Act or a form as near thereto as circumstances admit.
96	Custody of the instrument	Any instrument of appointment of proxy deposited as aforesaid shall remain permanently or for such time as the directors may determine in the custody of the company.
97	Validity of votes given by proxy notwithstanding death etc., of member	A vote cast in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous insanity or lunacy or death of the principal or revocation of the proxy as the case may be or any power of attorney, under which such proxy was signed, or the transfer of the share in respect of which the vote is given provided that no intimation in writing of the insanity, lunacy, death, revocation or transfer shall have been received at the office before the meeting.
98	Time for objection to vote	Subject to the provisions of the Act, and these Articles no objection shall be made to the validity of any vote except at the meeting or poll at which such vote shall be tendered and every vote, whether given personally or by proxy or by any means hereby authrised and not disallowed at such meeting or poll, shall be deemed valid for all purposes of meeting or poll whatsoever.
99	Chairman of the meeting to be the judge of validity of any vote	Subject to the provisions of the Act, and these Articles, the Chairman of any meeting shall be the sole judge of the validity of every vote tendered at such meeting Subject as aforesaid the Chairman present at the taking of a poll shall be the sole judge of the validity of every vote tendered at such poll.
100	Number of Directors	Unless otherwise determined by a General Meeting, the number of Directors shall not be less than three nor more than twenty.

101		<p>The following are the Directors of the company at the time of adoption of these Articles:</p> <ol style="list-style-type: none"> 1. Dr. Kallam Anji Reddy (Chairman) 2. Kallam Ranga Reddy 3. Adapa Subba Reddy 4. Madabushini Purushottam Chary (Managing Director) 5. Dr. Mullapudi Venkat Rao (Nominee of APIDC)
102	Appointment of Alternate Director	<p>The Board of Directors of the Company may appoint an alternate Director act for a Director (hereinafter called the “original director”) during his absence for a period of a not less than three months from the State in which the meeting of the Board are ordinarily held and such appointment shall have effect and such appointee whilst he holds office as an Alternate Director shall be entitled to notice of meetings of the Directors and to attend and to vote there at accordingly. An alternate Director appointed under this Article shall not hold office as such for a period longer than permissible to the original Director in whose place he has been appointed and shall vacate office if and when the original Director returns to the said State. If the terms of office of the Original Directors is determined before he so returns to the said State, any provisions in the Act or these Articles for the automatic reappointment of retiring Director in default of another appointment shall apply to the original Director and not to the Alternate Director.</p>
103	Additional Director	<p>The Board shall have power from time to time and at any time to appoint any person as Director as an addition to the Board but so that the total number of Directors shall not at any time exceed the maximum number fixed by these articles. Any director so appointed shall hold office only upto the date of the next annual general meeting of the Company and shall then be eligible for appointment by that meeting, subject to the provision of Section 257 of the Act.</p>
104	Casual Vacancy	<p>Subject to the provisions of Section 284 (6) and other applicable provisions (if any) of the Act if the office of a Director appointed by the company in general meeting is vacated before his terms of office will expire in the normal course, the resulting casual vacancy may, in default of and subject to any regulation contained in these articles be filled by the by the Board of Directors. Any person so place he is appointed would have held office if it had not been vacated as aforesaid.</p>
105	Qualification of Director	<p>A director shall not be required to hold any qualification shares and a person may be appointed as director notwithstanding that he holds no share in the Company.</p>
106	Remuneration of Directors	<p>Subject to the provisions of Sections, 198, 309, 310, 311 and 314 of the Act, the remuneration and travelling expenses payable to the Directors of the Company may be as hereinafter provided.</p> <ol style="list-style-type: none"> a. Directors shall be entitled to receive out of the funds of the company for their services in attending meeting of the Board or a committee of the Board, a fee as may be specified under the Act. b. In addition to the remuneration payable as above, the Board of Directors may allow and pay to any Directors who is not a bonafide resident of the place where a meeting is held and who shall come to such place for the purpose of attending the meeting such sum as the Board may consider fair compensation, for travelling hotel and other expenses in-cured by him, in attending and returning from meeting of the Board of Directors or any committee thereof.

- c. If any Director be called upon to perform extra services or special exertion or efforts, the Board may arrange with such Director for such special remuneration for such extra services or special exertions or efforts either by a fixed sum or otherwise as may be determined by the Board subject to the provisions of the Act and such remuneration may be in addition to his remuneration above provided.
- d. In addition to the remuneration payable under clause (c) above, the Directors may allow and pay to any Directors such sum as the Board may consider fair compensation for travelling, hotel and other expenses incurred by him in connection with the business of the company.
- e. Director may be paid full-time remuneration by way of commission at the rate of 1 percent (one percent) or upto 3 percent (three percent) of the net profits of the company calculated in accordance with the provisions of the Act, and such remuneration shall be divided amongst the Directors in such proportion and manner as the Board may, from time to time, determine and in default of such determination, shall be divided amongst them, equally.

107 Appointment of nominee directors

Notwithstanding anything to the contrary contained in these Articles, so long as any money remain owing by the company to the Industrial Development bank of India (IDBI), Industrial Finance corporation of India (IFCI), Industrial Credit and Investment Corporation of India Limited (ICICI) and Life Insurance Corporation of India (LIC) or to any other Finance Corporation or Credit Corporation or to any other financing company or body out of any loans granted by them to the company or so long as IDBI, IFCI, ICICI and LIC or any other Finance Corporation or Credit Corporation or any other Financing Company or Body (each of which IDBI, IFCI, ICICI, and LIC or any other Finance Corporation or any other Financing Company or body is hereinafter in this Article referred to as the participating institutions) continue to hold debentures in the company by direct subscription or private placement, or so long as the participating institutions hold shares in the company as a result of underwriting or direct subscription or so long as any liability of the company arising out of any guarantee furnished by the said participating institutions on behalf of the company remains outstanding the participating institutions shall have a right to appoint from time to time any person or persons as a Director or Directors, who time or no whole time (which Director or Directors is/are hereinafter referred to as "Nominee Director/s on the Board of the Company and to remove from such office any person or persons so appointed and to appoint any persons in his or their place/s.

The company shall have no power to remove from office the Nominee Directors. At the option of the participating financial institutions such nominee Director/s shall not be required to hold any share qualification in the company. Also at the option of the participating financial institutions such nominee Directors shall not be liable to retirement by rotation of Directors.

Subject as aforesaid, the Nominee Director/s shall be entitled to the same right and privileges and be subject to the same obligations as any other Director of the company.

The Nominee Director/s so appointed shall hold the said office only so long as any moneys remain owing by the company to the participating institutions or so long as the participating institutions hold shares in the company as result of underwriting or direct subscription or the liability of the company arising out of any Guarantee is outstanding and the Nominee Director/s so appointed in exercise of the said power shall ipso facto vacate such office immediately the moneys owing by the company to the participating institutions is paid off or on the participating institutions ceasing to hold Debentures/shares in the company or on the satisfaction of the liability of the company arising out of any guarantee furnished by the participating institutions.

The Nominee Director/s appointed under this Article shall be entitled to receive all notices of and attend all General Meetings, Board Meetings and of the Meetings of the Committee of which the Nominee Director/s is /are Member/s as also the minutes of such meetings. The participating institutions shall also be entitled to receive all such notices and minutes.

The Company shall pay to the nominee Director/s sitting fees and expenses which the other Directors of the company are entitled but if any other fees, commission, moneys or remuneration in any form is payable to the Directors of the company, the fees, commission, moneys and remuneration in relation to such Nominee Director/s shall accrue to the participating institutions and the same shall accordingly be paid by the company directly to the participating institutions. Any expenses that may be incurred by the participating institutions or such nominee Director/s in connection with their appointment to Directorship shall also be paid or reimbursed by the Company to the participating institutions or as the case may be to such Nominee Director/s.

Provided that if any Nominee Director/s is an officer of the participating institutions the sitting fees, in relation to such Nominee Director/s shall also accrue to the participating institutions and they shall accordingly be paid by the company directly to the participating institutions. Provided further that if such Nominee Director/s is an officer of the Reserve Bank of India, the sitting fees in relation to such Nominee Director/s shall also accrue to IDBI and the same shall accordingly be paid by the Company directly to IDBI.

Provided also that in the event of the Nominee Director/s being appointed as whole time Director/s such Nominee Directors shall exercise such powers and duties as may be approved by the Lenders and have such rights or as are usually exercised or available to whole time Director, in the management of the affairs of the borrower. Such Nominee Directors shall be entitled to receive such remuneration, fees, commission and moneys as may be approved by the Lenders and also by the Central Government under Sections 269, 309/198,310,314 of the Act.

108 Loan to Director etc.

The company shall observe the restriction imposed on the matter of grant of loans to Directors and other persons as provided in Section 295 of the Act.

109 Director may act notwithstanding vacancy

The continuing directors may act notwithstanding any vacancy in their body but so that, subject to the provisions of the Act, if the number falls below the minimum above fixed and notwithstanding the absence of a quorum the Directors may act for the purpose of filling up vacancies or for summoning a general meeting of the company.

110 When office of Director to be vacated

Subject to Section 283 (2) of the Act, the office of a Director shall become vacant if.

- a. he is found to be of unsound mind by a court of competent jurisdiction; or
- b. he applies to be adjudicated an insolvent; or
- c. he is adjudged an insolvent; or
- d. he fails to pay any call made on him in respect of shares of the company held by him, whether alone or jointly with others within six months from the last date fixed for the payment of the call unless the Central Government has by notification in the official gazette removed the disqualification incurred by such failure; or

- e. he (whether by himself or by any person for his benefit or on his account) or any firm in which he is a partner or any private company of which is a shareholder or Director, accepts a loan or any guarantee or security for a loan, from the company in contravention of section 295 of the Act; or
- f. he absents himself from three consecutive meetings of the Board of Directors or from all meetings of the Board for a continuous period of three months, whichever is longer without obtaining leave of absence from the Board; or
- g. he becomes disqualified by any order of Court (as defined in the Act) under Section 203 of the Act; or
- h. he is removed in pursuance of Section 284 of the Act; or
- i. he acts in contravention of Section 299 of the Act and by virtue of such contravention shall vacate office; or
- j. he is convicted by a court of any offence involving moral turpitude and sentenced in respect thereof to imprisonment for not less than six months; or
- k. he having been appointed a director by virtue of his holding office or other employment in the company, he ceases to hold such office or other employment in the company.

111	Resignation of Directors	Subject to the provisions of the Act a Director may resign his office at any time by notice in writing addressed to the company or to the board of directors but such resignation shall be effective only when the resignation is accepted at a meeting of the board.
112	Directors may be Director of Companies promoted by the company	A director may become a director of a Company promoted by the Company or in which it may be interested as a vendor, shareholder or otherwise, and subject to the provisions of the Act and these Articles, no such Director shall be accountable for benefits received as Director or shareholder of such company.
113	Rotation of Director	At the Annual General Meeting of the Company in every year, one third of the Directors for the time being liable to retire by rotation and if their number is not three or a multiple of three then the number nearest thereto shall retire from the office. The Directors to retire at such Annual General Meeting shall be the Directors (other than Managing Director or Whole time Director and /or any other Director or Directors who by virtue of the provision of any agreement referred to in Article 107 are not liable to retire) who shall have been longest in office since their last election. As between Directors who became Directors on the same day those to retire shall (in default of agreement between them) be determined by lot. For the purpose of this Article, a Director appointed to fill a vacancy under the provisions of Article 104 shall be deemed to have been in office since the date on which the Director, in whose place he has been appointed was last elected as a Director.
114	Retiring Director eligible for reelection	A retiring Director shall be eligible for reelection and shall act as a Director throughout the meeting at which he retires.

PROCEEDINGS OF DIRECTORS

- 115 Meeting of Directors The Directors shall meet together atleast once in every three months for the despatch of business and may adjourn and otherwise regulate their meetings and proceedings as they think fit. Provided that at least four such meetings shall be held in a year. Notice of every meeting of the Directors shall be given in writing by a Director or such other officer of the company duly authrised in this behalf to every Director whether within or outside India. Such notice shall be sent at his usual address in India.
- 115A Subject to the applicable provisions of the Companies Act, 1956 or any other applicable provisions as may be stipulated by the regulatory authorities, the Company shall have powers to hold the meeting of board and committees thereof through video conferencing or tele-conferencing.
- 116 Quorum Subject to Section 287 of the Act, the quorum for a meeting of the Board of Directors shall be on third of its total strength excluding Directors, if any, whose places may be vacant at the time and any fraction contained in that one-third being rounded off as one, or two Directors, whichever is higher, provided that where at any time the number of interested Directors exceeds or is equal to two-third of the total strength, the number of the remaining Directors who are not interested present at the meeting being not less than two shall be the quorum during such time.
- 117 Adjournment of meeting for want of quorum If a meeting of the Board cannot be held for want of a quorum then the meeting shall stand adjourned to such day, time and place as the Director or Directors present at that time may fix. Notice of the adjournment of the meeting shall be given to all the Directors in the manner prescribed under Article 115.
- 118 Chairman The Directors may from time to time, elect their number to be the Chairman of the Board of Directors and determine the period for which he is to hold office but if no such Chairman is elected, or if at any Meeting of the Board of Directors the Chairman is not present within five minutes of the time appointed for holding the same, the Directors present shall choose one of their number to be the Chairman of such meeting.
- 119 Who to preside at the meeting of the Board All meetings of the Directors shall be presided over by the Chairman, if present, but it at any meeting of the Directors the Chairman be not present, at the time appointed for holding the same in that case, the Directors shall choose one of the Directors then present to preside at the Meeting.
- 120 Question at Board Meeting Committee how decided Questions arising at any meeting shall be decided by a majority of votes, and in case of an equality of votes, the Chairman of the meeting (whether the Chairman appointed by virtue of these Articles or the Director presiding at such meetings) shall have a second or casting vote.
- 121 Directors may appoint committees Subject to the provisions of Section 292 and other provisions of the Act, he Directors may delegate any of their powers to committee consisting of members of their body as they think fit, and they may from time to time, remove and discharge any such committee either wholly or in part, and either as to persons of purpose, but every committee so formed shall, in the exercise of power delegated, conform to any regulations that may from time to time be imposed on it by the Directors. All acts done by any such committee in conformity with such regulations and in fulfillment of the purposes of their appointment but not otherwise, shall have the like force and effect as if done by the Board.
- 122 Meeting of Committee how to be governed The meeting and proceeding of any such committee shall be governed by the provisions herein and/or in the Act contained for regulating the meeting and proceeding of Directors so far as the same are applicable thereto, and are not superseded by any regulation made by the Directors under the last proceeding article.

- 123 Resolution by circulation
- a. Subject to the provisions of Section 289 and 292 of the Act, resolutions passed by circulation without a meeting of the Board or of a committee of the Board appointed under Article 121 shall subject to the provisions of sub-clause (2) hereof and of the Act be as valid and effectual as a resolution duly passed at a meeting of the Directors or of a committee duly called and held.
 - b. A resolution shall be deemed to have been duly passed by the Board or of a committee thereof by circulation if the resolution has been circulated in draft together with the necessary papers if any to all the directors or to all the Members of the committee at their respective addresses, registered with the company and has been approved by a majority of the Directors Members of the committee as are entitled to vote, on the resolution.
- 124 Acts of Board or committee valid notwithstanding defect in appointment
- Subject to the provisions of the Act and these Articles, all acts done by any meeting of the Directors or a committee of directors or by any person acting as a director shall notwithstanding that it shall afterwards be discovered that there was some defect in the appointment of such directors or persons acting as aforesaid or that they or any of them were or was disqualified, be as valid as if every such person had been duly appointed and was qualified to be director.

POWER OF THE BOARD OF DIRECTORS

- 125 General Powers
- i. Subject to the provisions of the Act the Board shall be entitled to exercise, all such powers and to do all such acts and things, as the company is authorised to exercise and do in furtherance of its objects, specified in the Memorandum of Association for which the company is established except such powers as are required by the Act or the Memorandum or Articles of Association of the Company to be exercised or done by the company in General Meeting. In exercising any such powers or doing any such acts or things the Board shall be subject to the provisions contained in the behalf in the Memorandum or Articles of the Company or in any regulations not inconsistent therewith and duly made thereunder, including regulations made by the Company in General Meeting.
 - ii. No regulation made by the Company in General Meeting shall invalidate any prior act of the Board which have been valid if that regulation had not been made.
- 126 Specific powers of the Board
- Without prejudice to the general powers conferred by the preceding Article and without prejudice to the other powers conferred by these Articles, but subject to the restrictions contained in the last preceding Article, the Directors shall have following powers, that is to say the power:
1. To pay and charge to the capital account of the company any commission or interest lawfully payable under the provisions of Sections 76 and 208 of the Act.
 2. Subject to the provisions of sections 292, 297 and 299 of the Act, to purchase or otherwise acquire for the company any property rights or privileges which the Company is authorised or acquire, at or for such price or consideration and generally on such terms and conditions as they may think fit, and in any such purchase or other acquisition to accept such title as the Directors may believe or may be advised to be reasonably satisfactory.
 3. At their discretion and subject to provisions of the Act to pay for any property, rights or privileges acquired by or services rendered to the company, either wholly or partially in cash or in shares, bonds, debentures, mortgages, or other as fully paid up and any such bonds, debentures, mortgages or other securities may be either specifically charged upon all or any part of the property of the company and its uncalled capital or not so charged.
- To pay commission and interest
- To acquire property
- To pay for property in debentures, etc.,

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| To insure properties | 4. To insure and keep insured against loss or damage by fire or otherwise for such period and to such extent as they may think proper all or any part of the buildings machinery goods stores produce and other movable property of the company either separately or jointly; also to insure all or any portion of the goods produced machinery and other articles imported or exported by the company and to sell, assign, surrender or discontinue any policies of assurance effected in pursuance of this power. |
| To open account | 5. To open accounts with any bank or bankers or with any company firm or individual and to pay money into and draw money from any such account from time to time as the Directors may think fit. |
| To secure contracts by mortgage | 6. To secure the fulfillment of any contracts, agreement or engagements entered into by the company by mortgage or charge of all or any of the property of the company and its uncalled capital for the time being or in such manner as they may think fit. |
| To appoint trustees | 7. To appoint any persons or person (whether incorporated or not) to accept and hold in trust for the company any property belonging to the company or in which it is interests, or for any other purposes and to execute and do all such acts and things as may be required in relation to any such trust, and to provide for the remuneration of such trustee or trustees. |
| To bring and defend actions etc., | 8. To institute, conduct, defend, compound, or abandon any legal proceedings by or against the company or its officers or otherwise concerning the affairs of the company and also to compound and allow time for payment or satisfaction of any debts due or of any claims or demands by or against the company, and to refer any claims or demands by or against the company, or any differences to arbitration and observe and perform any awards made thereon. |
| To act in matters relating to insolvents | 9. To act on behalf of the company in all matters relating to bankrupts and, insolvents. |
| To give receipts | 10. To make and give receipts, releases, and other discharges for money payable to the company and for the claims and demands of the company. |
| To invest moneys | 11. Subject to the provisions of section 292,293 (1), 295,370,372 and 373 of the Act, to invest and deal with any moneys of the company not immediately required for the purpose thereof, upon such security (not being shares of this company) or without security and in such manner as they may think fit, and from time to time to vary or release such investment. Save as provided in section 49 of the Act, all investments shall be made and held in the company's own name. |
| To give security by way of indemnity | 12. To execute in the name and on behalf of the company in favour of the person who may incur any personal liability whether as principal or surety for the benefit of the company such mortgages of the company's property (present and future) as they think, fit, and any such mortgage may contain such powers provisions, covenants and agreements as shall be agreed upon. |
| To authorise signing of receipts cheques etc. | 13. To determine from time to time who shall be entitled to sign, on the company's behalf bills, notes, receipts, acceptances, endorsements, cheques, dividend warrants, releases, contracts and documents and to give the necessary authority for such purpose. |
| To give percentages | 14. To distribute by way of bonus amongst the staff of the Company a share or shares in the profits of the company and to give to any officer or other person employed by the company a commission on the profits of any particular business or transaction and to charge such bonus or commission as part of the working expenses of company. |

- To give gratitudes etc.,
15. To provide for the welfare of the Directors or Ex-Directors or the Employees or Ex-employees of the company and the wives, widows and families or the dependents of connections of such persons by building or contributing to the building of houses, dwellings or chawls or by grants of money pensions, gratuities, allowances, bonus or other payments or by creating and from time to time subscribing to provident and other associations, institutions funds to trusts and by providing or subscribing or contributing towards places of instruction and recreation hospital and dispensaries, medical and other attendance and other assistance as the Board of Directors shall think fit; and to subscribe or contribute or otherwise to assist or to guarantee money to charitable benevolent, religious, scientific educational or other institutions or objects or for any exhibition, or for any public general or useful object.
- To establish reserve funds
16. Before recommending any dividend, to set aside out of the profits of the company such sums as they may think proper for depreciation fund, or to an insurance fund, or as a reserve fund, or sinking fund or any special fund to meet contingencies or to repay debenture stock, or for special dividends or for equalising dividends or for repairing, improving extending and maintaining any of the property of the company, and for such other purposes (including the purpose referred to in the preceding sub-article) as the Board of Directors may, in their absolute discretion, think conducive to the interest of the company, and to invest the several sums so set aside, or so much thereof as required to be invested, upon such investments (other than shares of the company) as they may think fit, and from time to time deal with and think fit, and from time to time deal with and vary such investment and dispose of and apply and expand all or part thereof for the benefit of the company, in such manner and for such purpose as the Board of Directors in their absolute discretion think conducive to the interest of the Company, notwithstanding that the matters to which the Board of Directors apply or upon which they expand the same, or any part thereof may be matters to or upon which the capital moneys of the company might rightly be applied or expanded and to divide the Reserve Fund into such special funds as the Board of Directors may think fit and to employ the assets constituting all or any of the above funds, including the depreciation fund, in the business of the company or in the purchase or repayment or debentures or debenture stock and that without being bound to keep the same separate from the other assets, and without being bound to pay interest on the same with power however to the Board of Directors at their discretion to pay or allow to the credit of such funds interest at a rate as the Board of Directors may think proper.
- To appoint servants
17. To appoint and, at their discretion, remove or suspend such managers, secretaries, officers, assistants, supervisors, clerks, agents and servants for permanent temporary or special services as they may from time to time think fit, and to determine their power and duties and fix their salaries emoluments or remuneration and to require security in such instances and to such amount as they may think fit. And also without prejudice as aforesaid from time to time or at any time provide for the management and transaction of the affairs of the company in any specified locality in India or elsewhere in such manner as they think fit, and the provisions contained in the three next following clauses, shall be without prejudice to the general powers conferred by this cause.
- Local laws
18. To comply with the requirements of any local law which in their opinion it shall in the interest of the company be necessary or expedient to comply with.

Local Committee	19. From time to time and any time to establish any local committee for managing any of the affairs of the company in any specified locality in India or elsewhere and to appoint any persons to be members of such Local Committee or any managers or agents and to fix their remuneration.
Delegation of powers of Local Committee etc.,	20. Subject to the provisions of Section 292 of the Act to delegate to any such local committee or any member or members thereof or any managers or agents so appointed any of the powers authorities and discretion's for the time being vested in the Board of Directors and to authorise the members for the time being of any such Local Committee or any of them to fill up any vacancies therein and act notwithstanding vacancies and any such appointment or delegation under clause 19 of this Article may be made on such terms and subject to such condition as the Board of Directors may think fit and the Board of Directors may at any time remove any person so appointed and may annual or vary any such delegation.
Powers of attorneys	21. At any time and from time to time by power of Attorney under the seal of the company, to appoint any persons to be the Attorney or Attorneys of the company, for such purpose and discretions and for such periods and subject to such conditions as the board of directors may from time to time think fit.
May enter into contracts etc.	22. Subject to the provisions of section 294, 297 and 300 of the Act to enter into all such negotiations and contracts and Rescind and vary all such contracts, and execute and do all such acts deeds and things in the name and on behalf of the company as they may consider expedient for or in relations to any or the matters aforesaid or otherwise for the purpose of the company.
Delegation of powers	23. Generally subject to the provisions of the Act and these Articles to delegate the powers, authorities and dissections vested in the Directors to any person, firm company or fluctuating body or persons as aforesaid. 24. From time to time to make, vary and repeal by laws for the regulations of the business of the company its officers and servants.

MANAGING OR WHOLE-TIME DIRECTORS

127 Power to appoint managing or whole time Directors	Subject to the provisions of the Act, the Directors may from time to time appoint one or more of their body to be Managing Director or Managing Director (in which expression shall be included a Joint Managing Director) or whole-time Director or whole time Directors of the company for such term not exceeding five years at a time as they may think fit, and may from time to time remove or dismiss him or them from office and appoint another or others in his or their places.
128 What provisions they shall be subject to	Subject to the provisions of the Act and of these articles, a Managing Director or a whole time Director shall not, while he continues, to hold that office, be subject to retirement by rotation under these Articles but he shall be subject to the same provision as to resignation and removal as the other Directors of the Company and he shall ipso-facto and immediately cease to be a Managing Director or whole time Director if he ceases to holds the office of Director for any cause provided that if at any time the number of Director (including the Managing Director or whole time Director) who are not subject to retirement by rotation shall exceed one third of total number of Directors for the time being, then such Managing Director or whole time Director or the whole time Directors, as the, Directors may from time to time select, shall be liable to retirement by rotation in accordance with these Articles to the extent that the Directors not liable to retirement by rotation shall not exceed one-third of the total number of Directors for the time being.

- 129 Remuneration of Managing or whole-time Directors Subject to the provisions of the Act and to the approval of the company in general meeting the remuneration of a Managing Director or whole-time Directors shall from time to time be fixed by the Directors, and may be by way of fixed salary, or commission on profits of the company or by participation in any such profits or by any or all of those modes.
- 130 Powers and duties of Managing or whole-time directors Subject to the superintendence, control and direction of the board of Directors, the day to day management of the company may be entrusted to the Director or Directors appointed under Article 127 with power to the board to distribute such day to day functions among such Directors, if more than one, in any manner as directed by the board. The board may from time to time, entrust to and confer upon a Managing director or whole-time director of the time being, save as prohibited in the Act, such of the powers exercisable under these presents by the Directors as they may think fit and may confer such power for such time and to be exercised for such objects and purposes and upon such terms and conditions with such restrictions as they think expedient and they may from time to time revoke, withdraw, alter or vary all or any of such powers.

MANAGEMENT ABROAD

- 131 Management abroad The Directors may make such arrangements as may be thought fit for the management of the company's affairs abroad, and may for this purpose (without prejudice to the generality of their powers) appoint local boards, attorneys and agents and fix their remunerations and delegate to them such powers as may be deemed request or expedient. The company may have for use abroad such official seal as is provided for by section 50 of the Act, such seal shall be affixed by the, authority and in the presence of, and the instruments sealed therewith shall be signed by such persons as the Directors shall from time to time by writing under the seal appoint. The company may also exercise the powers of keeping foreign Registers as provided by the Act.

THE SEAL

- 132 The seal, its custody and use The Board shall provide a common seal for the purposes of the company and shall have power from time to time to destroy the same and substitute a new seal in lieu thereof, and the board shall provide for the safe custody of the seal for the time being and the seal shall never be used except by or under the authority of the Board or committee of Directors.
- 133 Deeds how executed Every deed or other instrument to which the seal of the company is required to be affixed shall unless the same is executed by a duly constituted attorney of the company, be signed by two Directors or a Director and the secretary if any, or the person authorised by the board for the purpose provided nevertheless, that certificates of debentures may be signed by one Director only or by the secretary of the company or by an attorney of the company duly authorised in this behalf and certificate of shares shall be signed as provided in article 13.

DIVIDENDS

- 134 Division of profits The profits of the company subject to special rights if any relating thereto created or authorised to be created by the Memorandum or these articles, and subject to the provisions of these articles, shall be divisible among the members in proportion to the amount of the capital paid upon the shares held by them respectively. Provided always that subject as aforesaid, any capital paid up on a share during the period in respect of which a dividend is declared shall unless the board otherwise determine only entitle the holder of such share to an apportioned amount such dividend as from the date of payment.

135 Dividends in proportion to	The company may pay dividends in proportion to the amount paid up or credited as paid up on some shares than on others, subject to the provisions of sections 91 and 92 of the Act.
136 Company in General Meeting may declare a dividend	<ol style="list-style-type: none"> 1. The company in general meeting may declare a dividend to be paid to the members according to their rights and interest in the profits and subject to the provisions of the Act, may fix the time for payment when a dividend has been so declared the warrant in respect thereof shall be posted within forty two days from the date of declaration to the shareholders entitled to the payment of the same. 2. No large dividend shall be declared than is recommended by the directors, but the company in Annual general meeting may declare a smaller dividend. Subject to the provisions of the Act and in particular section 205 thereof, no dividend shall be payable except out of the profit of the year or any other undistributed profits of the company and the declaration of the directors as to the amount of the net profits of the company shall be conclusive. 3. No dividend shall carry interest as against the company.
137 Interim dividend	Subject to the provisions of the Act, the Directors may from time to time pay the members on account of the current year such interim dividends as in their judgment the position of the company justifies.
138 No member to receive dividend whilst indebted to the company and company's right to reimbursement thereon	No members shall be entitled to receive payment of any interest or dividend in respect of his share or shares, whilst any money may be presently due or owing from him to the company in respect of such share or shares or otherwise however, either alone or jointly with any other person or persons; and the Directors may without prejudice to any other right or remedy of the company deduct from the interest or dividend payable to any member all sums of money so due from him to the company.
139 Unclaimed dividend	Where a dividend has been declared by the company but has not been paid, or the warrant in respect thereof has not been posted within forty two days from the date of the declaration, to any shareholder entitled to the payment of the dividends, the company shall, within seven days from the date of expiry of the said of forty two days, transfer the total amount of dividend which remains unpaid into the special account to be opened by the company in that behalf in any scheduled bank to be called "Unpaid Dividend Account", and all the other provisions of Section 205A of the Act in respect of such unpaid dividend or any part thereof shall be applicable, observed, performed and complied with and that there shall be no forfeiture of unclaimed dividends.
140 Transfer of share must be registered	A transfer of shares shall not pass the right to any dividend declared thereon before the registration of transfer.
141 Dividends how remitted	Unless otherwise directed by any member any dividend may be paid by cheque or warrant sent through the post to the registered address of member or person entitled or in case of joint holders to one of them first named in Register of Members in respect of the joint holding or to such person and to such address as the member or joint holder may in writing direct. The company shall not be liable for any cheque or warrant lost transmission or for any dividend lost to the member or person entitled thereof, by the forged endorsement of a cheque or warrant or the fraudulent recovery thereof by any other means.
142 Dividend and call together	Any general meeting declaring a dividend may make a call on the members for such amount as the meeting fixed, but so that the call on each member shall not exceed dividend payable to him and so, that the call be made payable at the same time as the dividend, and that the dividend may, if so arranged between the company and the members be set off against the calls.

143. Special power in relation to satisfaction of dividends
- No dividend shall be payable except in cash, provided that nothing in this article shall be deemed to prohibit the capitalisation of profits or reserves of the company for the purpose of issuing fully paid up bonus shares or paying up any amount for the time being unpaid on any shares held by the members of the company.

CAPITALISATION

144 Capitalisation

Amended under scheme of arrangement sanctioned vide order of the Hon'ble High Court of Judicature of Andhra Pradesh at Hyderabad dated July 19, 2010.

1. Any General Meeting may resolve that any monies, investments or other assets forming part of the undivided profits (including profits or surplus monies arising from the realisation and where permitted by law, from the appreciation in value of any capital assets of the company) or any amount standing to the credit of the Share Premium Account or the Capital Redemption Reserve Account or the General Reserve or any other reserve or fund of the company or in the hands of the company and available for dividend may be capitalized. Any such amount (excepting the amount standing to the credit of the Share Premium Account and/ or the Capital Redemption Reserve Account) may be capitalized in either of the following ways, or partly in one way and partly in another:
 - a. by the issue and distribution as fully paid up shares, debentures, debenture stock or other securities or obligations of the Company; or
 - b. by crediting the shares of the company which may have been issued and are not fully paid up with the whole or any part of the sum, remaining unpaid thereon. Provided that any amounts standing to the credit of the Share Premium Account may be applied in:
 - i. paying up unissued shares of the company to be issued to the members of the company as fully paid bonus shares
 - ii. in writing off the preliminary expenses of the company
 - iii. in writing off the expenses of, or the commission paid or discount allowed on any issue of shares or debentures of the company; or
 - iv. in providing for the premium payable on the redemption of any redeemable preference shares or debentures of the company.

Provided further that any amount standing to the credit of the Capital Redemption Reserve Account shall, for the purposes of this Article, be applied only in paying up unissued shares of the Company to be issued to the members of the Company as fully paid bonus shares.

2. Such issue and distribution under sub-clause (1)(a) above and such payment to the credit of unpaid share capital under sub-clause (1)(b) above shall be made to, amongst or in favour of the members entitled thereto and in accordance with their respective rights and interests and in proportion to the amount of capital paid up on the shares held by them respectively in respect of which such distribution under such-clause (1)(a) or payment under sub-clause (1)(b) above shall be made on the footing that such members become entitled thereto as capital.
3. The Directors shall give effect to any such resolution and apply such portion of the profit, General Reserve Fund or any other fund or account as aforesaid as may be required for the purpose of making payment in full for the shares, debentures or debenture stock, or other securities or obligations of the Company so distributed under sub-article (1)(a) above or (as the case may be) for the purpose of paying, in whole or in *pan*, the amount remaining unpaid on the paid up capital under sub-article (1)(a) above provided that no such distribution or payment shall be made unless recommended by the Directors and if so recommended such distribution and payment shall be accepted by such members as aforesaid in full satisfaction of their interest in the capitalised sum.

4. For the purpose of giving effect to any such resolution the directors may settle any difficulty which may arise in regard to the distribution or payment as foreshadowed as they think expedient and in particular they may issue fractional certificates and fix the value for distributions of any specific assets and may determine that cash payment be made to any members on the footing of the value so fixed and that fraction of less value than Rs. 1/- may be disregarded in order to adjust the right of all parties and may vest any such, cash, shares in trustee upon such trust for the persons entitled thereto as may seem expedient to the Directors and generally may make such shares, and fractional certificates or otherwise as they may think fit.
 5. Subject to the provisions of the Act and these Articles in case where some of the shares of the Company are fully paid and others are partly paid only, such capitalisation may be effected by distribution of further shares in respect of the fully paid shares, and/or by crediting the partly paid shares with the whole or part of the unpaid liability thereon but so that between the holders of the fully paid shares, and the partly paid shares the sum so applied in payment of such further shares and in the extinguishing or diminishing of the liability on the partly paid shares shall be applied prorata in proportion to the amount then already paid or credited as paid on the existing fully paid and partly paid shares respectively.
- Power to sell fractional certificate
6. If and whenever shares become held by any member in fraction the Directors may subject to the provisions of the Act and these Articles sell these shares which members hold in fractions for the best price reasonably obtainable and shall pay and distribute to and amongst the members entitled to such shares in due proportion to the net proceeds thereof. For the purpose of giving effect to such sale the Directors may authorise any persons to transfer the shares be sold to the purchaser thereof comprised in any such transfer and he shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity or invalidity in the proceeding in reference to the sale.

ACCOUNTS

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| 145. Books of accounts to be kept | The company shall keep proper books of accounts as required by the Act in particular under Section 209 thereof. |
| 146. Inspection by members | The Directors shall, from time to time determine whether and to what extent and at what places and under what conditions or regulation the accounts, books and documents of the Company or any of them, shall be open to the inspection of the members, and no member (not being a director) shall have any right of inspecting any accounts, books or documents of the Company except as conferred by the statute or authorised by the Directors or by a resolution of the Company in General Meeting. |
| 147. Statement of accounts to be furnished to general meeting | The Board of directors shall lay before each Annual General Meeting a duly authenticated Balance Sheet and Profit and Loss Account along with its report made up in accordance with the provisions of Article 150. |
| 148. Authentication of Balance Sheet and Profit and Loss Account | 1. Save as provided by clause (2) every Balance Sheet and every Profit and Loss Account of the Company shall be signed on behalf of the Board of Directors by its Secretary, if any, and by not less than two Directors of the Company, one of who shall be the Managing Director, if there is or are any. |

2. The Balance Sheet and the Profit and Loss Account shall be approved by the Board of Directors before they are signed on behalf of the Board in Accordance with the provision of this Article and before they are submitted to Auditors for their report thereon.
149. Profit and Loss Account to be annexed Auditors reports to be attached to the Balance Sheet The Profit and Loss Account shall be annexed to the Balance Sheet and Auditor's Report (including the Auditor's separate, special or supplementary report, if any) shall be attached thereto.
150. Board's report to be attached to Balance Sheet Every Balance sheet laid before the Company in Annual General Meeting shall, have attached to it a Report by the Board of Directors in accordance with the provisions of Section 217 of the Act.
151. Accounts when audited and approved to be conclusive Every Balance sheet and Profit and Loss Account of the Company when audited and adopted by an Annual General Meeting shall be conclusive.

AUDIT

152. Accounts to be audited Every Balance Sheet and Profit and Loss Account shall be audited by one or more auditors to be appointed as hereinafter mentioned.
153. Audit
- a. Once at least in very year, the accounts of the Company shall be examined and the correctness of the profit and loss account and balance sheet ascertained by the auditor or auditors of the Company.
- Appointment and remuneration of b. The Company at each annual general meeting shall appoint an auditor or auditors to hold office until the conclusion of the next annual general meeting and their appointment remuneration rights and duties shall be regulated by Sections 224 to 227 of the Act.
- Audit of the account of branch of the Company c. Where the Company has a branch office the Provision of Section 228 of the Act shall apply.
- Right of auditors to attend general meeting d. All notices or there other communications relating to any General Meeting of the Company which any member of the Company is entitled to have sent to him shall also be forwarded to the auditors of the Company and the auditors shall be entitled to attend any General Meeting and to be heard at any general meeting which they attend on any part of the business which concerns them as auditors.
- e. The Auditor's report shall be read before the Company in Annual General Meeting and shall be open to inspection by any member of the Company.

DOCUMENTS AND SERVICE OF DOCUMENTS

154. How documents to be sent to members A document (which expression of this purpose shall be deemed to include and shall include any summon, notice, requisition, to or in the winding up of the Company) may be served or sent by the Company on or to any member in the manner prescribed by section 53 of the Act.

155. Persons becoming entitled of shares bounds by documents served to previous person Every person, who by operation of law, transfer or by other means whatsoever, shall become entitled to any share, shall be bound by every document in respect of such shares which, previously to his name and address being entered on the register shall have been duly served on or sent to the person from whom he derives his title to share.
156. Notice on Company All notices to be given on the part of members shall be left at or sent by registered post or under certificate of posting to the registered office of the Company.
157. Any notice to be given by the company shall be signed by such director or secretary or officer as the board may appoint the signature or any notice to be given by the company may be written or printed or lithographed or be affixed by any other mechanical means.

AUTHENTICATION OF DOCUMENTS

158. Authentication of documents and proceedings save as otherwise expressly provided in the act or these articles, a document or proceeding requiring authentication by the company may be signed by a director, or secretary or an authorised officer of the company and need not be under its seal.
159. Reconstruction On any sale of the undertaking of the Company the Directors or Liquidator on a winding up may, if authorised by a special resolution, accept fully paid or partly, paid up shares, debentures or securities of any other Company, whether incorporated in India or not, either then existing or to be formed for the purchase in whole or in part of the property of the Company. The liquidates (in winding up) may distribute such shares or securities, or any other property of the Company amongst the contributories without realisation or vest the same in trustees for them and may if authorised by Special Resolution provide for the distribution or appropriation of the Cash, shares, or other securities benefits or property otherwise than in accordance with the strict legal rights of the contribution of the Company, and for the valuation of any of such securities or property at such price and in such manner as the meeting may approve, and the contributories shall be bound to accept and shall be bound by any valuation or distribution so authorised and waive all rights in relation thereto, save such statutory rights (if any) under the Act as are incapable of being varied or excluded by these presents.

WINDING UP

160. Distribution of assets If the Company shall be wound up, and the assets available for distribution among the members as such shall be insufficient to repay the whole of the paid up capital such assets be distributed so that as nearly as may be the losses shall be by the members in proportion to the capital paid up, or which ought to have been paid up (other than the amount of calls paid in advance), at the commencement of the winding up, on the shares held by them respectively and if in a winding up the assets available for distribution among the members shall be more than sufficient to repay the whole of whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members in proportion to the capital at the commencement of the winding up, or which ought to have been paid on the shares held by them respectively. But this article is to be without prejudice to the rights of the holders of shares issued upon special terms and conditions:
161. Distribution in specie and kind
1. If the Company shall be wound up, the liquidator may, with the sanction of a Special Resolution of the Company and any other sanction required by the Act, divide amongst the members, inspecie or kind, the whole or any part of the assets of the Company, whether it shall consist of property, of the same kind or not.

2. For the purpose aforesaid, the Liquidator may set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes or members.
3. The Liquidator may with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefits of the contributors as the Liquidator, with the like sanction, thinks fit, but so that no member shall be compelled to accept any shares, or other securities whereon there is any liability.

162 Secrecy Clause

The Members shall not be entitled do visit or inspect the Company's works without the permission of the Board or Manager or Secretary or to require discovery of or any information respecting any detail of the Company's trading or any matter which is or may be in the nature of a trade secret, mystery of trade or secret process' which may relate to the conduct of the business of the Company and which in the opinion of the Board, it will be inexpedient in the interest of the Company to communicate to the public.

INDEMNITY AND RESPONSIBILITY

163 Director and other officers right or indemnity

- a. Subject to the provisions of Section 210 of the Act, every Director, Secretary and other officer or employee of the Company shall be indemnified by the Company against and it shall be the duty of directors to pay out of the Company all costs, losses and expenses (including travelling expenses) which any such director, secretary or officer or employee may incur or become liable to be reason of any contract entered into or act or deed done by him as such director, secretary or officer or employee or in any way in the discharge of duties.
- b. Subject to as aforesaid every director, secretary or other officer or employee of the Company shall be indemnified against any liability incurred by them in defending any proceeding whether civil or criminal in which judgment is given in their or his favour or in which he is acquitted or in connection with any application under Section 633 of the Act, in which relief is given to him by the court.

164 Directors and Officers not responsible for act of others

Subject to the provisions of Section 201 of the Act, no Director other officer of the Company shall be liable for the acts, receipts, neglects, or defaults of any Director or officers or for joining in any receipt or other act of conformity or for any loss or expenses happening to the Company through insufficiency or deficiency of title of any property acquired by order of the Directors for or on behalf of the Company or for insufficiency or deficiency of any security in or upon which any of the moneys of the company shall be invested or for any loss or damage arising form the bankruptcy, insolvency or tortuous acts of any person company body corporate or corporation with whom any money securities or effect shall be entrusted or deposited, or for any other loss or damage or misfortune whatsoever which shall happen in the execution of the duties of his office or in relation thereto unless the same happens through his willful misconduct or neglect or dishonesty.

We the several persons whose names, addresses and description are subscribed hereto are desirous of being formed into a company in pursuance of the Articles of Association and we respectively agree to take the number of shares in the Capital of the Company set opposite to our respective names.

S. No.	Name, Addresses, Descriptions and occupations of the subscribers	Signature of Subscribers	Name, address, description occupation and signature of witness.
1.	Dr. KALLAM ANJI REDDY S/o. Venkata Reddy 6/3/347/6, Dwarakapuri Colony, Hyderabad — 500 004. Occ: Industrialist	Sd/-	
2.	KALLAM SAMRAJYAM W/o. Anji Reddy 6/3/347/6, Dwarakapuri Colony, Hyderabad — 500 004. Occ: Housewife	Sd/-	G.S.S. SRINIVAS Chartered Accountant S/o. Sri. G. Balakrishna Rao 5-2-422, Hyderbasti, R.P Road, Secunderabad.

Place: Hyderabad

Date: 4th February 1984.



IN THE HIGH COURT OF JUDICATURE, ANDHRA PRADESH
AT HYDERABAD
(ORDINARY ORIGINAL/CIVIL JURISDICTION)

MONDAY, THE NINETEENTH DAY OF JULY
TWO THOUSAND AND TEN

PRESENT
THE HON'BLE SRI JUSTICE G.V. SEETHAPATHY

COMPANY PETITON NO.102 of 2010
Connected with
COMPANY APPLICATION NO: 286 OF 2010

IN THE MATTER OF THE COMPANIES ACT (1 of 1956)
AND
IN THE MATTER OF Section 391 and 394 of the Companies Act, 1956
And
IN THE MATTER OF DR. REDDY'S LABORATORIES LIMITED;
AND
IN THE MATTER OF SCHEME OF ARRANGEMENT

BETWEEN
DR. REDDY'S LABORATORIES LIMITED AND ITS MEMBERS

Dr. Reddy's Laboratories Limited, a Company incorporated under the Companies Act, 1956, and having its Registered office at 7-1-27, Ameerpet, Hyderabad, Andhra Pradesh- 500016 rep by its Company Secretary Sri V.S. Suresh

..... PETITIONER COMPANY

Petition under Section to sanction the Scheme of Arrangement under section 391 and 394 of the Companies Act, 1956, of the Original Side Rules, Praying that this Hon'ble Court may be pleased to Order that

The Petitioner Company therefore prays for:-

- a. that the scheme of arrangement as approved by the shareholders of the petitioner company, a copy of which is filed hereto as Annexure-"D", be sanctioned and confirmed by this Hon'ble High Court so as to be binding on all the members, creditors and employees of the Petitioner Company and all concerned.
- b. For an order under section 394 of the Act that the petitioner Company do within 30 days after the date of the orders, cause a certified copy to be delivered to the Registrar of Companies, Andhra Pradesh, Hyderabad, for registration on such certified copy being delivered or such date as this Hon'ble High Court may deem, fit the Registrar of Companies, Andhra Pradesh, Hyderabad shall take all necessary consequential action in respect of the Petitioner company.
- c. That the parties of the Scheme or other persons interested shall be at liberty to apply to this Hon'ble Court for any direction that may be necessary in regard to the carrying out of the Scheme of arrangement and

This Petition coming on for orders upon reading the Judge's Summons and the affidavit dated 02/06/2010 and filed by Sri.V.S. Suresh, Company Secretary, in support of this and upon hearing the arguments of Sri. V.S. Raju, Advocate for the Petitioner and Sri.Ponnam Ashok Goud, Assistant Solicitor General, for the Central Government in this matter.

The Court made the following Order:-



HON'BLE SRI JUSTICE G.V. SEETHAPATHY

C.P.No. 102 OF 2010

ORDER:

This petition is filed under Sections 391 and 394 of the Companies Act, 1956 praying that the scheme of arrangement as proposed by the shareholders of the company be sanctioned and confirmed by the Court.

2. Heard the leaned counsel for the petitioner company and the learned Assistant Solicitor General, representing the Regional Director, Ministry of Corporate Affairs, Chennai and Registrar of Companies, Hyderabad. Perused the records.

3. The petitioner company was originally incorporated under the name and style of 'Dr. Reddy's Laboratories Private Limited' on 24-02-1984. Subsequently, it was converted into a public limited company and a fresh certificate of incorporation was obtained on 06-12-1985 and consequently the name was also changed to 'Dr.Reddy's Laboratories Limited.' The registered office of the company is situate at Ameerpet, Hyderabad. The present authorized share capital of the company is Rs.120 crores, divided into 24 crores equity shares of Rs.5/- each. The issued capital is Rs.84,42,27,925/-, divided into 16,88,45,585 equity shares of Rs.5/- each. The present subscribed and paid up capital of the company is Rs.84,42,26,925/-, divided into 16,88,45,385 equity shares of Rs.5/- each.



4. The petitioner company is presently engaged in the business of formulations, active pharmaceutical ingredients and intermediate generics biotechnology, customer pharmaceutical services etc.

5. The objects of the petitioner company, in detail, are set out in the memorandum of association and they are extracted in the petition.

6. The petitioner company proposed a scheme of arrangement to restructure its general reserve by issuing unsecured, redeemable, unconvertible, fully paid up bonus debentures to its members. According to the petitioner, the company has built up significant reserves from its retained profits by transfer to its general reserve and the capital represented by its general reserve is in excess of the company's current and anticipated operational needs. The petitioner company expects that its business operations will continue on a high trajectory and generate incremental cash over the next few years. While the excess reserves can be profitably utilized for the petitioner company's overall growth strategy, the company believes that even after considering the foreseeable investments required for such opportunities over the next few years, its reserves as aforesaid will be in surplus to its needs. As the petitioner company has recently completed 25 years and is also keen to reward its members for their support and belief, the petitioner company, therefore,



intends to optimally utilize its surplus reserves by giving its members access to the same. The board of directors of the company at its meeting held on 31-03-2010 approved the scheme of arrangement, subject to approval by the members of the company and confirmation by this Court. Earlier, the petitioner company filed C.A.No. 286 of 2010 seeking appointment of Chairperson to convene the meeting of the shareholders of the petitioner company for the purpose of considering the proposed scheme of arrangement. This Court by order dated 21-04-2010 appointed Sri S.V. Ramana, Advocate as Chairperson. The learned Chairperson convened and conducted the said meeting of the shareholders and filed his report, wherein it is stated that the shareholders, who attended the meeting, voted in favour of the proposed scheme of arrangement. The said application was accordingly closed.

7. While admitting this petition on 09-06-2010, notice was issued to the Regional Director, Ministry of Corporate Affairs, Chennai and Registrar of Companies, A.P., Hyderabad. The petitioner was also directed to take publication in 'Andhra Prabha' Telugu daily and 'Business Standard' English daily of Hyderabad editions. The learned Assistant Solicitor General representing the Registrar of Companies filed a common affidavit stating no objection for the proposed scheme of arrangement. No objections were also received from any quarter in response to the general notice published in the above newspapers. The secured and unsecured creditors have also stated no objection for the proposed scheme of arrangement and the certificates of no objection from the creditors were also filed.



8. The salient features of the scheme of arrangement, as set out in the scheme enclosed to the petition as Annexure 'D', were also extracted in the petition. The verified petition is supported by an affidavit furnished by Sri V.S. Suresh, Company Secretary of the petitioner company.

9. In the circumstances set out in the petition and having considered the proposed scheme of arrangement and its objectives and the board of directors and the shareholders in their respective meetings having approved the same, the secured and unsecured creditors expressing no objection for the scheme and no objections having been received from any quarter and the Registrar of Companies also stating no objection for the scheme, it is considered and held that the proposed scheme of arrangement, envisaging restructuring of the general reserve by issuing unsecured, redeemable, non-convertible, fully paid up bonus debentures to its members, can be sanctioned and is accordingly sanctioned.

10. The petitioner company shall, within 30 days of receipt of a copy of this order, deliver the same to the Registrar of Companies. A.P., Hyderabad, for registration and consequential action.



11. In the result, the company petition is ordered accordingly. There shall be no order as to costs.

SD/-C.VIDYADHAR BHATT
JOINT REGISTRAR

//TRUE COPY//

SECTION OFFICER

To

1. Sri.V.S. Suresh, Company Secretary, Dr. Reddy's Laboratories Limited, Registered Officer at 7-1-27, Ameerpet, Hyderabad A.P. Hyderabad 500 016.
2. The Regional Director, Ministry of Corporate Affairs, Shastri Bhavan, Chennai.
3. The Registrar of Companies, 3-5-398, C.P.W.D.Building, Kendriya Sadan, Sultan Bazar, Koti, Hyderabad.
4. The Official Liquidator, Kendriya Sadan, 3-5-398, C.P.W.D.Building, Sultan Bazar, Koti, Hyderabad.
5. One Copy to Sri.V.S. Raju, Advocate, (OPUC)
6. Two CD Copies
7. One CC to Sri. Ponnam Ashok Goud, Advocate(OPUC)

Kj.


SUPERINTENDENT
COPYIST DEPARTMENT
High Court of A. P.
HYDERABAD



HIGH COURT

Dated: 19/07/2010

ORDER

COMPANY PETITION NO. 102/2010

Connected with

CA No.286 of 2010

Ordering the Company Petition without costs.



THE HIGH COURT OF ANDHRA PRADESH HYDERABAD.	
Ct No. 398	of 2010
Application made	19-7-2010
Application returned	2010
Application returned	2010
Application returned	2010
Stamp duty paid	5-8-2010
Stamp duty paid	9-8-2010
Adf. Stamps called for	2010
Adf. Stamps deposited	2010
Copy ready	9-8-2010

[Signature]
Section Officer.



IN THE HIGH COURT OF JUDICATURE, ANDHRA PRADESH
AT HYDERABAD
(ORDINARY ORIGINAL/CIVIL JURISDICTION)

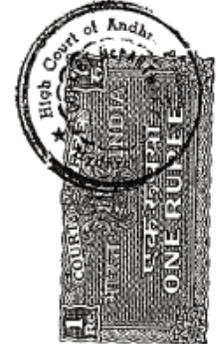
MONDAY, THE NINETEENTH DAY OF JULY
TWO THOUSAND AND TEN

PRESENT
THE HON'BLE SRI JUSTICE G.V. SEETHAPATHY

COMPANY PETITION NO. 102 of 2010
Connected with
COMPANY APPLICATION NO: 286 OF 2010

IN THE MATTER OF THE COMPANIES ACT (1 of 1956)
AND
IN THE MATTER OF Section 391 and 394 of the Companies Act, 1956
And
IN THE MATTER OF DR. REDDY'S LABORATORIES LIMITED;
AND
IN THE MATTER OF SCHEME OF ARRANGEMENT

BETWEEN
DR. REDDY'S LABORATORIES LIMITED AND ITS MEMBERS



Dr. Reddy's Laboratories Limited, a Company incorporated under the Companies Act, 1956, and having its Registered office at 7-1-27, Ameerpet, Hyderabad, Andhra Pradesh- 500016 rep by its Company Secretary Sri V.S. Suresh

..... PETITIONER COMPANY

Petition under Section to sanction the Scheme of Arrangement under section 391 and 394 of the Companies Act, 1956, of the Original Side Rules, Praying that this Hon'ble Court may be pleased to Order that

The Petitioner Company therefore prays for:-

- that the scheme of arrangement as approved by the shareholders of the petitioner company, a copy of which is filed hereto as Annexure-"D", be sanctioned and confirmed by this Hon'ble High Court so as to be binding on all the members, creditors and employees of the Petitioner Company and all concerned.
- For an order under section 394 of the Act that the petitioner Company do within 30 days after the date of the orders, cause a certified copy to be delivered to the Registrar of Companies, Andhra Pradesh, Hyderabad, for registration on such certified copy being delivered or such date as this Hon'ble High Court may deem, fit the Registrar of Companies, Andhra Pradesh, Hyderabad shall take all necessary consequential action in respect of the Petitioner company.
- That the parties of the Scheme or other persons interested shall be at liberty to apply to this Hon'ble Court for any direction that may be necessary in regard to the carrying out of the Scheme of arrangement and

This Petition coming on for orders upon reading the Judge's Summons and the affidavit dated 02/06/2010 and filed by Sri.V.S. Suresh, Company Secretary, in support of this and upon hearing the argument of Sri. V.S. Raju, Advocate for the Petitioner and Sri. Ponnam Ashok Goud, Assistant Solicitor General, for the Central Government in this matter.



Order Under Section 394

Upon the above petition coming on for further hearing on 19-07-2010 Upon reading etc., and Upon hearing, etc

THIS COURT DOETH ORDER

1. That this court doth hereby sanction the scheme of arrangement as approved by the shareholders of the Petitioner Company a copy is filed hereto as Annexure 'D' be and hereby is sanctioned and confirmed and doth hereby declare the same to be binding on all the members creditors and employees of the petitioner company and all concerned the Petitioner Company Viz., Dr. Reddy's Laboratories Limited and its Members, and that the Scheme of Arrangement envisaging restructuring of the general reserve by issuing unsecured, redeemable, non-convertible, fully paid up bonus debentures to its members be and hereby is sanctioned
2. That all the property, rights and powers of the Petitioner Company specified in the first, second and third parts of the schedule hereto and all other property, rights and powers of the Petitioner Company and its members for issue of unsecured redeemable non-convertible fully paid bonus debentures from general reserve and accordingly the same shall pursuant to section 394(2) of the companies Act, 1956,
3. That the Petitioner Company do without further application issue to such members of the Petitioner Company as have not given such notice of dissent as is required by clause 21 of the arrangement herein the debentures to its members Company to which they are entitled under the said arrangement.
4. That the Petitioner Company do within 30 days receipt of a copy of this Order cause a certified copy of this order to be delivered to the Registrar of Companies for registration; and consequential action
5. That any person interested shall be at liberty to apply to the court in the above matter for any directions that may be necessary

SCHEDULE PART — I NIL

(Insert a short description of the freehold property of the transferor company)

PART — II NIL

(Insert a short description of the leasehold property of the transferor company)

PART — III NIL

(Insert a short description of all stocks, shares, debentures and other charges in action of the transferor company)



Dated this the 19TH Day of July, 2010.

(By the Court)

Note: (Scheme of Arrangement enclosed herewith)

SD/-C.VIDYADHAR BHATT
JOINT REGISTRAR

//TRUE COPY//

SECTION OFFICER

To

1. Sri.V.S. Suresh, Company Secretary, Dr. Reddy's Laboratories Limited, Registered Officer at 7-1-27, Ameerpet, Hyderabad A.P., Hyderabad 500 016.
2. The Registrar of Companies, 3-5-398, C.P.W.D. Building, Kendriya Sadan, Sultan Bazar, Koti, Hyderabad.
3. The Official Liquidator, Kendriya Sadan, 3-5-398, C.P.W.D. Building, Sultan Bazar, Koti, Hyderabad.
4. One Copy to the Section Officer, O.S. Section, High Court of A.P., Hyderabad.
5. Two CD Copies
6. The Regional Director, Company Law Board, Southern Region, Chennai.

Kj.


SUPERINTENDENT
COPYIST DEPARTMENT
High Court of A. P.
HYDERABAD

HIGH COURT

Dated: 19/07/2010

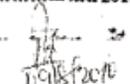
DECREE FOR SCHEME
OF ARRANGEMENT

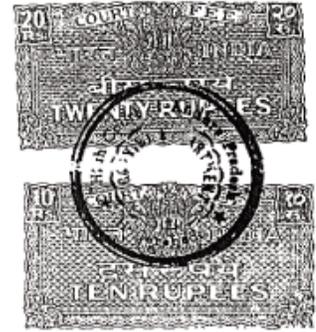
COMPANY PETITION NO. 102/2010

Connected with

CA No.286 of 2010

Ordering the Company Petition without costs.

THE HIGH COURT OF ANDHRA PRADESH	
HYDERABAD.	
Ct No. 358	of 2010
Application made on 19-7-2010	2010
Application returned	2010
Application allowed	2010
Stamps called for 5-8	2010
Stamps deposited 9-8	2010
Adl. Stamps called for	2010
Adl. Stamps deposited	2010
Copy ready 9-8	2010
 Section Officer.	



**SCHEME OF ARRANGEMENT
BETWEEN
DR. REDDY'S LABORATORIES LIMITED
AND
ITS MEMBERS**

**FOR ISSUE OF UNSECURED REDEEMABLE NON-CONVERTIBLE FULLY
PAID BONUS DEBENTURES FROM GENERAL RESERVE**

PART I — GENERAL

1. INTRODUCTION

- 1.1 Dr. Reddy's Laboratories Limited is a public limited company incorporated under the Act (as defined hereinafter) and having its registered office at 7-1-27, Ameerpet, Hyderabad, Andhra Pradesh — 500 016 (the "**Company**"). The Company is primarily engaged in the business of manufacture and sale of chemicals, drugs, pharmaceuticals and other intermediaries.
- 1.2 Over the last few years, the Company has built up significant reserves from its retained profits by transfer to its General Reserve. The capital represented by its General Reserve is in excess of the Company's current and anticipated operational needs. Further, barring unforeseen circumstances, the Company expects that its business operations will continue on a high growth trajectory and generate incremental cash over the next few years.
- 1.3 While the excess reserves can be profitably utilized for the Company's overall growth strategy, the Company believes that even after considering the foreseeable investments required for such opportunities over the next few years, its reserves as aforesaid will be in surplus to its needs. The Company also has significant debt raising capacity.
- 1.4 Separately, the Company has recently completed 25 years and is keen to reward its members for their support and belief.
- 1.5 In view of the aforesaid factors, the Company has concluded that it can optimally utilize its surplus reserves by giving its members access to the same. Accordingly, the Company has proposed to restructure its General Reserve by issuing Debentures (as defined below in Clause 2.1) to its members. In the interests of transparency and good corporate governance and by way of abundant caution, the Company has determined to propose this scheme of arrangement between the Company and its Members under Sections 391-394 of the Act, which will be subject to necessary approvals of the shareholders and the High Court (as defined hereinafter).

For Dr. REDDY'S LABORATORIES LTD.

/s/ V S Suresh

V S SURESH
COMPANY SECRETARY



- 1.6 Accordingly, this Scheme provides for the issue of the Debentures to the Members by restructuring the General Reserves of the Company pursuant to Sections 391 to 394 and other relevant provisions of the Act, and various other matters consequential to or otherwise integrally connected with the above in the manner provided for in the Scheme.
- 1.7 The Scheme is divided into the following parts:
- (a) **Part I**, which deals with the introduction and definitions;
 - (b) **Part II**, which deals with the issuance of the Debentures; and
 - (c) **Part III**, which deals with the general terms and conditions.

2. DEFINITIONS AND INTERPRETATION

- 2.1 In this Scheme, unless inconsistent with the subject or context, the following expressions shall have the following meanings:

“**Act**” means the Companies Act, 1956.

“**ADRs**” means the outstanding American Depositary Receipts issued by the Company pursuant to the “Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depositary Receipt Mechanism) Scheme, 1993” and other applicable law, and where relevant shall include the underlying equity shares relating thereto.

“**Board**” means the board of directors of the Company and shall include a committee duly constituted and authorised by the board of directors for the purposes of matters pertaining to the bonus issuance, the Scheme and/or any other matter relating thereto.

“**Capital Reserves**” means and includes the capital reserve and the securities premium account as reflected in the accounts of the Company.

“**Debentures**” means unsecured redeemable, non-convertible, fully paid up bonus debentures of the Company of face value of Rs. 5/- (Rupees Five Only) each proposed to be issued pursuant to the present Scheme, the principal terms and conditions for which have been set out in **Annexure I** to this Scheme.

For Dr. REDDY'S LABORATORIES LTD.

/s/ V S Suresh

V S SURESH

COMPANY SECRETARY



“**Depository Agreement**” means the Deposit Agreement dated April 10, 2001 between the Company, the Depository and the holders of the ADRs.

“**Depository**” means JP Morgan Chase Bank, N.A..

“**Effective Date**” means the last of the dates on which all the conditions and matters referred to in Clause 11 of this Scheme occur or have been fulfilled or waived in accordance with this Scheme. References in this Scheme to date of ‘coming into effect of the Scheme’ or ‘effectiveness of the Scheme’ shall mean the Effective Date.

“**General Reserve**” means the general reserve of the Company which has been built through retained undistributed profits and which forms a part of the revenue reserves of the Company, as reflected in the accounts of the Company.

“**High Court**” shall mean the High Court of Andhra Pradesh having jurisdiction in relation to the Company and shall include the National Company Law Tribunal, as applicable or such other forum or authority as may be vested with any of the powers of a High Court under the Act.

“**Member (s)**” means the equity shareholder (s) of the Company as on the Record Date.

“**Record Date**” means the date to be fixed by the Board for the purpose of determining the equity shareholders of the Company to whom the Debentures will be allotted pursuant to this Scheme.

“**Registrar of Companies**” means the Registrar of Companies, Andhra Pradesh.

“**Scheme**” means this Scheme of Arrangement, including the annexures, in its present form or with any modification (s) approved or imposed or directed by the High Court or any other authority or otherwise effected by the Board.

“**Stock Option Scheme 2002**” means the Dr. Reddy’s Employees Stock Option Scheme, 2002.

“**Stock Option Scheme 2007**” means the Dr. Reddy’s Employees ADR Stock Option Scheme, 2007.

“**Working Day**” means a day on which commercial banks are open for business in Mumbai, India, Hyderabad, India and New York, New York.

For Dr. REDDY’S LABORATORIES LTD.

/s/ V S Suresh

V S SURESH

COMPANY SECRETARY



- 2.2 All terms and words used but not defined in this Scheme shall, unless repugnant or contrary to the context or meaning thereof, have the same meaning ascribed to them under the Act, the Securities Contracts (Regulation) Act, 1956, the Depositories Act, 1996 and other applicable laws, rules, regulations, bye-laws, as the case may be or any statutory modification or re-enactment thereof for the time being in force.
- 2.3 References to clauses, recitals and annexures, unless otherwise provided, are to clauses, recitals and annexures of and to this Scheme.
- 2.4 The headings herein shall not affect the construction of this Scheme.
- 2.5 The singular shall include the plural and vice versa; and references to one gender include all genders.
- 2.6 Any phrase introduced by the terms “including”, “include”, “in particular” or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms.
- 2.7 References to person include any individual, firm, body corporate (whether or not incorporated), government, state or agency of a state or any joint venture, association and partnership.
- 2.8 The Annexures to this Scheme form an integral and inseparable part of this Scheme.

3. SHARE CAPITAL AND GENERAL RESERVE

3.1 The share capital structure of the Company as on December 31, 2009 is as under:

A. Authorised Share Capital	Amount in Rs.
24,00,00,000 equity shares of Rs. 5/- (Rupees Five Only) each	1,20,00,00,000/-
Total	1,20,00,00,000/-
B. Issued Share Capital	Amount in Rs.
16,88,25,235 equity shares of Rs. 5/- (Rupees Five Only) each *	84,41,26,175/-
Total	84,41,26,175/-
C. Subscribed & Paid-up Share Capital	Amount in Rs.
16,88,25,035 equity shares of Rs. 5/- (Rupees Five Only) each fully paid up*#	84,41,25,175/-
Total	84,41,25,175/-

For Dr. REDDY'S LABORATORIES LTD.

/s/ V S Suresh
V S SURESH
COMPANY SECRETARY



- * As on December 31, 2009, includes 2,49,43,067 equity shares of Rs. 5/- (Rupees Five Only) represented by 2,49,43,067 ADRs issued by the Company. The ADRs of the Company are listed on the New York Stock Exchange.
- # 200 equity shares of the face value of Rs. 5/- (Rupees Five Only) each have been forfeited by the Company for non-payment of calls.

The Company has outstanding employee stock options under the Stock Option Scheme, 2002 and the Stock Option Scheme, 2007, the exercise of which may result in an increase in the issued and paid-up share capital of the Company on or prior to the Record Date.

- 3.2 The General Reserve of the Company as per the audited balance sheet of the Company on March 31, 2009 stood at Rs. 13,17,30,00,000/- (Rupees One Thousand Three Hundred Seventeen Crores Thirty Lakhs Only).

PART II — ISSUANCE OF BONUS DEBENTURES

4. Issue of Debentures From General Reserve

- 4.1 The provisions of this Clause 4 of this Scheme shall operate notwithstanding anything to the contrary in this Scheme or in any other instrument, deed or writing.
- 4.2 Upon the effectiveness of the Scheme, the Company shall issue and allot out of its General Reserve by way of distribution as bonus, to each Member whose name is recorded in the Register of Members and records of the depository as Members of the Company on the Record Date, Debentures in the ratio of 6 Debentures of face value Rs. 5/- (Rupees Five Only) each fully paid up in the Company for every equity share of Rs. 5/- (Rupees Five Only) each fully paid up held by such Member in the manner hereafter provided. The process for issuance of Debentures will be as set out in Clause 6 hereunder.
- 4.3 The issuance of Debentures pursuant to this Scheme above will constitute “Deemed Dividend” as defined in Section 2(22)(b) of the Income Tax Act, 1961 and consequently the Company will be required to pay Dividend Distribution Tax (DDT) at the applicable rate on the aggregate value of Debentures allotted to Members as bonus Debentures. However, such issue of Debentures in the manner contemplated herein will not entail declaration or distribution of any dividend for the purposes of Sections 205 and 205A of the Act.

For Dr. REDDY'S LABORATORIES LTD.

/s/ V S Suresh

V S SURESH

COMPANY SECRETARY



4.4 No Debentures will be issued under this Scheme in respect of any equity shares of the Company that have been forfeited. The issuance of Debentures pursuant to this Scheme in respect of any equity shares of the Company which are held in abeyance under the provisions of Section 206A of the Act or otherwise shall pending allotment or settlement of dispute by order of Court or otherwise, be held in abeyance by the Company.

5. TERMS AND CONDITIONS OF THE DEBENTURES

5.1 The Debentures shall be issued on terms and conditions consistent with the principal terms and conditions set out in **Annexure I** and as set out in the Scheme. The Board shall appoint a debenture trustee ("**Debenture Trustee**") who will be authorised to formalise with the Company detailed terms and conditions for issue of Debentures.

5.2 As soon as practicable after the issuance of the Debentures, the Company shall take necessary steps towards listing the Debentures on the Bombay Stock Exchange and/ or the National Stock Exchange, with a view to provide liquidity to the Debenture holders. The Debentures will not be registered in any jurisdiction or listed on any stock exchange outside India.

6. PROCESS FOR ISSUANCE OF DEBENTURES AND LIQUIDITY FACILITY

6.1 The Debentures shall be issued within a period of 20 Working Days from the Record Date to the Members eligible to receive the same, in the following manner:

- (i) The Company will deliver an amount of not less than Rs. 506,00,00,000/- (Rupees Five Hundred and Six Crores Only) but not exceeding Rs. 520,00,00,000/- (Rupees Five Hundred and Twenty Crores Only), being equal to the aggregate value of the Debentures required to be issued in terms of the Scheme, to a merchant banker to be appointed by the Board ("**Merchant Banker**") to act on behalf of and as agent and trustee of the members. The Merchant Banker shall receive the aforesaid amount, subject to receipt of necessary regulatory approvals, in an on-shore escrow account opened by it with a scheduled commercial bank in India to be determined by and upon terms and conditions acceptable to the Board, for this purpose (the "**Escrow Account**"). The Merchant Banker shall receive the aforesaid amounts in the Escrow Account for and on behalf of and in trust for the Members entitled to the Debentures, as deemed dividend within the meaning of the term under Section 2 (22) (b) of the Income Tax Act, 1961. The said payment to the Merchant Banker shall constitute a valid and proper discharge of the Company's obligation to make payment hereunder to each Member entitled to such Debentures in terms of the Scheme.

For Dr. REDDY'S LABORATORIES LTD.

/s/ V S Suresh

V S SURESH

COMPANY SECRETARY



- (ii) The Merchant Banker shall immediately following receipt of funds pursuant to the above, pay to the Company (without any lien, hold-back or deduction whatsoever), for and on behalf of and as trustee of the Members entitled to Debentures, out of the Escrow Account, as and by way of subscription for allotment of requisite number of Debentures. The said payment for and on behalf of the Members by the Merchant Banker shall be deemed to be a payment by the Members entitled to the Debentures under this Scheme towards the cost of acquisition of the Debentures under the Scheme. Thus, the cost of acquisition of each Debenture at the hands of the Members shall be deemed to be its face value, i.e. Rs. 5/- (Rupees Five Only) each.
- (iii) Upon receipt by the Company of the payment from the Merchant Banker for and on behalf of the Members towards subscription of Debentures of the Company, the Company shall proceed to issue and allot to the Members as on the Record Date, the appropriate number of Debentures to which the concerned Member may be entitled by virtue of his/ her/ its holding in the Company on the Record Date in the ratio stipulated in Clause 4.2 above.

The Debentures issued to the Members pursuant to this Scheme shall be issued in dematerialized form to the Members who are recorded as holding equity shares of the Company in dematerialized form, or from whom the Company has received a notice in writing prior to the Record Date of details of their account with a depository participant and who have provided details thereof and such other confirmations as may be required, by direct credit to the account of such Member. For all other Members or in the event that the Company is unable to credit the demat accounts of the aforesaid Members, the Company shall issue Debentures in physical form to such Member. No letter of allotment would be issued for the Debentures.

- 6.2 With a view to providing additional liquidity, the Company intends to identify a merchant banker (“**Liquidity Facility Provider**”) to provide a liquidity facility to all Debenture holders to, at their option, tender their Debentures for sale (on a spot delivery basis) to the Liquidity Facility Provider at a price to be offered by the Liquidity Facility Provider. The price to be offered by the Liquidity Facility Provider will depend on a number of factors, including the coupon rate of the Debentures, the prevailing market conditions and investor demand for the Debentures at that time. The detailed terms and process for the Liquidity Facility will be formulated by the Liquidity Facility Provider in consultation with the Company, and intimated to the Members by the Liquidity Facility Provider.

For Dr. REDDY'S LABORATORIES LTD.

/s/ V S Suresh

V S SURESH

COMPANY SECRETARY



7. NON RESIDENT MEMBERS AND ADRs

- 7.1 The approval of the Reserve Bank of India (“**RBI**”) may be required under applicable law for issuance of Debentures to certain non-resident Members, including for the holding or transfer of Debentures by such Members and repatriation of sale proceeds, and in the case of the Depository, for distribution of the Debentures to the ADR holders. The Company shall apply to the RBI for the requisite approvals for issue and allotment of Debentures to such non-resident Members of the Company, and the issuance and allotment to such Members will be made subject to and in compliance with the terms and conditions as may be prescribed by the RBI.
- 7.2 The regulatory framework in India governing issuance of ADRs by an Indian Company does not permit the issuance of ADRs with any debt instrument (including non convertible rupee denominated debentures) as the underlying security. Therefore, the Depository cannot issue depository receipts (such as ADRs) against these Debentures under this Scheme. Accordingly, upon the coming into effect of this Scheme and subject to receipt of necessary approvals (as set out in 7.1 above), the Company shall issue an appropriate number of Debentures, in accordance with the ratio mentioned in Clause 4.2, to the Depository and the Depository will make best efforts to, and if so required for regulatory reasons shall, sell such Debentures (via private or public sale or through the Liquidity Facility) in accordance with the provisions of the Deposit Agreement.
- 7.3 To the extent the Depository is able to sell (via private or public sale or through the Liquidity Facility) the Debentures, subject to the provisions of the Deposit Agreement, the Depository shall convert the net proceeds from any such sale into U.S. dollars and distribute any such U.S. dollars, less any applicable taxes, fees and expenses incurred and/or provided for under the Deposit Agreement, to the registered holders of ADRs entitled thereto in the same manner as it would distribute cash under the Deposit Agreement.
- 7.4 The Company, the Liquidity Facility Provider and/or the Merchant Banker shall enter into such other agreements or arrangements and take such further actions as may be deemed necessary or appropriate by the Company, including, but not limited to, disseminating certain notices and intimations (including to relevant stock exchanges), press releases, certifications, and information containing details of the Scheme, the issuance of the Debentures, the Liquidity Facility and/or other information relating to the Company and the Debentures.

For Dr. REDDY’S LABORATORIES LTD.

/s/ V S Suresh

V S SURESH

COMPANY SECRETARY



8. EMPLOYEE STOCK OPTION SCHEMES

- 8.1 Pursuant to the Stock Option Scheme 2002, certain employees of the Company have been granted stock options at a price equivalent to (depending on the category of the option) the fair market value of the underlying equity shares on the date of grant or the par value of the underlying equity shares.
- 8.2 The existing exercise price for outstanding stock options granted at fair market value under the Stock Option Scheme 2002, may, upon effectiveness of the Scheme, at the discretion of the Compensation Committee be reduced by up to an amount of Rs. 30/- (Rupees Thirty Only) and consequently, any shares issued pursuant to exercise of such options shall not be entitled to receive the Debentures. For the avoidance of doubt it is clarified that no adjustment will be made to the purchase price of the stock options granted at par value under the Stock Option Scheme 2002. The consent of the Members to this Scheme shall be sufficient for the purposes of effecting such adjustment and shall be treated as their consent in relation to the aforesaid matters pertaining to the Stock Option Scheme 2002 (including without limitation for the purposes of effecting necessary modifications to the Stock Option Scheme 2002) and all related matters. No further approval of the Members would be required in this connection.

9. AMENDMENT TO ARTICLES OF ASSOCIATION

- 9.1 As an integral part of the Scheme, and, upon the coming into effect of the Scheme, Article 144(1) to Article 144(5) of the Articles of Association of the Company shall, without any further act or deed, be replaced by the following:

"1. Any General Meeting may resolve that any monies, investments or other assets forming part of the undivided profits (including profits or surplus monies arising from the realisation and where permitted by law, from the appreciation in value of any capital assets of the company) or any amount standing to the credit of the Share Premium Account or the Capital Redemption Reserve Account or the General Reserve or any other reserve or fund of the company or in the hands of the company and available for dividend may be capitalized. Any such amount (excepting the amount standing to the credit of the Share Premium Account and/ or the Capital Redemption Reserve Account) may be capitalized in either of the following ways, or partly in one way and partly in another:

a. by the issue and distribution as fully paid up shares, debentures, debenture stock or other securities or obligations of the Company; or

For Dr. REDDY'S LABORATORIES LTD.

/s/ V S Suresh

V S SURESH

COMPANY SECRETARY



b. by crediting the shares of the company which may have been issued and are not fully paid up, with the whole or any part of the sum, remaining unpaid thereon.

Provided that any amounts standing to the credit of the Share Premium Account may be applied in:

i. paying up unissued shares of the company to be issued to the members of the company as fully paid bonus shares

ii. in writing off the preliminary expenses of the company

iii. in writing off the expenses of, or the commission paid or discount allowed on any issue of shares or debentures of the company; or

iv. in providing for the premium payable on the redemption of any redeemable preference shares or debentures of the company.

Provided further that any amount standing to the credit of the Capital Redemption Reserve Account shall, for the purposes of this Article, be applied only in paying up unissued shares of the Company to be issued to the members of the Company as fully paid bonus shares.

2. Such issue and distribution under sub-clause (1)(a) above and such payment to the credit of unpaid share capital under sub-clause (1)(b) above shall be made to, amongst or in favour of the members entitled thereto and in accordance with their respective rights and interests and in proportion to the amount of capital paid up on the shares held by them respectively in respect of which such distribution under such-clause (1)(a) or payment under sub-clause (1)(b) above shall be made on the footing that such members become entitled thereto as capital.
3. The Directors shall give effect to any such resolution and apply such portion of the profit, General Reserve Fund or any other fund or account as aforesaid as may be required for the purpose of making payment in full for the shares, debentures or debenture stock, or other securities or obligations of the Company so distributed under sub-article (1)(a) above or (as the case may be) for the purpose of paying, in whole or in part, the amount remaining unpaid on the paid up capital under sub-article (1)(a) above provided that no such distribution or payment shall be made unless recommended by the Directors and if so recommended such distribution and payment shall be accepted by such members as aforesaid in full satisfaction of their interest in the capitalised sum.

For Dr. REDDY'S LABORATORIES LTD.

/s/ V S Suresh

V S SURESH

COMPANY SECRETARY



4. *For the purpose of giving effect to any such resolution the directors may settle any difficulty which may arise in regard to the distribution or payment as foresaid as they think expedient and in particular they may issue fractional certificates or coupons and fix the value for distribution of any specific assets and may determine that such payments be made to any members on the footing of the value so fixed and that fraction of less value than Rs. 1/- may be disregarded in order to adjust the right of all parties and may vest any such cash, shares, fractional certificates or coupons, debentures, debenture-stock, or other securities or obligations in trustee upon such trust for the persons entitled thereto as may seem expedient to the Directors and generally may make such arrangement for the acceptance, allotment and sale of such shares, debentures, debenture-stock, or other securities or obligations and fractional certificates or coupons or otherwise as they may think fit.*
5. *Subject to the provisions of the Act and these Articles in case where some of the shares of the Company are fully paid and others are partly paid only, such capitalisation may be effected by the distribution of further shares in respect of the fully paid shares, and/or by crediting the partly paid shares with the whole or part of the unpaid liability thereon but so that between the holders of the fully paid shares, and the partly paid shares the sum so applied in payment of such further shares and in the extinguishing or diminishing of the liability on the partly paid shares shall be applied prorata in proportion to the amount then already paid or credited as paid on the existing fully paid and partly paid shares respectively."*
- 9.2 It is hereby clarified that the consent of the shareholders to the Scheme shall be sufficient for the purposes of effecting the above amendment to the Articles of Association of the Company as set out in Clause 9.1 above as also for the issuance of the Debentures, and no further resolution under Section 31 or any other applicable provision of the Act in this regard, would be required to be separately passed in connection with the amendment to the Articles or the issuance of Debentures by the Company hereunder.

10. Accounting treatment in the books of the Company

- 10.1 The proposed restructuring of the General Reserve by issuance of Debentures pursuant to the Scheme shall be reflected in the books of account of the Company in the following manner.
- (a) an amount representing the aggregate face value of the Debentures shall be transferred from the General Reserve Account to the Shareholders Account (being the deemed dividend payable to the Members under the Scheme); and
- (b) an amount representing the aggregate face value of the Debentures shall be transferred from the Shareholders Account (represented by the Merchant Banker) to the Bank Account (being payment effected to the Members as deemed dividend under the Scheme).

For Dr. REDDY'S LABORATORIES LTD.

/s/ V S Suresh

V S SURESH

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- 10.2 The payment by the Company of the dividend distribution tax on the Debentures will be reflected in the books of account of the Company in the following manner:
- (a) an amount representing the dividend distribution tax payable on the issuance of the Debentures shall be transferred from the General Reserve Account to the Dividend Distribution Tax Account; and
 - (b) an amount representing the dividend distribution tax payable on the issuance of the Debentures shall be transferred from the Dividend Distribution Tax Account to the Central Government Account (being payment of dividend distribution tax on the Debentures).
- 10.3 Similarly, the proposed investment of the deemed dividend in Debentures of the Company for and on behalf of the Members by a payment through the Merchant Banker will be reflected in the books of account of the Company in the following manner:
- (a) an amount representing the aggregate face value of the Debentures shall be transferred from the Bank A/c to the Shareholders A/c (represented by the Merchant Banker), (being payment by the Merchant Banker for and on behalf of the Members towards reinvestment of deemed dividend); and
 - (b) an amount representing the aggregate face value of the Debentures shall be transferred from Shareholder A/c to Debentures A/c (being investment of the Members in Debentures under the Scheme).
- 10.4 For removal of doubts, it is expressly recorded and clarified that issue of Debentures constituting deemed dividend does not in any manner involve distribution of Capital Reserves or revenue reserves other than General Reserve and the Debentures shall be issued and shall be deemed to have been issued entirely out of the General Reserve of the Company exclusively built through undistributed/ retained profits of the Company, in the manner provided in the Scheme.
- 10.5 Post the issuance of the Debentures under this Scheme, the General Reserve of the Company will stand reduced by an amount equivalent to the aggregate value of the Debentures issued (up to Rs. 520,00,00,000/- (Rupees Five Hundred and Twenty Crores Only) and an amount equivalent to the dividend distribution tax payable by the Company on the Debentures, at the then applicable rate (on such value of debentures, as above). Costs, charges and expenses of this Scheme as referred to in Clause 19 shall also be adjusted by a corresponding transfer from the General Reserve.

For Dr. REDDY'S LABORATORIES LTD.

/s/ V S Suresh

V S SURESH

COMPANY SECRETARY



11. Scheme Conditional on Approvals/ Sanctions

The Scheme is conditional on and subject to:

- (a) the approval to the Scheme by the requisite majority of the Members of the Company as prescribed under law;
- (b) the sanction of the High Court being obtained;
- (c) the requisite approval of the Reserve Bank of India being obtained under the provisions of Foreign Exchange Management Act, 1999 and the regulations made thereunder;
- (d) any other sanction or approval, as may be required by law in respect of the Scheme being obtained; and
- (e) the certified copies of the High Court order referred to in this Scheme being filed with the Registrar of Companies, Hyderabad.

12. Effect Of Non Receipt of Approvals/ Sanctions

In the event of any of the aforesaid sanctions and approvals not being obtained and/ or the Scheme not being sanctioned by the High Court and/ or the Order or Orders not being passed as aforesaid on or before March 31, 2011 or within such extended period or periods as may be approved by the Board, the Scheme shall become null and void and in that event, no rights and liabilities shall accrue to or be incurred by the Company or its shareholders or any other person, and Company shall bear and pay the costs, charges and expenses for and/ or in connection with the Scheme.

PART III — GENERAL TERMS AND CONDITIONS

13. Dividends

13.1 Nothing contained herein shall be construed as restricting the Company from being entitled to declare and pay dividends, whether interim or final, to its shareholders whether during the pendency of the Scheme or otherwise and the holders of the shares of the Company shall, save as expressly provided otherwise in this Scheme, continue to enjoy their existing rights under their respective Articles of Association including the right to receive dividends.

For Dr. REDDY'S LABORATORIES LTD.

/s/ V S Suresh

V S SURESH

COMPANY SECRETARY



- 13.2 It is clarified that the aforesaid provisions in respect of declaration of dividends are enabling provisions only and shall not be deemed to confer any right on any member of the Company to demand or claim any dividends which, subject to the provisions of the said Act, shall be entirely at the discretion of the boards of directors of the Company and subject to the approval, if required, of the shareholders of the Company.
14. The Scheme is an arrangement between the Company and its Members under Section 391 of the Act and does not envisage transfer or vesting of any properties and/or liabilities to or in favour of a transferee company as contemplated in Section 394 of the Act. The Scheme does not involve any "conveyance" or "transfer" of any property and does not relate to amalgamation or merger of companies under the order of the High Court under section 394 of the Act, and consequently, the Order of the Hon'ble High Court approving the Scheme will not attract any stamp duty, under the Indian Stamp Act, 1899 (as applicable in the state of Andhra Pradesh).
15. The Scheme and issuance of Debentures hereunder is intended exclusively for the Members of the Company and does not constitute an offer or an invitation to the public to subscribe to the Debentures. Neither the Scheme nor any related document shall constitute an offer document or prospectus in any manner or for any purpose whatsoever.
- 16. APPLICATIONS TO HON'BLE HIGH COURT**

The Company shall make necessary applications before the High Court for the sanction of this Scheme under Sections 391 and 394 of the Act.

17. MODIFICATIONS/ AMENDMENTS TO THE SCHEME AND REMOVAL OF DIFFICULTIES

- (a) The Company (by its Board) may, in its full and absolute discretion, assent to any alteration or modification to this Scheme which the Board deems fit, or which the High Court and/or any other authority may deem fit to approve or impose.
- (b) The Company (by its Board) may give such directions as it may consider necessary to settle any question or difficulty arising under the Scheme or in regard to and of the meaning or interpretation of the Scheme or implementation hereof or in any matter whatsoever connected therewith (including any question or difficulty arising as a result of inadequacy of information provided by a Member or in connection with the issuance of Debentures or in connection with any deceased or insolvent shareholders, depositors or Debenture-holders of the Company), or to review the position relating to the satisfaction of various conditions to the Scheme and if necessary, to waive any of those (to the extent permissible under law) or that otherwise as may be considered to be in the best interest of the Company and its Members and do all acts, deeds and things as may be necessary, desirable or expedient for giving effect to the Scheme.

For Dr. REDDY'S LABORATORIES LTD.

/s/ V S Suresh

V S SURESH

COMPANY SECRETARY



- (c) In the event of there being any pending share transfers, whether lodged or outstanding, of any shareholder of the Company, the Board or any person authorized by the Board shall be empowered in appropriate cases, prior to or even subsequent to the Record Date, to effectuate such a transfer as if such changes in registered holder were operative as on the Record Date, in order to remove any difficulties arising to the transferor or transferee of the share in the Company and in relation to the issuance of the Debentures after the effectiveness of the Scheme.

18. Severability

- 18.1 If any part of this Scheme is found to be unworkable for any reason whatsoever including by reason of order of a court or regulatory authority or any legislative amendment, the same shall not, subject to the decision of the Company affect the validity or implementation of the other parts and/or provisions of this Scheme.

19. Expenses Connected with the Scheme

All costs, charges and expenses of the Company in relation to or in connection with the Scheme and of carrying out and implementing/ completing the terms and provisions of the Scheme and/ or incidental to the completion thereof in pursuance of the Scheme, including the fees in connection with the appointment of the Merchant Banker and opening of the Escrow Account, if any, shall be borne and paid by the Company. For the avoidance of doubt it is clarified that Members will be required to bear and pay all taxes as may be applicable to them in relation to the Debentures.

20. BINDING EFFECT

This Scheme when sanctioned by the High Court and upon effectiveness shall be binding on the Company, all its creditors, members and all other persons.

For Dr. REDDY'S LABORATORIES LTD.

/s/ V S Suresh

V S SURESH

COMPANY SECRETARY



ANNEXURE I

PRINCIPAL TERMS AND CONDITIONS OF ISSUE OF UNSECURED REDEEMABLE NON CONVERTIBLE BONUS DEBENTURES

1. Issuer : Dr. Reddy's Laboratories Limited
2. Quantum : Not less than Rs. 5,06,00,00,000/- (Rupees Five Hundred Six Crores Only) but not exceeding Rs. 520,00,00,000/- (Rupees Five Hundred and Twenty Crores Only), through issue of Debentures.
3. Instrument : Unsecured redeemable non— convertible fully paid bonus debentures
4. Tenor : 36 months from the date of allotment
5. Redemption : Redeemable at par in full at the end of 36 months from the date of allotment
6. Face value : Rs. 5/- (Rupees Five Only) per Debenture
7. Market lot : 1 Debenture(s), or as required by the stock exchanges
9. Coupon Rate : The coupon rate will be as determined by the Board.
10. Interest payments : At the end of each 12 calendar month period from the date of allotment on the unredeemed balance of each Debenture.
11. Taxation : All payments of principal and interest in respect of the Debentures to be made less any deductions or withholding for or on account of any present or future taxes or duties as required by applicable laws.
12. Rating : Proposed to be rated
14. Listing : Proposed to be listed on the NSE and/ or BSE
15. Debenture Trustee : A debenture trustee shall be appointed by the Board.

For Dr. REDDY'S LABORATORIES LTD.

/s/ V S Suresh
V S SURESH
COMPANY SECRETARY

[Handwritten Signature]
29/08/2010
SUPERINTENDENT
COPY:ST DEPARTMENT
High Court of A. P.
HYDERABAD

THE HIGH COURT OF ANDHRA PRADESH
HYDERABAD.
 App No. 398 of 2010
 Application made 19-7-2010 2010
 Application read 2010
 Application 2010
 Case 5-8-2010 2010
 Stamps 9-8-2010 2010
 Adl. Stamps 2010
 Adl. Stamps deposited 2010
 Copy ready 2010
 Section Officer.

IN THE HIGH COURT OF JUDICATURE OF ANDHRA PRADESH
AT HYDERABAD
(ORIGINAL JURISDICTION)
COMPANY APPLICATION NO. 286 OF 2010
IN THE MATTER OF THE COMPANIES ACT, 1956;
AND
IN THE MATTER OF SECTION 391 OF THE COMPANIES ACT, 1956;
AND
IN THE MATTER OF DR. REDDY'S LABORATORIES LIMITED;
AND
IN THE MATTER OF THE SCHEME OF ARRANGEMENT
BETWEEN DR. REDDY'S LABORATORIES LIMITED AND ITS MEMBERS

Dr. Reddy's Laboratories Limited, a Company incorporated under the Companies Act, 1956 and having its registered office at 7-1-27, Ameerpet, Hyderabad, Andhra Pradesh – 500 016

Rep. by its Company Secretary Sri V.S.Suresh

...Applicant Company

NOTICE CONVENING THE MEETING OF THE MEMBERS OF DR. REDDY'S LABORATORIES LIMITED

To

The Members of Dr. Reddy's Laboratories Limited

TAKE NOTICE that by an order dated April 21, 2010, in the above Company Application, the Hon'ble High Court of Andhra Pradesh has directed that a meeting of the members of Dr. Reddy's Laboratories Limited, the Applicant Company abovenamed, (hereinafter referred to as the "**Applicant Company**") be convened and held at Hotel Green Park, Ameerpet, Hyderabad — 500016, Andhra Pradesh, India on Friday, May 28, 2010 at 10.30 a.m. for the purpose of considering and if thought fit, approving, with or without modification, the Scheme of Arrangement proposed to be made between the Applicant Company and its members for the issue of unsecured, redeemable, non-convertible, fully paid up bonus debentures of the Applicant Company from its general reserve to its members.

TAKE FURTHER NOTICE that in pursuance of the said order, a meeting of the members of the Applicant Company will be held at Hotel Green Park, Ameerpet, Hyderabad — 500016, Andhra Pradesh, India, on Friday, May 28, 2010 at 10.30 a.m., at which time and place you are requested to attend.

TAKE FURTHER NOTICE that you may attend and vote at the said meeting in person or by proxy provided that a proxy in the prescribed form, duly signed by you, or your authorized representative, is deposited at the registered office of the Applicant Company situated at 7-1-27, Ameerpet, Hyderabad, Andhra Pradesh — 500 016 not later than 48 hours before the meeting.

The High Court of Andhra Pradesh has appointed Shri S. V. Ramana, Advocate to be the Chairman of the said meeting of the members of the Applicant Company.

A copy each of the Scheme of Arrangement, the statement under Section 393 of the Companies Act, 1956 and a form of proxy are enclosed herewith.

Dated this 29th day of April, 2010 at Hyderabad

sd/-
S. V. RAMANA
Advocate
Chairman appointed for the meeting

Address: Flat No. 106, Bhavana Enclave
Rajiv Nagar, Behind AG's Colony, Hyderabad – 500 045

Notes:

1. All alterations made in the form of proxy should be initialed.
2. Only registered equity shareholders of the Applicant Company may attend and vote (either in person or by proxy) at the equity shareholders' meeting. The representative of a body corporate which is a registered equity shareholder of the Applicant Company may attend and vote at the equity shareholders' meeting provided a certified true copy of the resolution of the Board of Directors or other governing body of the body corporate is deposited at the registered office of the Applicant Company not later than 48 hours before the commencement of the meeting authorising such representative to attend and vote at the equity shareholders' meeting.

IN THE HIGH COURT OF JUDICATURE OF ANDHRA PRADESH

AT HYDERABAD

(ORIGINAL JURISDICTION)

COMPANY APPLICATION NO. 286 OF 2010

IN THE MATTER OF THE COMPANIES ACT, 1956;

AND

IN THE MATTER OF SECTION 391 OF THE COMPANIES ACT, 1956;

AND

IN THE MATTER OF DR. REDDY'S LABORATORIES LIMITED;

AND

IN THE MATTER OF THE SCHEME OF ARRANGEMENT

BETWEEN DR. REDDY'S LABORATORIES LIMITED AND ITS MEMBERS

Dr. Reddy's Laboratories Limited, a Company incorporated under the Companies Act, 1956 and having its registered office at 7-1-27, Ameerpet, Hyderabad, Andhra Pradesh – 500 016

Rep. by its Company Secretary Sri V.S.Suresh

...Applicant Company

EXPLANATORY STATEMENT UNDER SECTION 393 OF THE COMPANIES ACT, 1956

1. Pursuant to an order dated April 21, 2010, passed by the Hon'ble High Court of Andhra Pradesh in the Company Application referred to above, a meeting of the members of Dr. Reddy's Laboratories Limited, the Applicant abovenamed, is being convened for the purpose of considering and, if thought fit, approving, with or without modification, the proposed scheme of arrangement between Dr. Reddy's Laboratories Limited and its members for the issue of unsecured, redeemable, non-convertible, fully paid up bonus debentures of Dr. Reddy's Laboratories Limited from its general reserve, under sections 391 to 394 of the Companies Act, 1956 (hereinafter referred to as the "Scheme"). A copy of the Scheme is annexed to the notice of the meeting.
2. In this statement, the Applicant, Dr. Reddy's Laboratories Limited, a Company incorporated under the Companies Act, 1956 (the "Act"), is hereinafter referred to as the "Company" and its equity shareholders are hereinafter referred to as the "Members". The other definitions contained in the Scheme shall apply to this statement as well.
3. The Company was originally incorporated under the name and style of 'Dr. Reddy's Laboratories Private Limited' in the State of Andhra Pradesh on February 24, 1984. Subsequently, the Company was converted into a public limited company after complying with the necessary provisions of The Companies Act, 1956 and obtained from the Registrar of Companies, Andhra Pradesh, Hyderabad on December 6, 1985 a fresh Certificate of Incorporation consequent to the change of name of the Company to 'Dr. Reddy's Laboratories Limited'.
4. The registered office of the Company is situated at 7-1-27, Ameerpet, Hyderabad, Andhra Pradesh.
5. The share capital structure of the Company as on December 31, 2009 is as under:

A. Authorised Share Capital

	<u>Amount in Rs.</u>
24,00,00,000 equity shares of Rs. 5/- (Rupees Five Only) each	1,20,00,00,000/-
Total	1,20,00,00,000/-

B. Issued Share Capital

	<u>Amount in Rs.</u>
16,88,25,235 equity shares of Rs. 5/- (Rupees Five Only) each *	84,41,26,175/-
Total	84,41,26,175/-

C. Subscribed & Paid-up Share Capital

	<u>Amount in Rs.</u>
16,88,25,035 equity shares of Rs. 5/- (Rupees Five Only) each fully paid up*#	84,41,25,175/-
Total	84,41,25,175/-

The equity shares of the Company are listed on the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited.

* As on 31st December, 2009, includes 2,49,43,067 equity shares of Rs. 5/- (Rupees Five Only) represented by 2,49,43,067 American Depositary Receipts ("ADR") issued by the Company. The ADRs of the Company are listed on the New York Stock Exchange.

- # 200 equity shares of the face value of Rs. 5/- (Rupees Five Only) each have been forfeited by the Company for non-payment of calls.

The Company has outstanding employee stock options under the Dr. Reddy's Employees Stock Option Scheme, 2002 and the Dr. Reddy's Employees ADR Stock Option Scheme, 2007, the exercise of which may result in an increase in the issued and paid-up share capital of the Company on or prior to the Record Date.

As on date, there has been no material change in the capital structure of the Company from the capital structure set out above.

6. The objects for which the Company has been established are set out in Clause III of its Memorandum of Association
7. The Company is a fully integrated pharmaceutical company. Its purpose is to provide affordable and innovative medicines through its three core businesses:
- Pharmaceutical Services and Active Ingredients, comprising of Active Pharmaceuticals and Custom Pharmaceuticals businesses;
 - Global Generics, which includes branded and unbranded generics; and
 - Proprietary Products, which includes New Chemical Entities (NCEs), Differentiated Formulations, and Generic Biopharmaceuticals.
8. The details of financial position of the Company as per the latest audited Balance Sheet as at 31st March, 2009 are as under:-

(Rupees in Millions)	
SOURCES OF FUNDS	
Shareholders' fund	
Share capital	842
Reserves and surplus	51,749
	52,591
Loan funds	
Secured loans	26
Unsecured loans	6,377
	6,403
Deferred Tax Liability, net	904
	59,898
APPLICATION OF FUNDS	
Fixed Assets	
Gross Block	21,573
Less: Accumulated Depreciation and amortization	(9,465)
Net Block	12,108
Capital Work-in-progress (including capital advances)	4,112
	16,220
Investments	17,038
Current Assets, Loans and Advances	
Inventories	7,351
Sundry Debtors	14,197
Cash & Bank Balances	3,844
Loans and Advances	13,085
	38,477
Current Liabilities & Provisions	
Current Liabilities	10,502
Provisions	1,335
	11,837
Net Current Assets	26,640
	59,898

The General Reserve of the Company as per the audited balance sheet of the Company on March 31, 2009 stood at Rs. 13,17,30,00,000/- (Rupees One Thousand Three Hundred Seventeen Crores Thirty Lakhs Only).

RATIONALE FOR ISSUANCE OF DEBENTURES

9. Over the last few years, the Company has built up significant reserves from its retained profits by transfer to its General Reserve. The capital represented by its General Reserve is in excess of the Company's current and anticipated operational needs. Further, barring unforeseen circumstances, the Company expects that its business operations will continue on a high growth trajectory and generate incremental cash over the next few years.
10. While the excess reserves can be profitably utilized for the Company's overall growth strategy, the Company believes that even after considering the foreseeable investments required for such opportunities over the next few years, its reserves as aforesaid will be in surplus to its needs. The Company also has significant debt raising capacity.
11. In view of the aforesaid factors, the Company has concluded that it can optimally utilize its surplus reserves by giving its members access to the same. Accordingly, the Company has proposed to restructure its General Reserve by issuing Debentures to its members.
12. Separately, the Company has recently completed 25 years and is keen to reward its members for their support and belief.

Alternative Options Considered by the Board

13. The following alternative options were evaluated to deal with the issue of surplus cash and General Reserve in excess of the Company's wants, but the proposed Scheme was found to be on the whole a better proposition both from the Company's and its Members' perspective:

(i) *Buyback of Shares*

A buy-back would have benefited only a few Members as not all Members necessarily would have tendered their shares in the buy-back offer. It would have been difficult to accomplish a buy-back on a fair and equitable basis amongst all Members. Moreover, a buy-back would entail significantly higher administrative and secretarial costs than those required for the present Scheme. In the circumstances, the management came to the conclusion that buy-back is not an optimal way of dealing with the issue of surplus cash. On the other hand, the Scheme has been formulated to ensure that every single Member of the Company would participate in the Scheme and would benefit from it. It was, therefore, decided not to pursue the buy-back option.

(ii) *Reduction of share capital under Section 100 of the Act*

The Company could have considered reducing the face value of the shares of Rs. 5/- (Rupees Five Only) to a lower amount, and return the differential amount together with a suitable premium to the Members. It was felt that this course of action would imply capital gains for Members and would get taxed at their hands. This would also imply reducing the face value of the Company's shares from Rs. 5/- (Rupees Five Only) and would have led to enormous secretarial work in re-issuing the shares with the new face value. Such a proposal would have incurred no special benefits to Members as compared to the present scheme. This option was also, therefore, not accepted.

(iii) *Issue of Redeemable Preference Shares by way of bonus*

This would have substantially the same effect as the present Scheme. Further, bearing in mind the liquidity issues connected with the preference shares and the servicing cost of preference capital relative to servicing cost of debentures, this option was also found to be less attractive than the proposed Scheme and the management decided not to pursue it.

(iv) *Bonus Equity Shares*

Bonus equity shares were not considered because it would have merely implied conversion of General Reserve into equity shares without any underlying outflow of cash, the basic issue being addressed by the Scheme. Bonus equity shares would also involve permanent increase in the Company's equity capital. In the case of a bonus equity issue, the Company would have continued to have cash and capital in excess of needs, with the attendant dilution of return on net worth/return on capital.

14. The Scheme was placed before the Board of Directors of the Company on March 31, 2010, at which time the Board approved the Scheme and the issuance of Debentures in the ratio of 6 Debentures for every 1 (one) equity share of Rs. 5/- (Rupees Five Only) each fully paid up held by such Member in accordance with the Scheme. In the interests of transparency, good corporate governance, to secure full involvement of all members and also by way of abundant caution the Board has decided to present this proposal as a Scheme under Section 391 of the Act.

SALIENT FEATURES OF THE SCHEME

15. The salient features of the Scheme are:

Issuance and Key terms of the Debentures

- a. Pursuant to the Scheme and in accordance with its terms, the Company will issue and allot out of its General Reserve by way of distribution as bonus, to each Member whose name is recorded in the Register of Members or records of the depository as member of the Company on the Record Date, Debentures in the ratio of 6 Debentures of the face value of Rs. 5/- (Rupees Five Only) each fully paid up in the Company for every equity share of Rs. 5/- (Rupees Five Only) each fully paid up held by such Member. The Debentures will be unsecured, redeemable, non-convertible and fully paid up bonus debentures.
- b. The total size of the Debenture issue shall be not less than Rs. 5,06,00,00,000/- (Rupees Five Hundred Six Crores Only) but not more than Rs. 520,00,00,000/- (Rupees Five Hundred and Twenty Crores Only).
- c. The Debentures shall be redeemable at par in full at the end of 36 months from the date of allotment. The Debentures shall carry a coupon rate as shall be determined by the Board. The interest on the Debentures shall be payable at the end of each 12 calendar month period from the date of allotment on the unredeemed balance of each Debenture. The Debentures are proposed to be rated. The Debentures are proposed to be listed on the National Stock Exchange of India Limited (“NSE”) and/or Bombay Stock Exchange Limited (“BSE”). The Debentures will not be registered in any jurisdiction or listed on any stock exchange outside India. The Board will appoint a debenture trustee in respect of the Debentures to formalise with the Company detailed terms and conditions for issue of Debentures.
- d. No Debentures will be issued under the Scheme in respect of any equity shares of the Company that have been forfeited. The issuance of Debentures pursuant to the Scheme in respect of any equity shares of the Company which are held in abeyance under the provisions of Section 206A of the Act or otherwise shall pending allotment or settlement of dispute by order of Court or otherwise, be held in abeyance by the Company.
- e. The Debentures issued to the Members pursuant to the Scheme shall be issued in dematerialized form to the Members who are recorded as holding equity shares of the Company in dematerialized form, or from whom the Company has received a notice in writing prior to the Record Date of details of their account with a depository participant and who have provided details thereof and such other confirmations as may be required, by direct credit to the account of such Member. For all other Members or in the event that the Company is unable to credit the demat accounts of the aforesaid Members, the Company shall issue Debentures in physical form to such Member. No letter of allotment would be issued for the Debentures.

Process for Issuance of Debentures

f. *Appointment of Merchant Banker*

In terms of the Scheme, the Company will deliver an amount of not less than Rs. 506,00,00,000/- (Rupees Five Hundred and Six Crores Only) but not exceeding Rs. 520,00,00,000/- (Rupees Five Hundred and Twenty Crores Only), being equal to the aggregate value of the Debentures required to be issued in terms of the Scheme, to a merchant banker to be appointed by the Board (“**Merchant Banker**”), to act on behalf of and as agent and trustee of the Members. The Merchant Banker would receive the aforesaid amount, subject to receipt of necessary regulatory approvals, in an on-shore escrow account to be opened by it with a scheduled commercial bank in India to be determined by and upon terms and conditions acceptable to the Board, for this purpose. The Merchant Banker shall receive the aforesaid amounts in the Escrow Account for and on behalf of and in trust for the Members entitled to the Debentures, as deemed dividend within the meaning of the term under section 2 (22) (b) of the Income Tax Act, 1961. The said payment to the Merchant Banker shall constitute a valid and proper discharge of the Company’s obligation to make payment hereunder to each Member entitled to such Debentures in terms of the Scheme.

- g. The Merchant Banker shall immediately following receipt of the above funds pay to the Company (without any lien, hold-back or deduction whatsoever), for and on behalf of and as trustee of the Members entitled to Debentures, out of the Escrow Account, as and by way of subscription for allotment of requisite number of Debentures proposed to be issued under the Scheme to the Members. The said payment for and on behalf of the Members by the Merchant Banker shall be deemed to be a payment by the Members entitled to the Debentures under the Scheme towards the cost of acquisition of the Debentures under the Scheme. Thus, the cost of acquisition of each Debenture at the hands of the Members shall be deemed to be its face value, i.e. Rs. 5/- (Rupees Five Only) each.

- h. Upon receipt by the Company of the payment from the Merchant Banker for and on behalf of the Members towards subscription of Debentures of the Company, the Company shall proceed to issue and allot to the Members as on the Record Date, the appropriate number of Debentures to which the concerned Member may be entitled by virtue of his/ her/ its holding in the Company on the Record Date in the ratio stipulated in Clause 15a above.

- i. **Liquidity Facility**

*With a view to providing additional liquidity to the Members, the Board will appoint a merchant banker ("**Liquidity Facility Provider**") to provide a liquidity facility to all Debenture holders to, at their option, tender their Debentures for sale (on a spot delivery basis) to the Liquidity Facility Provider at a price to be offered by the Liquidity Facility Provider. The price to be offered by the Liquidity Facility Provider will depend on a number of factors, including the coupon rate of the Debentures, the prevailing market conditions and investor demand for the Debentures at that time. The detailed terms and process for the Liquidity Facility will be formulated by the Liquidity Facility Provider in consultation with the Board, and intimated to the Members by the Liquidity Facility Provider.*

Issuance of Debentures to Non-Resident Members and ADR Holders

- j. The approval of the RBI may be required under applicable law for issuance of Debentures to certain non-resident Members, including for the holding or transfer of Debentures by such Members and repatriation of sale proceeds, and in the case of the Depository, for distribution of the Debentures to the ADR holders. The Company shall apply to the RBI for the requisite approvals for issue and allotment of Debentures to such non-resident Members of the Company, and the issuance and allotment to such Members will be made subject to and in compliance with the terms and conditions as may be prescribed by the RBI.
- k. The regulatory framework in India governing issuance of ADRs by an Indian Company does not permit the issuance of ADRs with any debt instrument (including non convertible rupee denominated debentures) as the underlying security. Therefore, the Depository cannot issue depository receipts (such as ADRs) against these Debentures under the Scheme. Accordingly, upon coming into effect of the Scheme, the Company shall issue an appropriate number of Debentures, in accordance with the aforementioned ratio, to the Depository and the Depository will make best efforts to, and if so required for regulatory reasons shall, sell such Debentures (via private or public sale or through the Liquidity Facility) in accordance with the provisions of the Deposit Agreement.
- l. To the extent the Depository is able to sell (via private or public sale or through the Liquidity Facility) the Debentures, subject to the provisions of the Deposit Agreement, the Depository shall convert the net proceeds from any such sale into U.S. dollars and distribute any such U.S. dollars, less any applicable taxes, fees and expenses incurred and/or provided for under the Deposit Agreement, to the registered holders of ADRs entitled thereto in the same manner as it would distribute cash under the Deposit Agreement.

Tax Treatment

- m. The issuance of Debentures pursuant to the Scheme will constitute "Deemed Dividend" as defined in section 2(22)(b) of the Income Tax Act, 1961 and consequently the Company will be required to pay Dividend Distribution Tax (DDT) at the applicable rate on the aggregate value of Debentures allotted to Members as bonus Debentures. However, such issue of Debentures in the manner contemplated herein will not entail declaration or distribution of any dividend for the purposes of sections 205 and 205A of the Act.

Amendment of Articles

- n. As an integral part of the Scheme, and, upon the coming into effect of the Scheme, Article 144(1) to Article 144 (5) of the Articles of Association of the Company shall, without any further act or deed, be replaced by the following:

"1. Any General Meeting may resolve that any monies, investments or other assets forming part of the undivided profits (including profits or surplus monies arising from the realisation and where permitted by law, from the appreciation in value of any capital assets of the company) or any amount standing to the credit of the Share Premium Account or the Capital Redemption Reserve Account or the General Reserve or any other reserve or fund of the company or in the hands of the company and available for dividend may be capitalized. Any such amount (excepting the amount standing to the credit of the Share Premium Account and/or the Capital Redemption Reserve Account) may be capitalized in either of the following ways, or partly in one way and partly in another:

- a. *by the issue and distribution as fully paid up shares, debentures, debenture stock or other securities or obligations of the Company; or*
- b. *by crediting the shares of the company which may have been issued and are not fully paid up, with the whole or any part of the sum, remaining unpaid thereon.*

Provided that any amounts standing to the credit of the Share Premium Account may be applied in:

- i. paying up unissued shares of the company to be issued to the members of the company as fully paid bonus shares*
- ii. in writing off the preliminary expenses of the company*
- iii. in writing off the expenses of, or the commission paid or discount allowed on any issue of shares or debentures of the company; or*
- iv. in providing for the premium payable on the redemption of any redeemable preference shares or debentures of the company.*

Provided further that any amount standing to the credit of the Capital Redemption Reserve Account shall, for the purposes of this Article, be applied only in paying up unissued shares of the Company to be issued to the members of the Company as fully paid bonus shares.

- 2. Such issue and distribution under sub-clause (1) (a) above and such payment to the credit of unpaid share capital under sub-clause (1) (b) above shall be made to, amongst or in favour of the members entitled thereto and in accordance with their respective rights and interests and in proportion to the amount of capital paid up on the shares held by them respectively in respect of which such distribution under such-clause (1) (a) or payment under sub-clause (1) (b) above shall be made on the footing that such members become entitled thereto as capital.*
- 3. The Directors shall give effect to any such resolution and apply such portion of the profit, General Reserve Fund or any other fund or account as aforesaid as may be required for the purpose of making payment in full for the shares, debentures or debenture stock, or other securities or obligations of the Company so distributed under sub-article (1) (a) above or (as the case may be) for the purpose of paying, in whole or in part, the amount remaining unpaid on the paid up capital under sub-article (1)(a) above provided that no such distribution or payment shall be made unless recommended by the Directors and if so recommended such distribution and payment shall be accepted by such members as aforesaid in full satisfaction of their interest in the capitalised sum.*
- 4. For the purpose of giving effect to any such resolution the directors may settle any difficulty which may arise in regard to the distribution or payment as foresaid as they think expedient and in particular they may issue fractional certificates or coupons and fix the value for distribution of any specific assets and may determine that such payments be made to any members on the footing of the value so fixed and that fraction of less value than Re. 1/- may be disregarded in order to adjust the right of all parties and may vest any such cash, shares, fractional certificates or coupons, debentures, debenture-stock, or other securities or obligations in trustee upon such trust for the persons entitled thereto as may seem expedient to the Directors and generally may make such arrangement for the acceptance, allotment and sale of such shares, debentures, debenture-stock, or other securities or obligations and fractional certificates or coupons or otherwise as they may think fit.*
- 5. Subject to the provisions of the Act and these Articles in case where some of the shares of the Company are fully paid and others are partly paid only, such capitalisation may be effected by the distribution of further shares in respect of the fully paid shares, and/or by crediting the partly paid shares with the whole or part of the unpaid liability thereon but so that between the holders of the fully paid shares, and the partly paid shares the sum so applied in payment of such further shares and in the extinguishing or diminishing of the liability on the partly paid shares shall be applied prorata in proportion to the amount then already paid or credited as paid on the existing fully paid and partly paid shares respectively."*

The consent of the Members to the Scheme shall be sufficient for the purposes of effecting the above amendment to the Articles of Association of the Company as set out above as also for the issuance of the Debentures, and no further resolution under Section 31 or any other applicable provision of the Act in this regard, would be required to be separately passed in connection with the amendment to the Articles of Association or the issuance of Debentures by the Company.

Effect on Employee Stock Option Schemes

- o. Pursuant to the Stock Option Scheme 2002, certain employees of the Company have been granted stock options at a price equivalent to (depending on the category of the option) the fair market value of the underlying equity shares on the date of grant or the par value of the underlying equity shares.*

- p. The existing exercise price for outstanding stock options granted at fair market value under the Stock Option Scheme 2002, may, upon effectiveness of the Scheme, at the discretion of the Compensation Committee be reduced by up to an amount of Rs. 30/- (Rupees Thirty Only) and consequently, any shares issued pursuant to exercise of such options shall not be entitled to receive the Debentures. However, no adjustment will be made to the purchase price of the stock options granted at par value under the Stock Option Scheme 2002. The consent of the Members to the Scheme shall be sufficient for the purposes of effecting such adjustment and shall be treated as their consent in relation to the aforesaid matters pertaining to the Stock Option Scheme 2002 (including without limitation for the purposes of effecting necessary modifications to the Stock Option Scheme 2002) and all related matters. No further approval of the Members would be required in this connection.

Miscellaneous

- q. The Company through its Board (including the Management Committee) may in its full and absolute discretion, consent to any alteration or modification to the Scheme which the Board deems fit, or which the High Court and/or any other authority may deem fit to approve or impose.
- r. The Scheme is conditional on and subject to:
- (i) the approval to the Scheme by the requisite majority of the Members of the Company as prescribed under law;
 - (ii) the sanction of the High Court of Andhra Pradesh being obtained;
 - (iii) the requisite approval of the RBI being obtained under the provisions of Foreign Exchange Management Act, 1999 and the regulations made thereunder;
 - (iv) any other sanction or approval, as may be required by law in respect of the Scheme being obtained; and
 - (v) the certified copies of the High Court order referred to in the Scheme being filed with the Registrar of Companies, Andhra Pradesh.
- s. In the event of any of the aforesaid sanctions and approvals not being obtained and/or the Scheme not being sanctioned by the High Court and/or the Order or Orders not being passed as aforesaid on or before March 31, 2011 or within such extended period or periods as may be approved by the Board, the Scheme shall become null and void and in that event, no rights and liabilities shall accrue to or be incurred by the Company or its shareholders or any other person, and Company shall bear and pay the costs, charges and expenses for and/or in connection with the Scheme.

A copy of the Scheme of Arrangement is enclosed hereto. You are requested to read the entire text of the Scheme to get fully acquainted with the provisions thereof. The aforesaid are only some of the salient features thereof.

16. Pursuant to the authority given by the Board of Directors vide their resolution dated March 31, 2010, Kotak Mahindra Capital Company Limited has been appointed as the Merchant Banker and *DSP Merrill Lynch Capital Limited has been appointed as the Liquidity Facility Provider*. Pursuant to Annexure I of the Scheme, the Board has determined that the rate of interest shall be a rate to be decided by the Board at a later date. However, such rate shall be not less than 7.5% p.a.
17. The rights and interests of the Members and the creditors of the Company will not be prejudicially affected by the Scheme.
18. For the redemption of the Debentures at the end of the maturity period set out in the Scheme, the Company will create a debenture redemption reserve in accordance with the Act.
19. The Scheme entails the distribution only of the General Reserve and does not involve a distribution of any other reserve of the Company.
20. The Company has received no-objection letters from the BSE vide its letter dated April 13, 2010 and the NSE, vide its letter dated April 13, 2010, granting their respective no-objection to the Scheme being filed with the Hon'ble High Court of Andhra Pradesh. The listing of the Debentures is subject to the Company receiving relaxations under Rule 19(2)(b) of the Securities Contract (Regulation) Rules, 1957 from the Securities and Exchange Board of India ("SEBI"). The Company shall file an application with the SEBI for seeking exemption from Rule 19(2)(b) of the Securities Contract (Regulation) Rules, 1957. The no objection letters from the BSE and the NSE are available for inspection and should be read in their entirety for information.
21. No investigation proceedings have been instituted and/or are pending in relation to the Company under sections 235 to 251 of the Act. To the knowledge of the Company no winding up proceedings have been filed or are pending against the Company under the Act.

22. On receiving the approval of the Members, the Company shall, as per the requirements of the Act, seek the sanction of the High Court of Andhra Pradesh for the Scheme.
23. The directors of the Company may be deemed to be concerned and/or interested in the Scheme only to the extent of their eligibility to such Debentures against their direct and/or indirect shareholding in the Company. The details of the present directors of the Company, and their shareholding in the Company/number of stock options held in the Company, either singly or jointly as on March 31, 2010 are as follows:

Name of Director	Age (years)	Position held in the Company	No. of Shares held in the Company	No. of options granted pursuant to Stock Option Scheme 2002 and Stock Option Scheme 2007	
				2002	2007
Dr. K Anji Reddy	71	Executive Chairman	7,00,956	—	—
Mr. G V Prasad	50	Vice-Chairman & CEO	13,65,840	—	—
Mr. Satish Reddy	43	Managing Director & COO	12,05,832	—	—
Mr. Anupam Puri	64	Non-Executive Director	13,500*	—	3,000
Dr. Bruce L. A. Carter	67	Non-Executive Director	4,000*	—	3,000
Dr. J. P. Moreau	62	Non-Executive Director	—	—	3,000
Ms. Kalpana Morparia	61	Non-Executive Director	3,000	3,000	—
Dr. Omkar Goswami	53	Non-Executive Director	15,000	3,000	—
Mr. Ravi Bhoothalingam	64	Non-Executive Director	15,000	3,000	—
Dr. Ashok Sekhar Ganguly	75	Non-Executive Director	—	—	—

* ADR holdings

The Scheme will have no other effect on the interest of the Directors of the Company.

24. There will be no change in the capital structure of the Company from the capital structure set out in Clause 5 of this statement on account of the Scheme.
25. As on March 31, 2010, the shareholding pattern of the Company is as set out below:

Category	No. of Shares	Percentage
Promoter's Holding		
- Individuals	4,389,484	2.60
- Companies	39,128,328	23.17
Sub-Total	43,517,812	25.77
Indian Financial Institutions	19,471,018	11.53
Banks	47,519	0.03
Mutual Funds	10,928,678	6.47
Foreign holdings		
- Foreign Institutional Investors	46,044,755	27.27
- Non Resident Indians	2,917,229	1.73
- Foreign Nationals	2,500	0.00
- ADRs	24,548,869	14.54
Sub total	103,960,568	61.57
Indian Public and Corporate	21,367,005	12.66
Total	168,845,385	100.00

There will be no change in the shareholding pattern of the Company on account of the issue and allotment of the Debentures pursuant to the Scheme.

26. Corporate members intending to send their authorised representatives to attend the meeting are requested to lodge a certified true copy of the resolution of the board of directors or other governing body of the body corporate not later than 48 (forty eight) hours before the commencement of the meeting, authorizing such person to attend and vote on its behalf at the meeting.
27. An equity shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him. Such proxy need not be a member of the Company. The instrument appointing the proxy should however be deposited at the registered office of the Company not later than 48 (forty eight) hours prior to the commencement of the meeting.
28. The following documents will be open for inspection at the registered office of the Company between 11 a.m. and 1 p.m. on any week day which is not a public holiday before May 27, 2010.
 - (i) Memorandum & Articles of Association of the Company;
 - (ii) Audited Balance Sheet and Profit and Loss Account for the year ended March 31, 2009 of the Company;
 - (iii) Unaudited financial results of the Company for the quarter ended 31st December, 2009;
 - (iv) Company Application No. 286 of 2010 along with all Exhibits;
 - (v) Certified copy of the order dated April 21, 2010 passed by the High Court of Andhra Pradesh in Company Application No. 286 of 2010;
 - (vi) Copies of the no-objection letters, each dated April 13, 2010, received from the BSE and the NSE, granting their respective no-objections to the Scheme being filed with the Honourable High Court of Andhra Pradesh; and
 - (vii) The Scheme.
29. This statement may be treated as the statement under Section 393 and also Section 173 of the Act. A copy of the Scheme and this statement may also be obtained from the registered office of the Company during ordinary business hours on weekdays.

Dated this 29th day of April, 2010 at Hyderabad.

sd/-
S. V. RAMANA
Advocate

Chairman appointed for the meeting

Address: Flat No. 106, Bhavana Enclave
Rajiv Nagar, Behind AG's Colony, Hyderabad – 500 045

SCHEME OF ARRANGEMENT
BETWEEN
DR. REDDY'S LABORATORIES LIMITED
AND
ITS MEMBERS
FOR ISSUE OF UNSECURED REDEEMABLE NON-CONVERTIBLE FULLY PAID BONUS
DEBENTURES FROM GENERAL RESERVE

PART I — GENERAL

1. INTRODUCTION

- 1.1 Dr. Reddy's Laboratories Limited is a public limited company incorporated under the Act (as defined hereinafter) and having its registered office at 7-1-27, Ameerpet, Hyderabad, Andhra Pradesh — 500 016 (the "**Company**"). The Company is primarily engaged in the business of manufacture and sale of chemicals, drugs, pharmaceuticals and other intermediaries.
- 1.2 Over the last few years, the Company has built up significant reserves from its retained profits by transfer to its General Reserve. The capital represented by its General Reserve is in excess of the Company's current and anticipated operational needs. Further, barring unforeseen circumstances, the Company expects that its business operations will continue on a high growth trajectory and generate incremental cash over the next few years.
- 1.3 While the excess reserves can be profitably utilized for the Company's overall growth strategy, the Company believes that even after considering the foreseeable investments required for such opportunities over the next few years, its reserves as aforesaid will be in surplus to its needs. The Company also has significant debt raising capacity.
- 1.4 Separately, the Company has recently completed 25 years and is keen to reward its members for their support and belief.
- 1.5 In view of the aforesaid factors, the Company has concluded that it can optimally utilize its surplus reserves by giving its members access to the same. Accordingly, the Company has proposed to restructure its General Reserve by issuing Debentures (as defined below in Clause 2.1) to its members. In the interests of transparency and good corporate governance and by way of abundant caution, the Company has determined to propose this scheme of arrangement between the Company and its Members under Sections 391-394 of the Act, which will be subject to necessary approvals of the shareholders and the High Court (as defined hereinafter).
- 1.6 Accordingly, this Scheme provides for the issue of the Debentures to the Members by restructuring the General Reserves of the Company pursuant to Sections 391 to 394 and other relevant provisions of the Act, and various other matters consequential to or otherwise integrally connected with the above in the manner provided for in the Scheme.
- 1.7 The Scheme is divided into the following parts:
 - (a) **Part I**, which deals with the introduction and definitions;
 - (b) **Part II**, which deals with the issuance of the Debentures; and
 - (c) **Part III**, which deals with the general terms and conditions.

2. DEFINITIONS AND INTERPRETATION

- 2.1 In this Scheme, unless inconsistent with the subject or context, the following expressions shall have the following meanings:

"**Act**" means the Companies Act, 1956.

"**ADRs**" means the outstanding American Depositary Receipts issued by the Company pursuant to the "Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depositary Receipt Mechanism) Scheme, 1993" and other applicable law, and where relevant shall include the underlying equity shares relating thereto.

"**Board**" means the board of directors of the Company and shall include a committee duly constituted and authorised by the board of directors for the purposes of matters pertaining to the bonus issuance, the Scheme and/or any other matter relating thereto.

"**Capital Reserves**" means and includes the capital reserve and the securities premium account as reflected in the accounts of the Company.

"**Debentures**" means unsecured redeemable, non-convertible, fully paid up bonus debentures of the Company of face value of Rs. 5/- (Rupees Five Only) each proposed to be issued pursuant to the present Scheme, the principal terms and conditions for which have been set out in **Annexure I** to this Scheme.

“**Depository Agreement**” means the Deposit Agreement dated April 10, 2001 between the Company, the Depository and the holders of the ADRs.

“**Depository**” means JP Morgan Chase Bank, N.A.

“**Effective Date**” means the last of the dates on which all the conditions and matters referred to in Clause 11 of this Scheme occur or have been fulfilled or waived in accordance with this Scheme. References in this Scheme to date of ‘coming into effect of the Scheme’ or ‘effectiveness of the Scheme’ shall mean the Effective Date.

“**General Reserve**” means the general reserve of the Company which has been built through retained undistributed profits and which forms a part of the revenue reserves of the Company, as reflected in the accounts of the Company.

“**High Court**” shall mean the High Court of Andhra Pradesh having jurisdiction in relation to the Company and shall include the National Company Law Tribunal, as applicable or such other forum or authority as may be vested with any of the powers of a High Court under the Act.

“**Member(s)**” means the equity shareholder(s) of the Company as on the Record Date.

“**Record Date**” means the date to be fixed by the Board for the purpose of determining the equity shareholders of the Company to whom the Debentures will be allotted pursuant to this Scheme.

“**Registrar of Companies**” means the Registrar of Companies, Andhra Pradesh.

“**Scheme**” means this Scheme of Arrangement, including the annexures, in its present form or with any modification(s) approved or imposed or directed by the High Court or any other authority or otherwise effected by the Board.

“**Stock Option Scheme 2002**” means the Dr. Reddy’s Employees Stock Option Scheme, 2002.

“**Stock Option Scheme 2007**” means the Dr. Reddy’s Employees ADR Stock Option Scheme, 2007.

“**Working Day**” means a day on which commercial banks are open for business in Mumbai, India, Hyderabad, India and New York, USA.

- 2.2 All terms and words used but not defined in this Scheme shall, unless repugnant or contrary to the context or meaning thereof, have the same meaning ascribed to them under the Act, the Securities Contracts (Regulation) Act, 1956, the Depositories Act, 1996 and other applicable laws, rules, regulations, bye-laws, as the case may be or any statutory modification or re-enactment thereof for the time being in force.
- 2.3 References to clauses, recitals and annexures, unless otherwise provided, are to clauses, recitals and annexures of and to this Scheme.
- 2.4 The headings herein shall not affect the construction of this Scheme.
- 2.5 The singular shall include the plural and vice versa; and references to one gender include all genders.
- 2.6 Any phrase introduced by the terms “including”, “include”, “in particular” or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms.
- 2.7 References to person include any individual, firm, body corporate (whether or not incorporated), government, state or agency of a state or any joint venture, association and partnership.
- 2.8 The Annexures to this Scheme form an integral and inseparable part of this Scheme.

3. SHARE CAPITAL AND GENERAL RESERVE

3.1 The share capital structure of the Company as on December 31, 2009 is as under:

A. Authorised Share Capital

	<u>Amount in Rs.</u>
24,00,00,000 equity shares of Rs. 5/- (Rupees Five Only) each	1,20,00,00,000/-
Total	1,20,00,00,000/-

B. Issued Share Capital

	<u>Amount in Rs.</u>
16,88,25,235 equity shares of Rs. 5/- (Rupees Five Only) each *	84,41,26,175/-
Total	84,41,26,175/-

C. Subscribed & Paid-up Share Capital

	<u>Amount in Rs.</u>
16,88,25,035 equity shares of Rs. 5/- (Rupees Five Only) each fully paid up*#	84,41,25,175/-
Total	84,41,25,175/-

* As on December 31, 2009, includes 2,49,43,067 equity shares of Rs. 5/- (Rupees Five Only) represented by 2,49,43,067 ADRs issued by the Company. The ADRs of the Company are listed on the New York Stock Exchange.

- # 200 equity shares of the face value of Rs. 5/- (Rupees Five Only) each have been forfeited by the Company for non-payment of calls.

The Company has outstanding employee stock options under the Stock Option Scheme, 2002 and the Stock Option Scheme, 2007, the exercise of which may result in an increase in the issued and paid-up share capital of the Company on or prior to the Record Date.

- 3.2 The General Reserve of the Company as per the audited balance sheet of the Company on March 31, 2009 stood at Rs. 13,17,30,00,000/- (Rupees One Thousand Three Hundred Seventeen Crores Thirty Lakhs Only).

PART II — ISSUANCE OF BONUS DEBENTURES

4. Issue of Debentures From General Reserve

- 4.1 The provisions of this Clause 4 of this Scheme shall operate notwithstanding anything to the contrary in this Scheme or in any other instrument, deed or writing.
- 4.2 Upon the effectiveness of the Scheme, the Company shall issue and allot out of its General Reserve by way of distribution as bonus, to each Member whose name is recorded in the Register of Members and records of the depository as Members of the Company on the Record Date, Debentures in the ratio of 6 Debentures of face value Rs. 5/- (Rupees Five Only) each fully paid up in the Company for every equity share of Rs. 5/- (Rupees Five Only) each fully paid up held by such Member in the manner hereafter provided. The process for issuance of Debentures will be as set out in Clause 6 hereunder.
- 4.3 The issuance of Debentures pursuant to this Scheme above will constitute “Deemed Dividend” as defined in Section 2(22)(b) of the Income Tax Act, 1961 and consequently the Company will be required to pay Dividend Distribution Tax (DDT) at the applicable rate on the aggregate value of Debentures allotted to Members as bonus Debentures. However, such issue of Debentures in the manner contemplated herein will not entail declaration or distribution of any dividend for the purposes of Sections 205 and 205A of the Act.
- 4.4 No Debentures will be issued under this Scheme in respect of any equity shares of the Company that have been forfeited. The issuance of Debentures pursuant to this Scheme in respect of any equity shares of the Company which are held in abeyance under the provisions of Section 206A of the Act or otherwise shall pending allotment or settlement of dispute by order of Court or otherwise, be held in abeyance by the Company.

5. TERMS AND CONDITIONS OF THE DEBENTURES

- 5.1 The Debentures shall be issued on terms and conditions consistent with the principal terms and conditions set out in **Annexure I** and as set out in the Scheme. The Board shall appoint a debenture trustee (“**Debenture Trustee**”) who will be authorised to formalise with the Company detailed terms and conditions for issue of Debentures.
- 5.2 As soon as practicable after the issuance of the Debentures, the Company shall take necessary steps towards listing the Debentures on the Bombay Stock Exchange and/ or the National Stock Exchange, with a view to provide liquidity to the Debenture holders. The Debentures will not be registered in any jurisdiction or listed on any stock exchange outside India.

6. PROCESS FOR ISSUANCE OF DEBENTURES AND LIQUIDITY FACILITY

- 6.1 The Debentures shall be issued within a period of 20 Working Days from the Record Date to the Members eligible to receive the same, in the following manner:
- (i) The Company will deliver an amount of not less than Rs. 506,00,00,000/- (Rupees Five Hundred and Six Crores Only) but not exceeding Rs. 520,00,00,000/- (Rupees Five Hundred and Twenty Crores Only), being equal to the aggregate value of the Debentures required to be issued in terms of the Scheme, to a merchant banker to be appointed by the Board (“**Merchant Banker**”) to act on behalf of and as agent and trustee of the members. The Merchant Banker shall receive the aforesaid amount, subject to receipt of necessary regulatory approvals, in an on-shore escrow account opened by it with a scheduled commercial bank in India to be determined by and upon terms and conditions acceptable to the Board, for this purpose (the “**Escrow Account**”). The Merchant Banker shall receive the aforesaid amounts in the Escrow Account for and on behalf of and in trust for the Members entitled to the Debentures, as deemed dividend within the meaning of the term under Section 2(22)(b) of the Income Tax Act, 1961. The said payment to the Merchant Banker shall constitute a valid and proper discharge of the Company’s obligation to make payment hereunder to each Member entitled to such Debentures in terms of the Scheme.

- (ii) The Merchant Banker shall immediately following receipt of funds pursuant to the above, pay to the Company (without any lien, hold-back or deduction whatsoever), for and on behalf of and as trustee of the Members entitled to Debentures, out of the Escrow Account, as and by way of subscription for allotment of requisite number of Debentures. The said payment for and on behalf of the Members by the Merchant Banker shall be deemed to be a payment by the Members entitled to the Debentures under this Scheme towards the cost of acquisition of the Debentures under the Scheme. Thus, the cost of acquisition of each Debenture at the hands of the Members shall be deemed to be its face value, i.e. Rs. 5/- (Rupees Five Only) each.
- (iii) Upon receipt by the Company of the payment from the Merchant Banker for and on behalf of the Members towards subscription of Debentures of the Company, the Company shall proceed to issue and allot to the Members as on the Record Date, the appropriate number of Debentures to which the concerned Member may be entitled by virtue of his/ her/ its holding in the Company on the Record Date in the ratio stipulated in Clause 4.2 above.

The Debentures issued to the Members pursuant to this Scheme shall be issued in dematerialized form to the Members who are recorded as holding equity shares of the Company in dematerialized form, or from whom the Company has received a notice in writing prior to the Record Date of details of their account with a depository participant and who have provided details thereof and such other confirmations as may be required, by direct credit to the account of such Member. For all other Members or in the event that the Company is unable to credit the demat accounts of the aforesaid Members, the Company shall issue Debentures in physical form to such Member. No letter of allotment would be issued for the Debentures.

- 6.2 With a view to providing additional liquidity, the Company intends to identify a merchant banker ("**Liquidity Facility Provider**") to provide a liquidity facility to all Debenture holders to, at their option, tender their Debentures for sale (on a spot delivery basis) to the Liquidity Facility Provider at a price to be offered by the Liquidity Facility Provider. The price to be offered by the Liquidity Facility Provider will depend on a number of factors, including the coupon rate of the Debentures, the prevailing market conditions and investor demand for the Debentures at that time. The detailed terms and process for the Liquidity Facility will be formulated by the Liquidity Facility Provider in consultation with the Company, and intimated to the Members by the Liquidity Facility Provider.

7. NON RESIDENT MEMBERS AND ADRs

- 7.1 The approval of the Reserve Bank of India ("**RBI**") may be required under applicable law for issuance of Debentures to certain non-resident Members, including for the holding or transfer of Debentures by such Members and repatriation of sale proceeds, and in the case of the Depository, for distribution of the Debentures to the ADR holders. The Company shall apply to the RBI for the requisite approvals for issue and allotment of Debentures to such non-resident Members of the Company, and the issuance and allotment to such Members will be made subject to and in compliance with the terms and conditions as may be prescribed by the RBI.
- 7.2 The regulatory framework in India governing issuance of ADRs by an Indian Company does not permit the issuance of ADRs with any debt instrument (including non convertible rupee denominated debentures) as the underlying security. Therefore, the Depository cannot issue depository receipts (such as ADRs) against these Debentures under this Scheme. Accordingly, upon the coming into effect of this Scheme and subject to receipt of necessary approvals (as set out in 7.1 above), the Company shall issue an appropriate number of Debentures, in accordance with the ratio mentioned in Clause 4.2, to the Depository and the Depository will make best efforts to, and if so required for regulatory reasons shall, sell such Debentures (via private or public sale or through the Liquidity Facility) in accordance with the provisions of the Deposit Agreement.
- 7.3 To the extent the Depository is able to sell (via private or public sale or through the Liquidity Facility) the Debentures, subject to the provisions of the Deposit Agreement, the Depository shall convert the net proceeds from any such sale into U.S. dollars and distribute any such U.S. dollars, less any applicable taxes, fees and expenses incurred and/or provided for under the Deposit Agreement, to the registered holders of ADRs entitled thereto in the same manner as it would distribute cash under the Deposit Agreement.
- 7.4 The Company, the Liquidity Facility Provider and/or the Merchant Banker shall enter into such other agreements or arrangements and take such further actions as may be deemed necessary or appropriate by the Company, including, but not limited to, disseminating certain notices and intimations (including to relevant stock exchanges), press releases, certifications, and information containing details of the Scheme, the issuance of the Debentures, the Liquidity Facility and/or other information relating to the Company and the Debentures.

8. EMPLOYEE STOCK OPTION SCHEMES

- 8.1 Pursuant to the Stock Option Scheme 2002, certain employees of the Company have been granted stock options at a price equivalent to (depending on the category of the option) the fair market value of the underlying equity shares on the date of grant or the par value of the underlying equity shares.

8.2 The existing exercise price for outstanding stock options granted at fair market value under the Stock Option Scheme 2002, may, upon effectiveness of the Scheme, at the discretion of the Compensation Committee be reduced by up to an amount of Rs. 30/- (Rupees Thirty Only) and consequently, any shares issued pursuant to exercise of such options shall not be entitled to receive the Debentures. For the avoidance of doubt it is clarified that no adjustment will be made to the purchase price of the stock options granted at par value under the Stock Option Scheme 2002. The consent of the Members to this Scheme shall be sufficient for the purposes of effecting such adjustment and shall be treated as their consent in relation to the aforesaid matters pertaining to the Stock Option Scheme 2002 (including without limitation for the purposes of effecting necessary modifications to the Stock Option Scheme 2002) and all related matters. No further approval of the Members would be required in this connection.

9. AMENDMENT TO ARTICLES OF ASSOCIATION

9.1 As an integral part of the Scheme, and, upon the coming into effect of the Scheme, Article 144(1) to Article 144(5) of the Articles of Association of the Company shall, without any further act or deed, be replaced by the following:

“1. Any General Meeting may resolve that any monies, investments or other assets forming part of the undivided profits (including profits or surplus monies arising from the realisation and where permitted by law, from the appreciation in value of any capital assets of the company) or any amount standing to the credit of the Share Premium Account or the Capital Redemption Reserve Account or the General Reserve or any other reserve or fund of the company or in the hands of the company and available for dividend may be capitalized. Any such amount (excepting the amount standing to the credit of the Share Premium Account and/or the Capital Redemption Reserve Account) may be capitalized in either of the following ways, or partly in one way and partly in another:

- a. by the issue and distribution as fully paid up shares, debentures, debenture stock or other securities or obligations of the Company; or
- b. by crediting the shares of the company which may have been issued and are not fully paid up, with the whole or any part of the sum, remaining unpaid thereon.

Provided that any amounts standing to the credit of the Share Premium Account may be applied in:

- i. paying up unissued shares of the company to be issued to the members of the company as fully paid bonus shares
- ii. in writing off the preliminary expenses of the company
- iii. in writing off the expenses of, or the commission paid or discount allowed on any issue of shares or debentures of the company; or
- iv. in providing for the premium payable on the redemption of any redeemable preference shares or debentures of the company.

Provided further that any amount standing to the credit of the Capital Redemption Reserve Account shall, for the purposes of this Article, be applied only in paying up unissued shares of the Company to be issued to the members of the Company as fully paid bonus shares.

2. Such issue and distribution under sub-clause (1) (a) above and such payment to the credit of unpaid share capital under sub-clause (1) (b) above shall be made to, amongst or in favour of the members entitled thereto and in accordance with their respective rights and interests and in proportion to the amount of capital paid up on the shares held by them respectively in respect of which such distribution under such-clause (1) (a) or payment under sub-clause (1) (b) above shall be made on the footing that such members become entitled thereto as capital.
3. The Directors shall give effect to any such resolution and apply such portion of the profit, General Reserve Fund or any other fund or account as aforesaid as may be required for the purpose of making payment in full for the shares, debentures or debenture stock, or other securities or obligations of the Company so distributed under sub-article (1) (a) above or (as the case may be) for the purpose of paying, in whole or in part, the amount remaining unpaid on the paid up capital under sub-article (1)(a) above provided that no such distribution or payment shall be made unless recommended by the Directors and if so recommended such distribution and payment shall be accepted by such members as aforesaid in full satisfaction of their interest in the capitalised sum.

4. For the purpose of giving effect to any such resolution the directors may settle any difficulty which may arise in regard to the distribution or payment as foresaid as they think expedient and in particular they may issue fractional certificates or coupons and fix the value for distribution of any specific assets and may determine that such payments be made to any members on the footing of the value so fixed and that fraction of less value than Re. 1/- may be disregarded in order to adjust the right of all parties and may vest any such cash, shares, fractional certificates or coupons, debentures, debenture-stock, or other securities or obligations in trustee upon such trust for the persons entitled thereto as may seem expedient to the Directors and generally may make such arrangement for the acceptance, allotment and sale of such shares, debentures, debenture-stock, or other securities or obligations and fractional certificates or coupons or otherwise as they may think fit.
 5. Subject to the provisions of the Act and these Articles in case where some of the shares of the Company are fully paid and others are partly paid only, such capitalisation may be effected by the distribution of further shares in respect of the fully paid shares, and/or by crediting the partly paid shares with the whole or part of the unpaid liability thereon but so that between the holders of the fully paid shares, and the partly paid shares the sum so applied in payment of such further shares and in the extinguishing or diminishing of the liability on the partly paid shares shall be applied prorata in proportion to the amount then already paid or credited as paid on the existing fully paid and partly paid shares respectively.”
- 9.2 It is hereby clarified that the consent of the shareholders to the Scheme shall be sufficient for the purposes of effecting the above amendment to the Articles of Association of the Company as set out in Clause 9.1 above as also for the issuance of the Debentures, and no further resolution under Section 31 or any other applicable provision of the Act in this regard, would be required to be separately passed in connection with the amendment to the Articles or the issuance of Debentures by the Company hereunder.

10. Accounting treatment in the books of the Company

- 10.1 The proposed restructuring of the General Reserve by issuance of Debentures pursuant to the Scheme shall be reflected in the books of account of the Company in the following manner:
- (a) an amount representing the aggregate face value of the Debentures shall be transferred from the General Reserve Account to the Shareholders Account (being the deemed dividend payable to the Members under the Scheme); and
 - (b) an amount representing the aggregate face value of the Debentures shall be transferred from the Shareholders Account (represented by the Merchant Banker) to the Bank Account (being payment effected to the Members as deemed dividend under the Scheme).
- 10.2 The payment by the Company of the dividend distribution tax on the Debentures will be reflected in the books of account of the Company in the following manner:
- (a) an amount representing the dividend distribution tax payable on the issuance of the Debentures shall be transferred from the General Reserve Account to the Dividend Distribution Tax Account; and
 - (b) an amount representing the dividend distribution tax payable on the issuance of the Debentures shall be transferred from the Dividend Distribution Tax Account to the Central Government Account (being payment of dividend distribution tax on the Debentures).
- 10.3 Similarly, the proposed investment of the deemed dividend in Debentures of the Company for and on behalf of the Members by a payment through the Merchant Banker will be reflected in the books of account of the Company in the following manner:
- (a) an amount representing the aggregate face value of the Debentures shall be transferred from the Bank A/c to the Shareholders A/c (represented by the Merchant Banker), (being payment by the Merchant Banker for and on behalf of the Members towards reinvestment of deemed dividend); and
 - (b) an amount representing the aggregate face value of the Debentures shall be transferred from Shareholder A/c to Debentures A/c (being investment of the Members in Debentures under the Scheme).
- 10.4 For removal of doubts, it is expressly recorded and clarified that issue of Debentures constituting deemed dividend does not in any manner involve distribution of Capital Reserves or revenue reserves other than General Reserve and the Debentures shall be issued and shall be deemed to have been issued entirely out of the General Reserve of the Company exclusively built through undistributed/retained profits of the Company, in the manner provided in the Scheme.

10.5 Post the issuance of the Debentures under this Scheme, the General Reserve of the Company will stand reduced by an amount equivalent to the aggregate value of the Debentures issued (up to Rs. 520,00,00,000/- (Rupees Five Hundred and Twenty Crores Only) and an amount equivalent to the dividend distribution tax payable by the Company on the Debentures, at the then applicable rate (on such value of debentures, as above). Costs, charges and expenses of this Scheme as referred to in Clause 19 shall also be adjusted by a corresponding transfer from the General Reserve.

11. Scheme Conditional on Approvals/Sanctions

The Scheme is conditional on and subject to:

- (a) the approval to the Scheme by the requisite majority of the Members of the Company as prescribed under law;
- (b) the sanction of the High Court being obtained;
- (c) the requisite approval of the Reserve Bank of India being obtained under the provisions of Foreign Exchange Management Act, 1999 and the regulations made thereunder;
- (d) any other sanction or approval, as may be required by law in respect of the Scheme being obtained; and
- (e) the certified copies of the High Court order referred to in this Scheme being filed with the Registrar of Companies.

12. Effect of Non Receipt of Approvals/Sanctions

In the event of any of the aforesaid sanctions and approvals not being obtained and/or the Scheme not being sanctioned by the High Court and/or the Order or Orders not being passed as aforesaid on or before March 31, 2011 or within such extended period or periods as may be approved by the Board, the Scheme shall become null and void and in that event, no rights and liabilities shall accrue to or be incurred by the Company or its shareholders or any other person, and Company shall bear and pay the costs, charges and expenses for and/ or in connection with the Scheme.

PART III – GENERAL TERMS AND CONDITIONS

13. Dividends

13.1 Nothing contained herein shall be construed as restricting the Company from being entitled to declare and pay dividends, whether interim or final, to its shareholders whether during the pendency of the Scheme or otherwise and the holders of the shares of the Company shall, save as expressly provided otherwise in this Scheme, continue to enjoy their existing rights under their respective Articles of Association including the right to receive dividends.

13.2 It is clarified that the aforesaid provisions in respect of declaration of dividends are enabling provisions only and shall not be deemed to confer any right on any member of the Company to demand or claim any dividends which, subject to the provisions of the said Act, shall be entirely at the discretion of the boards of directors of the Company and subject to the approval, if required, of the shareholders of the Company.

14. The Scheme is an arrangement between the Company and its Members under Section 391 of the Act and does not envisage transfer or vesting of any properties and/or liabilities to or in favour of a transferee company as contemplated in Section 394 of the Act. The Scheme does not involve any “conveyance” or “transfer” of any property and does not relate to amalgamation or merger of companies under the order of the High Court under section 394 of the Act, and consequently, the Order of the Hon'ble High Court approving the Scheme will not attract any stamp duty, under the Indian Stamp Act, 1899 (as applicable in the state of Andhra Pradesh).

15. The Scheme and issuance of Debentures hereunder is intended exclusively for the Members of the Company and does not constitute an offer or an invitation to the public to subscribe to the Debentures. Neither the Scheme nor any related document shall constitute an offer document or prospectus in any manner or for any purpose whatsoever.

16. APPLICATIONS TO HON'BLE HIGH COURT

The Company shall make necessary applications before the High Court for the sanction of this Scheme under Sections 391 and 394 of the Act.

17. MODIFICATIONS/AMENDMENTS TO THE SCHEME AND REMOVAL OF DIFFICULTIES

- (a) The Company (by its Board) may, in its full and absolute discretion, assent to any alteration or modification to this Scheme which the Board deems fit, or which the High Court and/or any other authority may deem fit to approve or impose.
- (b) The Company (by its Board) may give such directions as it may consider necessary to settle any question or difficulty arising under the Scheme or in regard to and of the meaning or interpretation of the Scheme or implementation hereof or in any matter whatsoever connected therewith (including any question or difficulty arising as a result of inadequacy of information provided by a Member or in connection with the issuance of Debentures or in connection with any deceased or insolvent shareholders, depositors or Debenture-holders of the Company), or to review the position relating to the satisfaction of various conditions to the Scheme and if necessary, to waive any of those (to the extent permissible under law) or that otherwise as may be considered to be in the best interest of the Company and its Members and do all acts, deeds and things as may be necessary, desirable or expedient for giving effect to the Scheme.
- (c) In the event of there being any pending share transfers, whether lodged or outstanding, of any shareholder of the Company, the Board or any person authorized by the Board shall be empowered in appropriate cases, prior to or even subsequent to the Record Date, to effectuate such a transfer as if such changes in registered holder were operative as on the Record Date, in order to remove any difficulties arising to the transferor or transferee of the share in the Company and in relation to the issuance of the Debentures after the effectiveness of the Scheme.

18. Severability

- 18.1 If any part of this Scheme is found to be unworkable for any reason whatsoever including by reason of order of a court or regulatory authority or any legislative amendment, the same shall not, subject to the decision of the Company affect the validity or implementation of the other parts and/or provisions of this Scheme.

19. Expenses Connected with the Scheme

All costs, charges and expenses of the Company in relation to or in connection with the Scheme and of carrying out and implementing/completing the terms and provisions of the Scheme and/or incidental to the completion thereof in pursuance of the Scheme, including the fees in connection with the appointment of the Merchant Banker and opening of the Escrow Account, if any, shall be borne and paid by the Company. For the avoidance of doubt it is clarified that Members will be required to bear and pay all taxes as may be applicable to them in relation to the Debentures.

20. BINDING EFFECT

This Scheme when sanctioned by the High Court and upon effectiveness shall be binding on the Company, all its creditors, members and all other persons.

ANNEXURE I

PRINCIPAL TERMS AND CONDITIONS OF ISSUE OF UNSECURED REDEEMABLE NON CONVERTIBLE BONUS DEBENTURES

1. Issuer : Dr. Reddy's Laboratories Limited
2. Quantum : Not less than Rs. 5,06,00,00,000/- (Rupees Five Hundred Six Crores Only) but not exceeding Rs. 520,00,00,000/- (Rupees Five Hundred and Twenty Crores Only), through issue of Debentures.
3. Instrument : Unsecured redeemable non-convertible fully paid bonus debentures
4. Tenor : 36 months from the date of allotment
5. Redemption : Redeemable at par in full at the end of 36 months from the date of allotment
6. Face value : Rs. 5/- (Rupees Five Only) per Debenture
7. Market lot : 1 Debenture(s), or as required by the stock exchanges
8. Coupon Rate : The coupon rate will be as determined by the Board.
9. Interest payments : At the end of each 12 calendar month period from the date of allotment on the unredeemed balance of each Debenture.
10. Taxation : All payments of principal and interest in respect of the Debentures to be made less any deductions or withholding for or on account of any present or future taxes or duties as required by applicable laws.
11. Rating : Proposed to be rated
12. Listing : Proposed to be listed on the NSE and/or BSE
13. Debenture Trustee : A debenture trustee shall be appointed by the Board.

Dated March 16, 2011

DEBENTURE TRUST DEED

amongst

Dr. REDDY'S LABORATORIES LIMITED
(as the Issuer)

and

IDBI TRUSTEESHIP SERVICES LIMITED
(as the Debenture Trustee)

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DEBENTURE TRUST DEED

This Debenture Trust Deed (the "Deed") is made at Mumbai on this 16th day of March, 2011 amongst:

1. **DR. REDDY'S LABORATORIES LIMITED**, a Company incorporated under the Companies Act, 1956 and having its registered office at 7-1-27, Ameerpet, Hyderabad, Andhra Pradesh — 500 016 (hereinafter referred to as the "Issuer / Company" which expression shall unless excluded by or repugnant to the context or meaning thereof, be deemed to include its successors and assignees) of the ONE PART; and
2. **IDBI TRUSTEESHIP SERVICES LIMITED**, a company incorporated under the Companies Act, 1956 having its registered office at Asian Building, Ground Floor, 17, R. Kamani Marg, Ballard Estate, Mumbai 400 001, acting in its capacity as Debenture Trustee for the benefit of the Debenture Holder (as defined hereunder) (hereinafter referred to as the "Debenture Trustee", which expression shall unless excluded by or repugnant to the context or meaning thereof, be deemed to include its successors and assignees) of the OTHER PART.

The Issuer and the Debenture Trustee are hereinafter collectively referred to as "Parties" and individually referred to as a "Party".

WHEREAS

- (A) The Company is a fully integrated pharmaceutical company. Its purpose is to provide affordable and innovative medicines through its three core businesses:
- (a) Pharmaceutical Services and Active Ingredients, comprising of Active Pharmaceuticals and Custom Pharmaceuticals businesses;
 - (b) Global Generics, which includes branded and unbranded generics; and
 - (c) Proprietary Products, which includes New Chemical Entities (NCEs), Differentiated Formulations, and Generic Biopharmaceuticals
- (B) The Company was originally incorporated under the name and style of 'Dr. Reddy's Laboratories Private Limited' in the State of Andhra Pradesh on February 24, 1984. Subsequently, the Company was converted into a public limited company after complying with the necessary provisions of The Companies Act, 1956 and obtaining from the Registrar of Companies, Andhra Pradesh, Hyderabad on December 6, 1985 a fresh Certificate of Incorporation consequent to the change of name of the Company to 'Dr. Reddy's Laboratories Limited'.
- (C) The share capital structure of the Company as on March 31, 2010 is as under:

I. Authorised Share Capital

	<u>Amount in Rs.</u>
24,00,00,000 equity shares of Rs. 5/- (Rupees Five Only) each	1,20,00,00,000/-
Total	1,20,00,00,000/-

II. Issued Share Capital

	<u>Amount in Rs.</u>
16,88,45,585 equity shares of Rs. 5/- (Rupees Five Only) each *	84,42,27,925/-
Total	84,42,27,925/-

III. Subscribed & Paid-up Share Capital

	<u>Amount in Rs.</u>
16,88,45,385 equity shares of Rs. 5/- (Rupees Five Only) each fully paid up*#	84,42,26,925/-
Total	84,42,26,925/-

* As on 31st March, 2010, includes 2,45,48,869 equity shares of Rs. 5/- (Rupees Five Only) represented by 2,45,48,869 American Depository Receipts ("ADR") issued by the Company. The ADRs of the Company are listed on the New York Stock Exchange.

200 equity shares of the face value of Rs. 5/- (Rupees Five Only) each have been forfeited by the Company for nonpayment of calls.

- (D) Pursuant to the resolution dated March 31, 2010, the Board of Directors of the Company approved a scheme of arrangement between the Company and its members under Sections 391-394 of the Companies Act, 1956 (the "**Scheme**") for the issuance of unsecured, redeemable, non-convertible, fully paid up bonus debentures of face value of Rs. 5/- (Rupees Five Only) ("**Debentures**") to its members by restructuring of the Company's general reserve (built through retained undistributed profits and forming part of the revenue reserves) ("**General Reserve**"). The Scheme was approved by the shareholders of the Company in terms of the resolution passed at the Extraordinary General Meeting held on May 28, 2010 and was sanctioned by the Hon'ble High Court of Andhra Pradesh vide its order dated July 19, 2010.

The key terms of the issue of the Debentures have been reproduced herein under the Financial Covenants and Conditions in **Schedule I**.

- (E) The Debenture Trustee has, at the request of the Issuer, agreed to act as trustee under these presents for the benefit of the Debenture Holder as per consent letter No.3192/ITSL/OPR/CL/10-11/DEB/259, dated March 1, 2011.
- (F) The Issuer and the Debenture Trustee have agreed that the Debentures will be constituted and issued under this Debenture Trust Deed (as defined hereunder).

NOW THIS DEBENTURE TRUST DEED WITNESSETH AND IT IS HEREBY MUTUTALLY AGREED AND DECLARED AMONGST THE PARTIES HERETO AS UNDER:

1. DEFINITIONS AND INTERPRETATIONS

1.1 Definitions

In this Deed, unless there is anything in the subject or context inconsistent therewith, the expressions listed below shall have the following meanings:

"**Act**" shall mean the Companies Act, 1956.

"**ADRs**" means the outstanding American Depositary Receipts issued by the Company pursuant to the "Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depositary Receipt Mechanism) Scheme, 1993" and other applicable law, and where relevant shall include the underlying equity shares relating thereto.

"**Applicable Law**" means all statutes, enactments, acts of legislature or parliament, laws, by-laws, rules, regulations, notifications, circulars, orders, ordinances, codes, guidelines, policies, notices, directions and judgments or other requirements of any Government Authority in any relevant jurisdiction, as applicable to the Party concerned.

“Board” means the board of directors of the Company and shall include a committee duly constituted and authorised by the board of directors for the purposes of matters pertaining to the bonus issuance, the Scheme and/or any other matter relating thereto.

“Capital Reserves” means and includes the capital reserve and the securities premium account as reflected in the accounts of the Company.

“Debentures” shall mean 1,015,516,392 numbers of 9.25% Unsecured Listed Taxable unsecured redeemable, non-convertible fully paid up bonus debentures of Rs. 5/- (Rs. Five each) totally aggregating to Rs. 5,077,581,960 (Rs. Five Hundred Seven Crores Seventy Five Lacs Eighty One Thousand Nine Hundred Sixty Only) of the Issuer held in physical and dematerialized form in accordance with the Depositories Act, 1996 and issued/to be issued in accordance with the terms and conditions stipulated under the Scheme.

“Debenture Holder” shall mean the shareholders of the Company, who have been issued and allotted the Debenture in accordance with the terms and conditions of the Scheme, and on transfer of the Debentures, shall include the Persons who are the beneficial owners of the Debenture and whose names appear in the register of members of the Company or the records maintained by the Depository.

“Date of Allotment” means March 24, 2011.

“Default Interest” means interest at a rate of 9.25% per cent p.a.

“Depository” shall mean the National Securities Depository Limited or, as the case may be, such other depository registered with the Securities and Exchange Board of India, with whom the Issuer has entered into agreement for keeping and dealing the Debenture in dematerialised form.

“Event of Default” shall have the meaning specified in Clause 8.1.

“Face Value” means the face value of the Debenture being Rs. 5/- (Rupees Five Only).

“Financial Covenants and Conditions” shall mean the covenants and conditions on the part of the Issuer to be observed and performed as set out in Schedule I.

“General Reserve” means the general reserve of the Company which has been built through retained undistributed profits and which forms a part of the revenue reserves of the Company, as reflected in the accounts of the Company.

“Government Authority” means any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, government.

“High Court” shall mean the High Court of Andhra Pradesh having jurisdiction in relation to the Company and shall include the National Company Law Tribunal, as applicable or such other forum or authority as may be vested with any of the powers of a High Court under the Act.

“Interest” means the interest payable on the Debenture as specified in Schedule I.

“Interest Payment Date” shall be the 24th of March of every year (or the next Business Day, if such day is not a Business Day), till the Redemption Date as specified in Schedule I. The first Interest Payment Date will be March 24, 2012.

“Material Adverse Effect” shall mean any change, event or effect that is materially adverse to the business, assets (including intangible assets) as a whole, financial condition or results of operations of the Issuer, including revocation of any licenses or permits materially important to the business of the Company, taken as a whole.

“Memorandum” means the memorandum of association of the Issuer.

“Person” shall mean a person, and includes any individual, corporation, firm, partnership, joint venture, association, organization, trust, state or Governmental Authority or other legal entity (in each case, whether or not having separate legal personality).

“R&T Agent” means Bigshare Services Private Limited.

“Record Date” for the purpose of allotment of debenture means March 18, 2011 and for the purpose of payment of first and subsequent interest and redemption means

such date as may be fixed by the Board of Directors of the Company for the purpose in compliance with the applicable laws.

“**Redemption Price**” for each Debenture, shall the face value of the Debenture of Rs. 5 (Rupees Five).

“**Register**” shall have the meaning assigned to it in Clause 14.

“**Special Resolution**” shall have the meaning assigned to it in Schedule II.

1.2 Interpretation

In this Deed:

- (a) Words denoting singular shall include plural and vice-versa.
- (b) Words denoting one gender only shall include the other gender.
- (c) All references in these presents to any provision of any statute shall be deemed also to refer to the statute, modification or re-enactment thereof or any statutory rule, order or regulation made thereunder or under such re-enactment.
- (d) All references in these presents to schedules, recitals, sections, sub-sections, paragraphs or sub-paragraphs shall be construed as reference respectively to the schedules, recitals, sections, sub-sections, paragraphs and sub-paragraphs of these presents.
- (e) The provisions contained in the Schedules hereunder written shall have effect in the manner as if they were specifically set forth herein.

2. APPOINTMENT OF DEBENTURE TRUSTEE AND CONSTITUTION OF THE TRUST

- 2.1 Subject to the terms, conditions and covenants contained in this Deed, IDBI Trusteeship Services Limited is hereby appointed as the Debenture trustee to act on behalf of the Debenture Holders pursuant to the trust created hereunder and IDBI Trusteeship Services Limited hereby agrees to act as Debenture trustee for the purposes and in accordance with the terms and provisions set forth herein and on the remuneration as mentioned in Clause 21 hereof.
- 2.2 The Issuer hereby settles in trust with the Debenture Trustee the sum of Rs. 1000/- (Rupees One Thousand only). The Debenture Trustee hereby confirms receipt of and accepts the above amount of Rs. 1000/- (Rupees One Thousand only) in trust hereby declared and, subject to the terms and conditions of this Deed, agrees to act as trustee for the benefit of the Debenture Holders and their successors, transferees, novatees and assignees.

3. AMOUNT OF DEBENTURES AND COVENANT TO PAY PRINCIPAL AND INTEREST

- 3.1 The Debenture constituted and issued hereunder are 1,015,516,392 numbers of 9.25% Unsecured, redeemable, non-convertible, fully paid up bonus debentures of the Company denominated in nominal value of Rs. 5/- (Rupees Five only) each, of an aggregate value of Rs. 5,077,581,960 (Rs. Five Hundred Seven Crores Seventy Five Lacs Eighty One Thousand Nine Hundred Sixty Crores only), being issued by way of a bonus issuance to each shareholder of the Company whose name is recorded in the Register of Members and records of the depository as shareholder of the Company on the Record Date, in the ratio of 6 Debentures of face value Rs. 5/- (Rupees Five Only) each fully paid up in the Company for every equity share of Rs. 5/- (Rupees Five Only) each fully paid up held by such shareholder in accordance with the terms and conditions set out in the Scheme.

- 3.2 Each of the Debentures constitutes direct, unconditional obligations of the Issuer without any preference *inter se*.
- 3.3 The Issuer covenants with the Debenture Trustee that the Issuer shall pay the Redemption Price on redemption of the Debenture and the Interest on the Debenture in accordance with the Financial Covenant and Conditions on the respective due date and shall comply with all its obligations under this Deed including repayment of all other monies payable by the Issuer to the Debenture Trustee and the Debenture Holders in accordance with the terms of this Deed.

4. LISTING

The Issuer shall list the Debenture on the Wholesale Debt Market Segment of the NSE and /or the BSE.

5. FORM OF THE DEBENTURES

- 5.1 The Debentures shall be issued in dematerialized form to the Members who are recorded as holding equity shares of the Company in dematerialized form, or from whom the Company has received a notice in writing prior to the Record Date of details of their account with a depository participant and who have provided details thereof and such other confirmations as may be required, by direct credit to the account of such Member. For all other Members or in the event that the Company is unable to credit the demat accounts of the aforesaid Members, the Company shall issue Debentures in physical form to such Member. The Debenture issued in dematerialised form shall be in accordance with the provisions of the Depositories Act, 1996 and the regulations made thereunder and issued in accordance with the terms and conditions stipulated under the Scheme.
- 5.2 The Debenture issued in physical form shall be in the form or substantially in the form set out in Schedule III hereunder written and shall be enclosed with the Financial Covenants and conditions set out in Schedule I hereto.

6. REPRESENTATIONS, WARRANTIES AND COVENANTS

- 6.1 The representations, warrants and covenants made by the Issuer to the Debenture Trustee in this Clause are made as of the date hereof and as of the date of allotment of the Debentures to the Debenture Holders.
- 6.2 The Issuer hereby represents and warrants to the Debenture Trustee that:

(a) Corporate Status

The Issuer:

- (i) is a duly organized and validly existing company incorporated in India under the Act;
- (ii) is a public limited company listed on the Bombay Stock Exchange Limited, the National Stock Exchange of India Limited and the New York Stock Exchange, Inc.; and
- (iii) has power and authority to own its properties and assets and to transact the business in which it is engaged and to do all things necessary or appropriate to consummate the transactions contemplated by this Deed.

(b) Corporate Power and Authority

The Issuer has the corporate power to execute and deliver and to comply with the provisions of this Deed and that it has taken all necessary corporate and other action to authorise the execution, delivery and performance by it of such other documents as have been executed and delivered as of each date this

representation and warranty is made or deemed made in connection with the issue of the Debentures.

(c) No Violation

Neither the execution and delivery by the Issuer of this Deed nor the other documents as have been executed and delivered in connection with the issue of the Debenture as of each date this representation and warranty is made or deemed made, nor the Issuer's compliance with or performance of the terms and provisions hereof or thereof (i) will contravene, in any material respect, any provision of any Applicable Law or any order, writ, injunction or decree of any court or government authority, (ii) will conflict or be inconsistent with or result in any material breach of any of the material terms, covenants, conditions or provisions of, in any material respect of, or constitute a material default under, any material contract or instrument to which the Issuer is a party to by which it or any of its property is bound (iii) result in the creation or imposition of any security interest upon or in respect of any of the property or assets of the Issuer owned or may hereafter be acquired by the Issuer (iv) will violate any provisions of the Memorandum and Articles.

(d) Governmental Approvals

As of the date of this Deed, except for the consent of the approval of the Reserve Bank of India, the High Court of Andhra Pradesh and the Income Tax Department, no clearance, permission or consent of any Governmental Authority, under Applicable Law, is required to authorise, or is required in connection with: (i) the execution, delivery and performance by the Issuer of this Deed or any of the documents executed in connection with the issue of the Debentures; or (ii) the legality, validity, binding effect or enforceability, hereof or thereof, in each case, a lack of which would render execution, delivery and performance by the Issuer of such documents or the issuance of the Debentures to the Debenture Holders void, and which have not already been obtained by the Issuer.

(e) Litigation

There are no actions, suits or proceedings pending or to the best of the Issuer's knowledge, threatened against the Issuer, including with respect to governmental, statutory or other approvals, which could reasonably be expected to render execution, delivery and performance by the Issuer of this Deed or the issuance of the Debentures to the Debenture Holders void.

(f) Tax Returns and Payments

The Issuer has filed all tax returns required by Applicable Law to be filed by it and has paid all taxes payable by it which have become due pursuant to such tax returns, save and except those not yet delinquent and/or contested in good faith.

(g) Compliance with Statutes

The Issuer is in compliance in all material respects with all Applicable Laws in respect of the conduct of its business and the ownership of its property. All consents and permissions required have been or will be obtained in accordance with the Applicable Laws in connection with the issue of the Debentures.

(h) Material Adverse Effect

There are no facts or circumstances, conditions or occurrences which could collectively reasonably be expected to result in a Material Adverse Effect.

(i) Assurance

The Issuer shall execute all such deeds, documents and assurances and do all such acts and things as the Debenture Trustee may reasonably require for exercising the rights under these presents and the Debentures.

(j) Solvency

- (i) The Issuer is able to, and has not admitted its inability to, pay its debts as they mature and has not suspended making payment on any of its debts, nor, will it become so in consequence of entering into this Deed.
- (ii) The Issuer, by reason of actual or anticipated financial difficulties, has not commenced, and does not intend to commence, negotiations with one or more of its creditors with a view to rescheduling its indebtedness.
- (iii) The value of the assets of the Issuer is more than its respective liabilities (taking into account contingent and prospective liabilities) and it has sufficient capital to carry on its business.
- (iv) The Issuer has not taken any corporate action nor has taken any legal proceedings or other procedure or steps in relation to any bankruptcy proceedings.

(k) Immunity

The Issuer is not entitled to any immunity or privilege (sovereign or otherwise) from any set-off, judgment, execution, attachment or other legal process.

7. UNDERTAKINGS OF THE ISSUER

The Issuer hereby undertakes and agrees with the Debenture Trustee that throughout the continuance of this Deed till Maturity, the Issuer shall unless otherwise agreed to by the Debenture Trustee:

- (a) execute and/or do, at its own expense, all such deeds, assurances, documents, instruments, acts, matters and things, in such form and otherwise as the Debenture Trustee may reasonably or by law require or consider necessary in relation to enforcing or exercising any of the rights and authorities of the Debenture Trustee.
- (b) pay the stamp duty on this Deed on or before the execution of this Deed and all reasonable costs of the Debenture Trustee (including legal costs) and other charges, if any, incurred in connection with the stamping and if, any penalty or legal costs or any other charges are paid by the Debenture Holder, the Issuer will pay to the Debenture Trustee the amount thereof and also to deliver to the Debenture Trustee certified copies of the receipts evidencing payment of stamp duty and other charges in connection with the stamping of this Deed. In the event of the Issuer failing to pay such stamp duty, other duties, taxes and penalties as aforesaid, the Debenture Trustee will be at liberty, but shall not be bound, to pay the same and the Issuer shall reimburse the same to the Debenture Trustee on demand with interest thereon at the Default Interest.

- (c) The Issuer shall carry out and conduct its business with due diligence and efficiency and in accordance with sound managerial and financial standards and business practices with qualified and experienced management and personnel, and shall diligently make all efforts to preserve its corporate existence and status and all rights, contracts, privileges and concessions now held or hereafter acquired by it in the conduct of its business and it will materially comply with all Applicable Laws and shall engage in business which is permitted by its Memorandum and Articles.
- (d) The Issuer shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations necessary to enable it lawfully to enter into and perform its obligations under this Deed or to ensure the legality, validity, enforceability or admissibility in evidence in India of this Deed.
- (e) The Issuer shall perform and observe in all material respects including in a timely manner, all of its covenants and agreements contained in this Deed.
- (f) The Issuer shall, as soon as possible but not later than (unless otherwise specified) 7 (seven) Business Days from the occurrence of any of the events set out below:
 - (A) forthwith give notice to the Debenture Trustee of occurrence of any Event of Default or any event which, after the notice, or lapse of time, or both, would constitute an Event of Default, specifying the nature of such Event of Default or of such event and any steps the Issuer has taken or proposes to take to remedy the same;
 - (B) provide to the Debenture Trustee such further information regarding the financial condition, business and operations of the Issuer as the Debenture Trustee may reasonably request in relation to the payments due to be made on the Debentures;
 - (C) on occurrence of any change in Rating, notify the Debenture Trustee, specifying the credit rating applicable to its senior debt;
 - (D) shall furnish, upon the request of the Debenture Trustee such documentation and other evidence as is reasonably requested by the Debenture Trustee (including on behalf of any prospective new Debenture Holders) in order for such Debenture Holders or any prospective new Debenture Holders to conduct any “know your customer” or other similar procedures under Applicable Laws.
- (g) The Issuer shall materially comply with:
 - (A) All laws, rules, regulations and guidelines, as applicable in respect of the Debentures, including (i) the Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008, as may be in force from time to time during the currency of the Debentures; and (ii) the provisions of the listing agreement entered into by the Issuer with the NSE/ BSE in relation to the Debentures;
 - (B) The Securities and Exchange Board of India (Debenture Trustee) Regulations, 1993 as in force from time to time, in so far as they are applicable to the Debenture and furnish to the Debenture Trustee such data, information, statements and reports as may be deemed necessary by the Debenture Trustee in order to enable them to comply with the provisions of Regulation 15 thereof in performance of their duties in accordance therewith to the extent applicable to the Debentures; and
 - (C) The provisions of the Act in relation to the issue of the Debentures.
- (h) The Issuer shall promptly and expeditiously attend to and redress the grievances, if any, of the Debenture Holders. The Issuer further undertakes that it shall promptly comply with the reasonable suggestions and directions that may be given in this regard, from time to time, by the Debenture Trustee and shall advise the Debenture Trustee periodically of such compliance.

- (i) The Issuer shall take all necessary steps to procure that the Debenture are listed in accordance with Clause 4 within 15 (fifteen) Business Days of Date of Allotment of the Debenture and that such listing of the Debenture continues till Maturity.
- (j) The Issuer shall intimate the NSE/ BSE by way of a written notice of the commencement of the Record Date at least 10 (ten) clear Business Days prior to the Record Date for Interest/Principal Payment or such other period as applicable.
- (j) The Issuer shall use best efforts to procure that the Debenture are rated and a rating is continued till the Maturity.
- (k) The Issuer shall reimburse all sums paid or expenses incurred by the Debenture Trustee or any attorney, manager, agent or other Person appointed by the Debenture Trustee for all or any of the purposes mentioned in these presents immediately on receipt of a notice of demand from them in this behalf and as regards liabilities, the Issuer will, on demand, pay and satisfy or obtain the releases of such Persons from such liabilities and if any sum payable under these presents shall be paid by the Debenture Trustee, the Issuer shall, forthwith on demand, reimburse the same to the Debenture Trustee.
- (l) The Issuer shall, in accordance with the provisions of the Scheme, allot the Debenture and continue to observe and act in accordance with the terms of Debenture as set out in the Scheme and in this Deed.

8. EVENTS OF DEFAULT AND REMEDIES

8.1 Events of Default

An “**Event of Default**” means the occurrence of any of the events specified below:

- (a) Default is committed in payment of the principal amount of the Debenture on the due date(s) and is not rectified within 30 (thirty) Business Days of written intimation to the Issuer by the Debenture Trustee;
- (b) Default is committed in payment of any interest on the Debenture on the due date(s) and is not rectified within 30 (thirty) Business Days of written intimation to the Issuer by the Debenture Trustee;
- (c) Default is committed by the Issuer in the performance or observance of any other covenant, obligation condition or provision contained in these presents and except where such default is incapable of remedy, such default continues for 30 (thirty) Business Days after written notice has been given thereof by the Debenture Trustee to the Issuer requiring the same to be remedied;
- (d) Any indebtedness of the Issuer for borrowed monies i.e. indebtedness for and in respect of monies borrowed or raised (whether or not for cash consideration) from banks or financial institutions by whatever means (including acceptances, credits, deposits and leasing), including interest thereon, becomes due prior to its stated maturity by reason of default of the terms thereof or any such indebtedness is not paid at its stated maturity or there is a default in making payments due under any guarantee or indemnity given by the Issuer in respect of the indebtedness of borrowed monies of any person, provided that individual amounts referred to above exceed Rs. 10,00,00,00- (Rupees One Crore Only) and the default is not rectified within such period as the relevant creditor or and Court of law / Governmental Authority may permit;

- (e) Any information given by the Issuer in any reports and other information furnished by the Issuer and the representations and warranties given by it to the Debenture Trustee is misleading or incorrect in any material respect, and such information / representation / warranty materially affects the Debenture Holders;
- (f) If proceedings for taking the Issuer into liquidation, either voluntarily or compulsorily, have been commenced and admitted, and such proceedings have not been withdrawn / stayed within 60 Business Days of their commencement;
- (g) The Issuer has admitted in writing its inability to pay its debts as they mature;
- (h) A receiver or a liquidator has been appointed or allowed to be appointed of all or any substantial part of the undertaking of the Issuer or an attachment, distress or execution is levied or enforced upon or issued against a substantial part of the assets or property of the Issuer and such appointment or process is not withdrawn / stayed within 60 Business Days of its commencement;
- (i) The Issuer ceases or threatens to cease to carry on its business or gives notice of its intention to do so;
- (j) If, the Issuer is deemed to be unable to pay its debts within the meaning of Section 434(1)(b) and 434(1)(c) of the Act and corrective measures for the same are not initiated by the Company within 30 days; and
- (k) The Debenture are not listed in accordance with Clause 4 within 15 (fifteen) Business Days of the date of allotment of the Debentures, or if such listing of the Debenture ceases at any point of time prior to the Redemption Date due to an act of the Issuer or failure by the Issuer to take all necessary action to ensure listing.

8.2 Remedies

If one or more of the events specified in Clause 8.1 happen(s), the Debenture Trustee may, in their discretion, but shall, upon request in writing of the Debenture Holders of an amount representing not less than three-fourths in value of the nominal amount of the Debenture for the time being outstanding or by a Special Resolution duly passed at the meeting of the Debenture Holders convened in accordance with the provisions set out hereunder, by a notice in writing to the Issuer, declare the principal of and all accrued interest on the Debenture to be due and payable forthwith and the Debenture shall without any further action become due for redemption along with the Interest accrued thereon.

8.3 Nominee Director

- (i) In addition to the rights specified above, the Debenture Holders / Debenture Trustee shall have the right to appoint a nominee on the Board of Directors of the Issuer (hereinafter referred to as “the **Nominee Director**”) in terms of the Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008 in accordance with the provisions of Schedule I hereto.;
- (ii) The Nominee Director so appointed shall not be liable to retire by rotation nor shall be required to hold any qualification shares. The Issuer shall take steps to amend its Articles for the purpose if necessary.

8.4 Notice on the happening of an Event of Default

If any Event of Default or any event which in the opinion of the Issuer, after the notice, or lapse of time, or both, would constitute an Event of Default, has happened, then Issuer shall, upon becoming aware of occurrence of such an event, forthwith give

notice thereof to the Debenture Holders/Debenture Trustee in writing specifying the nature of such event of default, or of such event.

8.5 Expenses of Preservation of Assets of the Issuer and of Collection

All expenses incurred by the Debenture Holders/Debenture Trustee after an Event of Default has occurred in connection with (a) preservation of the Issuer's assets (whether then or thereafter existing) and (b) collection of amounts due under this Deed, shall be payable by the Issuer.

8.6 Right to Disclose/ Publish the Names of the Issuer and its Directors as Defaulters

In the event of the Issuer committing default in the repayment of installment of the Debenture or payment of Interest on the respective due dates, the Debenture Holders / Debenture Trustee shall have an unqualified right to disclose the name of the Issuer and its directors to Reserve Bank of India (RBI)/ or any other statutory / regulatory authority in this behalf. The Debenture Holders/ Debenture Trustee and/ or (RBI)/ or any other statutory / regulatory authority shall have the right to publish the name of the Issuer and its directors as defaulters in such manner and through such medium as they in their absolute discretion may think fit.

9. REALISATION OF MONIES

9.1 Trust of Proceeds

The Debenture Trustee shall hold UPON TRUST the monies received by it or any part thereof in their capacity as Debenture Trustee for the benefit of the Debenture Holder and they shall utilise the monies received in the following order of priority:

- (i) Firstly, in or towards *pari passu* payment to the Debenture Holders of the Interest and redemption amount and all amounts due and remaining unpaid (which shall be deemed to accrue from day to day) on the Debenture held by them;
- (ii) Secondly, to reimburse themselves and retain, pay or discharge all the costs, charges and expenses incurred in calling in, collection, or the exercise of the powers and trusts under these presents, including their remuneration as herein provided.

9.2 Liability to Debenture Holder for Deficiency

The Issuer shall remain liable to the Debenture Holders for any deficiency in the repayment of all amounts due to it under this Deed and/or the Debentures.

10. RECEIPT OF DEBENTURE HOLDERS

The receipt by each Debenture Holder, or, if there be more than one holder of any such Debentures, then the receipt of the first named Debenture Holder or by the survivor or survivors, or, by the nominee or nominees, if any, of the holder of such Debentures, or, if there be more than one holder, of all holders of such Debenture of the interest and the principal amount and all other amounts payable in respect of each of such Debentures, shall be a good discharge to the Debenture Trustee.

11. TRUSTEE NOT TO RECOGNISE ANY INTEREST IN THE DEBENTURES

The Debenture Trustee shall not be affected by any notice, express or implied, of the rights, title or claim of any Person to the said monies other than the Debenture Holders.

12. DEBENTURES FREE FROM EQUITIES

The Debenture Holders will be entitled to their Debenture free from equities or cross claims by the Issuer against the original or any intermediate holders thereof.

13. AUTHORISED INVESTMENTS

Any monies which under the trust or powers herein contained ought to be invested by the Debenture Trustee may be invested in the name of the Debenture Trustee or under the legal control of the Debenture Trustee in the name of the Debenture Trustee in any principal protected fixed deposits. Section 20 of the Indian Trusts Act, 1882 shall not apply to such investments.

14. REGISTER OF DEBENTURE HOLDERS

The register of the Debenture Holders in respect of Debenture (the "**Register**") will be maintained by the Company in accordance with the Act and the Depository in accordance with the provisions of the Depositories Act, 1996 and the regulations made thereunder and the regulations made by Securities and Exchange Board of India and other statutory authorities made from time to time. The R&T Agent shall, in relation to the Debentures, obtain a list of beneficial holders from the Depository as at the record date for Notice and/or the record date for Interest, on such date or within one Business Day of such date. For a physical register maintained with the Issuer, the Debenture Trustee and / or the Debenture Holders or any of them or any other Person shall, as provided in Section 163 of the Act be entitled to inspect the said register / record and to take copies of or extracts from the same or any part thereof during usual business hours.

15. POWERS OF THE DEBENTURE TRUSTEE

15.1 In addition to the rights, powers and duties of the Debenture Trustee contained in this Deed, the Debenture Trustee shall exercise all rights, powers and duties in accordance with and available to the Debenture Trustee under the Applicable Laws of India.

15.2 The rights and powers available to the Debenture Trustee under this Deed shall vest in the Debenture Trustee exclusively for the benefit of the Debenture Holders.

16. DEBENTURE REDEMPTION RESERVE

The Issuer hereby agrees and undertakes that it shall create a Debenture redemption reserve as per the provisions of the Act or any guidelines issued by the Securities and Exchange Board of India, as applicable, and if during the currency of these presents, any guidelines are formulated (or modified or revised) by any Government Authority having authority under law in respect of creation of Debenture redemption reserve applicable to the Debentures, the Issuer shall duly abide by such guidelines and execute all such supplemental letters, agreements and deeds of modifications as may be required by the Debenture Holders or the Debenture Trustee and the Issuer shall submit to the Debenture Trustee a certificate duly certified by the auditors of the Issuer certifying that the Issuer has transferred a suitable sum to the Debenture redemption reserve at the end of each financial year.

17. LIMITATION OF LIABILITIES OF DEBENTURE TRUSTEE

In addition to the other powers conferred on the Debenture Trustee and provisions for their protection and not by way of limitation or derogation of anything in these presents contained or of any statute limiting the liability of the Debenture Trustee, IT IS EXPRESSLY DECLARED as follows:

- (a) the Debenture Trustee may, in relation to these presents, act on the opinion or advice of any solicitor, counsel, advocate, valuer, surveyor, qualified accountant or other expert obtained by the Debenture Trustee and shall not be responsible for any loss occasioned by so acting any such advice or opinion

between the Debenture Trustee and their representative or an attorney appointed by them may be obtained or sent by letter or confirmed facsimile transmission and the Debenture Trustee, their representative or the attorney shall not be liable for acting on any advice or opinion conveyed by any such letter or confirmed facsimile transmission, except where the Debenture Trustee, their representative or attorney is aware prior to acting on the advice, opinion or information contained therein, that such letter, facsimile transmission contains some error or is not authentic;

- (b) The Debenture Trustee shall be at liberty to accept a certificate signed by any one of the directors of the Issuer as to any act or matter prima facie within the knowledge of the Issuer as sufficient evidence thereof and a like certificate that any property or assets are in the opinion of the Director so certifying worth a particular sum or suitable for the Issuer's purpose or business as sufficient evidence that it is worth that sum or so suitable and a like certificate to the effect that any particular dealing or transaction or step or thing is in the opinion of the Director so certifying expedient as sufficient evidence that it is expedient and the Debenture Trustee shall not be bound in any such case to call for further evidence or be responsible for any loss that may be occasioned by their failing to do so;
- (c) the Debenture Trustee shall not be bound to give notice to any Person of the execution hereof or to see to the performance or observance of any of the obligations hereby imposed on the Issuer or in any way to interfere with the conduct of the Issuer's business;
- (d) The Debenture Trustee shall be at liberty to keep these presents at its registered office or elsewhere or if the Debenture Trustee so decide with any banker or company whose business includes undertaking the safe custody of documents or with any advocates or firm of solicitors and the Debenture Trustee shall not be responsible for any loss incurred in connection with any such deposit and the Debenture Trustee shall pay all sums required to be paid on account of or in respect of any such deposit;
- (e) save as herein otherwise expressly provided the Debenture Trustee shall, as regards all trusts, powers, authorities and discretions hereby vested in them, have absolute and uncontrolled discretion as to the exercise thereof and to the mode and time of exercise thereof and, subject to the provisions of Applicable Laws, including Section 119 of the Act shall not, in the absence of breach, gross negligence or willful neglect, default or fraud, shall not be responsible for any loss, costs, charges, expenses or inconvenience that may result from the exercise or non-exercise thereof and in particular they shall not be bound to act at the request or direction of the Debenture Holder under any provisions of these presents unless sufficient monies shall have been provided or provision to the satisfaction of the Debenture Trustee made for providing the same and the Debenture Trustee are indemnified to their satisfaction against all further costs, charges, expenses and liability which may be incurred in complying with such request or direction;
- (f) with a view to facilitating any dealing under any provision of these presents in the best interests of the Debenture Holders, the Debenture Trustee shall have full power to consent (where such consent is required) to a specified transaction or class of transactions;
- (g) the Debenture Trustee shall not be responsible for the monies paid by Debenture Holders for the Debenture or be bound to see the application thereof;
- (h) the Debenture Trustee shall not be responsible for acting upon any consent of the Debenture Holder or any resolution purporting to have been passed at any meeting of the Debenture Holders in respect whereof minutes have been made and signed even though it may subsequently be found that there was

some defect in the constitution of the meeting or the passing of the resolution or that for any reason the resolution was not valid or binding upon the Debenture Holders;

- (i) without prejudice to the rights to indemnity by law given to the Debenture Trustee and every attorney, manager, agent or other Person appointed by them hereunder shall, subject to the provisions of the Act; be entitled to be indemnified by the Issuer in respect of all liabilities and expenses incurred by them or him in the execution or purported execution of the powers and trusts thereof or of any powers, authorities or discretion vested in them or him pursuant to these presents in the absence of breach, gross negligence or willful neglect, default or fraud, and, subject to clause 9.1, the Debenture Trustee may retain and pay out of any monies in their hands UPON THE TRUSTS of these presents the amount of any liabilities and expenses necessary to effect such indemnity and also remuneration of the Debenture Trustee as herein provided;
- (j) The Debenture Trustee shall have full power to determine all questions and doubts arising in relation to any of the provisions hereof and every such determination, *bona fide* made, whether or not the same shall relate wholly or partially to the acts or proceedings of the Debenture Trustee, shall be conclusive and binding upon all Debenture Holders. Without limiting the effect of the foregoing, in respect of any doubt or ambiguity arising in relation to any of the provisions of these presents or if the Debenture Trustee is unsure as to the manner in which it should exercise its powers, authorities, discretions, rights or remedies under these presents, the Debenture Trustee may obtain the instructions or directions of Debenture Holders representing at least 50 % (Fifty per cent.) of the aggregate outstanding Debentures, and it shall not be liable to the Debenture Holders or any other party for so acting in accordance with such instructions or directions;
- (m) subject to the provisions of Applicable Laws, including, Section 119 of the Act, the Debenture Trustee shall not be liable for anything whatsoever except breach of this Deed, gross negligence, willful neglect, default, fraud, a breach of trust knowingly and intentionally committed by the Debenture Trustee;
- (n) subject to the provisions of Applicable Laws, including, Section 119 of the Act, the Debenture Trustee shall not be liable for any default, omission or delay in performing or exercising any of the powers or trusts herein expressed or contained or any of them or in enforcing the covenants herein contained or any of them or in giving notice to any Person or Persons of the execution hereof or for any loss or injury which may be occasioned by reason thereof unless the Debenture Trustee shall have been previously requested by notice in writing to perform, exercise or do any of such steps as aforesaid by the Debenture Holder and in case where there are more one Debenture Holder then the request being made by such Debenture Holders representing not less than 3/4th of the nominal amount of the Debenture for the time being outstanding by a notice in writing or by a Special Resolution duly passed at a meeting of the Debenture Holders convened in accordance with the provisions set out in Schedule II and the Debenture Trustee shall not be bound to perform, exercise or do any such acts, powers or things or to take any such steps unless and until sufficient monies shall have been provided or provision to the satisfaction of the Debenture Trustee made for providing the same by or on behalf of the Debenture Holder or some of them in order to provide for any costs, charges and expenses which the Debenture Trustee may incur or may have to pay in connection with the same and the Debenture Trustee is indemnified to their satisfaction against all further costs, charges, expenses and liabilities which may be incurred in complying with such request.

PROVIDED NEVERTHELESS that nothing contained in this Clause 17 shall exempt the Debenture Trustee from or indemnify them against any liability for breach of trust nor any liability which by virtue of Applicable Laws would otherwise attach to them in

respect of any fraud, gross negligence, willful default or breach of trust which they may be guilty of in relation to their duties hereunder.

18. BREACH OF COVENANT BY THE ISSUER MAY BE WAIVED

The Debenture Trustee shall not, unless directed by a Special Resolution of the Debenture Holders or by written consent of Debenture Holders representing 3/4th of the aggregate outstanding amount of the Debenture waive any breach by the Issuer of any of the covenants and provisions in this document. Upon such Special Resolution or written consent, the Debenture Trustee may waive on such terms and conditions as to it shall seem expedient any breach by the Issuer of any of the covenants and provisions in these presents contained, without prejudice to the rights of the Debenture Trustee in respect of any subsequent breach thereof.

19. POWER OF TRUSTEES TO DELEGATE/APPOINT AGENTS

19.1 The Debenture Trustee may, in the execution and exercise of all or any of the trusts, powers, authorities and discretions vested in them by these presents act by an officer, agent, or delegate for the time being of the Debenture Trustee and the Debenture Trustee may also, whenever they think it expedient, delegate by power of attorney or otherwise to any such officer, agent or person all or any of the trusts, powers, authorities and discretions vested in them by these presents (including the power to hold any title documents, and receipt of and payment of monies) and any such delegation may be made upon such terms and conditions and subject to such regulations, including power to sub-delegate, as the Debenture Trustee may think fit and the Debenture Trustee shall not be bound to supervise the proceedings or be in anyway responsible for any loss incurred by any such delegatee to the extent arising out of actions undertaken in good faith and permitted by law.

19.2 The Debenture Trustee shall appoint, or ensure that the Issuer appoints the R&T Agent;

20. DEBENTURE TRUSTEE MAY CONTRACT WITH ISSUER

Neither the Debenture Trustee nor any agent of the Debenture Trustee shall be precluded from making any contract or entering into any arrangement or transaction with the Issuer in the ordinary course of business or from undertaking any banking, financial or agency services for the Issuer or from underwriting or guaranteeing the subscription of or placing or subscribing for or otherwise acquiring, holding or dealing with any of the stocks or shares or Debenture or Debenture stocks or any other securities whatsoever of the Issuer or in which the Issuer may be interested either with or without a commission or other remuneration or otherwise at any time entering into any contract of loan or deposit or any other contract or arrangement or transaction with the Issuer or being concerned or interested in any such contract or arrangement or transaction which any other company or Person not being a Debenture Trustee of these presents would be entitled to enter into with the Issuer and they shall not be in anyway be liable to account either to the Issuer or to the Debenture Holder for any profits made by them thereby or in connection therewith and the Debenture Trustee or any agent of the Debenture Trustee shall also be allowed to retain for their or his own benefit any customary share of brokerage, fee, commission, interest, discount or other compensation or remuneration allowed to them or him.

21. DEBENTURE TRUSTEE'S REMUNERATION

- (i) The Issuer shall pay to the Trustees remuneration as mutually agreed in the fee letter.
- (ii) The Company shall pay to the Trustees all legal, traveling and other costs, charges and expenses incurred by them, their officers, employees, agents in connection with execution of these presents all other documents affecting the security to be created herein and will indemnify them against all actions,

proceedings, costs, charges, expenses, claims and demands whatsoever which may be brought or made against or incurred by them in respect of any matter or thing done or omitted to be done other than in case of their willful default, breach, misconduct, negligence or fraud in respect of or in relation to the properties charged/to be charged to the Trustees.

22. SURRENDER

22.1 SURRENDER OF DEBENTURES FOR PAYMENT

On payment to the Debenture Holders of the Redemption Price and the Interest payable to them upon such Debentures, the Debentures would have to be surrendered in the form and manner advised to the Debenture Holders by the Issuer.

22.2 FAILURE TO SURRENDER THE DEBENTURES

In the event of any holder of any Debentures not surrendering such Debentures, which the Issuer is ready to pay or satisfy in accordance with the terms of these presents (such event being as communicated to the Debenture Trustee), within 30 (thirty) days after such proposed date of redemption the Issuer shall deposit in an account in the name of the Debenture Trustee in a bank rated 'AAA (ind)' by Credit Ratings Agency, which shall be operated by the Debenture Trustee for the purpose, an amount equal to the amount due to such Debenture Holders in respect of such Debentures and upon such deposit being made or upon the Issuer making any other arrangements to the satisfaction of the Debenture Trustee, the Debentures which the Issuer is ready to pay or satisfy as aforesaid shall be deemed to have been paid off or satisfied in accordance with the provisions hereof.

22.3 For the avoidance of doubt, the provisions of this Clause 22 shall not apply to Debentures held in dematerialized form.

23. MODIFICATIONS TO THESE PRESENTS

The Debenture Trustee shall concur with the Issuer in making any modifications in these presents and to any modification of the terms of the Debenture or any of the other Transaction Documents. Any change or modification to the terms of the Debenture or the Debenture Trust Deed shall require approval by the Debenture Holders as set out in Schedule II. Upon obtaining such approval, the Debenture Trustee and the Issuer shall give effect to the same by executing necessary deed(s) supplemental to these presents (as necessary).

24. RETIREMENT & REMOVAL OF DEBENTURE TRUSTEE

- (a) The Debenture Trustee hereof may retire at any time without assigning any reason and without being responsible for any loss or costs occasioned by such retirement provided that they shall have given at least 1 (one) month's previous notice in writing to the Issuer in that behalf. Provided that any resignation by the Debenture Trustee shall become effective after a successor Debenture Trustee has been appointed in accordance with this Deed.
- (b) The Debenture Trustee hereof may be removed by the Debenture Holders by a Special Resolution duly passed at the meeting of the Debenture Holders convened in accordance with the provisions set out in Schedule II and the Issuer shall appoint such person or persons as may be nominated by the Debenture Holder as the new Debenture Trustee hereof;

For the purposes aforesaid, forthwith upon receipt of the notice of retirement from the Debenture Trustee for the time being hereof or on the occurrence of the vacancy in the office of the Debenture Trustee hereof, the Issuer shall inform the same to the Debenture Holder. The Issuer may, in consultation with the Debenture Holder appoint a body corporate or a statutory corporation which is a financial institution in the public sector which is registered under the Securities and Exchange Board of India (Debenture Trustee) Regulations, 1993 as a Debenture Trustee hereof.

25. NOTICES

25.1 Any notices, request and other communications to be given or made under this Deed shall be in writing; and except as provided otherwise in this Deed, such notice, request or other communication shall be deemed to have been duly given or made:

- (a) if given by fax, when such fax is transmitted to the fax number specified herein and the appropriate answerback is received, or
- (b) if delivered by air courier service, 72 hours after such communication is delivered to the courier service, shipping charges paid and properly addressed, and
- (c) if given by registered post or speed post, when delivered at the address specified herein.

Provided further that an original of each notice and communication sent by telex or facsimile shall be dispatched by person, or courier and, if such person or courier service is not available, by registered first class mail with postage prepaid, provided that the effective date of any such notice shall be determined in accordance with this Clause, without regard to the dispatch of such original.

The address for service of the **Issuer** shall be:

Name of the Company: DR. REDDY'S LABORATORIES LIMITED

Address: 7-1-27, Ameerpet,
Hyderabad – 500 016

Attn: Mr. K. Ganesh, Vice-President, Finance

Tel No.: 91 40 2373 4504 _____ / _____
Fax: 91 40 2373 1946 _____ / _____

The address for service of the **Debenture Trustee** shall be:

IDBI Trusteeship Services Limited

Address: Asian Building,
Ground Floor, 17, R. Kamani Marg,
Ballard Estate,
Mumbai 400 001

Attn: MD & CEO

Tel No.: 022-40807000
Fax: 022-66311776

25.2 Any Party may in writing to other Party change its designated address. Such change shall take effect when all Parties have been informed of it.

26. WAIVER

26.1 No Implied Waiver of Impairment

No delay or omission of the Debenture Trustee in exercising any right, power or remedy accruing of the Debenture Trustee upon any default hereunder shall impair any such right, power or remedy to be construed to be a waiver thereof or any acquiescence in such default, nor shall the action or inaction of the Debenture Trustee in respect of any default or any acquiescence by it in any default affect or impair any

right power or remedy of the Debenture Trustee in respect of any other defaults nor shall any single or partial exercise of any such right, power or remedy preclude any further exercise thereof or the exercise of any other right, power or remedy. The rights and remedies of the Debenture Trustee herein provided are cumulative and not exclusive of any rights or remedies provided by law or equity.

26.2 Express Waiver

A waiver or consent granted by the Debenture Trustee under this Deed will be effective only if given in writing and then only in the instance and for the purpose for which it is given.

27. MISCELLANEOUS

27.1 Discharges and Releases

Notwithstanding any discharge, release or settlement from time to time between the Debenture Trustee and the Issuer, if any discharge or payment in respect of the obligations of the Issuer under this Deed is avoided or set aside or ordered to be surrendered, paid away, refunded or reduced by virtue of any provision of law or enactment relating to bankruptcy, insolvency, liquidation, winding up, composition or arrangement for the time being in force or for any other reason resulting in the above, the Debenture Trustee shall be entitled hereafter to enforce this Deed as if no such discharge, release or settlement had occurred.

27.2 Limitation on Rights of Others

Nothing in this Deed, whether express or implied, shall be construed to give to any Person other than the Debenture Trustee, the Debenture Holder and the Issuer, any legal or equitable right, remedy or claim under or in respect of this Deed. Except as expressly provided in this Deed, the covenants and undertakings by the Issuer contained herein are, and shall be construed to be, for the sole and exclusive benefit of the Debenture Trustee and the Debenture Holder.

27.3 Other Remedies

The rights and remedies conferred upon the Debenture Trustee under this Deed:

- (a) shall not prejudice any other rights or remedies to which the Debenture Trustee may, independently of this Deed, whether by statute or otherwise, be entitled and in particular, the Debenture Trustee and/or the Debenture Holders shall retain all rights and remedies available to it under the Scheme and this Deed; and
- (b) shall not be prejudiced by any other rights or remedies to which the Debenture Trustee may, independently of this Deed, be entitled to, or any collateral or other security now or hereinafter held by the Debenture Trustee.

28. SEVERABILITY

Every provision contained in this Deed shall be severable and distinct from every other such provision and if at any time any one or more of such provisions is or becomes invalid illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions hereof shall not be in any way affected or impaired thereby.

29. EFFECTIVE DATE

The provisions of this Deed shall become effective on the Date of Allotment.

30. GOVERNING LAW

This Deed shall be governed by and construed in accordance with Indian law.

31. JURISDICTION

- 31.1 The Issuer agrees that the courts and tribunals in Hyderabad shall have exclusive jurisdiction to settle any disputes which may arise out of or in connection with this Deed and that accordingly any suit, action or proceedings (together referred to as "**Proceedings**") arising out of or in connection with this Deed may be brought in such courts or the tribunals and the Issuer irrevocably submits to and accepts for itself and in respect of its property, generally and unconditionally, the jurisdiction of those courts or tribunals.
- 31.2 The Issuer irrevocably waives any objection now or in future, to the laying of the venue of any Proceedings in the courts and tribunals at Hyderabad and any claim that any such Proceedings have been brought in an inconvenient forum and further irrevocably agrees that a judgment in any Proceedings brought in the courts and tribunals at Hyderabad shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction, (subject to the laws of such jurisdiction) by a suit upon such judgment, a certified copy of which shall be conclusive evidence of such judgment, or in any other manner provided by law.
- 31.4 The Issuer hereby consents generally in respect of any Proceedings arising out of or in connection with this Deed to the giving of any relief or the issue of any process in connection with such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings.
- 31.5 To the extent that the Issuer may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that in any such jurisdiction there may be attributed to itself or its assets such immunity (whether or not claimed), the issuer hereby irrevocably agrees not to claim and hereby irrevocably waives such immunity.

32. INCONSISTENCY

In the event of any inconsistency between the provisions of this Deed and the Scheme, it is agreed that the terms of the Scheme shall prevail over these. The Parties shall take all steps to amend this Deed so as to remove such inconsistency in accordance with Clause 22.

SCHEDULE I

Financial Covenants and Conditions

1. **DEBENTURES TO RANK PARI PASSU**

The Debentures shall rank pari passu, inter se, without any preference or priority of one over the other or others of them.

2. **INTEREST**

A. **RATE AND MANNER OF PAYMENT**

The Debentures shall carry interest at the rate of 9.25% per annum payable yearly. The first instalment of interest shall be payable at the end of each 12 calendar month period from the Date of Allotment on the unredeemed balance of each Debenture. The interest for the last period shall be payable together with the last instalment of the redemption of the said Debentures on the Redemption Date.

B. **DEFAULT INTEREST**

All interest on the Debentures and all other monies shall, in case the same be not paid on the respective due dates, (except for such interest payments which are unpaid due to technical reasons and the same is not corrected within two weeks) carry further interest at the rate of 12% per annum computed from the respective due dates and shall become payable upon the footing of compound interest with rests taken half yearly.

3. **REDEMPTION**

The Issuer shall pay to the relevant Debenture Holders the applicable Redemption Price of the Debentures on March 24, 2014 (“Redemption Date”).

4. **PAYMENTS**

Payment of the principal and interest will be made to the Debenture Holders and in case of joint holders to the one whose name stands first in the register of Debenture Holders. Such payments shall be made by either the ECS / NEFT facility or by way of cheque or warrant drawn by the Company on its bankers.

5. **TAXATION**

As per the existing tax laws, tax will be deducted at source at the time of actual payment of interest to the Debenture Holders at the rate for the time being prescribed by the Income-tax Act, 1961.

6. **FURTHER BORROWINGS**

The Company shall be entitled to make further issue of Debentures and/or raise further loans and/or avail of further deferred payment/guarantee facilities from time to time for any amounts and from such persons/public financial institutions/banks or any other financial corporations or body corporate.

7. **REPURCHASE OF DEBENTURES**

The Company shall have a right to repurchase the said Debentures and cancel or re-issue them from time to time in accordance with the provisions of Section 121 and

other applicable Sections, if any, of the Companies Act, 1956. Upon such reissue the person entitled to the Debentures shall have and shall be deemed always to have had, the same rights and priorities as if the Debentures had never been redeemed.

8. **DIVIDEND**

So long as the Company is in default to meet its obligations to pay interest, repayment of the principal amount or any other monies related to the said Debentures, the Company shall not declare any dividend on its share capital, without obtaining the prior written approval of the Trustees.

9. **NOMINEE DIRECTOR**

The Debenture Trustee shall have a right to appoint a Nominee Director in terms of the SEBI guidelines in the event of:

(i) two consecutive defaults in payment of interest to the Debenture holders where such default is not cured within 30 Business Days of a notice to that effect by the Debenture Trustee to the Issuer; or

(ii) default in redemption of Debentures.

10. **TRANSFER OF DEBENTURES**

The Debentures shall be transferable and transmittable in the same manner and to the same extent and be subject to the same restrictions and limitations as in the case of the Equity Shares of the Company.

11. **DEBENTURES FREE FROM EQUITIES**

The Debenture Holders will be entitled to their Debentures free from equities or cross claims by the Company against the original or any intermediate holders thereof.

12. **DEBENTURE HOLDERS NOT ENTITLED TO SHAREHOLDERS' RIGHTS**

The Debenture Holders will not be entitled to any of the rights and privileges available to the shareholders including right to receive notices of or to attend and vote at General Meetings or to receive Annual Reports of the Company.

13. **VARIATION OF DEBENTURE HOLDERS' RIGHTS**

The rights, privileges and conditions attached to the Debentures may be varied, modified or abrogated with the consent in writing of the holders of at least three-fourths of the amount outstanding on the Debentures or with the sanction of a Special Resolution passed at a meeting of the Debenture Holders.

14. **REPLACEMENT OF DEBENTURE CERTIFICATES**

If, the Debenture Certificate is mutilated or defaced then, upon production thereof to the Company, the Company shall cancel the same and issue a new certificate in lieu thereof. If, any Debenture Certificate is lost, stolen or destroyed then, upon proof thereof to the satisfaction of the Company and upon furnishing such indemnity as the Company may deem adequate and upon payment of any expenses incurred by the Company in connection with proof of such destruction or theft or in connection with such indemnity, the Company shall issue a new certificate. A fee will be charged by the Company not exceeding a sum of Rs. 2/- on each fresh Debenture Certificate issued hereunder except certificates in replacement of those which are old, decrepit or worn out or defaced or where the cages for recording transfers have been fully utilised.

SCHEDULE II

Provisions for Meetings of the Debenture Holders

The following provisions shall apply to the meetings of the Debenture Holders:-

1. Who may Convene the Meeting

- (i) The Debenture Trustee or the Issuer may, at any time, and the Debenture Trustee shall at the request in writing of the holder(s) of Debenture representing not less than one-tenth in value of the aggregate outstanding amount of the Debenture, convene a meeting of the Debenture Holders. Any such meeting shall be held at such place in the city where the registered office of the Issuer is situated or at such other place as the Debenture Trustee shall determine.
- (ii) The Debenture Trustee may call or cause to be called by the Issuer a meeting of all the Debenture Holders on the happening of any event which may constitute a payment default or which in the opinion of the Debenture Trustee affects the interests of the Debenture Holders.

2. Notice of Meeting to Debenture Holders

- (i) A meeting of the Debenture Holders may be called by giving not less than 21 (twenty-one) days' notice in writing.
- (ii) A meeting may be called after giving shorter notice than that specified in sub-clause (i), if consent is accorded thereto by holders of Debenture representing not less than 50 % (fifty per cent.) of the aggregate outstanding Debentures.

3. Contents and Manner of Service of Notice and Persons on whom it is to be Served

- (i) Every notice of a meeting of the Debenture Holders shall specify the place, day and hour of the meeting and shall contain a statement of the business to be transacted thereat.
- (ii) Notice of every meeting shall be given to:
 - (a) every Debenture Holder in the manner provided in this Deed for service of notice;
 - (b) the person(s) entitled to a Debenture as a consequence of death or insolvency of a Debenture Holder, by sending it through post in a prepaid letter addressed to them by name or by the title of the representatives of the deceased, or assignees of the insolvent or by any like description at the address, if any, in India supplied for the purpose by the persons claiming to be so entitled or until such an address has been so supplied, by giving the notice in any manner in which it might have been given if the death or insolvency had not occurred.
 - (c) the auditor for the time being of the Issuer in the manner authorised by Section 53 of the Act in the case of the members of the Issuer; and
 - (d) the Debenture Trustee when the meeting is convened by the Issuer and the Issuer when the meeting is convened by the Debenture Trustee.

Provided that, where the notice of a meeting is given by advertising the same in a newspaper circulating in the neighbourhood of the

registered office of the Issuer under sub-section (3) of Section 53 of the Act the statement of material facts referred to in Section 173 of the Act need not be annexed to the notice as required by that Section but it shall be mentioned in the advertisement that the statement has been forwarded to the Debenture Holders.

- (e) The accidental omission to give notice to, or the non-receipt of notice by, any Debenture Holder or other person to whom it should be given shall not invalidate the proceedings at the meeting.

4. Explanatory Statement to be Annexed

- (i) There shall be annexed to the notice of the meeting a statement setting out all material facts concerning each such item of business including, in particular, the nature of the concern or interest, if any, therein of every director and the manager, if any, of the Issuer.

Provided that where any item of special business as aforesaid to be transacted at a meeting of the Debenture Holders relates to, or affects, any other company, the extent of shareholding interest in that other company of any director, and the manager, if any, of the first mentioned company shall also be set out in the statement if the extent of such shareholding interest is not less than 20% (twenty per cent.) of the paid up share capital of that other company.

- (ii) Where any item of business consists of the according of approval to any document by the meeting, the time and place where the document can be inspected shall be specified in the statement aforesaid.

5. Quorum for Meeting

- (i) At every meeting of the Debenture Holders, the holder(s) of not less than 3/4th (three fourth) of the aggregate outstanding Debenture shall be the quorum for the meeting of the Debenture Holders, and the provisions of the following sub-clause (ii) shall apply with respect thereto.
- (ii) If, within half an hour from the time appointed for holding a meeting of the Debenture Holders, a quorum is not present, the meeting, if called upon the requisition of the Debenture Holders shall stand dissolved but in any other case the meeting shall stand adjourned to the same day in the next week, at the same time and place, or to such other day and at such other time and place as the Debenture Trustee may determine and if, at the adjourned meeting also a quorum is not present within half an hour from the time appointed for the holding of the meeting, the Debenture Holders present shall be a quorum.

6. Chairman of Meeting

- (i) The nominee of the Debenture Trustee shall be the chairman of the meeting and in his absence the Debenture Holders personally present at the meeting shall elect one of them to be the chairman thereof on a show of hands.
- (ii) If a poll is demanded on the election of the chairman, it shall be taken forthwith in accordance with the provisions of the Act, the chairman elected on a show of hands exercising all the powers of the chairman under the said provisions.
- (iii) If some other person is elected chairman as a result of the poll, he shall be chairman for the rest of the meeting.

7. Directors and Debenture Trustee may Attend Meeting

The Debenture Trustee and the directors of the Issuer and their respective legal advisors/solicitors may attend any meeting but shall not be entitled to vote thereat.

8. Passing of Resolution by Poll

At any meeting, a resolution put to the vote of the meeting shall be decided by way of a poll.

9. Votes

At every such meeting each Debenture Holder shall be entitled to 1 (one) vote in respect of every Debenture of which he is a holder and in respect of which he is entitled to vote.

10. Proxies

- (i) Any Debenture Holder entitled to attend and vote at the meeting shall be entitled to appoint another person (whether a Debenture Holder or not) as his proxy to attend and vote instead of himself.
- (ii) In every notice calling the meeting there shall appear with reasonable prominence a statement that a Debenture Holder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of himself and that a proxy need not be a Debenture Holder.
- (iii) The instrument appointing a proxy and the power of attorney (if any) under which it is signed or a copy of the power of attorney certified by a notary shall be deposited at the registered office of the Issuer not less than 48 (forty-eight) hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or in case of a poll, not less than 24 (twenty-four) hours before the time appointed for the taking of the poll and in default, the instrument of proxy shall not be treated as valid.
- (iv) The instrument appointing a proxy shall:
 - (a) be in writing; and
 - (b) be signed by the appointer or his attorney duly authorised in writing, or if the appointer is a body corporate, be under its seal or be signed by an officer or an attorney duly authorised by it.
- (v) The instrument appointing a proxy shall be in any of the forms set out at the foot of Annexure "D" to the Companies (Central Government's) General Rules and Forms, 1956, and shall not be questioned on the ground that it fails to comply with any special requirements specified for such instruments by the Articles of the Issuer.
- (vi) Every Debenture Holder entitled to vote at a meeting of the Debenture Holders of the Issuer on any resolution to be moved there at shall be entitled during the period beginning 24 (twenty four) hours before the time fixed for the commencement of the meeting and ending with the conclusion of the meeting to inspect the proxies lodged, at any time during the business hours of the Issuer, provided not less than 3 (three) day's notice in writing of the intention so to inspect is given to the Issuer.
- (vii) A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or the revocation of the proxy or of the authority under which the proxy was executed or the transfer of the Debenture in respect of which the proxy is given; provided that, no intimation in writing of such death, insanity, revocation or transfer shall have been received by the Issuer at its registered office before the commencement of the meeting or adjourned meeting at which the proxy is used.

11. To Vote Differently

A Debenture Holder entitled to more than one vote or his proxy or other person entitled to vote for him, as the case may be, need not, if he votes, use all his votes or cast in the same way all the votes he uses.

12. Scrutineers at Poll

- (i) The chairman of the meeting shall appoint 2 (two) scrutineers to scrutinise the votes given on the poll and to report thereon to him.
- (ii) The chairman shall have power, at any time before the result of the poll is declared, to remove a scrutineer from office and to fill vacancies in the office of scrutineer arising from such removal or from any other cause.
- (iii) Of the two scrutineers appointed under this Clause, one shall always be a Debenture Holder (not being an officer or employee of the Issuer) present at the meeting, provided that such a Debenture Holder is available and willing to be appointed.

13. Manner of Taking Poll and Results Thereof

- (i) Subject to the provisions of the Act, the Chairman of the meeting shall have the power to regulate the manner in which a poll shall be taken.
- (ii) The result of the poll shall be deemed to be the decision of the meeting on the resolution on which the poll was taken.

14. Voting in Case of Joint Holders

In the case of joint Debenture Holders, the vote of the senior who tenders a vote whether in person or by proxy, shall be accepted to the exclusion of the other joint holder or holders.

15. Power to Adjourn Meeting

The chairman of a meeting of the Debenture Holders may, with the consent of a simple majority of the Debenture Holders by value present (whether in person or by proxy) at the meeting, adjourn the same from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

16. Casting Vote

In the case of equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded, shall be entitled to a second or casting vote in addition to the vote or votes to which he may be entitled to as a DebentureHolder.

17. Continuance of Business

The demand of a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which a poll has been demanded.

18. Chairman's Decision Conclusive

The chairman of any meeting shall be the sole judge of the validity of every vote tendered at such meeting. The chairman present at the taking of a poll shall be the sole judge of the validity of every vote tendered at such poll.

19. Powers of the Meeting

A meeting of the Debenture Holders shall, *inter alia*, have the following powers in respect of matters relating to the Debentures, exercisable in the manner hereinafter specified:

- (i) Power to sanction any compromise or arrangement proposed to be made between the Issuer and the Debenture Holders.
- (ii) Power to sanction any modification, alteration or abrogation of any of the rights of the Debenture Holders (other than as set out in (iv) below) against the Issuer, whether such right shall arise under this Deed or Debenture or otherwise.
- (iii) Power to sanction any modification, alteration or abrogation of any of the terms of the Debenture relating to the Maturity, Interest, redemption amount.
- (iv) Power to assent to any scheme for reconstruction or amalgamation of or by the Issuer whether by sale or transfer of assets under any power in the Issuer's Memorandum of Association or otherwise under the Act or provisions of any law.
- (v) Power to assent to any modification of the provisions contained in this Deed and to authorise the Debenture Trustee to concur in and execute any supplemental deed embodying any such modification.
- (vi) Power to remove the existing Debenture Trustee and to appoint new Debenture Trustee in respect of the Debentures.
- (vii) Power to give any direction, sanction, request or approval under any provision of this Deed.

20. Special Resolution

The powers set out in Clause 19 of this Schedule shall be exercisable by a resolution passed by votes representing 3/4th (three-fourths) of the aggregate outstanding amount of the Debentures, at a meeting of the Debenture Holders duly convened and held in accordance with provisions herein contained (referred to as a "**Special Resolution**").

21. Resolution

A resolution passed by votes representing the outstanding amount of the Debenture at a general meeting of the Debenture Holders duly convened and held in accordance with these presents, shall be binding upon all the Debenture Holders, whether present or not at such meeting, and each of the Debenture Holders shall be bound to give effect thereto accordingly, and the passing of any such resolution shall be conclusive evidence that the circumstances justify the passing thereof, the intention being that it shall rest with the meeting to determine without appeal whether or not the circumstances justify the passing of such resolution.

22. Minutes

Minutes of all resolutions and proceedings of every such meeting as aforesaid shall be recorded and duly entered in books maintained for the said purpose and any such minutes as aforesaid, if purported to be signed by the chairman of the meeting at which such resolutions were passed or proceedings held or by the chairman of the next succeeding meeting of the Debenture Holders, shall be conclusive evidence of the matters therein contained and, until the contrary is proved, every such meeting in respect of the proceedings of which minutes have been so recorded shall be deemed to have been duly held and convened and all resolutions passed thereat or proceedings taken, to have been duly passed and taken.

Notwithstanding anything herein contained, it shall be competent for all the Debenture Holders to exercise the rights, powers and authorities of the Debenture Holders under this Deed by a letter or letters signed by or on behalf of the Debenture Holders representing 3/4th (three fourth) of the aggregate outstanding amount of the Debenture without convening a meeting of the Debenture Holders as if such letter or letters constituted a Special Resolution, passed at a meeting duly convened and held as aforesaid and shall have effect accordingly.

23. Provisions for the Written Consent of the Debenture Holders

- (i) For any written consent of the Debenture Holders, the Debenture Trustee (or as applicable, the Issuer or a Debenture Holder) shall provide a notice in writing to the last available address of each Debenture Holder at least 10 (ten) Business Days prior to the date on which any decision is required to be made or consent to be provided is. The record date of such notice shall be the date falling 3 (three) Business Days prior to the date of dispatch of such notice.
- (ii) If the notice specifies any notice period, then any consents received after such notice period will not be accepted. The Debenture Holders are required to submit their consent only in written form to the Debenture Trustee.

SCHEDULE III

FORM OF DEBENTURE CERTIFICATE



Dr. Reddy's Laboratories Limited
(Incorporated under the Companies Act, 1956)
Regd. Office: .7-1-27, Ameerpet, Hyderabad — 500 016

DEBENTURE CERTIFICATE

Issue of Unsecured, Redeemable, Non-Convertible, Fully-Paid up Debentures of ₹5/- each of the aggregate nominal value of ₹5,077,581,960/- (Rupees Five Hundred Seven Crores Seventy Five Lakhs Eighty One Thousand Nine Hundred Sixty only) carrying interest at the rate of 9.25% per annum, all ranking pari passu inter se and numbered 1 to 1015516392 (both inclusive) under the authority of the Memorandum and Articles of Association of the Company and Resolution passed by the shareholders at the court convened meeting held on May 28, 2010 and in terms of the Scheme of Arrangement between the Company and its Members for issue of Unsecured, Redeemable, Non-convertible, Fully Paid up Bonus. Debentures from General Reserve, approved by the Hon'ble High Court of Judicature of Andhra Pradesh at Hyderabad vide Order dated July 19, 2010.

This Debenture Certificate is issued in terms of the Debenture Trust Deed dated March 15, 2011 (the "Trust Deed") entered into between the Company and IDBI Trusteeship Services Limited (the "Trustee"). The Trustee will act as Trustee for the holders for the time being of the Debentures (the "Debentureholder") in accordance with the provisions of the Trust Deed. The Debentureholders are entitled to the benefit of and are bound by and are deemed to have notice of all the provisions of the Trust Deed. All rights and remedies of the Debentureholders against the Company in respect of, arising out of or incidental to the Debentures shall be exercisable by the Debentureholders only through the Trustee.

This is to certify that the Person(s) named in this certificate below or the last Transferee(s) whose name(s) is/are duly recorded in the Memorandum of Transfers on the reversed hereof is/are the Registered Holder(s) of the within mentioned Debenture(s) bearing the distinctive number(s) herein specified, subject to the Memorandum and Articles of Association of the Company and that the amount endorsed hereon has been paid up on such debentures.

9.25% UNSECURED, REDEEMABLE, NON-CONVERTIBLE DEBENTURES OF ₹5/-
AMOUNT PAID-UP PER DEBENTURE ₹5/-

Regd. Folio No.:

Debenture Certificate No:

Name(s) of the holder(s):

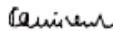
No. of Debenture(s) held:

Distinctive No.(s):

These Debentures are issued subject to and with the benefit of the Terms and Conditions endorsed hereon which shall be binding on the Company and the Debentureholders and all persons claiming by through or under any of them and shall ensure for the benefit of the Trustee and all persons claiming by through or under them. The Company hereby agrees and undertakes to duly and punctually pay, observe and perform the Terms and Conditions endorsed hereon.

Given at Hyderabad under the Common Seal of the Company on




Chairman


Director

Secretary/Authorised Signatory

Note: No transfer of Debentures comprised in this certificate can be registered unless accompanied by this Certificate.

TERMS AND CONDITIONS OF DEBENTURES

1. **Debentures to Rank Pari Passu :**

The Debentures shall rank pari passu, inter se, without any preference or priority of one over the other or others of them.

2. **Interest:**

The coupon rate on the Debentures shall be 9.25% annually payable in arrear. The interest will be payable at the end of 12th, 24th and 36th months from the date of allotment on the unredeemed balance of each Debenture. All payments in respect of the interest payable to be made less any reduction or withholdings or on account of any present or future taxes or duties as required under the laws in India.

3. **Redemption:**

- a) The Debenture shall be fully redeemed at par at the end of 36 months from the date of allotment. However, if the due date of redemption is a holiday/Sunday, the Debentures will be redeemed on the next Business Day.
- b) For the Debentureholders holding Debentures in the physical form, the Debentures will be redeemed on maturity against the surrender by the Debentureholder of the Debenture certificate together with a certified true copy of the power of attorney, wherever applicable, or such other authority as may be required by the Company from time to time at least 30 days in advance of the Redemption Date.
- c) The Debentures held in electronic form shall be taken as discharged on payment of the redemption amount by the Company on maturity to the registered Debentureholders. On such payment being made, the Company, will inform the Depository and accordingly the account of the Debentureholder will be adjusted.

4. **Payment**

The interest payment on Debentures shall be made to the Debentureholders recorded in the books of the Company and in the case of joint holders to the one whose name stands first in the Register on the Record date fixed by the Board of Directors of the Company for the purpose.

Interest shall be paid to the person whose name appears as the sole/first applicant in the register of the Debentureholders on the record date.

In event of the Company not receiving any notice of transfer along with the original Debenture Certificates upto the "Record Date fixed for the purpose" the transferee of the Debenture shall not have any claim against the Company in respect of interest so paid to the registered Debentureholders. Any claims between the transferor and the transferee shall be settled mutually and the Company shall have no responsibility or liability in this regard. Wherever, the signatures of such transferors in the intimation sent to the Company are not in accordance with the specimen signature of such transferor available on the records of the Company, all payments of remaining interest on such Debentures will be kept in abeyance by the Company until such time as the Company is satisfied in this regard. The Interest on Debentures will cease on the Date of Redemption.

5. **Transfer / Transmission of Debentures:**

The Debentures shall be transferable and transmittable in the same manner and to the same extent and be subject to the same restrictions and limitations as in the case of the existing equity shares of the Company and the provisions relating to transfer and transmission and other related matters in respect of the shares of the Company as contained in the Articles of Association of the Company shall apply mutatis mutandis to the transfer and transmission of the Debentures.

6. **Rights of Debentureholders:**

The Debentureholders will not be entitled to any right and privileges of shareholders other than those available to them under the statutory provisions. The Debentures shall not confer upon the Debentureholders the right to receive the annual report and accounts of the Company, the notice or to attend and vote at the general meeting of the shareholders of the Company. The principal amount and the interest, if any, on the Debentures will be paid to the Debentureholders named as such in the Register of Debentureholders or the beneficiary positions provided by the Depositories on the "Record Date" or in the case of the joint holders to the one whose name stands first. The Debentures shall be subjected to the other terms and conditions of the Trust Deed and the Articles of Association of the Company.

MEMORANDUM OF TRANSFERS OF DEBENTURE(S) MENTIONED OVERLEAF

Regd. Folio

Date _____ Transfer No. _____ No. _____ Name(s) of Transferee(s) _____ Initials _____ Authorised Signatory _____

No.:

TERMS AND CONDITIONS OF DEBENTURES

1. **Debentures to Rank Pari Passu:**

The Debentures shall rank pari passu, inter se, without any preference or priority of one over the other or others of them.

2. **Interest:**

The coupon rate on the Debentures shall be 9.25% annually payable in arrear. The interest will be payable at the end of 12th, 24th and 36th months from the date of allotment on the unredeemed balance of each Debenture. All payments in respect of the interest payable to be made less any reduction or withholdings or on account of any present or future taxes or duties as required under the laws in India.

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- b) For the Debentureholders holding Debentures in the physical form, the Debentures will be redeemed on maturity against the surrender by the Debentureholder of the Debenture certificate together with a certified true copy of the power of attorney, wherever applicable, or such other authority as may be required by the Company from time to time at least 30 days in advance of the Redemption Date.
- c) The Debentures held in electronic form shall be taken as discharged on payment of the redemption amount by the Company on maturity to the registered Debentureholders. On such payment being made, the Company, will inform the Depository and accordingly the account of the Debentureholder will be adjusted.

4. **Payment**

The interest payment on Debentures shall be made to the Debentureholders recorded in the books of the Company and in the case of joint holders to the one whose name stands first in the Register on the Record date fixed by the Board of Directors of the Company for the purpose.

Interest shall be paid to the person whose name appears as the sole/first applicant in the register of the Debentureholders on the record date.

In event of the Company not receiving any notice of transfer along with the original Debenture Certificates upto the "Record Date fixed for the purpose" the transferee of the Debenture shall not have any claim against the Company in respect of interest so paid to the registered Debentureholders. Any claims between the transferor and the transferee shall be settled mutually and the Company shall have no responsibility or liability in this regard. Wherever, the signatures of such transferors in the intimation sent to the Company are not in accordance with the specimen signature of such transferor available on the records of the Company, all payments of remaining interest on such Debentures will be kept in abeyance by the Company until such time as the Company is satisfied in this regard. The Interest on Debentures will cease on the Date of Redemption.

5. **Transfer / Transmission of Debentures:**

The Debentures shall be transferable and transmittable in the same manner and to the same extent and be subject to the same restrictions and limitations as in the case of the existing equity shares of the Company and the provisions relating to transfer and transmission and other related matters in respect of the shares of the Company as contained in the Articles of Association of the Company shall apply mutatis mutandis to the transfer and transmission of the Debentures.

6. **Rights of Debentureholders:**

The Debentureholders will not be entitled to any right and privileges of shareholders other than those available to them under the statutory provisions. The Debentures shall not confer upon the Debentureholders the right to receive the annual report and accounts of the Company, the notice or to attend and vote at the general meeting of the shareholders of the Company. The principal amount and the interest, if any, on the Debentures will be paid to the Debentureholders named as such in the Register of Debentureholders or the beneficiary positions provided by the Depositories on the "Record Date" or in the case of the joint holders to the one whose name stands first. The Debentures shall be subjected to the other terms and conditions of the Trust Deed and the Articles of Association of the Company.

MEMORANDUM OF TRANSFERS OF DEBENTURE(S) MENTIONED OVERLEAF

Regd. Folio

Date _____ Transfer No. _____ No. _____ Name(s) of Transferee(s) _____ Initials _____ Authorised Signatory _____

No.:

IN WITNESS WHEREOF the Common Seal of Dr. Reddy's Laboratories Limited has been hereunto affixed and the Trustee has caused these presents to be executed by its authorised officer the day and year first hereinabove written in the manner hereinafter appearing.

The Common Seal of Dr. Reddy's Laboratories Limited has been hereunto affixed under the signature of Mr. K. Ganesh, VP- Finance under the authority granted by the Board of Directors of the Company in their meeting held on March 8, 2011.

For DR. REDDY'S LABORATORIES LTD

/s/ K. Ganesh
AUTHORISED SIGNATORY

Witnessed by:

1. Sandeep Poddar
2. _____

For Dr. REDDY'S LABORATORIES LTD.

/s/ Satish Reddy
SATISH REDDY
MANAGING DIRECTOR & COO

Signed and delivered by the within **IDBI TRUSTEESHIP SERVICES LIMITED**, as the Debenture Trustee, by the hand of:

For IDBI Trusteeship Services Ltd.

Name: Sarita Iyer
Designation: Sr. Specialist

/s/ Sarita Iyer
Authorised Signatory

[To be stamped on Stamp Paper of Rs. 300 if stamped in Mumbai]

201 Shareholding Ltd.
 General Floor, Anandade Bldg
 42, Kemp Road
 Mumbai - 400 001
 DEEPAK VEDPATHAK
 Authorised Signatory

201 Shareholding Ltd.
 General Floor, Anandade Bldg
 42, Kemp Road
 Mumbai - 400 001

34528 SERIAL
 134401 ADDRESS
 APR 02 2011
 10:19
 R0000300-P86602
 STAMPED BY MAHARASHTRA

LIQUIDITY FACILITY SERVICES AGREEMENT

LIQUIDITY FACILITY SERVICES AGREEMENT (this “**Agreement**”) made on this the 2 day of April, 2011 by and amongst:

DR. REDDY’S LABORATORIES LIMITED, a company registered under the Companies Act, 1956, with its registered office at 7-1-27, Ameerpet, Hyderabad, Andhra Pradesh (hereinafter referred to as the “**Company**” which expression shall be deemed to include its successors and permitted assigns);

AND

DSP MERRILL LYNCH CAPITAL LIMITED, a company registered under the Companies Act, 1956, with its registered office at 8th Floor, Mafatlal Centre, Nariman Point, Mumbai 400021 (hereinafter referred to as “**Facility Provider**”, which expression shall be deemed to include its successors and permitted assigns);

The Company and the Facility Provider are together referred to as “**Parties**” and individually as a “**Party**”.

WHEREAS the Company filed a scheme under section 391 to 394 of the Companies Act, 1956 before the Andhra Pradesh High Court on April 20, 2010 to issue bonus debentures to all its shareholders as of the Record Date through a restructuring of the general reserves of the Company (the “**Scheme**”).

WHEREAS the Scheme has been approved by the shareholders of the Company on May 28, 2010, sanctioned by the Andhra Pradesh High Court on July 19, 2010, and permission granted by the Reserve Bank of India (for issuance of the debentures to foreign shareholders) on January 14, 2011.

WHEREAS pursuant to the Scheme, the Company proposed to identify a merchant banker to provide the liquidity facility to the Debenture holders for a limited period by providing the Debenture holders the option to tender their bonus Debentures at a pre-determined fixed price (“**Liquidity Facility**”) and the Company has identified DSP Merrill Lynch Capital Limited to provide the Liquidity Facility.

WHEREAS DSP Merrill Lynch Capital Limited has agreed to be the provider of the Liquidity Facility, and the Company has agreed to appoint DSP Merrill Lynch Capital Limited as the provider of the Liquidity Facility, subject to and in accordance with the provisions of this Agreement.

WHEREAS DSP Merrill Lynch Capital Limited has authorized Karvy Consultants Limited, under an Agreement dated April 2, 2011 executed between DSP Merrill Lynch Capital Limited and Karvy Consultants Limited for the purpose of aggregation of Debentures held in the physical form.

NOW THEREFORE, in consideration of these premises and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereby agree as follows:

ARTICLE 1

1. DEFINITIONS AND INTERPRETATION

1.1. Definitions

“**Big Share**” / “**Registrar**” shall mean Big Share Services Private Limited, a company incorporated under the Companies Act, 1956, with its registered office at E-2 & 3, Ansa Industrial Estate, Saki-Vihar Road, Sakinaka, Andheri (East), Mumbai — 400 072;

“**BSE**” shall mean the Bombay Stock Exchange Limited;

“**Debenture holders**” shall mean the holders of the Debentures;

“**Debentures**” shall mean 1,015,516,392 unsecured, redeemable, non-convertible, fully paid up bonus debentures of face value of Rs. 5 each issued pursuant to the Scheme;

“**Facility Period**” shall mean the period of 16 calendar days (including the 9 calendar days allocated for the debenture holders holding debentures in the demat form and the additional 7 calendar days allocated for only the debenture holders holding debentures in the physical form) from the Opening Date during which the Debenture holders shall have the option to tender the Debentures in accordance with the terms of the Letter of Offer;

“**Facility Provider**” shall mean DSP Merrill Lynch Capital Limited

“**Karvy**” shall mean Karvy Consultants Limited, a company incorporated under the Companies Act, 1956, with its registered office at, Karvy House, 46, Avenue — 4, Street number - 1, Banjara Hills, Hyderabad, Andhra Pradesh, 500034;

“**Letter of Offer**” shall mean the offer document to be sent by the Facility Provider to equity shareholders of the Company as on the Record Date, providing the terms of the Liquidity Facility;

“**NSE**” shall mean the National Stock Exchange of India Limited;

“**Opening Date**” shall mean the date from which the Liquidity Facility shall commence, as provided in the Letter of Offer;

“**RBI**” shall mean Reserve Bank of India

“**ROC**”, shall mean the Registrar of Companies, Andhra Pradesh, Hyderabad;

“**SEBI**” shall mean the Securities and Exchange Board of India;

“**Stock Exchanges**” means BSE and/ or NSE; and

“**Spot Delivery**” shall have the meaning ascribed to it under the Securities Contracts (Regulations) Act, 1957.

1.2. Interpretation

In the interpretation of this Agreement, unless the context otherwise requires:

- (a) the singular includes the plural and *vice versa* and in particular (but without limiting the generality of the foregoing) any word or expression defined in the singular has the corresponding meaning used in the plural and *vice versa*;
- (b) a reference to persons includes natural persons, corporations, limited liability companies, partnerships and other legal entities;
- (c) a reference to any gender includes the other gender;
- (d) a reference to a Section, Article, clause, sub-clause, paragraph, sub-paragraph, Schedule or Recital is a reference to a Section, Article, clause, sub-clause, paragraph, sub-paragraph, Schedule or Recital of this Agreement;
- (e) a reference to any agreement is a reference to that agreement and all exhibits, schedules, appendices incorporated therein, as the same is amended, modified, supplemented, varied, substituted, replaced, renewed or extended from time to time;
- (f) a reference to a statute shall be construed as including all statutory provisions consolidating, amending, modifying, supplementing or replacing the statute referred to;
- (g) the terms “include” and “including” shall be deemed to include the words “without limitation”;
- (h) any reference to a person or entity shall include such person’s and such entity’s successors and permitted assigns, and shall include all natural persons, corporations, companies, limited liability companies, partnerships and other legal entities;
- (i) a reference to “writing” includes printing, typing, lithography and other means of reproducing words in a visible form; and
- (j) date or period set forth in this Agreement shall be such date or period as may be adjusted in accordance with the terms and conditions of this Agreement.
- (k) Capitalized terms used in this Agreement shall have the meaning ascribed to them in this Article or elsewhere in this Agreement. In the event capitalized terms used herein have not been defined herein, they shall have the meaning ascribed to them in the Scheme.
- (l) The headings contained in this Agreement are used solely for convenience and do not constitute a part of this Agreement nor shall such headings be used in any manner to aid in the construction of this Agreement.

ARTICLE 2

2. LIQUIDITY FACILITY

- 2.1. The Company hereby appoints the Facility Provider to provide the Liquidity Facility pursuant to the Scheme and in accordance with this Agreement, and the Facility Provider hereby accepts such appointment subject to the terms and conditions set out in this Agreement.
- 2.2. Subject to the provisions of this Agreement including the provisions of Article 3, the Facility Provider shall provide the following services:
- (i) Finalise, in consultation with the Company, the terms of the Liquidity Facility. Provided that the terms of the Liquidity Facility shall be as contained in the Letter of Offer;
 - (ii) Prepare, in consultation with the Company, the Letter of Offer and circulate the same to all debenture holders of the Company, who have been allotted debentures pursuant to the Scheme;
 - (iii) Notify the necessary authorities regarding the Liquidity Facility and obtain their approval for offering the Liquidity Facility, if applicable;
 - (iv) Take all actions necessary, with the reasonable assistance of the Company, for providing the Liquidity Facility to the Debenture holders pursuant to the Scheme; and
 - (v) The Facility Provider shall provide services under this Agreement by itself and / or through Karvy, in accordance with the provisions as contained in this Agreement, and the Letter of Offer
 - (vi) The Facility Provider has authorized Karvy as an intermediary for the purpose of aggregation of Debentures held in the physical form. For the avoidance of doubt, it is clarified that notwithstanding the appointment of such intermediary, the Facility Provider shall have the primary responsibility and obligation to the Company for provision of the Liquidity Facility to the holders of Debentures in physical form.
- 2.3. The Parties agree that the Liquidity Facility Provider shall, and shall ensure that Karvy shall purchase Debentures from the respective Debenture Holders, on a Spot Delivery basis.
- 2.4. The Parties agree that the obligation of the Facility Provider to provide the Liquidity Facility would be subject to and only to the extent permitted by applicable law. The number of Debentures that will be purchased by the Facility Provider shall be subject to the single borrower limits applicable to non-deposit taking systemically important non-banking financial company prescribed by the RBI from time to time. Once this limit is reached, the Facility Provider shall not make any further purchases of Debentures unless and until it has been able to first sell off the acquired Debentures, and only to the extent such Debentures have been sold. The Facility Provider undertakes to disclose the same in the Letter of Offer.

2.5. Notwithstanding anything to the contrary contained in this Agreement, the Facility Provider acknowledges and agrees that it has the primary responsibility for provision of the Liquidity Facility to all Debenture holders and shall be solely responsible for all acts, deeds and things done/ omitted to be done, by itself or by Karvy in relation to the Liquidity Facility, including for the purpose of aggregating of Debentures held in physical form.

2.6. Fees & Expenses

No fees shall be payable by the Company to the Facility Provider or Karvy for the services provided under this Agreement except for reimbursement of reasonable out of pocket expenses of the Facility Provider on submission of copies of the bills in relation to the Liquidity Facility which shall be borne by the Company (but excluding any legal fees paid to the legal counsels of the Facility Provider, stamp duty payable for transfer of debentures, any taxes arising out of the sale of purchased debentures, any payment or expenses of Karvy and any other statutory payment that the Facility Provider may be required to pay for offering the Liquidity Facility).

ARTICLE 3

3. CONDITIONS PRECEDENT

3.1. The obligations of the Facility Provider under this Agreement are subject to the satisfaction of the following conditions prior to the Opening Date:

- (i) There shall not have occurred any regulatory or policy change or any order or directive from the ROC, SEBI, BSE, NSE or any other governmental, regulatory or judicial authority that prohibits or makes it impracticable to provide the Liquidity Facility or to redeem Debentures or sell the Debentures, acquired under the Liquidity Facility.
- (ii) All applicable regulatory requirements (including receipt of all necessary approvals) and all applicable laws, regulations and guidelines in respect of the issuance, allotment and listing of the Debentures and effectiveness of the Scheme have been completed and/or complied with by the Company to the satisfaction of the Facility Provider. The requisite approvals have been listed in “**Annexure A**”, to this Agreement.
- (iii) The representations and warranties of the Company contained in this Agreement shall have been true and correct as of the date hereof, shall be true and correct as of the Opening Date and shall continue to remain true and correct until closure of the Facility Period.
- (iv) The Facility Provider shall have received evidence satisfactory to it that the Debentures have been listed on the Stock Exchanges.
- (v) Prior to the Opening Date, the Company shall have furnished to the Facility Provider such further information, certificates, documents and materials related to of Debentures as the Facility Provider shall reasonably request in writing not less than 7 days prior to the Opening Date including but not limited to all information deemed necessary by the Facility Provider to be included in the Letter of Offer, provided such information is available with the Company. The Company shall intimate the Facility Provider of any changes to the information provided under this clause until closure of the Facility Period.

- 3.2. The Facility Provider shall not be obliged to provide the Liquidity Facility unless on the Opening Date the Company provides a certificate confirming that all the conditions precedent provided in clause 3.1 have been satisfied (unless waived in writing by the Facility Provider immediately prior to the Opening Date) and that the information and documentation provided by the Company pursuant to Clause 3.1(v) above continues to remain true and correct in all material respects.
- 3.3. The Facility Provider agrees and undertakes that so long as the Conditions Precedent as set out in Clauses 3.1 and 3.2 above have been fulfilled and satisfied, the Facility Provider shall not withdraw the Liquidity Facility, subject to the applicable Single Borrower Limit prescribed by the RBI for systemically important non-deposit taking non-banking financial companies, from time to time.

ARTICLE 4

4. REPRESENTATIONS, WARRANTIES, COVENANTS AND UNDERTAKINGS

4.1. Company Representations and Warranties

- (i) The Company hereby represents, warrants and undertakes to the Facility Provider that:
- (a) It has the requisite legal capacity, power and authority to execute, deliver and perform its obligations hereunder, and all action necessary for the due execution, delivery and performance of this Agreement by it has been duly and effectively taken;
 - (b) It is a company validly existing and in good standing under the laws of India and is duly authorised, to the extent necessary, to do business in each other jurisdiction where the character of its properties or the nature of its activities make such qualification necessary;
 - (c) there are no actions, suits or proceedings pending against or, to the Company's knowledge, threatened against the Company before any court, Government Agency, administrative body or arbitral tribunal with jurisdiction over Company, its property or business which materially adversely affect the liability of Company to meet and carry out its obligations under the Scheme or this Agreement;
 - (d) the execution, delivery and performance of this Agreement will not (i) constitute a violation of any statute, judgment, order or decree of any court, Government Agency, administrative body or arbitral tribunal applicable to the Company, its property or its business or (ii) contravene or violate its charter documents,;
 - (e) no charge, security interest or other encumbrance exists over the Debentures issued by it; and
 - (f) The Company is duly authorised to issue the Debentures and the Debentures have been validly issued and allotted under applicable law.

4.2. **Company Undertakings**

- (i) Subject to applicable law, the Company undertakes and agrees, during the term of the Agreement:
 - (a) to take all reasonable actions to facilitate the Facility Provider to provide the services contemplated under this Agreement;
 - (b) to abide by the terms of issuance of the Debentures and not modify/redeem/buy-back the same without the prior permission of the Facility Provider, during the tenure of the Liquidity Facility.
 - (c) to provide the Facility Provider with any material information regarding the Debentures or the Debenture holders; and any other information it may reasonably request in writing for the purpose of carrying out its services under this Agreement or preparing the Letter of Offer, to the extent available with the Company; and
 - (d) to take such actions as are required to be undertaken by it under applicable law to dematerialise all such physical Debenture certificates acquired by the Facility Provider, upon receiving a written request and requisite documents from the Facility Provider or its depository participant for the same.
 - (e) to take all the necessary steps requisite for the purposes of ensuring that the permits and consents which have been obtained by the Company for the purpose of issuance of Debentures, shall continue to be valid and enforceable till closing of the Facility Period.
 - (f) To take all necessary steps, subject to the requisite documentation being provided to the Company, for the purpose of registering the transfer of physical Debentures in the name of Karvy and thereafter in the name of the Facility Provider.

4.3. **Facility Provider Representations and Warranties**

- (i) The Facility Provider hereby represents, warrants and undertakes to the Company that:
 - (a) It has made all requisite arrangements to ensure that it can fulfill the obligations undertaken under this Agreement;
 - (b) It has all requisite legal capacity, power and authority to execute, deliver and perform its obligations hereunder, and all action necessary for the due execution, delivery and performance of this Agreement by it has been duly and effectively taken;
 - (c) It is a company validly existing and in good standing under the laws of India and is duly authorised, to the extent necessary, to do business in each other jurisdiction where the character of its properties or the nature of its activities make such qualification necessary.
 - (d) there are no actions, suits or proceedings pending or to the Facility Provider's knowledge, threatened against or affecting the Facility Provider before any court, Government agency, administrative body or arbitral tribunal with jurisdiction over Facility Provider, its property or business, which might materially adversely affect the liability of Facility Provider to meet and carry out its obligations under this Agreement.

- (e) the execution, delivery and performance of this Agreement by the Facility Provider has been duly authorised by all requisite action, and will not (i) constitute a violation of any law, statute, judgment, order or decree of any court, Government Agency, administrative body or arbitral tribunal or the orders, guidelines, policies, directives or any other requirements of any regulatory authority applicable to or with jurisdiction over the Facility Provider, its property or its business or (ii) contravene or violate its charter documents or (iii) cause a breach of any provision of, or constitute a default under, any material agreement, document or instrument to which it is a party or by which it or its property may be bound;
- (f) no further consents, including any consents of any third party, are required to be taken by the Facility Provider for performing or fulfilling its obligations under this Agreement; and
- (g) it has the requisite assets and liquidity to perform its obligations under this Agreement and that no charge, lien or encumbrance has been created over the assets of the Facility Provider which shall in any manner impede, hinder or otherwise restrict / limit the performance of the Facility Provider of its obligation set out under this Agreement.

4.4. Facility Provider's Undertakings

- (i) The Facility Provider hereby undertakes and agrees:
 - (a) that it shall undertake the service of providing Liquidity Facility in accordance with applicable law, Scheme, the Letter of Offer, this Agreement;
 - (b) to consult the Company in determining the price of the Debentures for the Liquidity Facility and the terms and conditions of the Liquidity Facility and the Letter of Offer, and to incorporate the suggestions of the Company in good faith;
 - (c) that it shall not disclose to any third party or otherwise use any information provided by the Company pursuant to or under this Agreement or for any purposes related to this Agreement other than for the specific purpose for which such information was provided. In case, the Facility Provider is required to disclose such information by any regulatory authority, it shall inform the company in writing and discuss the same with the Company before sharing such information.;
 - (d) in providing the services under this Agreement, it shall use reasonable care and act with due diligence;
 - (e) if Karvy fails to make payment to the Debenture holders in terms of the Letter of Offer, the Facility Provider shall compensate such Debenture holders. The compensation shall be restricted to an amount equal to the consideration payable towards acquisition of the aforementioned Debentures.
 - (f) This Liquidity Facility is solely made by the Facility provider and the Company is in no way responsible for payment of consideration to the Debenture Holders, who tender their Debentures in terms of this Offer whether to the Facility Provider or Karvy.
 - (g) It shall, and shall ensure that Karvy completes purchases of Debentures from the Debenture holders on a Spot Delivery basis and agrees that it shall solely be responsible and liable for ensuring that all actions required to be undertaken by the Facility Provider or Karvy to complete such purchases from the Debenture holders on a Spot Delivery basis are so undertaken and completed, by Karvy and the Facility Provider.

ARTICLE 5

5. Term

5.1. This Agreement shall remain applicable and in full force and effect till the earlier of (1) the end of the Facility Period; or (2) its termination in accordance with clause (ii) below; or (iii) non-fulfillment of the conditions specified in clause 3 (unless waived in writing by the Facility Provider) prior to the Opening Date.

5.2. This Agreement may be terminated prior to the Opening Date, after giving 5 days notice:

5.2.1 By either Party

- (i) upon the issuance to the other Party of any judgment, order, instruction or writ that would prevent the consummation of the actions contemplated under this Agreement;
- (ii) upon a material breach of any representation, warranty, covenant, obligation or agreement on the part of the other Party set forth in this Agreement, and if such breach remains uncured for a period of 30 days after notice thereof has been given by the first mentioned Party to the defaulting Party;
- (iii) if the other Party has voluntarily or involuntarily become the subject of proceedings under any bankruptcy or insolvency law and such proceeding is admitted by the court or such Party is voluntarily or involuntarily dissolved;
- (iv) if the other Party is unable to or has admitted in writing its inability to pay its debts as they mature;
- (v) if a receiver or a liquidator has been appointed or allowed to be appointed of all or any part of the undertaking of the other Party;
- (vi) if the other Party ceases or threatens to cease to carry on its business or gives notice of its intention to do so;

5.2.2 By the Company

- (i) if any regulatory or governmental authority initiates any investigations, probes, or audits against the Facility Provider;

5.2.3 By the Facility Provider

- (i) if the credit rating of the Company is downgraded from the current rating of LAA+ assigned by ICRA (during the currency of the facility);
 - (ii) if trading of the Company's securities on any of the BSE or the NSE, has been suspended by any of these exchanges or any other applicable governmental authority;
 - (iii) if a general banking moratorium shall have been declared by Indian, United Kingdom, United States Federal or New York State authorities;
 - (iv) if there shall have occurred any material adverse change in the financial markets in India, or any outbreak of hostilities or escalation thereof involving the United States, United Kingdom or India, in each case the effect of which event, singularly or together with any other such event, is such as to make it impracticable to provide the Liquidity Facility; and
 - (v) if there shall have occurred any regulatory or policy change or any order or directive from SEBI, the ROC, the NSE, the BSE or any Indian governmental or judicial authority that, is material and adverse and that makes it impracticable to provide the Liquidity Facility.
- 5.3. Upon termination of this Agreement all rights and obligations of the Parties under this Agreement shall terminate subject to the provisions of Article 9.7.
- 5.4 Termination of this Agreement for any cause whatsoever shall not relieve either Party hereto of any liability, which at the time of termination has already accrued to the other Party hereto, or which may, thereafter, accrue in respect of any act or omission prior to such termination.

ARTICLE 6

6. INDEMNITY

- 6.1. The Company ("**Indemnifying Party**") shall indemnify and keep the Facility Provider (and its directors, officers and employees) (each an "**Indemnified Party**"), indemnified and hold each of them harmless from and against any and all direct losses, liabilities, claims, actions, damages, fees and expenses claimed (including lawyers' fees and disbursements) (together, "**Claims**"), arising out of or in connection with the breach of the representations, and warranties by the Indemnifying Party as specifically set out in this Agreement. Provided that, the Indemnifying Party shall not liable to indemnify the Indemnified Party on account of claims suffered due to: (a) a loss incurred on account of market fluctuations in the price of the Debentures or on account of providing the Liquidity Facility; (b) a breach of the provisions of the Agreement by the Indemnified Party; and (c) any agreement entered into by the Indemnified Party to which the Indemnifying Party is not a party.
- 6.2 The terms of the Indemnity hereunder shall survive and continue to be in full force and effect from the execution date and up to the date on which the physical Debentures, so acquired are registered in the name of the Facility Provider or up to seven (7) Business Days from the date of closure of the Facility Period, whichever is earlier.

ARTICLE 7

7. STATEMENT OF DISPUTES AND ARBITRATION

7.1. Arbitration

- (i) In the event a dispute arises out of or in relation to or in connection with the interpretation or implementation of this Agreement, the Parties ("**Disputing Parties**") shall attempt in the first instance to resolve such dispute through friendly consultations between the Disputing Parties. If the dispute is not resolved through friendly consultations within seven (7) business days after commencement of discussions (or such longer period as the Disputing Parties may agree to in writing) then either of the Disputing Parties may by notice in writing to each other, refer the dispute for resolution by binding arbitration in accordance with the Arbitration and Conciliation Act, 1996, as amended.
 - (ii) The Facility Provider shall appoint one arbitrator. The Company shall appoint one arbitrator. The two arbitrators so appointed shall appoint one more arbitrator so that the total number of arbitrators shall be three. In the event of a Party failing to appoint an arbitrator or the arbitrators failing to appoint the third arbitrator as provided hereinbefore, such arbitrator(s) shall be appointed in accordance with the Arbitration and Conciliation Act, 1996, as amended. The arbitration proceedings shall take place in Mumbai and shall be governed by the laws of India. The Parties shall share the costs of such arbitration proceedings equally unless otherwise awarded or fixed by the arbitral tribunal.
 - (iii) Any reference made to the Arbitration Tribunal under this Agreement shall not affect the performance of terms, other than the terms related to the matter under arbitration, by Parties under this Agreement.
- 7.2. This Agreement shall be governed by the laws of India and as such, the courts of India shall have absolute jurisdiction to entertain any and all grievances which may arise from the Arbitration award.

ARTICLE 8

8. NOTICES

- 8.1. All notices and other communications, which are required and permitted hereunder, shall be in writing and sufficient if delivered personally, or sent by registered or certified mail or fax addressed as follows:

If to Company:

Attention:

Fax No:

Telephone No:

If to the Facility Provider:

Attention:

Fax No:

Telephone No:

ARTICLE 9

9. MISCELLANEOUS

9.1. Amendment and Waiver

No amendment or waiver of any provision of this Agreement shall in any event be effective unless the same is mutually agreed and signed by the Parties and documented by means of an exchange of letters/ an agreement, and such amendment or waiver shall be effective only for the specified instance and purpose for which it is given and all other provisions not otherwise specifically affected by the amendment or waiver of this Agreement shall remain in full force.

9.2. Change of Address

Any Party may by written notice change its addresses and/or addressees to which any notices or communications hereunder are to be delivered or mailed.

9.3. Remedies Cumulative

All remedies afforded to the Parties under this Agreement shall be taken and construed as cumulative and in addition to every other remedy provided herein or available to a Party under law or in equity.

9.4. No Third Party Beneficiaries

This Agreement is intended solely for the benefit of the Parties. Nothing in this Agreement shall be construed to create any duty to, standard of care with reference to, or any liability to, any person not a Party to this Agreement nor does this Agreement confer any right whatsoever on any third party to bring an action.

9.5. Relationship of the Parties

Each Party shall be individually and severally liable for its respective obligations under this Agreement. In addition, this Agreement shall not be interpreted or construed to create an association, joint venture, or partnership between the Parties or to impose any partnership obligation or liability upon either Party. The execution of this Agreement does not create any fiduciary or agency relationship between the Parties.

9.6. Survival

The provisions of Articles 7, 8 and 9.6 shall survive any termination of this Agreement.

9.7. Language

The language which governs the interpretation of this Agreement shall be English. All documents, notices, waivers and all other communications written or otherwise between the Parties in connection with this Agreement (including without limitation any dispute resolution proceedings) shall be in English.

9.8. Entirety

This Agreement and any attachment hereto are intended by the Parties as the final expression of their agreement with respect to the subject matter hereof and are intended as a complete and exclusive statement of the terms of such agreement. All prior written or oral understandings, offers or other communications of any kind are hereby superseded, abrogated and withdrawn.

9.9. Invalidity

If at any time any provision of this Agreement becomes illegal, invalid or unenforceable in any respect under any applicable law, then that shall not affect or impair the legality, validity or enforceability of any other provision of this Agreement.

9.10. Assignment

Neither Party may assign its rights or obligations hereunder except with the prior written consent of the other.

9.11. Successors and Assigns

This Agreement shall be binding upon, and inure to the benefit of, the Parties and their respective successors and permitted assigns.

9.12. Counter Parts

This Agreement is signed in duplicate, equally authentic, one each for the Facility Provider and the Company.

[Remainder of the page intentionally left blank]

[Signature page follows]

IN WITNESS WHEREOF the Parties hereto have executed this Agreement through their authorized representatives on the day, month and year first above mentioned in the presence of:

Dr. Reddy's Laboratories Limited

DSP Merrill Lynch Capital Limited

By: /s/ K. Ganesh
Name: K. Ganesh
Title: Vice President — Finance

By: /s/ Wzlson Lasrado
Name: Wzlson Lasrado
Title:

/s/ Naresh Shah
Naresh Shah

WITNESS

WITNESS

By: _____
Name:
Title:

By: _____
Name:
Title:

Annexure A

Approvals required

1. Board resolution authorizing the issuance of Debentures pursuant to the Scheme;
2. Shareholders resolution approving the Scheme of the Company;
3. Approvals from the Stock Exchanges for listing the Debentures;
4. A copy of the Order passed by the Andhra Pradesh High Court on July 19, 2010;
5. Permission granted by the Reserve Bank of India (for issuance of the debentures to foreign shareholders) on January 14, 2011;
6. Board resolution appointing DSP Merrill Lynch Capital Limited as the Liquidity Facility Provider; and
7. NOC from the Income Tax department for the Scheme.

Dr. Reddy's Laboratories Limited

Subsidiary companies

As of March 31, 2011

Name of Subsidiary	Country of Incorporation	Percentage of Direct/ Indirect Ownership Interest
DRL Investments Limited	India	100%
Reddy Pharmaceuticals Hong Kong Limited	Hong Kong	100%
OOO JV Reddy Biomed Limited	Russia	100%
Reddy Antilles N.V.	Netherlands	100%
Reddy Netherlands B.V.	Netherlands	100%(1)
Reddy US Therapeutics, Inc.	U.S.A.	100%(1)
Dr. Reddy's Laboratories, Inc.	U.S.A.	100%(10)
Dr. Reddy's Farmaceutica do Brasil Ltda	Brazil	100%
Cheminor Investments Limited	India	100%
Aurigene Discovery Technologies Limited	India	100%
Aurigene Discovery Technologies, Inc.	U.S.A.	100%(3)
Kunshan Rotam Reddy Pharmaceutical Co. Limited	China	51.33%(4)
Dr. Reddy's Laboratories (EU) Limited	United Kingdom	100%(10)
Dr. Reddy's Laboratories (U.K.) Limited	United Kingdom	100%(5)
Dr. Reddy's Laboratories (Proprietary) Limited	South Africa	100%(12)
Reddy Cheminor S.A.	France	100%(2)
OOO Dr. Reddy's Laboratories Limited	Russia	100%
Dr. Reddy's Bio-sciences Limited	India	100%
Promius Pharma LLC (formerly Reddy Pharmaceuticals, LLC)	U.S.A.	100%(6)
Trigenesis Therapeutics, Inc.	U.S.A.	100%
Industrias Quimicas Falcon de Mexico, SA de CV	Mexico	100%
Reddy Holding GmbH	Germany	100%(7)
Lacock Holdings Limited	Cyprus	100%
betapharm Arzneimittel GmbH	Germany	100%(8)
beta Healthcare Solutions GmbH	Germany	100%(8)
beta institut fur sozialmedizinische Forschung und Entwicklung GmbH	Germany	100%(8)
Reddy Pharma Iberia SA	Spain	100%
Reddy Pharma Italia SPA	Italy	100%(7)
Dr. Reddy's Laboratories (Australia) Pty Ltd.	Australia	100%
Dr. Reddy's Laboratories SA	Switzerland	100%
Eurobridge Consulting B.V.	Netherlands	100%(1)
OOO DRS LLC	Russia	100%(9)
Aurigene Discovery Technologies(Malaysia) Sdn, Bhd	Malaysia	100%(3)
Dr. Reddy's New Zealand Limited (formerly Affordable Healthcare Limited)	New Zealand	100%(10)
Dr. Reddy's Laboratories Ilac Ticaret Limited	Turkey	100%
Dr. Reddy's SRL (formerly Jet Generici SRL)	Italy	100%(11)
Chiretech Technology Limited	United Kingdom	100%(5)
Dr. Reddy's Laboratories Louisiana LLC	U.S.A.	100%(6)
Dr. Reddy's Pharma SEZ Limited	India	100%
Dr. Reddy's Laboratories International SA	Switzerland	100%(8)
Idea2Enterprises (India) Pvt. Limited	India	100%
Dr. Reddy's Laboratories Romania SRL	Romania	100%(10)
I-Ven Pharma Capital Limited	India	100%(13)
Dr. Reddy's Venezuela, C.A	Venezuela	100%(13)
Dr. Reddy's Laboratories Tennessee, LLC	U.S.A	100%(6)

(1) Indirectly owned through Reddy Antilles N.V.

(2) Subsidiary under liquidation.

- (3) Indirectly owned through Aurigene Discovery Technologies Limited.
- (4) Kunshan Rotam Reddy Pharmaceutical Co. Limited is a subsidiary as we hold a 51.33% stake; however, we account for this investment by the equity method and do not consolidate it in our financial statements.
- (5) Indirectly owned through Dr. Reddy's Laboratories (EU) Limited.
- (6) Indirectly owned through Dr. Reddy's Laboratories, Inc.
- (7) Indirectly owned through Lacock Holdings Limited.
- (8) Indirectly owned through Reddy Holding GmbH.
- (9) Indirectly owned through Eurobridge Consulting B.V.
- (10) Indirectly owned through Dr. Reddy's Laboratories SA.
- (11) Indirectly owned through Reddy Pharma Italia SPA
- (12) We acquired the 40% non-controlling interest in August 2010.
- (13) Indirectly owned through DRL Investments Limited

Macred India Private Limited, India was our wholly owned subsidiary until July 19, 2010, at which time we sold an 80% controlling interest in the entity and retained a 20% non-controlling interest.

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Dr. Reddy's Laboratories Limited

We consent to the incorporation by reference in the registration statements (Nos. 333-101013 and 333-141072) on Form S-8 and (No. 333-138608) on Form F-3 of Dr. Reddy's Laboratories Limited (the "Company") of our reports dated July 20, 2011, with respect to the consolidated statements of financial position of the Company as of March 31, 2011 and 2010, and the related consolidated income statements, statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended March 31, 2011, and the effectiveness of internal control over financial reporting as of March 31, 2011, which reports appear in the March 31, 2011 annual report on Form 20-F of the Company.

Our report dated July 20, 2011, on the effectiveness of internal control over financial reporting as of March 31, 2011, contains an explanatory paragraph that states that management's assessment of the effectiveness of internal control over financial reporting and our audit of internal control over financial reporting of the Company excludes an evaluation of internal control over financial reporting of the acquired penicillin manufacturing business from Glaxosmithkline LLC and Glaxo Group Limited.

KPMG
Hyderabad, India
July 20, 2011

**Certification Pursuant to Section 302 of
the Sarbanes-Oxley Act of 2002**

I, G. V. Prasad, certify that:

1. I have reviewed this annual report on Form 20-F of Dr. Reddy's Laboratories Limited (the "Company").
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report.
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: July 20, 2011

/s/ G. V. Prasad

G. V. Prasad
Chief Executive Officer and Vice Chairman

**Certification Pursuant to Section 302 of
the Sarbanes-Oxley Act of 2002**

I, Umang Vohra, certify that:

1. I have reviewed this annual report on Form 20-F of Dr. Reddy's Laboratories Limited (the "Company").
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report.
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: July 20, 2011

/s/ Umang Vohra

Umang Vohra
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. Section 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Dr. Reddy's Laboratories Limited (the "Company") on Form 20-F for the period ended March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, G.V. Prasad, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 20, 2011
Hyderabad, India

/s/ G.V. Prasad
G.V. Prasad
Chief Executive Officer and Vice Chairman

**CERTIFICATION PURSUANT TO
18 U.S.C. Section 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Dr. Reddy's Laboratories Limited (the "Company") on Form 20-F for the period ended March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Umang Vohra, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Umang Vohra
Umang Vohra
Chief Financial Officer

Date: July 20, 2011
Hyderabad, India