

DR. REDDY'S LABORATORIES LIMITED

POLICY ON MATERIALITY OF RELATED PARTY TRANSACTIONS AND DEALING WITH RELATED PARTY TRANSACTIONS

(as originally approved on October 29, 2014 and now modified by the Board of Directors in their meeting held on February 1, 2019)

INTRODUCTION

This policy is intended to ensure proper approval and reporting of transactions between Dr. Reddy's Laboratories Limited (the "Company" or "Dr. Reddy's"), its subsidiary companies and its associate companies (together "the Group") and the Related Parties in terms of the applicable laws and regulations.

OBJECTIVES

Related Party Transactions have been one of the major areas of focus for the corporate governance reforms being initiated by the Indian legislature.

The changes introduced in the Corporate Governance norms through the Companies Act, 2013 and the rules made thereunder ("CA2013") and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI LODR Regulations"), as amended from time to time, require the companies to have enhanced transparency and due process for approval of the Related Party Transactions.

One such requirement of SEBI LODR Regulations is that the companies are required to formulate a policy on 'Materiality of Related Party Transactions and also on dealing with Related Party Transactions'.

The Board of Directors (the "Board") of Dr. Reddy's has adopted Policy on Materiality of Related Party Transactions and dealing with Related Party Transactions (this "Policy") to set forth the procedures under which the transactions with Related Parties shall be considered for approval/ratification.

A) DEFINITIONS

"Arm's length transaction" means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

"Audit Committee" means the audit committee constituted by the Board of Directors of the Company in accordance with applicable law, including the SEBI LODR Regulations and the CA2013.

"Associate Company" in relation to another company, means a company in which that other company has a significant influence (i.e. control of at least twenty per cent of total voting power, or control of or participation in business decisions under an agreement), but which is not a subsidiary company of the company having such influence and includes a joint venture company (i.e. a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement).

"Board" means the Board of Directors of Dr. Reddy's Laboratories Limited.

"Company" means Dr. Reddy's Laboratories Limited.

"Key Managerial Personnel (KMP)" means key managerial personnel as defined under the CA2013, viz:

- (i) the Managing Director or the Chief Executive Officer or the manager;
- (ii) the Company Secretary;
- (iii) the Chief Financial Officer;
- (iv) Whole-time Director;
- (v) such other officer, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board; and
- (vi) such other officer as may be prescribed.

“Material Related Party Transaction” means a transaction with a Related Party where the transaction/transactions to be entered into individually or taken together with previous transactions with a Related Party during a financial year, exceeds the thresholds/criteria as defined under the CA2013 or SEBI LODR Regulations.

“Ordinary Course of Business” for the purpose of this policy will cover the businesses of Dr. Reddy’s & its ‘Group’, usual transactions, customs and practices of a business including incidental and/or facilitative activities of the business of Dr. Reddy’s and its ‘Group’. The following factors have been considered for determination of whether the transactions are in ordinary course of business:

- a. The objects of the company permit the activities undertaken;
- b. There is a historical practice to conduct such activities;
- c. There is a pattern of frequency to conduct such activities over a period of time; and
- d. The transactions are common in industrial practice.

“Policy” means this Policy, as amended from time to time.

“Related Party” in relation to the Company means a party related with the Company in any of the ways as are laid down in section 2(76) of the CA2013 or Regulation 2(zb) of SEBI LODR Regulations, as amended from time to time, and presently includes the following:

- (i) a director or his relative;
- (ii) a Key Managerial Personnel or his relative;
- (iii) a firm, in which a director, manager or his relative is a partner;
- (iv) a private company in which a director or manager or his relative is a member or director;
- (v) a public company in which a director or manager is a director and holds, along with his relatives, more than 2% of its paid-up share capital;
- (vi) any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager, except advice/directions/instructions given in professional capacity;
- (vii) any person on whose advice, directions or instructions a director or manager is accustomed to act, except advice/directions/instructions given in professional capacity;
- (viii) any body corporate which is-
 - a. a holding, subsidiary or an associate company of such company; or
 - b. a subsidiary of a holding company to which it is also a subsidiary; or
 - c. an investing company or the venturer of the company (i.e. a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate);
- (ix) a director other than an independent director or key managerial person of the holding company or his relative;
- (x) any person or entity belonging to the promoter or promoter group of the Company and holding 20% or more of shareholding in the Company; and
- (xi) an entity is a related party under the applicable accounting standards.

“Related Party Transaction” means any transaction directly/indirectly involving any Related Party which is a transfer of resources, services or obligations between a company and a related party, regardless of whether a price is charged. Transaction with a related party shall be construed to include a single transaction or a group of transactions in a contract.

“Relative” means relative as defined under the CA2013 and includes any one who is related to another if-

- a. they are members of a Hindu Undivided Family;
- b. they are husband and wife;
- c. Father (including step-father);
- d. Mother (including step-mother);
- e. Son (including step-son);
- f. Son’s wife;

- g. Daughter;
- h. Daughter's husband;
- i. Brother (including step-brother);
- j. Sister (including step-sister).

“Senior Management Personnel” shall mean officers/personnel of the Company who are members of its core management team excluding board of directors and normally this shall comprise all members of management one level below the “chief executive officer/managing director/whole time director/manager (including chief executive officer/manager, in case they are not part of the board) and shall specifically include company secretary and chief financial officer.

B) IDENTIFICATION OF POTENTIAL RELATED PARTY TRANSACTIONS

Every Director, Key Managerial Personnel and Senior Management Personnel are responsible for providing notice to the Board or the Audit Committee, of any potential Related Party Transaction involving him/her or his/her relative, including any additional information about the transaction that the Board/Audit Committee may reasonably request. Board/Audit Committee will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with this policy.

All Directors are required to declare and disclose their concerns or interests in any company or companies or bodies corporate at the first Board meeting in every financial year and subsequently whenever there is any change in disclosures. In addition, the Directors shall ensure that any business transactions entered into between Dr. Reddy's and themselves comply with the terms of this Policy.

The Company prefers to receive such notice (or any changes thereof) of any potential Related Party Transaction, well in advance so that the Audit Committee/Board has adequate time to obtain and review information about the proposed transaction.

C) REVIEW AND APPROVAL OF RELATED PARTY TRANSACTIONS

All related party transactions shall require prior approval of the Audit Committee. In case, there are any transactions which are not at arm's length or which are concluded to be not in ordinary course of business, the Company would need the following additional approvals as mentioned hereunder:

- 1) Transactions with related parties which are in ordinary course of business of the Company and at arm's length shall be periodically disclosed to the Audit Committee/Board of Directors.
- 2) In case of transactions which are 'material' in nature and/or not in the ordinary course of business or not at arm's length, the management shall present the following information to the Audit Committee/Board of Directors for approval of those Related Party Transactions as per the provisions of the CA2013 and/or SEBI LODR Regulations:
 - a. name of the related party and nature of relationship;
 - b. the nature, duration of the contract and particulars of the contract or arrangement;
 - c. the material terms of the contract or arrangement including the value, if any;
 - d. any advance paid or received for the contract or arrangement including the value, if any;
 - e. the manner of determining the pricing and other commercial terms, both included as part of contract and not considered as of the contract;
 - f. whether all factors relevant to the contract have been considered, if not, the details of factors not considered with the rationale for not considering those factors; and
 - g. any other information relevant or important for the Board to take a decision on the proposed transaction.

After reviewing such information, the members of the Audit Committee (without the presence of the interested Committee member(s), if any) shall consider such transactions.

If the Board in any case elects to review any such matter or it is mandatory under any law for the Board to approve any Related Party Transaction, then the considerations set forth above shall apply to the Board's review and approval of the matter, with such modification as may be necessary or appropriate under the circumstances (without the presence of the interested Board member(s), if any).

The Company shall also seek prior approval of shareholders for all material related party transactions. No related party shall vote to approve such resolution whether the entity is related party to the particular transaction or not.

- 3) The threshold limits for related party transactions would be as defined in the CA2013 and SEBI LODR Regulations or as amended therein from time to time. Presently, the thresholds are as under:

Audit Committee	Board of Directors	Shareholders
All Related Party Transactions	Any Related Party Transaction which is not in the ordinary course of business and/or not at arm's length basis.	1) All material Related Party Transactions 2) Any Related Party Transaction as per table below and exceeding their respective limits (other than with wholly-owned subsidiaries)

Category of Transactions	Limits under CA2013 for shareholders approval
Sale, purchase or supply of any goods or materials	Lower of 10% of turnover or Rs. 100 crore
Selling or otherwise disposing of, or buying, property of any kind	Lower of 10% of net worth or Rs. 100 crore
Leasing of property of any kind	Lower of 10% of net worth or 10% of turnover or Rs. 100 crore
Availing or rendering of any services	Lower of 10% of turnover or Rs. 50 crore
Such Related Party's appointment to any office or place of profit in the company, its subsidiary company or associate company	At a monthly remuneration of Rs. 2.5 lakhs
Underwriting the subscription of any securities or derivatives thereof, of the company	Exceeding 1% of net worth

- 4) In terms of Regulation 23(5) of SEBI LODR Regulations, the approval of the Audit Committee and shareholders shall not be required for the transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.
- 5) The Audit Committee may grant omnibus approval for such Related Party Transactions which are repetitive in nature. For unforeseen transaction, the value of such approval not to exceed Rs. 1 crore per transaction. The validity of such approvals shall be one year. Such omnibus approval shall be granted in the manner as specified under CA2013 and SEBI LODR Regulations.
- 6) If any information with respect to any approved transaction has materially changed, the updated information shall be provided to the Committee/Board for their consideration.

D) RELATED PARTY TRANSACTIONS NOT APPROVED UNDER THIS POLICY

In the event the Company becomes aware of any transaction with a Related Party that has not been approved under this Policy prior to its consummation, the matter shall be reviewed by the Committee. The Committee shall consider all the relevant facts and circumstances regarding the Related Party Transaction (including reasons of failure to report such transaction) and evaluate all options available to the Company, including ratification, revision or termination of the Related Party Transaction.

E) DISCLOSURES

The Company shall make the following disclosures:

- a. The particulars of the related party transactions not at arm's length basis and/or material related party transactions shall be made in the Board's Report which forms a part of the Company's Annual Report.
- b. This Policy shall also be uploaded on the website of the Company and a web link thereto shall be provided in the Annual Report.
- c. The details of all material transactions with related parties shall be disclosed on a quarterly basis along with the compliance report on corporate governance filed with the stock exchanges under SEBI LODR Regulations.
- d. Quarterly/Periodical update to the Audit Committee/Board, if applicable, on all the related party transactions entered into by the Company.
- e. Such other disclosures as may be prescribed by the CA2013 and SEBI LODR Regulations, Accounting Standards and applicable regulations from time to time.

F) POLICY REVIEW

The Policy shall be periodically reviewed by the Board of Directors in terms of the requirements of the SEBI LODR Regulations, as amended from time to time.