



Dr. Reddy's Laboratories Ltd.

NYSE: RDY

**Q1 FY03 USGAAP Financials
UNAUDITED FINANCIAL STATEMENTS**

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UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	<u>As of March 31,</u> <u>2002</u>	<u>As of June 30,</u> <u>2002</u>	<u>2002</u>
ASSETS			
Current assets:			
Cash and cash equivalents	Rs.5,109,374	Rs.6,271,192	US\$ 128,219
Accounts receivable, net of allowances	3,811,699	3,565,694	72,903
Inventories	2,194,275	2,542,503	51,983
Deferred income taxes	199,145	251,875	5,150
Other current assets	564,886	669,625	13,691
Total current assets	11,879,379	13,300,889	271,946
Property, plant and equipment, net	3,799,112	4,093,664	83,698
Investment securities	11,327	16,383	335
Intangible assets	2,865,438	3,074,173	62,854
Other assets	411,731	395,023	8,077
Total assets	<u>Rs.18,966,987</u>	<u>Rs.20,880,132</u>	<u>US\$ 426,909</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Current portion of long-term debt	6,440	7,920	162
Trade accounts payable	1,122,657	1,546,279	31,615
Taxes payable	99,637	141,686	2,897
Other current liabilities	1,132,010	1,132,782	23,161
Total current liabilities	2,360,744	2,828,667	57,834
Long-term debt, excluding current portion	47,047	173,675	3,551
Deferred income taxes	657,906	740,677	15,144
Other liabilities	443,858	431,046	8,813
Total liabilities	<u>Rs.3,509,555</u>	<u>Rs.4,174,065</u>	<u>US\$ 85,342</u>
Stockholders' equity:			
Equity shares at Rs.5 par value; 100,000,000 shares authorized; Issued and outstanding; 76,515,948 shares as on March 31, 2002 and June 30, 2002	382,580	382,580	7,822
Additional paid-in capital	10,085,004	10,085,004	206,195
Retained earnings	4,986,503	6,198,760	126,738
Equity shares held by a controlled trust: 41,400 shares	(4,882)	(4,882)	(100)
Accumulated other comprehensive income	8,227	44,605	912
Total stockholders' equity	15,457,432	16,706,067	341,568
Total liabilities and stockholders' equity	<u>Rs.18,966,987</u>	<u>Rs.20,880,132</u>	<u>US\$ 426,909</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share data)

	Three months ended June 30,		
	2001	2002	2002
Revenues:			
Product sales, net of allowances for sales returns (includes excise duties of Rs.192,680 and Rs.205,370 for three months ended June 30, 2001 and 2002, respectively)	Rs.2,994,900	Rs.4,532,810	US\$ 92,677
Cost of revenues	1,567,390	2,018,921	41,278
Gross profit	1,427,510	2,513,889	51,398
Operating expenses:			
Selling, general and administrative expenses	732,887	945,328	19,435
Research and development expenses	61,882	204,716	4,186
Amortization expenses	116,413	131,189	2,682
Total operating expenses	911,182	1,281,233	26,196
Operating income	516,328	1,232,656	25,203
Equity in loss of affiliates	(27,572)	(23,724)	(485)
Other (expenses)/income, net	(32,827)	98,624	2,016
Income before income taxes and minority interest	455,929	1,307,556	26,734
Income taxes	(9,424)	(95,299)	(1,948)
Minority interest	(6,626)	-	-
Net income	Rs.439,879	Rs.1,212,257	US\$ 24,785
 Earnings per equity share			
Basic	5.89	15.84	0.32
Diluted	5.89	15.84	0.32
Weighted average number of equity shares used in computing earnings per equity share			
Basic	74,702,834	76,515,948	76,515,948
Diluted	74,702,834	76,519,054	76,519,054

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except share data)

	Three months ended June 30,		
	2001	2002	2002
Cash flows from operating activities:			
Net income	Rs.439,879	Rs.1,212,257	US\$ 24,785
Adjustments to reconcile net income to net cash from operating activities:			
Deferred tax benefit	(81,271)	(47,024)	(961)
Gain on sale of investments	-	(1,776)	(36)
Depreciation and amortization	229,497	261,643	5,349
Loss on sale of property, plant and equipment	-	(183)	(4)
Equity in loss of affiliates	27,572	23,724	485
Exchange (gain)/loss on remeasurement	9,637	(16,405)	(335)
Minority interest	6,626	-	-
Changes in operating assets and liabilities:			
Accounts receivable	(226,139)	360,716	7375
Inventories	(534,667)	(160,890)	(3,290)
Other assets	(205,102)	(101,138)	(2,068)
Trade accounts payable	700,994	384,434	7,860
Taxes payable	44,179	25,879	529
Other liabilities	51,896	(95,780)	(1,958)
Net cash provided by operating activities	<u>463,101</u>	<u>1,845,457</u>	<u>37,732</u>
Cash flows from investing activities:			
Expenditure on property, plant and equipment, net of proceeds from sale	(130,159)	(315,378)	(6,448)
Purchase of investment securities, net of proceeds from sale	(54,692)	(3,229)	(66)
Cash paid for acquisition, net of cash acquired	-	(364,011)	(7,442)
Net cash used in investing activities	<u>(184,851)</u>	<u>(682,618)</u>	<u>(13,957)</u>
Cash flows from financing activities:			
Proceeds from issuance of equity, net of expenses	5,846,364	-	-
Proceeds from/(repayments of) borrowing from banks, net	(2,160,725)	(9,910)	(203)
Repayment of long-term debt, net	(1,288,595)	-	-
Net cash provided by/(used in) financing activities	<u>2,397,044</u>	<u>(9,910)</u>	<u>(203)</u>
Effect of exchange rate changes on cash	<u>(8,588)</u>	<u>8,889</u>	<u>182</u>
Net increase in cash and cash equivalents during the period	2,666,706	1,161,818	23,754
Cash and cash equivalents at the beginning of the period	478,979	5,109,374	104,465
Cash and cash equivalents at the end of the period	<u>Rs.3,145,685</u>	<u>Rs.6,271,192</u>	<u>US\$ 128,219</u>
Supplemental disclosures:			
Cash paid for:			
Interest (net of interest capitalized)	Rs.49,885	Rs.13,826	US\$ 283
Income taxes	33,000	100,739	2,060
Supplemental schedule of non-cash investing activities:			
Property, plant and equipment purchased on credit during the year	13,747	47,494	971
Non cash investing activities			
Consideration loan notes issued on acquisition	-	128,108	2,619

PROFIT RECONCILIATION OF INDIAN GAAP STANDALONE TO US GAAP

	Rs million
Net Income after Def Tax before dividend as per Indian GAAP	801.35
<u>Differences ⁽¹⁾ :</u>	
DRF Expenses/R&D ^{(2) (3)}	2.99
Depreciation & Amortisation ⁽⁴⁾	(96.77)
Income Tax ⁽⁵⁾	32.47
Sales ⁽⁶⁾	4.35
Consolidation of Subsidiaries ⁽⁷⁾	429.13
Equity in loss of affiliates	(23.72)
Others ⁽⁸⁾	62.46
Total Differences	410.90
Net Income as per US GAAP	1,212.26

Notes:

1. Individual line items are not tax effected. Income tax difference represents the net combined effect due to all items
2. Does not include license fees received from Novartis.
3. The DRF financials are consolidated with the Company's under US GAAP
4. Depreciation is provided over the useful life of the assets as per US GAAP. Intangible assets are amortized over the expected benefit period or legal life, whichever is lower.
5. Income tax is provided as per deferred tax concept as per US GAAP
6. Arises due to difference in the revenue recognition concept
7. Financial statements of the company has been consolidated with those of its subsidiaries under US GAAP
8. Includes differences due to DEPB, Employee cost, Investments, Purchases, Dividend, Interest etc.