DR REDDYS LABORATORIES LTD
Form 20-F
July 06, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

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

OR

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

For the Fiscal Year Ended March 31, 2009

OR

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

OR

o **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	**ANDHRA PRADESH, INDIA**
(Translation of Registrant s name into English)	(Jurisdiction of incorporation or organization)

7-1-27, Ameerpet
Hyderabad, Andhra Pradesh 500 016, India
+91-40-23731946

(Address of principal executive offices)

Umang Vohra, *Chief Financial Officer,* +91-40-2373 1946, umangvohra@drreddys.com
7-1-27, Ameerpet, Hyderabad, Andhra Pradesh, 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.

Title of Each Class	**Name of Each Exchange on which Registered**
American depositary shares, each representing one equity share	**New York Stock Exchange**
Equity Shares*	**New York Stock Exchange**

* **Not for trading, but only in connection**

with the registration of American depositary 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.

168,468,777 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 þ No o

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 o No þ

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 þ No o

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 o No þ

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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(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 o International Financial Reporting Standards as issued by the International Accounting Standards Board þ Other o

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 o Item 18 o

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 o No þ

Table of Contents

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 Rs. 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.

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, 2009 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was Rs.50.87 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 June 26, 2009, that rate was Rs.48.00 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.

TABLE OF CONTENTS

Table of Contents

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 two years ended March 31, 2009, and the selected consolidated balance sheet data as of March 31, 2009 and 2008, have been prepared and presented in accordance with IFRS and have been derived from our audited consolidated financial statements and related notes. The selected consolidated financial data below has been presented for the two most recent fiscal years in compliance with General Instruction G of Form 20-F. Historical results are not necessarily indicative of future results.

Income Statement Data

		For the year ended March 31,			
		2009		**2009**	**2008**
		(Rs. in millions, U.S.$ in millions except share and per share data)			
		U.S.$ Convenience Translation (Unaudited)			
Revenues	U.S.$	1,365	Rs.	69,441	Rs. 50,006
Cost of revenues		648		32,941	24,598
Gross profit		**718**		**36,500**	**25,408**
Selling, general and administrative expenses		413		21,020	16,835
Research and development expenses		79		4,037	3,533
Impairment loss on other intangible assets		62		3,167	3,011
Impairment loss on goodwill		213		10,856	90
Other expense/(income), net		5		254	(402)
Finance expense/(income), net		23		1,186	(521)
Share of profit of equity accounted investees, net of income tax				24	2
Profit/(loss) before income tax		**(79)**		**(3,996)**	**2,864**
Income tax (expense)/benefit		(23)		(1,172)	972
Profit/(loss) for the period	**U.S.$**	**(102)**	**Rs.**	**(5,168)**	**Rs. 3,836**
Earnings/(loss) per share					
Basic	U.S.$	(0.60)	Rs.	(30.69)	Rs. 22.88
Diluted	U.S.$	(0.60)	Rs.	(30.69)	Rs. 22.80

Weighted average number of equity shares used in computing earnings per equity share*			
Basic	168,349,139	168,349,139	168,075,840
Diluted	168,349,139	168,349,139	168,690,774

* Each ADR represents one equity share.

Table of Contents

Balance Sheet Data

	For the year ended March 31,		
	2009	2009	2008
		(Rs. in millions, U.S.$ in millions)	
	Convenience Translation in U.S.$ (Unaudited)		
Cash and cash equivalents	110	Rs. 5,596	Rs. 7,421
Total assets	1,647	83,792	85,634
Total long term debt, excluding current portion	199	10,132	12,698
Total equity	827	Rs. 42,045	Rs. 47,350

Convenience translation (unaudited)

For the convenience of the reader, our consolidated financial statements as of March 31, 2009 have been translated into U.S. dollars at the noon buying rate in New York City on March 31, 2009 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York, of U.S.$1.00 = Rs.50.87. 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 March 31,	Period End	Average	High	Low
2008	**40.02**	**40.00**	**43.05**	**38.48**
2009	**50.87**	**46.32**	**51.96**	**39.73**

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 2008	49.96	46.47
November 2008	50.12	47.25
December 2008	50.05	46.74
January 2009	49.07	48.25
February 2009	50.88	48.37
March 2009	51.96	50.21

On June 26, 2009 the noon buying rate in the city of New York was Rs.48.00 per U.S. dollar.

3.B. ***Capitalization and indebtedness***

Not applicable.

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

Not applicable.

Table of Contents

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. 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 and development specialists. 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 manufacture of our products. If we or our third party suppliers fail to comply fully with such regulations, then there could be a government-enforced shutdown of our production facilities, which in turn could lead to product shortages. Failure to comply fully with such regulations could also lead to a delay in the approval of our new products.

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. As a result, there is increased risk of our inadvertent non-compliance with such regulations, which

Table of Contents

could lead to government-enforced shutdowns and other sanctions, as well as the withholding or delay of regulatory approvals for new products.

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. From time to time, the pharmaceutical industry has experienced difficulty in obtaining desired amounts of product liability insurance coverage. Although we have obtained product liability coverage with respect to products that we manufacture, if any product liability claim sustained against us were to be not covered by insurance or were to exceed 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, product liability coverage for pharmaceutical companies is becoming more expensive. As a result, we may not be able to obtain the type and amount of coverage we desire at an acceptable price. Furthermore, the severity and timing of future claims are unpredictable. Our customers may also bring lawsuits against us for alleged product defects. 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.

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

Table of Contents

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.

In India and our key rest of the world markets (which are product detailing driven, as opposed to generics regulated markets which are distribution driven), we follow a business model that is largely dependent upon our products being prescribed by medical practitioners. Our competitors may engage in business practices or models that are competitive and/or contrary to our model that can impact our 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. In many countries in which we currently operate, including India, pharmaceutical prices are subject to regulation. The existence of price controls can limit the revenues we earn from our products. In the United States, numerous proposals that would affect changes in the United States health care system have been introduced or proposed 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. The Obama administration has also indicated that it intends to propose legislation aimed at changing the U.S. healthcare system. While we cannot predict whether legislative or regulatory proposals will be adopted or what effect those proposals might have on our business, the announcement and/or adoption of such proposals could increase our costs and reduce our profit margins.

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 may further reduce prices for our products and may impact 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 our 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

Table of Contents

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, nobody other than the generic manufacturer who won exclusivity relating to the specific product can market 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 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 a 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

Table of Contents

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.

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. This is the only product that we have launched in the United States prior to the resolution of outstanding patent litigation. In the European Union, we also have generic launches that involve ongoing patent litigation, the outcome of which could adversely affect our business or profitability. During the year ended March 31, 2009, we incurred damages of approximately Rs.916 million as a result of the German Federal Court of Justice upholding the validity of an olanzapine patent held by Eli Lilly.

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, 2009, our products are marketed in more than 100 countries. Our products are marketed in most of these countries through our subsidiaries as well as 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 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. If any of our plants or the operations of such plants are shut down, 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.

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

Table of Contents

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 recently. For example, Mumbai, India s commercial capital, was the target of serial railway bombings in July 2006 as well as the recent 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 coordinated bombings. If the economy of our major markets is affected by such acts, our business and results of operations may be adversely affected as a consequence.

In recent years, Asia has experienced outbreaks of avian influenza and Severe Acute Respiratory Syndrome, or SARS . Very recently, a rising death toll in Mexico from a new strain of Swine Flu has led the World Health Organization to declare a public health emergency of international concern. If the economy of our major 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 or at all. 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.

Table of Contents

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 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 your best interests, the value of your investment in our ADSs may be harmed.

Our full time directors and members of their immediate families, in the aggregate, beneficially owned 26.4% of our issued shares as at March 31, 2009. 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 your ADSs may be adversely affected or you might be deprived of a potential opportunity to sell your 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. This, in turn, could subject us to significant litigation, which could lower our profits in the event we were found liable.

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.

If, as we expand into new international markets, we may 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

Table of Contents

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 have entered into borrowing arrangements in connection with our acquisition of betapharm. 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.

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 through our acquisitions of companies and brands. This growth has significantly increased demands on our processes, systems and people. We expect to make 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 are 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. 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;

Table of Contents

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. Any 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.

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.

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 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. 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.

The global economy is currently undergoing a period of unprecedented volatility, and the future economic environment may continue to be less favorable than that of recent years. Reduced consumer spending 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.

Table of Contents

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 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. 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 and, 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.

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 significant part of our total revenues for the year ended March 31, 2009 were 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 recent 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-ordinated bombings. If such disturbances continue or are exacerbated, our operational, sales and marketing activities may be adversely affected. 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 inflation level in the recent period has significantly decreased 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 0.26% for the week ended March 28, 2009 (as compared to 7.75% for the week ended March 29, 2008), which is one of the

lowest in recent years. This trend may not continue and

Table of Contents

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.

In the event that a natural disaster should occur in India, including drought, floods and earthquakes, it could adversely affect our production operations and cause our revenues to decline.

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 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.

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 7% 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 depositary 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 depositary 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 depositary 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.

Table of Contents

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 you are not able to exercise preemptive rights available to other shareholders, your investment in our securities 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 75.0% 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. We cannot assure you as to the value, if any, the depositary would receive upon the sale of these securities. To the extent that you are unable to exercise preemptive rights, your 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.

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. U85195AP1984PTC004507). Our registered office is situated at 7-1-27, Ameerpet, Hyderabad 500 016, Andhra Pradesh, India and the telephone number of our registered office is +91-40-23731946. 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.

Table of Contents

Key business developments:

In April 2008, we acquired BASF s pharmaceutical contract manufacturing business and related facility in Shreveport, Louisiana, U.S.A. for a total consideration of Rs.1,639 million (U.S.$40 million). This business involves the contract manufacturing of generic prescription and over-the-counter products for branded and generic companies in the United States. The acquisition included the relevant business, customer contracts, certain supplier contracts, related Abbreviated New Drug Applications (ANDAs) and New Drug Applications (NDAs), trademarks, as well as the manufacturing facility and assets owned by BASF in Shreveport, Louisiana. The facility is designed to manufacture solid, semi-solid and liquid dosage forms. This business employs approximately 150 people and has a proven track record of compliance with regulatory authorities, including the U.S. Food and Drug Administration (U.S. FDA).

In April 2008, we acquired from The Dow Chemical Company a portion of the Dowpharma Small Molecules business associated with its sites in Mirfield and Cambridge, United Kingdom, for a total cash consideration of Rs.1,302 million (U.S.$32 million). The acquisition included the relevant business, customer contracts, associated products, process technology and know-how, technology licensing rights, trademarks and other intellectual property, as well as the transfer of the facilities at Mirfield and Cambridge in the United Kingdom. We also took over the existing work force as a part of the acquisition. The two sites and the acquired business employ approximately 80 people. We also acquired a non-exclusive license to Dow s Pfēnex Expression Technology for biocatalysis development.

In April 2008, we acquired Jet Generici Srl, a company engaged in the sale of generic finished dosages in Italy, for a total cash consideration of Rs.148 million (Euro 2.3 million). The acquisition was completed through our Italian subsidiary, Reddy Pharma Italia SpA, which has been engaged in building a pipeline of registrations since its incorporation. The acquisition provided us with access to an essential product portfolio, and a sales and marketing organization.

In July 2008, we purchased the equity holding of Citigroup Venture Capital International Mauritius Limited (Citigroup Venture), its nominees and ICICI Venture Funds Management Company Limited (ICICI Venture) in Perlecan Pharma Private Limited (Perlecan Pharma) for a total purchase price of Rs.758 million. As a result of this transaction, Perlecan Pharma became our wholly owned subsidiary. Perlecan Pharma was formed in September 2005 as a joint venture among us, Citigroup Venture and ICICI Venture. We, as a part of this joint venture, had out-licensed four NCE assets to Perlecan Pharma. Perlecan Pharma had been engaged in the clinical development and out-licensing of these four NCE assets.

In September 2008, as part of our Proprietary Products segment, we launched our U.S. Specialty Business through Promius Pharma, LLC, our wholly-owned subsidiary located in Bridgewater, New Jersey. Promius Pharma will initially focus on the branded dermatology market and is based on a platform of strategic licensing initiatives and internal product development activities undertaken over the last several years. Promius Pharma s product portfolio currently consists of three in-licensed dermatological products, of which two were launched during the year ended March 31, 2009 and a pipeline of topical products is being developed at our Integrated Product Development Facility in Hyderabad, India. Promius Pharma s current portfolio contains innovative topical products for the treatment of psoriasis, atopic dermatitis and seborrheic dermatitis.

In November 2008, we launched the authorized generic version of GlaxoSmithKline s Imitrex® (sumatriptan succinate) tablets 25 mg, 50 mg, and 100 mg in the United States. We are the first company to launch an authorized generic version of Imitrex® tablets in the U.S. market. In October 2006, we settled patent litigation with GlaxoSmithKline relating to sumatriptan succinate tablets. GlaxoSmithKline s Imitrex® tablets, which are indicated for the acute treatment of migraine attacks in adults, had U.S. sales of approximately $1 billion for the 12 month period ended December, 2008 according to IMS Health, a company which provides information on the pharmaceutical industry, in its Moving Annual Total (MAT) report for the year ended December 2008.

In December 2008, we entered into agreements with Schering Plough Inc. and Sepracor Inc. which will allow us to manufacture and market generic versions of the CLARINEX-D®-12 hour and CLARINEX-D®-24 hour products, with six months marketing exclusivity, and the CLARINEX® REDITABS® product, with six months marketing co-exclusivity, starting in 2012. We will also market a generic version of the CLARINEX® 5 milligram tablet six

months after the launch of the first generic version of that product. The agreements resolve all pending patent infringement actions filed by Schering Plough Inc. and Sepracor Inc. against Dr. Reddy s in the U.S. District Court for the District of New Jersey.

In December 2008, we announced that our German subsidiary, betapharm, had received information on the preliminary results of the competitive bidding (or tender) process by the Allgemeine Ortskrankenkassen (AOK), a large public health insurance company in Germany, for discount agreements pertaining to 64 pharmaceutical products for 2009 and 2010. betapharm was awarded 8

Table of Contents

products (with 33 contracts) in different regions of Germany covering the AOK-insured persons, which represented 17% of the overall volume of the products covered by the AOK tender. betapharm was among the top 3 companies in terms of number of contracts awarded. The tender procedure was delayed pending resolution of a number of lawsuits filed by generic drug manufacturers. However, such suits were resolved and, starting in June 2009, the sales under this tender began.

In March 2009, the U.S. District Court in the Southern District of New York granted a summary judgment in our favor, finding that the Omeprazole Mg OTC ANDA filed by us does not infringe the patents related to Astra Zeneca s Prilosec OTC®. We received approval from the U.S. FDA for our ANDA for Omeprazole Mg OTC on June 5, 2009. Omeprazole Mg is indicated for the treatment of heartburn and our formulation contains 20.6 mg of omeprazole magnesium salt. The Prilosec OTC® brand product had annual sales of approximately $362 million in the United States for the 52 weeks ended July 13, 2008, based on sales data from Information Resources, Inc., a market research firm. Preparations for the launch of our product are under way.

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. The markets being exited account for less than 1% of our total company revenues. In addition to the markets where our operations are already very large and account for a major share of our Global Generics segment s revenues (i.e., United States, India, Russia and other countries of the former Soviet Union, and Germany), we will continue operations in 10-15 other markets in which our finished dosages sales are growing significantly. This realignment represents an important new focus in our Global Generics segment. Not only will this realignment result in consolidation and reduction in complexity of our operations, we believe that it will 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.

In order to build a robust generics and active pharmaceutical ingredients (API) pipeline, in the year ended March 31, 2009, we filed 20 ANDAs in the United States including seven Paragraph IV filings. In the year ended March 31, 2009, the U.S. FDA granted us 23 final ANDA approvals and four tentative ANDA approvals. As of March 31, 2009, cumulatively, we have filed 138 ANDAs out of which 68 ANDAs were pending approval at the U.S. FDA, including nine tentative approvals. With respect to APIs, we filed 55 Drug Master Files (DMF) in the year ended March 31, 2009 worldwide, 21 of which were filed in the United States, 5 in Canada, 19 in Europe and 10 in other countries. With these filings, we have a total of 148 U.S. DMFs filed as of March 31, 2009. Including the United States filings, as of March 31, 2009, we have made a total of 351 DMF filings worldwide.

During the year ended March 31, 2009, we invested Rs.4,426 million (net of sales of capital assets) on capital expenditures for manufacturing, research and development facilities and other assets. These investments will create the capacity to support our strategic growth agenda.

During the years ended March 31, 2007, 2008 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***

We are an emerging global pharmaceutical company with proven research capabilities. We produce active pharmaceutical ingredients and intermediates and finished dosage forms and biologics products and market them globally, with a focus on India, the United States, Europe and Russia. We are vertically integrated and use our active pharmaceutical ingredients and intermediates in our own finished dosage products. We conduct basic research mainly in the areas of metabolic disorders, cardiovascular diseases and bacterial infection.

Our total revenues for the year ended March 31, 2009 were Rs.69,441 million (U.S.$1,365 million). We derived 17% of these revenues from sales in India, 35% from the United States and Canada (North America), 11% from Russia and other countries of the former Soviet Union, 26% from Europe and 11% from other countries. Our net result for the year ended March 31, 2009 was a loss of Rs.5,168 million (U.S.$102 million).

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. The strategy through which we intend to achieve this goal is as follows:

Table of Contents

Through our Global Generics segment, we offer lower-cost alternatives to highly-priced innovator brands, both directly and through key partnerships. Generic drugs hold great promise for the future. The growing acceptance of generics and favorable legislation in many countries, combined with the large volume of branded products losing patent protection over the coming years, is expanding the generic pharmaceuticals market. Today, we have a strong presence both in highly regulated markets, such as the United States, United Kingdom and Germany, and in emerging markets, including India, Russia, Venezuela, Romania, and certain countries of the former Soviet Union (Belarus, Ukraine and Kazakhstan). Moreover, we are steadily building our presence in other key markets. Our capabilities span the entire value chain from process development of the API to submission of the finished dosage dossier to the regulatory agencies giving us control over the supply chain and the ability to offer high quality products at the right time and at competitive prices. Our generics business is supported by our integrated product development infrastructure which is dedicated to bringing new medicines to the market. We will continue to leverage our existing global platforms of product development, manufacturing and supply chain management to add to our product pipeline and address the growing needs of our customers in each of these markets.

Through our Pharmaceutical Services and Active Ingredients (PSAI) segment, which consists of our API business and our Custom Pharmaceutical Services (CPS) business, we offer intellectual property advantaged, rapid product development and cost-effective manufacturing services to our customers both generic companies and innovators. This allows us to help make medicines available to more people around the world. For our API business, our goal is to always enable our customers to be the first to launch a generic product and to provide value added services to help them remain competitive and profitable for the entire life-cycle of the product. Our CPS business serves several innovators, both big pharmaceutical and emerging biotechnology companies, and a large number of emerging pharmaceutical companies. Our CPS business aims to be the preferred partner for innovator companies by providing a complete range of services, such as process development and manufacturing services, that are necessary to take their innovations to the market with greater speed and efficiency and lower capital expenditures.

Our Proprietary Products segment consists of new chemical entity (NCE) research and our Differentiated Formulations business. In each of these areas, we are building world-class capabilities and partnerships to accelerate the discovery and development of new and improved therapies. NCE research is focused on building a robust NCE pipeline in the areas of metabolic diseases, cardiovascular diseases, and antibacterials. Our Differentiated Formulations efforts involve applying novel formulation and drug delivery technologies to improve or repurpose products that have a sizable track record of human clinical use. Our most advanced Differentiated Formulations efforts are in dermatology, where we have launched several effective and innovative products through our wholly-owned subsidiary, Promius Pharma.

To supplement our internal growth initiatives for each of these businesses, we are continuously exploring external business development opportunities, including acquisitions and alliances.

OUR PRINCIPAL AREAS OF OPERATIONS

The following table shows our revenues and percentage of total revenues of our segments for the years ended March 31, 2008 and 2009, respectively:

Segment	Year Ended March 31, 2008		2009		
	(Rs. in millions, U.S.$ in millions)				
Pharmaceutical Services and Active Ingredients	Rs. 16,623	33%	Rs. 18,758	27%	U.S.$ 369
Global Generics	32,872	66%	49,790	72%	979
Proprietary Products	190	%	294	%	6
Others	321	1%	599	1%	11

Total revenues	Rs. 50,006	100%	Rs. 69,441	100%	U.S.$ 1,365

Pharmaceutical Services and Active Ingredients Segment (PSAI)

Our PSAI segment accounted for 27% of our total revenues for the year ended March 31, 2009. This segment includes active pharmaceutical ingredients, also known as active pharmaceutical products or bulk drugs, which are the principal ingredients for finished pharmaceutical products. Intermediates are the compounds from which active pharmaceutical ingredients are prepared.

Table of Contents

Active pharmaceutical ingredients and intermediates (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. This segment also includes contract research services and the manufacture and sale of API and steroids in accordance with the specific customer requirements. This segment has been formed by aggregating our former two segments of Active Pharmaceutical Ingredients and Intermediates and Custom Pharmaceutical Services. This aggregation is expected to help us improve synergies and provide focus to our chemicals business, which has significant market potential. There is a common manufacturing infrastructure and supply chain organization for this segment with the integration being done under our chemical technical operations team.

We produce and market more than 100 different APIs in several markets. We export API to emerging as well as developed markets covering more than 100 countries. Our principal markets in this business segment include North America (the United States and Canada) and Europe. Our API business is operated independently from our Global Generics segment and, in addition to supplying API to our Global Generics segment, we sell API to third parties for use in creating generic products, subject to any patent rights of other third parties. Our API business also manufactures and supplies all of the API required in our custom 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 custom pharmaceutical (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 CPS 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 segment s revenues in the year ended March 31, 2009. In India, we market our API products to Indian and multinational companies who are also our competitors in our Global Generics segment. In India, our top six products are ciprofloxacin, ranitidine, clopidogrel, ramipril, losartan potassium and naproxen. 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 and, to a limited extent, through clearing and forwarding agents. Distribution through clearing and forwarding agents is done to give better service to the customer.

Our sales to other emerging markets were Rs.6,340 million for the year ended March 31, 2009. Our other key emerging markets include Israel, Turkey, South Korea, Mexico, Brazil, Bangladesh, Indonesia, Jordan, Argentina, China, Peru, Syria, Saudi Arabia, Chile, Egypt, Thailand, Malaysia, Colombia, Pakistan and Taiwan. 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 three to four 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 55 DMFs worldwide in the year ended March 31, 2009, 21 of which were filed in the United States, 5 in Canada, 19 in Europe and 10 in other countries. With these filings, we have a total of 148 U.S. DMFs filed as of March 31, 2009. Also, as of March 31, 2009, we had filed 83 DMFs in Europe and had 22 certificates of suitability granted by European authorities.

Table of Contents

Including the United States and Europe filings, as of March 31, 2009, we have made a total of 351 DMF 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. Six of these facilities have ISO 9001 certification, which is valid until December 5, 2009, at which time we will be reinspected. With over 740 reactors of different sizes offering 2.9 million litres 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. Our Global Generics segment sources approximately 62% of its API purchases from our PSAI segment. 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, 2009, 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, 2009 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 a single source and quality related issues. During the quarter ended March 31, 2009, four of our manufacturing facilities in India were inspected by the U.S. FDA and no critical observations were made by them.

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. Key raw materials for the manufacture of naproxen are procured from a unit that we established within an existing plant in India.

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 which 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.

We acquired the Dowpharma Small Molecules business, now renamed asChirotech Technology Limited, from The Dow Chemical Company in April 2008. As a result, we now offer niche capabilities, such as biocatalysis, chemocatalysis and hydroformulation, to provide cost effective solutions for chiral molecules. The acquisition included the relevant business, customer contracts, associated API products, process technology and know-how,

technology licensing rights trademarks and other intellectual property, as well as the transfer of the facilities at Mirfield and Cambridge in the United Kingdom. We also took over the existing work force as a part of the acquisition. The two sites and the business employ approximately 80 people. The acquired assets include a non-exclusive license to Dow s Pfēnex Expression Technology for biocatalysis development. This technology offers us opportunities to provide technology leveraged manufacturing services to innovators, including major global pharmaceutical companies. Our contract research and

Table of Contents

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 in 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, 2009, the competitive environment for the API industry underwent significant changes. These changes included increasing 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 low-cost manufacturing infrastructure. Key competitors in India include Divis s Laboratories Limited, Matrix Laboratories Limited, Dishman Pharmaceuticals & Chemicals Limited, Syngene 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 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 have been inspected by the U.S. FDA and found Acceptable. 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.

Table of Contents

Global Generics Segment

At the beginning of the year ended March 31, 2009, we made a detailed organizational announcement to integrate our worldwide finished dosages businesses, which had previously been included within our former Formulations segment or our former Generics segment, under our new Global Generics segment. The back-end manufacturing, development and regulatory infrastructure have been integrated. The performance review, evaluation and management reporting has also been integrated in order to facilitate potential product synergies across various geographies. We have also established a Global Generics portfolio management team (in addition to our existing Global Regulatory Affairs and Compliance team) which is responsible for the coordination of our product identification and selection processes, as well as the development of intellectual property and legal strategy, worldwide, in our Global Generics businesses.

Today, we are one of the top generic pharmaceutical companies in the world. With the integration of our Global Generics business, 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. 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 which will include both highly regulated and less regulated markets. Accordingly, a global manufacturing, distribution and supply strategy will be warranted.

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. The markets being exited account for less than 1% of our total company revenues. In addition to the markets where our operations are already very large and account for a major share of our Global Generics segment s revenues (i.e., United States, India, Russia and other countries of the former Soviet Union, and Germany), we will continue operations in 10-15 other markets in which our finished dosages sales are growing significantly. This realignment represents an important new focus in our Global Generics segment. Not only will this realignment result in consolidation and reduction in complexity of our operations, it will 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.

During the year ended March 31, 2009, our Global Generics segment generated revenues of Rs.49,790 million, accounting for 72% of our revenues, and grew by 51% on a year-on-year basis over the year ended March 31, 2008.

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

India

Approximately 17% of our Global Generics segment s revenues in the year ended March 31, 2009 were derived from sales in the Indian market. In India, we mainly focus on the therapeutic categories of cardiovascular, diabetes management, gastro-intestinal and pain management. As of March 31, 2009, we had a total of 184 brands in India. Our top ten brands together accounted for 39% of our revenues in India in the year ended March 31, 2009. According to Operations Research Group International Medical Statistics (ORG IMS) in its March Moving Annual Total (MAT) report for the 12-month period ended March 2009, our secondary sales (i.e., sales directly to end users) in India grew 2.6% in the year ended March 31, 2009. According to ORG IMS in its report referenced above, as of March 2009 we had 55 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 report for the period from November 2008 to February 2009, which measures doctors prescriptions, we were ranked ninth in terms of the number of prescriptions generated in India during such period.

New product launches during the year ended March 31, 2009 accounted for 3% of our Global Generics segment s revenues from sales in India. Key product launches included OMEZ Insta, our brand of omeprazole powder; PECEF

200, our brand of cefpodoxime; Telsartan AM, our brand of telsartan and amlodipine; Vantej, our brand of calcium sodium phospho silicate; and Xefta, our brand of gefitinib. We have also launched Combihale , a treatment for asthma.

Table of Contents

The following tables summarize the position of our top 10 brands in the Indian market for the years ended March 31, 2008 and 2009, respectively:

	Year Ended March 31,			
	2008		2009	
BRAND	Revenues	% Total(1)	Revenues	% Total(1)
	(Rs. in millions)			
Omez	Rs. 763	9%	Rs. 776	9%
Nise	626	8%	605	7%
Stamlo	403	5%	422	5%
Stamlo beta	305	4%	301	4%
Atocor	244	3%	269	3%
Razo	180	2%	214	3%
OMEZ-DSR	166	2%	210	2%
Reditux	154	2%	199	2%
Mintop	150	2%	172	2%
Enam	179	2%	166	2%
Others	4,890	61%	5,144	61%
Total	**Rs. 8,060**	**100%**	**Rs. 8,478**	**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 2,248 sales representatives and front line managers frequently visit doctors and pharmacists throughout the country to detail our products. In addition, we sponsor medical conferences in different parts of the country and conduct seminars for doctors. During the year ended March 31, 2009, we increased our total sales personnel in India by approximately 298.

We sell our products primarily through clearing and forwarding agents to approximately 2,196 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 and ensuring that the wholesalers maintain adequate supplies of our products. 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

We compete with different companies in different countries, depending upon therapeutic and product categories and, within each category, upon dosage strengths and drug delivery. On the basis of sales, we were the 13th largest

pharmaceutical seller in India, with a market share of 2.17%, according to the ORG IMS March MAT report for the 12-month period ended March 31, 2009. Of the top twenty participants in the Indian formulations market, three are multinational corporations and the rest are Indian corporations. We believe growth opportunities in India continue to exist.

Some of the key observations on the performance of the Indian pharmaceutical market by ORG IMS set forth in their March MAT report for the 12-month period ended March 31, 2009 and similar reports published by ORG IMS during the year ended March 31, 2009 are as follows:

Table of Contents

- The Indian pharmaceutical market, including retail and hospital sales, registered a growth of 10.1% during the year ended March 31, 2009.
- The overall growth rate during the year ended March 31, 2009 was lower than the forecasted growth rate.
- New products accounted for 6.5% of total Indian pharmaceutical sales during the year ended March 31, 2009.
- The number of new products in the Indian pharmaceutical market remained steady at approximately 3,900, while 20% of the new products account for 70% of total sales from new products.
- The top 300 existing brands grew at a rate of 11%, which was higher than the Indian pharmaceutical market s overall average, and continued to account for 33% of the market s total sales.
- Approximately 800 existing brands (more than Rs.100 million in value) accounted for 50% of the market s total sales and recorded a growth rate of more than 11% during the year ended March 31, 2009.
- There is an increasing emergence of bio-similars to address the needs of patients in the oncology therapeutic area.

Our Global Generic segment s principal competitors in the Indian market include Cipla Limited, Glaxo SmithKline Pharmaceuticals Limited, Ranbaxy Laboratories Limited, Nicholas Piramal India Limited, Sun Pharmaceuticals Industries Limited, Zydus-Cadila Limited, Lupin Limited, Mankind Limited, Alkem Limited, Aristo Pharma Limited and Abbott Limited.

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 (DPCO), 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 DCGI. Prior to granting licenses for any new drugs or combinations of new drugs, DCGI clearance has to be obtained in accordance with the Drugs and Cosmetics Act, 1940.

Pursuant to the amendments in May 2005 to the Schedule Y of the Drugs and Cosmetics Act, 1940, manufacturers of finished dosages are required to submit additional technical data to the DCGI 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 bioavailability and/or bioequivalence studies. Bioavailability 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. Bioequivalence 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

Table of Contents

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 the 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.

The biotechnology sector in India is governed by the guidelines and rules formulated by the Department of Biotechnology (DBT), under the Indian Government s Ministry of Science and Technology. The guidelines cover the entire requirements of various other related ministries/statutory departments of the Government of India.

A business which intends to manufacture and market biotechnology products is required to form an Institutional Bio Safety Committee (IBSC) consisting of internal experts on related fields as well as a nominee of the DBT and Central Pollution Control Board (CPCB). The IBSC reviews, verifies and approves the product application before submitting it to the Review Committee of Genetic Manipulation (RCGM) under the Indian Government s Ministry of Science and Technology. The RCGM verifies and approves all the data included in the application including the protocol and final reports on animal toxicity and human clinical trials.

Once clearance is obtained from the RCGM, the business is required to obtain clearance from the Genetic Engineering Approval Committee (GEAC) under the Ministry of Environment and Forest, Government of India. The GEAC forwards its recommendation to the DBT and DCGI. Upon receipt of a No Objection Certificate from the DCGI, the business is required to obtain a manufacturing license from the State Drugs Authority and, thereafter, can commence commercial marketing.

We are making required investments for scaling up our manufacturing infrastructure and enhancing our development capabilities to leverage the global opportunity available in biogenerics.

Russia

Russia accounted for 12% of our Global Generics segment s revenues in the year ended March 31, 2009. Pharmexpert, a market research firm, ranked us 17th in sales in Russia with a market share of 1.25% as of March 31, 2009 in its moving annual total report for first quarter 2009 (the Pharmexpert MAT Q1 2009 Report). Pharmexpert also reported that Russia s pharmaceutical market growth during the year ended March 31, 2009 was 16%. All of the companies ranked ahead of us by Pharmexpert were either multinational corporations or of European origin. Accordingly, 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, 2008 and 2009, respectively:

	Year Ended March 31,			
	2008		2009	
Brand	Revenues in millions	% Total(1)	Revenues in millions	% Total(1)
Omez	Rs. 849	21%	Rs. 1,281	21%
Nise	799	20%	1,249	21%
Ketorol	797	20%	1,078	18%
Ciprolet	550	13%	701	12%
Enam	255	6%	315	5%

Cetrine	199	5%	339	6%
Exifine	140	3%	210	3%

27

Table of Contents

	Year Ended March 31,			
	2008		2009	
Brand	Revenues in millions	% Total(1)	Revenues in millions	% Total(1)
Mitotax	105	3%	148	2%
Bion	62	2%	171	3%
Mycoflucan	51	1%	95	2%
Others	257	6%	216	7%
Total	**Rs. 4,064**	**100%**	**Rs. 5,803**	**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 72% of our generics revenues in Russia in the year ended March 31, 2009. Omez (an anti-ulcerant product), Nise and Ketorol (pain management products) and Ciprolet (an anti-infective product) are ranked as the 45th, 40th, 64th and 131st best selling formulation brands, respectively, in the Russian market as of March 2009 by Pharmexpert in its MAT Q1 2009 Report.

Our strategy in Russia is to focus on the therapeutic areas of gastro-intestinal, pain management, anti-infectives 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 the Pharmexpert MAT Q1 2009 Report.

Growth during the year was driven by sales and marketing initiatives to target specialists through field sale forces focused on these specialists, increased participation in hospital business and an over-the-counter (OTC) initiative for certain brands. During the year ended March 31, 2009, we further expanded our Russian sales force. Our Russian hospital division has 31 hospital specialists and 16 key account managers, and is focused on expanding our present network of hospitals and institutes. Our Russian OTC division has 52 medical representatives, and is focused on establishing a network of relationships with OTC distributors in preparation for future OTC product launches.

Sales, marketing and distribution network

In Russia, we sell our products to some of the principal national distributors directly as well as through our wholly-owned subsidiary located in Russia, OOO Dr. Reddy s Laboratories, Russia. Our sales and marketing efforts are driven by a team of 315 marketing representatives, 25 regional managers, 4 zonal managers and 21 key account managers to detail our products to doctors in 63 cities in Russia. During the year ended March 31, 2009, we increased our sales personnel in Russia by approximately 65.

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. During the year ended March 31, 2009, we reviewed the credit terms offered to our key customers and modified them to take into account the current macro-economic scenario in Russia.

Competition

Our Global Generics segment s principal competitors in the Russian market include Berlin Chemi AG, Gedeon Richter Limited, Krka, Pliva, Lek, Ranbaxy, Nycomed and Egis Pharmaceuticals Limited.

North America (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 brand 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 in any given country.

Table of Contents

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 152% to Rs.19,843 million during the year ended March 31, 2009 from Rs.7,873 million in the year ended March 31, 2008. During the year ended March 31, 2009, North America (the United States and Canada) accounted for 40% of the total Global Generics segment s sales. This significant contribution and year-on-year increase in sales was primarily due to increases in revenues from the launch of sumatriptan, our authorized generic version of Imitrex®, which generated revenues of Rs.7,188 million. Excluding the revenues from sumatriptan sales and excluding the revenue contributed by our acquisition of BASF s facility in Shreveport, Lousiana, our revenues from North America (the United States and Canada) grew by 39% compared to the year ended March 31, 2008.

Through the coordinated efforts of our teams in the United States and India, we constantly seek to expand our pipeline of generic products. In order to build a robust generics pipeline, in the year ended March 31, 2009, we filed 20 ANDAs in the United States, including seven Paragraph IV filings. In the year ended March 31, 2009, the U.S. FDA granted us 23 final ANDA approvals and four tentative ANDA approvals. As of March 31, 2009, cumulatively, we have filed 138 ANDAs in U.S. out of which 68 ANDAs were pending approval at the U.S. FDA, including nine tentative approvals.

During the year ended March 31, 2005, we entered into an agreement with I-VEN Pharma Capital Limited (I-VEN) for the joint development and commercialization of generic drug products for the U.S. markets. The agreement gives I-VEN the right to fund up to fifty percent of the project costs (development, registration and legal costs) related to these products and the related U.S. Abbreviated New Drug Applications (ANDA). Under this agreement, we received Rs.985 million in March 2005 which was applied in part to our research and development costs for the years ended March 31, 2005, 2006 and 2007. During the year ended March 31, 2007, we signed an amendment to the agreement with I-VEN to reflect a change in the product portfolio and the royalty rate.

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. During the year ended March 31, 2009, we launched sumatriptan AG, divalproex sodium, divalproex sodium sprinkles, glycopyrrolate, ramipril, venlafaxine, nabumetone, risperidone, risperidone ODT, levetracetam, lamotrigine chewable, lamotrigine tablets, naproxen OTC and famotidine OTC. Our key account representatives for generic products call on purchasing agents for chain drug stores, drug wholesalers, health maintenance organizations and pharmacy buying groups.

In January 2006, we entered into an agreement with Merck & Co., Inc. allowing us to distribute and sell authorized generic versions of finasteride and simvastatin (sold by Merck under the brand names Proscar® and Zocor®), upon the expiration of Merck s patents covered by these products, provided that some other company obtains 180-day exclusivity after the expiration of the patents for either product. Subsequently, the patents for both of these products

expired and other companies obtained 180-day exclusivity. Accordingly, we launched sales of these products on June 19, 2006 and June 23, 2006, respectively. After expiration of the period of exclusivity, we continued to distribute and sell these products and, in the year ended March 31, 2009, we earned revenue of Rs.648 million from sales of these products. During the year ended March 31, 2008, we received ANDA approvals for the generic versions of finasteride and simvastatin manufactured at our facility in India and currently sell those products also in the U.S. market.

Table of Contents

In 2001, we entered into a profit sharing marketing alliance with Par Pharmaceuticals, Inc. to market certain prescription generic formulations, none of which are over-the-counter products. As of March 31, 2009, we marketed two generic products through Par Pharmaceuticals, Inc.

We formerly marketed generic versions of famotidine (Pepcid®) tablets, ranitidine (Zantac®) tablets and naproxen sodium (Aleve®) tablets/caplets, through Leiner Health Products, LLC (Leiner). In 2002, we entered into a 15-year exclusive agreement with Leiner to market these and additional OTC products in the United States pursuant to which we launched our first new OTC product under this agreement, ibuprofen/pseudoephedrine, during the year ended March 31, 2007. However, we terminated our OTC product agreements with Leiner on April 18, 2007 after Leiner suspended all of its packaging, production and distribution activities at its facilities in the United States in response to a list of inspection observations on a Form 483 from the U.S. FDA. In the year ended March 31, 2008, we launched our own OTC products division and successfully introduced ranitidine 150 mg OTC in September 2007 and cetirizine 10 mg OTC in January 2008. During the year ended March 31, 2009, two more OTC products launches were made and the sales of our OTC business in the United States during the year ended March 31, 2009 generated revenues of Rs.992 million.

In Canada, in the year ended March 31, 2002, we entered into a profit sharing arrangement with Cobalt Pharmaceuticals Inc. and Pharmascience Inc. to market certain of our generic products.

In April 2008, we acquired BASF s pharmaceutical contract manufacturing business and related facility in Shreveport, Louisiana, U.S.A. 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. This business generated revenues of Rs.1,684 million during the year ended March 31, 2009.

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 Laboratories Inc., Andrx Corporation, Watson Laboratories Inc., Sandoz, a division of Novartis Pharma A.G, Ranbaxy Laboratories Limited and Caraco Pharmaceuticals.

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,

Table of Contents

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 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*, popularly 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) has modified certain provisions of the Hatch-Waxman Act. In particular, significant changes have been 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

Table of Contents

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, 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, the statutory provisions governing 180-day exclusivity prior to the Medicare Act 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.

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, 2009 were Rs.11,886 million, which accounted for 24% of our Global Generics segment s sales, and represented an increase of 16% as compared to sales of generic drugs in Europe for the year ended March 31, 2008. 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. Over last three years, the German pharmaceutical market underwent a significant change. The new healthcare reform (the Statutory Health Insurance 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.

During fiscal 2009, Allgemeinen Ortsrankenkassen (AOK), one of the largest SHI funds (with 18.2 million members and 7 million dependents, covering approximately 40% of the German insurance market), announced a competitive bidding (or tender) process from pharmaceutical companies for 64 pharmaceutical products for 2009 and 2010. betapharm was awarded 8 products and 33 contracts covering AOK-insured persons in various regions of Germany, which represented 17% of the overall volume of the products covered by the AOK tender. betapharm was

among the top 3 companies in terms of number of contracts awarded. The tender procedure was delayed pending resolution of a number of lawsuits filed by generic drug manufacturers. However, these lawsuits were

Table of Contents

settled in favor of AOK and, starting in June 2009, the sales under this tender began. After AOK s tender, two other SHIs also announced their own tender processes, and this process appears to be emerging as a significant trend in the German generics market.

In addition to AOK, betapharm continues to have contracts with other major SHI funds. 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 months they have negotiated higher discounts.

We sell a broad and diversified range of generic pharmaceutical products, under the betapharm brand. Our sales force targets primary care physicians and pharmacists and our key account management team targets insurance companies, various doctors and pharmacist associations. These efforts are supported by a direct marketing team and a public relations program. Value-added services provided by the beta institut gemeinnützige GmbH, also known as the beta Institute for Sociomedical Research, are fully integrated into the sales and marketing effort and provide a unique differentiation point for our sales calls. The beta Institute for Sociomedical Research is a non-profit organization engaged in research and development in order to seek means of improving the healthcare process in ways that promote the psychological welfare of patients.

With the above-mentioned discount contracts being effective, long term changes in the German structural framework conditions are ongoing. betapharm is in the process of a comprehensive restructuring of its sales force. The German generics market has seen a visible shift to a tender based supply model from that of a prescription based market, where the key driver for generating sales was doctors equity and influence enjoyed by generic companies with the pharmacists. Since the business model is changing, we intend to realign our sales force to evolve into a sustainable structure which adapts to the current market situation. Negotiations with the Works Council of betapharm, a local organization representing its workers, have been recently concluded to facilitate a suitable restructuring of the sales force.

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. 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. We subsequently stopped marketing this product in the German market. As part of the litigation, Eli Lilly claimed damages resulting from the sales of our olanzapine product. In settlement of such claims, we agreed to pay compensation to Eli Lilly in the amount of Euros 13.95 million (Rs.916 million).

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, 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 approximately 23 generic products in such countries, representing over 89 dosage strengths. New product launches in the year ended March 31, 2009 included fexofenadine, the generic version of Allegra®.

We also seek to expand our presence to other European countries, either directly or through strategic alliances. Other European countries where we have physical presence and have been able to build our franchise include Romania, Spain and Italy. We have a representative office in Romania, and our sales in Romania during the year ended March 31, 2009 were Rs.465 million.

We entered the Spain market through our acquisition of marketing authorizations and marketing authorization applications for certain specialty pharmaceutical products, along with the related trademark rights and physical inventories of the products, from Laboratorios Litaphar, S.A. (Litaphar) in the year ended March 31, 2007. As a result of this acquisition, we acquired an opportunity to sell those products using their existing brand names through our generics sales and marketing network. We have also filed marketing authorization applications in Spain to permit us to shift manufacturing of these acquired products from the current provider to our facilities in India.

We incorporated a subsidiary in Italy, Reddy Pharma Italia SpA, in the year ended March 31, 2007, to build a pipeline of registrations and initiate marketing activities within the Italian generics market. In April 2008, we acquired Jet Generici Srl, a company engaged in the sale of generic finished dosages in Italy. The acquisition provided us with access to an essential product portfolio, and a sales and marketing organization.

Table of Contents

Competition

In Germany, the companies with the largest generics market shares are losing their generics market shares to companies having rebate contracts with SHI funds. The top four generics companies (including their subsidiaries) in Germany hold an aggregate market share of approximately 44%, according to Insight Health s NPI-Gx (Sales March 2009) report. Our key competitors within the German generics market include Sandoz group (including its Hexal, Sandoz and 1A Pharma subsidiaries), Ratiopharm group (including its Ratiopharm and CT Arzneimittel subsidiaries) and Stada group (including its Stada and Aliud subsidiaries). With the discount contracts with SHI funds becoming effective, long term structural changes are ongoing in the German market. Many companies have decided to cut their sales force to reduce fixed costs; others still believe that sales representatives remain a useful differentiating factor in this highly competitive environment.

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. The applicant is also required to demonstrate bioequivalence 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 is currently focused on reducing health care spending. During the year ended March 31, 2007, the German government passed the Economic Optimization of Pharmaceutical Care Act (Arzneimittelversorgungs-Wirtschaftlichkeisgestz or AVWG) which became effective as of May 1, 2006, which is designed to contain increased pharmaceutical costs. The AVWG s provisions include, among other things: prohibitions on the provision of free goods to health professionals (including wholesalers, pharmacists, medical institutions, physicians etc.); limitations on the payment of rebates to wholesalers and pharmacists; prohibitions on price increases for medicinal products prior to March 31, 2008; implementation of additional mandatory rebates of 10% if

pharmaceutical prices are not 30% below the reference prices as published by the Federal Associations of Healthcare Insurance funds; and empowering the statutory health insurance funds to waive copayments by patients.

Table of Contents

Due to the AVWG, insurance companies operating in Germany have the power to influence prices, and they have done so by releasing several products from co-payment.

Further, the government passed a new healthcare reform, the Statutory Health Insurance - Competition Strengthening Act or Wettbewerbsstärkungsgesetz (WSG), which became effective as of April 1, 2007. Highlights of this new act are:

- private insurance funds cannot refuse to provide health insurance to anyone who is without private health insurance coverage or who wants to switch from the public system; for these patients, private insurance funds need to offer basic rates in the future;

- insurance funds are encouraged to enter into contracts with doctors, pharmacies and the pharmaceutical industry designed to lower the costs for the supply of patients with medicinal products (e.g., rebate agreements with the pharmaceutical industry and pharmacists) and integrating different fields of care to lower medical treatment costs;

- insurance funds can cause drugs that are covered by rebate contracts with the pharmaceutical industry to be exempt from co-payments by patients;

- in filling prescriptions, pharmacists are required to give preference to drugs subject to rebates, unless the physician has explicitly excluded replacement of the prescribed drug;

- rebated medicinal products might, depending on individual agreements with physicians, be exempted from individual prescribing limits of the physicians (in Germany, physicians are given prescribing limits by insurance funds based on their number of patients, and if those limits are exceeded, the physicians can be penalized);

- patients included in integrated care routes (see above) shall preferably receive rebated medicinal products; and

- in making decisions pertaining to the prescription of drugs or filling of prescriptions, drugs will be evaluated not only from a benefit perspective but also from a cost perspective.

Impairment

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 SHI fund), a continuing decrease in the reference prices of pharmaceutical products and an increased quantity of discount contracts being negotiated with SHI funds. AOK s tender process represents a visible 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. 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 tender, the expected overall percentage margin under the tender arrangement will be significantly lower due to decreased prices 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 and goodwill 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 Rs.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 Rs.10,856 million 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 . We believe that the significant decline in reference prices, together with the increased use by SHIs of discount contracts and tender bidding processes, is resulting in the German market moving towards a non-branded price competition market model, and therefore diminishing the importance of the Company s trademark/ brand beta . Accordingly, as at March 31, 2009, we re-assessed our trademark/brand beta to be a finite life intangible asset, and determined its useful life to be 12 years.

Table of Contents

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. The markets being exited would account for less than 1% of our total company revenues. In addition to the markets where our operations are already very large and account for a major share of our Global Generics segment s revenues (i.e., United States, India, Russia and other countries of the former Soviet Union, and Germany), we will continue operations in 10-15 other markets in which our finished dosages sales are growing significantly. In Venezuela, one of our key markets in this segment, during the year ended March 31, 2009 we re-acquired distribution rights for our products from our existing distributor and established our own distribution operations.

The realignment resulting from the exit from small distribution driven markets represents an important new focus in our Global Generics segment. Not only will this realignment result in consolidation and reduction in complexity of our operations, it will 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.

Global Generics Manufacturing and Raw Materials

Manufacturing for our Global Generics segment entails converting APIs into finished dosages and packaging in individual doses for consumption by the patients. We have seven facilities for the manufacturing of formulation products, six of which are in India and one of which is in the United States. One of the Indian facilities in Hyderabad is U.S. FDA compliant and is utilized to manufacture products for the highly regulated markets of the United States, United Kingdom, Germany and South Africa in accordance with the approvals obtained from respective authorities. This facility is designed for the manufacture of tablets and hard gelatin capsules for sale in 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. The main difference between active pharmaceutical ingredients as compared to finished dosages is the form in which they are produced and the way they are packaged. Active pharmaceutical ingredients are manufactured and distributed in bulk. In generics, these bulk ingredients are converted into finished dosages by adding other ingredients, called excipients, and packaged into individual doses that are ready for consumption by the patient. In the year ended March 31, 2009, our PSAI segment provided approximately 62% of the active pharmaceutical ingredients and intermediates requirements of our Global Generics business, with the balance coming from various other suppliers.

For the manufacturing of products intended to be sold in the United States, we are required to identify the suppliers of all the raw materials for our products in the drug applications that we file with the U.S. FDA. If raw materials for a particular product became unavailable from an approved supplier specified in a drug application, we would be required to qualify a substitute supplier with the U.S. FDA, which would likely interrupt manufacturing of the affected product. To the extent practicable, we attempt to identify more than one supplier in each drug application. 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, U.S. FDA regulations, various import duties and other government clearances. Our facility at Beverley in the United Kingdom is designed for the packaging and warehousing of pharmaceutical products in a variety of dosage forms, including tablets, capsules, liquids and creams. The facility holds all relevant licenses and authorizations required to conduct all necessary activities, including the supply of materials for use in clinical studies. In addition, the quality systems for ensuring product quality planning and control are ISO 9000 accredited. We closed our other U.K. facility, which had been located at Battersea, in the year ended March 31, 2007. We transferred the manufacturing of most of the products manufactured at the Battersea facility to our facilities in India. In Germany, manufacturing of betapharm s products is now partly through our facilities in Bachupally, India and also outsourced to third party manufacturers. As of March 31, 2009, we shifted manufacturing of sixteen key product groups to India. In the year ended March 31, 2010, we intend to continue shifting the manufacturing of betapharm products to our facilities in India. The logistics services for storage and

distribution in Germany is outsourced to a third party service provider.

Our manufacture of finished dosages for less regulated markets is subject to strict quality and contamination controls throughout the manufacturing process. In our facilities, we manufacture formulations in various dosage forms including tablets, capsules, injections and liquids. These dosage forms are then packaged and quarantined to be tested for quality and contamination. The Ministries of Health of Brazil, Ukraine, Gulf Co-operation Council group, Kirgystan and World Health Organization have visited

Table of Contents

during the year ended march 31, 2009 and approved our facilities. We manufacture our key brands for our Indian markets at our facilities in Baddi and Yanam 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, and exemption from income tax, in the case of Yanam, 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, U.K. MHRA, the South African Medicines Control Council, the Brazilian National Agency of Sanitary Surveillance (also known as ANVISA), the Romanian National Medicines Agency, and the World Health Organization, all of which have extensive enforcement powers over the activities of pharmaceutical manufacturers operating within their jurisdiction.

Proprietary Products Segment

Our Proprietary Products segment involves the discovery of new chemical entities 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.

Discovery Research business

In the discovery research part of the Proprietary Products segment, we are actively pursuing discovery and development of new molecules, sometimes referred to as New Chemical Entities or NCEs. Our research programs focus on the following therapeutic areas:

Metabolic disorders

Cardiovascular disorders

Bacterial infections

Our principle research laboratory is based in Hyderabad, India. As of March 31, 2009, we employed a total of 185 scientists, including approximately 40 scientists who held Ph.D. degrees. We pursue an integrated research strategy at our laboratories, focusing on discovery of new molecular targets and designing of screening assays to screen for promising lead molecules followed by selection and optimization of lead molecules and further clinical development of those optimized leads.

While we continue to seek licensing and development arrangements with third parties to further develop our pipeline products, we also conduct clinical development of some of the candidate drugs ourselves where it is economically and technically feasible. Our long-term strategy for drug discovery is to increasingly undertake clinical testing ourselves, as we believe that this will enable us to derive higher value for our compounds. 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.

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. 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 September 2005, we 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

Table of Contents

(Citigroup Venture) and ICICI Venture Funds Management Company (ICICI Venture). The terms of the joint venture were amended in March 2006. The joint venture agreement granted us 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. During the year ended March 31, 2007, we entered into a Research Services Agreement with Perlecan Pharma pursuant to which we provide Perlecan Pharma with clinical development support and services. Perlecan Pharma has certain development rights with respect to additional NCE assets that we discovered and we have certain commercialization rights with respect to products that Perlecan Pharma developed. In addition, as part of this arrangement, we transferred all rights and title, including the development and commercialization rights, of four NCE assets to Perlecan Pharma. On July 30, 2008, we acquired the entire equity holding of Citigroup Venture and ICICI Venture in Perlecan Pharma for a total consideration of Rs.758 million. As a result of this transaction, Perlecan Pharma became our wholly owned subsidiary.

In September 2006, we entered into an agreement with ClinTec International for the joint development of an anti-cancer compound, DRF 1042, belonging to the topoisomerase inhibitors class of compounds for use as potential treatment of various types of cancer. Phase I studies in India have been completed, although additional long-term toxicology studies are required in order to support Phase II clinical studies. Phase II studies are anticipated to commence once these additional toxicology studies are completed. The agreement is structured such that territories are split between us and ClinTec International, with milestones and royalties flowing between the parties based on successes achieved in their respective territories. In the quarter ended March 31, 2009, this agreement was restructured such that we ceased to be a joint development partner and Clintec International and its affiliates were given an option to in-license the product by a specific date. In order to exercise this option, ClinTec International must pay us an agreed initial amount plus certain milestone payments which are subject to achievement of specified development, launch and sales thresholds in the future.

As part of our research program, we pursue collaborations with leading institutions and laboratories all over the world. We enter into these collaborations to utilize the expertise and facilities these institutions and laboratories provide. We have collaborated with the National Cancer Institute in Maryland, which is a part of the United States National Institutes of Health. In February 2006, we entered into an agreement with Argenta Discovery Limited (Argenta) for the joint development and commercialization of a novel approach to the treatment of Chronic Obstructive Pulmonary Disease (COPD). Under the terms of the agreement, the parties agreed to collaborate to identify clinical candidates from a certain class of our compounds for use as potential treatments for COPD. Both parties agreed to jointly develop the selected candidates from the pre-clinical stage up to Phase IIa (proof-of-concept). Upon successful completion of a Phase IIa trial, the parties may either license-out the candidate for further development and commercialization to a larger pharmaceutical company or continue the further co-development and commercialization themselves. We and Argenta have agreed to fund the joint collaboration up to proof-of-concept and share the development expenses equally and profits at a predetermined ratio. A molecule candidate was identified that could be developed for COPD, and Good Laboratory Practices toxicity studies are ongoing for this molecule. We commenced Phase I studies for this candidate in March 2009.

In March 2008, we entered into an agreement with 7TM Pharma for drug discovery collaboration on selected drug targets. We will collaborate with 7TM Pharma to identify clinical candidates for pre-selected targets and will jointly develop these candidates from the pre-clinical stage up to Phase IIa (proof-of-concept). Upon successful completion of a Phase IIa trial, the parties may either license out the candidate for further development and commercialization to a larger pharmaceutical company or continue the further co-development and commercialization themselves. 7TM Pharma is a Denmark based biotechnology company focusing on discovery and development of new drugs targeting 7TM receptors. 7TM Pharma s primary therapeutic area is metabolic diseases, including obesity, Type 2 diabetes and cardiovascular diseases.

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

Compound	Therapeutic Area	Status	Development partner	Remarks

DRF 2593	Metabolic disorders	Phase III	Rheoscience	In Phase III clinical testing for type 2 diabetes
Several compounds	Respiratory disorders	Phase I	Argenta	Targeted for Chronic Obstructive Pulmonary Disease
DRL 17822	Metabolic disorders/Cardiovascular disorders	Phase I	N/A	Targeting dyslipidemia and atherosclerosis

Table of Contents

Patents. The status of our patents filed and issued as of March 31, 2009 is summarized below:

Category	USPTO(1) (Filed)	USPTO(1) (Granted)	PCT(2) (Filed)	India (Filed)	India (Granted)
Anti-diabetic	83	53	61	116	44
Anti-cancer	17	8	14	45	15
Anti-bacterial	8	5	10	21	4
Anti-inflammation/Cardiovascular	38	18	26	20	1
Anti-ulcerant	1	1		1	
Miscellaneous	4	1	3	23	8
TOTAL	151	86	114	226	72

(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, who 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.

Table of Contents

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, laying down 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 are 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.

40

Table of Contents

Recent announcements

In May 2009, we announced the acceptance of our three Investigational New Drug (IND) filings by the U.S. FDA. The first human subjects were successfully treated in a phase I study with DRL 17822, a selective inhibitor of cholesterylester transfer protein (or CETP), for the treatment of dyslipidemia, atherosclerosis and associated cardiovascular diseases. The compound shows 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. The two other INDs are for the treatment of chronic obstructive pulmonary disease (or COPD) and dyslipidemia.

We also announced that effective July 1, 2009 our drug discovery operations at Hyderabad will be absorbed into Aurigene Discovery Technologies Limited (Aurigene), another of our wholly-owned subsidiaries. Aurigene is a partnership based drug discovery biotechnology company headquartered in Bangalore. Our Discovery Research business resources (i.e., employees, facility and infrastructure) will be suitably transferred and leased to Aurigene, which will now operate out of two sites - Bangalore and Hyderabad.

In addition, we will be creating a new group to focus on proprietary products development, which will be responsible for building our proprietary, branded research and development portfolio in collaboration with various partners and service providers. This organization will work with Aurigene and other discovery biotechnology companies to ensure effective management of our ongoing and future drug discovery programs. All the existing intellectual property of our drug discovery operations will be owned and managed by this new group. This group will also have responsibility for our research and development portfolio and our differentiated formulations efforts. As part of the reorganization, we will close our research facility in Atlanta, Georgia, U.S.A.

Promius Pharma

Promius Pharma is our subsidiary in Bridgewater, New Jersey, U.S.A. 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 two products, namely EpiCeram, which is a skin barrier emulsion for the treatment of atopic dermatitis, and Scytera, which is a foam for the treatment of psoriasis. 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 the 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. 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 it to the third party manufacturer. The logistics services for storage and distribution have also been outsourced to a third party service provider.

On March 13, 2006, we acquired trademark rights to three off-patent products, along with all the physical inventories of the products, from PDL Biopharma, Inc. (PDL), for a total consideration of Rs.123 million. PDL was a company focused on the development and commercialization of novel therapies for treatment of inflammation and autoimmune diseases, acute cardiac conditions and cancer. As a result of the acquisition, we acquired an opportunity to sell these products using their existing brand names through our generics sales and marketing network. PDL s operations were subsequently integrated with those of Promius Pharma.

The revenues generated by Promius Pharma as well as from the sale of PDL products during the year ended March 31, 2009 of Rs.294 million have been accounted under our Proprietary Products segment.

Table of Contents

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, 2009:

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%
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%
Dr. Reddy s Laboratories (U.K.) Limited	United Kingdom	100%(5)
Dr. Reddy s Laboratories (Proprietary) Limited	South Africa	60%
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	70%
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)(12)	New Zealand	100%(10)
Macred India Private Limited	India	100%
Dr. Reddy s Laboratories Ilac Ticaret Limited	Turkey	100%
Perlecan Pharma Private Limited	India	99.99%
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)

(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.

Table of Contents

(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) Effective as of May 19, 2009

4.D. ***Property, plants 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				3,912[9][12]	3,327[9][12]
Bollaram, Andhra Pradesh, India	734,013	191,558	U.S. FDA and EuGMP	See above [12]	See above [12]
Bollaram, Andhra Pradesh, India	648,173	346,622	U.S. FDA and EuGMP	See above [12]	See above [12]
	285,235	204,556			

Bollaram, Andhra Pradesh, India			U.S. FDA and EuGMP	See above (12)	See above (12)
Jeedimetla, Andhra Pradesh, India	228,033	102,464	U.S. FDA and EuGMP	See above (12)	See above (12)
Miryalaguda, Andhra Pradesh, India	3,402,907	414,553	U.S. FDA and EuGMP	See above (12)	See above (12)
Pydibheemavaram, Andhra Pradesh, India	8,523,466	972,490	U.S. FDA and EuGMP	See above (12)	See above (12)
Pydibheemavaram, Andhra Pradesh, India (5)	737,134	53,918		See above (12)	See above (12)
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
Cuernavaca, Mexico	2,774,378	1,345,488	(1)	3,500(9)	2,000(9)
Mirfield, United Kingdom	1,785,960	653,400	ISO 9001:2008, MHRA (UK) and U.S. FDA	(13)	(13)
Cambridge, United Kingdom (6)	9,383	9,383		N/A	N/A
Global Generics				3,440(7)(8)(14)	4,298(7)(14)
Bollaram, Andhra Pradesh, India	217,729	103,894	(2)	See above (14)	See above (14)
Bachupally, Andhra Pradesh, India	1,306,372	387,030	(3)	See above (14)	See above (14)
Yanam, Pondicherry, India	457,000	26,226		See above (14)	See above (14)
Baddi, Himachal Pradesh, India	765,542	148,711		See above (14)	See above (14)
Bachupally, Andhra Pradesh, India	798,982	41,891	(2)	13,852(10)	4,309(10)
Bachupally, Andhra Pradesh, India (5)	783,823	336,308	(4)	9,200(7)(11)	4,770(7)
Beverley, East Yorkshire, United Kingdom	81,000	32,500	U.K. Medicine Control Agency, British Retail Consortium	N/A	N/A
Shreveport, Lousiana, United States	1,817,123	258,709	U.S. FDA	5,875(7)(11)	1,825(7)
Proprietary Products (11)					
Miyapur, Andhra Pradesh, India	445,401	153,577		N/A	N/A
Georgia, United States (6)	24,733	24,733		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, Sudan; Ministry of Health, Uganda; Brazilian National Agency of Sanitary Surveillance (ANVISA), Brazil; National Medicines Agency, Romania; Ministry of Health, Ukraine; 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, Sudan; Ministry of Health, State of Bahrain; State Pharmaceutical Inspection, Republic of Latvia; Pharmaceutical and Herbal Medicines, Registration and Control Administrations, Ministry of Health, Kuwait.

Table of Contents

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) 100% Export Oriented Units. However the income tax benefits under the Indian Income tax Act were exhausted as of the end of the year ended March 31, 2008 for our Generics facility at Bachupally.

(6) Leased facilities.

(7) Million units.

(8) On a single shift basis.

(9) Tons.

(10) Grams.

(11) Three shift basis

(12) Represents the aggregate capacity and production for

the first seven facilities listed in this table under PSAI.

(13) Capacity and production at this facility is not separately tracked.

(14) 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

In the year ended March 31, 2009, we commissioned the construction of a facility at our plant in Baddi, Himachal Pradesh for the manufacture of injectable and ointment finished doseages for our Global Generics segment. This project is eligible for certain financial benefits, including exemption from income tax and excise duty 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. We are in the process of obtaining certification for this facility from the U.S. FDA. During the initial visit to our facility in February 2008, the U.S. FDA inspectors gave us a Notice on Form 483 of certain deficiencies. This was a part of the regular pre-ANDA approval inspection that the U.S. FDA conducts for all potential U.S. ANDA filers and pursuant to which the entire manufacturing site is audited. We promptly responded to this Notice. Subsequently, the U.S. FDA had certain follow-on inquiries and asked for the facility to be reinspected. We filed a reply to these follow-on inquiries in January 2009 and informed the U.S. FDA that a facility upgrade will be undertaken to support our business plan and expanded scope for other products to be manufactured at this facility. We are working with the U.S. FDA on these matters and anticipate that we will receive approval for the facility upon completion of the reinspection.

We are in the process of setting up a manufacturing facility in Medak District, Andhra Pradesh, India, where our property has been designated as a Special Economic Zone under the applicable laws of the Government of India.

PSAI

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 envisaged to be developed in a phased manner, subject to all statutory clearances.

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.

Table of Contents

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

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 drug discovery operations.

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:

Pharmaceutical Services and Active Ingredients (PSAI);

Global Generics; and

Proprietary Products.

During the year ended March 31, 2009, we transitioned into a new organization structure, which has resulted in changes in our composition of reportable segments as well as the financial information reviewed by the CODM. Accordingly, the segment information for the current year ended March 31, 2009 and the previous year ended March 31, 2008 has been presented based on the new reportable segments as mentioned above.

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. This segment has been formed by aggregating our former Active Pharmaceutical Ingredients and Intermediates segment and Custom Pharmaceutical Services segment.

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 includes our former Formulations and Generics segments.

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 launched sales and marketing operations for in-licensed dermatology products during the year ended March 31, 2009.

Accordingly, disclosures relating to the previous period have been reclassified/regrouped to conform to the current period presentation. The explanations below have been suitably modified in line with such changes.

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, disclosure of contingent liabilities at the balance sheet 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.

Table of Contents

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;

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 is based upon the terms of the applicable contract.

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 pharmaceuticals 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 our parent company or our consolidated subsidiaries.

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 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 marketing partners. An additional amount representing the profit share is recognized as revenue only when realization is certain.

Provision for chargeback, rebates, discounts and medicaid payments are estimated and provided for in the period 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 us. Provision 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.

Table of Contents

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 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.

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 government entitlement 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 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 instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents

Cash and cash equivalents consists 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 investments are measured at amortized cost using the effective interest method, less any impairment losses. At March 31, 2009, we did not have any held-to-maturity investments.

Available-for-sale financial assets

Table of Contents

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 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.

Others

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

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 equity to the extent that the hedge is effective. 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 equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognized in equity is transferred to the carrying amount of the asset when it is recognized. In other cases the amount recognized in equity 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

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 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.

Table of Contents

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 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 directly in 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 rupee at the monthly average exchange rates prevailing during the year.

Foreign currency differences are recognized directly in 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 a net investment in a foreign operation and are recognized directly in equity in the FCTR.

Intangible assets

Goodwill

Goodwill (negative goodwill) arises upon the acquisition of subsidiaries, associates and joint ventures.

Acquisitions prior to April 1, 2007

As part of our transition to IFRS, we elected to restate only those business combinations that occurred on or after April 1, 2007. In respect of acquisitions prior to April 1, 2007, goodwill represents the amount recognized under U.S. GAAP, which is considered our previous GAAP under IFRS.

Acquisitions on or after April 1, 2007

For acquisitions on or after April 1, 2007, goodwill represents the excess of the cost of the acquisition over our interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit or loss.

Acquisitions of minority interests

Goodwill arising upon the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

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.

Table of Contents

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 we intend to and have sufficient resources to complete development and to use or sell the asset. 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 capitalization 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, however, the capitalization criteria are met, intangible assets are capitalized and amortized on a straight-line basis over their useful economic lives from product launch. As of March 31, 2009, no internal drug development expenditure amounts have met the capitalization criteria.

Payments to in-license products and compounds from third parties generally taking the form of up-front payments and milestones are capitalized and amortized, generally on a straight-line basis, over their useful economic lives from product launch.

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 balance sheet 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 income statement.

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 equity.

Table of Contents

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, the recoverable amount is estimated each year at the same time.

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.

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.

Litigation

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, in consultation with our counsel, 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.

Table of Contents

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.

Business Combination

Business combinations have been accounted using the purchase method under the provisions of IFRS 3, *Business Combinations* . Cash and amounts of consideration that are determinable at the date of acquisition are included in determining the cost of the acquired business. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the dates of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition. Goodwill represents the cost of business acquisition in excess of our interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative, we recognize the same immediately in the income statement.

Table of Contents

5.A. ***Operating results***

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

	(Rs. in millions) For the year ended March 31, 2009				(Rs. in millions) For the year ended March 31, 2008			
	Revenues	**Revenues % to total**	**Gross profit**	**Gross profit % to revenues**	**Revenues**	**Revenues % to total**	**Gross profit**	**Gross profit % to revenues**
Pharmaceutical Services and Active Ingredients	Rs. 18,758	27%	Rs. 5,595	30%	Rs. 16,623	33%	Rs. 5,645	34%
Global Generics	49,790	72%	30,448	61%	32,872	66%	19,567	60%
Proprietary Products	294	0%	196	67%	190	0%	109	57%
Others	599	1%	261	44%	321	1%	87	27%
Total	Rs. 69,441	100%	Rs. 36,500	53%	Rs. 50,006	100%	Rs. 25,408	51%

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 year.

	Percentage of Sales For the year ended March 31,		Percentage Increase/(Decrease)
	2009	**2008**	
Revenues	100	100	39
Gross profit	**53**	**51**	**44**
Selling, general and administrative expenses	30	34	25
Research and development expenses	6	7	14
Impairment loss on other intangible assets	5	6	5
Impairment loss on goodwill	16		NC
Other (income)/expense, net		(1)	NC
Results from operating activities	**(4)**	**5**	**NC**
Finance (income)/expense, net	2	(1)	NC
Profit/(loss) before income taxes	**(6)**	**6**	**NC**
Income tax (expense)/benefit, net	(2)	2	NC
Profit/(loss) for the period	**(7)**	**8**	**NC**

NC = Not comparable

Revenues

Our overall revenues increased by 39% to Rs.69,441 million in the year ended March 31, 2009, from Rs.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, U.S.A. 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 Rs.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 Rs.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 Rs.59,456 million during the year ended March 31, 2009.

Table of Contents

Revenues from our Pharmaceutical Services and Active Ingredients segment increased by 13% to Rs.18,758 million during the year ended March 31, 2009, from Rs.16,623 million during the year ended March 31, 2008. Excluding revenues from the Dow Pharma Unit acquired in April 2008 of Rs.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%.

Revenues from our Global Generics segment increased by 51% to Rs.49,790 million during the year ended March 31, 2009, from Rs.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 Rs.1,684 million from the Shreveport facility and Rs.92 million from Jet Generici, each of which was acquired in April 2008, revenues from our Global Generics segment increased by 46% to Rs.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 Rs.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 Rs.40,826 million during the year ended March 31, 2009.

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.

The provision for sales returns created during the year ended March 31, 2009 was Rs.663 million, as compared to Rs.164 million during the year ended March 31, 2008. Consistent with our accounting policy for creating allowances for sales returns (referred to in Note 3.k. of our consolidated financial statements), we assess the provision for sales returns at every reporting period based on the historical trend of returns. Please refer to Note 23 of our consolidated financial statements for the changes to our sales returns provisions during the years ended March 31, 2008 and 2009. The increase in our sales return provision for the year ended March 31, 2009 as compared to the year ended March 31, 2008 was mainly attributable to:

- A 39% increase in our total sales in the year ended March 31, 2009 over the year ended March 31, 2008. Please refer to the discussion on revenues in this section for a more detailed analysis. Our increase in the provision for sales returns during the year ended March 31, 2009 was, in part, linked to this increase in our total sales.

- Furthermore, our estimates of expected future sales returns allowances varies in different geographic markets, based on their historical trends. Generally, our sales returns in our North America (the United States and Canada) generics business are higher than our sales returns in other businesses and geographies. Revenues from North America (the United States and Canada) within our Global Generics segment increased by 152% to Rs.19,843 million for the year ended March 31, 2009, from Rs.7,873 million in the year ended March 31, 2008. Please refer to the discussion on revenues in this section for a more detailed analysis.

- As mentioned above, in addition to assessing the adequacy of our allowance for sales returns based on sales returns percentages during historical periods, our assessment is also based upon sales returns processed at every reporting period. As we progressed through the year ended March 31, 2008, we noted a decline in our trend of returns and, accordingly, reevaluated our estimate. This assessment during the year ended March 31, 2008 resulted in a reversal of Rs.166 million from our opening allowance for sales returns. This change in the estimate for allowance for sales returns was primarily due to smaller than expected returns processed by us during the year ended March 31, 2008, as compared to our opening estimate based on historical trends. This reversal reduced our net provision for the year ended March 31, 2008 to Rs.164 million, which was significantly lower than our actual sales returns of Rs.284 million in the year ended March 31, 2008. Accordingly, our initial provision for sales returns in the year ended March 31, 2009 reflected our increased estimate for sales returns based upon actual returns in the prior fiscal year. In addition, as we progressed through the year ended March 31, 2009, there was a further increase in our trend of sales returns (from

Rs.284 million in the year ended March 31, 2008 to Rs.475 million in the year ended March 31, 2009) which was also reflected in our estimate for sales return provision.

For further information regarding our sales return provisions, see Note 23 to our consolidated financial statements.

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 Rs.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 Rs.70,896 for the year ended March 31, 2009 from Rs.50,006 million for the year ended March 31, 2008.

Table of Contents

Revenues Segment analysis

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 Rs.18,758 million for the year ended March 31, 2009, as compared to Rs.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 Rs.17,737 million for the year ended March 31, 2009 from Rs.16,623 million for the year ended March 31, 2008. This increase was primarily due to increases in revenues from sales of gemcitabine, naproxen, clopidogrel, montelukast, rabeprazole sodium, ropinirole hydrochloride, and sumatriptan succinate, which increases were partially offset by decreases in sales of escitalopram oxalate, amlodipine besilate and olanzapine

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 Rs.2,383 million for the year ended March 31, 2009, as compared to Rs.2,352 million for the year ended March 31, 2008.

Revenues in this segment from outside India constituted 87% of our total revenues in this segment for the year ended March 31, 2009, as compared to 86% for the year ended March 31, 2008. Revenues in this segment from outside India increased by 15% to Rs.16,375 million for the year ended March 31, 2009 from Rs.14,271 million for the year ended March 31, 2008.

Revenues in this segment from North America (the United States and Canada) increased by 16% to Rs.3,875 million for the year ended March 31, 2009 from Rs.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 Europe increased by 9% to Rs.6,160 million for the year ended March 31, 2009 from Rs.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 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 Rs.6,340 million for the year ended March 31, 2009 from Rs.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.

We entered into derivative contracts to hedge certain foreign currency risks on forecasted sales transactions. We followed hedge accounting principles in the accounting for these derivative contracts, which require the gain/loss on maturity of derivative contracts designated as hedges to be recognized in the same fiscal period as the underlying transaction is recorded. In accordance with these principles, we have recorded a loss in this segment of Rs.655 million for the year ended March 31, 2009. Excluding the impact of hedging, this segment s revenue increased by 17% to Rs.19,413 for the year ended March 31, 2009 from Rs.16,623 million for the year ended March 31, 2008.

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 Rs.49,790 million for the year ended March 31, 2009 from Rs.32,872 million for the year ended March 31, 2008. Excluding revenues from the Shreveport facility and Jet Generici, each of which was acquired in April 2008, revenues in this segment increased by 46% to Rs.48,014 million for the year ended March 31, 2009 from Rs.32,872 million for the year ended March 31, 2008.

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 Rs.8,478 million for the year ended March 31, 2009 from Rs.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

Table of Contents

nimesulide. New products launched in India during the year ended March 31, 2009 generated revenues of Rs.232 million in this segment for such period.

Revenues from outside India constituted 83% of this segment s total revenues for the year ended March 31, 2009, as compared to 75% for the year ended March 31, 2008. Revenues in this segment from outside India increased by 67% to Rs.41,312 million for the year ended March 31, 2009 from Rs.24,812 million for the year ended March 31, 2008.

Revenues from North America (the United States and Canada) in this segment increased by 152% to Rs.19,843 million for the year ended March 31, 2009, from Rs.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 Rs.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 Rs.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 Europe in this segment increased by 16% to Rs.11,886 million for the year ended March 31, 2009, as compared to Rs.10,216 million for the year ended March 31, 2008. Revenues of betapharm increased to Rs.9,854 million for the year ended March 31, 2009 from Rs.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 Rs.5,803 million for the year ended March 31, 2009, from Rs.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 cetrizine, and Ketorol, our brand of ketorolac.

Revenues from other countries of the former Soviet Union in this segment increased by 25% to Rs.1,821 million for the year ended March 31, 2009, as compared to Rs.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 Rs.1,959 million for the year ended March 31, 2009, as compared to Rs.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.

We entered into derivative contracts to hedge certain foreign currency risks on forecasted sales transactions. We followed hedge accounting principles in the accounting for these derivative contracts, which require the gain/loss on maturity of derivative contracts designated as hedges to be recognized in the same fiscal period as the underlying transaction is recorded. In accordance with these principles, we have recorded a loss of Rs.800 million in this segment for the year ended March 31, 2009. Excluding the impact of hedging, this segment s revenue increased by 54% to Rs.50,590 million for the year ended March 31, 2009, from Rs.32,872 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 Rs.36,500 million for the year ended March 31, 2009, from Rs.25,408 million for the year ended March 31, 2008.

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 Rs.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.

Global Generics

57

Table of Contents

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 Rs.800 million.

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 Rs.21,020 million for the year ended March 31, 2009, from Rs.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 and Ukraine and Germany.

Furthermore, amortization expenses decreased by 6% to Rs.1,503 million for the year ended March 31, 2009, from Rs.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 Rs.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 Rs.4,037 million for the year ended March 31, 2009, from Rs.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 visible 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 Rs.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 Rs.10,856 million during the year ended March 31, 2009.

Other (income)/expense, net

Table of Contents

Other expense was Rs.254 million for the year ended March 31, 2009, as compared to income of Rs.402 million for the year ended March 31, 2008. This was primarily due to the Rs.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 Rs.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 Rs.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 Rs.2,834 million for the year ended March 31, 2009, as compared to a profit of Rs.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 Rs.1,186 million, as compared to net finance income of Rs.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 Rs.482 million from Rs.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 Rs.1,034 million, from Rs.1,080 million for the year ended March 31, 2008.

Foreign exchange loss was Rs.634 million for the year ended March 31, 2009 as compared to a foreign exchange gain of Rs.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.

Inflation

Due to various macro-economic factors, the inflation level in the recent period has significantly decreased 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 0.26% for the week ended March 28, 2009 (as compared to 7.75% for the week ended March 29, 2008), which is one of the lowest in recent years. This trend may not continue and the rate of inflation may further rise.

Profit/(loss) before income taxes

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

Income tax expense

Income tax expense was Rs.1,172 million for the year ended March 31, 2009, as compared to an income tax benefit of Rs.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 (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 Rs.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 Rs.983 million as a result of an impairment charge of betapharm intangibles of Rs.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 Rs.1,505 million, which was due to a reduction in tax rates in Germany, and a release of a deferred tax liability of Rs.895 million, which was due to the write-down of intangibles amounting to Rs.2,883 million.

Table of Contents

Profit/(loss) for the period

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

Recent Accounting Pronouncements

New standards and interpretations not yet adopted

A number of new IFRS standards and interpretations, and amendments to IFRS standards and interpretations, are not yet effective for the year ended March 31, 2009, and have not been applied in preparing our consolidated financial statements:

- Revised IAS 1, *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for our March 31, 2010 consolidated financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. We plan to provide total comprehensive income in a single statement of comprehensive income for our March 31, 2010 consolidated financial statements.

- Revised IAS 23, *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for our March 31, 2010 consolidated financial statements. As we currently follow a policy of capitalizing borrowing costs, this new standard will not have any impact on our consolidated financial statements.

- Amendments to IAS 32, *Financial Instruments: Presentation* and IAS 1, *Presentation of Financial Statements Puttable Financial Instruments and Obligations Arising on Liquidation* require puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for our March 31, 2010 consolidated financial statements, with retrospective application required, are not expected to have any material impact on our consolidated financial statements.

- Revised IFRS 3, *Business Combinations* (2008) incorporates the following changes that are likely to be relevant to our operations:

  The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.

  Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.

  Transaction costs, other than share and debt issue costs, will be expensed as incurred.

  Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.

  Any non-controlling (minority) interest will be measured either at fair value or its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

  Revised IFRS 3, which becomes mandatory for our March 31, 2011 consolidated financial statements, will be applied prospectively for all business combinations on or after April 1, 2010.

§ Amendments to IAS 27, *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by us in a subsidiary, while maintaining control, to be recognized as an equity transaction. When we lose control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss. The amendments to IAS 27, which become mandatory for our March 31, 2011 consolidated financial statements, are not expected to have a significant impact on our consolidated financial statements.

§ Amendments to IFRS 2, *Share-based Payment Vesting Conditions and Cancellations* clarify the definition of vesting conditions, introduce the concept of non-vesting conditions, require non-vesting conditions to be reflected in grant-date fair value and provide the accounting treatment for non-vesting conditions and cancellations. These amendments to IFRS 2 will become mandatory for our March 31, 2010 consolidated financial statements, with retrospective application. We are currently

Table of Contents

in the process of evaluating the potential impact of the revised standard on our consolidated financial statements.

§ Amendments to IAS 39, *Financial Instruments: Recognition and Measurement: Eligible Hedged Items* deal with two situations where diversity in practice exists on the designation of inflation as a hedged risk and the treatment of one-sided risks on hedged items. These amendments are effective for accounting periods beginning on or after July 1, 2009 and will be applicable for our March 31, 2011 consolidated financial statements. We are currently in the process of evaluating the potential impact of the revised standards on our consolidated financial statements.

§ IFRIC Interpretation 18, *Transfers of Assets from Customers*, defines the treatment for property, plant and equipment transferred by customers to companies or for cash received to be invested in property, plant and equipment that must be used either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. The item of property, plant and equipment is to be initially recognized by the company at fair value with a corresponding credit to revenue. If an ongoing service is identified as a part of the agreement, the period over which revenue shall be recognized for that service would be determined by the terms of the agreement with the customer. If the period is not clearly defined, then revenue should be recognized over a period no longer than the useful life of the transferred asset used to provide the ongoing service. This interpretation is to be applied prospectively to transfers of assets from customers received on or after July 1, 2009. Earlier application is permitted provided the valuations and other information needed to apply the information to past transfers were obtained at the time the transfer occurred. We would prospectively adopt this interpretation for all assets transferred after July 1, 2009. This Interpretation is not expected to have a significant impact on our consolidated financial statements.

Standards early adopted

§ IFRS 8, *Operating Segments* is applicable for annual periods beginning on or after July 1, 2009. This standard was early adopted by us as at March 31, 2009 as part of our initial transition to IFRS. IFRS 8 replaces IAS 14, *Segment Reporting*. IFRS 8 requires a management approach, under which segment information is presented on the same basis as that used for internal reporting provided to the chief operating decision maker. The application of this standard did not result in any significant change in our segmental disclosures as compared to our disclosures under U.S. GAAP (which is considered our previous GAAP under IFRS), which was substantially similar. Goodwill has been allocated in accordance with the requirements of this standard.

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 Euro400 million under a bank loan facility with a maturity period of five years. If our future acquisitions involve significant cash payments, rather than the issuance of shares, we may need to further borrow from banks or raise additional funds from the debt or equity markets.

Table of Contents

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

	Year Ended March 31,	
	2009	2008
	Rs. in millions	
Net cash provided by/(used in):		
Operating activities	Rs. 4,505	Rs. 6,528
Investing activities	(3,472)	(9,367)
Financing activities	(2,527)	(7,865)
Net increase/(decrease) in cash and cash equivalents	Rs. (1,494)	Rs. (10,704)
Effect of exchange rate changes on cash	Rs. (114)	Rs. (372)

Cash Flow from Operating Activities

Net cash provided by operating activities decreased from Rs.6,528 million in the year ended March 31, 2008 to Rs.4,505 million in the year ended March 31, 2009. This was primarily due to a significant increase in our working capital balance, attributable to increases in our receivables. We had a higher operating profit in the year ended March 31, 2009 compared to the year ended March 31, 2008 (excluding the impact of impairment losses).

The higher operating profit was largely on account of high-margin sales generated by the launch of sumatriptan, our authorized generic version of Imitrex® in the United States during the year ended March 31, 2009. As a result of limited competition, the percentage margin for this product was above our average company level margins. However, the benefits of a higher operating profit for the year ended March 31, 2009 on cash flow from operating activities were offset by an increase in our trade receivables from Rs. 6,823 million as on March 31, 2008 to Rs. 14,592 million as on March 31, 2009.

Sumatriptan was launched in November 2008. As a result of limited competition, this product generated significant sales during a short period, mostly occurring during the quarter ended March 31, 2009. In accordance with our average credit period for this product, a major part of the sales generated in that quarter were not due until after the subsequent quarter, resulting in a substantial increase in our receivables as of March 31, 2009.

Cash Flow from Investing Activities

Net cash used in investing activities during the year ended March 31, 2009 was Rs.3,472 million, as compared to Rs.9,367 million in the year ended March 31, 2008. This was primarily on account of:

- Expenditures on property, plant and equipment of Rs.4,507 million during the year ended March 31, 2009, as compared to Rs.6,263 million in the year ended March 31, 2008;
- Net proceeds from sales of investment securities of Rs.4,377 million, as compared to a net expenditure for purchase of investment securities of Rs.3,382 million during the year ended March 31, 2008; and
- Cash paid for acquisition of businesses and our equity accounted investee of Rs.3,461 million during the year ended March 31, 2009. There were no such acquisitions during the year ended March 31, 2008.

Cash outflows from investing activities were significantly lower during the year ended March 31, 2009 as compared to the year ended March 31, 2008, largely on account of cash inflows from sales of investment securities. As a result of the need to fund our acquisitions and other working capital needs, a large part of our investment securities portfolio was liquidated. The expenditures on property, plant and equipment during the year ended March 31, 2009 were in line with our need to build capacities to support our strategic growth agenda.

Cash Flows from Financing Activities

There was a net cash outflow of Rs.2,527 million as a result of financing activities during the year ended March 31, 2009, as compared to an outflow of Rs.7,865 million during the year ended March 31, 2008. This was primarily due to our repayment of long

Table of Contents

term debt of Rs.1,925 million during the year ended March 31, 2009, as compared repayment of long term debt of Rs.7,719 million during the year ended March 31, 2008(largely attributable to the repayment of debt for our betapharm acquisition).

Principal obligations

The following table summarizes our principal debt obligations (excluding capital lease obligations) outstanding as of March 31, 2009:

	Payments due by period (Rs. in millions)				
Financial Contractual Obligations	**Total**	**Less than 1 year**	**1-5 years**	**More than 5 years**	**Annual Interest Rate**
Short-term borrowings from banks	Rs. 6,068	Rs. 6,068	Rs.		7.5% for rupee borrowings and LIBOR + 100 225 bps for foreign currency denominated loans
Long term debt					
From Indian Renewable Energy Development Agency *	7	6	1		2.00%
Foreign currency loan (for betapharm acquisition)	13,326	3,477	9,849		EURIBOR + 70 bps LIBOR + 70 bps
Total obligations	Rs. 19,401	Rs. 9,551	Rs. 9,850		

* Loan received at a subsidized rate of interest from Indian Renewable Energy Development Agency Limited promoting use of alternative sources of energy.

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 six 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 primarily 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, 2009 and March 31, 2008, we had committed to spend approximately Rs.996 million and Rs.1,552 million, respectively, under agreements to purchase property, plant and equipment. This amount is net of

capital advances paid in respect of such purchases.

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

Table of Contents

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 NCEs. Our research programs focus on the following therapeutic areas:

- Metabolic disorders
- Cardiovascular disorders
- Bacterial infections

In the years ended March 31, 2008 and 2009, we expended Rs.3,533 million and Rs.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, 2009, 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

Global Generics

The United States of America, Germany, India and Russia are the four key strategic markets for our Global Generics business, generating roughly 92% of the revenues of this segment for the year ended March 31, 2009. In all of these markets, we continue to grow our revenues consistently year after year as a result of our product franchise and customer and distributor relationships built over the years.

United States. In the United States, our revenues for the year ended March 31, 2009 represented an increase of 152%, as compared to our revenues for the year ended March 31, 2008. This increase was primarily due to growth of our existing products and the successful launch of new products, particularly sumatriptan (our authorized generic version of Imitrex®), as well as revenues from the Shreveport facility that we acquired in April 2008. We are also looking at new channels of growth in the coming years, through our over-the-counter business and government business, to further increase the scale of our generics business in the United States. The acquisition of the Shreveport facility in the United States was a strategic move in building manufacturing and packaging capability in the United States. In the next few years, a large number of patents are set to expire and we have adequately positioned our pipeline and infrastructure capabilities to address a majority of these expirations. We intend to expand our portfolio over the next few years by adding solid dosage forms, as well as alternate dosage forms, and by complementing our internal product development effort through business alliances. We intend to broaden not only our customer base but also our products by focusing more on difficult-to-make and limited competition products.

In the past several years, we have settled multiple Paragraph IV lawsuits. The settlements will result in guaranteed product launches, and with other Paragraph IV and difficult-to-make generics, we are working towards the goal of at least one opportunity with limited competition every year for the next five years. We expect that these product launches will augment our growing base revenues. As of March 31, 2009, we had filed a total of 138 ANDAs with the U.S. FDA. We had 68 ANDAs pending approval with the U.S. FDA as of March 31, 2009.

Table of Contents

Germany. In Germany, the pharmaceutical industry continues to go through health care reforms which have put pressure on prices. As of April 1, 2007, the Statutory Health Insurance - Competition Strengthening Act (also known as the GKV-WSG Act) took effect in Germany with the purpose of strengthening competition in public health insurance to regulate the German health care system. The law has significantly increased the power of the insurance companies and statutory health insurance (SHI) funds by allowing them to enter into direct rebate contracts with suppliers of pharmaceuticals. It further incentivizes doctors to prescribe generic drugs covered by such rebate contracts. The pharmacist is also required, when dispensing drugs, to give a preference to such drugs as are covered by rebate contracts. Thus, successfully concluding rebate contracts with insurance companies is a factor critical to succeeding in the competition for market share in the German generic prescription drug market. betapharm has signed rebate contracts with a large number of SHI funds, covering a major part of the insured population in the aggregate.

In January 2008, new reference prices became effective under the GKV-WSG Act. Subsequently, new co-payment release prices were announced and which became effective June 1, 2008. During the year ended March 31, 2009, we reduced our dependence upon products from our single largest supplier in Germany by shifting the sourcing to our own internal supply network in Europe and India. During the year ended March 31, 2009, we successfully completed the transfer of the manufacturing processes for most of our key German products to our manufacturing facility in India. The benefits of this transfer include reduced product manufacturing costs and supply assurance. We have begun to realize the benefits from the easing of supply pressures, and the market share of betapharm in Germany has recovered to 2.8% in March 2009, as compared with a low of 1.74% in April 2007, according to Insight Health, a company which provides information on the German pharmaceutical industry, in its NVI market report for March 2009.

In August 2008, Allgemeinen Ortskrankenkassen (AOK), one of the largest SHI funds, announced a competitive bidding (or tender) process for pharmaceutical companies for 64 products for 2009 and 2010. In this tender, betapharm was awarded 8 products translating to 33 contracts covering AOK-insured persons in various regions of Germany, which represented 17% of the overall volume of the products covered by the AOK tender. betapharm was among the top 3 companies in terms of number of contracts awarded. The tender procedure was delayed pending resolution of a number of lawsuits filed by generic drug manufacturers. However, these lawsuits were settled in favor of AOK and, starting in June 2009, the sales under this tender began. We believe that ongoing health care reforms and changing market dynamics, in terms of a move to a commoditized market environment, will continue to cause pressure on price realization for our product portfolio in Germany, leading to a business model in Germany today of high volumes and low margins . We are in the process of realigning our organizational structure in betapharm to remain competitive in this emerging scenario.

India. In India, Operations Research Group International Medical Statistics (ORG IMS) in its March 2009 MAT report has noted that the Indian pharmaceutical market continues to be highly fragmented and dominated by Indian companies. The industry recorded retail sales of approximately U.S.$7 billion (Rs.354 billion) for the 12 months ended March 31, 2009, representing a growth of 10.1% over the previous 12 months. According to this ORG IMS report, the Indian pharmaceutical market is projected to grow at 12-14% per annum between 2008 and 2020, achieving a terminal market value of U.S.$30 billion. The major growth influencers will be population dynamics, high disease prevalence, increased health care access, changing health care models and greater capacity to spend. According to ORG IMS in its March MAT 2009 report, the market share of the No. 1 ranked Indian retail sales pharmaceutical company was approximately 5.3%. In this competitive scenario, we are the 13th ranked Indian pharmaceutical company, with a market share of 2.2%.

Six brands continue to be ranked among the top 300 brands in India in terms of sales. Our leading brand Omez, including the umbrella of all products launched under Omez brand, reached sales of approximately Rs.1 billion for the year ended March 31, 2009. However, our growth for the year ended March 31, 2009 was below the industry growth rate. Some of this lower growth was attributed to ordinary sales execution issues (e.g., sales generation, servicing, etc.) with new product launches during the year. India still continues to deliver competitive and attractive profitability in absolute terms because of the strong brand franchise that we enjoy with our customers. Also contributing to the profitability of sales in India is our growing and niche presence in dermatology, dental, urology and oncology therapeutic areas, especially our biologics products in the oncology area.

Russia. In Russia, we continue to match the industry growth rate in the retail segment. According to Pharmexpert, a market research firm, in its April-March 2009 report, we grew by 16.4%, as compared to a market growth rate of 16.0% in Russia for such period. We are the fastest growing international branded generic company by sales volumes in Russia, and our total sales grew by 11.2% as compared to the industry decrease of 0.2% for such period. In the Pharmexpert MAT report for the quarter ended March 31, 2009, we were ranked No. 17 in sales in Russia with a market share of 1.25% for the year ended March 31, 2009. We also consolidated our new hospitals and over the counter product businesses, which account for slightly more than 25% of our Russian revenues and which are supplementing the growth led by our prescription business. The sales growth in Russia was led by our top 3 brands Omez, Nise and Ketorol, each of which currently holds a market share greater than 50%, and also by the success of our in-

Table of Contents

licensed over the counter product Bion. During the year ended March 31, 2009, the rouble depreciated sharply against the U.S. dollar. However, we took proactive steps to minimize this currency loss by constantly tracking the currency movement, focusing on receivables and adjusting our prices accordingly.

Pharmaceutical Services and Active Ingredients

In this segment, we are focused on acquiring new customers and increasing our level of engagement with existing customers in global key markets, by marketing additional products from our product portfolio. We are also focused on identifying unique product opportunities in key markets and protecting them through patenting strategies. In this segment, we also market process development and manufacturing services to customers, primarily consisting of innovator pharmaceutical and biotechnology companies, with an objective to become their preferred partner of choice. Our focus is to leverage our skills in process development, analytical development, formulation development and Current Good Manufacturing Practice (cGMP) manufacturing to serve the customer s needs. Changes in the business model for our services business are beginning to take shape, and we are switching to a more product based service offering based on our rich pipeline of APIs combined with our intellectual property expertise.

For this segment, our revenues for the year ended March 31, 2009 increased by approximately 13%. The growth was mainly led by the active pharmaceutical ingredients division, as well as the acquisition of the Dow Pharma Unit. There were no major product patent expiries in the year ended March 31, 2009, and the credit crisis impacted our growth later in the fiscal year. We have experienced some loss of business from the emerging markets as a result of clients adjusting their inventories for the active ingredients segment. Our portfolio of drug master filings (DMFs) and intellectual property expertise provide us a platform to become a partner of choice to innovators and large pharmaceutical companies. As of March 31, 2009, we had a pipeline of 351 DMFs, of which 148 were in the United States. With patent expirations in several markets in the next few years, we intend to promote growth in the year ended March 31, 2010 and beyond by leveraging our strong intellectual property expertise and DMF pipeline. The success of our products in our key markets is contingent upon the extent of competition in the generics market, and we anticipate that such competition will continue to be significant.

Proprietary Products

Our investments in research and development of new chemical entities (NCEs) have been consistently focused towards developing promising therapeutics. Strategically, we continue to seek licensing and development arrangements with third parties to further develop our pipeline products. As part of our research program, we also pursue collaborations with leading institutions and laboratories all over the world. Currently, we have a pipeline of three NCEs in clinical development and three NCEs in pre-clinical development. Some of these compounds are being developed in partnership with our partners, and the others are being developed in-house. As we make progress in advancing our pipeline through various stages of clinical development, we are also building capabilities in drug development. We believe this will help to enhance the value of our NCE assets. We expect to further complement our internal research and development efforts by pursuing strategic partnerships and alliances in our key focus areas.

Building a specialty branded business in the United States is one of the important aspects of our innovation strategy. The specialty business has launched its own sales and marketing operations for in-licensed products in the dermatology therapeutic area in the United States while continuing to work on development of new in-house products. This is the result of our continued efforts over the last few years to establish this business through a combination of in-licensing initiatives as well as internal pipeline development programs. Consequently, through our subsidiary Promius Pharma, we launched Epiceram , our first dermatology prescription product in the United States, in October 2008. In January 2009, Promius Pharma launched our second dermatology prescription product Scytera . While initially we do not anticipate this to be a very significant business, it is an important step in our journey of building a business based on proprietary products.

5.E. Off-balance sheet arrangements

Our equity accounted investee, Kunshan Rotam Reddy Pharmaceuticals Co. Limited (Reddy Kunshan), secured a credit facility of Rs.36 million from Agricultural Bank of China (Agricultural Bank). As at March 31, 2009, we had issued a corporate guarantee of Rs.36 million in favor of Agricultural Bank to enhance the credit standing of Reddy Kunshan. The guarantee is required to be renewed every year and our liability may arise in the event of non-payment by Reddy Kunshan of the amount withdrawn under its credit facility.

66

Table of Contents

5.F. Tabular Disclosure of Contractual Obligations

The following summarizes our contractual obligations as of March 31, 2009 and the effect such obligations are expected to have on our liquidity and cash flows in future periods.

		Payments Due by Period (Rs. in millions)		
Contractual Obligations	**Total**	**Less than 1 year**	**1-5 years**	**More than 5 years**
Operating lease obligations	518	173	345	
Capital lease obligations	300	18	44	238
Purchase obligations				
Agreements to purchase property and equipment and other capital commitments[1]	996	996		
Borrowings from banks	6,068	6,068		
Long term debt obligations	13,333	3,483	9,850	
Estimated interest payable on long-term debt [2]	529	271	258	
Post retirement benefits obligations [3]	951	86	361	504
Total contractual obligations	**22,814**	**11,095**	**10,977**	**742**

(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, 2009 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 2.

Table of Contents

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, 2009 was as follows:

Directors

Name(1)	Age (in yrs)	Position
Dr. K. Anji Reddy(2)	70	Chairman
Mr. G.V. Prasad(2),(3)	49	Chief Executive Officer and Vice Chairman
Mr. Satish Reddy(2),(4)	42	Chief Operating Officer and Managing Director
Mr. Anupam Puri	63	Director
Dr. J.P. Moreau	61	Director
Ms. Kalpana Morparia	60	Director
Dr. Omkar Goswami	52	Director
Mr. Ravi Bhoothalingam	63	Director
Dr. Bruce L. A. Carter (5)	66	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.

(5) Dr. Bruce L. A. Carter joined the Board on July 21, 2008.

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, 2009, 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.)	49	25	June 30, 1990	Promoter Director, Benzex Labs Private Limited
Satish Reddy (2) Managing Director and Chief Operating Officer	B. Tech., M.S. (Medicinal Chemistry)	42	17	January 18, 1993	Director, Globe Organics Limited
Abhijit Mukherjee President Pharmaceutical Services and Active Ingredients	B. Tech. (Chem.)	51	29	January 15, 2003	President, Atul Limited
Amit Patel, Senior Vice President North America Generics	B.A.S, BS (Eco), MBA	35	11	August 6, 2003	V P Corporate Development, CTIS Inc

Table of Contents

Name and Designation	Education/ Degrees Held	Age	Experience in years	Date of commencement of employment	Particulars of last employment
Dr. C. Cartikeya Reddy, Senior Vice President and Head of Biologics	B Tech, MS and PhD	39	18	July 20, 2004	Senior Engineer, Genetech Inc.
Jaspal Singh Bajwa President Branded Formulations (Rest Of the World)(3)	B.Sc., PGDM	57	32	April 10, 2003	Executive Director and COO, Marico Industries Limited
Jeffrey Wasserstein Executive Vice President Specialty Operations	B.A., J.D.	50	26	January 31, 2005	EVP and Chief Business Officer -Avigenics, Inc.
K. B. Sankara Rao Executive Vice President Integrated Product Development	M. Pharma.	55	31	September 29, 1986	Production Executive, Cipla Limited
Mr. Prabir Kumar Jha Senior Vice President and Global Chief of Human Resources	M.A., PGDM	42	20	November 29, 2002	Regional HR Head-Mahindra British Telecom Ltd.
Raghu Cidambi Advisor	B.Sc., PGDBM, LLB.	58	39	October 1, 2001	Director Eenadu, Margadarsi Group
Dr. Rajinder Kumar President Discovery Research, Development and Commercialization (4)	M.Sc., MBBS, PG Dip in Psychiatry and Neurology	54	26	April 30, 2007	Chief Executive Officer and Founding Member, MeRaD Pharmaceuticals Ltd.
Saumen Chakraborty President Corporate and Global Generics Operations	B.Sc. (H), PGDM	48	25	July 2, 2001	Vice President, Tecumseh Products India Private Limited
V. S. Vasudevan President European Generics Business	B. Com. ACA	58	35	April 1, 1986	Finance Head, Standard Equity Fund Limited
Umang Vohra Chief Financial Officer	B.E., PGDM	38	14	February 18, 2002	Manager, Pepsico India

Vilas Dholye Executive Vice President Formulations Technical Operations	B.Tech (Chem)	60	35	December 18, 2000	Vice President, Pidilite Industries Limited

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

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

(3) Ceased to be an employee effective as of May 31, 2009.

(4) Ceased to be an employee effective as of June 30, 2009.

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.

Table of Contents

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. 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 the Padmashri Award upon him 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 Diana Hotels Limited, Pathenco APS and GAIN Foundation, Switzerland.

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, U.S.A. and an M.S. in Industrial Administration from Purdue University, U.S.A. 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 Diana Hotels Limited and Infotech Enterprises Limited.

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, U.S.A. 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 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 Boards of ICICI Bank Limited, Mahindra & Mahindra Limited, Tech Mahindra Limited and Mumbai Mantra Media Limited.

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 Limited, Crompton Greaves Limited, IDFC Limited, Ambuja Cements Limited, Max New York Life Insurance Company Limited, Godrej Consumer Products Limited and Cairn India 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 Boards of Nicco Ventures Limited and Sona Koyo Steering Systems Limited.

Dr. J.P. Moreau joined our Board as a member on May 18, 2007. He is presently working as Executive Vice-President and Chief Scientific Officer of the IPSEN Group where he is responsible for the Group s research and development programs in Paris, London, Barcelona and Boston. Before that, he was IPSEN Group s Vice-President, Research from April 1994 and has been a member of the Executive Committee of IPSEN Group since then.

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 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. In October 1976, Dr. Moreau founded Biomeasure Incorporated, based near Boston, and has been its President and Chief Executive Officer since then. He was also responsible for establishing Kinerton Ltd. in

Table of Contents

Ireland in March 1989, a wholesale manufacturer of therapeutic peptides. He is also on the Boards of Directors of IPSEN Manufacturing Ireland Limited and Biomeasure Incorporated.

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 is the Chairman of the Board and the former Chief Executive Officer of ZymoGenetics, Inc. in Seattle, Washington, U.S.A. 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 also on the Boards of Directors of QLT Inc. in Canada, TB Alliance in the U.S.A. and ZymoGenetics in the U.S.A.

Executive Officers

Mr. Abhijit Mukherjee is the President and head of our Pharmaceutical Services and Active Ingredients 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 the technical assignments in 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.

Amit Patel is our Senior Vice President and Head of North America Generics business. He is responsible for executing our company s strategic agenda 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.

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, Massachussetts, U.S.A. He also graduated with a Bachelor of Technology degree in Chemical Engineering from the Indian Institute of Technology in Chennai, India.

Mr. Jaspal Singh Bajwa was our President Branded Formulations (Rest of the World) until May 31, 2009. He had 30 years of diverse experience with major global companies in Consumer and Healthcare products. Mr. Bajwa worked with Nestle India for 15 years, a tenure that included an assignment with their corporate headquarters in Switzerland, and, among other positions of

responsibility, headed marketing in India. He then worked with Bausch & Lomb, where he held several senior management positions including those of Managing Director for India/South Asian Association for Regional Cooperation, and head of their Canadian subsidiary. Most recently, he was the Executive Director and Chief Operating Officer of Marico Industries. Jaspal joined us in April 2003. Mr. Bajwa holds a Bachelor s degree in Food Technology and an MBA from the Indian Institute of Management in Ahmedabad.

Mr. Jeffrey Wasserstein is our Executive Vice President Specialty Operations. He leads our North America Specialty business, and is the operational head of our North America organization. Mr. Wasserstein joined us after a long and successful career with Schering Plough Corporation, where he was the Senior Vice President of Corporate Consent Decree Integration. Prior to this role, Mr. Wasserstein was the President of Schering Canada. He also held several positions of increasing responsibility at the Vice-President level in Corporate Business Development, Strategic Planning and Internal Consulting, and as Associate General Counsel-Commercial. Prior to joining Schering Plough, Mr. Wasserstein was an Associate Attorney with Wachtell, Lipton, Rosen & Katz. Mr. Wasserstein holds a Bachelor of Arts degree from Franklin & Marshall College, and a J.D. degree from the New York University School of Law.

Mr. K.B. Sankara Rao is an Executive Vice President and head of our Integrated Product Development business. Mr. Rao, the first head of this relatively young business unit, 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.

Prabir Jha is our Senior Vice President and Global Chief of Human Resources. He leads our Human Resources function globally, and is also responsible for Corporate Communications. Mr. Jha moved to the private sector after almost 10 years in the Indian Civil Services. Prior to joining us in 2002, he worked for organizations such as Thermax Limited and Mahindra British Telecom (now TechMahindra) Limited, where he made key contributions to many high-end human resources interventions. He has handled all areas in human resources, and has a special interest in change management, global human resources strategy, employer branding and leadership capability development. Mr. Jha is an alumnus of St. Stephen s College in Delhi and of the Xavier Labour Relations Institute in Jamshedpur. During his time as a government employee, Mr. Jha handled the entire gamut of human resources and industrial relations responsibilities while with the Indian Ordinance Factories.

Mr. Raghu Cidambi is our Advisor. Prior to joining us, he served with the Eenadu Group, a large south India-based media conglomerate, where he was responsible for its legal affairs. He has graduated from the Indian Institute of Management, Calcutta and thereafter obtained a Bachelor s Degree in Law from the Osmania University in Hyderabad.

Dr. Rajinder Kumar was the President and head of our Research, Development and Commercialization function until June 30, 2009. He is a graduate of the University of London, the University of Birmingham and the University of Dundee. After receiving his degree in Medicine and Surgery, he obtained his post-graduate diploma in psychiatry and neurology from The Royal College of Surgeons in Ireland in 1990. He has held various leadership roles in the vision, development and implementation of the overall brand strategies to support the research and development and business development operations across different therapeutic areas within the pharmaceutical industry. He has extensive experience in drug development, regulatory affairs, and commercial strategy in North America, Europe, Japan and the rest of Asia. He has presented at various international meetings, has chaired international symposia and scientific advisory boards and has to his credit a range of highly respected publications. He is a member of many international scientific and clinical organizations, including being a Fellow of the Royal Society of Medicine and a member of the Institute of Directors in the United Kingdom. He has an extensive history of building and managing strong result-focused teams. With his wide array of experience across research and development, expertise in regulatory

affairs across the globe and clinical expertise, coupled with membership in various international forums, Dr. Kumar adds significant strength to our organizational capabilities. Prior to joining us, he was an independent consultant to several organizations in the areas of medical and commercial strategy and in the development of early stage molecules to proof-of-concept.

Mr. Saumen Chakraborty is the President and head of our Corporate and Global Generics Operations function. In this role, he is responsible for integrating the various pieces of our Global Generics operations including product development, global manufacturing

Table of Contents

and supply chain, along with important corporate functions such as quality, regulatory, corporate medical services and pharmacovigilance. Mr. Chakraborty also continues to lead our information technology and business process excellence functions. Before transitioning to this role, he was our Chief Financial Officer and President- Information Technology and Business Process Excellence. Prior to that role, he was our Global Chief of Human Resources. He has 25 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. V.S. Vasudevan is the President and head of our European Generics Business. Prior to this role, he was our Chief Financial Officer. In the position of Chief Financial Officer, he was responsible for managing our finance organization. He also was the head of the secretarial, legal, compliance, investor relations and internal audit functions. Mr. Vasudevan played an important role in establishment of our corporate governance framework. Under his leadership, we received external recognition for our corporate governance and financial reporting practices from the Institute of Company Secretaries of India and the Institute of Chartered Accountants of India. Mr. Vasudevan played a key role in the integration of Cheminor Drugs Limited with us, the acquisition of betapharm in Germany and in our growth through various other corporate initiatives, including the acquisition of other companies in India and overseas and the acquisition of brands in India. Mr. Vasudevan is a Chartered Accountant by qualification, and a member of the Peer Review Board of the Institute of Chartered Accountants of India.

Mr. Umang Vohra is our Chief Financial Officer and has over 13 years of experience across various functions within finance and corporate development. He is responsible for managing our organization s global finance. He joined us in 2002, initially working as our Deputy Chief Financial Officer. Prior to joining us, Mr. Vohra worked with Eicher and PepsiCo India.

Mr. Vilas Dholye is an Executive Vice President and head of our Formulations Technical Operations function. Mr. Dholye, who joined our organization in 2000, has over the last few years been responsible for implementing business process excellence and enterprise resource planning projects.

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 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 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 Rs.5,000 (U.S.$98.30) for every Board meeting and Board committee meeting they attend. In the year ended March 31, 2009, we paid an aggregate of Rs.250,000 (U.S.$4,914.70) 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 the 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 in the year ended March 31, 2009 as provided in the table below.

Table of Contents

For the year ended March 31, 2009, the directors were entitled to the following amounts as compensation:

(**Amounts Rs. in millions, except number of stock options**)

Name of Directors	Attendance fees	Commission (3)	Salary	Perquisites	Total	Number of Stock Options
Dr. K. Anji Reddy	Rs.	Rs. 75	Rs.5	Rs. 1	Rs.81	
Mr. G.V. Prasad		40	4	1	45	
Mr. Satish Reddy		40	4	1	45	
Mr. Anupam Puri	*	3			3	3,000
Dr. J.P. Moreau	*	3			3	3,000
Ms. Kalpana Morparia	*	3			3	3,000
Prof. Krishna G. Palepu (1)	*	2			2	
Dr. Omkar Goswami	*	3			3	3,000
Mr. P.N. Devarajan	*					
Mr. Ravi Bhoothalingam	*	3			3	3,000
Dr. Bruce L. A. Carter (2)	*	2			2	3,000

* Attendance fees were paid only to non-full time directors and ranged from Rs.10 thousand to Rs.70 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) Professor Krishna G. Palepu provided us with a notice of his resignation as a director and ceased to be a director effective

January 20, 2009.

(2) Dr. Bruce L. A. Carter joined as a member of our Board of Directors effective July 21, 2008.

(3) For the year ended March 31, 2009, the Board of Directors recommended a fixed commission of Rs.2.5 million (U.S.$50,000) per director applicable to all the independent directors, a specific commission of Rs.0.5 million (U.S.$10,000) to the Chairman of the Audit Committee, Rs.0.3 million (U.S.$5,000) to the Chairman of each other Committee, and Rs.0.08 million (U.S.$1,500) to the members of each Committee. In addition, Rs.0.08 million (U.S.$1,500) was paid towards foreign travel to the directors residing outside India.

The options granted to directors in the year ended March 31, 2009 have an exercise price of Rs.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 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 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, 2009 and stock options held by all of our other executive officers as of March 31, 2009:

Table of Contents

Compensation For Executive Officers

Name	Compensation (Rs. in millions)	No. of Options held	Fiscal Year of Grant	Exercise Price (Rs.)	Expiration date (See note no.)
Abhijit Mukherjee	14.6	2,500	2006	5	(4)
		2,000	2007	5	(3)
		2,000	2007	5	(4)
		2,000	2008	5	(2)
		2,000	2008	5	(3)
		2,000	2008	5	(4)
		2,000	2009	5	(1)
		2,000	2009	5	(2)
		2,000	2009	5	(3)
		2,000	2009	5	(4)
Amit Patel	18.0	1,000	2005	442.50	(1)
		1,000	2005	442.50	(2)
		1,000	2005	442.50	(3)
		1,000	2005	442.50	(4)
		700	2006	5	(1)
		700	2006	5	(2)
		1,250	2007	5	(1)
		3,325	2008	5	(1)
		3,325	2008	5	(2)
		2,625	2008	5	(3)
		1,375	2008	5	(4)
		1,250	2009	5	(1)
		1,250	2009	5	(2)
		1,250	2009	5	(3)
		1,250	2009	5	(4)
Cartikeya Reddy	8.8	600	2006	5	(1)
		600	2006	5	(2)
		600	2006	5	(3)
		600	2006	5	(4)
		500	2007	5	(1)
		500	2007	5	(2)
		500	2007	5	(3)
		500	2007	5	(4)
		1,000	2008	5	(1)
		1,000	2008	5	(2)
		1,000	2008	5	(3)
		1,000	2008	5	(4)
		1,250	2009	5	(1)
		1,250	2009	5	(2)
		1,250	2009	5	(3)
		1,250	2009	5	(4)
Dr. Rajinder Kumar	36.0	7,500	2008	5	(1)

1,500	2009	5	(1)
1,500	2009	5	(2)
75			

Table of Contents

Name	Compensation (Rs. in millions)	No. of Options held	Fiscal Year of Grant	Exercise Price (Rs.)	Expiration date (See note no.)
		1,500	2009	5	(3)
		1,500	2009	5	(4)
Jaspal S. Bajwa	14.0	2,500	2006	5	(4)
		2,000	2007	5	(3)
		2,000	2007	5	(4)
		2,000	2008	5	(2)
		2,000	2008	5	(3)
		2,000	2008	5	(4)
		2,000	2009	5	(1)
		2,000	2009	5	(2)
		2,000	2009	5	(3)
		2,000	2009	5	(4)
Jeffrey Wasserstein	24.3	3,500	2008	5	(2)
		3,500	2008	5	(3)
		1,500	2008	5	(4)
		1,500	2009	5	(1)
		1,500	2009	5	(2)
		1,500	2009	5	(3)
		1,500	2009	5	(4)
K. B. Sankara Rao	9.8	5,080	2006	5	(4)
		1,600	2007	5	(3)
		1,600	2007	5	(4)
		1,500	2008	5	(2)
		1,500	2008	5	(3)
		1,500	2008	5	(4)
		1,250	2009	5	(1)
		1,250	2009	5	(2)
		1,250	2009	5	(3)
		1,250	2009	5	(4)
Prabir Kumar Jha	8.4	750	2006	5	(4)
		650	2007	5	(3)
		650	2007	5	(4)
		1,000	2008	5	(2)
		1,000	2008	5	(3)
		1,000	2008	5	(4)
		1,250	2009	5	(1)
		1,250	2009	5	(2)
		1,250	2009	5	(3)
		1,250	2009	5	(4)
Raghu Cidambi	9.0	2,500	2006	5	(4)
		1,250	2007	5	(3)
		1,250	2007	5	(4)
		1,500	2008	5	(2)

1,500	2008	5	(3)
1,500	2008	5	(4)
1,250	2009	5	(1)

76

Table of Contents

Name	Compensation (Rs. in millions)	No. of Options held	Fiscal Year of Grant	Exercise Price (Rs.)	Expiration date (See note no.)
		1,250	2009	5	(2)
		1,250	2009	5	(3)
		1,250	2009	5	(4)
Saumen Chakraborty	15.0	2,500	2006	5	(4)
		2,000	2007	5	(3)
		2,000	2007	5	(4)
		2,000	2008	5	(2)
		2,000	2008	5	(3)
		2,000	2008	5	(4)
		2,000	2009	5	(1)
		2,000	2009	5	(2)
		2,000	2009	5	(3)
		2,000	2009	5	(4)
Umang Vohra	5.5	600	2006	5	(4)
		750	2007	5	(3)
		750	2007	5	(4)
		750	2008	5	(2)
		750	2008	5	(3)
		750	2008	5	(4)
		875	2009	5	(1)
		875	2009	5	(2)
		875	2009	5	(3)
		875	2009	5	(4)
V.S. Vasudevan	24.2	2,870	2003	531.51	(2)
		2,870	2003	531.51	(3)
		2,870	2003	531.51	(4)
		5,000	2004	441.50	(1)
		5,000	2004	441.50	(2)
		5,000	2004	441.50	(3)
		5,000	2004	441.50	(4)
		5,000	2005	442.50	(1)
		5,000	2005	442.50	(2)
		5,000	2005	442.50	(3)
		5,000	2005	442.50	(4)
		12,500	2006	362.50	(1)
		12,500	2006	362.50	(2)
		12,500	2006	362.50	(3)
		12,500	2006	362.50	(4)
		2,000	2007	5	(3)
		2,000	2007	5	(4)
		1,750	2008	5	(2)
		1,750	2008	5	(3)
		1,750	2008	5	(4)

1,500	2009	5	(1)
1,500	2009	5	(2)
1,500	2009	5	(3)

77

Table of Contents

Name	Compensation (Rs. in millions)	No. of Options held	Fiscal Year of Grant	Exercise Price (Rs.)	Expiration date (See note no.)
		1,500	2009	5	(4)
Vilas M. Dholye	7.2	2,770	2005	5	(4)
		900	2006	5	(4)
		600	2007	5	(3)
		600	2007	5	(4)
		700	2008	5	(2)
		700	2008	5	(3)
		700	2008	5	(4)
		400	2009	5	(1)
		400	2009	5	(2)
		400	2009	5	(3)
		400	2009	5	(4)

(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 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 Rs.40 million, and Rs.48 million during the years ended March 31, 2008 and 2009, 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 Rs.40 million and Rs.44 million to the superannuation plan during the years ended March 31, 2008 and 2009, 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 Rs.145 million and Rs.160 million to the provident fund plan during the years ended March 31, 2008 and 2009, 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 Rs.54 million and Rs.44 million to this 401(k) retirement savings plan for the years ended March 31, 2009 and 2008, respectively.

Table of Contents

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 Rs.51 million and Rs.10 million to the U.K. National Insurance scheme during the years ended March 31, 2009 and 2008, respectively.

Pension plans. All employees of Falcon (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.

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, 2009, we had nine directors on our Board, of which six 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 Current Term of Office	Term of Office	Period of Service
Dr. K. Anji Reddy (1)	July 12, 2011	5 years	25 years
Mr. Satish Reddy (1)	September 30, 2012	5 years	16 years
Mr. G.V. Prasad (1)	January 30, 2011	5 years	23 years
Mr. Anupam Puri (2)(3)	Retirement by rotation	Due for retirement by rotation in 2011	7 years
Dr. J. P. Moreau(2)	Retirement by rotation	Due for retirement by rotation in 2010	2 years
Ms. Kalpana Morparia(2)	Retirement by rotation	Due for retirement by rotation in 2010	2 years
Dr. Omkar Goswami (2)	Retirement by rotation	Due for retirement by rotation in 2009	8.5 years
Mr. Ravi Bhoothalingam (2)	Retirement by rotation	Due for retirement by rotation in 2009	8.5 years
Dr. Bruce L. A. Carter (2)	Retirement by rotation	Due for retirement by rotation in 2011	1 year

(1) Full time director.

(2) Non-full time independent director.

(3) Reappointed at the 24th Annual General Meeting of

Shareholders held on July 22, 2008.

The terms of the contracts with our full-time directors are also disclosed to all the 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 six Board-level Committees as of March 31, 2009:

Table of Contents

Audit Committee.

Compensation Committee.

Governance Committee.

Shareholders Grievance Committee.

Management Committee.

Investment Committee.

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 of Directors 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 four occasions during the year ended March 31, 2009. 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; and

Review the functioning of our whistle blower policies and procedures.

Table of Contents

Compensation Committee. The Compensation Committee considers and recommends to the Board the compensation of the full time directors and executives above Vice-President level, and also reviews the remuneration package that we offer to different grades/levels of our employees. The Compensation Committee also administers our Employee Stock Option Schemes.

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

Mr. Ravi Bhoothalingam (Chairman);

Dr. J.P. Moreau; and

Ms. Kalpana Morparia.

The Global Chief of Human Resources is the Secretary of the Committee. The Compensation Committee met three times during the year ended March 31, 2009.

Governance Committee. The primary function of the Governance Committee is to assist the Board of Directors in fulfilling its responsibilities by reviewing and making recommendations to the Board regarding the Board s composition and structure, establishing criteria for Board membership and evaluating corporate policies relating to the recruitment of Board members and establishing, implementing and monitoring policies and processes regarding principles of corporate governance in order to ensure the Board s compliance with its fiduciary duties.

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

Mr. Anupam Puri (Chairman); and

Dr. Omkar Goswami.

Professor Krishna G. Palepu was also a member of the Governance Committee prior to his resignation as a director effective January 20, 2009. Our Company Secretary is the Secretary of the Committee. The Governance Committee met three times during the year ended March 31, 2009.

Table of Contents

6.D. ***Employees***

The following table sets forth the number of our employees as at March 31, 2008 and 2009.

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

As at March 31, 2008

	North America	Europe	Rest of the World	Total
Manufacturing(1)		50	3,276	3,326
Sales and Marketing(2)	45	261	3,079	3,385
Research and Development	18		1,708	1,726
Others(3)	46	184	908	1,138
Total	109	495	8,971	9,575

(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 7% of our employees belong to labor unions. We did not experience any strikes at our manufacturing facilities in the year ended March 31, 2009 and 2008.

Table of Contents

6.E. ***Share ownership***

The following table sets forth, as of March 31, 2009 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	Year of Grant	Exercise Price	Expiration Date (See note no.)
Dr. K. Anji Reddy (2),(4)	800,956	0.48%				
Mr. G.V. Prasad (4)	1,365,840	0.81%				
Mr. Satish Reddy (4)	1,205,832	0.72%				
Mr. Anupam Puri (including ADRs)	10,500	0.01%	1,500	2008	5	(6)
			3,000	2009	5	(5)
Dr. J.P.Moreau			3,000	2009	5	(5)
Dr. Omkar Goswami	10,500	.0.01%	1,500	2006	5	(8)
			3,000	2009	5	(5)
Ms.Kalpana Morparia			3,000	2009	5	(5)
Ravi Bhoothalingam	10,500	0.01%	1,500	2006	5	(8)
			3,000	2009	5	(5)
Dr. Bruce L.A.Carter (ADRs)	4,000					
Abhijit Mukherjee	26,400	0.02%	2,500	2006	5	(8)
			2,000	2007	5	(7)
			2,000	2007	5	(8)
			2,000	2008	5	(6)
			2,000	2008	5	(7)
			2,000	2008	5	(8)
			2,000	2009	5	(5)
			2,000	2009	5	(6)
			2,000	2009	5	(7)
			2,000	2009	5	(8)
Amit Patel			1,000	2005	442.50	(5)
			1,000	2005	442.50	(6)
			1,000	2005	442.50	(7)
			1,000	2005	442.50	(8)
			700	2006	5	(5)
			700	2006	5	(6)
			1,250	2007	5	(5)
			3,325	2008	5	(5)
			3,325	2008	5	(6)
			2,625	2008	5	(7)
			1,375	2008	5	(8)
			1,250	2009	5	(5)
			1,250	2009	5	(6)
			1,250	2009	5	(7)
			1,250	2009	5	(8)

Table of Contents

Name	No. of Shares Held (1), (3)	% of Outstanding Capital	No. of Options Held	Year of Grant	Exercise Price	Expiration Date (See note no.)
Cartikeya Reddy			600	2006	5	(5)
			600	2006	5	(6)
			600	2006	5	(7)
			600	2006	5	(8)
			500	2007	5	(5)
			500	2007	5	(6)
			500	2007	5	(7)
			500	2007	5	(8)
			1,000	2008	5	(5)
			1,000	2008	5	(6)
			1,000	2008	5	(7)
			1,000	2008	5	(8)
			1,250	2009	5	(6)
			1,250	2009	5	(6)
			1,250	2009	5	(7)
			1,250	2009	5	(8)
Dr. Rajinder Kumar			7,500	2008	5	(5)
			1,500	2009	5	(5)
			1,500	2009	5	(6)
			1,500	2009	5	(7)
			1,500	2009	5	(8)
Jaspal S Bajwa	20,000	0.02%	2,500	2006	5	(8)
			2,000	2007	5	(7)
			2,000	2007	5	(8)
			2,000	2008	5	(6)
			2,000	2008	5	(7)
			2,000	2008	5	(8)
			2,000	2009	5	(5)
			2,000	2009	5	(6)
			2,000	2009	5	(7)
			2,000	2009	5	(8)
Jeffrey Wasserstein			3,500	2008	5	(6)
			3,500	2008	5	(7)
			1,500	2008	5	(8)
			1,500	2009	5	(5)
			1,500	2009	5	(6)
			1,500	2009	5	(7)
			1,500	2009	5	(8)

Table of Contents

Name	No. of Shares Held (1), (3)	% of Outstanding Capital	No. of Options Held	Year of Grant	Exercise Price	Expiration Date (See note no.)
K. B. Sankara Rao	55,724	0.04%	5,080	2006	5	(8)
			1,600	2007	5	(7)
			1,600	2007	5	(8)
			1,500	2008	5	(6)
			1,500	2008	5	(7)
			1,500	2008	5	(8)
			1,250	2009	5	(5)
			1,250	2009	5	(6)
			1,250	2009	5	(7)
			1,250	2009	5	(8)
Prabir Kumar Jha	7,750	0.01%	750	2006	5	(8)
			650	2007	5	(8)
			650	2007	5	(8)
			1,000	2008	5	(6)
			1,000	2008	5	(7)
			1,000	2008	5	(8)
			1,250	2009	5	(5)
			1,250	2009	5	(6)
			1,250	2009	5	(7)
			1,250	2009	5	(8)
Raghu Cidambi	27,500	0.02%	2,500	2006	5	(8)
			1,250	2007	5	(7)
			1,250	2007	5	(8)
			1,500	2008	5	(6)
			1,500	2008	5	(7)
			1,500	2008	5	(8)
			1,250	2009	5	(5)
			1,250	2009	5	(6)
			1,250	2009	5	(7)
			1,250	2009	5	(8)
Saumen Chakraborty	42,900	0.03%	2,500	2006	5	(8)
			2,000	2007	5	(7)
			2,000	2007	5	(8)
			2,000	2008	5	(6)
			2,000	2008	5	(7)
			2,000	2008	5	(8)
			2,000	2009	5	(5)
			2,000	2009	5	(6)
			2,000	2009	5	(7)
			2,000	2009	5	(8)

Table of Contents

Name	No. of Shares Held (1), (3)	% of Outstanding Capital	No. of Options Held	Year of Grant	Exercise Price	Expiration Date (See note no.)
Umang Vohra	5,390		600	2006	5	(8)
			750	2007	5	(7)
			750	2007	5	(8)
			750	2008	5	(6)
			750	2008	5	(7)
			750	2008	5	(8)
			875	2009	5	(5)
			875	2009	5	(6)
			875	2009	5	(7)
			875	2009	5	(8)
V. S. Vasudevan	8,620	0.01%	2,870	2003	531.51	(6)
			2,870	2003	531.51	(7)
			2,870	2003	531.51	(8)
			5,000	2004	441.50	(5)
			5,000	2004	441.50	(6)
			5,000	2004	441.50	(7)
			5,000	2004	441.50	(8)
			5,000	2005	442.50	(5)
			5,000	2005	442.50	(6)
			5,000	2005	442.50	(7)
			5,000	2005	442.50	(8)
			12,500	2006	362.50	(5)
			12,500	2006	362.50	(6)
			12,500	2006	362.50	(7)
			12,500	2006	362.50	(8)
			2,000	2007	5	(7)
			2,000	2007	5	(8)
			1,750	2008	5	(6)
			1,750	2008	5	(7)
			1,750	2008	5	(8)
			1,500	2009	5	(5)
			1,500	2009	5	(6)
			1,500	2009	5	(7)
			1,500	2009	5	(8)
Vilas M. Dholye	4,970		2,770	2005	5	(8)
			900	2006	5	(8)
			600	2007	5	(7)
			600	2007	5	(8)
			700	2008	5	(6)
			700	2008	5	(7)
			700	2008	5	(8)
			400	2009	5	(5)
			400	2009	5	(6)
			400	2009	5	(7)

400 2009 5 (8)
86

Table of Contents

(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) The expiration date is five years from the date of vesting. The options vest in one year.

(6) The expiration date is five years from the date of vesting. The options vest in two years.

(7) The expiration date is five years from the date of vesting. The options vest in three years.

(8) The expiration date is five years from the date of vesting. The options vest in four years.

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, 2009, options to purchase ordinary shares and ADSs were awarded to various executive officers and directors under these two plans as follows: an aggregate of 430,220 options were granted having an average exercise price of Rs.5 per share or ADS and an aggregate of 20,000 options were granted having an average exercise price of Rs.448 per share or ADS. 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 31,2009, options were outstanding under these two plans for an aggregate of approximately 935,063 shares and ADSs with an average exercise price of Rs.5 per share or ADS and approximately 136,410 shares and ADSs with an average exercise price of Rs.417.51 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, 2009, no options were awarded under this plan. As of March 31, 2009, options were outstanding under this plan for an aggregate of approximately 2,916,263 shares of Aurigene with an average exercise price of Rs. 13.99 per share.

For the years ended March 31, 2009 and 2008, Rs.131 million and Rs.258 million, respectively, has been recorded as employee share-based payment expense under all of our employee stock incentive plans. As of March 31, 2009, there was approximately Rs.177 million of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of 2.67 years. The Fringe Benefit Tax expense incurred during the years ended March 31, 2009 and 2008 was Rs.82 million and Rs.81 million, respectively.

For further information regarding our options and stock option incentive plans, see Note 21 to our consolidated financial statements.

Table of Contents

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, 2009, a total of 26.40% 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 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, 2009:

	Equity Shares Beneficially Owned (1)	
Name	**Number of Shares**	**Percentage of Shares**
Dr. K. Anji Reddy (2)	40,779,284	24.21%
Mr. G.V. Prasad	1,365,840	0.81%
Mr. Satish Reddy	1,205,832	0.72%
Family Members	1,116,856	0.66%
Subtotal	**44,467,812**	**26.40%**
Others/public float	124,000,965	73.60%
Total number of shares outstanding	**168,468,777**	**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 Private Limited owns 39,978,328 of our equity shares. Dr. K. Anji Reddy owns 40% of Dr. Reddy s Holdings Private 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 Private Limited is included in the amount shown as beneficially owned by Dr. K. Anji Reddy. An aggregate of 11,859,009 of such equity shares were pledged as on March 31, 2009.

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.

Table of Contents

The following shareholders held more than 5% of our equity shares as of March 31, 2009:

	March 31, 2009		March 31, 2008		March 31, 2007	
Name	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 Pvt. Limited	39,978,328	23.74	37,798,290	22.48	37,798,290	22.51
Life Insurance Corporation of India	21,723,498	12.89	20,619,743	12.26	13,323,325	7.93

As of March 31, 2009, we had 168,468,777 outstanding equity shares. As of March 31, 2009, there were 93,924 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 Rs.5 par value per share. As of March 31, 2009, 15.74% of our issued and outstanding equity shares were held by ADS holders. On March 31, 2009 we had approximately 18,760 ADS holders of record in the United States.

7.B. ***Related party transactions***

We have entered into transactions with the following related parties:

Diana Hotels Limited for hotel services;

A.R. Life Sciences Private Limited for processing services of raw materials and intermediates;

Dr. Reddy s Holdings Private 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 entered into transactions with our former equity accounted investee Perlecan Pharma (now a subsidiary) and our joint venture Kunshan Rotam Reddy Pharmaceuticals Co. Limited (Reddy Kunshan). These transactions are in the nature of reimbursement of research and development expenses incurred by us on behalf of Perlecan Pharma, revenue from research services performed by us for Perlecan Pharma and our purchase of active pharmaceutical ingredients from Reddy Kunshan.

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 Rs. Millions) Year ended March 31,	
	2009	2008
Purchases from significant interest entities in the ordinary course	Rs. 290	Rs. 219
Sales to significant interest entities in the ordinary course	135	88

Contribution to a significant interest entity towards social development and research and development	124	114
Hotel expenses paid to significant interest entities	13	13
Advances paid to significant interest entities for purchase of land (1)	400	680
Short term loan taken from and repaid to significant interest entities	60	
Interest paid on loan taken from significant interest entities	2	

Table of Contents

	Year ended March 31,	
	2009	2008
Revenue from equity accounted investees	Rs.	Rs.40
Reimbursement of research and development expenses from equity accounted investees		90
Compensation paid to key management personnel	460	464
Lease rental paid under cancellable operating leases to directors and their relatives	26	25

(1) This does not include amounts paid as at March 31, 2009 and 2008 of Rs.1,080 million and Rs.680 million, respectively, as advances towards the purchase of land from significant interest entities, which has been recorded under capital work-in-progress in our balance sheets.

We have the following amounts due from related parties:

	(Amounts in Rs. millions)	
	As at March 31,	
	2009	2008
Significant interest entities	Rs. 43	Rs. 26
Equity accounted investees		27
Key management personnel	5	5

We have the following amounts due to related parties:

	(Amounts in Rs. millions)	
	As at March 31,	
	2009	2008
Significant interest entities	Rs. 68	Rs. 17

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 balance sheets as of March 31, 2009 and 2008

Consolidated income statements for the years ended March 31, 2009 and 2008

Consolidated statements of changes in equity for the years ended March 31, 2009 and 2008

Consolidated cash flow statements for the years ended March 31, 2009 and 2008

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. Pursuant to General Instruction G of Form 20-F, the financial statements included herein are for our two most recent fiscal years.

Table of Contents

Amount of Export Sales

For the year ended March 31, 2009, our export revenues were Rs.57,981 million, and account for 83% 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 Rs.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 Rs.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 Rs.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 our 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 in the United States District Court for the District of New Jersey. There are three formulation patents, three use patents, and two active pharmaceutical ingredients (API) patents which are at issue in the litigation. We have obtained summary judgment in respect of each of the formulation patents. Teva Pharmaceuticals Industries Limited (Teva) and Barr Pharmaceuticals, Inc. (Barr) have been defending a similar action in the same court.

Table of Contents

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 has brought patent infringement actions against Teva and its API supplier in the United States District Court for the District of New Jersey. There are three formulation patents, three use patents, and two API patents at issue in the litigation. Teva has 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. Litigation between us and Aventis continues. No trial has been scheduled at this time. If Aventis is ultimately successful in its allegation of patent infringement, we could be required to pay damages related to our fexofenadine hydrochloride tablet sales, and could also be prohibited from selling these products in the future.

Alendronate Sodium, Germany litigation

In February 2006, Merck & Co. (Merck) initiated proceedings against betapharm before the German Civil Court of Mannheim alleging infringement of the basic patent for Fosamax (Merck s brand name for alendronate sodium). betapharm and some other companies are selling generic versions of this product in Germany. Merck s patent, which expired in April 2008, was nullified in June 2006 by the German Federal Patent Court. However, Merck 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 another patent for Fosamax, which is relevant to the composition of betapharm s alendronate sodium product. 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 scheduled a hearing on the matter in March 2009. In August 2007, Merck initiated patent infringement proceedings against betapharm before a German civil court. In the oral hearing which took place in March 2009 at the European Patent Office, the new patent was nullified. There are other jurisdictions within Europe where the innovator s 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, 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.

Oxycodon, Germany litigation

We are aware of litigation with respect to one of our suppliers for oxycodon, which is sold by us and other generics companies in Germany. In April 2007, a German trial court rejected an application for an interim order by the innovator company against our supplier. The innovator has filed an infringement suit of formulation patents against our supplier in the German Civil Court of Mannheim as well as in Switzerland (where the product is manufactured). Our supplier and all licensees have filed a nullity petition at the German Federal Patent Court, and have also filed a Declaration of Intervention Against at the European Patent Office. The German court in Mannheim decided that our supplier s product is non-infringing, but the innovator appealed the decision. The appeal is pending. As of March 31, 2009, based on a legal evaluation, we continued to sell this product.

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 Bollarum 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, Bollarum and Jeedimetla areas for discharging effluents which damaged the farmers agricultural land. The compensation was fixed at Rs.1.30 per acre for dry land and Rs.1.70 per acre for wet land. Accordingly, we have paid total compensation of Rs.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 Rs.176 million from the vendor, including penalties of Rs.90 million. Through the same notice, the Authorities issued a penalty claim of Rs.70 million against us. During the year ended March 31, 2005, the Authorities issued an additional notice to this vendor demanding Rs.226 million from the vendor, including penalty of Rs.51 million.

Table of Contents

Through the same notice, the Authorities issued a penalty claim of Rs.7 million against us. Furthermore, during the year ended March 31, 2006, the Authorities issued an additional notice to this vendor demanding Rs.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.

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 these requests, and will continue to cooperate with the Attorneys General in these investigations if it is asked to do so.

In April 2008, we received a CID from the United States Federal Trade Commission (the FTC). A CID is a request for information in the course of a civil investigation and does not constitute the commencement of legal proceedings. We were informed that the focus of this civil antitrust investigation related to the settlement arrangement entered into between us and UCB Pharma Inc. (UCB) resolving patent litigation concerning levetiracetam. We believe that the terms of our settlement arrangement with UCB are consistent with all applicable antitrust laws. We cooperated fully with the FTC regarding this investigation. The request in April 2008 from the FTC sought information to supplement the voluntary production of documents which we had completed in February 2008. We completed our response to the CID in June 2008. The FTC later requested additional information from other parties involved in this investigation. In March 2009, the FTC advised us that it was formally closing its investigation of our settlement arrangement with UCB.

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, 2008 and 2009, we paid cash dividends of Rs.3.75 and Rs.3.75, 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 18, 2009 the Board of Directors proposed a dividend in the aggregate amount of Rs.1,231 million (including the aggregate amount of Rs.178 million to pay the dividend tax imposed on the distribution of such dividends), which would amount to a total dividend per share of Rs.6.25. The Board s dividend proposal is subject to the approval of our shareholders.

Holders of ADSs are entitled to receive dividends payable on equity shares represented by such ADSs. Cash dividends on equity shares represented by ADSs are paid to the Depositary in Indian rupees and are converted by the Depositary into U.S. Dollars and distributed, net of depositary fees, taxes, if any, and expenses, to the holders of such ADSs.

8.B. ***Significant changes***

In May 2009, we announced that effective July 1, 2009, our drug discovery operations at Hyderabad will be consolidated with Aurigene Discovery Technologies Limited (Aurigene), one of our wholly-owned subsidiaries. Aurigene is a partnership based drug discovery biotechnology company headquartered in Bangalore. Our Discovery Research business resources (i.e., employees, facility and infrastructure) will be transferred to Aurigene, which will now operate out of two sites: Bangalore and Hyderabad. In addition, we will be creating a new group to focus on proprietary products development, which will be responsible for building our proprietary, branded research and development portfolio in collaboration with various partners and service providers. This organization will work with Aurigene and other discovery biotechnology companies to ensure effective management of our ongoing and future

drug discovery programs. All of the existing intellectual property of our drug discovery operations will be owned and managed by this new group. This group will also have responsibility for our research and development portfolio and our differentiated formulations efforts. As part of the reorganization, we will close our Atlanta research facility in Atlanta, Georgia, U.S.A.

Table of Contents

In June 2009, we entered into a partnership with GlaxoSmithKline plc (GSK) to develop and market select products across emerging markets outside India. Under the terms of the agreement, GSK has access to our diverse portfolio and future pipeline of more than 100 branded pharmaceuticals in certain therapeutic segments. The products will be manufactured by us and will be licensed and supplied to GSK in various emerging markets such as Africa, the Middle East, Latin America and Asia Pacific, excluding India. Revenues will be reported by GSK and will be shared with us in accordance with the terms of the agreement. In certain markets, products will be co-marketed by us and GSK.

In June 2009, the Allgemeinen Ortsrankenkassen (AOK), one of the largest SHI funds in Germany, announced that it planned initiation of the next European Union wide tenders (i.e., competitive bidding processes) in August 2009. The tenders will be divided in 5 regional lots and shall cover 94 drugs and drugs combinations. The supply under the tender will be for a period of two years.

In June 2009, the management and works councils (i.e., organizations representing workers) of our German subsidiaries, betapharm and Reddy Holding, tcompleted negotiations of a social plan for workforce reduction and restructuring, including their physician sales force. The social plan was believed to be necessary to achieve a more sustainable workforce structure in light of the current economic climate in Germany.

Table of Contents

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).

	BSE		NYSE	
Year	Price Per Equity Share(1)		Price Per ADS(1)	
Ended March 31,	High (Rs.)	Low (Rs.)	High (U.S.$)	Low (U.S.$)
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
2006	756.50	306.50	16.67	7.46
2005	501.45	326.25	12.40	7.53

	BSE		NYSE	
	Price Per Equity Share		Price Per ADS	
Quarter Ended	High (Rs.)	Low (Rs.)	High (U.S.$)	Low (U.S.$)
June 30, 2007	757.00	608.90	17.49	14.97
September 30, 2007	694.00	603.30	17.04	14.83
December 31, 2007	748.00	580.00	18.52	14.76
March 31, 2008	760.00	501.00	18.66	13.07
June 30, 2008	739.00	575.10	16.95	14.35
September 30, 2008	695.50	464.00	16.50	10.53
December 31, 2008	557.00	387.05	11.55	7.45
March 31, 2009	506.95	357.00	10.34	7.27

	BSE		NYSE	
	Price Per Equity Share(1)		Price Per ADS(1)	
Month Ended	High (Rs.)	Low (Rs.)	High (U.S.$)	Low (U.S.$)
October 31, 2008	557.00	395.00	11.55	7.70
November 30, 2008	434.00	387.05	9.18	7.45
December 31, 2008	495.90	422.05	10.31	8.64
January 31, 2009	506.95	418.00	10.34	8.38
February 29, 2009	479.85	386.90	9.64	7.97
March 31, 2009	495.00	357.00	9.84	7.27

Source: www.bseindia.com and www.adr.com, respectively.

9.B. Plan of distribution

Not applicable.

Table of Contents

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.

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 7-1-27, Ameerpet, Hyderabad 500 016, India and the telephone number of our registered office is +91-40-23731946. 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 s (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.

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***

Table of Contents

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 Non-Resident Indians 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.

Table of Contents

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 foreign institutional investors, Non-Resident Indians and overseas corporate bodies, all of which we refer to as foreign portfolio investors. Under current Indian law, foreign institutional investors in the aggregate may hold not more than 24.0% of the equity shares of an Indian company, and Non-Resident Indians 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 foreign institutional investor may hold more than 10.0% of the shares of an Indian company and no single Non-resident Indian may hold more than 5.0% of the shares of an Indian company.

In our case, our shareholders have passed a resolution enhancing the limits of portfolio investment by foreign institutional investors in the aggregate to 49%. Non-Resident Indians 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, 2009, FII s are holding 22.16% and NRI s 1.86% 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.

Table of Contents

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 or she 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 its 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 depositary.

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 Non-Resident Indian (NRI) or an overseas corporate body (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 Non-Resident Indian may transfer by way of sale or gift, the shares or convertible debentures held by that person to another Non-Resident Indian 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 Gesselschaft (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 Depositary 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.

99

Table of Contents

Fungibility of ADSs

A registered broker in India can purchase shares of an Indian company that has issued ADSs, on behalf of a person resident 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 Depositary Agreement; and

(v) a non-resident investor, broker, the Custodian and the Depositary comply with the provisions of the Scheme for Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depositary 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 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.

Table of Contents

The period of 60 days referred to above shall be read as 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 16.995%, 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; and

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%, plus the applicable surcharge and education cess; and short-term capital gains on such transfer will be taxed at the maximum marginal rate of tax applicable to the seller, plus the applicable surcharge 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%, excluding education cess and the applicable surcharge.

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 0.1% (0.125% from June 1, 2006) of the transaction value for any delivery based transaction and 0.02% (0.025% from June 1, 2006) for any non-delivery based transaction.

101

Table of Contents

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 Depositary 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 Depositary 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) in the range of 30.9% to 33.99%, including the applicable surcharge, in the case of resident employees and of non-resident individuals with taxable income over Rs.1,000,000.

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.

Table of Contents

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 12.36%, reduced to 10.3% effective as of February 24, 2009. The stockbroker is responsible for collecting the service tax from the shareholder and paying it to the relevant authority.

United States Federal Taxation [SUBJECT TO REVIEW BY CLIFFORD CHANCE]

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 the District of Columbia, (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. This summary is limited to U.S. holders who will hold equity shares or ADSs as capital assets. 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 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 tax laws of the United States as in effect on the date of this Annual Report and on United States Treasury Regulations in effect or, in some cases, proposed, as of the date of this Annual Report, 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 and could affect the tax consequences described below.

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. 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 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

Table of Contents

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, 2010. 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 to a U.S. holder with respect to distributions on 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 income from sources outside the United States, 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. A 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 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, 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, provided that the required information is furnished to the Internal Revenue Service.

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.

104

Table of Contents

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, 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, 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 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 7-1-27, Ameerpet, Hyderabad, 500016, 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.

Table of Contents

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, 2009, we had forward contracts to sell in the amount of U.S.$67 million, Euros 8 million and GBP 8 million. In addition, as of such date we had forward contracts to buy in the amount of U.S.$3 million. As of March 31, 2009, we also had outstanding foreign currency options, which are classified as cash flow hedges, of U.S.$120 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 Rs.617 million increase/decrease in our total equity and an approximately Rs.448 million increase/decrease in our net profit as at March 31, 2009.

For a detailed analysis of our foreign exchange rate risk, please refer to Note 33 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, 2009 we had a loan of Euros 192 million at an interest rate of Euribor plus 70 basis points and $11 million at an interest rate of Libor plus 70 basis points. These loans expose us to risks of changes in interest rates, particularly Euribor. 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, 2009, we had not entered into any interest rate swap to hedge our interest rate risk due to the favorable terms of our debt instruments then outstanding. Our investments in bank fixed deposits and short-term liquid mutual funds are for short term periods and accordingly do not expose us to significant interest rate risk.

Table of Contents

Interest Rate Profile.

An interest rate profile of long-term debt is given below:

	For the Year Ended March 31,	
	2009	**2008**
Foreign Currency Loans	Euribor +70bps or Libor +70 bps	Euribor +70-200 bps or Libor +70 bps
Rupee Term Loans*	2%	2%

* 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, 2009 are as follows:

(Amounts in Rs. millions)

Maturing in the year ending March 31,	**Rupee term loan**	**Foreign currency loan**	**Obligation under finance lease**	**Total**
2010	Rs. 6	Rs. 3,477	Rs. 18	Rs. 3,501
2011	1	4,118	16	4,135
2012		5,731	9	5,740
2013			9	9
2014			10	10
Thereafter			238	238
	Rs. 7	Rs. 13,326	Rs. 300	Rs. 13,633

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.

Table of Contents

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

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 Rs.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 owing 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 (Rs.8,733 million), Rs.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 Rs.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, 2009, 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.

Table of Contents

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, 2009 based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework).

Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of March 31, 2009.

The effectiveness of our internal control over financial reporting as of March 31, 2009 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	/s/ Umang Vohra
Vice-Chairman and Chief Executive Officer	Chief Financial Officer

(c) *Attestation Report of the Registered Public Accounting Firm.*

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Dr. Reddy s Laboratories Limited:

We have audited Dr. Reddy s Laboratories Limited and subsidiaries (the Company) internal control over financial reporting as of March 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company 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 generally accepted accounting principles. 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

Table of Contents

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, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Dr. Reddy s Laboratories Limited and subsidiaries as of March 31, 2009 and 2008, and the related consolidated income statements, statements of changes in equity and cash flows statements for each of the years in the two-year period ended March 31, 2009, and our report dated June 18, 2009 expressed an unqualified opinion on those consolidated financial statements.

KPMG

Hyderabad, India

June 18, 2009.

(d) *Changes in Internal Control over Financial Reporting*

During the period covered by this Annual Report, there were no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16.A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Audit Committee 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. As of March 31, 2009, no member of our audit committee 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. A copy of the code is available, without charge, to all of our investors by contacting our investor relations department and to others if a written request is made to our Company Secretary at our corporate office situated at 7-1-27, Ameerpet, Hyderabad 500 016, Andhra Pradesh, India. The code is also available on our corporate website, www.drreddys.com. 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 the 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 the Board of Directors.

Table of Contents

ITEM 16.C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth for the years ended March 31, 2009 and 2008, 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 March 31, 2009	March 31, 2008	Description of Services
	(Rs. in millions)		
Audit fees	Rs. 57.28	Rs. 44.83	Audit and review of financial statements
Audit related fees		8.20	Financial and tax due diligence services in the previous year
Tax fees	1.46	0.75	Tax returns filing and transfer pricing related services
All other fees	0.11	2.39	Statutory certifications, subscription to databases etc.
Total	Rs. 58.84	Rs. 56.17	

Our audit committee charter requires us to take the prior approval of our audit committee on every occasion we engage our principal accountants or their associated entities to provide us any non-audit services. We disclose to our audit committee 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 our audit committee.

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 foreign private issuer.

ITEM 16.E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

During the year ended March 31, 2009, 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

Not applicable.

ITEM 16G. 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 material 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.

Table of Contents

The following table compares our principal corporate governance practices to those required of U.S. NYSE listed companies.

Standard for U.S. NYSE Listed Companies	Our practice
Listed companies must have a majority of independent directors, as defined by the NYSE.	We comply with this standard. Six of our nine 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 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 Governance 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 Governance Committee.
Listed companies must have a compensation committee composed entirely of independent directors. The compensation committee must have a written charter 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 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 Compensation Committee.
Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act	Our Audit Committee 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 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 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.
Each listed company must have an internal audit function.	We 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.	We comply with this standard. Our Employee Stock Option Plan was approved by our shareholders.
Listed companies must adopt and disclose corporate governance guidelines.	We have not adopted 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, and promptly disclose any waivers of the code for directors or executive officers.	We comply with this standard. More details on our Code of Business Conduct and Ethics are given under Item 16.B.
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.	This requirement is being addressed by way of this table.
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.	We do not have such practice.
Each listed company CEO must promptly notify the NYSE in writing after any executive officer of the listed company becomes aware of any material non-compliance with any applicable provisions of this Section 303A.	There are no such instances.
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 a change occurs to the board or any of the committees subject to Section 303A. The annual and interim Written Affirmations must be in the form specified by the NYSE.	We filed our most recent annual written affirmation on July 25, 2008.

Table of Contents

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

The following financial statement and auditors report for the year ended March 31, 2009 are incorporated herein by reference and are included in this Item 18 of this report on Form 20-F:

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Dr. Reddy s Laboratories Limited:

We have audited the accompanying consolidated balance sheets of Dr. Reddy s Laboratories Limited and subsidiaries (the Company) as of March 31, 2009 and 2008, and the related consolidated income statements, statements of changes in equity and statements of cash flows for each of the years in the two-year period ended March 31, 2009. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 the Company as of March 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the two-year period ended March 31, 2009, in conformity with International Financial Reporting Standards as issued by International Accounting Standards Board (IFRS).

As discussed in Note 4 to the consolidated financial statements, the Company has changed its basis of accounting to IFRS during the year ended March 31, 2009. Consequently, the Company s consolidated financial statements for 2008 referred to above have been restated to conform with IFRS. Prior to adoption of IFRS, the Company prepared financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for purposes of its U.S. Securities and Exchange Commission reporting. Upon adoption of IFRS, U.S. GAAP was considered previous GAAP.

U.S. GAAP varies in certain significant respects from IFRS. Information relating to the nature and effect of such differences are presented in Note 4 to the consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of March 31, 2009, 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 June 18, 2009 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

KPMG
Hyderabad, India
June 18, 2009

Table of Contents

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions, except share and per share data)

	Note	As of March 31, 2009	2009	2008
		Unaudited Convenience Translation into U.S.$ (See Note 2.d.)		
Assets				
Property, plant and equipment	8	U.S.$ 410	Rs. 20,882	Rs. 16,765
Goodwill	9	144	7,300	16,997
Other intangible assets	10	292	14,879	16,756
Investment in equity accounted associates	11	5	262	237
Deferred tax asset	29	25	1,259	808
Other non-current assets	15	4	200	83
Total non-current assets		**U.S.$ 880**	**Rs. 44,782**	**Rs. 51,646**
Inventories	13	**U.S.$** 260	Rs. 13,226	Rs. 11,133
Current tax assets		1	58	177
Trade receivables	14	287	14,592	6,823
Other current assets	15	98	5,008	3,681
Other investments	12	10	530	4,753
Cash and cash equivalents	16	110	5,596	7,421
Total current assets		**U.S.$ 767**	**Rs. 39,010**	**Rs. 33,988**
Total assets		**U.S.$ 1,647**	**Rs. 83,792**	**Rs. 85,634**
Equity				
Share capital	17	**U.S.$** 17	Rs. 842	Rs. 841
Share premium		397	20,204	20,036
Fair value reserve			11	(2)
Foreign currency translation reserve		43	2,168	1,567
Share based payment reserve		13	676	709
Hedging reserve		(3)	(156)	(7)
Equity shares held by controlled trust			(5)	(5)
Retained earnings		360	18,305	24,211
Total equity		**U.S.$ 827**	**Rs. 42,045**	**Rs. 47,350**
Liabilities				

Long-term loans and borrowings, excluding current portion	19	**U.S.$**	199	Rs. 10,132	Rs. 12,698
Provisions	23		1	42	
Other non-current liabilities	25		7	350	321
Deferred tax liabilities	29		92	4,670	5,664
Total non-current liabilities		**U.S.$**	**299**	**Rs. 15,194**	**Rs. 18,683**

Table of Contents

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions, except share and per share data)

	Note	As of March 31, 2009	2009	2008
		Unaudited Convenience Translation into U.S.$ (See Note 2.d.)		
Bank overdraft	16	4	218	435
Short-term loans and borrowings	19	115	5,850	4,428
Long-term loans and borrowings, current portion	19	69	3,501	1,791
Current tax liabilities		12	632	340
Trade payables	24	118	5,987	5,427
Derivative financial instruments	32	7	332	105
Provisions	23	38	1,928	750
Other current liabilities	25	159	8,105	6,325
Total current liabilities		**U.S.$ 522**	**Rs. 26,553**	**Rs. 19,601**
Total liabilities		**U.S.$ 821**	**Rs. 41,747**	**Rs. 38,284**
Total equity and liabilities		**U.S.$ 1,647**	**Rs. 83,792**	**Rs. 85,634**

The accompanying notes form an integral part of these consolidated financial statements.

Table of Contents

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
(in millions, except share and per share data)

		For the year ended March 31,				
	Note	**2009**		**2009**		**2008**
		Unaudited Convenience Translation into U.S.$ (See Note 2.d.)				
Revenues	26	U.S.$ 1,365	Rs.	69,441	Rs.	50,006
Cost of revenues		648		32,941		24,598
Gross profit		**U.S.$ 718**	**Rs.**	**36,500**	**Rs.**	**25,408**
Selling, general and administrative expenses		413		21,020		16,835
Research and development expenses		79		4,037		3,533
Impairment loss on other intangible assets	10	62		3,167		3,011
Impairment loss on goodwill	9	213		10,856		90
Other expense/(income), net	27	5		254		(402)
Total operating expenses, net		**U.S.$ 773**	**Rs.**	**39,334**	**Rs.**	**23,067**
Results from operating activities		**(56)**		**(2,834)**		**2,341**
Finance expense	28	33		1,668		1,080
Finance income	28	(9)		(482)		(1,601)
Finance expense/(income), net		**23**		**1,186**		**(521)**
Share of profit of equity accounted investees, net of income tax	11			24		2
Profit/(loss) before income tax		**(79)**		**(3,996)**		**2,864**
Income tax (expense)/benefit	29	(23)		(1,172)		972
Profit/(loss) for the period		**U.S.$ (102)**	**Rs.**	**(5,168)**	**Rs.**	**3,836**
Attributable to:						
Equity holders of the Company		(102)		(5,168)		3,846
Minority interest						(10)
Profit/(loss) for the period		**U.S.$ (102)**	**Rs.**	**(5,168)**	**Rs.**	**3,836**
Earnings/(loss) per share	18					

Basic		U.S.$	(0.60)	Rs.	(30.69)	Rs. 22.88
Diluted		U.S.$	(0.60)	Rs.	(30.69)	Rs. 22.80
Weighted average number of equity shares used in computing earnings per equity share	18					
Basic			168,349,139		168,349,139	168,075,840
Diluted			168,349,139		168,349,139	168,690,774

The accompanying notes form an integral part of these consolidated financial statements.

Table of Contents

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in millions, except share and per share data)

	Share capital		Share premium	Fair value reserve	Foreign currency translation reserve	Share based payment reserve	Hedging reserve
	Shares	Amount	Amount	Amount	Amount	Amount	Amount
Balance as of April 1, 2007	**167,912,180**	**Rs. 840**	**Rs. 19,908**	**Rs. (125)**	**Rs. 344**	**Rs. 565**	**Rs.**
Net change in fair value of other investments, net of tax expense of Rs.35				123			
Foreign currency translation differences, net of tax expense of Rs.42					1,223		
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of Rs 3							(7)
Total income and expense directly recognized in equity				**123**	**1,223**		**(7)**
Profit for the period							
Total recognized income and expense				**123**	**1,223**		**(7)**
Issue of equity shares on exercise of options	260,566	1	128			(114)	
Dividend paid							
Share-based payment expense						258	
Balance as of March 31, 2008	**168,172,746**	**Rs. 841**	**Rs. 20,036**	**Rs. (2)**	**Rs. 1,567**	**Rs. 709**	**Rs. (7)**

[Continued from above table, first column(s) repeated]

	Equity shares held by a controlled trust* Amount	Retained earnings Amount	Total attributable to equity share holders Amount	Minority interest Amount	Total equity Amount
Balance as of April 1, 2007	**Rs. (5)**	**Rs. 21,102**	**Rs. 42,629**	**Rs. 10**	**Rs. 42,639**
Net change in fair value of other investments, net of tax expense of Rs.35			**123**		**123**
Foreign currency translation differences, net of tax expense of Rs.42			**1,223**		**1,223**
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of Rs 3			**(7)**		**(7)**
Total income and expense directly recognized in equity			**1,339**		**1,339**
Profit for the period		3,846	**3,846**	**(10)**	**3,836**
Total recognized income and expense		**3,846**	**5,185**	**(10)**	**5,175**
Issue of equity shares on exercise of options			**15**		**15**
Dividend paid		(737)	**(737)**		**(737)**
Share-based payment expense			**258**		**258**
Balance as of March 31, 2008	**Rs. (5)**	**Rs. 24,211**	**Rs. 47,350**	**Rs.**	**Rs. 47,350**

* The number of equity shares held by a controlled trust as of April 1, 2007, March 31, 2008, April 1, 2008 and March 31, 2009 was 82,800.

The accompanying notes form an integral part of these consolidated financial statements.

Table of Contents

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in millions, except share and per share data)

	Share capital		Share premium	Fair value reserve	Foreign currency translation reserve	Share based payment reserve	Hedging reserve
	Shares	Amount	Amount	Amount	Amount	Amount	Amount
Balance as of April 1, 2008	**168,172,746**	**Rs. 841**	**Rs. 20,036**	**Rs. (2)**	**Rs. 1,567**	**Rs. 709**	**Rs. (7)**
Net change in fair value of other investments, net of tax expense of Rs.5				13			
Foreign currency translation differences, net of tax expense of Rs.41					601		
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of Rs.78							(149)
Total income and expense directly recognized in equity				**13**	**601**		**(149)**
Loss for the period							
Total recognized income and expense				**13**	**601**		**(149)**
Issue of equity shares on exercise of options	296,031	1	168			(164)	
Dividend paid						131	

Share-based payment expense												
Balance as of March 31, 2009	**168,468,777**	**Rs.**	**842**	**Rs.**	**20,204**	**Rs.**	**11**	**Rs.**	**2,168**	**Rs.**	**676**	**Rs.**	**(156)**
Unaudited convenience translation into U.S.$ (See Note 2.d.)		**U.S.$**	**17**	**U.S.$**	**397**	**U.S.$**		**U.S.$**	**43**	**U.S.$**	**13**	**U.S.$**	**(3)**

[Continued from above table, first column(s) repeated]

	Equity shares held by a controlled trust*	**Retained earnings**	**Total attributable to equity share holders**	**Minority interest**	**Total equity**
	Amount	**Amount**	**Amount**	**Amount**	**Amount**
Balance as of April 1, 2008	**Rs. (5)**	**Rs. 24,211**	**Rs. 47,350**	**Rs.**	**Rs. 47,350**
Net change in fair value of other investments, net of tax expense of Rs.5			**13**		**13**
Foreign currency translation differences, net of tax expense of Rs.41			**601**		**601**
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of Rs.78			**(149)**		**(149)**
Total income and expense directly recognized in equity			**465**		**465**
Loss for the period		**(5,168)**	**(5,168)**		**(5,168)**
Total recognized income and expense		**(5,168)**	**(4,703)**		**(4,703)**
Issue of equity shares on exercise of options			**5**		**5**
Dividend paid		**(738)**	**(738)**		**(738)**
Share-based payment expense			**131**		**131**
Balance as of March 31, 2009	**Rs. (5)**	**Rs. 18,305**	**Rs. 42,045**	**Rs.**	**Rs. 42,045**
Unaudited convenience translation into U.S.$ (See Note 2.d.)	**U.S.$**	**U.S.$ 360**	**U.S.$ 827**	**U.S.$**	**U.S.$ 827**

* The number of equity shares held by a controlled trust as of April 1, 2007, March 31, 2008, April 1, 2008 and March 31, 2009 was 82,800.

The accompanying notes form an integral part of these consolidated financial statements.

Table of Contents

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions, except share and per share data)

	For the year ended March 31,		
	2009	**2009**	**2008**
	Unaudited Convenience translation into U.S.$ (See Note 2.d.)		
Cash flows from/(used in) operating activities:			
Profit/(loss) for the period	U. S. $ (102)	Rs. (5,168)	Rs. 3,836
Adjustments for:			
Income tax expense/(benefit)	23	1,172	(972)
Profit on sale of investments	(3)	(136)	(111)
Depreciation and amortization	75	3,814	3,362
Impairment loss on other intangible assets	62	3,167	3,011
Impairment loss on goodwill	213	10,856	90
Inventory write-downs	16	833	328
Allowance for doubtful trade receivables	3	148	227
(Profit)/loss on sale of property, plant and equipment, net		(15)	8
Provision for sales returns	13	663	164
Share of profit of equity accounted investees		(24)	(2)
Unrealized exchange (gain)/loss, net	(8)	(416)	207
Interest expense, net	14	688	329
Share based payment expense	3	131	258
Negative goodwill on acquisition of business	(3)	(150)	
Changes in operating assets and liabilities:			
Trade receivables	(144)	(7,348)	608
Inventories	(38)	(1,939)	(3,908)
Other assets	21	1,051	3,135
Trade payables	(4)	(223)	1,249
Other liabilities and provisions	4	192	(3,759)
Income tax paid	(55)	(2,791)	(1,532)
Net cash from operating activities	**U. S. $ 89**	**Rs. 4,505**	**Rs. 6,528**
Cash flows from/(used in) investing activities:			
Expenditures on property, plant and equipment	(89)	(4,507)	(6,263)
Proceeds from sale of property, plant and equipment	2	81	55
Purchase of other investments	(236)	(12,021)	(15,860)
Proceeds from sale of other investments	322	16,398	12,478
Expenditures on other intangible assets	(5)	(254)	(422)
Payment of contingent consideration for acquisition of business	(2)	(83)	(86)
Cash paid for acquisition of business	(61)	(3,089)	

Cash paid for acquisition of equity accounted investee, net of cash acquired Rs.386		(7)	(372)	
Interest received		7	375	731
Net cash used in investing activities	**U. S. $**	**(68)**	**Rs. (3,472)**	**Rs. (9,367)**
Cash flows from/(used in) financing activities:				
Interest paid		(22)	(1,132)	(1,128)
Proceeds from issuance of equity shares			5	15
Proceeds from short term loans and borrowings, net		25	1,263	1,704
Repayment of long term loans and borrowings		(38)	(1,925)	(7,719)
Dividend paid		(15)	(738)	(737)
Net cash used in financing activities	**U. S. $**	**(50)**	**Rs. (2,527)**	**Rs. (7,865)**
Net decrease in cash and cash equivalents		(29)	(1,494)	(10,704)
Effect of exchange rate changes on cash and cash equivalents		(2)	(114)	(372)
Cash and cash equivalents at the beginning of the period		137	6,986	18,062
Cash and cash equivalents at the end of the period	**U. S. $**	**106**	**Rs. 5,378**	**Rs. 6,986**

The accompanying notes form an integral part of these consolidated financial statements.

Table of Contents

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions, except share and per share data)

Supplemental schedule of non-cash investing activities:

	Year ended March 31,		
	2009	**2009**	**2008**
	Unaudited Convenience translation into U.S.$ (See Note 2.d.)		
Property, plant and equipment purchased on credit during the year	U.S.$ 8	Rs. 427	Rs. 199
Property, plant and equipment purchased under capital lease			21

The accompanying notes form an integral part of these consolidated financial statements.

Table of Contents

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 in the United States; its principal manufacturing facilities are located in Andhra Pradesh, India, Himachal Pradesh, India, Cuernavaca-Cuautla, Mexico, Mirfield, United Kingdom and Louisiana, 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. These consolidated financial statements were authorized for issuance by the Company s Board of Directors on June 17, 2009.

2. Basis of preparation of financial statements

a. Statement of compliance

These consolidated financial statements as at and for the year ended March 31, 2009 have been prepared in accordance with the International Financial Reporting Standards and its interpretations (IFRS) issued by the International Accounting Standards Board (IASB). These are the Company s first IFRS consolidated financial statements and IFRS 1, *First-time adoption of International Financial Reporting Standards,* has been applied. The transition was carried out from the accounting principles generally accepted in the United States (U.S.GAAP , referred to herein as Previous GAAP), which is considered as the Company s previous GAAP, as defined in IFRS 1.

An explanation of how the transition to IFRS has affected the Company s equity and profit is provided in Note 4.

These consolidated financial statements have been prepared on the basis of relevant IFRS that are effective or available for early adoption at the Company s first IFRS annual reporting date, March 31, 2009.

The preparation of these consolidated financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Previous GAAP. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. They also have been applied in preparing the opening IFRS equity balance at April 1, 2007 for the purposes of the transition to IFRS, as required by IFRS 1. The accounting policies have been applied consistently by all entities included within the Company.

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 are measured at fair value; and
- available-for-sale financial assets are measured at fair value.

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. Functional currency of an entity is the currency of the primary economic environment in which the entity operates.

Table of Contents

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)

c. Functional and presentation currency (continued)

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 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, 2009 have been translated into United States dollars at the noon buying rate in New York City on March 31, 2009 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of U.S.$1.00 = Rs.50.87. 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.

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.

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 32 Financial instruments

Note 3(h) Measurement of recoverable amounts of cash-generating units

Note 3(j) Provisions

Note 3(k) Sales returns, rebates and charge back provisions

Note 3(m) Evaluation of recoverability of deferred tax assets

Note 7 Business combinations

Note 34 Contingencies

Table of Contents

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

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.

Special purpose entities

The Company has established certain special purpose entities (SPEs) 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. 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 minority shareholders 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.

Table of Contents

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)

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 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 directly in 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 directly in 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 a net investment in a foreign operation and are recognized directly in equity in the FCTR.

c. Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments consists of investments in 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 instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents

Cash and cash equivalents consists 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 investments are measured at amortized cost using the effective interest method, less any impairment losses. At March 31, 2009, the Company did not have any held-to-maturity investments.

Table of Contents

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)

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 directly in 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 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.

Others

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

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 equity, to the extent that the hedge is effective. 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 equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognized in equity is transferred to the carrying amount of the asset when it is recognized. In other cases the amount recognized in equity 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.

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.

Table of Contents

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. 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.

Depreciation

Depreciation is recognized in profit or loss on a straight-line basis 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, are 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 balance sheet date and the cost of property, plant and equipment not put to use before such date are disclosed under capital work-in-progress.

Table of Contents

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)

e. Intangible assets

Goodwill (negative goodwill) arises upon the acquisition of subsidiaries, associates and joint ventures.

Acquisitions prior to April 1, 2007

As part of its transition to IFRS, the Company elected to restate only those business combinations that occurred on or after April 1, 2007. In respect of acquisitions prior to April 1, 2007, goodwill represents the amount recognized under Previous GAAP.

Acquisitions on or after April 1, 2007

For acquisitions on or after April 1, 2007, goodwill represents the excess of the cost of the acquisition over the Company s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit or loss.

Acquisitions of minority interests

Goodwill arising upon the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

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.

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 the Company intends to and has sufficient resources to complete development and to use or sell the asset. 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.

The Company s 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, however, the recognition criteria are met, intangible assets are capitalized and amortized on a straight-line basis over their useful economic lives from product launch. As of March 31, 2009, no internal drug development expenditure amounts have met the recognition criteria.

Payments to in-license products and compounds from third parties generally taking the form of up-front payments and milestones are capitalized and amortized, generally on a straight-line basis, over their useful economic lives from product launch.

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 balance sheet 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 income statement.

Table of Contents

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)

e. 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	6	13 years
Other intangibles	5	15 years

f. 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 balance sheet. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Table of Contents

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)

g. 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, aging 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.

h. 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 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, the recoverable amount is estimated each year at the same time.

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.

Table of Contents

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)

h. Impairment (continued)

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.

i. 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 when they are incurred.

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 unrecognized 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.

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.

Table of Contents

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)

i. Employee benefits (continued)

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.

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 balance sheet date. Such measurement is based on actuarial valuation as at the balance sheet 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.

Indian tax regulations require the Company to pay a Fringe Benefit Tax upon the exercise of employee stock options. The Fringe Benefit Tax is computed based on the fair market value of the underlying equity share on the date of vesting of an option as reduced by the amount actually paid by the employee for exercise of the options. The Company s obligation to pay Fringe Benefit Tax arises only upon exercise of options but is recorded as compensation expense in the consolidated statement of operations over the vesting period.

Under the Dr. Reddy s Employees Stock Option Plan-2002 and the Dr. Reddy s Employees ADR Option Plan-2007, each as amended to date, the Company will absorb the full liability of the Fringe Benefit Tax upon exercise of all stock options granted on or prior to October 22, 2007. In respect of new grants made by the Company subsequent to October 22, 2007, the Fringe Benefit Tax is recovered from employees upon the exercise of their stock options. The foregoing was implemented pursuant to amendments approved by the Compensation Committee at its meeting held in October 2007 and by the shareholders at the Annual General Meeting held on July 22, 2008. The amount recoverable from employees is recorded as a reimbursement asset in the same period in which the underlying Fringe Benefit Tax expense is recognized.

j. 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.

Table of Contents

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)

j. Provisions (continued)

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.

k. 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 is based upon the terms of the applicable contract.

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 pharmaceuticals 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.

The Company has entered into marketing arrangements with certain marketing partners for sale of goods in certain overseas territories. Under such arrangements, the Company sells generic products to the marketing 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 marketing partners. An additional amount representing the profit share is recognized as revenue only when realization is certain.

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.

Table of Contents

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)

k. Revenue (continued)

The Company accounts for sales returns by recording a provision based on the Company s estimate of expected sales returns. The Company deals in various products and operates in various markets. Accordingly, the Company s estimate of sales returns is determined primarily by its experience in these markets. In respect of established products, the Company determines an estimate of sales returns provision primarily based on its historical experience with such sales returns. Additionally, other factors that the Company considers 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 the Company s business and markets. The Company considers all these factors and adjusts the sales return provision to reflect its actual experience. With respect to new products introduced by the Company, those 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 its competitors.

The Company has not yet introduced products in a new therapeutic category where the sales returns experience of such products is not known. The amount of sales returns for the Company s newly launched products have not historically differed significantly from sales returns experience of the then current products marketed by the Company or its competitors (as the Company understands based on industry publications). Accordingly, the Company does not expect sales returns for new products to be significantly different from expected sales returns of current products. The Company evaluates sales returns of all its products at the end of each reporting period and records necessary adjustments, if any.

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.

l. 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.

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.

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.

m. 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.

Table of Contents

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)

m. Income tax (continued)

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.

n. 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.

o. New standards and interpretations not yet adopted

A number of new IFRS standards, and interpretations and amendments to IFRS standards and interpretations, are not yet effective for the year ending March 31, 2009, and have not been applied in preparing these consolidated financial statements:

Revised IAS 1, *Presentation of Financial Statements* (2007), introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Company s March 31, 2010 consolidated financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. The Company plans to provide total comprehensive income in a single statement of comprehensive income in its March 31, 2010 consolidated financial statements.

Revised IAS 23, *Borrowing Costs* , removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Company s March 31, 2010 consolidated financial statements. As the Company currently follows a policy of capitalizing borrowing costs, this new standard will not have any material impact on the Company s consolidated financial statements.

Table of Contents

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)

o. New standards and interpretations not yet adopted

Amendments to IAS 32, *Financial Instruments: Presentation* , and IAS 1 *Presentation of Financial Statements Puttable Financial Instruments and Obligations Arising on Liquidation* , require puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Company s March 31, 2010 consolidated financial statements, with retrospective application required, are not expected to have any material impact on the Company s consolidated financial statements.

Revised IFRS 3, *Business Combinations* (2008), incorporates the following changes that are likely to be relevant to the Company s operations:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.
- Any non-controlling (minority) interest will be measured either at fair value or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Company s March 31, 2011 consolidated financial statements, will be applied prospectively for all business combinations on or after April 1, 2010.

Amendments to IAS 27, *Consolidated and Separate Financial Statements* (2008), require accounting for changes in ownership interests by the Company in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Company loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss. The amendments to IAS 27, which become mandatory for the Company s March 31, 2011 consolidated financial statements, are not expected to have a significant impact on the Company s consolidated financial statements.

Amendments to IFRS 2, *Share-based Payment Vesting Conditions and Cancellations* , clarify the definition of vesting conditions, introduce the concept of non-vesting conditions, require non-vesting conditions to be reflected in grant-date fair value and provide the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Company s March 31, 2010 consolidated financial statements, with retrospective application. The Company is currently in the process of evaluating the potential impact of the revised standard on the Company s consolidated financial statements.

Amendments to IAS 39, *Financial Instruments: Recognition and Measurement: Eligible Hedged Items* , deal with two situations where diversity in practice exists on the designation of inflation as a hedged risk and the treatment of one-sided risks on hedged items. These amendments are effective for accounting periods beginning on or after July 1, 2009 and will be applicable for the Company s March 31, 2011 consolidated financial statements. The Company is currently in the process of evaluating the potential impact of the revised standard on the Company s consolidated financial statements.

Table of Contents

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)

o. New standards and interpretations not yet adopted

IFRIC Interpretation 18, *Transfers of Assets from Customers* , defines the treatment for property, plant and equipment transferred by customers to companies or for cash received to be invested in property, plant and equipment that must be used either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. The item of property, plant and equipment is to be initially recognized by the Company at fair value with a corresponding credit to revenue. If an ongoing service is identified as a part of the agreement, the period over which revenue shall be recognized for that service would be determined by the terms of the agreement with the customer. If the period is not clearly defined, then revenue should be recognized over a period no longer than the useful life of the transferred asset used to provide the ongoing service. This interpretation is to be applied prospectively to transfers of assets from customers received on or after July 1, 2009. Earlier application is permitted provided the valuations and other information needed to apply the information to past transfers were obtained at the time the transfer occurred. The Company intends to prospectively adopt this interpretation for all assets transferred after July 1, 2009. This interpretation is not expected to have a significant impact on the Company s consolidated financial statements.

IFRS 8, *Operating Segments* , is applicable for annual periods beginning on or after July 1, 2009. This standard was early adopted by the Company as at March 31, 2009. IFRS 8 replaces IAS 14, *Segment Reporting* . The new standard requires a management approach , under which segment information is presented on the same basis as that used for internal reporting provided to the chief operating decision maker. The application of this standard did not result in any significant change in the Company s segmental disclosures as compared to its disclosures under U.S. GAAP (which is considered the Company s previous GAAP under IFRS), which were substantially similar. Goodwill has been allocated in accordance with the requirements of this standard.

4. Explanation of transition to IFRS reporting

As stated in Note 2(a), the Company s consolidated financial statements for the year ended March 31, 2009 are the first annual consolidated financial statements prepared by the Company to comply with IFRS. The adoption of IFRS was carried out in accordance with IFRS 1, using April 1, 2007 as the transition date. The transition was carried out from U.S. GAAP, which was considered the Previous GAAP under IFRS. The effect of adopting IFRS has been summarized in the reconciliations provided below.

In preparing these consolidated financial statements, the Company has availed itself of certain exemptions and exceptions in accordance with IFRS 1.

a. Exemptions from retrospective application

The following are the exemptions which the Company has opted to apply/not to apply:

i. **Business combinations exemption:** The Company has applied the exemption as provided in IFRS 1 on non-application of IFRS 3, *Business Combinations* to business combinations consummated prior to April 1, 2007 (the Transition Date), pursuant to which goodwill arising from a business combination has been stated at the carrying amount prior to the date of transition under Previous GAAP. The Company has also applied the exemption for past business combinations to acquisitions of investments in associates consummated prior to the Transition Date.

ii. **Fair value as deemed cost exemption:** The Company has not elected to measure any item of property, plant and equipment at its fair value at the Transition Date; property, plant and equipment have been measured at cost in accordance with IFRS.

Table of Contents

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)

4. Explanation of transition to IFRS reporting (continued)

a. Exemptions from retrospective application (continued)

iii. Employee benefits exemption: The Company has elected to apply the exemption as provided in IFRS 1 and has recognized cumulative actuarial gains and losses as of the Transition Date as an adjustment to the opening retained earnings. The Company will apply the corridor approach in subsequent periods.

iv. Cumulative translation differences exemption: The Company had accumulated the translation differences in a separate component of equity under Previous GAAP. Upon transition to IFRS, the treatment of recording translation differences in equity did not undergo any change and consequently the optional exemption of setting cumulative differences as zero and reclassifying the amount recognized in accordance with Previous GAAP as retained earnings as at the Transition Date was not required to be applied.

v. Compound financial instruments: The Company did not have any compound financial instrument as of the Transition Date. Consequently, upon adoption of IFRS the optional exemption allowed of non-segregation of the liability component, if such component was no longer outstanding on the Transition Date, is not applicable to the Company.

vi. Assets and liabilities of subsidiaries, associates and joint ventures exemption: All entities within the Company are transitioning to IFRS on the same date. Consequently, this exemption was not required to be applied.

vii. Share-based payment transaction exemption: Under Previous GAAP, the Company had applied the fair value recognition and measurement principles similar to those prescribed under IFRS 2 for all options granted before the Transition Date. Consequently, this exemption was not required to be applied.

viii. Fair value measurement of financial assets or liabilities at initial recognition: The Company has not applied the amendment offered by the revision of IAS 39, *Financial Instruments: Recognition and Measurement*, upon the initial recognition of the financial instruments measured at fair value through profit or loss where there is no active market.

ix. Designation of financial assets and financial liabilities exemption: The Company did not have any financial assets or liabilities as of the Transition Date which were required to be designated, and which met the required criteria given in IFRS 1, as a financial asset or financial liability at fair value through profit or loss.

x. Changes in decommissioning liabilities included in the cost of property, plant and equipment exemption: The Company does not have any material decommissioning, restoration or similar liabilities in the cost of property, plant and equipment. Consequently, this exception is not applicable to the Company.

xi. Leases exemption: The Company does not have any arrangements containing a lease as defined under IFRIC 4, *Determining whether an arrangement contains a lease*. Consequently, this exemption is not applicable to the Company.

xii. Financial asset or an intangible asset accounted for in accordance with IFRIC 12, Service Concession Arrangements exemption: The Company does not have any arrangements which would be classified as a service concession arrangement under IFRIC 12 *Service Concession Arrangements*. Consequently, this exemption is not applicable to the Company.

xiii. Insurance contracts: The Company does not issue any insurance contracts. Consequently, this exemption is not applicable to the Company.

Table of Contents

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)

4. Explanation of transition to IFRS reporting (continued)

b. Exceptions from full retrospective application

i. Derecognition of financial assets and liabilities exception: Financial assets and liabilities derecognized before January 1, 2004 are not re-recognized under IFRS. No arrangements were identified that had to be assessed under this exception.

ii. Hedge accounting exception: The Company has not identified any hedging relationships existing as of the Transition Date. Consequently, this exception, of not reflecting in its opening IFRS statement of financial position a hedging relationship of a type that does not qualify for hedge accounting under IAS 39, is not applicable to the Company.

iii. Estimates exception: Upon an assessment of the estimates made under Previous GAAP, the Company has concluded that there was no necessity to revise such estimates under IFRS, except where estimates were required by IFRS and not required by Previous GAAP.

iv. Assets classified as held for sale and discontinued operations: The Company did not have any assets classified as held for sale, and therefore this exception is not applicable.

c. Reconciliations

The accounting policies as stated above have been applied in preparing the consolidated financial statements for the year ended March 31, 2009, the comparative information for the year ended March 31, 2008 and the opening IFRS equity at April 1, 2007. In preparing its opening IFRS equity and the comparative financial information for the year ended March 31, 2008, the Company has adjusted amounts reported previously in its consolidated financial statements prepared in accordance with Previous GAAP.

An explanation of how the transition from Previous GAAP to IFRS has affected the Company s financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

i. Reconciliation of equity

		As of		
	Notes	**April 1, 2007**		**March 31, 2008**
Total equity under Previous GAAP		**Rs. 41,578**	**Rs.**	**47,067**
Impairment of intangibles	A	621		99
Amortization of intangibles	A			26
Employee benefits	B	(24)		54
Share based payment	D			(53)
Tax adjustments	E	454		170
Foreign currency differences on above adjustments and others				(13)
Equity under IFRS before reclassification of minority interest		**42,629**		**47,350**
Minority interest	F	10		
Total equity under IFRS		**Rs. 42,639**	**Rs.**	**47,350**

Table of Contents

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)

4. Explanation of transition to IFRS reporting (continued)

c. Reconciliations (continued)

ii. Reconciliation of profit for the period

	Notes		For the year ended March 31, 2008
Profit under Previous GAAP		**Rs.**	**4,678**
Impairment of intangibles	A		(522)
Amortization of intangibles	A		26
Employee benefits	B		18
Hedge accounting	C		(25)
Share based payment	D		(53)
Tax adjustments	E		(257)
Minority interest	F		(10)
Foreign currency differences on above adjustments and others			(19)
Profit under IFRS		**Rs.**	**3,836**

iii. Notes to reconciliation

A. Impairment

Under Previous GAAP, impairment testing for an amortizable intangible asset is a two step process. First, it is tested for impairment by comparing the undiscounted future cash flow projections with the carrying value of the asset. If upon comparison, the carrying value exceeds the undiscounted cash flows then, under the second step, an impairment charge is recognized for the difference between the carrying amount of the asset and the fair value thereof computed using a discounted cash flow approach. Under IFRS, there is only a one step process, wherein impairment is tested and recognized if upon comparison, the carrying value of the asset or cash generating unit exceeds its recoverable amount being the greater of its value in use and fair value less costs to sell. The differential approach resulted in additional impairment being recorded in respect of certain intangible assets under IFRS.

Additionally, under Previous GAAP, the Company s non-amortizable beta brand intangible asset/trademark was tested for impairment at the asset level by comparing its carrying value and fair value computed using the relief of royalty method, which resulted in an impairment of such intangible asset under Previous GAAP. Whereas under IFRS, the impairment testing for this intangible asset was done at a higher cash generating unit level, as it did not generate identifiable cash inflows largely independent from other assets. Under IFRS, impairment testing at the higher cash generating unit level did not indicate any impairment. Accordingly, there was a reversal of impairment charge with respect to such non-amortizable intangible asset which was recorded under Previous GAAP.

The above differences in IFRS as compared to Previous GAAP have resulted in an increase in equity under IFRS by Rs.621 and Rs.99 as at April 1, 2007 and March 31, 2008, respectively, and a decrease in profit under IFRS by Rs.522 for the year ended March 31, 2008.

The consequential amortization impact of the above adjustments resulted in an increase in equity and profit by Rs.26 as of and for the year ended March 31, 2008 under IFRS.

Table of Contents

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)

4. Explanation of transition to IFRS (continued)

c. Reconciliations (continued)

iii. Notes to reconciliation (continued)

B. Employee benefits

Under Previous GAAP, in respect of the Company s defined benefit obligations, actuarial gains and losses were recognized in determination of net periodic cost using the corridor approach. Gains and losses that were not recognized as a component of net periodic cost were recognized in equity and subject to recycling in profit or loss when the amounts were outside the corridor. Upon adoption of IFRS, the Company has elected to recognize all cumulative actuarial gains and losses in respect of its defined benefit plans at April1, 2007 as an adjustment to opening retained earnings and has set the corridor to zero . Additionally, subsequent to adoption of IFRS as at April 1, 2007, the Company is no longer required to recognize the actuarial gains or losses as part of equity.

Under Previous GAAP, the Company had determined its benefit obligations with a discount rate based on high quality fixed income investments. Under IFRS, the Company has used a discount rate based on risk-free government bonds which is a lower discount rate than that used under Previous GAAP.

The above differences in IFRS as compared to Previous GAAP have resulted in a decrease in equity under IFRS by Rs.24 as at April 1, 2007 and an increase in equity by Rs.54 as at March 31, 2008. Consequently, it also resulted in an increase in profit under IFRS by Rs.18 for the year ended March 31, 2008.

C. Hedge accounting

Under Previous GAAP, for certain hedge relationships where the hedging instrument is an option, a terminal value approach to the assessment of effectiveness and measurement of ineffectiveness was adopted as permitted by Derivatives Implementation Group Issue G20, *Cash Flow Hedges: Assessing and Measuring the Effectiveness of a Purchased Option Used in a Cash Flow Hedge* . Under IFRS, in the absence of any specific guidance that permits entities to adopt a terminal value approach for such relationships, hedge effectiveness is measured on the basis of intrinsic value and time value changes are excluded from these qualifying hedge relationships. Accordingly, for certain hedging relationships which were accounted as a cash flow hedge under Previous GAAP, the requirements of hedge accounting are no longer met. Accordingly, the fair value changes of such options contracts have been recognized in the profit or loss under IFRS as compared to equity under Previous GAAP.

The above difference in IFRS as compared to Previous GAAP has resulted in a decrease in profit under IFRS by Rs.25 for the year ended March 31, 2008.

D. Share based payments

Indian tax regulations require the Company to pay a Fringe Benefit Tax upon the exercise of employee stock options. Under Previous GAAP, Fringe Benefit Tax was recorded as an expense upon the exercise of stock options by the employee. Under IFRS, such Fringe Benefit Tax expense is accrued over the vesting period of the stock options. In the event that the Company decides to recover the Fringe Benefit Tax from employees exercising such stock options, a corresponding reimbursement asset is recognized in the same period which offsets the above Fringe Benefit Tax expense.

The above difference has resulted in a decrease in equity and profit by Rs.53 as of and for the year ended March 31, 2008.

Table of Contents

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)

4. Explanation of transition to IFRS (continued)

c. Reconciliations (continued)

iii. Notes to reconciliation (continued)

E. Tax adjustments

Intra-group transactions are eliminated upon consolidation. Under Previous GAAP, income taxes paid by the seller entity on intra-group profits in respect of assets that remain within the consolidated group, including the tax effect of any reversing temporary differences in the seller s tax jurisdiction, are deferred. The amount is recognized in other assets in the balance sheet until such time as the asset leaves the consolidated group, at which point the amount is reclassified to income tax expense. Under IFRS, in respect of such intra-group transactions, any related deferred tax effects are measured based upon the tax rate of the purchaser. Furthermore, the tax effects are not eliminated unless the transacting entities are subject to the same tax rate.

The above difference in IFRS as compared to Previous GAAP, together with the consequential tax impact of the other adjustments as discussed above, have resulted in an increase in equity by Rs.454 and Rs.170 as of April 1, 2007 and March 31, 2008, respectively, and a decrease in profit by Rs.257 for the year ended March 31, 2008.

F. Change in presentation of minority interest

Under IFRS, minority interest is reported as a separate item within equity. Previous GAAP requires minority interest to be presented separately from equity. Under IFRS, the minority s share of net income is presented as an allocation of net income, whereas, under Previous GAAP, the minority s share of net income is considered in determining net income.

The above differences in IFRS as compared to Previous GAAP has resulted in an increase in equity under IFRS by Rs.10 as of April 1, 2007 and a decrease in profit under IFRS by Rs.10 for the year ended March 31, 2008.

iv. Explanation of material adjustments to the March 31, 2008 cash flow statement

Unlike Previous GAAP, under IFRS bank overdrafts are disclosed as part of borrowings in the balance sheet and are reduced from cash and cash equivalents in preparation of the statement of cash flows, if they are repayable on demand and form an integral part of the Company s cash management. There were such bank overdraft balances of Rs.526 as at April 1, 2007 and Rs.435 as at March 31, 2008 that were not considered as a reduction in cash and cash equivalents under Previous GAAP and therefore, the changes in such balances were classified as financing cash flows in the statement of cash flows. These amounts have now been reclassified under cash and cash equivalents for the purpose of preparation of cash flow statements under IFRS.

Restricted cash of Rs.606 as at April 1, 2007 and Rs.23 as at March 31, 2008 were not considered as cash and cash equivalents under Previous GAAP. Accordingly, changes in such balances were classified as investing cash flows under Previous GAAP. These have now been reclassified as cash and cash equivalents under IFRS.

In addition, under Previous GAAP, interest paid of Rs.1,043 and Rs.85 for the year ended March 31, 2008 was classified as operating and investing cash flows, respectively. Under IFRS, these amounts have been reclassified as financing cash flows. Furthermore, the interest received of Rs.731 for the year ended March 31, 2008 which was classified as operating cash flows under Previous GAAP has now been reclassified as investing cash flows under IFRS.

There were no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under Previous GAAP.

Table of Contents

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)

5. 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 is 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).

Table of Contents

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)

6. 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.

During the current year ended March 31, 2009, the Company has transitioned into a new organization structure, which has resulted in changes in the composition of the Company s reportable segments, including financial information reviewed by the CODM. Accordingly, the segment information for the current year ended March 31, 2009 and the previous year ended March 31, 2008 has been presented based on the new reportable segments as referenced above.

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. This segment has been formed by aggregating the Company s former Active Pharmaceutical Ingredients and Intermediates segment and Custom Pharmaceutical Services segment.

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 includes the Company s former Formulations segment and Generics segment. Because certain additional information (revenue and gross profit) with respect to the Company s Formulations and Generics businesses continues to be separately reviewed by the Company, the same has also been separately included in this segment s disclosures.

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 launched sales and marketing operations for in-licensed and co-developed dermatology products in the year ended March 31, 2009.

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 Company s consolidated financial statements.

Table of Contents

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)

6. Segment reporting (continued)

Information about segments:	**For the year ended March 31,**					
	PSAI		**Global Generics****		**Proprietary Products**	
Reportable segments	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Segment revenue [1]	**Rs. 18,758**	**Rs. 16,623**	**Rs. 49,790**	**Rs. 32,872**	**Rs. 294**	**Rs. 190**
Gross profit	**Rs. 5,595**	**Rs. 5,645**	**Rs. 30,448**	**Rs. 19,567**	**Rs. 196**	**Rs. 109**
Selling, general and administrative expenses						
Research and development expenses						
Impairment loss on other intangible assets						
Impairment loss on goodwill						
Other expense/(income), 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 period						

(1) Segment revenue for the year ended March 31, 2009 does not include inter-segment revenues from PSAI to Global Generics which is accounted for at a cost of Rs.2,371 (as compared to Rs.2,916 for the year ended March 31, 2008) and inter-segment revenues from

Global Generics to PSAI which is accounted for at cost of Rs.18 (as compared to Rs.47 for the year ended March 31, 2008).

** Global Generics consists of:

	Formulations For the year ended March 31,		Generics For the year ended March 31,		Global Generics For the year ended March 31,	
Segments	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Revenue	Rs. 18,075	Rs. 15,251	Rs. 31,715	Rs. 17,621	Rs. 49,790	Rs. 32,872
Gross profit	13,085	11,204	17,363	8,363	30,448	19,567

Table of Contents

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)

6. Segment reporting (continued)

[Continued from above table, first column(s) repeated]

Information about segments:	**For the year ended March 31,**			
	Others		**Total**	
Reportable segments	**2009**	**2008**	**2009**	**2008**
Segment revenue [(1)]	**Rs.599**	**Rs.321**	**Rs.69,441**	**Rs.50,006**
Gross profit	**Rs.261**	**Rs. 87**	**Rs.36,500**	**Rs.25,408**
Selling, general and administrative expenses			21,020	16,835
Research and development expenses			4,037	3,533
Impairment loss on other intangible assets			3,167	3,011
Impairment loss on goodwill			10,856	90
Other expense/(income), net			254	(402)
Results from operating activities			**(2,834)**	**2,341**
Finance expense/(income), net			1,186	(521)
Share of profit of equity accounted investees, net of income tax			24	2
Profit/(loss) before income tax			**(3,996)**	**2,864**
Income tax (expense)/benefit			(1,172)	972
Profit/(loss) for the period			**Rs. (5,168)**	**Rs. 3,836**

(1) Segment revenue for the year ended March 31, 2009 does not include inter-segment revenues from PSAI to Global Generics which is accounted for at a cost of Rs.2,371 (as compared to Rs.2,916 for the year ended March 31, 2008) and inter-segment revenues from

Global Generics to PSAI which is accounted for at cost of Rs.18 (as compared to Rs.47 for the year ended March 31, 2008).

Table of Contents

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)

6. Segment reporting (continued)

Analysis of assets by reportable segments

	For the year ended March 31, 2009	2008
PSAI	Rs. 20,188	Rs. 17,029
Global Generics	54,090	50,928
Proprietary Products	1,018	703
Others	8,496	16,974
	Rs. 83,792	**Rs. 85,634**

Analysis of depreciation and amortization by reportable segments

	For the year ended March 31, 2009	2008
PSAI	Rs. 1,138	Rs. 838
Global Generics	2,399	2,319
Proprietary Products	139	90
Others	138	115
	Rs. 3,814	**Rs. 3,362**

The above depreciation and amortization does not include the impairment loss on other intangible assets of Rs.3,167 and Rs.3,011 for the years ended March 31, 2009 and 2008, which relates to the Global Generics segment s generics business, and impairment of goodwill of Rs.10,856 and Rs.90 for the years ended March 31, 2009 and 2008, which relates to the Company s Global Generics segment s generics business and its Proprietary Products segment, respectively.

Analysis of property, plant and equipment and other intangible assets acquired by reportable segments

	For the year ended March 31, 2009	2008
PSAI	Rs. 3,465	Rs. 1,794
Global Generics	4,274	3,455
Proprietary Products	183	216
Others	143	1,295
	Rs. 8,065	**Rs. 6,760**

The Company s investment in Reddy Kunshan joint venture, accounted under the equity method relates to its Global Generics segment s formulations business.

Table of Contents

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)

6. Segment reporting (continued)

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, 2009	2008
India	Rs. 11,460	Rs. 10,451
North America	24,012	11,374
Russia and other countries of the former Soviet Union	7,623	5,526
Europe	18,047	15,863
Others	8,299	6,792
	Rs. 69,441	**Rs. 50,006**

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, 2009	2008
India	Rs. 36,638	Rs. 38,933
North America	16,165	7,628
Russia and other countries of the former Soviet Union	3,475	1,230
Europe	26,569	37,296
Others	945	547
	Rs. 83,792	**Rs. 85,634**

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 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, 2009	2008
India	Rs. 4,740	Rs. 5,839
North America	1,503	315
Russia and other countries of the former Soviet Union	74	4
Europe	1,693	524
Others	55	78
	Rs. 8,065	**Rs. 6,760**

Table of Contents

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)

7. Business combination and other acquisitions

a. Acquisition of a unit of The Dow Chemical Company

On April 28, 2008, the Company, through its wholly owned subsidiary Dr. Reddy s Laboratories (EU) Limited, acquired a unit of The Dow Chemical Company associated with its United Kingdom sites in Mirfield and Cambridge for a total cash consideration of Rs.1,302, (U.S.$32). The acquisition included customer contracts and relationships, associated active pharmaceutical ingredient products, process technology and know-how, technology licensing rights and the Dowpharma Small Molecules facilities located in Mirfield and Cambridge, United Kingdom. The Company also took over the existing work force as a part of the acquisition. The acquisition resulted in technology related synergies for the Company s existing Pharmaceutical Services and Active Ingredients segment and gave the Company access to an experienced research and development team.

The Company has accounted for the acquisition under the purchase method in accordance with IFRS No. 3, *Business Combinations* . Accordingly, the financial results of this acquired business for the period from April 29, 2008 to March 31, 2009 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	Rs.	741
Intangible assets		801
Inventories		231
Non-current liabilities, net		(71)
Deferred tax liabilities, net		(250)
Net identifiable assets and liabilities	**Rs.**	**1,452**
Negative goodwill recognized in other expense/(income), net		(150)
Consideration paid in cash [(1)]	**Rs.**	**1,302**

(1) Total consideration paid includes direct acquisition costs of Rs.13.

As the acquisition involved a combination of purchase of shares of a legal entity and certain identifiable assets, the carrying value of assets and liabilities before acquisition could not be determined in accordance with IFRS.

The estimated useful lives of intangibles acquired are as follows:

Customer-related intangible	4-11 years
Product-related intangibles	

	6-13 years

The negative goodwill on acquisition is attributable mainly to lower amounts paid towards intangible and other assets. The acquired business contributed revenues of Rs.1,021 and, including negative goodwill, profit of Rs.211 for the period from April 29, 2008 to March 31, 2009.

Table of Contents

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)

7. Business combination and other acquisitions (continued)

b. Acquisition of BASF Corporation s manufacturing facility in Shreveport, Louisiana, U.S.A and related pharmaceutical contract manufacturing business

On April 30, 2008, the Company acquired BASF Corporation s pharmaceutical contract manufacturing business and its manufacturing facility in Shreveport, Louisiana, U.S.A. for a total cash consideration of Rs.1,639 (U.S.$40). The business involves contract manufacturing of generic prescription and OTC products for branded and generic companies in the United States. This business includes customer contracts, related approved Abbreviated New Drug Applications (ANDAs) and approved New Drug Applications (NDAs), and trademarks, as well as the Shreveport manufacturing facility. The Company also took over the existing work force as a part of the acquisition. This acquisition relates to the Company s Global Generics segment.

The Company has accounted for the acquisition under the purchase method in accordance with IFRS No. 3, *Business Combinations* . Accordingly, the financial results of this acquired business for the period from May 1, 2008 to March 31, 2009 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	Rs.	755
Intangible assets		482
Inventories		249
Deferred tax asset		53
Net identifiable assets and liabilities	**Rs.**	**1,539**
Goodwill on acquisition		100
Consideration paid in cash[(1)]	**Rs.**	**1,639**

(1) Total consideration paid includes direct acquisition costs of Rs.31.

As the acquisition involved purchase of a unit of an existing entity with certain identifiable assets and liabilities, the carrying value of assets and liabilities before acquisition could not be determined in accordance with IFRS.

The estimated useful lives of intangibles acquired are as follows:

Customer-related intangibles	4 9 years
Product-related intangibles	9-10 years

Goodwill amounts to Rs.100 and is attributable mainly to the acquired employee workforce and synergies to be achieved from expected cost savings from using the Shreveport manufacturing facility. The acquired business contributed revenues of Rs.1,684 and net loss of Rs.189 for the period from May 1, 2008 to March 31, 2009.

c. Acquisition of Jet Generici Srl

On April 30, 2008, the Company acquired Jet Generici Srl, a company engaged in the sale of generic finished dosages in Italy, for a total cash consideration of Rs.148 (Euro 2.34). This acquisition resulted in the Company gaining an entry in the Italian market and access to Jet Generici s customers, as well as the Company acquiring Jet Generici s, product related intangibles, and employee workforce. The transaction was accounted as an acquisition of business under the purchase method in accordance with IFRS 3, whereby the Company assumed net liabilities of Rs.14 (primarily consisting of product supply related trade payables) which resulted in goodwill of Rs.162.

Table of Contents

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)

7. Business Combination and other acquisitions (continued)

d. Pro-forma information

If the above acquisitions had taken effect at the beginning of the reporting period (i.e., April 1, 2008) the revenue, loss before tax and loss after tax of the Company on a pro-forma basis would have been as below:

	Year ended March 31, 2009
Revenue	Rs. 69,586
Profit/(loss) before tax	(4,063)
Profit/(loss) after tax	(5,206)

e. 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 Rs.1,004 (U.S.$23) and the Company committed to contribute Rs.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 Rs.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 arms 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* .

As of March 31, 2006, the Company and the other two investors had invested Rs.101 (U.S.$2) and Rs.605 (U.S.$14), respectively in Perlecan Pharma. The Company was also committed to invest an additional amount of Rs.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 Rs.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 Rs.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 Rs.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 Rs.69 and Rs.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 Rs.63. As of March 31, 2007, the carrying value of the Company s investment in Perlecan Pharma was Rs.3 and the other liability balance was Rs.170.

Table of Contents

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)

7. Business Combination and other acquisitions (continued)

The Company s share in the loss Perlecan Pharma for the year ended March 31, 2008 amounted to Rs.13. As of March 31, 2008, the carrying value of Company s investment in Perlecan Pharma was Rs. zero, the other liability balance was Rs.180. The Company continued to reflect its share in losses of Perlecan Pharma taking into account its future funding commitments.

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 Rs.758. Consequently, Perlecan Pharma has become a consolidated subsidiary of the Company. The Company has evaluated the acquisition in accordance with IFRS 3 on Business Combinations and believes that the acquired set of assets does not qualify to be a business and therefore has accounted for this as an asset acquisition. Accordingly, the purchase price has been allocated to the following assets:

Particulars		**Recognized values on acquisition**
Current assets, net (includes Rs.386 of cash and cash equivalents)	Rs.	408
Intangible assets		82
Deferred tax asset		268
Total consideration paid	**Rs.**	**758**

As a result of this acquisition, other liability balance of Rs.180, has been recognized in the March 31, 2009 income statement as a credit to research and development expenses.

Table of Contents

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)

8. 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
Gross carrying value/Cost							
Balance as at April 1, 2007	Rs. 876	Rs. 3,064	Rs. 9,975	Rs. 679	Rs. 937	Rs. 383	Rs. 15,914
Additions	704	969	2,968		391	125	5,157
Disposals	(15)	(36)	(269)		(59)	(52)	(431)
Effect of changes in foreign exchange rates	(109)	150	14	210	(402)	(18)	(155)
Balance as at March 31, 2008	1,456	4,147	12,688	889	867	438	20,485
Balance as at April 1, 2008	1,456	4,147	12,688	889	867	438	20,485
Additions through business combination	84	425	949		38		1,496
Other additions	405	938	2,784	227	159	106	4,619
Disposals	(1)	(5)	(87)	(11)	(67)	(54)	(225)
Effect of changes in foreign exchange rates	(7)	76	125	10	(87)	(1)	116
Balance as at March 31, 2009	1,937	5,581	16,459	1,115	910	489	26,491
Depreciation							
Balance as at April 1, 2007		501	4,786	310	531	169	6,297
Depreciation for the year		162	1,293	81	156	82	1,774
Disposals		(16)	(264)		(55)	(33)	(368)
Effect of changes in foreign exchange		(14)	(67)	(1)	105	(6)	17

rates							
Balance as at March 31, 2008		633	5,748	390	737	212	7,720
Balance as at April 1, 2008		633	5,748	390	737	212	7,720
Depreciation for the year		206	1,701	173	137	94	2,311
Disposals		(1)	(47)	(11)	(59)	(41)	(159)
Effect of changes in foreign exchange rates		1	(36)	9	41	1	16
Balance as at March 31, 2009		839	7,366	561	856	266	9,888
Net carrying value							
As at April 1, 2007	876	2,563	5,189	369	406	214	9,617
As at March 31, 2008	1,456	3,514	6,940	499	130	226	12,765
Add: Capital-work-in progress							4,000
							16,765
As at March 31, 2009	Rs. 1,937	Rs. 4,742	Rs. 9,093	Rs. 554	Rs. 54	Rs. 223	Rs. 16,603
Add: Capital-work-in progress							Rs. 4,279
							Rs. 20,882

Table of Contents

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)

8. Property, plant and equipment (continued)

Capital commitments

As of March 31, 2009 and March 31, 2008, the Company was committed to spend approximately Rs.996 and Rs.1,552, 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, 2009 and 2008, the Company capitalized interest cost of Rs.103 and Rs.85, respectively. The rate for capitalization of interest cost was approximately 7%.

Assets acquired under finance leases

Property, plant and equipment includes Rs.308 and Rs.292 (including accumulated depreciation of Rs.46 and Rs.25) of assets acquired under finance leases as of March 31, 2009 and 2008, respectively.

9. 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, 2009 and 2008:

	As of March 31,	
	2009	**2008**
Opening balance [1]	Rs. 17,087	Rs. 15,767
Goodwill arising on business combinations	262	
Effect of translation adjustments	897	1,320
Closing balance [1]	**Rs. 18,246**	**Rs. 17,087**
Less: Impairment loss [2]	**(10,946)**	**(90)**
	Rs. 7,300	**Rs. 16,997**

(1) This does not include goodwill arising upon investment in associate of Rs.181, which is included in the carrying value of the investment in the equity accounted investees.

(2) The impairment loss of

Rs.10,856 for the year ended March 31, 2009 relates to the Company s German subsidiary, betapharm, which is part of the Global Generics segment (Refer to note 10 for details). The impairment loss of Rs.90 for the year ended March 31, 2008 relates to the Company s Proprietary Products segment.

Table of Contents

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)

10. Other intangible assets

The following is a summary of changes in carrying value of other intangible assets:

	Trademarks with finite useful life	Trademarks with indefinite useful life	Product related intangibles	Beneficial toll manufacturing contracts	Technology related intangibles
Gross carrying value/cost					
Balance as at April 1, 2007	Rs. 2,598	Rs. 5,749	Rs. 14,078	Rs. 666	Rs.
Additions			352		
Effect of changes in foreign exchange rates	(17)	766	447	64	
Balance as at March 31, 2008	2,581	6,515	14,877	730	
Balance as at April 1, 2008	2,581	6,515	14,877	730	
Additions through business combinations			138		716
Other additions			145		
Effect of changes in foreign exchange rates	(18)	411	811	46	(59)
Reclassifications	6,926	(6,926)			
Balance as at March 31, 2009	**9,489**		**15,971**	**776**	**657**
Amortization/Impairment loss					
Balance as at April 1, 2007	2,359		1,079	180	
Amortization for the year	177		1,083	303	
Impairment loss			3,011		
Effect of changes in foreign exchange rates	(14)		(150)		
Balance as at March 31, 2008	2,522		5,023	483	
Balance as at April 1, 2008	2,522		5,023	483	
Amortization for the year	34		993	279	79
Impairment loss			3,167		
	2		84	14	4

Effect of changes in foreign exchange rates					
Balance as at March 31, 2009	**2,558**		**9,267**	**776**	**83**
Net carrying amount					
As at April 1, 2007	239	5,749	12,999	486	
As at March 31, 2008	59	6,515	9,854	247	