

DR REDDYS LABORATORIES LTD  
Form 6-K  
August 28, 2015  
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**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

Form 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13A-16 OR 15D-16**

**UNDER THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarter Ended June 30, 2015**

**Commission File Number 1-15182**

**DR. REDDY S LABORATORIES LIMITED**

(Translation of registrant's name into English)

**8-2-337, Road No. 3, Banjara Hills**

**Hyderabad, Telangana 500 034, India**

**+91-40-49002900**

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  [X]

Form 40-F  [ ]

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): \_\_\_\_\_

**Note:** Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): \_\_\_\_\_

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**Note:** Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's home country), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No

If Yes is marked, indicate below the file number assigned to registrant in connection with Rule 12g3-2(b):  
82-\_\_\_\_\_.

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**QUARTERLY REPORT**

**Quarter Ended June 30, 2015**

**Currency of Presentation and Certain Defined Terms**

In this Quarterly Report, references to \$ or dollars or U.S.\$ 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 unaudited condensed consolidated interim financial statements are presented in Indian rupees and are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ( IAS 34 ). Convenience translation into U.S. dollars with respect to our unaudited condensed consolidated interim financial statements is also presented. References to a particular fiscal year are to our fiscal year ended March 31 of such year. References to ADS are to our American Depositary Shares. All references to IAS are to the International Accounting Standards, to IASB are to the International Accounting Standards Board, to IFRS are to International Financial Reporting Standards, to SIC are to Standing Interpretations Committee and to IFRIC are to the International Financial Reporting Interpretations Committee.

References to U.S. FDA are to the United States Food and Drug Administration, to NDAs are to New Drug Applications, and to ANDAs are to Abbreviated New Drug Applications.

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. All references to we, us, our, DRL, Dr. Reddy's or the Company are to 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 Quarterly Report are trademarks registered in the name of Dr. Reddy's Laboratories Limited or are pending before the respective trademark registries, unless otherwise specified. Market share data is based on information provided by IMS Health Inc. and its affiliates ( IMS Health ), a provider of market research to the pharmaceutical industry, unless otherwise stated.

Except as otherwise stated in this report, all convenience translations from Indian rupees to U.S. dollars are at the certified foreign exchange rate of U.S.\$1.00 = Rs.63.59, as published by Federal Reserve Board of Governors on June 30, 2015. 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. 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](http://www.drreddys.com), is not part of this Quarterly Report and no portion of such information is incorporated herein.

***Forward-Looking and Cautionary Statement***

IN ADDITION TO HISTORICAL INFORMATION, THIS QUARTERLY 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 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 SECTION ENTITLED "OPERATING AND FINANCIAL REVIEW" AND ELSEWHERE IN THIS REPORT. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS,

WHICH REFLECT OUR ANALYSIS ONLY AS OF THE DATE HEREOF. IN ADDITION, READERS SHOULD CAREFULLY REVIEW THE INFORMATION IN OUR PERIODIC REPORTS AND OTHER DOCUMENTS FILED WITH AND/OR FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION ( SEC ) FROM TIME TO TIME.

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## ITEM 1. FINANCIAL STATEMENTS

**DR. REDDY S LABORATORIES LIMITED****UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION**

(in millions, except share and per share data)

| Particulars                                     | Note | As of   |                   |                   |
|---|------|---|-------------------|-------------------|
|   |      | June 30, 2015   | June 30, 2015     | March 31, 2015    |
|   |      | <i>Convenience translation into U.S.\$<br/>(See Note 2.(d))</i> |                   |                   |
| <b>ASSETS</b>                                   |      |   |                   |                   |
| <b>Current assets</b>                           |      |   |                   |                   |
| Cash and cash equivalents                       | 5    | U.S.\$99  | Rs.6,296          | Rs.5,394          |
| Other investments                               | 6    | 453   | 28,821            | 34,259            |
| Trade and other receivables                     |      | 661   | 42,030            | 40,755            |
| Inventories                                     | 7    | 411   | 26,149            | 25,529            |
| Derivative financial instruments                | 9    | 9   | 601               | 800               |
| Current tax assets                              |      | 9   | 596               | 1,819             |
| Other current assets                            |      | 180   | 11,436            | 11,282            |
| <b>Total current assets</b>                     |      | <b>U.S.\$1,823</b>  | <b>Rs.115,929</b> | <b>Rs.119,838</b> |
| <b>Non-current assets</b>                       |      |   |                   |                   |
| Property, plant and equipment                   | 10   | U.S.\$777   | Rs.49,386         | Rs.48,090         |
| Goodwill  | 11   | 59  | 3,773             | 3,380             |
| Other intangible assets                         | 12   | 320   | 20,333            | 13,050            |
| Investment in equity accounted investees        |      | 17  | 1,097             | 1,033             |
| Other investments non-current                   | 6    | 60  | 3,832             | 2,817             |
| Deferred tax assets                             |      | 95  | 6,013             | 5,792             |
| Other non-current assets                        |      | 13  | 837               | 762               |
| <b>Total non-current assets</b>                 |      | <b>U.S.\$1,341</b>  | <b>Rs.85,271</b>  | <b>Rs.74,924</b>  |
| <b>Total assets</b>                             |      | <b>U.S.\$3,164</b>  | <b>Rs.201,200</b> | <b>Rs.194,762</b> |
| <b>LIABILITIES AND EQUITY</b>                   |      |   |                   |                   |
| <b>Current liabilities</b>                      |      |   |                   |                   |
| Trade and other payables                        |      | U.S.\$180   | Rs.11,448         | Rs.10,660         |
| Derivative financial instruments                | 9    | 8   | 511               | 462               |
| Current tax liabilities                         |      | 36  | 2,294             | 2,506             |
| Short-term borrowings                           | 13   | 349   | 22,221            | 21,857            |
| Long-term borrowings, current portion           | 13   | 112   | 7,096             | 6,962             |
| Provisions                                      |      | 68  | 4,304             | 4,231             |
| Other current liabilities                       |      | 263   | 16,752            | 17,317            |
| <b>Total current liabilities</b>                |      | <b>U.S.\$1,016</b>  | <b>Rs.64,626</b>  | <b>Rs.63,995</b>  |
| <b>Non-current liabilities</b>                  |      |   |                   |                   |
| Long-term borrowings, excluding current portion | 13   | U.S.\$190   | Rs.12,083         | Rs.14,307         |

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|                                      |                    |                  |                  |
|--------------------------------------|--------------------|------------------|------------------|
| Provisions non-current               | 1                  | 58               | 53               |
| Deferred tax liabilities             | 32                 | 2,035            | 1,779            |
| Other non-current liabilities        | 55                 | 3,513            | 3,326            |
| <b>Total non-current liabilities</b> | <b>U.S.\$278</b>   | <b>Rs.17,689</b> | <b>Rs.19,465</b> |
| <b>Total liabilities</b>             | <b>U.S.\$1,294</b> | <b>Rs.82,315</b> | <b>Rs.83,460</b> |

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

Table of Contents**DR. REDDY S LABORATORIES LIMITED****UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION**

(in millions, except share and per share data)

| Particulars                         | Note | As of   |                   |                   |
|-------------------------------------|------|---|-------------------|-------------------|
|                                     |      | June 30,<br>2015<br><i>Convenience<br/>translation into U.S.\$<br/>(See Note<br/>2.(d))</i> | June 30, 2015     | March 31, 2015    |
| <b>Equity</b>                       |      |   |                   |                   |
| Share capital                       | 16   | U.S.\$13  | Rs.853            | Rs.852            |
| Share premium                       |      | 354   | 22,506            | 22,178            |
| Share based payment reserve         |      | 13  | 851               | 1,081             |
| Retained earnings                   |      | 1,414   | 89,900            | 83,643            |
| Other components of equity          |      | 75  | 4,775             | 3,548             |
| <b>Total equity</b>                 |      | <b>U.S.\$1,870</b>  | <b>Rs.118,885</b> | <b>Rs.111,302</b> |
| <b>Total liabilities and equity</b> |      | <b>U.S.\$3,164</b>  | <b>Rs.201,200</b> | <b>Rs.194,762</b> |

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



Table of Contents**DR. REDDY S LABORATORIES LIMITED****UNAUDITED CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT**

(in millions, except share and per share data)

| Particulars   | Note | For the three months ended June 30,            |                  |                  |
|---|------|--|------------------|------------------|
|   |      | 2015   | 2015             | 2014             |
|   |      | <i>Convenience<br/>translation into U.S.\$</i> |                  |                  |
|   |      | <i>(See Note<br/>2.(d))</i>                    |                  |                  |
| <b>Revenues</b>   |      | <b>U.S.\$591</b>                               | <b>Rs.37,578</b> | <b>Rs.35,175</b> |
| Cost of revenues  |      | 230  | 14,631           | 14,331           |
| <b>Gross profit</b>                                       |      | <b>361</b>                                     | <b>22,947</b>    | <b>20,844</b>    |
| Selling, general and administrative expenses              |      | 173  | 10,973           | 10,679           |
| Research and development expenses                         |      | 69   | 4,387            | 3,875            |
| Other (income)/expense, net                               | 14   | (2)  | (125)            | (185)            |
| <b>Total operating expenses</b>                           |      | <b>240</b>                                     | <b>15,235</b>    | <b>14,369</b>    |
| <b>Results from operating activities</b>                  |      | <b>121</b>                                     | <b>7,712</b>     | <b>6,475</b>     |
| Finance income  |      | 9  | 585              | 753              |
| Finance expense   |      | (6)  | (369)            | (272)            |
| <b>Finance (expense)/income, net</b>                      | 15   | <b>3</b>                                       | <b>216</b>       | <b>481</b>       |
| Share of profit of equity accounted investees, net of tax |      | 1  | 49               | 53               |
| <b>Profit before tax</b>                                  |      | <b>125</b>                                     | <b>7,977</b>     | <b>7,009</b>     |
| Tax expense   | 19   | 27   | 1,720            | 1,505            |
| <b>Profit for the period</b>                              |      | <b>98</b>                                      | <b>6,257</b>     | <b>5,504</b>     |
| <b>Attributable to:</b>                                   |      |  |                  |                  |
| Equity holders of the Company                             |      | 98   | 6,257            | 5,504            |
| Non-controlling interest                                  |      | -  | -                | -                |
| <b>Profit for the period</b>                              |      | <b>U.S.\$98</b>                                | <b>Rs.6,257</b>  | <b>Rs.5,504</b>  |
| <b>Earnings per share:</b>                                |      |  |                  |                  |
| Basic earnings per share of Rs.5/- each                   |      | U.S.\$0.58                                     | Rs.36.71         | Rs.32.34         |
| Diluted earnings per share of Rs.5/- each                 |      | U.S.\$0.58                                     | Rs.36.58         | Rs.32.24         |

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

Table of Contents**DR. REDDY S LABORATORIES LIMITED****UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME****(in millions, except share and per share data)**

| Particulars  | For the three months ended June 30,            |                 |                 |
|--|--|-----------------|-----------------|
|  | 2015   | 2015            | 2014            |
|  | <i>Convenience<br/>translation into U.S.\$</i> |                 |                 |
|  | <i>(See Note<br/>2.(d))</i>                    |                 |                 |
| <b>Profit for the period</b>   | <b>U.S.\$98</b>                                | <b>Rs.6,257</b> | <b>Rs.5,504</b> |
| <b>Other comprehensive income/(loss)</b>                                   |  |                 |                 |
| <i>Items that will not be reclassified to profit or loss:</i>              | -  | -               | -               |
| <i>Items that may be reclassified subsequently to profit or loss:</i>      |  |                 |                 |
| Changes in fair value of available for sale financial instruments          | U.S.\$19                                       | Rs.1,211        | Rs.220          |
| Foreign currency translation adjustments                                   | 3  | 206             | 57              |
| Effective portion of changes in fair value of cash flow hedges, net        | 3  | 160             | (119)           |
| Tax on items that may be reclassified subsequently to profit or loss       | (6)  | (350)           | (30)            |
| <b>Total items that may be reclassified subsequently to profit or loss</b> | <b>U.S.\$19</b>                                | <b>Rs.1,227</b> | <b>Rs.128</b>   |
| <b>Other comprehensive income/(loss) for the period, net of tax</b>        | <b>U.S.\$19</b>                                | <b>Rs.1,227</b> | <b>Rs.128</b>   |
| <b>Total comprehensive income for the period</b>                           | <b>U.S.\$118</b>                               | <b>Rs.7,484</b> | <b>Rs.5,632</b> |
| <b>Attributable to:</b>  |  |                 |                 |
| Equity holders of the Company  | 118  | 7,484           | 5,632           |
| Non-controlling interests  | -  | -               | -               |
| <b>Total comprehensive income for the period</b>                           | <b>U.S.\$118</b>                               | <b>Rs.7,484</b> | <b>Rs.5,632</b> |

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

**Table of Contents****DR. REDDY S LABORATORIES LIMITED****UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**

(in millions, except share and per share data)

| <b>Particulars</b>   | <b>Number of shares</b> | <b>Share capital</b> | <b>Share premium</b> | <b>Fair value<br/>reserve</b> | <b>Share based<br/>payment reserve</b> |
|--|-------------------------|----------------------|----------------------|-------------------------------|--|
| <b>Balance as of April 1, 2015</b>   | <b>170,381,174</b>      | <b>Rs.852</b>        | <b>Rs.22,178</b>     | <b>Rs.1,141</b>               | <b>Rs.1,081</b>                        |
| Issue of equity shares on exercise of options  | 176,748                 | 1                    | 328                  | -                             | (328)                                  |
| Share based payment expense  | -                       | -                    | -                    | -                             | 98                                     |
| Profit for the period  | -                       | -                    | -                    | -                             | -                                      |
| Net change in fair value of available for sale financial instruments, net of tax expense of Rs.300 | -                       | -                    | -                    | 911                           | -                                      |
| Foreign currency translation adjustments, net of tax benefit of Rs.5                               | -                       | -                    | -                    | -                             | -                                      |
| Effective portion of changes in fair value of cash flow hedges, net of tax expense of Rs.55        | -                       | -                    | -                    | -                             | -                                      |
| <b>Balance as of June 30, 2015</b>   | <b>170,557,922</b>      | <b>Rs.853</b>        | <b>Rs.22,506</b>     | <b>Rs.2,052</b>               | <b>Rs.851</b>                          |
| <b>Convenience translation into U.S.\$ (See Note 2(d))</b>   |                         | <b>U.S.\$13</b>      | <b>U.S.\$354</b>     | <b>U.S.\$32</b>               | <b>U.S.\$13</b>                        |
| <b>Balance as of April 1, 2014</b>   | <b>170,108,868</b>      | <b>Rs.851</b>        | <b>Rs.21,553</b>     | <b>Rs.78</b>                  | <b>Rs.1,008</b>                        |
| Issue of equity shares on exercise of options  | 226,171                 | 1                    | 364                  | -                             | (364)                                  |
| Share based payment expense  | -                       | -                    | -                    | -                             | 95                                     |
| Profit for the period  | -                       | -                    | -                    | -                             | -                                      |
| Sale of equity shares held by controlled trust <sup>(1)</sup>                                      | -                       | -                    | 196                  | -                             | -                                      |
| Net change in fair value of available for sale financial instruments, net of tax expense of Rs.65  | -                       | -                    | -                    | 155                           | -                                      |
| Foreign currency translation adjustments, net of tax benefit of Rs.4                               | -                       | -                    | -                    | -                             | -                                      |
| Effective portion of changes in fair value of cash flow hedges, net of tax benefit of              | -                       | -                    | -                    | -                             | -                                      |

Rs.31

|                                    |                    |               |                  |               |               |
|------------------------------------|--------------------|---------------|------------------|---------------|---------------|
| <b>Balance as of June 30, 2014</b> | <b>170,335,039</b> | <b>Rs.852</b> | <b>Rs.22,113</b> | <b>Rs.233</b> | <b>Rs.739</b> |
|------------------------------------|--------------------|---------------|------------------|---------------|---------------|

[Continued on next page]

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

Table of Contents**DR. REDDY S LABORATORIES LIMITED****UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**

(in millions, except share and per share data)

[Continued from above table, first column repeated]

| <b>Particulars</b>   | <b>Equity shares held by a controlled trust</b> | <b>Foreign currency translation reserve</b> | <b>Hedging reserve</b> | <b>Retained earnings</b> | <b>Actuarial gains / (losses)</b> | <b>Total</b>       |
|--|---|---|------------------------|--------------------------|-----------------------------------|--------------------|
| <b>Balance as of April 1, 2015</b>   | <b>Rs.-</b>                                     | <b>Rs.4,455</b>                             | <b>Rs.(1,765)</b>      | <b>Rs.83,643</b>         | <b>Rs.(283)</b>                   | <b>Rs.111,302</b>  |
| Issue of equity shares on exercise of options  | -   | -   | -                      | -                        | -                                 | 1                  |
| Share based payment expense  | -   | -   | -                      | -                        | -                                 | 98                 |
| Profit for the period  | -   | -   | -                      | 6,257                    | -                                 | 6,257              |
| Net change in fair value of available for sale financial instruments, net of tax expense of Rs.300 | -   | -   | -                      | -                        | -                                 | 911                |
| Foreign currency translation adjustments, net of tax benefit of Rs.5                               | -   | 211   | -                      | -                        | -                                 | 211                |
| Effective portion of changes in fair value of cash flow hedges, net of tax expense of Rs.55        | -   | -   | 105                    | -                        | -                                 | 105                |
| <b>Balance as of June 30, 2015</b>   | <b>Rs.-</b>                                     | <b>Rs.4,666</b>                             | <b>Rs.(1,660)</b>      | <b>Rs.89,900</b>         | <b>Rs.(283)</b>                   | <b>Rs.118,885</b>  |
| <b>Convenience translation into U.S.\$</b>   |   |   |                        |                          |                                   |                    |
| <b>(See Note 2(d))</b>   | <b>U.S.\$-</b>                                  | <b>U.S.\$73</b>                             | <b>U.S.\$(26)</b>      | <b>U.S.\$1,414</b>       | <b>U.S.\$(5)</b>                  | <b>U.S.\$1,870</b> |
| <b>Balance as of April 1, 2014</b>   | <b>Rs.(5)</b>                                   | <b>Rs.4,477</b>                             | <b>Rs.(1,960)</b>      | <b>Rs.65,051</b>         | <b>Rs.(252)</b>                   | <b>Rs.90,801</b>   |
| Issue of equity shares on exercise of options  | -   | -   | -                      | -                        | -                                 | 1                  |
| Share based payment expense  | -   | -   | -                      | -                        | -                                 | 95                 |
| Profit for the period  | -   | -   | -                      | 5,504                    | -                                 | 5,504              |
| Sale of equity shares held by controlled trust <sup>(1)</sup>                                      | 5   | -   | -                      | -                        | -                                 | 201                |

|   |             |                 |                   |                  |                 |                  |
|---|-------------|-----------------|-------------------|------------------|-----------------|------------------|
| Net change in fair value of available for sale financial instruments, net of tax expense of Rs.65 | -           | -               | -                 | -                | -               | 155              |
| Foreign currency translation adjustments, net of tax benefit of Rs.4                              | -           | 61              | -                 | -                | -               | 61               |
| Effective portion of changes in fair value of cash flow hedges, net of tax benefit of Rs.31       | -           | -               | (88)              | -                | -               | (88)             |
| <b>Balance as of June 30, 2014</b>  | <b>Rs.-</b> | <b>Rs.4,538</b> | <b>Rs.(2,048)</b> | <b>Rs.70,555</b> | <b>Rs.(252)</b> | <b>Rs.96,730</b> |

<sup>(1)</sup> During the three months ended June 30, 2014, the Company disposed of all of the shares held by its controlled trust for a total consideration of Rs.201. A gain of Rs.196 arising from this transaction was recorded in share premium.

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

Table of Contents**DR. REDDY S LABORATORIES LIMITED****UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**

(in millions, except share and per share data)

| Particulars   | Note | For the three months ended June 30,        |                   |                   |
|---|------|--|-------------------|-------------------|
|   |      | 2015                                       | 2015              | 2014              |
|   |      | <i>Convenience translation into U.S.\$</i> |                   |                   |
|   |      | <i>(See Note 2(d))</i>                     |                   |                   |
| <b>Cash flows from/(used in) operating activities:</b>                                  |      |  |                   |                   |
| Profit for the period   |      | U.S.\$98                                   | Rs.6,257          | Rs.5,504          |
| <i>Adjustments for:</i>   |      |  |                   |                   |
| Income tax expense  |      | 27   | 1,720             | 1,505             |
| Dividend and profit on sale of investments  |      | (4)  | (233)             | (53)              |
| Depreciation and amortization   |      | 36   | 2,267             | 1,872             |
| Inventory write-downs   |      | 8  | 489               | 721               |
| Allowance for doubtful trade and other receivables                                      |      | 1  | 37                | (19)              |
| Loss/(profit) on sale of property, plant and equipment and other intangible assets, net |      | 0  | 26                | 40                |
| Allowance for sales returns   |      | 10   | 607               | 469               |
| Share of profit of equity accounted investees   |      | (1)  | (49)              | (53)              |
| Exchange (gain)/loss, net   |      | 8  | 505               | 35                |
| Interest (income)/expense, net  |      | (1)  | (71)              | 48                |
| Share based payment expense   |      | 2  | 106               | 95                |
| <i>Changes in operating assets and liabilities:</i>                                     |      |  |                   |                   |
| Trade and other receivables   |      | (2)  | (103)             | (2,581)           |
| Inventories   |      | (14)                                       | (863)             | (2,034)           |
| Trade and other payables  |      | 8  | 519               | (125)             |
| Other assets and other liabilities  |      | (26)                                       | (1,652)           | (24)              |
| <b>Cash generated from operations</b>   |      | <b>U.S.\$150</b>                           | <b>Rs.9,562</b>   | <b>Rs.5,400</b>   |
| Income tax paid   |      | (15)                                       | (954)             | (842)             |
| <b>Net cash from operating activities</b>   |      | <b>U.S.\$135</b>                           | <b>Rs.8,608</b>   | <b>Rs.4,558</b>   |
| <b>Cash flows from/(used in) investing activities:</b>                                  |      |  |                   |                   |
| Expenditure on property, plant and equipment  |      | U.S.\$(40)                                 | Rs.(2,573)        | Rs.(2,044)        |
| Proceeds from sale of property, plant and equipment                                     |      | 0  | 2                 | 67                |
| Expenditure on other intangible assets  |      | (4)  | (236)             | (186)             |
| Purchase of other investments   |      | (251)                                      | (15,947)          | (8,830)           |
| Proceeds from sale of other investments   |      | 344  | 21,864            | 7,680             |
| Cash paid for acquisition of business, net of cash acquired                             | 4    | (125)                                      | (7,936)           |                   |
| Interest and dividend received  |      | 3  | 190               | 177               |
| <b>Net cash used in investing activities</b>  |      | <b>U.S.\$(73)</b>                          | <b>Rs.(4,636)</b> | <b>Rs.(3,136)</b> |
| <b>Cash flows from/(used in) financing activities:</b>                                  |      |  |                   |                   |
| Proceeds from issuance of equity shares   |      | U.S.\$0                                    | Rs.1              | Rs.1              |

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|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Proceeds from sale of equity shares held by a controlled trust |                   |                   | 201               |
| Proceeds from/(repayment of) of short term borrowings, net     | (5)               | (318)             | (3,257)           |
| Repayment of long term borrowings                              | (40)              | (2,572)           | (15)              |
| Interest paid  | (4)               | (279)             | (289)             |
| <b>Net cash used in financing activities</b>                   | <b>U.S.\$(50)</b> | <b>Rs.(3,168)</b> | <b>Rs.(3,359)</b> |
| Net increase/(decrease) in cash and cash equivalents           | 13                | 804               | (1,937)           |
| Effect of exchange rate changes on cash and cash equivalents   | 2                 | 98                | (4)               |
| Cash and cash equivalents at the beginning of the period       | 5                 | 85                | 5,394             |
| <b>Cash and cash equivalents at the end of the period</b>      | <b>5</b>          | <b>U.S.\$99</b>   | <b>Rs.6,296</b>   |
|  |                   |                   | <b>Rs.6,510</b>   |

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



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**DR. REDDY S LABORATORIES LIMITED**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**1. Reporting entity**

Dr. Reddy s Laboratories Limited (the parent company ), together with its subsidiaries (collectively, the Company ), is a leading India-based pharmaceutical company headquartered in Hyderabad, Telangana, India. Through its three businesses Pharmaceutical Services and Active Ingredients, Global Generics and Proprietary Products the Company offers a portfolio of products and services, including Active Pharmaceutical Ingredients ( APIs ), Custom Pharmaceutical Services ( CPS ), generics, biosimilars, differentiated formulations and New Chemical Entities ( NCEs ). The Company s principal research and development facilities are located in Telangana, India, Cambridge, United Kingdom and Leiden, the Netherlands; its principal manufacturing facilities are located in Telangana, India, Andhra Pradesh, India, Himachal Pradesh, India, Cuernavaca-Cuautla, Mexico, Mirfield, United Kingdom, Louisiana, United States, and Tennessee, United States; and its principal markets are in India, Russia, the United States, the United Kingdom, Venezuela and Germany. The Company s shares trade on the Bombay Stock Exchange and the National Stock Exchange in India and also on the New York Stock Exchange in the United States.

**2. Basis of preparation of financial statements**

**a) Statement of compliance**

These unaudited condensed consolidated interim financial statements are prepared in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board. They do not include all of the information required for a complete set of annual financial statements and should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 20-F for the fiscal year ended March 31, 2015. These unaudited condensed consolidated interim financial statements were authorized for issuance by the Company s Board of Directors on August 28, 2015.

**b) Significant accounting policies**

The accounting policies applied by the Company in these unaudited condensed consolidated interim financial statements are the same as those applied by the Company in its audited consolidated financial statements as at and for the year ended March 31, 2015 contained in the Company s Annual Report on Form 20-F.

**c) Functional and presentation currency**

These unaudited condensed consolidated interim 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.

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). The operations of these entities are largely restricted to importing of finished goods from the parent company in India, sales of these products in the foreign country and making of import payments to the parent company. The cash flows realized from sales of goods are available for making import payments to the parent company and cash is paid 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**

These unaudited condensed consolidated interim financial statements have been prepared in Indian rupees. Solely for the convenience of the reader, these unaudited condensed consolidated interim financial statements as of and for the three months ended June 30, 2015 have been translated into U.S. dollars at the certified foreign exchange rate of U.S.\$1.00 = Rs. 63.59, as published by the Federal Reserve Board of Governors on June 30, 2015. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. Such convenience translation is not subject to review by the Company's independent auditors.

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**DR. REDDY S LABORATORIES LIMITED**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**2. Basis of preparation of financial statements (continued)**

**e) Use of estimates and judgments**

The preparation of unaudited condensed consolidated interim 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. In preparing these unaudited condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Company's audited consolidated financial statements as at and for the year ended March 31, 2015.

**f) Recent accounting pronouncements**

Standards issued but not yet effective and not early adopted by the Company

*IFRS 9- Financial instruments*

In July 2014, the IASB issued the final version of IFRS 9, *Financial instruments*. IFRS 9 significantly differs from IAS 39, *Financial Instruments: Recognition and Measurement*, and includes a logical model for classification and measurement, a single, forward-looking expected loss impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company is in the process of evaluating the impact of the new standard on its consolidated financial statements.

*Amendments to IAS 16 Property, plant and equipment and IAS 38 Intangible assets*

In May 2014, the IASB issued limited-scope amendments to IAS 16, *Property, plant and equipment* and IAS 38, *Intangible assets*, to clarify the use of a revenue-based depreciation or amortization method. With respect to property, plant and equipment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. With respect to intangible assets, the amended standard incorporates a rebuttable presumption that an amortization method based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. The amendments are effective for annual periods beginning on or after January 1, 2016, with early application permitted. The Company believes that these amendments will not have a material impact on its consolidated financial statements.

*IFRS 15, Revenue from Contracts with Customers.*

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers . The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The new revenue recognition standard was issued with an effective date of January 1, 2017. However, in April 2015, the IASB voted to defer the effective date of the new revenue recognition standard to January 1, 2018. Early application of the new standard is permitted. The Company is in the process of evaluating the impact of the new standard on its consolidated financial statements.

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**DR. REDDY S LABORATORIES LIMITED**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**3. 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 operating segments. The CODM reviews revenue and gross profit as the performance indicator for all of the operating segments, and does not review the total assets and liabilities of an operating segment.

The Company s reportable operating segments are as follows:

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

**Global Generics.** This segment consists of the Company s business of manufacturing and marketing prescription and over-the-counter 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 segment includes the operations of the Company s biologics business.

**Pharmaceutical Services and Active Ingredients.** This segment includes the Company s business of manufacturing and marketing active pharmaceutical ingredients and intermediates, also known as API or bulk drugs, which are the principal ingredients for finished pharmaceutical products. Active pharmaceutical ingredients and intermediates become finished pharmaceutical products when the dosages are fixed in a form ready for human consumption such as a tablet, capsule or liquid using additional inactive ingredients. This segment also includes the Company s contract research services business and the manufacture and sale of active pharmaceutical ingredients and steroids in accordance with the specific customer requirements.

**Proprietary Products.** This segment consists of the Company s differentiated formulations business, New Chemical Entities ( NCEs ) business, and the dermatology focused specialty business operated through Promius Pharma.

**Others.** This includes the operations of the Company s wholly-owned subsidiary, Aurigene Discovery Technologies Limited, a discovery stage biotechnology company developing novel and best-in-class therapies in the fields of oncology and inflammation and which works with established pharmaceutical and biotechnology companies in early-stage collaborations, bringing drug candidates from hit generation through Investigational New Drug ( IND ) filing.

The measurement of each segment s revenues, expenses and assets is consistent with the accounting policies that are used in preparation of the Company s consolidated financial statements.

| Information about segments:                               | For the three months ended June 30, 2015 |                 |                      |               |                  |
|---|--|-----------------|----------------------|---------------|------------------|
|   | Global Generics                          | PSAI            | Proprietary Products | Others        | Total            |
| <b>Segments</b>   |  |                 |                      |               |                  |
| <b>Revenues</b> <sup>(1)(2)</sup>                         | <b>Rs.30,961</b>                         | <b>Rs.5,614</b> | <b>Rs.697</b>        | <b>Rs.306</b> | <b>Rs.37,578</b> |
| <b>Gross profit</b>                                       | <b>Rs.20,917</b>                         | <b>Rs.1,332</b> | <b>Rs.577</b>        | <b>Rs.121</b> | <b>Rs.22,947</b> |
| Selling, general and administrative expenses              |  |                 |                      |               | 10,973           |
| Research and development expenses                         |  |                 |                      |               | 4,387            |
| Other (income)/expense, net                               |  |                 |                      |               | (125)            |
| <b>Results from operating activities</b>                  |  |                 |                      |               | <b>Rs.7,712</b>  |
| Finance (expense)/income, net                             |  |                 |                      |               | 216              |
| Share of profit of equity accounted investees, net of tax |  |                 |                      |               | 49               |
| <b>Profit before tax</b>                                  |  |                 |                      |               | <b>Rs.7,977</b>  |
| Tax expense   |  |                 |                      |               | 1,720            |
| <b>Profit for the period</b>                              |  |                 |                      |               | <b>Rs.6,257</b>  |

<sup>(1)</sup>Segment revenue for the three months ended June 30, 2015 does not include inter-segment revenues from PSAI to Global Generics, which is accounted for at a cost of Rs.1,204.

<sup>(2)</sup>During the three months ended June 30, 2015, there was a change in the monitoring of performance of one product from the Global Generics segment to the Proprietary Products segment. Consequently, revenues and gross profit from such product for previous periods have been reclassified to conform to the change.

**Table of Contents****DR. REDDY S LABORATORIES LIMITED****NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**3. Segment reporting (continued)**

| Information about segments:                               | For the three months ended June 30, 2014 |          |                      |        |                 |
|---|--|----------|----------------------|--------|-----------------|
|   | Global Generics                          | PSAI     | Proprietary Products | Others | Total           |
| Segments  |  |          |                      |        |                 |
| Revenues <sup>(1)</sup>                                   | Rs.28,739                                | Rs.5,538 | Rs.570               | Rs.328 | Rs.35,175       |
| Gross profit  | Rs.19,054                                | Rs.1,234 | Rs.471               | Rs.85  | Rs.20,844       |
| Selling, general and administrative expenses              |  |          |                      |        | 10,679          |
| Research and development expenses                         |  |          |                      |        | 3,875           |
| Other (income)/expense, net                               |  |          |                      |        | (185)           |
| <b>Results from operating activities</b>                  |  |          |                      |        | <b>Rs.6,475</b> |
| Finance (expense)/income, net                             |  |          |                      |        | 481             |
| Share of profit of equity accounted investees, net of tax |  |          |                      |        | 53              |
| <b>Profit before tax</b>                                  |  |          |                      |        | <b>Rs.7,009</b> |
| Tax expense   |  |          |                      |        | 1,505           |
| <b>Profit for the period</b>                              |  |          |                      |        | <b>Rs.5,504</b> |

<sup>(1)</sup>Segment revenue for the three months ended June 30, 2014 does not include inter-segment revenues from PSAI to Global Generics, which is accounted for at a cost of Rs.1,808.

**Analysis of revenue by geography:**

The following table shows the distribution of the Company's revenues by geography, based on the location of the customers:

| Country       | For the three months ended June 30, |                  |
|---------------|-------------------------------------|------------------|
|               | 2015                                | 2014             |
| India         | Rs.5,344                            | Rs.4,774         |
| United States | 19,824                              | 17,179           |
| Russia        | 2,303                               | 4,198            |
| Others        | 10,107                              | 9,024            |
|               | <b>Rs.37,578</b>                    | <b>Rs.35,175</b> |

**4. Acquisition of select products portfolio of UCB**

On April 1, 2015, the Company entered into a definitive agreement with UCB India Private Limited and other UCB group companies (together referred to as UCB ) to acquire a select portfolio of products business in the territories of India, Nepal, Sri Lanka and Maldives. The transaction includes approximately 350 employees engaged in operations of the acquired India business. The acquisition is expected to strengthen the Company's presence in the areas of dermatology, respiratory and pediatric products.

The total purchase consideration was Rs.8,000. The acquisition was closed on June 16, 2015. The Company has accounted for the transaction under IFRS 3, Business Combinations, and allocated the aggregate purchase consideration as follows:



**Table of Contents****DR. REDDY S LABORATORIES LIMITED****NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****(in millions, except share and per share data)****4. Acquisition of select products portfolio of UCB (continued)**

| <i>Particulars</i>                         | <i>Amount</i>   |
|--|-----------------|
| Total consideration                        | <b>Rs.8,000</b> |
| <b><i>Identifiable assets acquired</i></b> |                 |
| Current assets                             | 225             |
| Property, plant and equipment              | 6               |
| Other intangible assets:                   |                 |
| Product related intangibles                | 6,734           |
| Marketing rights                           | 743             |
| <b><i>Liabilities assumed</i></b>          |                 |
| Current liabilities                        | (31)            |
| <b>Total identifiable net assets</b>       | <b>Rs.7,677</b> |
| Goodwill                                   | <b>Rs.323</b>   |

The total goodwill of Rs.323 is attributable primarily to the acquired employee workforce, intangible assets that do not qualify for separate recognition and the expected synergies.

Acquisition related costs of Rs.9 were excluded from the consideration transferred and were recognized as expense in the unaudited condensed consolidated interim income statement for the three months ended June 30, 2015.

Out of the total purchase consideration of Rs.8,000, the Company has paid an amount of Rs.7,936 to UCB as of June 30, 2015.

The amount of revenue included in the unaudited condensed consolidated interim income statement since June 16, 2015 pertaining to the business acquired from UCB was Rs.60.

No pro-forma information is disclosed in these unaudited condensed consolidated interim financial statements, as the impact of this acquisition on these unaudited condensed consolidated interim financial statements is immaterial.

**5. Cash and cash equivalents**

Cash and cash equivalents consist of the following:

|               | <b>June 30, 2015</b> | <b>As of<br/>March 31, 2015</b> |
|---------------|----------------------|---------------------------------|
| Cash balances | Rs.2                 | Rs.3                            |

|   |                 |                 |
|---|-----------------|-----------------|
| Balances with banks   | 5,279           | 3,939           |
| Term deposits with banks (original maturities up to 3 months)           | 1,015           | 1,452           |
| <b>Cash and cash equivalents in the statement of financial position</b> | <b>6,296</b>    | <b>5,394</b>    |
| Bank overdrafts used for cash management purposes                       | -               | -               |
| <b>Cash and cash equivalents in the statement of cash flow</b>          | <b>Rs.6,296</b> | <b>Rs.5,394</b> |

Cash and cash equivalents included restricted cash of Rs.2,181 and Rs.1,971, respectively, as of June 30, 2015 and March 31, 2015, which consisted of:

Rs.57 as of June 30, 2015 and Rs.57 as of March 31, 2015, representing amounts in the Company's unclaimed dividend and debenture interest accounts;

Rs.2,113 as of June 30, 2015 and Rs.1,796 as of March 31, 2015, representing cash and cash equivalents of the Company's subsidiary in Venezuela, which are subject to foreign exchange controls;

Rs.0 as of June 30, 2015 and Rs.107 as of March 31, 2015, representing amounts deposited as security for a bond executed for an environmental liability relating to the Company's site in Mirfield, United Kingdom; and

Rs.11 as of June 30, 2015 and Rs.11 as of March 31, 2015, representing other restricted cash amounts.

Table of Contents**DR. REDDY S LABORATORIES LIMITED****NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****(in millions, except share and per share data)****6. Other investments**

Other investments consist of investments in units of mutual funds, equity securities and term deposits (i.e., certificates of deposit having an original maturity period exceeding 3 months) with banks. The details of such investments as of June 30, 2015 are as follows:

|  | Cost             | Gain<br>recognized<br>directly in equity | Fair value       |
|--|------------------|--|------------------|
| Investment in units of mutual funds            | Rs.17,155        | Rs.604                                   | Rs.17,759        |
| Investment in equity securities <sup>(1)</sup> | 1,456            | 2,142                                    | 3,598            |
| Term deposits with banks                       | 11,296           | -  | 11,296           |
|  | <b>Rs.29,907</b> | <b>Rs.2,746</b>                          | <b>Rs.32,653</b> |
| <b>Current portion</b>                         |                  |  |                  |
| Investment in units of mutual funds            | Rs.16,942        | Rs.594                                   | Rs.17,536        |
| Term deposits with banks                       | 11,285           | -  | 11,285           |
|  | <b>Rs.28,227</b> | <b>Rs.594</b>                            | <b>Rs.28,821</b> |
| <b>Non-current portion</b>                     |                  |  |                  |
| Investment in units of mutual funds            | Rs.213           | Rs.10                                    | Rs.223           |
| Investment in equity securities <sup>(1)</sup> | 1,456            | 2,142                                    | 3,598            |
| Term deposits with banks                       | 11               | -  | 11               |
|  | <b>Rs.1,680</b>  | <b>Rs.2,152</b>                          | <b>Rs.3,832</b>  |

As of March 31, 2015, the details of such investments are as follows:

|  | Cost             | Gain<br>recognized<br>directly in equity | Fair value       |
|--|------------------|--|------------------|
| Investment in units of mutual funds            | Rs.21,237        | Rs.404                                   | Rs.21,641        |
| Investment in equity securities <sup>(1)</sup> | 1,456            | 1,131                                    | 2,587            |
| Term deposits with banks                       | 12,848           | -  | 12,848           |
|  | <b>Rs.35,541</b> | <b>Rs.1,535</b>                          | <b>Rs.37,076</b> |
| <b>Current portion</b>                         |                  |  |                  |
| Investment in units of mutual funds            | Rs.21,024        | Rs.398                                   | Rs.21,422        |
| Term deposits with banks                       | 12,837           | -  | 12,837           |
|  | <b>Rs.33,861</b> | <b>Rs.398</b>                            | <b>Rs.34,259</b> |
| <b>Non-current portion</b>                     |                  |  |                  |
| Investment in units of mutual funds            | Rs.213           | Rs.6                                     | Rs.219           |

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|  |                 |                 |                 |
|--|-----------------|-----------------|-----------------|
| Investment in equity securities <sup>(1)</sup> | 1,456           | 1,131           | 2,587           |
| Term deposits with banks                       | 11              | -               | 11              |
|  | <b>Rs.1,680</b> | <b>Rs.1,137</b> | <b>Rs.2,817</b> |

<sup>(1)</sup>Primarily represents the shares of Curis, Inc. Refer to Note 25 of these unaudited condensed consolidated interim financial statements for further details.

**Table of Contents****DR. REDDY S LABORATORIES LIMITED****NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****(in millions, except share and per share data)****7. Inventories**

Inventories consist of the following:

|                                      | <b>June 30, 2015</b> | <b>As of<br/>March 31, 2015</b> |
|--------------------------------------|----------------------|---------------------------------|
| Raw materials                        | Rs.6,246             | Rs.6,753                        |
| Packing materials, stores and spares | 2,057                | 1,981                           |
| Work-in-progress                     | 6,909                | 6,769                           |
| Finished goods                       | 10,937               | 10,026                          |
|                                      | <b>Rs.26,149</b>     | <b>Rs.25,529</b>                |

The above table includes inventories of Rs.701 and Rs.901 which are carried at fair value less cost to sell, as at June 30, 2015 and March 31, 2015, respectively.

For the three months ended June 30, 2015 and 2014, the Company recorded inventory write-downs of Rs.489 and Rs.721, respectively. These adjustments were included in cost of revenues.

Cost of revenues for the three months ended June 30, 2015 and 2014 includes raw materials, consumables and changes in finished goods and work in progress recognized in the income statement of Rs.7,905 and Rs.7,843, respectively. Cost of revenues for the three months ended June 30, 2015 and 2014 includes other expenditures recognized in the income statement of Rs.6,726 and Rs.6,488, respectively.

**8. Hedges of foreign currency risks**

The Company is exposed to exchange rate risk that arises from its foreign exchange revenues and expenses, primarily in U.S. dollars, U.K. pounds sterling, Russian roubles, Venezuelan bolivars and Euros, and foreign currency debt in U.S. dollars, Russian roubles and Euros.

The Company uses forward contracts, option contracts and currency swap contracts (collectively, derivatives) to mitigate its risk of changes in foreign currency exchange rates. The Company also uses non-derivative financial instruments as part of its foreign currency exposure risk mitigation strategy.

In respect of all of its foreign exchange derivative contracts, the Company has recorded, as part of finance costs, a net loss of Rs.250 and net gain of Rs.502 for the three months ended June 30, 2015 and 2014, respectively.

*Hedges of highly probable forecasted transactions*

The Company classifies its derivative contracts that hedge foreign currency exchange rate risks associated with its highly probable forecasted transactions as cash flow hedges and measures them at fair value. The effective portion of such cash flow hedges is recorded as a component of equity within the Company's hedging reserve, and re-classified in the income statement as revenue in the period corresponding to the occurrence of the forecasted transactions. The ineffective portion of such cash flow hedges is immediately recorded in the income statement as a finance cost.

The Company also designates certain non-derivative financial liabilities, such as foreign currency borrowings from banks, as hedging instruments for the hedge of foreign currency exchange rate risks associated with highly probable forecasted transactions and, accordingly, applies cash flow hedge accounting for such relationships. Re-measurement gain/loss on such non-derivative financial liabilities is recorded as a component of equity within the Company's hedging reserve, and re-classified in the income statement as revenue in the period corresponding to the occurrence of the forecasted transactions.

In respect of the aforesaid hedges of highly probable forecasted transactions, the Company has recorded, as a component of equity, a net gain of Rs.160 and a net loss of Rs.119 for the three months ended June 30, 2015 and 2014, respectively. The Company also recorded, as part of revenue, a net loss of Rs.291 and a net gain of Rs.61 for the three months ended June 30, 2015 and 2014, respectively.

The net carrying amount of the Company's hedging reserve as a component of equity before adjusting for tax impact was a loss of Rs.1,644 and Rs.1,805 as of June 30, 2015 and March 31, 2015, respectively.

#### *Hedges of recognized assets and liabilities*

Changes in the fair value of forward contracts and option contracts that economically hedge monetary assets and liabilities in foreign currencies, and for which no hedge accounting is applied, are recognized in the income statement. The changes in fair value of these forward contracts and option contracts, as well as the foreign exchange gains and losses relating to the monetary items, are recognized as part of net finance costs.

**Table of Contents****DR. REDDY S LABORATORIES LIMITED****NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****(in millions, except share and per share data)****9. Financial instruments***Non-derivative financial instruments*

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

*Derivative financial instruments*

The Company uses forward contracts, futures contracts, swaps and option contracts (collectively, derivative contracts ) to mitigate its risk of changes in foreign currency exchange rates. The Company uses interest rate swaps (including cross currency interest rate swaps) to mitigate the risk of changes in interest rates.

*Financial instruments by category*

The carrying value and fair value of financial instruments by each category as at June 30, 2015 were as follows:

|   | Note | Loans and receivables | Available for sale | Other financial liabilities | Derivative financial instruments | Total carrying value | Total fair value |
|---|------|-----------------------|--------------------|-----------------------------|----------------------------------|----------------------|------------------|
| <b>Assets:</b>                                  |      |                       |                    |                             |                                  |                      |                  |
| Cash and cash equivalents                       | 5    | Rs.6,296              | Rs.-               | Rs.-                        | Rs.-                             | Rs.6,296             | Rs.6,296         |
| Other investments                               | 6    | 11,296                | 21,357             | -                           | -                                | 32,653               | 32,653           |
| Trade and other receivables                     |      | 42,030                | -                  | -                           | -                                | 42,030               | 42,030           |
| Derivative financial instruments                |      | -                     | -                  | -                           | 601                              | 601                  | 601              |
| Other assets <sup>(1)</sup>                     |      | 1,608                 | -                  | -                           | -                                | 1,608                | 1,608            |
| <b>Total</b>                                    |      | <b>Rs.61,230</b>      | <b>Rs.21,357</b>   | <b>Rs.-</b>                 | <b>Rs.601</b>                    | <b>Rs.83,188</b>     | <b>Rs.83,188</b> |
| <b>Liabilities:</b>                             |      |                       |                    |                             |                                  |                      |                  |
| Trade and other payables                        |      | Rs.-                  | Rs.-               | Rs.11,448                   | Rs.-                             | Rs.11,448            | Rs.11,448        |
| Derivative financial instruments                |      | -                     | -                  | -                           | 511                              | 511                  | 511              |
| Long-term borrowings                            | 13   | -                     | -                  | 19,189                      | -                                | 19,189               | 19,189           |
| Short-term borrowings                           | 13   | -                     | -                  | 22,221                      | -                                | 22,221               | 22,221           |
| Other liabilities and provisions <sup>(2)</sup> |      | -                     | -                  | 18,996                      | -                                | 18,996               | 18,996           |

**Total** **Rs.-** **Rs.-** **Rs.71,854** **Rs.511** **Rs.72,365** **Rs.72,365**  
The carrying value and fair value of financial instruments by each category as at March 31, 2015 were as follows:

|   | Note | Loans and receivables | Available for sale | Other financial liabilities | Derivative financial instruments | Total carrying value | Total fair value |
|---|------|-----------------------|--------------------|-----------------------------|----------------------------------|----------------------|------------------|
| <b>Assets:</b>                                  |      |                       |                    |                             |                                  |                      |                  |
| Cash and cash equivalents                       | 5    | Rs.5,394              | Rs.-               | Rs.-                        | Rs.-                             | Rs.5,394             | Rs.5,394         |
| Other investments                               | 6    | 12,848                | 24,228             | -                           | -                                | 37,076               | 37,076           |
| Trade and other receivables                     |      | 40,755                | -                  | -                           | -                                | 40,755               | 40,755           |
| Derivative financial instruments                |      | -                     | -                  | -                           | 800                              | 800                  | 800              |
| Other assets <sup>(1)</sup>                     |      | 1,585                 | -                  | -                           | -                                | 1,585                | 1,585            |
| <b>Total</b>                                    |      | <b>Rs.60,582</b>      | <b>Rs.24,228</b>   | <b>Rs.-</b>                 | <b>Rs.800</b>                    | <b>Rs.85,610</b>     | <b>Rs.85,610</b> |
| <b>Liabilities:</b>                             |      |                       |                    |                             |                                  |                      |                  |
| Trade and other payables                        |      | Rs.-                  | Rs.-               | Rs.10,660                   | Rs.-                             | Rs.10,660            | Rs.10,660        |
| Derivative financial instruments                |      | -                     | -                  | -                           | 462                              | 462                  | 462              |
| Long-term borrowings                            | 13   | -                     | -                  | 21,289                      | -                                | 21,289               | 21,289           |
| Short-term borrowings                           | 13   | -                     | -                  | 21,857                      | -                                | 21,857               | 21,857           |
| Other liabilities and provisions <sup>(2)</sup> |      | -                     | -                  | 19,440                      | -                                | 19,440               | 19,440           |
| <b>Total</b>                                    |      | <b>Rs.-</b>           | <b>Rs.-</b>        | <b>Rs.73,246</b>            | <b>Rs.462</b>                    | <b>Rs.73,708</b>     | <b>Rs.73,708</b> |

<sup>(1)</sup>Other assets that are not financial assets (such as receivables from statutory authorities, export benefit receivables, prepaid expenses, advances paid and certain other receivables) of Rs.11,261 and Rs.12,278 as of June 30, 2015 and March 31, 2015, respectively, are not included.

<sup>(2)</sup>Other liabilities that are not financial liabilities (such as statutory dues payable, deferred revenue, advances from customers and certain other accruals) of Rs.7,925 and Rs.7,993 as of June 30, 2015 and March 31, 2015, respectively, are not included.



**Table of Contents****DR. REDDY S LABORATORIES LIMITED****NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****(in millions, except share and per share data)****9. Financial instruments (continued)****Fair value hierarchy**

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 - Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The following table presents the fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of June 30, 2015:

| <b>Particulars</b>  | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|---|----------------|----------------|----------------|--------------|
| Available for sale - Financial asset - Investments in units of mutual funds   | Rs.17,759      | Rs.-           | Rs.-           | Rs.17,759    |
| Available for sale - Financial asset - Investment in equity securities  | 3,598          | -              | -              | 3,598        |
| Derivative financial instruments - gain/(loss) on outstanding foreign exchange forward, option and swap contracts and interest rate swap contracts <sup>(1)</sup> | -              | 90             | -              | 90           |

The following table presents the fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of March 31, 2015:

| <b>Particulars</b>  | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|---|----------------|----------------|----------------|--------------|
| Available for sale - Financial asset - Investments in units of mutual funds   | Rs.21,641      | Rs.-           | Rs.-           | Rs.21,641    |
| Available for sale - Financial asset - Investment in equity securities  | 2,587          | -              | -              | 2,587        |
| Derivative financial instruments - gain/(loss) on outstanding foreign exchange forward, option and swap contracts and interest rate swap contracts <sup>(1)</sup> | -              | 338            | -              | 338          |

(1)

The Company enters into derivative financial instruments with various counterparties, principally financial institutions and banks. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps, foreign exchange forward option and swap contracts. The most frequently applied valuation techniques include forward pricing, swap models and Black-Scholes-Merton models (for option valuation), using present value calculations.

The models incorporate various inputs, including foreign exchange spot and forward rates, interest rate curves and forward rate curves. As at June 30, 2015 and March 31, 2015, the changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognized at fair value.

## **10. Property, plant and equipment**

### *Acquisitions and disposals*

During the three months ended June 30, 2015, the Company acquired assets at an aggregate cost of Rs.2,657 (as compared to a cost of Rs.2,303 and Rs.10,025 for the three months ended June 30, 2014 and the year ended March 31, 2015, respectively).

Assets with a net book value of Rs.28 were disposed of during the three months ended June 30, 2015 (as compared to Rs.107 and Rs.315 for the three months ended June 30, 2014 and the year ended March 31, 2015, respectively), resulting in a net loss on disposal of Rs.26 for the three months ended June 30, 2015 (as compared to net loss of Rs.40 and Rs.144 for the three months ended June 30, 2014 and the year ended March 31, 2015, respectively).

Depreciation expense for the three months ended June 30, 2015 and 2014 was Rs.1,519 and Rs.1,317, respectively.

### *Capital commitments*

As of June 30, 2015 and March 31, 2015, the Company was committed to spend approximately Rs.5,026 and Rs.4,173, respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of such purchases.

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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 for the three months ended June 30, 2015 and the year ended March 31, 2015:

|  | As of           |                 |
|--|-----------------|-----------------|
|  | June 30, 2015   | March 31, 2015  |
| Opening balance, gross <sup>(1)</sup>  | Rs.19,654       | Rs.19,702       |
| Goodwill arising on business combinations during the period <sup>(2) (3)</sup> | 323             | 203             |
| Effect of translation adjustments  | 70              | (251)           |
| Impairment loss <sup>(4)</sup>   | (16,274)        | (16,274)        |
| Closing balance <sup>(1)</sup>   | <b>Rs.3,773</b> | <b>Rs.3,380</b> |

<sup>(1)</sup> This does not include goodwill arising upon investment in an associate of Rs.181, which is included in the carrying value of the investment in the equity accounted investee.

<sup>(2)</sup> Rs.323 represents goodwill arising from the acquisition of a select portfolio of products business from UCB during the three months ended June 30, 2015. Refer to Note 4 of these unaudited condensed consolidated interim financial statements for further details.

<sup>(3)</sup> Rs.203 represents goodwill arising from the acquisition of net assets from Cherokee Pharma LLC during the year ended March 31, 2015. Total purchase consideration was Rs.292 and the fair value of the net assets acquired was Rs.89. The amount of goodwill is primarily attributable to the acquired workforce and expected synergies. The acquisition was not material to the Company and, accordingly, no further disclosures have been made in the consolidated financial statements of the Company.

<sup>(4)</sup> The impairment loss of Rs.16,274 includes Rs.16,003 pertaining to the Company's German subsidiary, betapharm Arzneimittel GmbH, which is part of the Company's Global Generics segment. This impairment loss was recorded for the years ended March 31, 2009 and 2010.

**12. Other intangible assets**

During the three months ended June 30, 2015, the Company acquired intangible assets at an aggregate cost of Rs.7,713 (as compared to a cost of Rs.171 and Rs.5,840 for the three months ended June 30, 2014 and for the year ended March 31, 2015, respectively), including assets acquired through business combinations of Rs.7,477 for the three months ended June 30, 2015 (as compared to a cost of Rs.0 and Rs.60 for the three months ended June 30, 2014 and for the year ended March 31, 2015).

Intangible assets acquired through business combination during the three months ended June 30, 2015 represents assets related to the acquisition from UCB of a select portfolio of products business. Refer to Note 4 of these unaudited condensed consolidated interim financial statements for further details.

Selling, general and administrative expenses included Rs.721 and Rs.555 of amortization of other intangible assets for the three months ended June 30, 2015 and 2014, respectively. The research and development expenses included Rs.27 and Rs.0 of amortization of other intangible assets for the three months ended June 30, 2015 and 2014, respectively.

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(in millions, except share and per share data)

**13. Borrowings****Short term borrowings**

The Company had net short term borrowings of Rs.22,221 as of June 30, 2015, as compared to Rs.21,857 as of March 31, 2015. The borrowings primarily consist of packing credit and other rupee loans drawn by the parent company.

Short term borrowings consist of the following:

|                                   | As at            |                  |
|-----------------------------------|------------------|------------------|
|                                   | June 30, 2015    | March 31, 2015   |
| Packing credit borrowings         | Rs.22,204        | Rs.20,857        |
| Other foreign currency borrowings | 17               | -                |
| Other rupee borrowings            | -                | 1,000            |
|                                   | <b>Rs.22,221</b> | <b>Rs.21,857</b> |

An interest rate profile of short term borrowings from banks is given below:

|                                   | As at         |                       |                |                       |
|-----------------------------------|---------------|-----------------------|----------------|-----------------------|
|                                   | June 30, 2015 |                       | March 31, 2015 |                       |
|                                   | Currency      | Interest Rate         | Currency       | Interest Rate         |
| Packing credit borrowings         | USD           | LIBOR + 10 to 40 bps  | USD            | LIBOR + 10 to 40 bps  |
|                                   | EURO          | LIBOR + 7.5 to 20 bps | EURO           | LIBOR + 7.5 to 20 bps |
|                                   | RUB           | 9.80% to 21%          | RUB            | 9.80% to 22.30%       |
| Other foreign currency borrowings | RUB           | 14.90%                | -              | -                     |
| Other rupee borrowings            | -             | -                     | INR            | 10%                   |

**Long-term borrowings**

Long-term borrowings consist of the following:

|  | As at         |                |
|--|---------------|----------------|
|  | June 30, 2015 | March 31, 2015 |

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|  |                  |                  |
|--|------------------|------------------|
| Foreign currency borrowing by the Company's Swiss subsidiary               | Rs.8,741         | Rs.10,292        |
| Foreign currency borrowing by the parent company                           | 9,547            | 9,375            |
| Foreign currency borrowing by the Company's U.K. subsidiary <sup>(1)</sup> | -                | 740              |
| Obligations under finance leases   | 891              | 862              |
|  | <b>Rs.19,179</b> | <b>Rs.21,269</b> |
| <b>Current portion</b>   |                  |                  |
| Foreign currency borrowing by the Company's Swiss subsidiary               | Rs.7,001         | Rs.6,875         |
| Obligations under finance leases   | 95               | 87               |
|  | <b>Rs.7,096</b>  | <b>Rs.6,962</b>  |
| <b>Non-current portion</b>   |                  |                  |
| Foreign currency borrowing by the Company's Swiss subsidiary               | Rs.1,740         | Rs.3,417         |
| Foreign currency borrowing by the parent company                           | 9,547            | 9,375            |
| Foreign currency borrowing by the Company's U.K. subsidiary <sup>(1)</sup> |                  | 740              |
| Obligations under finance leases   | 796              | 775              |
|  | <b>Rs.12,083</b> | <b>Rs.14,307</b> |

<sup>(1)</sup> During the three months ended June 30, 2015, the Company's U.K subsidiary repaid the foreign currency borrowing.

In the above table, the term "Swiss subsidiary" refers to Dr. Reddy's Laboratories, SA and the term "U.K. Subsidiary" refers to Dr. Reddy's Laboratories (EU) Limited.

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During the year ended March 31, 2012, Dr. Reddy s Laboratories, SA (one of the Company s subsidiaries in Switzerland) (the Swiss Subsidiary ) borrowed U.S.\$220 from certain institutional lenders. The Swiss Subsidiary is required to repay the loan in eight equal quarterly installments commencing at the end of the 39th month and continuing until the end of the 60th month from September 30, 2011. The parent company has guaranteed all obligations of the Swiss Subsidiary under the loan agreement.

As part of this arrangement, the Company incurred U.S.\$3.73 in arrangement fees and other administrative charges. The Company accounted for these costs as transaction costs under IAS 39 and they are being amortized over the term of the loan using the effective interest method. The carrying amount of this loan, measured at amortized cost using the effective interest rate method, as on June 30, 2015 and March 31, 2015 was Rs.8,741 and Rs.10,292, respectively.

During the three months ended June 30, 2015, the Swiss subsidiary repaid the third installment of U.S.\$27.5 due under the loan agreement.

The loan agreement imposes various financial covenants on both the parent company and the Swiss Subsidiary. As of June 30, 2015, the Company was in compliance with such financial covenants.

***Long-term borrowing of the parent company***

During the year ended March 31, 2014, the Company borrowed U.S.\$150. The Company is required to repay the loan in five equal quarterly installments commencing at the end of the 54th month and continuing until the end of the 66th month after August 12, 2013.

The loan agreement imposes various financial covenants on the Company. As of June 30, 2015, the Company was in compliance with such financial covenants.

The interest rate profile of long-term loans and borrowings (other than obligations under finance leases) is given below:

| <b>June 30, 2015</b> |                      | <b>As at</b> | <b>March 31, 2015</b> |                      |
|----------------------|----------------------|--------------|-----------------------|----------------------|
| <b>Currency</b>      | <b>Interest Rate</b> |              | <b>Currency</b>       | <b>Interest Rate</b> |

|                             |     |                     |     |                      |
|-----------------------------|-----|---------------------|-----|----------------------|
| Foreign currency borrowings | USD | LIBOR+100 to 125bps | USD | LIBOR+100 to 125 bps |
|                             | -   | -                   | GBP | LIBOR+130 bps        |

*Undrawn lines of credit from bankers*

The Company had undrawn lines of credit of Rs.12,422 and Rs.10,438 as of June 30, 2015 and March 31, 2015, respectively, from its banks for working capital requirements. The Company has the right to draw upon these lines of credit based on its requirements.

*Non-derivative financial liabilities designated as cash flow hedges*

The Company has designated some of its foreign currency borrowings from banks (non-derivative financial liabilities) as hedging instruments for hedge of foreign currency risk associated with highly probable forecasted transactions and, accordingly, applies cash flow hedge accounting for such relationships. Re-measurement gain/loss on such non-derivative financial liabilities is recorded in the Company's hedging reserve as a component of equity and re-classified to the income statement as revenue in the period corresponding to the occurrence of the forecasted transactions. The carrying value of such non-derivative financial liabilities as of June 30, 2015 and March 31, 2015 was Rs.8,751 and Rs.10,313, respectively.



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|  | <b>For the three months ended June 30,</b> |                 |
|--|--|-----------------|
|  | <b>2015</b>                                | <b>2014</b>     |
| Loss/(profit) on sale/disposal of property, plant and equipment and other intangibles, net | Rs.26                                      | Rs.40           |
| Sale of spent chemical   | (77)                                       | (150)           |
| Miscellaneous income   | (74)                                       | (75)            |
|  | <b>Rs.(125)</b>                            | <b>Rs.(185)</b> |

**15. Finance (expense)/income, net**

Finance (expense)/income, net consists of the following:

|  | <b>For the three months ended June 30,</b> |               |
|--|--|---------------|
|  | <b>2015</b>                                | <b>2014</b>   |
| Interest income                                  | Rs.352                                     | Rs.224        |
| Dividend and profit on sale of other investments | 233  | 53            |
| Foreign exchange gain/(loss), net <sup>(1)</sup> | (88)                                       | 476           |
| Interest expense                                 | (281)                                      | (272)         |
|  | <b>Rs.216</b>                              | <b>Rs.481</b> |

<sup>(1)</sup> During the three months ended June 30, 2015, the Company recorded a foreign exchange loss of Rs.99 on translation of certain monetary assets and liabilities of its subsidiary in Venezuela. Refer to Note 23 of these unaudited condensed consolidated interim financial statements for further details.

**16. Share capital and share premium**

During the three months ended June 30, 2015 and 2014, 176,748 and 226,171 equity shares, respectively, were issued as a result of the exercise of vested options granted to employees pursuant to the Dr. Reddy s Employees Stock Option Plan-2002 and Dr. Reddy s Employees Stock Option Plan-2007. Each of the options exercised had an exercise price of Rs.5, being equal to the par value of the underlying shares. The amount of grant date fair value previously recognized for these options has been transferred from share based payment reserve to share premium in the unaudited condensed consolidated statement of changes in equity.

**17. Employee stock incentive plans**

Pursuant to the special resolutions approved by the shareholders in the Annual General Meetings held on September 24, 2001 and on July 27, 2005, respectively, the Company instituted the Dr. Reddy's Employees Stock Option Plan-2002 (the DRL 2002 Plan) and the Dr. Reddy's Employees ADR Stock Option Plan-2007 (the DRL 2007 Plan), each of which allows for grants of stock options to eligible employees.

The terms and conditions of the grants made during the three months ended June 30, 2015 under the above plans were as follows:

| <b>Particulars</b> | <b>Number of instruments</b> | <b>Exercise price</b> | <b>Vesting period</b> | <b>Contractual life</b> |
|--------------------|------------------------------|-----------------------|-----------------------|-------------------------|
| DRL 2002 Plan      | 102,224                      | Rs.5.00               | 1 to 4 years          | 5 years                 |
| DRL 2007 Plan      | 40,184                       | Rs.5.00               | 1 to 4 years          | 5 years                 |

The above grants were made on May 11, 2015.

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The terms and conditions of the grants made during the three months ended June 30, 2014 under the above plans were as follows:

| <b>Particulars</b> | <b>Number<br/>of<br/>instruments</b> | <b>Exercise price</b> | <b>Vesting<br/>period</b> | <b>Contractual<br/>life</b> |
|--------------------|--------------------------------------|-----------------------|---------------------------|-----------------------------|
| DRL 2002 Plan      | 230,340                              | Rs.5.00               | 1 to 4 years              | 5 years                     |
| DRL 2007 Plan      | 44,796                               | Rs.5.00               | 1 to 4 years              | 5 years                     |

The above grants were made on May 25, 2014 and June 15, 2014.

The weighted average inputs used in computing the fair value of such grants were as follows:

|                         | <b>May 11, 2015</b> | <b>June 15, 2014</b> | <b>May 25, 2014</b> |
|-------------------------|---------------------|----------------------|---------------------|
| Expected volatility     | 25.98%              | 23.15%               | 22.52%              |
| Exercise price          | Rs.5.00             | Rs.5.00              | Rs.5.00             |
| Option life             | 2.5 Years           | 2.5 Years            | 2.5 Years           |
| Risk-free interest rate | 7.87%               | 8.38%                | 8.50%               |
| Expected dividends      | 0.60%               | 0.74%                | 0.78%               |
| Grant date share price  | Rs.3,359.70         | Rs.2,445.15          | Rs.2,308.70         |

In addition to the above, during the year ended March 31, 2015, the Company adopted a new program to grant performance linked stock options to certain employees under the DRL 2002 Plan and the DRL 2007 Plan. Under this program, performance targets are measured each year against pre-defined interim targets over the three year period ending on March 31, 2017 and eligible employees are granted stock options upon meeting such targets. The stock options so granted are ultimately vested with the employees who meet subsequent service vesting conditions which range from 1 to 4 years. After vesting, such stock options generally have a maximum contractual term of five years.

The fair value of services received in return for stock options granted to employees is measured by reference to the fair value of stock options granted. The fair value of stock options has been measured using the Black-Scholes-Merton valuation model at the date of the grant.

*Share-based payment expense*

For the three months ended June 30, 2015 and 2014, the Company recorded employee share based payment expense of Rs.106 and Rs.95, respectively. As of June 30, 2015, there was approximately Rs.808 of total unrecognized

compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of 3.59 years.

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**DR. REDDY S LABORATORIES LIMITED**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**18. Employee benefit plans**

*Gratuity benefits provided by the parent company*

In accordance with applicable Indian laws, the Company has a defined benefit plan which provides for gratuity payments (the Gratuity Plan ) and covers certain categories of employees in India. The Gratuity Plan provides a lump sum gratuity payment to eligible employees at retirement or termination of their employment. The amount of the payment is based on the respective employee s last drawn salary and the years of employment with the Company. Effective September 1, 1999, the Company established the Dr. Reddy s Laboratories Gratuity Fund (the Gratuity Fund ) to fund the Gratuity plan. Liabilities in respect of the Gratuity Plan are determined by an actuarial valuation, based upon which the Company makes contributions to the Gratuity Fund. Trustees administer the contributions made to the Gratuity Fund. Amounts contributed to the Gratuity Fund are primarily invested in Indian government bonds and corporate debt securities. A small portion of the fund is also invested in equity securities of Indian companies.

For the three months ended June 30, 2015 and 2014, the net periodic benefit cost was Rs.45 and Rs.45, respectively.

*Compensated absences*

The Company provides for accumulation of compensated absences by certain categories of its employees. These employees can carry forward a portion of the unutilized compensated absences and utilize it in future periods or receive cash in lieu thereof as per the Company s policy. The Company records a liability for compensated absences in the period in which the employee renders the services that increases this entitlement. The total liability recorded by the Company towards this benefit was Rs.630 and Rs.616 as at June 30, 2015 and March 31, 2015, respectively.

*Long term incentive plan*

Certain senior management employees of the Company participate in a long term incentive plan which is aimed at rewarding the individual, based on performance of such individual, their business unit/function and the Company as a whole, with significantly higher rewards for superior performances. The total liability recorded by the Company towards this benefit was Rs.432 and Rs.323 as at June 30, 2015 and March 31, 2015, respectively.

**19. Income taxes**

Income tax expense is recognized based on the Company s best estimate of the average annual income tax rate for the fiscal year applied to the pre-tax income of the interim period. The average annual income tax rate is determined for each taxing jurisdiction and applied individually to the interim period pre-tax income of each jurisdiction. The difference between the estimated average annual income tax rate and the enacted tax rate is accounted for by a number of factors, including the effect of expenses that are not deductible for tax purposes, income exempted from income taxes, and effects of changes in tax laws and rates.

The Company's consolidated weighted average tax rate for the three months ended June 30, 2015 and 2014 were 21.6% and 21.5%, respectively. Income tax expense was Rs.1,720 for the three months ended June 30, 2015, as compared to income tax expense of Rs.1,505 for the three months ended June 30, 2014.

Total tax expense recognized directly in the equity amounted to Rs.350 for the three months ended June 30, 2015, as compared to Rs.30 for the three months ended June 30, 2014. Such tax expenses/benefits were primarily due to tax effects on the changes in fair value of available for sale financial instruments and the foreign exchange gain/loss on cash flow hedges.

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During the three months ended June 30, 2015, the Company entered into transactions with the following related parties:

Green Park Hotel and Resorts Limited for hotel services;

Dr. Reddy s Foundation towards contributions for social development;

Pudami Educational Society towards contributions for social development;

Dr. Reddy s Institute of Life Sciences for research and development services; and

Stamlo Hotels Private Limited for hotel services.

These are enterprises over which key management personnel have control or significant influence. Key management personnel consists of the Company s Directors and members of the Company s Management Council.

The Company has also entered into cancellable operating lease transactions with key management personnel and their relatives.

Further, the Company contributes to the Dr. Reddy s Laboratories Gratuity Fund, which maintains the plan assets of the Company s Gratuity Plan for the benefit of its employees.

The following is a summary of significant related party transactions:

|  | <b>For the three months ended June 30,</b> |             |
|--|--|-------------|
|  | <b>2015</b>                                | <b>2014</b> |
| Purchases of raw materials <sup>(1)</sup>  | Rs.-                                       | Rs.5        |
| Research and development services received | 27   | 22          |
| Contributions towards social development   | 48   | 55          |
| Hotel expenses paid                        | 8  | 11          |
|  | 9  | 9           |

Lease rentals paid under cancellable operating leases to key management personnel and their relatives

(1) The figures for the three months ended June 30, 2014 include transactions with Ecologic Chemicals Limited ( Ecologic ). Ecologic is not a related party of the Company as at and for the three months ended June 30, 2015 and, accordingly, the transactions with Ecologic during such period are not included in the above summary. The Company had the following amounts due from related parties:

|  | <b>June 30, 2015</b> | <b>As at<br/>March 31, 2015</b> |
|--|----------------------|---------------------------------|
| Key management personnel (towards rent deposits) | Rs.8                 | Rs.8                            |

The Company had the following amounts due to related parties:

|                        | <b>June 30, 2015</b> | <b>As at<br/>March 31, 2015</b> |
|------------------------|----------------------|---------------------------------|
| Due to related parties | Rs.0                 | Rs.4                            |

The following table describes the components of compensation paid or payable to key management personnel:

|   | <b>For the three months ended June 30,</b> |               |
|---|--|---------------|
|   | <b>2015</b>                                | <b>2014</b>   |
| Salaries and other benefits <sup>(1)</sup>  | Rs.86                                      | Rs.77         |
| Contributions to defined contribution plans | 5  | 4             |
| Commission to directors                     | 78   | 80            |
| Share-based payments expense                | 16   | 11            |
| <b>Total</b>                                | <b>Rs.185</b>                              | <b>Rs.172</b> |

(1) In addition to the above, the Company has accrued an amount of Rs.36 towards a long term incentive plan, for the services rendered by key management personnel during the quarter ended June 30, 2015. Refer to Note 18 of these unaudited condensed consolidated interim financial statements for further details.

Some of the key management personnel of the Company are also covered under the Company's Gratuity Plan along with the other employees of the Company. Proportionate amounts of gratuity accrued under the Company's Gratuity Plan have not been separately computed or included in the above disclosure.



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(in millions, except share and per share data)

**21. Disclosure of Expense by Nature**

The following table shows supplemental information related to certain nature of expense items for the three months ended June 30, 2015 and 2014, respectively.

| <b>Particulars</b>            | <b>Cost of revenues</b> | <b>For the three months ended June 30, 2015</b>     |  | <b>Total</b> |
|-------------------------------|-------------------------|---|--|--------------|
|                               |                         | <b>Selling, general and administrative expenses</b> | <b>Research and development expenses</b> |              |
| Employee benefits             | Rs.2,265                | Rs.4,055  | Rs.1,182                                 | Rs.7,502     |
| Depreciation and amortization | 1,127                   | 871   | 269                                      | 2,267        |

  

| <b>Particulars</b>            | <b>Cost of revenues</b> | <b>For the three months ended June 30, 2014</b>     |  | <b>Total</b> |
|-------------------------------|-------------------------|---|--|--------------|
|                               |                         | <b>Selling, general and administrative expenses</b> | <b>Research and development expenses</b> |              |
| Employee benefits             | Rs.2,436                | Rs.3,893  | Rs.835                                   | Rs.7,164     |
| Depreciation and amortization | 954                     | 735   | 183                                      | 1,872        |

**22. Contingencies**

The Company is involved in disputes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings, including patent and commercial matters that arise from time to time in the ordinary course of business. The more significant matters are discussed below. Most of the claims involve complex issues. Often, these issues are subject to uncertainties and therefore the probability of a loss, if any, being sustained and an estimate of the amount of any loss is difficult to ascertain. Consequently, for a majority of these claims, it is not possible to make a reasonable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings. This is due to a number of factors, including: the stage of the proceedings (in many cases trial dates have not been set) and the overall length and extent of pre-trial discovery; the entitlement of the parties to an action to appeal a decision; clarity as to theories of liability; damages and governing law; uncertainties in timing of litigation; and the possible need for further legal proceedings to establish the appropriate amount of damages, if any. In these cases, the Company discloses information with respect to the nature and facts of the case. The Company also believes that disclosure of the amount sought by plaintiffs, if that is known, would not be meaningful with respect to those legal proceedings.

Although there can be no assurance regarding the outcome of any of the legal proceedings or investigations referred to in this Note, the Company does not expect them to have a materially adverse effect on its financial position, as it

believes that possibility of loss in excess of amounts accrued (if any) is not probable. However, if one or more of such proceedings were to result in judgments against the Company, such judgments could be material to its results of operations in a given period.

***Product and patent related matters***

*Norfloxacin, India litigation*

The Company manufactures and distributes Norfloxacin, a formulations product and in limited quantities, the active pharmaceutical ingredient norfloxacin. Under the Drugs Prices Control Order (the DPCO ) the National Pharmaceutical Pricing Authority (the NPPA ) established by the Government of India had the authority to designate a pharmaceutical product as a specified product and fix the maximum selling price for such product. In 1995, the NPPA issued a notification and designated Norfloxacin as a specified product and fixed the maximum selling price. In 1996, the Company filed a statutory Form III before the NPPA for the upward revision of the maximum selling price and a writ petition in the Andhra Pradesh High Court (the High Court ) challenging the validity of the designation on the grounds that the applicable rules of the DPCO were not complied with while fixing the maximum selling price. The High Court had previously granted an interim order in favor of the Company; however it subsequently dismissed the case in April 2004.

The Company filed a review petition in the High Court in April 2004 which was also dismissed by the High Court in October 2004. Subsequently, the Company appealed to the Supreme Court of India, New Delhi (the Supreme Court ) by filing a Special Leave Petition, which is currently pending.

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**NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**22. Contingencies (continued)**

*Product and patent related matters (continued)*

During the year ended March 31, 2006, the Company received a notice from the NPPA demanding the recovery of the price charged by the Company for sales of Norfloxacin in excess of the maximum selling price fixed by the NPPA, which was Rs.285 including interest. The Company filed a writ petition in the High Court challenging this demand order. The High Court admitted the writ petition and granted an interim order, directing the Company to deposit 50% of the principal amount claimed by the NPPA, which was Rs.77. The Company deposited this amount with the NPPA in November 2005. In February 2008, the High Court directed the Company to deposit an additional amount of Rs.30, which was deposited by the Company in March 2008. In November 2010, the High Court allowed the Company's application to include additional legal grounds that the Company believes will strengthen its defense against the demand. For example, the Company has added as grounds that trade margins should not be included in the computation of amounts overcharged, and that it is necessary for the NPPA to set the active pharmaceutical ingredient price before the process of determining the ceiling on the formulation price. In October 2013, the Company filed an additional writ petition before the Supreme Court challenging the inclusion of Norfloxacin as a specified product under the DPCO, which is currently pending. In January 2015, the NPPA filed a counter affidavit stating that the inclusion of Norfloxacin was based upon the recommendation of a committee consisting of experts in the field.

Based on its best estimate, the Company has recorded a provision for the potential liability related to the allegedly overcharged amount including interest thereon, and believes that possibility of any liability that may arise on account of penalties pursuant to this litigation is not probable. In the event the Company is unsuccessful in this litigation in the Supreme Court, it will be required to remit the sale proceeds in excess of the notified selling prices to the Government of India with interest and including penalties, if any, which amounts are not readily ascertainable.

*Nexium United States litigations*

Five federal antitrust class action lawsuits were brought on behalf of direct purchasers of Nexium<sup>®</sup>, and ten federal class action lawsuits were brought under both state and federal law on behalf of end-payors of Nexium<sup>®</sup>. These actions were filed against various generic manufacturers, including the Company and its U.S. subsidiary Dr. Reddy's Laboratories, Inc. These actions were consolidated in the United States District Court for the District of Massachusetts.

The complaints alleged that AstraZeneca and the involved generic manufacturers settled patent litigation related to Nexium<sup>®</sup> capsules in ways that violated antitrust laws. The Company consistently maintained that its conduct complied with all applicable laws and that the complaints were without merit. In response to a motion for summary

judgment made by the Company, the Court found that the plaintiffs had failed to demonstrate that the Company's settlement of patent litigation with AstraZeneca included any large or unjustified reverse payment that, in itself, would amount to a violation of antitrust laws.

On October 20, 2014, the Company reached a settlement with a majority of the plaintiffs, subject to the Court's approval. Under the terms of the settlement, the Company will not make any payment to the plaintiffs.

The Court granted preliminary approval of the Company's settlement on January 28, 2015 and the next hearing is scheduled on September 29, 2015.

In addition, two complaints, similar in nature to those referenced above, were filed in the Court of Common Pleas in Philadelphia, Pennsylvania by plaintiffs who chose to opt out of the class action lawsuit. No dispositive motions have been filed in these actions.

*Reclast and Zometa United States litigation*

In January 2013, Novartis AG ( Novartis ) brought patent infringement actions against the Company and a number of other generic companies in the United States District Court for the District of New Jersey. Novartis asserted that the Company's ANDA referencing Reclast® would infringe Novartis' U.S. Patent No. 8,052,987 and that the Company's ANDA referencing Zometa® would infringe Novartis' U.S. Patent No. 8,324,189. In February 2013, Novartis sought a temporary restraining order and a preliminary injunction prohibiting the Company and the other generic defendants from launching generic equivalents to the Reclast® and Zometa® products. On March 1, 2013, the Court denied Novartis' motion for a temporary restraining order.

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**NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**22. Contingencies (continued)**

*Product and patent related matters (continued)*

Later in March 2013, the Company launched its generic version of Novartis Zomet<sup>®</sup> Injection (zoledronic acid, 4 mg/5mL product) and in April 2013, the Company launched its generic version of Novartis Reclast<sup>®</sup> Injection (zoledronic acid, 5 mg/100mL product). After the Company launched its products, Novartis withdrew its application for a preliminary injunction. The Company believes that the asserted patents are either invalid or not infringed by the Company's products. Discovery in these cases continues and no date for trial has been scheduled. No provision related to this litigation is made in these unaudited condensed consolidated interim financial statements as of June 30, 2015. If Novartis is ultimately successful in its patent infringement case, the Company could be required to pay damages related to the sale of its generic equivalents to the Reclast<sup>®</sup> and Zometa<sup>®</sup> products.

*Child resistant packaging matter*

In May 2012, the Consumer Product Safety Commission ( CPSC ) requested that Dr. Reddy's Laboratories Inc., a wholly-owned subsidiary of the Company in the United States, provide certain information with respect to compliance with requirements of special packaging for child resistant blister packs for 6 products sold by the Company in the United States during the period commencing in 2002 through 2011. The Company provided the requested information. The CPSC subsequently alleged in a letter dated April 30, 2014 that the Company has violated the Consumer Product Safety Act ( CPSA ) and the Poison Prevention Packaging Act ( PPPA ) and intends to seek civil penalties. Specifically, the CPSC asserted, among other things, that from or about August 14, 2008 through June 1, 2012, the Company sold prescription drugs having unit dose packaging that failed to comply with the CPSC's special child resistant packaging regulations under the PPPA and failed to issue general certificates of conformance. In addition, the CPSC asserted that the Company violated the CPSA by failing to immediately advise the CPSC of the alleged violations. The Company disagrees with the CPSC's allegations and is engaged in discussions with the CPSC regarding its compliance with the regulations.

Simultaneously, the Department of Justice (the DOJ ) is also currently investigating a complaint related to these issues under the Federal False Claims Act. A meeting with the DOJ occurred on August 20, 2014 and the Company provided some additional clarifying information to the DOJ subsequent to that meeting.

At this stage of the proceedings, the Company cannot conclude that the likelihood of an unfavorable outcome is either probable or remote. Accordingly, no provision related to these investigations and claims is made in these unaudited condensed consolidated interim financial statements as of June 30, 2015. An unfavorable outcome in these matters could result in significant liabilities, which could have a material adverse effect on the Company.

*Namenda United States Litigations*

On June 8, 2015, a lawsuit was filed in the United States District Court for the Southern District of New York alleging that certain parties, including the Company, violated federal antitrust laws as a consequence of having settled patent litigation related to the anti-alzheimer's drug Namenda® (memantine) tablets during a period from about 2009 until 2010.

The plaintiff, A. F. of L. Building Trades Welfare Plan, states in the complaint that it brings this action on behalf of itself as an end-payor purchaser of Namenda® tablets (i.e., an insurer) and as representative for a proposed class of similarly situated plaintiffs.

The plaintiffs seek damages based upon an allegation made in the complaint that the defendants entered into patent settlements regarding Namenda® tablets for the purpose of delaying generic competition and facilitating the brand innovator's attempt to shift sales from the original immediate release product to the more recently introduced extended release product. The Company believes that the complaint lacks merit and that the Company's conduct complied with all applicable laws and regulations.

At this preliminary stage, there has been little substantive activity in this case and the Court has set an initial hearing for September 11, 2015.

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**(in millions, except share and per share data)**

**22. Contingencies (continued)**

*Environmental matters*

*Land pollution*

The Indian Council for Environmental Legal Action filed a writ in 1989 under Article 32 of the Constitution of India against the Union of India and others in the Supreme Court of India for the safety of people living in the Patancheru and Bollaram areas of Medak district of the then existing undivided state of Andhra Pradesh. The Company has been named in the list of polluting industries. In 1996, the Andhra Pradesh District Judge proposed that the polluting industries compensate farmers in the Patancheru, Bollaram and Jeedimetla areas for discharging effluents which damaged the farmers' agricultural land. The compensation was fixed at Rs.0.0013 per acre for dry land and Rs.0.0017 per acre for wet land. Accordingly, the Company has paid a total compensation of Rs.3. The Company believes that the possibility of additional liability is remote. The Andhra Pradesh High Court disposed of the writ petition on February 12, 2013 and transferred the case to the National Green Tribunal ( NGT ), Chennai, India. The interim orders passed in the writ petitions will continue until the matter is decided by the NGT.

*Water pollution and air pollution*

During the year ended March 31, 2012, the Company, along-with 14 other companies, received a notice from the Andhra Pradesh Pollution Control Board ( APP Control Board ) to show cause as to why action should not be initiated against them for violations under the Indian Water Pollution Act and the Indian Air Pollution Act. Furthermore, the APP Control Board issued orders to the Company to (i) stop production of all new products at the Company's manufacturing facilities in Hyderabad, India without obtaining a Consent for Establishment , (ii) cease manufacturing products at such facilities in excess of certain quantities specified by the APP Control Board and (iii) furnish a bank guarantee to assure compliance with the APP Control Board's orders.

The Company appealed the APP Control Board orders to the Andhra Pradesh Pollution Appellate Board (the APP Appellate Board ). The APP Appellate Board, on the basis of a report of a fact-finding advisory committee, recommended to the Andhra Pradesh Government to allow expansion of units fully equipped with Zero-Liquid Discharge ( ZLD ) facilities and otherwise found no fault with the Company (on certain conditions). The APP Appellate Board's decision was challenged by one of the petitioners in the National Green Tribunal and the matter is currently pending before it.

Separately, the Andhra Pradesh Government, following recommendations of the APP Appellate Board, published a notification in July 2013 that allowed expansion of production of all types of existing bulk drug and bulk drug intermediate manufacturing units subject to the installation of ZLD facilities and the outcome of cases pending in the National Green Tribunal. Importantly, the notification directed pollution load of industrial units to be assessed at the

point of discharge (if any) as opposed to point of generation.

In September 2013, the Ministry of Environment and Forests, based on the revised Comprehensive Environment Pollution Index, issued a notification that re-imposed a moratorium on expansion of industries in certain areas where some of the Company's manufacturing facilities are located. This notification overrides the Andhra Pradesh Government's notification that conditionally permitted expansion.

***Indirect taxes related matters***

*Assessable value of products supplied by a vendor to the Company*

During the year ended March 31, 2003, the Central Excise Authorities of India (the "Central Excise Authorities") issued a demand notice to a vendor of the Company regarding the assessable value of products supplied by this vendor to the Company. The Company has been named as a co-defendant in this demand notice. The Central Excise Authorities demanded payment of Rs.176 from the vendor, including penalties of Rs.90. Through the same notice, the Central Excise Authorities issued a penalty claim of Rs.70 against the Company. During the year ended March 31, 2005, the Central Excise Authorities issued an additional notice to this vendor demanding Rs.226 from the vendor, including a penalty of Rs.51. Through the same notice, the Central Excise Authorities issued a penalty claim of Rs.7 against the Company. Furthermore, during the year ended March 31, 2006, the Central Excise Authorities issued an additional notice to this vendor demanding Rs.34. The Company filed appeals against these notices with the Customs, Excise and Service Tax Appellate Tribunal (the "CESTAT"). In October 2006, the CESTAT passed an order in favor of the Company setting aside all of the above demand notices. In July 2007, the Central Excise Authorities appealed against CESTAT's order in the Supreme Court of India, New Delhi. The matter is pending in the Supreme Court of India, New Delhi.



**Table of Contents****DR. REDDY S LABORATORIES LIMITED****NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****(in millions, except share and per share data)****22. Contingencies (continued)***Indirect taxes related matters (continued)**Distribution of input service tax credits*

The Central Excise Authorities have issued various show cause notices to the Company objecting to the Company's methodology of distributing input service tax credits claimed for one of the Company's facilities. The below table shows the details of each of such show cause notices and the consequential actions on and status of the same.

| <b>Period covered<br/>under the notice</b> | <b>Amount demanded</b>                                  | <b>Status</b>   |
|--|---|---|
| March 2008 to<br>September 2009            | Rs.102 plus 100% penalties<br>and interest thereon      | The Company has filed an appeal before the CESTAT.  |
| October 2009 to<br>March 2011              | Rs.125 plus penalties of<br>Rs.100 and interest thereon | The Company has filed an appeal before the CESTAT.  |
| April 2011 to<br>March 2012                | Rs.51 plus interest and<br>penalties                    | The Company has responded to such show cause notice and is<br>currently awaiting a hearing with the Central Excise<br>Commissioner. |
| April 2012 to<br>March 2013                | Rs.54 plus interest and<br>penalties                    | The Company has responded to such show cause notice and is<br>currently awaiting a hearing with the Central Excise<br>Commissioner. |
| April 2013 to                              | Rs.69 plus interest and                                 | The Company has responded to such show cause notice and is  |

March 2014 penalties currently awaiting a hearing with the Central Excise Commissioner.

The Company believes that the possibility of any liability that may arise on account of the allegedly inappropriate distribution of input service tax credits is not probable. Accordingly, no provision relating to these claims has been made in these unaudited condensed consolidated interim financial statements as of June 30, 2015.

***Value Added Tax ( VAT ) matter***

The Company received various show cause notices from the Government of Telangana's Commercial Taxes Department objecting to the Company's methodology of calculation of VAT input credit. The below table shows the details of each of such show cause notices and the consequential actions on and status of the same.

| <b>Period covered under the notice</b> | <b>Amount demanded</b> | <b>Status</b>  |
|--|------------------------|--|
| April 2006 to March 2009               | Rs.66 plus 10% penalty | The Company has filed an appeal before the Sales Tax Appellate Tribunal.             |
| April 2009 to March 2011               | Rs.59 plus 10% penalty | The Company has filed an appeal before the Sales Tax Appellate Tribunal.             |
| April 2011 to March 2013               | Rs.86 plus 10% penalty | The Appellate Deputy Commissioner passed an order partially in favor of the Company. |

The Company has recorded a provision of Rs.41 for the three months ended June 30, 2015, and believes that the possibility of any further liability that may arise on account of the allegedly inappropriate claims to VAT credits is not probable.

***Others***

Additionally, the Company is in receipt of various show cause notices from the Indian Sales Tax authorities. The disputed amount is Rs.46. The Company has responded to such show cause notices and believes that the chances of any liability arising from such notices are less than probable. Accordingly, no provision is made in these unaudited condensed consolidated interim financial statements as of June 30,2015.

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**22. Contingencies (continued)**

***Fuel Surcharge Adjustments***

The Andhra Pradesh Electricity Regulatory Commission (the APERC) passed various orders approving the levy of Fuel Surcharge Adjustment (FSA) charges for the period from April 1, 2008 to March 31, 2013 by power distribution companies from all the consumers of electricity in the then existing undivided state of Andhra Pradesh, India where the Company's headquarters and principal manufacturing facilities are located. Separate writ petitions filed by the Company for various periods, challenging and questioning the validity and legality of this levy of FSA charges by the APERC, are pending before the High Court of Andhra Pradesh and the Supreme Court of India.

After taking into account all of the available information and legal provisions, the Company has recorded an amount of Rs.219 as the potential liability towards FSA charges. The total amount approved by APERC for collection by the power distribution companies from the Company in respect of FSA charges for the period from April 1, 2008 to March 31, 2013 is Rs.482. As of June 30, 2015, the Company has made payments under protest of Rs.354 as demanded by the power distribution companies as part of monthly electricity bills. The Company remains exposed to additional financial liability should the orders passed by the APERC be upheld by the Courts.

***Direct taxes related matters***

During the year ended March 31, 2014, the Indian Income Tax authorities disallowed for tax purposes certain business transactions entered into by the parent company with its wholly-owned subsidiaries. The associated tax impact is Rs.570. The Company believes that such business transactions are allowed for tax deduction under Indian Income Tax laws and has accordingly filed an appeal with the Income Tax Appellate Authorities. The Company further believes that the probability of succeeding in this matter is more likely than not and therefore no provision was made in respect of this matter in these unaudited condensed consolidated interim financial statements as of June 30, 2015.

Additionally, the Company is contesting various other disallowances by the Indian Income Tax authorities. The associated tax impact is Rs.611. The Company believes that the chances of an unfavorable outcome in each of such disallowances are less than probable and accordingly, no provision was made in respect of these matters in these unaudited condensed consolidated interim financial statements as of June 30, 2015.

***Others***

Additionally, the Company is 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. Except as discussed above, the Company does not believe that there are any such contingent liabilities that are expected to have any material adverse effect on its financial statements.

### 23. Venezuela operations

Dr. Reddy's Venezuela, C.A., a wholly owned subsidiary of the Company, is primarily engaged in the import of pharmaceutical products from the parent company and other subsidiaries of the Company and the sale of such products in Venezuela. During the three months ended June 30, 2015, the Company's revenues from Venezuela were Rs.1,766 (Venezuelan bolivar ( VEF ) 175).

In February 2015, the Venezuelan government launched an overhaul of the exchange rate system and introduced a new exchange rate mechanism. The Marginal Currency System (known as SIMADI ) is the third mechanism in the new three-tier exchange rate regime and allows for legal trading of the Venezuelan bolivar for foreign currency with fewer restrictions than other mechanisms in Venezuela (CENCOEX and SICAD).

The new second tier, SICAD, is a combination of the former second and third tiers, SICAD I and SICAD II, with a rate of approximately 12 VEF per U.S.\$1.00. The first tier, the official exchange rate, is unchanged and sells dollars at 6.3 VEF per U.S.\$1.00 for preferential goods.

As of June 30, 2015 the exchange rates in all the three aforesaid tiers were as follows:

CENCOEX preferential rate - 6.3 VEF per U.S.\$;

SICAD rate - 12 VEF per U.S.\$; and

SIMADI rate - approximately 198 VEF per U.S.\$.

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**(in millions, except share and per share data)**

**23. Venezuela operations (continued)**

As per the existing laws in Venezuela, payments towards the importation of pharmaceutical products qualify for the CENCOEX preferential rate of 6.3 VEF per U.S.\$1.00, and the Company has been receiving approvals from the CENCOEX at such preferential rate. Accordingly, monetary assets of VEF 294 (which equate to the amount of import payments (U.S.\$47) that are eligible and pending for approval) and VEF 245 (which equate to the amount of import payments (U.S.\$39) that are eligible and pending for approval) as of June 30, 2015 and March 31, 2015, respectively, are translated at the preferential rate.

The balance of the Company's Venezuelan monetary assets and liabilities, in the net amount of VEF 96 and VEF 88 as of June 30, 2015 and March 31, 2015, respectively, may not qualify for the preferential rate of 6.3 VEF per U.S.\$1.00. Following the guidance available in IAS 21, the Company assessed the rate at which such balances are likely to be realized or settled and believes that it is appropriate to use the SIMADI rate (VEF 198 per U.S.\$1.00 as of June 30, 2015 and VEF 193 per U.S.\$1.00 as of March 31, 2015) to translate such balances. Consequently, foreign exchange loss of Rs.99 and Rs.843 on translation of such monetary assets and liabilities at the SIMADI rate was recorded under finance expenses for the three months ended June 30, 2015 and the year ended March 31, 2015, respectively.

**24. Agreement with Merck Serono**

On June 6, 2012, the Company and Merck Serono (a division of Merck KGaA, Darmstadt, Germany) entered into an agreement to co-develop a portfolio of biosimilar compounds in oncology, primarily focused on monoclonal antibodies. The arrangement covers co-development, manufacturing and commercialization of the compounds around the globe, with some specific country exceptions. Pursuant to the arrangement, the Company will lead early product development and complete Phase I development. Upon completion of Phase I, Merck Serono will carry out manufacturing of the compounds and will lead Phase III development. All of the related development expenditures will be shared by the parties in the proportion specified in the agreement.

Merck Serono will undertake commercialization globally, outside the United States and with the exception of select emerging markets which will be co-exclusive or where the Company maintains exclusive rights. The Company will receive royalty payments from Merck Serono upon commercialization by them. In the United States, the parties will co-commercialize the products on a profit-sharing basis.

The Company has evaluated its involvement in the arrangement under IFRS 11 and concluded that the arrangement is a joint operation.

**25. Collaboration agreement with Curis, Inc.**

On January 18, 2015, Aurigene Discovery Technologies Limited ( Aurigene ), a wholly owned subsidiary of the parent company, entered into a Collaboration, License and Option Agreement (the Collaboration Agreement ) with Curis, Inc. ( Curis ) to discover, develop and commercialize small molecule antagonists for immuno-oncology and precision oncology targets.

Under the Collaboration Agreement, Aurigene has the responsibility for conducting all discovery and preclinical activities, including Investigational New Drug ( IND ) enabling studies and providing Phase 1 clinical trial supply, and Curis is responsible for all clinical development, regulatory and commercialization efforts worldwide, excluding India and Russia. The Collaboration Agreement provides that the parties will collaborate exclusively in immuno-oncology for an initial period of approximately two years, with the option for Curis to extend the broad immuno-oncology exclusivity.

As a partial consideration for the collaboration, pursuant to a Stock Purchase Agreement dated January 18, 2015, Curis issued to Aurigene approximately 17.1 million shares of its common stock, representing 19.9% of its outstanding common stock immediately prior to the transaction (approximately 16.6% of its outstanding common stock immediately after the transaction). The shares issued to Aurigene are subject to a lock-up agreement until January 18, 2017, with the shares being released from such lock-up in 25% increments on each of July 18, 2015, January 18, 2016, July 18, 2016 and January 18, 2017, subject to acceleration of release of all the shares in connection with a change of control of Curis. In connection with the issuance of such shares, Curis and Aurigene entered into a Registration Rights Agreement dated January 18, 2015 which provides for certain registration rights with respect to resales of the shares.

The fair value of these equity shares on the date of agreement was Rs.1,452 (U.S.\$23.5). The upfront consideration received in the form of equity shares is deferred and recognized as revenue over the period in which Aurigene has continuing performance obligations. Furthermore, these equity shares are classified as available-for-sale financial instruments and are remeasured at fair value at every reporting date. Accordingly, Rs.1,012 and Rs.1,102, representing the gain arising from changes in the fair value of such equity shares, was recorded in Other comprehensive income for the three months ended June 30, 2015 and the year ended March 31, 2015, respectively.

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**25. Collaboration agreement with Curis, Inc. (continued)**

During the three months ended June 30, 2015, one of the development milestones was met and the Company received U.S.\$2 from Curis towards such milestone. The revenue recognition of the consideration received is also deferred and shall be recognized over the period in which Aurigene has continuing performance obligations.

Aurigene is also entitled to development and commercial milestone payments as follows:

for the first two programs: up to U.S.\$52.5 per program, including U.S.\$42.5 for approval and commercial milestones, plus pre-specified approval milestone payments for additional indications, if any;

for the third and fourth programs: up to U.S.\$50 per program, including U.S.\$42.5 for approval and commercial milestones, plus pre-specified approval milestone payments for additional indications, if any; and

for any program thereafter: up to U.S.\$140.5 per program, including U.S.\$87.5 in approval and commercial milestones, plus pre-specified approval milestone payments for additional indications, if any.

In addition, Curis has agreed to pay Aurigene royalties, ranging between high single digits to 10%, on its net sales in territories where it commercializes products. Furthermore, Aurigene is entitled to receive a share of Curis revenues from sublicenses, which share varies based upon specified factors such as the sublicensed territory, whether the sublicense revenue is royalty based or non-royalty based and, in some cases, the stage of the applicable molecule and product at the time the sublicense is granted.

This arrangement is accounted for as a joint operation under IFRS 11.

**26. Agreement with Pierre Fabre**

On February 11, 2014, Aurigene Discovery Technologies Limited ( Aurigene ), a wholly owned subsidiary of the parent company, entered into a collaborative license, development and commercialization agreement with Pierre Fabre, the third largest French pharmaceutical company. This agreement granted Pierre Fabre global worldwide rights (excluding India) to a new immune checkpoint modulator, AUNP-12. AUNP-12 will be in development for numerous cancer indications.

Under the terms of this agreement, Aurigene received a non-refundable upfront payment from Pierre Fabre. Such non-refundable upfront consideration is deferred and recognized as revenue over the period in which Aurigene has continuing performance obligations.

**27. Subsequent events**

*Agreement with Amgen*

On August 6, 2015, the Company entered into a collaboration agreement with Amgen, Inc. ( Amgen ) to market and distribute three of Amgen s medicines in India in the areas of oncology and cardiology. Under the terms of the collaboration, the Company shall perform a full range of regulatory and commercial services to seek approval and launch Kyprolis® (carfilzomib), BLINCYTO® (blinatumomab) and Repatha (evolocumab) in India.



**Table of Contents****ITEM 2. OPERATING AND FINANCIAL REVIEW, TREND INFORMATION**

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements, the related cash flow statements and notes, and the Operating and Financial Review and Prospects included in our Annual Report on Form 20-F for the fiscal year ended March 31, 2015, which is on file with the SEC, and the unaudited condensed consolidated interim financial statements contained in this report on Form 6-K.

This discussion contains forward-looking statements that involve risks and uncertainties. When used in this discussion, the words *anticipate*, *believe*, *estimate*, *intend*, *will* and *expect* and other similar expressions as to us or our business are intended to identify such forward-looking statements. We undertake no obligation to publicly update or revise the forward-looking statements, whether as a result of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements. Factors that could cause or contribute to such differences include those described under the heading *Risk Factors* in our Form 20-F. Readers are cautioned not to place reliance on these forward-looking statements that speak only as of their dates.

**Three months ended June 30, 2015 compared to the three months ended June 30, 2014**

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

|   | For the three months ended June 30, |                  | 2014               |                  | Increase/<br>(Decrease) |
|---|-------------------------------------|------------------|--------------------|------------------|-------------------------|
|   | 2015                                |                  |                    |                  |                         |
|   | Rs. in<br>millions                  | % of<br>Revenues | Rs. in<br>millions | % of<br>Revenues |                         |
| <b>Revenues</b>   | <b>Rs.37,578</b>                    | <b>100.0%</b>    | <b>Rs.35,175</b>   | <b>100.0%</b>    | <b>7%</b>               |
| <b>Gross profit</b>                                       | <b>22,947</b>                       | <b>61.1%</b>     | <b>20,844</b>      | <b>59.3%</b>     | <b>10%</b>              |
| Selling, general and administrative expenses              | 10,973                              | 29.2%            | 10,679             | 30.4%            | 3%                      |
| Research and development expenses                         | 4,387                               | 11.7%            | 3,875              | 11.0%            | 13%                     |
| Other (income)/expense, net                               | (125)                               | (0.3%)           | (185)              | (0.5%)           | (32%)                   |
| <b>Results from operating activities</b>                  | <b>7,712</b>                        | <b>20.5%</b>     | <b>6,475</b>       | <b>18.4%</b>     | <b>19%</b>              |
| Finance (expense)/income, net                             | 216                                 | 0.6%             | 481                | 1.4%             | (55%)                   |
| Share of profit of equity accounted investees, net of tax | 49                                  | 0.1%             | 53                 | 0.2%             | (8%)                    |
| <b>Profit before tax</b>                                  | <b>7,977</b>                        | <b>21.2%</b>     | <b>7,009</b>       | <b>19.9%</b>     | <b>14%</b>              |
| Tax expense   | 1,720                               | 4.6%             | 1,505              | 4.3%             | 14%                     |
| <b>Profit for the period</b>                              | <b>Rs.6,257</b>                     | <b>16.6%</b>     | <b>Rs.5,504</b>    | <b>15.6%</b>     | <b>14%</b>              |
| <b>Revenues</b>   |                                     |                  |                    |                  |                         |

Our overall consolidated revenues were Rs.37,578 million during the three months ended June 30, 2015, an increase of 7% as compared to Rs.35,175 million during the three months ended June 30, 2014.

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

|   | 2015                           |                        | 2014             |                        | Increase/<br>(Decrease) |
|---|--------------------------------|------------------------|------------------|------------------------|-------------------------|
|   | Rs. in millions <sup>(1)</sup> | Revenues<br>% of Total | Rs. in millions  | Revenues<br>% of Total |                         |
| Global Generics                                   | Rs.30,961                      | 82%                    | Rs.28,739        | 82%                    | 8%                      |
| Pharmaceutical Services and<br>Active Ingredients | 5,614                          | 15%                    | 5,538            | 16%                    | 1%                      |
| Proprietary Products                              | 697                            | 2%                     | 570              | 1%                     | 22%                     |
| Others  | 306                            | 1%                     | 328              | 1%                     | (7%)                    |
| <b>Total</b>                                      | <b>Rs.37,578</b>               | <b>100%</b>            | <b>Rs.35,175</b> | <b>100%</b>            | <b>7%</b>               |

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<sup>(1)</sup> During the three months ended June 30 2015, there was a change in the monitoring of performance of one product from the Global Generics segment to the Proprietary Products segment. Consequently, revenues and related costs of this product for previous periods have been reclassified to conform to such change.

**Segment Analysis**

***Global Generics***

Revenues from our Global Generics segment were Rs.30,961 million during the three months ended June 30, 2015, an increase of 8% as compared to Rs.28,739 million during the three months ended June 30, 2014.

After taking into account the impact of exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, the foregoing increase in revenues of this segment was attributable to the following factors:

an increase of approximately 15% resulting from the introduction of new products during the intervening period;

an increase of approximately 2% resulting from a net increase in the sales volumes of existing products in this segment; and

a decrease of approximately 9% resulting from the net impact of changes in sales prices of the products in this segment.

*North America (the United States and Canada):* Our Global Generics segment's revenues from North America (the United States and Canada) were Rs.18,515 million during the three months ended June 30, 2015, an increase of 14% as compared to the three months ended June 30, 2014. In U.S. dollar absolute currency terms (i.e., U.S. dollars without taking into account the effect of currency exchange rates), such revenues increased by 9% in the three months ended June 30, 2015 as compared to the three months ended June 30, 2014.

This revenue growth was largely attributable to the following:

revenues from new products launched between July 1, 2014 and June 30, 2015, such as valganciclovir, Habitrol<sup>®</sup>, allopurinol, isotretinoin 30 mg, sirolimus and fluconazole tabs;

a gain in market share of certain of our existing products, such as decitabine, azacitidine, divluproex sodium ER, amlodipine besylate and atorvastatin calcium, fondaparinux sodium and sumatriptan injection; and

partially offset by lower realization from certain of our existing products.

There were no new products launched in the United States during the three months ended June 30, 2015.

During the three months ended June 30, 2015, we made 6 new ANDA filings, and as of June 30, 2015 our cumulative ANDA filings were 225. As of June 30, 2015, we had 73 ANDAs pending approval at the U.S. FDA, of which 47 are Paragraph IV filings, and we believe we are the first to file with respect to 16 of these filings.

*India:* Our Global Generics segment's revenues from India during the three months ended June 30, 2015 were Rs.4,756 million, an increase of 19% as compared to the three months ended June 30, 2014. This growth was largely attributable to the increase in the sales volumes and the sales price of our existing major brands, and revenues from new brands launched between July 1, 2014 and June 30, 2015 in India. According to IMS Health in its Moving Quarterly Total report for the three months ended June 30, 2015, our secondary sales in India grew by 12.1% during such period, as compared to the India pharmaceutical market's growth of 13.6% during such period. During the three months ended June 30, 2015, we launched 6 new brands in India.

On April 1, 2015, we entered into a definitive agreement to acquire a select portfolio of products business of UCB in the territories of India, Nepal, Sri Lanka and Maldives, and we completed the acquisition on June 16, 2015. Refer to Note 4 of our unaudited condensed consolidated interim financial statements for further details.

*Emerging Markets:* Our Global Generics segment's revenues from Emerging Markets (which is comprised of Russia, other countries of the former Soviet Union, Romania and certain other countries from our Rest of the World markets, primarily Venezuela, South Africa and Australia) during the three months ended June 30, 2015 were Rs.5,776 million, a decrease of 20% as compared to the three months ended June 30, 2014.

*Russia:* Our Global Generics segment's revenues from Russia during the three months ended June 30, 2015 were Rs.2,303 million, a decrease of 45% as compared to the three months ended June 30, 2014. In Russian rouble absolute currency terms (i.e., Russian roubles without taking into account the effect of currency exchange rates), such revenues decreased by 22% during the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. Our over-the-counter (OTC) division's revenues from Russia during the three months ended June 30, 2015 were 37% of our total revenues from Russia.

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According to IMS Health, as per its report for the three months ended June 30, 2015, our sales value (in Russian roubles) growth and volume growth from Russia, as compared to the Russian pharmaceutical market sales value (in Russian roubles) growth and volume growth during the three months ended June 30, 2015 was as follows:

|                        | <b>For the three months ended June 30, 2015</b> |               |                                      |               |
|------------------------|---|---------------|--------------------------------------|---------------|
|                        | <b>Dr. Reddy's</b>                              |               | <b>Russian pharmaceutical market</b> |               |
|                        | <b>Sales value</b>                              | <b>Volume</b> | <b>Sales value</b>                   | <b>Volume</b> |
| Prescription (Rx)      | 1.27%   | (13.27%)      | 11.30%                               | (5.90%)       |
| Over-the-counter (OTC) | 7.76%   | (13.78%)      | 8.56%                                | (9.37%)       |
| Total (Rx + OTC)       | 3.61%   | (13.40%)      | 9.88%                                | (8.35%)       |

As per the above referenced IMS Health report, our volume market share during the three months ended June 30, 2015 and during the three months ended June 30, 2014 was as follows:

|                        | <b>For the three months ended June 30,</b> |             |
|------------------------|--|-------------|
|                        | <b>2015</b>                                | <b>2014</b> |
| Prescription (Rx)      | 4.49%                                      | 4.87%       |
| Over-the-counter (OTC) | 0.65%                                      | 0.69%       |
| Total (Rx + OTC)       | 1.81%                                      | 1.91%       |

*Other countries of the former Soviet Union and Romania:* Our Global Generics segment's revenues from other countries of the former Soviet Union and Romania were Rs.797 million during the three months ended June 30, 2015, an increase of 1% as compared to the three months ended June 30, 2014.

*Rest of the World Markets:* We refer to all markets of this segment other than North America (the United States and Canada), Europe, Russia and other countries of the former Soviet Union, Romania and India as our Rest of the World markets. Our Global Generics segment's revenues from our Rest of the World markets were Rs.2,676 million during the three months ended June 30, 2015, an increase of 21% as compared to the three months ended June 30, 2014. The growth was primarily attributable to our revenue growth in Venezuela.

*Europe:* Our Global Generics segment's revenues from Europe primarily constitutes the revenues from Germany, the United Kingdom and our out-licensing business across Europe, and were Rs.1,912 million during the three months ended June 30, 2015, an increase of 43% as compared to the three months ended June 30, 2014. This growth was primarily on account of revenues from new products launched between July 1, 2014 and June 30, 2015, partially offset by our reduced participation in the competitive bidding tenders sponsored by statutory health insurance funds and other health insurance providers in Germany.

**Pharmaceutical Services and Active Ingredients (PSAI)**

Our PSAI segment's revenues during the three months ended June 30, 2015 were Rs.5,614 million, an increase of 1% as compared to the three months ended June 30, 2014. After taking into account the impact of the exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, this was largely attributable to:

decreased sales of active pharmaceutical ingredients during the three months ended June 30, 2015, primarily attributable to decreased sales volumes and sales prices of existing products, partially offset by revenues from certain new products launched between July 1, 2014 and June 30, 2015, all of which decreased our PSAI segment's revenues by approximately 8%; and

increased customer orders in our pharmaceutical development services, which increased our PSAI segment's revenues by approximately 9%.

During the three months ended June 30, 2015, we filed 9 Drug Master Files ( DMFs ) worldwide. Cumulatively, our total worldwide DMFs as of June 30, 2015 were 747, including 219 DMFs in the United States.

**Table of Contents****Gross Profit**

Our total gross profit was Rs.22,947 million during the three months ended June 30, 2015, representing 61.1% of our revenues for that period, as compared to Rs.20,844 million during the three months ended June 30, 2014, representing 59.3% of our revenues for that period.

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

|  | For the three months ended June 30,<br>2015 |                      | 2014             |                      |
|--|---|----------------------|------------------|----------------------|
|  | Gross Profit                                | % of Segment Revenue | Gross Profit     | % of Segment Revenue |
| Global Generics                                | Rs.20,917                                   | 67.6%                | Rs.19,054        | 66.3%                |
| Pharmaceutical Services and Active Ingredients | 1,332                                       | 23.7%                | 1,234            | 22.3%                |
| Proprietary Products                           | 577   | 82.8%                | 471              | 82.7%                |
| Others   | 121   | 39.4%                | 85               | 25.8%                |
| <b>Total</b>                                   | <b>Rs.22,947</b>                            | <b>61.1%</b>         | <b>Rs.20,844</b> | <b>59.3%</b>         |

After taking into account the impact of the exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, the gross profits from our Global Generics segment increased to 67.6% during the three months ended June 30, 2015 from 66.3% during the three months ended June 30, 2014. This increase was largely attributable to higher realizations from new products and the impact of changes in our existing business mix (i.e., an increase in the proportion of sales of higher gross margin products and a decrease in the proportion of sales of lower gross margin products).

The gross profits from our PSAI segment increased to 23.7% during the three months ended June 30, 2015, from 22.3% during the three months ended June 30, 2014. This increase was primarily due to an increase in sales of products with higher gross profit margins during the three months ended June 30, 2015.

**Selling, general and administrative expenses**

Our selling, general and administrative expenses were Rs.10,973 million during the three months ended June 30, 2015, an increase of 3% as compared to Rs.10,679 million during the three months ended June 30, 2014. After taking into account the impact of exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, this increase was largely attributable to the following:

increased amortization, primarily due to our acquisition of the Habitrol® brand during the year ended March 31, 2015, which increased our selling, general and administrative expenses by approximately 2%; and

increased personnel costs, due to annual raises and new recruitments, which increased our selling, general and administrative expenses by approximately 2%.

As a proportion of our total revenues, our selling, general and administrative expenses decreased to 29.2% during the three months ended June 30, 2015 from 30.4% during the three months ended June 30, 2014.

### **Research and development expenses**

Our research and development expenses were Rs.4,387 million during the three months ended June 30, 2015, an increase of 13% as compared to Rs.3,875 million during the three months ended June 30, 2014. Our research and development expenses increased to 11.7% of our total revenues during the three months ended June 30, 2015 from 11.0% of our total revenues during the three months ended June 30, 2014. This increase was in accordance with our strategy to expand our research and development efforts in complex formulations, differentiated formulations and biosimilar compounds.



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### **Other (income)/expense, net**

Our net other income was Rs.125 million during the three months ended June 30, 2015, as compared to a net other income of Rs.185 million during the three months ended June 30, 2014.

### **Finance (expense)/income, net**

Our net finance income was Rs.216 million during the three months ended June 30, 2015 as compared to a net finance income of Rs.481 million during the three months ended June 30, 2014. The increase in net finance income was due to the following:

profit on sale of investments of Rs.233 million during the three months ended June 30, 2015, as compared to profit on sale of investments of Rs.53 million during the three months ended June 30, 2014;

net interest income of Rs.71 million during the three months ended June 30, 2015, as compared to net interest expense of Rs.48 million during the three months ended June 30, 2014; and

net foreign exchange loss of Rs.88 million during the three months ended June 30, 2015, as compared to net foreign exchange gain of Rs.476 million during the three months ended June 30, 2014.

### **Profit before tax**

As a result of the above, our profit before tax was Rs.7,977 million during the three months ended June 30, 2015, an increase of 14% as compared to Rs.7,009 million during the three months ended June 30, 2014.

### **Tax expense**

Our consolidated weighted average tax rate was 21.6% during the three months ended June 30, 2015, as compared to 21.5% during the three months ended June 30, 2014.

Our tax expense was Rs.1,720 million during the three months ended June 30, 2015, as compared to Rs.1,505 million during the three months ended June 30, 2014.

### **Profit for the period**

As a result of the above, our net profit was Rs.6,257 million during the three months ended June 30, 2015, representing 16.6% of our total revenues for such period, as compared to Rs.5,504 million during the three months ended June 30, 2014, representing 15.6% of our total revenues for such period.

**Table of Contents****ITEM 3. LIQUIDITY AND CAPITAL RESOURCES**

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

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. We borrowed U.S.\$220 million during the year ended March 31, 2012, which is to be repaid in eight quarterly installments beginning in December 2014. Further, we also borrowed U.S.\$150 million during the year ended March 31, 2014, which is to be repaid in five quarterly installments beginning in February 2018. These loans were obtained primarily to repay some of our then existing short term and long term borrowings and to meet our 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.

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

|   | <b>For the three months ended June 30,</b>     |               |                   |
|---|--|---------------|-------------------|
|   | <b>2015</b>                                    | <b>2015</b>   | <b>2014</b>       |
|   | (U.S.\$ in millions, Rs. in millions)          |               |                   |
|   | <i>Convenience translation<br/>into U.S.\$</i> |               |                   |
| Net cash from/(used in):                                    |  |               |                   |
| Operating activities  | U.S.\$135                                      | Rs.8,608      | Rs.4,558          |
| Investing activities  | (73)   | (4,636)       | (3,136)           |
| Financing activities  | (50)   | (3,168)       | (3,359)           |
| <b>Net increase/(decrease) in cash and cash equivalents</b> | <b>U.S.\$13</b>                                | <b>Rs.804</b> | <b>Rs.(1,937)</b> |

In addition to cash, inventory and accounts receivable, our unused sources of liquidity included approximately Rs.12,422 million in available credit under revolving credit facilities with banks as of June 30, 2015. We had no other material unused sources of liquidity as of June 30, 2015.

**Operating Activities**

The net result of operating activities was a cash inflow of Rs.8,608 million for the three months ended June 30, 2015, as compared to a cash inflow of Rs.4,558 million for the three months ended June 30, 2014.

The net cash provided by operating activities increased during the three months ended June 30, 2015 primarily on account of improvement in our business performance that resulted in an increase of Rs.1,064 million in our earnings before interest expense, profit/loss on sale of investments, tax expense, depreciation and amortization ( Adjusted EBITDA ) (Rs.9,940 million for the three months ended June 30, 2015, as compared to Rs.8,876 million for the three months ended June 30, 2014). Further, there was a net difference in cash flows on account of an increase in working capital by Rs.2,665 million during the three months ended June 30, 2015 as compared to the three months ended June 30, 2014, primarily as a result of an increase in the balances of our trade receivables and inventories during the

three months ended June 30, 2014.

Our average days sales outstanding ( DSO ) as at June 30, 2015, March 31, 2015 and June 30, 2014, based on the most recent quarter's sales, were 101 days, 95 days and 93 days, respectively. The increase in our DSO was primarily due to an increase in the proportion of sales made to customers with longer credit periods in the United States.

### ***Investing Activities***

Our investing activities resulted in a net cash outflow of Rs.4,636 million and Rs.3,136 million for the three months ended June 30, 2015 and 2014, respectively. This increase in net cash outflow of Rs.1,500 million was primarily due to:

an amount of Rs.7,936 million paid to UCB for the acquisition of a select portfolio of products business during the three months ended June 30, 2015 (Refer to Note 4 of our unaudited condensed consolidated interim financial statements for further details);

a net increase in proceeds from redemption of investments in mutual funds and fixed deposits having an original maturity of more than three months by Rs.7,067 million during the three months ended June 30, 2015, as compared to the three months ended June 30, 2014; and

a net increase in amounts spent on property, plant and equipment by Rs.529 million during the three months ended June 30, 2015, as compared to the three months ended June 30, 2014.

**Table of Contents*****Financing Activities***

Our financing activities resulted in a net cash outflow of Rs.3,168 million and Rs.3,359 million for the three months ended June 30, 2015 and 2014, respectively.

During the three months ended June 30, 2015, we repaid short term borrowings and long term borrowings of Rs.318 million and Rs.2,572 million, respectively. The long term borrowings repaid primarily consist of the third installment of the long term borrowing drawn by our Swiss subsidiary and of the entire long term borrowing of our U.K subsidiary. Refer to Note 13 of our unaudited condensed consolidated interim financial statements for further details.

In comparison, during the three months ended June 30, 2014, we repaid short term borrowings of Rs.3,257 million.

***Principal Debt Obligations***

The following table provides a list of our principal debt obligations (excluding capital lease obligations) outstanding as of June 30, 2015:

| <b>Debt</b>                               | <b>Principal Amount</b><br>(U.S.\$ in millions, Rs. in millions) |           | <b>Currency</b> | <b>Interest Rate</b>   |
|---|--|-----------|-----------------|------------------------|
|   | <i>Convenience<br/>translation into<br/>U.S.\$</i>               |           |                 |                        |
| Packing credit borrowings<br>(short term) | U.S.\$349  | Rs.22,204 | USD             | LIBOR + 10 to 40 bps   |
|   |  |           | EURO            | LIBOR + 7.5 to 20 bps  |
|   |  |           | RUB             | 9.80% to 21%           |
| Other short term<br>borrowings            | 0  | 17        | RUB             | 14.9%                  |
| Long-term borrowings                      | 288  | 18,298    | USD             | LIBOR + 100 to 125 bps |

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**ITEM 4. OTHER MATTERS**

*Civil Investigative Demand from the Office of the Attorney General, State of Texas*

On or about November 10, 2014, Dr. Reddy's Laboratories, Inc., one of our subsidiaries in the U.S., received a Civil Investigative Demand ( CID ) from the Office of the Attorney General, State of Texas (the Texas AG ) requesting certain information, documents and data regarding sales and price reporting in the U.S. marketplace of certain products for the period of time between January 1, 1995 and the date of CID. On February 20, 2015, Dr. Reddy's Laboratories, Inc. made an initial production of information in response to the CID. Compliance with the CID is ongoing.

*Subpoena duces tecum from the Office of the Attorney General, California*

On November 3, 2014, Dr. Reddy's Laboratories, Inc. received a subpoena duces tecum to appear before the Office of the Attorney General, California (the California AG ) and produce records and documents relating to the pricing of certain products. A set of five interrogatories related to pricing practices was served as well. On February 27, 2015, Dr. Reddy's Laboratories, Inc. made an initial production of information in response to the subpoena. Compliance with the subpoena is ongoing.

*Senior level changes*

In August 2015, Umang Vohra, the Executive Vice President ( EVP ) & Head North America Generics of the Company decided to pursue career opportunities outside of the Company. Consequently, the following management changes are being made:

Alok Sonig, currently the EVP & Head India Generics Business will now take over as the EVP & Head North America Generics Business of the Company. He will also be the administrative head of the North America region for the Company.

M.V. Ramana, is being given expanded responsibility to provide leadership to the Company's India Generics business and will be re-designated as the EVP & Head Branded Markets (India and Emerging Countries) of the Company.

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**ITEM 5. EXHIBITS**

| Exhibit Number | Description of Exhibits                                 |
|----------------|---|
| 99.1           | Report of Independent Registered Public Accounting Firm |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DR. REDDY S LABORATORIES LIMITED

(Registrant)

Date: August 28, 2015

By: /s/ Sandeep Poddar

Name: Sandeep Poddar

Title: Company Secretary