

DR REDDYS LABORATORIES LTD
Form 6-K
March 12, 2009

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 December 31, 2008
Commission File Number 1-15182
DR. REDDY S LABORATORIES LIMITED
(Translation of registrant's name into English)
7-1-27, Ameerpet
Hyderabad, Andhra Pradesh 500 016, India
+91-40-23731946

(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 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):

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-_____.

QUARTERLY REPORT
Quarter Ended December 31, 2008

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 financial statements are presented in Indian rupees and are prepared in accordance with International Financial Reporting Standards.

Convenience translation into U.S. dollars with respect to the unaudited interim condensed consolidated 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, to the FASB are to the Financial Accounting Standards Board, to SFAS are to the Statements of Financial Accounting Standards, to SAB are to Staff Accounting Bulletin and to the EITF are to the Emerging Issues Task Force. 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 shall mean Dr. Reddy's Laboratories Limited and its subsidiaries. Dr. Reddy's is a registered trademark of Dr. Reddy's Laboratories Limited in India. Other trademarks or trade names used in this Quarterly Report are trademarks registered in the name of Dr. Reddy's Laboratories Limited or are pending before the respective trademark registries.

Except as otherwise stated in this report, all translations from Indian rupees to U.S. dollars are based on the noon buying rate in the City of New York on December 31, 2008 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was Rs.48.58 per U.S.\$1.00. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. Information contained in our website, www.drreddys.com, is not part of this 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 AND/OR FURNISHED WITH THE SECURITIES AND EXCHANGE COMMISSION (SEC) FROM TIME TO TIME.

TABLE OF CONTENTS

ITEM 1. FINANCIAL STATEMENTS	4
ITEM 2. OPERATING AND FINANCIAL REVIEW	52
ITEM 3. LIQUIDITY AND CAPITAL RESOURCES	58
ITEM 4. RECENT DEVELOPMENTS	60
ITEM 5. TREND INFORMATION	61
ITEM 6. EXHIBITS	64
SIGNATURES	65
EX 99.1: INDEPENDENT AUDITOR S REPORT ON REVIEW OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION	

ITEM 1. FINANCIAL STATEMENTS**DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS****(in millions except share and per share data)**

Particulars	Note	December		As of	
		31, 2008	31, 2008	December 31, 2008	March 31, 2008
		<i>Convenience translation into U.S.\$</i>			
Assets					
Property, plant and equipment	9	U.S.\$ 426	Rs. 20,672	Rs. 16,765	
Goodwill	10	382	18,573	16,997	
Other intangible assets	11	382	18,567	16,756	
Investment in equity accounted investees		5	247	237	
Other investments				3	
Other non-current assets		3	169	80	
Total non-current assets		U.S.\$ 1,199	Rs. 58,228	Rs. 50,838	
Current Assets					
Inventories	12	U.S.\$ 312	Rs. 15,157	Rs. 11,133	
Accounts receivables, net of allowances		266	12,910	6,823	
Other current assets		129	6,246	3,858	
Other investments			16	4,754	
Cash and cash equivalents	13	78	3,784	7,421	
Total current assets		U.S.\$ 785	Rs. 38,113	Rs. 33,989	
Total assets		U.S.\$ 1,983	Rs. 96,341	Rs. 84,827	
Equity					
Share capital		U.S.\$ 17	Rs. 842	Rs. 841	
Share premium		416	20,185	20,036	
Unrealized gain/(loss) on investments			14	(2)	
Foreign currency translation reserve		49	2,388	1,567	
Share based payment reserve		15	744	709	
Hedging reserve		(8)	(400)	(7)	
Equity shares held by controlled trust			(5)	(5)	
Retained earnings		578	28,082	24,211	
Total equity		U.S.\$ 1,067	Rs. 51,850	Rs. 47,350	
Liabilities					
Long term loans and borrowings, excluding current portion	19	U.S.\$ 231	Rs. 11,237	Rs. 12,698	

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Provisions		3		164		123
Other non-current liabilities		8		367		323
Deferred tax liabilities		91		4,400		4,856
Total non-current liabilities		U.S.\$ 333	Rs.	16,168	Rs.	18,000
Bank overdraft		U.S.\$ 23	Rs.	1,101	Rs.	435
Short term loans and borrowings	19	141		6,867		4,428
Long term loans and borrowings, current portion		63		3,059		1,791
Trade payables		138		6,716		5,427
Provisions		37		1,819		627
Other current liabilities		181		8,761		6,769
Total current liabilities		U.S.\$ 583	Rs.	28,323	Rs.	19,477
Total liabilities		U.S.\$ 916	Rs.	44,491	Rs.	37,477
Total equity and liabilities		U.S.\$ 1,983	Rs.	96,341	Rs.	84,827

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

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

Particulars	Note	Nine months ended December 31,			Three months ended December 31,	
		2008	2008	2007	2008	2007
		<i>Convenience translation into U.S.\$</i>				
Revenue		U.S.\$ 1,021	Rs. 49,590	Rs. 36,754	Rs. 18,401	Rs. 12,319
Cost of revenues		491	23,859	18,369	8,129	6,285
Gross profit		U.S.\$ 530	Rs. 25,731	Rs. 18,385	Rs. 10,272	Rs. 6,034
Selling, general and administrative expenses		324	15,754	12,119	5,382	4,121
Research and development expenses		60	2,903	2,510	1,027	894
Write-down of intangible assets				2,883		2,883
Other (income)/expense, net	14	9	439	(253)	110	(101)
Total operating expenses, net		U.S.\$ 393	Rs. 19,096	Rs. 17,259	Rs. 6,519	Rs. 7,797
Results from operating activities		137	6,635	1,126	3,753	(1,763)
Finance income		(7)	(325)	(1,310)	(89)	(257)
Finance expense		29	1,428	828	788	234
Finance (income)/expense, net	15	23	1,103	(482)	699	(23)
Share of profit/(loss) of equity accounted investees, net of income tax			10	2	8	3
Profit before income tax		114	5,542	1,610	3,062	(1,737)
Income tax (expense)/benefit	8	(19)	(933)	1,301	(617)	524
Profit for the period		U.S.\$ 95	Rs. 4,609	Rs. 2,911	Rs. 2,445	\$ (1,213)
Attributable to:						
Equity holders of the Company		95	4,609	2,921	2,445	(1,207)
Minority interest				(10)		(6)
Profit for the period		U.S.\$ 95	Rs. 4,609	Rs. 2,911	Rs. 2,445	\$ (1,213)
Earnings per share	16					
Basic earnings per share of Rs.5/- each		U.S.\$ 0.56	Rs. 27.38	Rs. 17.38	Rs. 14.52	Rs. (7.17)
Diluted earnings per share of Rs.5/- each		U.S.\$ 0.56	Rs. 27.27	Rs. 17.31	Rs. 14.49	Rs. (7.17)

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

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

Particulars	Share capital		Share premium	Unrealized gain/(loss) on other investments	Foreign currency translation reserve	Share based payment reserve
	Shares	Amount	Amount	Amount	Amount	Amount
Balance as of April 1, 2008	168,172,746	Rs.841	Rs.20,036	Rs. (2)	Rs. 1,567	Rs. 709
Issue of equity shares on exercise of options	256,391	1	149			(145)
Share based payment expense						180
Profit for the period						
Dividend paid						
Changes in fair value of investments, net of tax expense of Rs.4				16		
Foreign exchange translation adjustments, net of tax expense of Rs.49					821	
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of Rs.202						
Balance as of December 31, 2008	168,429,137	Rs.842	Rs.20,185	Rs. 14	Rs. 2,388	Rs. 744
Convenience translation into U.S.\$		U.S.\$ 17	U.S.\$ 416		U.S.\$ 49	U.S.\$ 15
Balance as of April 1, 2007	167,912,180	Rs.840	Rs.19,909	Rs. (125)	Rs. 343	Rs. 565
Issue of equity shares on exercise of options	219,962	1	112			(98)

Share based payment expense							182
Profit for the period							
Dividend paid							
Changes in fair value of investments, net of tax benefit of Rs.32				114			
Foreign exchange translation adjustments						117	
Minority interest							

Balance as of December 31, 2007	168,132,142	Rs.841	Rs.20,021	Rs. (11)	Rs. 460	Rs. 649
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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(in millions, except share and per share data)

[Continued from table on page 6, first column(s) repeated]

Particulars	Hedging reserve Amount	Equity shares held by a controlled trust* Amount	Retained earnings Amount	Minority interest Amount	Total equity Amount
Balance as of April 1, 2008	Rs. (7)	Rs.(5)	Rs. 24,211		Rs.47,350
Issue of equity shares on exercise of options					5
Share based payment expense					180
Profit for the period			4,609		4,609
Dividend paid			(738)		(738)
Changes in fair value of investments, net of tax expense of Rs.4					16
Foreign exchange translation adjustments, net of tax expense of Rs.49					821
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of Rs.202	(393)				(393)
Balance as of December 31, 2008	Rs.(400)	Rs.(5)	Rs. 28,082		Rs.51,850
Convenience translation into U.S.\$	U.S.\$ (8)		U.S.\$ 578		U.S.\$ 1,067
Balance as of April 1, 2007		Rs.(5)	Rs. 21,102	Rs. 10	Rs.42,639
Issue of equity shares on exercise of options					15
Share based payment expense					182
Profit for the period			2,921		2,921
Dividend paid			(737)		(737)
Changes in fair value of investments, net of tax benefit of Rs.32					114
Foreign exchange translation adjustments					117
Minority interest				(10)	(10)
Balance as of December 31, 2007		Rs.(5)	23,286	Rs.	Rs.45,241

*

Number of
equity shares
held by a
controlled trust
as of April 1,
2007,
December 31,
2007, April 1,
2008 and
December 31,
2008 is 82,800.

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

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENTS
(in millions, except share and per share data)

Particulars	For the nine months ended December 31,		
	2008	2008	2007
	<i>Convenience translation into U.S.\$</i>		
Cash flows from/(used in) operating activities:			
Profit for the period	U.S.\$ 95	Rs. 4,609	Rs. 2,911
Adjustments for:			
Income tax expense/(benefit)	19	933	(1,301)
Profit on sale of investments	(3)	(126)	(40)
Depreciation and amortization	59	2,846	2,373
Write down of intangible assets			2,883
Inventory write-downs	3	129	313
Allowance for doubtful trade receivable	2	110	24
(Profit)/loss on sale of property, plant and equipment, net		(13)	
Equity in (gain)/loss of equity accounted investees		(10)	(2)
Unrealized exchange (gain)/loss, net	(1)	(34)	(193)
Interest expense, net	13	616	203
Share based payment expense	4	180	182
Negative goodwill on acquisition of business	(3)	(150)	
<i>Changes in operating assets and liabilities:</i>			
Trade receivables	(127)	(6,147)	(318)
Inventories	(66)	(3,209)	(3,322)
Other assets	3	170	(553)
Trade payables	11	553	1,222
Other liabilities and provisions	(1)	(70)	(276)
Income tax paid	(22)	(1,065)	(639)
Net cash from/(used in) operating activities	U. S.\$ (14)	Rs. (678)	Rs. 3,467
Cash flows used in investing activities:			
Expenditures on property, plant and equipment	(78)	(3,798)	(3,818)
Proceeds from sale of property, plant and equipment	1	26	15
Purchase of investments	(177)	(8,601)	(3,984)
Proceeds from sale of investments	278	13,488	1,020
Expenditures on intangible assets	(5)	(246)	(201)
Payment of contingent consideration	(2)	(83)	(232)
Cash paid for acquisition of business	(64)	(3,089)	
Cash paid for acquisition of equity accounted investee, net of cash acquired of Rs.386	(8)	(372)	
Interest received	3	156	576

Net cash used in investing activities	U.S.\$ (52)	Rs. (2,519)	Rs. (6,624)
Cash flows used in financing activities:			
Interest paid	(17)	(802)	(824)
Proceeds from issuance of equity shares		5	15
Proceeds from/(repayment of) short term loans and borrowings, net	40	1,961	(366)
Repayment of long term loans and borrowings, net	(28)	(1,381)	(6,266)
Dividend paid	(15)	(738)	(737)
Net cash used in financing activities	U.S.\$ (20)	Rs. (955)	Rs. (8,178)
Net decrease in cash and cash equivalents	(85)	(4,152)	(11,335)
Effect of exchange rate changes on cash and cash equivalents	(3)	(151)	(653)
Cash and cash equivalents at the beginning of the period	144	6,986	18,061
Cash and cash equivalents at the end of the period	U.S.\$ 55	Rs. 2,683	Rs. 6,073

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

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(in millions, except share and per share data)

1. Reporting Entity

Dr. Reddy s Laboratories Limited (DRL or the parent company) together with its subsidiaries (collectively, the Company) is a leading India-based pharmaceutical company headquartered in Hyderabad, India. The Company s principal areas of operation are in pharmaceutical services and active ingredients, global generics, and proprietary products. The Company s principal research and development facilities are located in Andhra Pradesh, India and in the United States; its principal manufacturing facilities are located in Andhra Pradesh, India, Himachal Pradesh, India and Cuernavaca-Cuautla, Mexico; and its principal marketing facilities are located in India, Russia, the United States, the United Kingdom, Brazil and Germany. The Company s shares trade on the Bombay Stock Exchange and the National Stock Exchange in India and, since April 11, 2001, also on the New York Stock Exchange in the United States. These unaudited condensed consolidated interim financial statements were authorized for issuance by the Company s Board of Directors on March 4, 2009.

2. Basis of preparation of financial statements

a. Statement of compliance

These condensed consolidated interim financial statements as at and for the three and nine months ended December 31, 2008 have been prepared in accordance with IFRS and its interpretations issued by IASB. These condensed consolidated interim financial statements form part of the period covered by the first IFRS annual financial statements for the year ending March 31, 2009 and IFRS 1, *First-time adoption of International Financial Reporting Standards* has been applied. These condensed consolidated interim financial statements do not include all the information required for full annual consolidated financial statements and are prepared in accordance with IAS 34, *Interim Financial Reporting* .

An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the Company is provided in Note 4. This Note includes reconciliations of equity and profit or loss for comparative periods under U.S. GAAP (sometimes referred to herein as Previous GAAP) to those reported for those periods under IFRS.

b. Basis of preparation

These condensed consolidated interim financial statements have been prepared on the basis of relevant IFRS that are effective or available for early adoption at the Company s first IFRS annual reporting date, March 31, 2009. Based on these IFRS, the Board of Directors has made assumptions about the accounting policies expected to be adopted (accounting policies) when the first IFRS annual financial statements are prepared for the year-ending March 31, 2009.

The IFRS that will be effective or available for voluntary early adoption in the annual financial statements for the period ending March 31, 2009 are still subject to change and to the issue of additional interpretation(s) and therefore cannot be determined with certainty. Accordingly, the accounting policies for such annual period that are relevant to this interim financial information will be determined only when the first IFRS financial statements are prepared at March 31, 2009.

The preparation of the condensed consolidated interim financial statements in accordance with IAS 34 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Previous GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening IFRS balance sheet at April 1, 2007 for the purposes of the transition to IFRS, as required by IFRS 1. The impact

of the transition from Previous GAAP to IFRS is explained in Note 4.

c. Basis of measurement/accounting convention

These condensed consolidated interim financial statements have been prepared on the historical cost basis and on an accrual basis, except for the following:

derivative financial instruments are measured at fair value; and

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

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(in millions, except share and per share data)

2. Basis of preparation of financial statements (continued)

d. Functional and presentation currency

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

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

In respect of subsidiaries whose operations are self contained and integrated within their respective countries/regions, the functional currency has been determined to be the local currency of those countries/regions. The assets and liabilities of such subsidiaries are translated into Indian rupees at the rate of exchange prevailing as at the reporting date. Revenues and expenses are translated into Indian rupees at average exchange rates prevailing during the year. Resulting translation adjustments are included in foreign currency translation reserve.

All financial information presented in Indian rupees has been rounded to the nearest million.

e. Convenience translation

The accompanying unaudited condensed consolidated interim financial statements have been prepared in Indian rupees. Solely for the convenience of the reader, the unaudited condensed consolidated interim financial statements as of and for the nine months ended December 31, 2008 have been translated into United States dollars at the noon buying rate in New York City on December 31, 2008 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of U.S.\$1.00 = Rs.48.58. 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.

f. Use of estimates and judgments

The preparation of 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following Notes:

Note 3(b) Assessment of functional currency for foreign operations

Note 3(c) and 7 Financial instruments

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

Note 3(j) Provisions

Note 3(k) Sales returns, rebates and chargeback provisions

Note 3(m) Determination of annual effective tax rate in interim periods and recoverability of deferred tax assets

Note 6 Business combinations

Note 21 Contingencies

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(in millions, except share and per share data)

3. Significant accounting policies

a. Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the condensed consolidated interim financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

Special purpose entities

The Company has established certain special purpose entities (SPEs) for business purposes. The Company does not have any direct or indirect shareholdings in these entities. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Company and the SPE s risks and rewards, the Company concludes that it controls the SPE. SPEs controlled by the Company were established under terms that impose strict limitations on the decision-making powers of the SPE s management and that result in the Company receiving the majority of the benefits related to the SPE s operations and net assets, being exposed to risks incident to the SPE s activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

Associates and jointly controlled entities (equity accounted investees)

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognized at cost. The condensed consolidated interim financial statements include the Company s share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long term investments) is reduced to zero and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

The Company does not consolidate entities where the minority shareholders have certain significant participating rights that provide for effective involvement in significant decisions in the ordinary course of business of such entities. Investments in such entities are accounted by the equity method of accounting.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the condensed consolidated interim financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(in millions, except share and per share data)

3. Significant accounting policies (continued)

b. Foreign currency

Foreign currency transactions

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

Foreign operations

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

Foreign currency differences are recognized directly in equity. Such differences have been recognized in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized directly in equity in the FCTR.

c. Financial instruments

Non-derivative financial instruments

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

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

Cash and cash equivalents

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

Held-to-maturity investments

If the Company has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Company's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(in millions, except share and per share data)

3. Significant accounting policies (continued)

c. Financial instruments (continued)

Financial assets at fair value through profit or loss

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

Other

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

Derivative financial instruments

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

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognized in equity is transferred to the carrying amount of the asset when it is recognized. In other cases the amount recognized in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognized in profit or loss as part of foreign currency gains and losses.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

d. Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment, including assets acquired under a finance lease, are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(in millions, except share and per share data)

3. Significant accounting policies (continued)

d. Property, plant and equipment (continued)

Gains and losses upon disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within other income/expense, net in profit or loss.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings		
Factory and administrative buildings	25	50 years
Ancillary structures	3	15 years
Plant and equipment	3	15 years
Furniture, fixtures and office equipment	4	10 years
Vehicles	4	5 years
Computer equipment	3	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

e. Intangible assets

Goodwill

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

Acquisitions prior to April 1, 2007

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

Acquisitions on or after April 1, 2007

For acquisitions on or after April 1, 2007, goodwill represents the excess of the cost of the acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of

the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit or loss.

Acquisitions of minority interests

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

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(in millions, except share and per share data)

3. Significant accounting policies (continued)

e. Intangible assets (continued)

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditures capitalized include the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are capitalized as a part of the cost of that asset. Other development expenditures are recognized in profit or loss as incurred.

Internal product development expenditures are capitalized only if they meet the recognition criteria as mentioned above. Where regulatory and other uncertainties are such that the criteria are not met the expenditures are recognized in the Company's income statement. This is almost invariably the case prior to approval of the drug by the relevant regulatory authority. Where, however, the recognition criteria are met, intangible assets are capitalized and amortized on a straight-line basis over their useful economic lives from product launch. Payments to in-license products and compounds from external third parties for new research and development projects (in-process research and development), generally taking the form of up-front payments and milestones, are capitalized and amortized, generally on a straight-line basis, over their useful economic lives from product launch.

Intangible assets relating to products in development (both internally generated and externally acquired), other intangible assets not available for use and intangible assets having indefinite useful life are subject to impairment testing at each balance sheet date. All other intangible assets are tested for impairment when there are indications that the carrying value may not be recoverable. Any impairment losses are recognized immediately in the Company's income statement. Trademarks with indefinite useful lives are tested for impairment annually.

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

Advances paid for research and development activities is shown as other receivable in the balance sheet until the time that actual cost is incurred for such research and development activities. Such amounts are capitalized or recognized as an expense, as the case may be, as the related goods are delivered or the related services are performed.

Other intangible assets

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized within other income/expense in profit or loss as incurred.

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(in millions, except share and per share data)

3. Significant accounting policies (continued)

e. Intangible assets (continued)

Amortization

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

Trademarks with finite useful life	3	10 years
Product related intangibles	6	15 years
Beneficial toll manufacturing contract		24 months
Non-competition arrangements	1.5	10 years
Marketing rights	3	16 years
Customer-related intangibles	2	11 years
Other intangibles	5	15 years

f. Leases

At the inception of a lease, the lease arrangement is classified as either a finance lease or an operating lease, based on the substance of the lease arrangement.

Finance leases

A finance lease is recognized as an asset and a liability at the commencement of the lease at the lower of the fair value of the asset and the present value of the minimum lease payments. Initial direct costs, if any, are also capitalized and, subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating leases

Other leases are operating leases and the leased assets are not recognized on the Company's balance sheet. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

g. Inventories

Inventories consist of raw materials, stores and spares, work in progress and finished goods and are measured at the lower of cost and net realizable value. The cost of all categories of inventories, except stores and spares, is based on the first-in first-out principle. Stores and spares is comprised of packing materials, engineering spares (such as machinery spare parts) and consumables (such as lubricants, cotton waste and oils), which are used in operating machines or consumed as indirect materials in the manufacturing process, where cost is based on a weighted average method. Cost includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(in millions, except share and per share data)

3. Significant accounting policies (continued)

h. Impairment

Financial assets

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

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

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

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

Non-financial assets

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

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(in millions, except share and per share data)

3. Significant accounting policies (continued)

i. Employee benefits

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to recognized provident funds and approved superannuation schemes which are defined contribution plans are recognized as an employee benefit expense in profit or loss when they are incurred.

Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of an approved gratuity plan which is a defined benefit plan and certain other defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on risk free government bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the net total of any unrecognized past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Company recognizes actuarial gains and losses using the corridor method. Under this method, to the extent that any cumulative unrecognized actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognized in income over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized.

Termination benefits

Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Compensated leave of absence

Eligible employees are entitled to accumulate compensated absences up to prescribed limits in accordance with the Company's policy and receive cash in lieu thereof. The Company measures the expected cost of accumulating

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(in millions, except share and per share data)

3. Significant accounting policies (continued)

i. Employee benefits (continued)

compensated absences as the additional amount that the Company entities expect to pay as a result of the unused entitlement that has accumulated at the balance sheet date. Such measurement is based on actuarial valuation as at the balance sheet date carried out by a qualified actuary.

Share-based payment transactions

The grant date fair value of options granted to employees, calculated using the Black-Scholes model, is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The increase in equity recognized in connection with a share based payment transaction is presented as a separate component in equity. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest.

j. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Restructuring

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

Onerous contracts

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

k. Revenue

Sale of Goods

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

Revenue from domestic sales of generic products is recognized upon delivery of products to stockists by clearing and forwarding agents of the Company. Revenue from domestic sales of active pharmaceutical

ingredients and intermediates is recognized on delivery of products to customers, from the factories of the Company. Revenue from export sales is recognized when the significant risks and rewards of ownership of products are transferred to the customers, which is based upon the terms of the applicable contract.

Sales of generics in India are made through clearing and forwarding agents to stockists. Significant risks and rewards in respect of ownership of generic products are transferred by the Company when the goods are delivered to stockists from clearing and forwarding agents. Clearing and forwarding agents are generally compensated on a commission basis as a percentage of sales made by them.

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(in millions, except share and per share data)

3. Significant accounting policies (continued)

k. Revenue (continued)

Sales of active pharmaceutical ingredients and intermediates in India are made directly to the end customers generally, formulation manufacturers, from the factories of the Company. Significant risks and rewards in respect of ownership of active pharmaceutical ingredients are transferred by the Company on delivery of the products to the customers. Sales of active pharmaceutical ingredients and intermediates outside India are made directly to the end customers, generally stockists or formulations manufacturers, from the parent company or its consolidated subsidiaries.

The Company has entered into marketing arrangements with certain marketing partners for sale of goods in certain overseas territories. Under such arrangements, the Company sells generic products to the marketing partners at a price agreed in the arrangement. Revenue is recognized on these transactions upon delivery of products to the marketing partners. An additional amount, representing profit share, is recognized as revenue, on the basis of ultimate net sale proceeds, only when realization is certain.

Provisions for chargeback, rebates, discounts and medicaid payments are estimated and provided for in the year of sales and recorded as reduction of revenue. A chargeback claim is a claim made by the wholesaler for the difference between the price at which the product is initially invoiced to the wholesaler and the net price at which it is agreed to be procured from the Company. Provision for such chargebacks are accrued and estimated based on the historical average chargeback rate actually claimed over a period of time, current contract prices with wholesalers/other customers and average inventory holding by the wholesaler. Such provisions are disclosed as a reduction of trade receivable.

During the three months ended December 31, 2008, the Company adjusted its estimate for chargeback and rebate accrual based on certain additional information regarding customer buying patterns and other market developments, which resulted in a credit of U.S.\$5.1 million being recorded as revenues for the three months ended December 31, 2008.

The Company accounts for sales returns by recording an accrual based on the Company's estimate of expected sales returns. The Company deals in various products and operates in various markets. Accordingly, the Company's estimate of sales returns is determined primarily by its experience in these markets. In respect of established products, the Company determines an estimate of sales returns accrual primarily based on historical experience of such sales returns. Additionally, other factors that the Company considers in determining the estimate include levels of inventory in the distribution channel, estimated shelf life, product discontinuances, price changes of competitive products, and introduction of competitive new products, to the extent each of these factors impact the Company's business and markets. The Company considers all these factors and adjusts the sales return accrual to reflect its actual experience. With respect to new products introduced by the Company, those are either extensions of an existing line of product or in a general therapeutic category where the Company has historical experience. The Company's new product launches have historically been in therapeutic categories where established products exist and are sold either by the Company or its competitors. The Company has not yet introduced products in a new therapeutic category where the sales returns experience of such products is not known. The amount of sales returns for the Company's newly launched products do not significantly differ from sales returns experience of current products marketed by the Company or its competitors (as the Company understands based on industry publications). Accordingly, the Company does not expect sales returns for new products to be significantly different from expected sales returns of current products. The Company evaluates sales returns of all its

products at the end of each reporting period and records necessary adjustments, if any.

Services

Revenue from services rendered, which primarily relate to contract research, is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to cost incurred as a percentage of total expected cost.

License fees

Non-refundable milestone payments are recognized in the consolidated statement of operations as and when related services are rendered or agreed milestones are achieved in accordance with the terms of the license agreement, and when the Company has no future obligations or continuing involvement pursuant to such milestone payments. Non-refundable up-front license fees are deferred and recognized when the milestones are earned, in proportion to the amount that each milestone earned bears to the total milestone payments agreed in the license agreement. Where the

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(in millions, except share and per share data)

3. Significant accounting policies (continued)

k. Revenue (continued)

upfront license fees are a composite amount and cannot be attributed to a specific molecule, they are amortized over the development period. The milestone payments increase during the development period as the risk involved decreases. The agreed milestone payments reflect the progress of the development of the molecule and may not be spread evenly over the development period. Accordingly, the milestone payments are a fair representation of the extent of progress made in the development of these underlying molecules. In the event the development of a molecule is discontinued, the corresponding amount of deferred revenue is recognized in the consolidated statement of operations in the period in which the project is terminated.

The Company has entered into certain dossier sales, licensing arrangements and supply arrangements that include certain performance obligations. Based on an evaluation of