
DR.REDDY'S
DR. REDDY'S LABORATORIES LIMITED • ANNUAL REPORT • 2010–11
LIFE. RESEARCH. HOPE

Contents

chairman's letter

DEAR SHAREHOLDERS > 2010-11 has been a very good year for your Company. Here are the key consolidated financial results.

- Consolidated revenue for 2010-11 grew by 6% to ₹ 74,693 millions, or US$ 1.7 billion. In the ten years between 2000-01 and 2010-11, your Company's revenue has been rising at a CAGR of 21%.
- Your Company's EBITDA in 2010-11 was ₹ 16,789 millions, which was higher than the previous year's EBITDA of ₹ 15,828 millions.
- Profit after tax at ₹ 11,040 millions in 2010-11 was also significantly greater than what it was in the previous year.

The year has seen several notable developments, of which four give me great satisfaction. I want to share these with you.

The first is your Company's rapid presence in biosimilars. Let me briefly explain what are biosimilars. Cloning of human genetic material coupled with the development of in vitro biological production systems has allowed the production of most recombinant DNA based biological substances for eventually developing tailor-made and targeted medicines.

Recombinant therapeutic proteins are complex in nature and are made in living cells such as bacteria, yeast, or animal and human cell lines. The most well known recombinant drug is insulin, used for treating diabetes. The fascinating aspect of any biologic — a drug containing a recombinant therapeutic protein — is that it is largely determined by the process of production, namely the choice of the cell type, the development of genetically modified cell for production, the production and purification processes, and how it is eventually formulated into a drug. It is a wonderful combination of science and art. Biosimilars are officially approved versions of innovator biologics that have come off patent. Unlike the more commonly manufactured small-molecule drugs, biologics exhibit much higher molecular complexity, and are quite sensitive to manufacturing process changes. A biosimilar manufacturer neither has access to the originator's molecular clone and the original cell bank; nor to the exact fermentation and purification process and the active drug substance. Thus, biosimilars involve the art of de-constructing how the innovator made the product and, having done so, how to create the 'similar' through different non-patent infringing methods.

Biosimilars are, therefore, not just difficult to engineer and produce, but are also very important in meeting life threatening therapeutic needs. Not surprisingly, these are extremely valuable products.

I am proud that your Company has made its mark in biosimilars, three years ago by launching the first MAB biosimilar in the world. Reditux™, the biosimilar of rituximab used in the treatment of certain lymphomas, leukemia and rheumatoid arthritis, has been a great success. In 2010-11, it grew by 75% over the previous year and ranks among your Company's Top Five brands in India. This year, Dr. Reddy's launched Cresp® in India, the first generic darbepoetin alfa in the world for treating nephrology and oncology indications.

Your Company also launched Peg-grafeel™, an affordable form of pegfilgrastim, which is used to stimulate the bone marrow to fight infection in patients undergoing chemotherapy. Your Company has sold some 1.4 million units of its biosimilars, which have treated almost 97,000 patients across 12 countries.

Second, I am happy with the robustness of your Company's revenues. I believe that it has now reached a stage in its evolution where it can predict a steady growth of baseline revenue, and enjoy the upsides of periodically successful Para IV 'first-to-file' launches in the USA either with 180-days exclusivity or as an authorized generic supplier to the innovator. With many innovator drugs getting off patent in the years to come, I hope that your Company will be able to leverage as many upsides as possible. Indications are that it should.

Third, I am delighted to see research and development (R&D) spends increasing—not just absolutely but as a share of revenue. It shows up in the success of biosimilars. In 2010-11, your Company's investments in R&D grew by 33% to ₹ 5,060 millions. This represents 7% of overall sales, versus 5% in the previous year. We filed 21 abbreviated new drug applications (ANDAs) in 2010-11, taking the cumulative total to 179 ANDAs (including partnered ANDA's). Of these, 38 are Para-IV filings, and among these 10 are in the category of 'first to file'. We have also filed 56 drug master files (DMFs) in 2010-11; our cumulative record is 486 DMFs, which makes us one of the global leaders in this category.

My fourth source of satisfaction is your Company's strategic partnership with GlaxoSmithKline Plc (GSK) — which I had touched upon last year. Dr. Reddy's is developing and marketing key products for GSK across emerging markets outside India. The products will be manufactured by your Company, and will be licensed and supplied to GSK in Latin America, Africa, the Middle East, and Asia Pacific. In addition, your Company has acquired GSK's penicillin facility in Tennessee, USA, which will allow it to enter the US penicillin-based anti-bacterial market segment.

At Dr. Reddy's, we must never forget our basic aim. It is to provide affordable and innovative medicines for healthier lives. We can do this if we forever excel in four aspects of our business:

- Excellence in science, intellectual property and R&D, because these constitute the DNA of any pharmaceutical enterprise worth the name.
- Excellence in anticipating what patients need — where and how — and being able to provide affordable variants of such medicine more often than not.
- Excellence in processes — quality, manufacturing, logistics, supply chain, marketing, customer relations and safety — to be the first to occupy pharmaceutical bridgeheads in various parts of the world.
- Excellence in financial and operating discipline, because at the end we can never be accountable to our patients by losing sight of our shareholders.

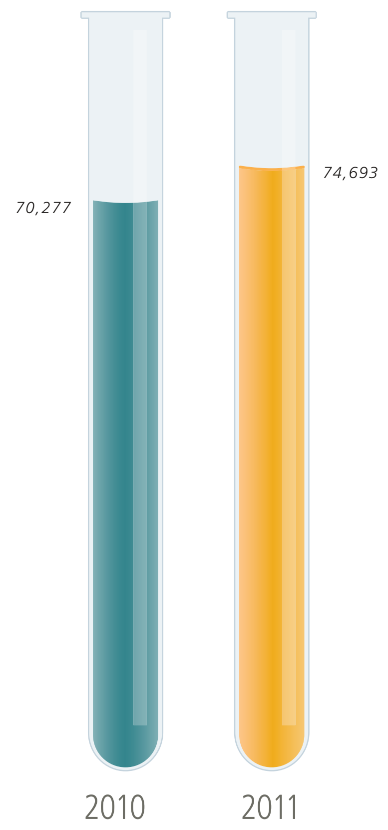
I am confident that your Company has all these attributes. Some exist in large measure. Others are being scaled up. When they all 'fire together', Dr. Reddy's will be a difficult act to beat. We represent an idea whose time has come. And we will deliver.

Thank you for your support.

As always, with warm regards,

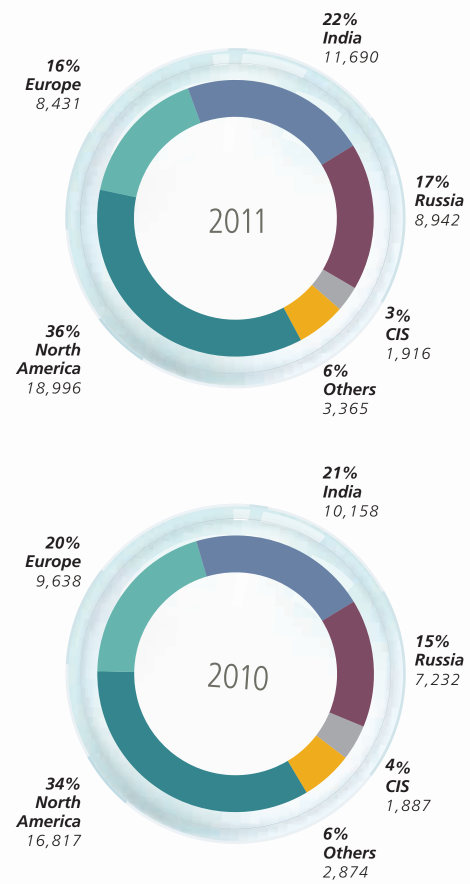
DR. K ANJI REDDY
Chairman

Key Financial Highlights 2010-11



CONSOLIDATED REVENUE

IN ₹ MILLIONS



GLOBAL GENERICS REVENUES

GEOGRAPHICAL MIX, IN ₹ MILLIONS

FINANCIAL HIGHLIGHTS

Consolidated Revenues

Consolidated revenues increased by 6% to ₹ 74,693 millions, or US$ 1.7 billion in 2010-11 from ₹ 70,277 millions in 2009-10.

EBITDA

EBITDA increased by 6% to ₹ 16,789 millions in 2010-11 from ₹ 15,828 millions in 2009-10.

Profit After Tax

Net profit of ₹ 11,040 millions in 2010-11 as against ₹ 1,068 millions in 2009-10.

Fully Diluted Earnings per Share

Fully diluted earnings per share increased to ₹ 64.95 in 2010-11 from ₹ 6.30 in 2009-10.

ANDAs in US

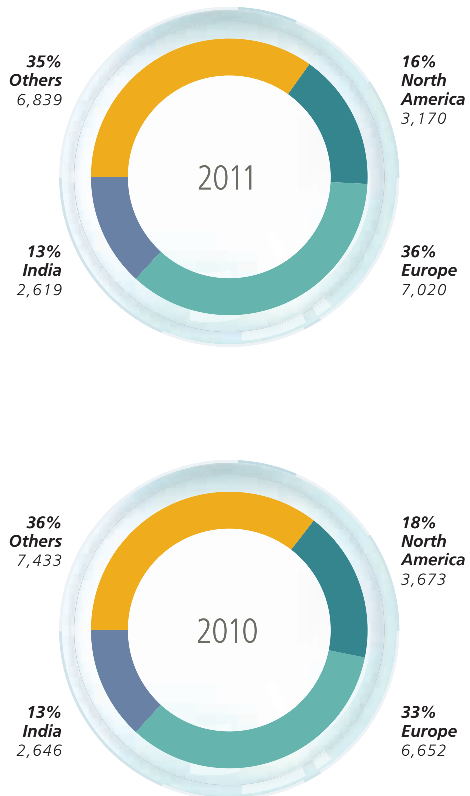
Dr. Reddy's filed 21 ANDAs in 2010-11. As of 31 March 2011, the Company has 179 cumulative ANDAs (including partnered ANDAs). The company's North America generics pipeline comprises 76 ANDAs pending with the USFDA as of 31 March 2011. Of these, 38 are Para-IV filings with 10 in the category of 'first to file'.

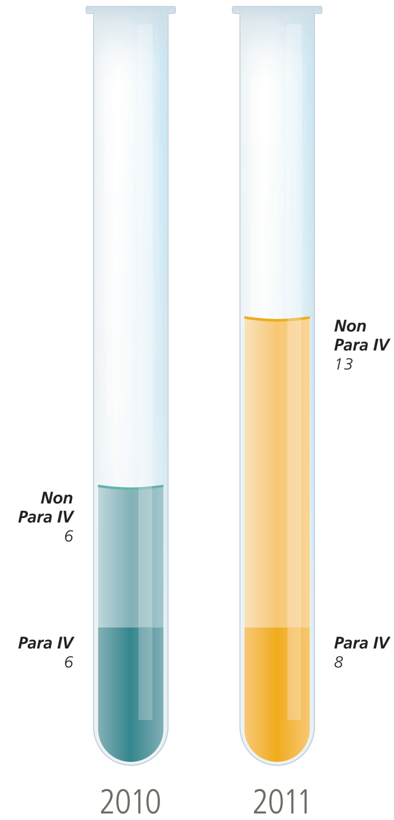
DMFs

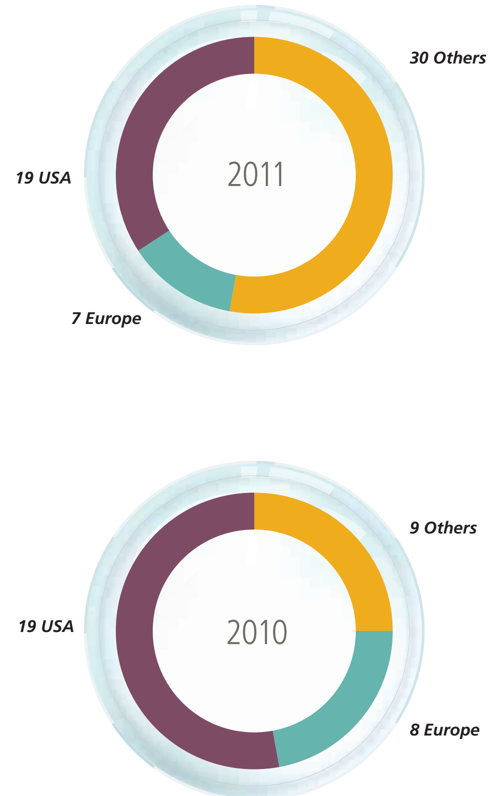
The Company filed 56 DMFs in 2010-11. Of these, 19 were filed in US, seven in Europe and 30 in other countries. As on 31 March 2011, the Company had cumulative filings of 486 DMFs.

Proprietary Products

As on 31 March 2011, Dr. Reddy's had 27 products in the pipeline, of which seven are in clinical development. These R&D products are a







PSAI REVENUES
GEOGRAPHICAL MIX, IN ₹ MILLIONS

ANDA FILINGS IN THE UNITED STATES OF AMERICA

DMFs
GEOGRAPHICAL MIX

mix of New Chemical Entities (NCEs) and novel Differentiated Formulations (DFs).

BUSINESS PERFORMANCE

Global Generics

Global Generics grew by 10% to ₹ 53,340 in 2010-11 from ₹ 48,606 in 2009-10.

- Revenues from North America increased by 13% to ₹ 18,996 millions in 2010-11 from ₹ 16,817 millions 2009-10. Significant portion of this growth was led by the company's presence in products with limited competition.
- Eleven new products were launched in US in 2010-11, of which five products experienced limited competition which includes amlodipine benazepril, tacrolimus, lansoprazole, zafirlukast and fexofenadine pseudoephedrine.
- Revenues in India grew by 15% to ₹ 11,690 millions in 2010-11 from ₹ 10,158 millions in 2009-10. Growth driven by volume growth of 11%, new product led growth of 4%.
- Revenues from Russia and CIS countries grew by 19% to ₹ 10,858 millions from ₹ 9,119 millions in 2009-10.
- Revenues from Europe decreased by 13% to ₹ 8,431 millions in 2010-11 from ₹ 9,638 millions in 2009-10.

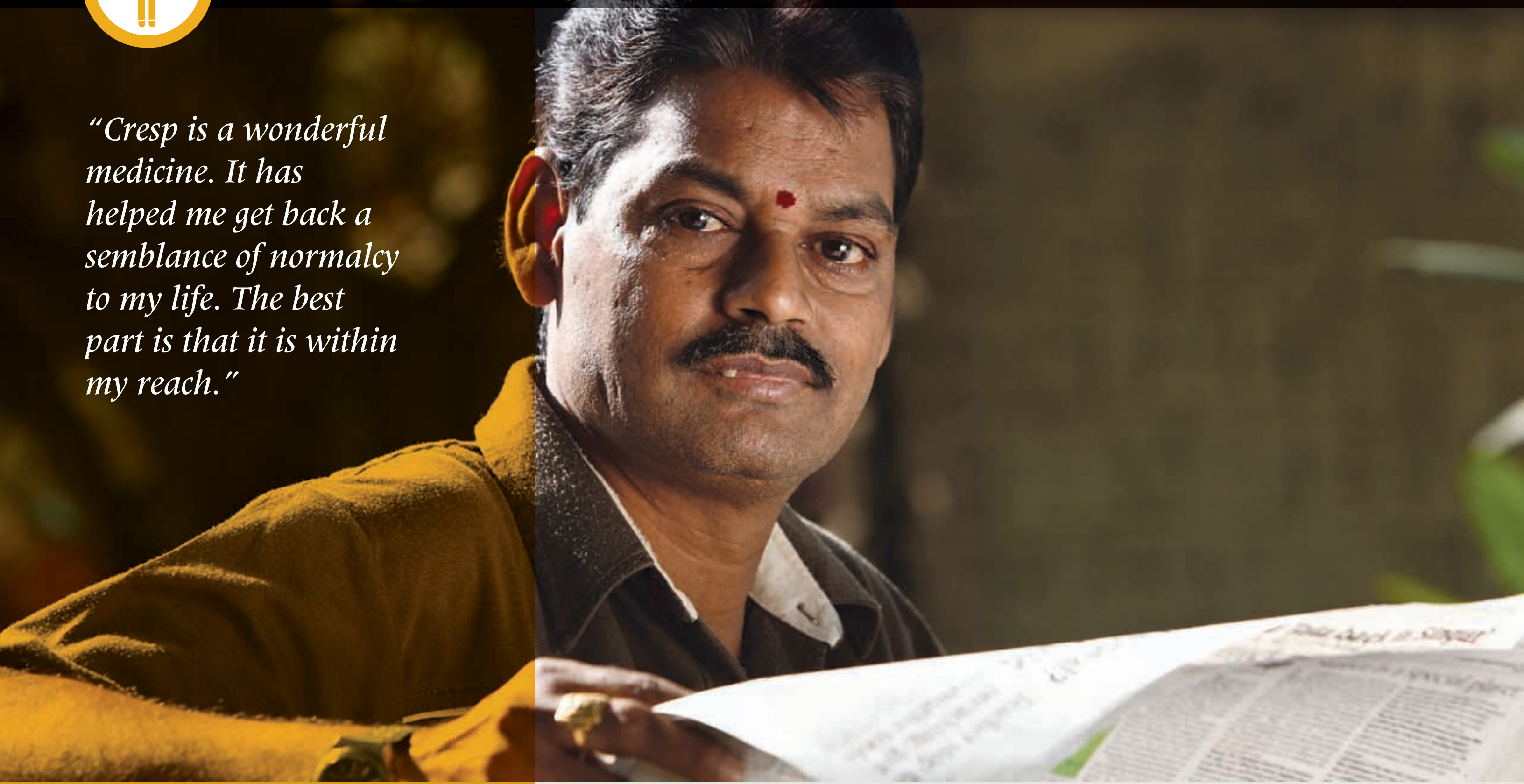
Revenue from Pharmaceutical Services and Active Ingredients (PSAI)

Revenues de-grew by 4% to ₹ 19,648 millions in 2010-11 from ₹ 20,404 millions in 2009-10. International revenues accounted for 87% of PSAI revenues.

OUR PURPOSE

providing affordable & innovative medicines for healthier lives

PATIENT | S LAKSHMI NARASIMHA MURTHY | HYDERABAD | INDIA



"Cresp is a wonderful medicine. It has helped me get back a semblance of normalcy to my life. The best part is that it is within my reach."

Cresp® – the world's first generic darbepoetin alfa (only one in India) was launched in July 2010. It is a modified version of erythropoetin alfa, the current standard of care in India. It is engineered to have a longer half life, increasing (up to 3 times) the time it remains in the blood. This reduces frequency of doses, providing a convenient treatment option for patients suffering from anemia due to CKD. If a patient spends ₹ 5,000 – ₹ 7,000 for a treatment cycle with a leading brand of erythropoetin, by using Cresp he could reduce costs up to ₹ 3,500 – ₹ 4,500.

S. Lakshmi Narasimha Murthy is a happy man today. But he wasn't always as happy. Since 2000, when Narasimha got diagnosed with diabetes, it was like living life on the edge. In 2005, he got a stent implanted in his heart, followed by another in 2006. In 2007, he was put on medication for high creatine levels. When he got his third stent in January 2010, his creatine levels became unmanageable; he was diagnosed with Chronic Kidney Disorder (CKD) and had to be put on dialysis.

Due to ill health, in July 2010 Narasimha took voluntary retirement. His life began to revolve around four-hour sessions of dialysis twice a week, and a monthly visit to the cardiologist and nephrologist. Weakness set in; even walking became an ordeal. A man of limited means, he found it extremely difficult to pay for eight erythropoetin injections a month, costing around ₹ 10,000 – the dealer's price. Added to that was the cost of dialysis – ₹ 1,200 per session. It was hard to sustain good health and well being.

In July 2010, Narasimha's nephrologist introduced him to Cresp®. As against erythropoetin, Cresp® had to be taken only twice a month and immediately cut his monthly expenditure by over ₹ 7,000. He was also given a couple of injections, free of cost, under Dr. Reddy's 'Sparsh' program. Narasimha's body also responded well to the change and his life began to return to near normalcy. Today, Narasimha can afford to feel better – and even drive by himself to the dialysis center on his scooter.

Yes, it is a question of affordability.

Millions of people like Narasimha Murthy embrace the fate attributed by their illness. They suffer helplessly and lead painful lives because of the high cost of many medicines that puts them beyond their reach. Medicines should be affordable, because human life is more important than business. Cutting-edge innovation and scientific progress is critical too, because there will always be a dearth of accessible means to nurture life and good health.

We are lucky to be in the pharmaceutical business because it is an important contributor to the health and welfare of people across the globe. What we make directly impacts the quality and length of human life. Our purpose of providing affordable and innovative medicines for healthier lives comes with this deep understanding of our responsibility – which is to help reduce the burden of disease on individuals.

At Dr. Reddy's, we take pride in the work we do because our focus is on lowering healthcare costs, improving access to medicine and developing innovative medicines for unmet medical needs. By leveraging our proficiency in science and technology, we innovate at every stage of the process of drug production. Our Global Generics business, which makes generic small-molecule drugs and generic biopharmaceuticals, helps to reduce the cost of the drugs by bringing them to market as early as possible. Our Biologics business offers more affordable and equally effective generic biopharmaceuticals or biosimilars in markets with guidelines for approval. Our API arm of the PSAI business supplies pharmaceutical ingredients to other generic companies, which directly contributes to the goal of providing affordable medicine.

To help patients like Narasimha and many others in the future who are suffering from other diseases, we will continue to promote affordability in significant ways and work to expand our product offerings in generics. We will also continue our focus on increasing access to products with significant entry barriers. We are committed to looking for new opportunities to take generics to more patients across the world, directly and in collaboration with other companies.

Yes, affordable and innovative medicines that bring health and hope to people worldwide are very important to us. It is what gives Dr. Reddy's its direction.

G V PRASAD
Vice-Chairman & CEO

OVER **12** MILLIONS NEW CANCER cases are detected and 7.6 millions cancer deaths occur worldwide every year. 70% of those happen in developing countries like India (IARC Globocan 2002 data). According to the 'India Pharma 2015' report by McKinsey & Company, there is a long-awaited need of connecting Oncologists and General Practitioners (GP).

DOCTOR | DR PURVISH PARIKH | CONVENOR | INDIAN CO-OPERATIVE ONCOLOGY

"ICON is extremely grateful to Dr. Reddy's for giving an unrestricted educational grant which has enabled PromOTE India to expand across India over the last three and a half years. It has helped doctors in delivering better cancer care to patients across the country."

DRFHE tries to improve the healthcare delivery system in India by conducting programs for all stakeholders of the healthcare delivery chain thereby helping them provide better patient care. While PromOTE is aimed at making a difference to the cancer landscape of India, Swasthyagraha tries to spark a healthcare revolution in rural India by providing value added – information to rural practitioners. www.drfhe.com

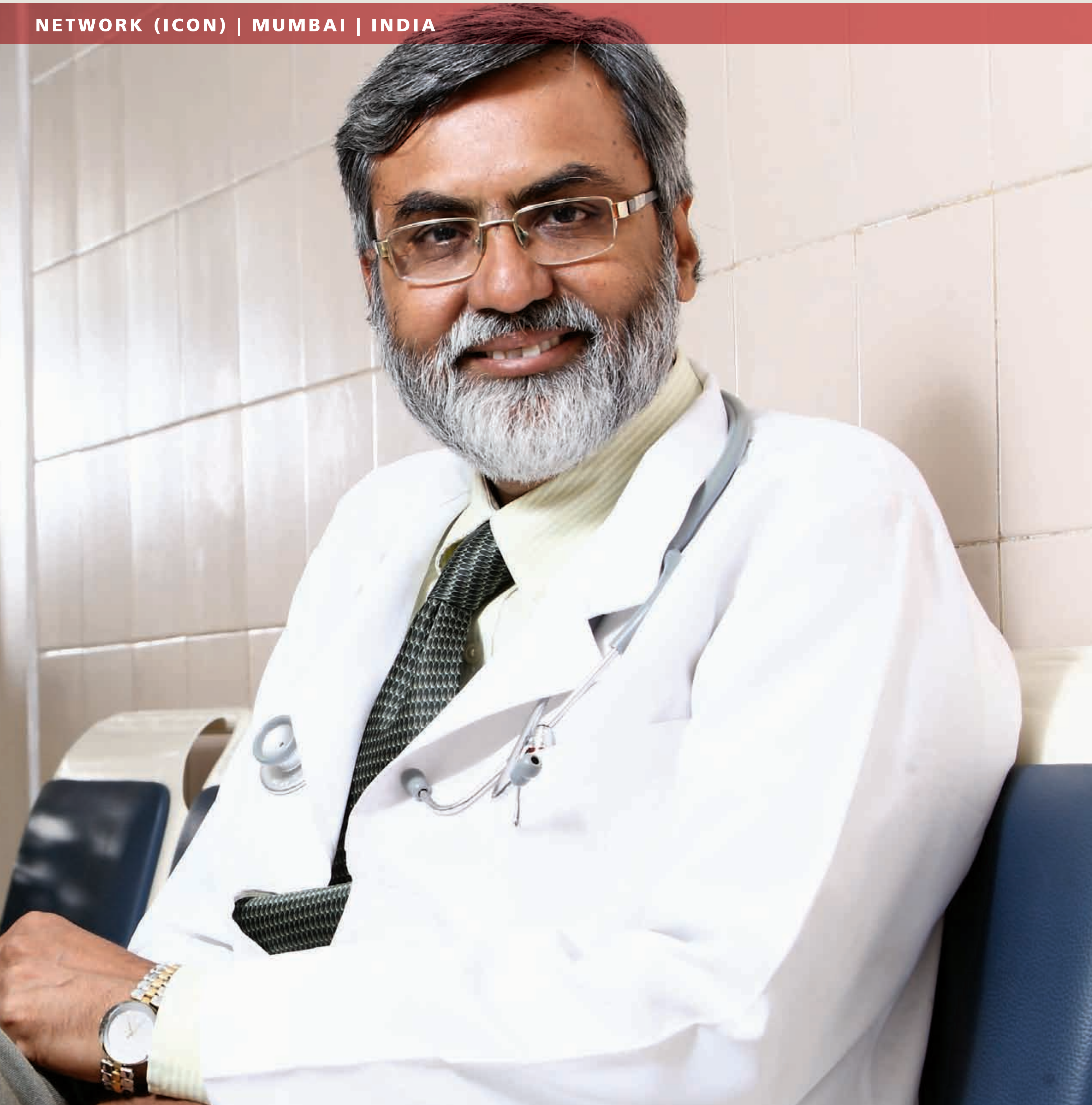
Picture taken at BSES Hospital, Mumbai

Dr. Parikh, Ph.D. and MBA, has served as professor and head of Medical Oncology at Tata Memorial Hospital, Mumbai for 17 years. Also an expert in hematology, he is founder of Indian Co-operative Oncology Network (ICON), a NGO that promotes awareness about cancer in India.

Dr. Parikh's ICON, in association with Dr. Reddy's Foundation for Health Education (DRFHE), has come up with a novel initiative called PromOTE (Promotion of Oncology Training and Education). PromOTE aims to change the cancer landscape in India by promoting awareness, early detection, diagnosis and prolonging the life of the cancer victims. It tries to empower professionals like GPs and other non-oncology doctors to enable early detection of cancer.

So far, over 110 programs have been conducted across India by PromOTE involving more than 100 oncologists as faculty members. About 11,000 healthcare professionals have benefitted from this program and have learnt about the modern advances in cancer care with which more than half of the cancer cases can be cured.

NETWORK (ICON) | MUMBAI | INDIA



In 1992, armed with an MBA degree from Osmania University, Hyderabad, and his eyes firmly set on working in the field of International Marketing, a young man gate crashed into Dr. Reddy's office one day. By then, Dr. Reddy's interest in internationalizing its business was in the news, and the young man knew that this was his best chance to live his dream. This is M V Ramana.

EMPLOYEE | M V RAMANA | SENIOR VP AND HEAD OF EMERGING MARKETS |

"I can never forget the excitement and pressure I felt from the moment I got an international assignment. I was allowed to explore unfamiliar territory. Dr. Reddy's trusted and empowered me. It makes me behave like an owner and not an employee."

Today, our global workforce comprises of 14,900+ employees from over 25 nationalities. There is a conscious effort to build diversity in the workforce as evident in our campus recruitment efforts this year, where 46% were women. Leadership development across all levels, coupled with a culture of continuous learning is vital to our people's growth aspirations. Also, the freedom to explore, empowerment, and the willingness to take risks with people define our people practices.

Ramana accepted the offer Dr. Reddy's made to him, although it was only 50% of what a global FMCG major had already offered to pay him. But the rest, as they say, is history. He landed himself a job as a Management Trainee. Joining Dr. Reddy's gave him a sense of deep ownership – along with responsibility and a desire to excel. This paved the way for Ramana's stellar growth within the company.

Today, he is Senior Vice-President and Head of Emerging Markets. His 19-year tenure is a testament of the encouragement the company provides to anyone with passion and a drive to do something big for the organization. A major part of Dr. Reddy's international expansion has come from the Company's ability to spot raw talent and give them opportunities.

Starting with support roles in API and formulation marketing, Ramana went on to play larger and more important roles. He set up Dr. Reddy's operations in various countries – South East Asia, Africa, Middle East and Latin America – China and Russia being his most notable achievements. In his role as the Head of Russia & CIS countries, Ramana guided the business, growing it by over five times within six years.

DR. REDDY'S | MOSCOW | RUSSIA

YOGITA RAMESH, at first sight, appears to be an ordinary girl. But she isn't. She possesses extraordinary will power and courage; she is also an alumnus of LABS. Today, she works as a pre-seller with Coca-Cola India, and unlike many other girls of her upbringing, she draws an impressive monthly salary of ₹ 15,000. Life is looking up for Yogita and her family.

CORPORATE SOCIAL RESPONSIBILITY | YOGITA RAMESH BHALERAO | ULHASNAGAR

"My alma mater always advised me to continue my studies along with my job. It has transformed my life."

Livelihood Advancement Business School (LABS) is the flagship program of Dr. Reddy's Foundation (DRF) – the CSR arm of Dr. Reddy's Laboratories. It aims to create, implement and disseminate sustainable and replicable livelihood models while achieving measurable social impact. It has created over 230,000 direct livelihoods since its inception in 2000.

DRF activities span two broad areas of social intervention: Livelihood creation and Education. www.drreddysfoundation.org

But it wasn't always as easy as that. Yogita's childhood was a challenging one. After passing her Class 12 examinations, she got engaged. But her fiancé subsequently called off their marriage. At the same time, her father who was the primary bread winner of the family, fell ill. Yogita's mother did not have a choice – she had to step out to earn money to support the family.

Yogita started accompanying her mother to work, who worked as a domestic help. She had to do her bit to help her mother make ends meet. Together, they earned ₹ 3,000 per month. As Yogita says, she did not have a choice – she took full responsibility for her school-going siblings and her parents. It was around this time that Yogita's friends told her about LABS – Dr. Reddy's flagship program on livelihood and skilling.

Yogita enrolled herself in the Customer Relations and Sales domain. On successful completion of the program, she got placed in Coca-Cola as a Market Developer with a starting salary of ₹ 7,000 per month. At LABS, Yogita understood the importance of education. Yogita was so inspired that she has decided to help her siblings study further – and now she aspires to get an MBA degree.

Picture taken at a departmental store, Mumbai

MITA AGARWAL is a Director of Priyam Agencies Pvt. Ltd., a Carrying & Forwarding (C&F) agent of Dr. Reddy's. But that is not what she had always wanted to be. When Mita got married in 1984, life was perfect for a while, especially with the birth of her daughters. But her husband's sudden demise left her with two young daughters, and a business she knew very little about. Although her family was

BUSINESS PARTNER | MITA AGARWAL | DIRECTOR | PRIYAM AGENCIES PVT. LTD. |

"Being associated with Dr. Reddy's has helped me turn my modest C&F agency into a successful and profitable business."

Dr. Reddy's recognizes the contribution of its business partners in its growth and tries to include them at every step of its success. Through our supply chain effectiveness initiatives we help establish high product availability combined with lower inventories for our partners leading to higher profitability.

Unique initiatives like the 'Visit the Stockist' program, C&F performance model, annual conferences, C&F manual and regular training help in taking feedback and sharing knowledge on best practices of the trade.

unhappy with her decision to run her husband's business, Mita decided to continue with it. She started as a C&F agent at Patna, located in the state of Bihar, India for American Remedies Ltd.

When Dr. Reddy's acquired American Remedies Ltd. in 2001, Mita was at the forefront. She pitched to become the C&F agent in Kolkata, West Bengal. After a lot of time and hard work, most of which went into setting up her agency, Mita started taking care of the entire state of West Bengal. Meanwhile, Dr. Reddy's rapid growth resulted in increased business for her. What started off as a 3,000 square foot warehouse then, has today more than doubled in size! The business that initially clocked sales of ₹ 70 lakhs per month has now grown to over ₹ 6 crores per month.

As Mita looks back on her years of evolution as a C&F agent, the support she received from Dr. Reddy's is evident at every stage of her growth. Personally too, she is a happy woman. She was able to provide well for her daughters, and gave them a fine education. Today, Mita's younger daughter, who has an MBA degree, has joined her in managing the business.

KOLKATA | INDIA

FROM THE MOMENT you step into Sangli – a small district town in western Maharashtra, India, and ask for 'Gadgil', every one eagerly points out in the direction of jewelry showrooms. Prakash Shankar Gadgil, a jeweler by trade, is the proud owner of a flourishing jewelry business. His family has been in the business since 1832, and given his success at it, his two sons have chosen to join him in the same profession.

INVESTOR | PRAKASH SHANKAR GADGIL | SANGLI | MAHARASHTRA | INDIA

"Dr. Reddy's manufactures affordable medicines. It also gives good returns to its shareholders. Imagine sitting at home and making money for nothing! All I did was to buy the shares. From then on, they went on multiplying. I couldn't have asked for more from this investment."

If an individual had invested ₹ 1,000 during our IPO in August 1986, plus ₹ 1,250 in the rights issue in August 1989, the value of the holding as on 31 March 2011 would be over ₹ 93 lakhs (including proposed dividend for FY11), keeping in mind the splits, bonuses and dividends over the years. At Dr. Reddy's, we are committed to upholding high standards of corporate governance and business ethics that preserve shareholder trust while maximizing long-term shareholder value.

But, Prakash is more than just a businessman. He is one of Dr. Reddy's esteemed shareholders.

In 1986, when Prakash was evaluating his investment options, he was introduced to the stock market by a broker friend. Upon recommendation he bought 600 shares of Dr. Reddy's at the rate of ₹ 55 per share. Those were the first shares he had ever bought in his life.

Thereafter, Prakash's story of financial and business success got directly linked to the regular dividends and bonuses that his shares got him as they grew from the initial 600 to 21,600 in the last 25 odd years. Not an active stock trader, he even thought of selling off Dr. Reddy's shares. But he decided against it because of the good performance of the company, and the kind of returns it was giving to its shareholders.

Prakash maintains that his first investment in Dr. Reddy's shares has remained his best investment till date. Today, he is happy to earn in every possible way from Dr. Reddy's, be it good health or good returns.

CUSTOMER | WILSON ZEFERINO FRANCO FILHO | EMS | HORTOLANDIA | BRAZIL

"Dr. Reddy's has been a valued API supplier to us for a long time. It has a solid structure that helps in designing, developing, producing and providing unmatched assistance to API customers worldwide."

Our API business ensures 'first-to-market' position for our customers, helping them stay competitive through the life cycle of the molecules with ongoing cost improvement initiatives and continued process innovation.

Our CPS business offers niche product service capabilities, technology platforms, and competitive cost structures to our customers, who are large innovator and biotech firms; we help them bring their proprietary product to market in the shortest possible time.

STARTED IN THE MID-1950'S as a small pharmacy called Santa Catarina in the city of Santo Andre by Emiliano Sanchez, EMS has now emerged as the largest pharmaceutical company in Latin America.

EMS was the first one to manufacture generics for the Brazilian consumer and to prove the reliability and safety of these drugs. Wilson Zeferino Franco Filho is the Head of Business Development at EMS – a key customer of Dr. Reddy's Active Pharmaceutical Ingredient (API) business for over 10 years. Today, generics have changed the profile of the Brazilian pharmaceutical market. The last decade has seen a rise in the influence of Brazil, Russia, India & China (BRIC countries) in the pharmaceutical sector. They have showed continuous growth and have entered the radar of many pharmaceutical giants. Brazil itself is experiencing the rise of generics and the consolidations, steep quality and regulatory requirements that go along with it.

According to Wilson, in such a scenario, the role of API suppliers becomes very significant. Dr. Reddy's through its low-cost, high quality manufacturing, strong chemistry, process re-engineering and regulatory skills, provides a solid foundation to sustain this kind of fervent market growth.

Dr. Reddy's Laboratories Ltd. is an integrated global pharmaceutical company, committed to providing affordable and innovative medicines for healthier lives.

Through its three businesses – Pharmaceutical Services and Active Ingredients, Global Generics and Proprietary Products – Dr. Reddy's offers a portfolio of products and services including APIs, Custom Pharmaceutical Services, Generics, Biosimilars, Differentiated Formulations and NCEs.

Therapeutic focus is on gastro-intestinal, cardiovascular, diabetology, oncology, pain management and anti-infective.

Our major markets include India, USA, Russia and CIS, Germany and UK.

Pharmaceutical Services and Active Ingredients

Global Generics

Proprietary Products

human resources

In the fast-paced and competitive world of today, the most significant differentiating factor of business remains unchanged: People. A highly engaged and motivated employee-base along with adequate leadership, technical knowledge and business skills remain the most attractive part of an organization. At Dr. Reddy's, we realize the importance of both – our people and their potential to contribute to the success of our company. While our products, customers and innovation will continue to be important enablers in stepping up the speed at which we will grow, our people can be catalysts to our high growth agenda.

During the year the organization took several steps in integrating and aligning its people processes and systems to ensure that it is not only able to meet the current business growth but at the same time it is prepared for the future.

HR MODEL

A new HR model was adopted which would largely provide the guiding philosophy to the design elements of people processes and systems. The model has three elements:

- Alignment of workforce to the overall purpose of the organization and their respective business units so that it brings long term value for themselves and the organization.

- Individual and team accountability, so that roles and responsibilities are clear and there is clarity on what is expected out of each, which in turn gets regularly reinforced by reviews and consequence management mechanisms.

- Focus on ability and talent at all levels to help employees find their true calling in their respective areas of interest and competence.

ROLE BASED ORGANIZATION

During the year we brought in the concept of 'role based organization' as part of our organization renewal effort. The objective is to have a better role-to-person fit which will result in a more engaged employee and a productive organization.

We examined the key HR processes such as work level structure, manpower planning, talent acquisition, performance management, promotion, leadership development and specialist tracks to understand the gaps in each of them and make necessary changes. We attempted to integrate all these HR systems in a way that they can support our growth journey and provide clarity to all employees in terms of inter-linkages to all these vital people, processes and systems.

WOMEN'S DAY CELEBRATION AT DR. REDDY'S

LEADERSHIP & SCIENTIFIC CAPABILITY DEVELOPMENT

As we continue to grow, and encourage our people to make a difference to the organization, we ensure that we have invested appropriately in developing them as the future leaders of the organization. In this regard, we have further fine-tuned our leadership competencies to make them relevant and meet the leadership demands of the current and future. A set of six leadership competencies were defined and incorporated into our leadership model. The new leadership model was a result of an extensive work of interviewing high performers across levels, understanding top management perspectives and the organization's strategic priorities.

The Annual Leadership Summit was held between 14-17 July 2010 at Boston, USA around the theme of 'Building Towering Competence in Science and Technology'. The top leaders of the organization anchored by the CEO and COO participated in this event.

Specific leadership skill programs have been initiated to complement our leadership development efforts.

- The first of the series on 'Strategic Negotiation' by Dr. David Lax and Prof. James Sebenius from the Harvard Business School, USA was attended by over 45 senior leaders.
- We also invited eminent personalities as part of our 'Leaders Talk' series – Sir Chris Bonington, one of the world's most successful expedition leaders, talked on 'Leadership in Adversities' and Dr. Indra Chowdhury, Historian and Scholar-in-Residence at Srishti school of Art, Design and Technology, Bangalore, India delivered a talk on 'Inspirational Leadership'.
- Our leaders participated in the Senior Leaders' Program (SLP) as part of an industry consortium of Wipro, Aditya Birla, Genpact, HDFC, Mahindra & Mahindra and Colgate Palmolive.
- Dr. Reddy's also partnered with MIT (Prof. Greg Fu's lab) for building capability in chemo-catalysis.

National and international conferences in the area of Drug Delivery, Drug Design and Quality by Design were popular destination for scientists from R&D groups.

A WORKSHOP ON ORGANIZATION CLIMATE SURVEY OUTCOMES

TALENT ACQUISITION

Dr. Reddy's global employee strength crossed 14,900 in 2010-11, of which over 2,400 were based at our international locations. During the year, around 4,100 new employees were hired, including replacements. The highlights of the hiring program were:

- Critical talent was added in the areas of Safety Health & Environment, Formulation Technology, Development of Differentiated Formulations, Global Sales & Marketing, Project (Formulations), IPM – Formulations, OTC Products, Strategy, Legal-Patents, Quality, Corporate Development, Cell & Molecular Biology.

- India sales force hires have contributed to 31% of the hiring while 43% of the hiring was in manufacturing, quality, R&D and engineering services.

- We recruited 16 Management Trainees and seven laterals from prestigious B-Schools and about 119 technical trainees from science, pharmaceutical and engineering background which included a number of IIT graduates as well.

- There was a conscious effort at building diversity in the workforce. We hired around 900 employees across international locations. We also hired differently-abled employees in various roles. In FY11, almost 46% of the campus recruits were women.

ORGANIZATIONAL HEALTH AND EMPLOYER BRANDING

During the year, we conducted Organizational Climate Surveys to monitor the health of the organization and more specifically measure employee engagement. We had commissioned Gallup, a leading player in the area of employee engagement. Over 10,000 employees participated in the survey called 'The Beat'.

Our company was ranked the Best Company to work for in the biotech / pharmaceutical industry in India for the third consecutive year in 'India's Best Companies to Work For' – 2010 list produced by Great Place to Work® Institute in association with The Economic Times.

PARTICIPANTS AT THE STRATEGIC NEGOTIATION PROGRAM HELD AT THE COMPANY'S LEADERSHIP ACADEMY

We also participated in an Organization Health Index survey by McKinsey and Best Employer surveys by Aon-Hewitt and The Great Places to Work Institute. In all the above surveys the strengths that came out consistently were our open & trusting culture, entrepreneurship and creativity, great place to socially connect-mutual respect and trust, alignment with the overall purpose and pride, and customer focus. We are also addressing the areas for improvement by instituting focused cross functional teams.

During the year some of the external recognitions which strengthened our Employer Brand was:

- We received the Aon Hewitt Best Employers award and were ranked 13th Best Employer in India across all industries.
- We were recognized as the 'Best Pharmaceutical Company to Work for' by 'Business Today'.
- Our company was ranked the Best Company to work for in the biotech / pharmaceutical industry in India for the third consecutive year in 'India's Best Companies to Work For' – 2010 list produced by Great Place to Work® Institute in association with The Economic Times.

safety and health performance

Dr. Reddy's today stands at the crossroads, poised for the next wave of growth. Scaling up will increase challenges in running our business. It will lead to more complex business operations. With our growth ambition comes the need for robust systems and processes backed by a secure and healthy work environment that brings the best out of employees. At Dr. Reddy's we fully understand that impact of our safety and health practices transcends our immediate workforce and affect their family, dependents and society.

For us safety no longer is just a priority but a business imperative. The year 2010-11 saw us revisit many of our existing practices and lay down processes aimed at strengthening our SHE systems.

KEY HIGHLIGHTS

SAFETY AND HEALTH PERFORMANCE

- Cross-unit safety audits continued for the second year across 16 manufacturing units with an outcome of 425 recommendations which are being tracked for closure.

- Hazard identification and risk analysis were completed for 276 manufacturing process stages across CTO's. A new guideline on SHE review for FTO manufacturing processes was released during the year. Key personnel were identified and trained on the procedures that were applied for six new process transfers during FY11.

- 2,155 internal training programs (equivalent to 10,135 man days of training) on safety were conducted. Apart from these specialized external training programs were also conducted on industrial hygiene and process safety.

- During the year, a Crisis Communication workshop and various mock drills were conducted to strengthen our ability to mitigate emergency situations. A table top exercise simulating an offsite disaster to test our emergency preparedness was conducted by the National Disaster Management Authority (NDMA), the Medak District Collectorate, Factory Inspectorate of Hyderabad Rural and other authorities on a fire and explosion scenario at one of our units.

- Safety toolbox talks were implemented for all shop floor and construction personnel who are exposed to a majority of the risks. Safety toolbox talks are less formal, short safety meetings, designed to reinforce safety information on a particular topic and to foster safe behavior.

- Occupational Health Surveillance was conducted at the units. Quantitative exposure assessments have also been done at various units during the year to monitor industrial hygiene exposure levels.

- National Safety Day and Safety Week celebrations were observed at all manufacturing units and offices to mark the way our employees and contractors rededicate and pledge to work in safer ways.

- Monthly safety campaigns were carried out on themes like 'Contractor Safety', 'Static Electricity', 'Emergency Management' and 'Work Permits System' to bring awareness and increased focus to various improvement areas.

- A behavioral safety program was initiated across the units to identify and gradually eliminate repeated unsafe behaviors in the work places. More than 2,000 Behavioral Based Safety (BBS) observations were identified, personnel counseled and corrected after the launch.

- SHE review for capital projects was carried out for seven new process facilities. The objective of this review mechanism is to establish an effective plant safety concept and environmental discharge control strategy during the early design phase of a project, and ensure those broader concepts are considered in the engineering design and implemented.

- Improving the safety performance at our strategic Business Partner's manufacturing facilities has been a key agenda during the year. Various initiatives taken in this regard were:
  - Statutory compliance tracking online.
  - SHE audits.
  - 314 man days of SHE training on various topics like static electricity, general safety awareness, emergency mock drills, etc.
  - Facilitated mock drills to test their emergency management capabilities.

ENVIRONMENTAL MANAGEMENT AND SUSTAINABILITY

- FTO 3 has entered into an agreement with M/s. Honeywell to carry out energy audits which will translate into reduction of grid power consumption and carbon footprint.

- CTO SEZ project Environment Clearance was obtained from Ministry of Environment and Forests and Consent for Establishment obtained from Andhra Pradesh Pollution control Board.

- Solvent Recovery System using carbon adsorption system commissioned at FTO 3 for coating machines to recover Methylene dichloride (MDC) and Isopropyl alcohol (IPA) to eliminate fugitive emissions of MDC and IPA.

- Zero Liquid Discharge (ZLD) Plant at FTO 3 commissioned last year is working at desired efficiency.

- 3,500 MT of organic residue was disposed as auxiliary fuel to cement plants, which is a 100% increase over last year's alternate disposal. Rest of the waste was sent to Treatment Storage Disposal Facility (TSDF).

A Green Rating system for companies across India was launched under the leadership of G V Prasad, Vice-Chairman and CEO, Dr. Reddy's and Chairman of the CII Green Rating System. Two of Dr. Reddy's units will be taking the pilot implementation in the coming year.

G V PRASAD, VICE-CHAIRMAN AND CEO INAUGURATING THE NATIONAL SAFETY DAY ACTIVITIES

COMMUNICATION ON AN ORGANIZATION WIDE WELLNESS CAMPAIGN

- Environment license compliance audits carried out in 14 manufacturing sites, with audit observations tracked for closure.

- Continuous Ambient Air Quality Station and Stack Monitoring Analyzer installed at CTO 6 for better monitoring of ambient air quality.

- Pilot studies regarding Membrane Bio Reactors is being carried out at ZLD of CTO 2 to improve the quality of the treated waste water.

- At CTO 1 the coal fired boiler was modified and converted to use bagasse briquette as fuel and the same is being considered for Clean Development Mechanism (CDM project registration at United Nations Framework Convention on Climate Change (UNFCCC)).

- At our CTO SEZ in Vizag, India, a bagasse fired boiler is under installation, which is being considered for CDM project registration at UNFCCC. Prior information regarding the same is already given to UNFCCC.

- 67 energy conservation measures initiated during the year resulting in annual saving of 2.0 million kWh.

- Our FTO 7 unit was certified for ISO 14001 EMS management system. With this three FTO units and our Biologics center have been certified under EMS management system

- A green rating system for companies across India was launched under the leadership of G V Prasad, Vice-Chairman and CEO, Dr. Reddy's, and Chairman of the CII Green Rating System. Two of Dr. Reddy's units will be taking the pilot implementation the coming year.

As a recognized global pharmaceutical enterprise, Dr. Reddy's places great importance to product, process and plant safety. Despite excellent safety standards, the Company had two incidents in 2010-11 at its facilities, which led to the loss of human lives. In December 2010, there were two fatalities due to accidental asphyxiation at CTO-3; and in March 2011, there were two fatalities due to a fire in the hoist area at CTO-1. Dr. Reddy's has done thorough investigation of these unfortunate accidents, and has put in place corrective and preventive actions to avoid their recurrence.

We are working at improving employee behaviour towards safety. We want every person at Dr. Reddy's to believe that safety is core to our work.

At Dr. Reddy's, safety is an important element of our value systems. We strongly believe that a safe and healthy work environment is essential in running a business.

We have had one of the most challenging year with respect to our safety practices. A few unfortunate incidents have served as a stark reminder of the necessity of investing greater time and effort to embed safety deeply into our operations, and to plan and execute our operations responsibly. We are determined to learn from the incidents that occurred to prevent recurrence. It has also helped us emerge much stronger.

Our leadership team has instituted suitable review mechanisms to ensure that safety performance attains the highest standards. We are evaluating various reputed external organizational change management experts as strategic partners for bringing in an organizational wide safety transformation.

We believe our organizational performance is directly linked to the good health and well being of its employees. During the year, a focused wellness program backed by various activities was designed to reinforce the importance of good health.

We are working at improving employee behaviour towards safety. We want every person at Dr. Reddy's to believe that safety is core to our work. We have reviewed our SHE management systems and are repositioning strategy to mitigate future risks.

Safety performance metrics today form an integral element of the business and Individual's performance targets. For us at Dr. Reddy's, safety is non-negotiable and an integral part of the way we run our business.

SATISH REDDY
Managing Director & COO

corporate social responsibility

Social responsibility at Dr. Reddy's transcends cheque-book charity. It is about enhancing healthcare, imparting education, developing skills, providing opportunities, and unlocking the doors of progress. We research community needs, develop and pilot new projects, scale them up, and once proven, collaborate with the government and various Non-Governmental Organizations (NGOs) to roll them out.

India today is home to nearly one-sixth of humanity and one of the fastest growing economies. Though it is on its way to economic prosperity, access to quality healthcare and good living are a distant dream for many.

At Dr. Reddy's, our endeavor is to contribute to this cause in ways which we feel can really address these challenges. We engage with the community at two levels, one being in and around our campuses with the active involvement of our employees and the other where-in we channel our wide network of social activities through Dr. Reddy's Foundation (DRF) – the social arm of Dr. Reddy's Laboratories.

Activity of DRF spans two broad areas of social intervention: Livelihoods and Education. We are also building the necessary capabilities and soft skills among medical support professionals, through Dr. Reddy's Foundation for Health Education (DRFHE) programmes with an aim to strengthen the healthcare delivery system.

LIVELIHOOD ADVANCEMENT BUSINESS SCHOOL (LABS) & SKILLING RURAL INDIA (SRI)

LIVELIHOODS UPDATE

DRF through its Livelihood Advancement Business School (LABS) addresses the needs of disadvantaged youth constrained by low income, inadequate skills, irregular employment and absence of opportunities for training and development. LABS offers short-term vocational training courses in various demand-driven sectors. The aspirants are also put through essential life skills, communicative english, and a 'Work Readiness Module' that helps them prepare their resume, face interviews and cope with workplace responsibilities. At the end of the course, the aspirants are also assisted in finding suitable entry-level placements in their respective domains. With a view to adapting the LABS model to the prevailing socio-economic conditions of rural areas, DRF initiated the 'Skilling Rural India' (SRI) program.

A total of 25,403 livelihoods were generated by LABS and SRI in 2010-11 through various partnerships. (Refer: Partnership table). Andhra

A total of 25,403 livelihoods were generated by LABS and SRI in 2010-11 through various partnerships.

Partnership Table

Name of the Corporate	Partnership with	Livelihoods
Accenture LABS	Accenture	97
WORLD VISION	WORLD VISION	28
Total		125
Name of Government Body	**Partnership with**	**Livelihoods**
Grameen LABS	MoRD, Government of India	5385
Skilling Rural India	Lafarge India Private Limited Dalmia Cements and ACC Tata Power Company Ashta No Kai	2984
EGMM – IV	EGMM, Government of AP	1269
EGMM – V	EGMM, Government of AP	56
MEPMA – II	MEPMA, Government of AP	2030
MEPMA – III	MEPMA, Government of AP	325
Corporation LABS	Corporation of Chennai, Tamil Nadu	505
BPCL	BPCL, Government of India	111
NABARD	MoRD and NABARD	1310
SHG LABS	WBSRDA, West Bengal	55
Total		14030
Name of International NGOs	**Partnership with**	**Livelihoods**
Michael & Susan Dell Foundation (MSDF) LABS	MSDF	11248
Total		11248
Total Livelihoods Generated		25403

Pradesh in India accounted for 27.64% of the total livelihoods generated followed by states of Maharashtra and Uttar Pradesh which accounts for approximately 8.3% and 7.1% respectively. 78.2% of total youths trained were placed with an average salary of ₹ 4,200. Since inception LABS has generated over 232,000 livelihoods.

LABS PARTNERSHIPS INITIATED THIS YEAR

Based on the experiences and results gained in the pilot projects, DRF has been able to sign up for the below sponsored projects:

- **Accenture:** DRF has entered into a MoU with Accenture to create livelihoods for 2,250 aspirants in the BPO domain across India.

- **Bharat Petroleum Corporation Limited (BPCL):** Two MoU's have been signed with BPCL at Muzzaffarpur (in the Indian state of Uttar Pradesh) and Ranchi (in the Indian state of Bihar) to create livelihoods for 300 and 250 aspirants respectively.

- **Sesa Goa:** A MoU has been signed between Sesa Goa and DRF's SRI project.

- **NIDHI:** A MoU has been signed with Nidhi, a non-profit organisation of Lafarge India Pvt. Ltd. at Himachal Pradesh, India for the SRI Project.

- **Tata Power and MSDF:** DRF has signed a tripartite MoU with Tata Projects and MSDF to create 200 livelihoods at Mumbai.

- **Ashta No Kai:** DRF has also signed a MoU with Hindustan Unilever Ltd. at Haridwar, India to create 75 livelihoods.

- **Persons with Disability (PwD) Project:** DRF has signed a MoU with Wadhwani foundation to create livelihoods for 150 aspirants with disabilities at Ahmedabad and Chennai. DRF also signed a MoU with Centre for PwD Livelihood (CPDL) and Society for Elimination of Rural Poverty (SERP) in AP to provide livelihoods to 100 aspirants with physical disabilities.

EXPLORING NEW LIVELIHOOD OPTIONS

- **Program for human trafficking victims:** As part of a larger mandate DRF has signed a MoU with International Organization for Migration (IOM) to train victims of interstate human trafficking. 23 inmates were trained in Bed Side Patient Assistance domain along with Livelihoods at a rescue home in Hyderabad, India.

- **MoU with National Institute of Urban Affairs (NIUA):** A MoU was signed with NIUA to develop curriculum and trainers. Handbooks along with necessary teaching tools and assessments in four domains – customer relations and sales, hospitality, ITeS and consumer durable technicians were created. Over 60 employers in Delhi, Chandigarh and Hyderabad from these domains were interviewed to seek inputs to develop the content.

  A pilot was conducted at Hyderabad in Food & Beverage services for 16 aspirants. Out of the 16 aspirants 12 of them have been placed at leading hotels in Hyderabad. This domain will be scaled up to multiple centers across India.

NEW LABS CURRICULUM

- **Direct Sales:** A 60-day pilot program on direct sales was conducted at Hyderabad which dealt with various aspects of direct marketing and sales of products. Out of 13 aspirants trained in the pilot batch 12 of them were placed in organizations such as Hindustan Unilever and Godrej.

- **BPO:** DRF conducted a market scan with the help of its facilitators and updated its BPO curriculum to include non-voice / voice curriculum to ensure that our aspirants have a larger pool of employers to choose from.

- **Information Technology – Office Automation:** DRF has started IT office automation programs which include MS Office and internet concepts. A pilot was conducted at Hyderabad. This program was scaled up pan India.

- **Information Technology – Tally:** A new domain was piloted in Barrackpore, West Bengal, to cater to the growing demand of trained accounts professionals on Tally software. This domain imparts basic computer knowledge, fundamentals of accounts, tally software etc and the aspirants are placed in various companies.

- **International BPO:** Inspired by the success of the BPO domain which caters to the domestic call center sector, DRF launched a new domain, International BPO to cater to the growing demand of International BPO markets.

A LABS PROGRAM AT HYDERABAD, ANDHRA PRADESH, INDIA

EDUCATION UPDATE

- **Pudami Neighborhood Schools:** Pudami schools address the rising demand for English medium education from marginalized / lower income communities. The four schools in Hyderabad and Ranga Reddy district, Andhra Pradesh have 120 teachers imparting education to a combined strength of over 2,500 children drawn from all sections.

- **Pudami English Primaries:** To make quality English-medium education accessible to urban children from lower income groups, DRF set up 27 Pudami English Primaries in Hyderabad and Ranga Reddy District, Andhra Pradesh where about 5500 students study.

- **Yuva Youth Learning Centers:** Community-based adolescent youth learning centers established in various urban slum areas around Hyderabad help bring dropouts and working children into the mainstream education system. These centers help eligible students obtain formal academic certification, provide career counseling and job-related training. Two Yuva Youth Learning Centers were established in Hyderabad in 2010-11 with a total strength of about 150 youth.

- **Non-Residential Bridge Centres (NRBCs) and Residential Bridge Centres (RBCs):** Bridge centres are set up at construction sites to help provide education to children of construction labours with an aim of getting them into mainstream education. In FY11, 31 non-residential bridge centres provided education to over 800 students while two residential bridge centres provided education to over 100 students.

- **Kallam Anji Reddy Vidyalaya (KARV):** The Kallam Anji Reddy Vidyalaya at Hyderabad has 45 teachers providing education to about 1,200 students in both English and Telugu medium.

- **Early Childhood Care & Education Center (ECCE):** Early Childhood Care & Education (ECCE) Center takes care of migrant children in the age group of 0-5 years living on construction sites in urban Hyderabad, India. 10 ECCE centers, funded by the World Bank today support over 500 children.

- **Juvenile Home for Girls and Boys at Hyderabad:** These juvenile homes house children in three groups — Juvenile delinquents in special home, under-trials in observation home and children who need care and protection in the children home. A total of about 90 girls and 150 boys are housed in these homes.

Community-based adolescent youth learning centers established in various urban slum areas around Hyderabad help bring dropouts and working children into the mainstream education system.

STUDENTS AT A YUVA CENTER IN HYDERABAD, ANDHRA PRADESH, INDIA

Pudami schools address the demand for English medium education from marginalized income communities. Today, four schools provide education to over 2,500 children.

STUDENTS AT A PUDAMI SCHOOL IN HYDERABAD, ANDHRA PRADESH, INDIA

DR. REDDY'S FOUNDATION FOR HEALTH EDUCATION (DRFHE)

DRFHE aims to create professionals who would work with the medical fraternity to offer an integrated, multi-disciplinary approach to good health. The programs also aim at building the necessary soft skills with an objective of strengthening the healthcare delivery system for better patient care. DRFHE significantly scaled up its activities from 383 programs in FY10 to 807 programs this year.

EDUCATION INITIATIVES

POST GRADUATE DIPLOMA IN HEALTHCARE MANAGEMENT

DRFHE is successfully running its seventh batch of the Post Graduate Diploma in Health Care Management (PGDHM) at Hyderabad. 17 students were enrolled for the academic year 2010-11. A PGDHM-certified Patient Educator would be a combination of a physician's assistant, patient counselor, health educator and a physician's associate.

TRAINING INITIATIVES

- **INNER CIRCLE:** Introduced in 2007 to impart soft skill training to resident doctors, 41 Inner Circle programs were conducted in FY11, benefiting over 900 resident doctors.

- **ABHILASHA:** It is a one-year program aimed at helping nurses understand the true importance of their work, showing them how they can perform their work more effectively, and boosting their self-confidence and motivation. 415 programs were conducted during FY11, benefiting over 10,700 Nurses.

- **SARATHI:** It is a training program that enables a doctor's assistant to emerge as a sharper, smarter and motivated individual. 60 programs were conducted during FY11, benefiting about 1,500 assistants.

- **SANJEEVANI:** This program was introduced in the year 2008 with an objective to ensure that the pharmacists develop empathy towards their customers and improve various skills for effective prescription dispensation. During FY11, 42 programs were conducted benefiting about 700 pharmacists.

PATIENT INITIATIVES

- **LIVING WELL:** DRFHE conceived this program in 2008 in partnership with the 'ART OF LIVING FOUNDATION', an international NGO, with an

STUDENTS AT A PGDHM CLASS IN HYDERABAD, ANDHRA PRADESH, INDIA

The "Aastha" program is conducted in association with the Indian Association for Palliative Care. During FY11, four programs were conducted benefiting about 160 participants.

aim of helping people to reduce risk factors and increase their resistance levels through awareness and lifestyle modification and to manage their chronic condition through a self management support system. 10 Programs were conducted during FY11 benefiting about 200 patients.

LIFE AT YOUR DOORSTEP (LAYD): Dr. Reddy's Oncology business in India and DRFHE launched 'Life at Your Doorstep' in January 2008. This Program focuses on home care (related to Palliative Care). It attempts to improve the quality of life for terminally ill patients with provision of access to physical, psychological, emotional, social and spiritual support in a culturally appropriate manner. A well-equipped medical van with a team consisting of a doctor, nurse and patient counselor goes to the patient's doorstep to provide the home care service. DRFHE is also tying up with Dr. Reddy's Foundation through their LABS program to provide livelihood to a member of a family which has lost its earning member to cancer.

During FY11, this service was also launched in the Indian cities of Bangalore, Mumbai, Bhopal, Jabalpur, Kolkata, Cochin and Coimbatore benefiting over 2,700 cancer patients.

NEW INITIATIVES

AWARENESS FOR LIFE: It is a program designed for the benefit of employees in the corporate world where interactive session by medical professionals on diseases take place. 107 programs were conducted during FY11, benefiting about 4,700 participants.

AASTHA: The objective of this program is to raise awareness levels of pain and palliative care amongst doctors and nurses. It also talks about end-of-life care by encouraging and enabling an open dialogue and service provision thereby hoping to enhance the quality of life of individuals facing the last stages of life. It is conducted in association with the Indian Association for Palliative Care. During FY11, Four programs were conducted benefiting about 160 participants.

DISASTER MANAGEMENT: The program, conducted in association with AmeriCares India Foundation and National Disaster Management Authority is designed to introduce hospital staff to the concept of disasters and disaster preparedness. The workshop focuses on response system and communication capabilities giving hospitals an opportunity to be prepared for such eventualities. 70 participants benefited from the pilot program.

management discussion and analysis

OVERVIEW > Incorporated in 1984, Dr. Reddy's Laboratories ('Dr. Reddy's' or 'the Company') is a global pharmaceutical company with footprints over 25 countries. The Company's purpose is to provide affordable and innovative medicines for healthier lives, which we do through:

- Pharmaceutical Services and Active Ingredients (PSAI), comprising Active Pharmaceutical Ingredients (API) and Custom Pharmaceuticals Services (CPS).
- Global Generics (GG) businesses, which includes branded and unbranded prescription and over-the-counter (OTC) pharmaceutical products.
- Proprietary Products (PP), comprising of biosimilars, differentiated formulations and New Chemical Entities (NCEs).

Note: Unless otherwise stated, financial data given in this Management Discussion and Analysis is based on the Company's consolidated IFRS financial statements

In 2011, Dr. Reddy's became the only Indian pharmaceutical company to celebrate the 10th anniversary of listing at the New York Stock Exchange.

The Company enjoys some key strengths which are listed below:

- Industry leading chemistry skills and development processes which have resulted in monetizing several niche product opportunities.
- A high degree of vertical integration with most of the APIs being sourced internally to manufacture formulations. This has not only helped in speed to market but also kept Dr. Reddy's generic and formulation products cost competitive. The Company ranks amongst the global leaders in Drug Master Filings (DMF), with 486 global DMFs as of 31 March 2011.
- The Company enjoys critical business mass in key markets such as North America, Russia and India.
- Creates and leverages value opportunities through strategic partnerships.
- Has established a presence in biosimilars through Reditux™, Dr. Reddy's brand of rituximab, the world's first biosimilar monoclonal antibody, as well as three additional products, Grafeel®, Cresp® and Peg-Grafeel™.

KEY FINANCIAL HIGHLIGHTS

As per financial reporting standards prescribed under the International Financial Reporting Standards (IFRS):

- The Company's consolidated revenue for 2010-11 grew by 6% to ₹ 74,693 millions (US$ 1.7 billion). As **Chart A** shows, Dr. Reddy's revenue has been rising at a CAGR of 21% over the last ten years.
- Profit after tax (PAT) for 2010-11 was ₹ 11,040 millions versus ₹ 1,068 millions in 2009-10.

KEY EVENTS

BUILDING STRATEGIC PARTNERSHIPS

- In 2010-11, Dr. Reddy's acquired GlaxoSmithKline's (GSK) oral penicillin manufacturing facility located in Tennessee, USA. This allows the Company to enter the US penicillin-containing antibacterial market segment through brands such as Augmentin® and Amoxil®, and serve the needs of customers through manufacturing and other capabilities that did not previously exist within Dr. Reddy's.

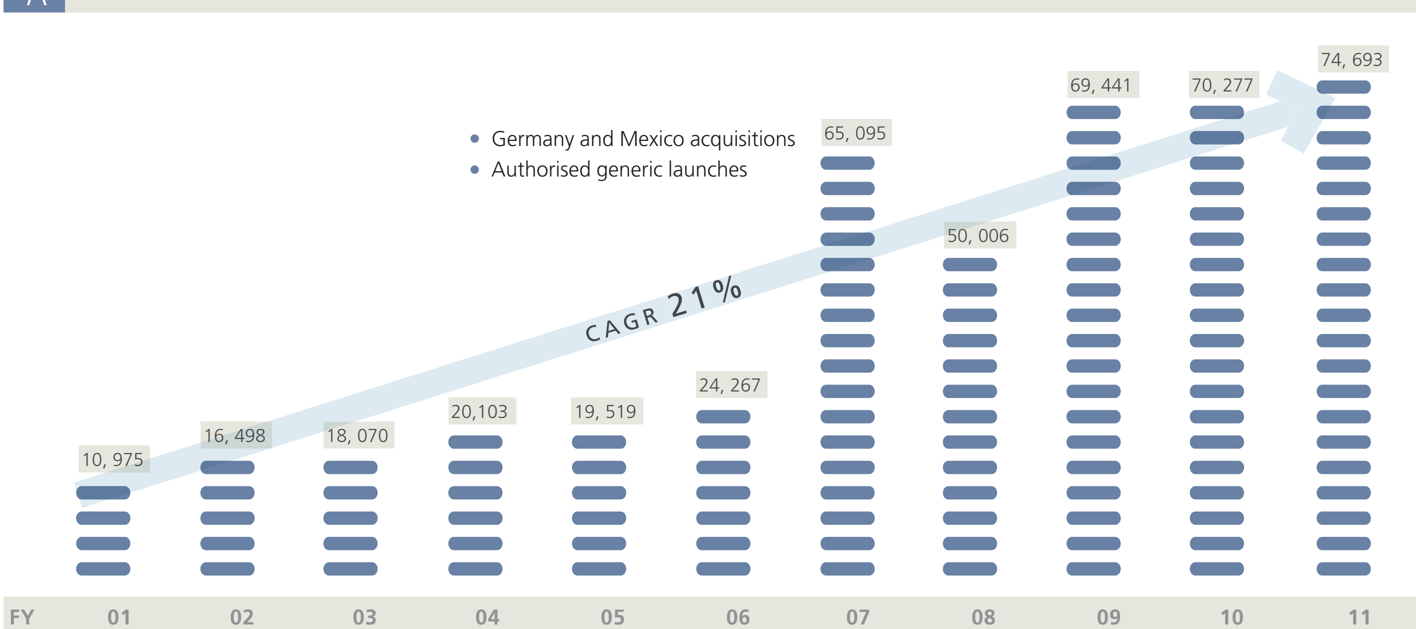
- Promius™ Pharma, a subsidiary of Dr. Reddy's, collaborated with Valeant Pharma to market Cloderm® cream in the US market. Cloderm® is a well-tested product among dermatologists, and is universally recognized for its safety profile and unique non-sensitizing formulation. It is used for the relief of the inflammatory and pruritic manifestations of corticosteroid-responsive dermatoses. This should bolster the Promius™ Pharma's efforts to build a successful prescription branded franchise in the US, and contribute to the Company's goal to become a leader in medical dermatology.
- 2010-11 saw an expansion of Over-the-counter (OTC) and prescription portfolio in Russia and the Commonwealth of Independent States (CIS) through various in-licensing deals with partners for exclusive marketing rights. With strong brands, increasing growth in the prescription, OTC and hospital segments and the Company's association with top tier distribution partners, these deals should add to Dr. Reddy's growth ambitions in Russia and the CIS.
- The Company entered into a settlement with AstraZeneca in the US relating to the Abbreviated New Drug Application (ANDA) filed for the generic versions of AstraZeneca's Nexium® (esomeprazole). According to IMS, Nexium® is the second largest selling drug in US. AstraZeneca has granted Dr. Reddy's a license, subject to regulatory approval, to launch generic version of esomeprazole delayed-release capsules in 2014, or earlier in certain circumstances.
- The Company had entered the South African market in 2003 through 60:40 Joint Venture (JV) with a local partner, Calshelf. During 2010-11, the Company increased the stake in this JV to 100% after acquiring the 40% stake of the partner. South Africa is an important market and the Company hopes to increase the presence there, especially in the areas of the Central Nervous System (CNS), oncology and women's health.

BIOSIMILARS: THE NEXT WAVE OF GROWTH

- Dr. Reddy's has sold approximately 1.4 million units of biosimilar products and has treated approximately 97,000 patients in 12 countries.
- Launched three years ago, Reditux™ was the first — and still the only — biosimilar monoclonal antibody in the world. In 2010-11, Reditux™ registered a growth of 75% over the previous year and is now among the Company's Top Five brands in India.
- In 2010-11, Dr. Reddy's launched Cresp® in India — the first biosimilar darbepoetin alfa in the world. This launch is a significant achievement, for it has again demonstrated the Company's development capabilities in biosimilars. Cresp® offers patients with both nephrology and oncology indications, an improved treatment regimen at affordable prices.
- In March 2011, the Company launched Peg-grafeel™ in India — in the form of an affordable pegfilgrastim, which is used to stimulate the bone marrow to produce more neutrophils to fight infection in patients undergoing chemotherapy. Peg-grafeel™

CHART A

Dr. Reddy's CAGR Consolidated Revenue Growth from 2000-01 to 2010-11



11 new products were launched in the North America generics market in 2010-11. Of these, five experienced limited competition. These were: amlodipine benazepril, tacrolimus, lansoprazole, zafirlukast and fexofenadine pseudoephedrine 180 / 240 mg.

represents a breakthrough in the pricing of this complex molecule. It is priced at approximately 25% of the originator brand in India, and 95% lower than the US price. This pricing has been enabled by the Company's vertically integrated global manufacturing network. Peg-grafeel™ is manufactured using Dr. Reddy's 'PEGtech' brand of activated mPEGs, which are synthesized at the Company's facility in Mexico and the UK.

FOCUS ON R&D

- Investments in R&D in 2010-11 grew by 33% to ₹ 5,060 millions. This represents 7% of overall sales, compared to 5% in 2009-10.
- Dr. Reddy's has filed 21 ANDAs in 2010-11. As of 31 March 2011, the Company has 179 cumulative ANDAs (including partnered ANDAs). The Company's North America generics pipeline comprises 76 ANDAs pending with the USFDA as of 31 March 2011. Of these, 38 are Para-IV filings with 10 in the category of 'first to file'. The value of 'first to file' represents approximately US$ 3 billion of innovator sales.
- The Company has filed 56 DMFs in 2010-11— which includes 19 DMFs in the US, 7 in Europe, and 30 in the rest of the world. As of 31 March 2011, Dr. Reddy's has filed 486 cumulative DMFs, and is among the global leaders in DMF filings.

ROBUST GROWTH IN EMERGING MARKETS

- In 2010-11, Dr. Reddy's continued to outperform the Russian market by reporting a growth of 24% versus a market growth of 7.5% (Source: Pharmexpert). The Company is ranked 15th in Russia.
- The branded formulation business in India continues to be one of the key markets for the Company. In 2010-11, Dr. Reddy's expanded the field force by approximately 500 people to widen the reach with doctors, and reported a growth of 15% — in line with the market.
- Dr. Reddy's grew in other emerging markets as well by 12% over the previous year. The major countries include Ukraine, Venezuela, South Africa and New Zealand.

CONTINUED GROWTH IN NORTH AMERICA GENERICS

- In the US prescription market, 25 of Dr. Reddy's products featured among the top three ranks in terms of market share (Source: IMS Sales Volumes, March 2011).
- The Company's presence in the OTC segment yielded good returns, with key products such as ranitidine and omeprazole magnesium growing well. Within three years of commencement, Dr. Reddy's OTC business in North America generics is worth approximately US$ 60 millions.
- In 2010-11, North America generics showed a revenue growth of 13% over previous year. Significant portion of this growth was led by the Company's presence in products with limited competition.
- 11 new products were launched in the North America generics market in 2010-11. Of these, five experienced limited competition. These were: amlodipine benazepril, tacrolimus, lansoprazole, zafirlukast and fexofenadine pseudoephedrine 180 / 240 mg.

PHARMACEUTICAL MARKET TRENDS

Note: Global market information referred to in this and subsequent sections are based on latest available reports from IMS Health Inc., and Datamonitor.

According to IMS Health, the global pharmaceutical market value is expected to be around $880 billion in 2011, exhibiting a growth of 5% to 7%. This growth is expected to be about one percentage point higher than in 2010, and will be largely driven by stronger overall contribution from emerging countries. In the regulated markets, products with more than US$ 30 billion of sales are expected to face generic competition, including iconic brands such as Lipitor®, Plavix®, and Zyprexa®.

KEY GLOBAL TRENDS

Increasing pace of genericization. On average, brands in the US — the most mature of all generics markets — experienced the greatest degree of volume erosion following patent expiry and exposure to direct generic competition. Between 2006 and 2009, brand sales declined by 72% after six months of generic competition. After the US, brand erosion was the most severe in the UK, Germany, and France, with mean sales erosion in the region of 44% after six months of generic competition. Brand erosion in Australia, Italy, Russia, Spain, and Japan ranged from 54% (in Italy) to 6% (in Japan) in terms of value, after two years of generic competition.

Key growth drivers and resistors facing healthcare payers and pharma. A number of factors have and will continue to effect pharmaceutical sales and profits going forward. Ageing populations, the growing prevalence of chronic disease, greater use of expensive treatments, and expanding public healthcare coverage in markets such as the US are stretching existing healthcare resources. Both public and private payers across the world are pursuing a wave of budgetary control mechanisms that target drug spending. For countries with publicly funded healthcare, this is being implemented in the context of restoring fiscal balance. Further, during 2010-15, branded pharmaceutical is set to lose approximately US$ 108 billion in sales due to patent cliffs and the resultant generic erosion of branded sales. However, the industry is implementing a number of strategies to drive sales and profitability going forward: product innovation, diversification, and cost-containment. It is difficult to estimate how these will play out over time.

- **Global market for biosimilars is expected to be more than 15 times the current size in the next five years.** The global biosimilars market is expected to grow from US$ 243 millions in 2010 to US$ 3.7 billion in 2015. This will be driven by patent expirations of more than 30 biologic medicines, with sales of US$ 51 billion in the next five years.

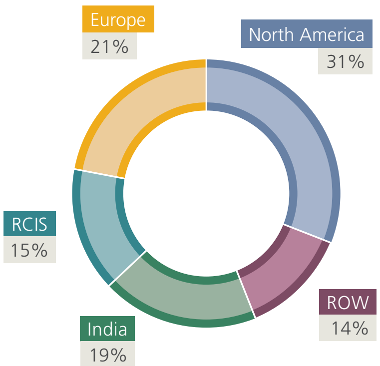
- **Rapid erosion from CNS and Cardiovascular Therapeutic areas.** CNS is the largest therapeutic area across major markets followed by cardiovascular drugs. However, these have become increasingly saturated with 'me-too' drugs, and are suffering rapid erosion from generic competitors following patent expiry of key brands.

- **Metabolic, oncology, and drugs for the treatment of immunology and inflammatory disorders will experience strong sales growth** – as these have between 2005 and 2009. The growth is being driven by continued uptake of novel biologic drugs. For the top 50 pharmaceutical companies, sales across these three therapy areas are forecasted to grow by 5.4%, 5.8% and 4.1% CAGR during the period 2010-2015.

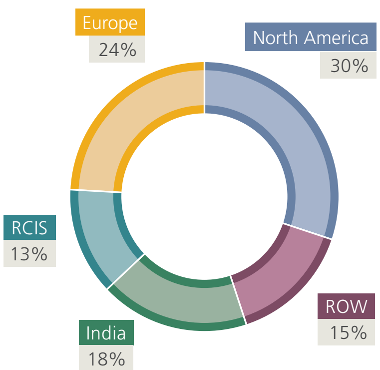
- **Significant new breakthroughs on the horizon.** In 2011, the introduction and use of new drugs – a third of which are specialty pharmaceutical products – are poised to fulfill unmet patient needs and significantly alter treatment paradigms in several key therapeutic areas. These include innovative treatment options for stroke prevention, melanoma, multiple sclerosis, breast cancer and hepatitis C. As these new drugs are brought to market, patient access is expected to expand and funding redirected from other areas where lower-cost generics are available. In total, 30 to 35 new chemical or biological entities are expected to be launched globally in 2011.

DR. REDDY'S CELEBRATED 10 YEARS OF LISTING ON THE NYSE ON 15 APRIL 2011

CHART B Dr. Reddy's Consolidated Revenue and Share of Markets



2010-11



2009-10

KEY REGIONAL TRENDS

REGULATED MARKET TRENDS

- **Improvement in the US market growth.** In 2011, the US market is expected to grow between 3% and 5% translating to a market value of US$ 320 to US$ 330 billion — up slightly from the growth in 2010.

- **Peak years of patent expiries shift major therapies to generics.** In 2011, products with sales of more than US$ 30 billion are expected to face the prospect of generic competition in the major developed markets. In the US alone, Lipitor®, Plavix®, Zyprexa® and Levaquin® — which together accounted for more than 93 millions prescriptions dispensed in the past 12 months and generated over US$ 17 billion in sales — will likely lose market exclusivity. The full impact of patients shifting to lower-cost generic alternatives for these products, as well as out of other brands in their therapeutic classes, will be mostly felt in 2012.

- **US healthcare reforms with the US President seeking to shorten the exclusivity period for biologics to seven year.** Branded biologics in the US are eligible to receive four years 'data exclusivity and 12 years' market exclusivity. However, this is currently under debate in the US House of Representatives. In February 2011, the US President announced that he wishes to shorten market exclusivity from 12 years to seven. If it were to pass, it will significantly reduce the timescale for biosimilars to enter the US market.

- **Germany on the road to becoming a commodity market.** Historically, Germany's generics market has been highly branded. But new wide ranging reforms in Germany have put the negotiating power firmly in the hands of the country's sick funds. This has resulted in auctioning of generics and in making the sales and marketing forces obsolete, with price playing the most important factor.

EMERGING MARKET TRENDS

- **'Pharmerging' countries contribute to nearly half of total growth.** The 17 Pharmerging[1] countries are forecast to grow at a 15% to 17% in 2011, to somewhere between US$ 170 and US$ 180 billion. Many of these are expected to benefit from greater government spending on healthcare and broader public and private healthcare funding, thus driving greater demand and access to medicines.

- **Continued growth expected in Russia Government's health expenditure.** The generics industry in Russia is complex and fragmented, and dominated by a small number of international generics manufacturers. These companies enjoy preferential uptake driven thanks to their perceived superiority in terms of safety and efficacy vis-à-vis domestically manufactured generics. In Russia, investment in healthcare is considered a long term national priority as a means of reducing mortality rates and increasing life expectancy. Government health expenditures per capita reached US$ 590 in 2010 compared to around US$ 360 in 2005. Their continued growth is anticipated: estimates from the Federal Ministry of Health and Social Development suggest US$ 1,400 in 2017, rising to US$ 1,800 by 2020.

- **Acute therapeutic segment continues to dominate in India.** The Indian pharmaceutical market has seen a CAGR of about 15% in the last five years. The domestic industry grew by 15% in March 2011(MAT) versus 18% in March 2010. Acute therapy dominates, with a share of 73% of the total market value. The chronic segment has registered a CAGR of 18%. Anti-diabetics grew by 24%, cardiovascular by 16%, CNS and gastro-intestinal grew 17%, anti-infectives by 14%, respiratory by 10% and dermatology by 15%.

[1] *'Pharmerging' countries includes China, Brazil, Russia, India, Mexico, Turkey, Venezuela, Poland, Argentina, Thailand, Romania, Indonesia, S. Africa, Egypt, Ukraine, Pakistan and Vietnam.*

DR. REDDY'S MARKET PERFORMANCE

REVENUES

The Company's consolidated revenues increased by 6% to ₹ 74,693 millions (US$ 1.7 billion) in 2010-11. Revenues from Global Generics increased by 10% while PSAI revenues decreased by 4%.

In 2010-11, Dr. Reddy's share of revenue from the international businesses stood at 81%. The remaining 19% came from India. North America (US and Canada) contributed to 31% of total revenues in 2010-11, versus 30% last year. Europe accounted for 21% of total sales in 2010-11, compared to 24% in 2009-10. Russia and other CIS countries contributed to 15% of total revenues. **Chart B** plots the data.

Table 1 gives Dr. Reddy's consolidated financial performance by businesses under IFRS.

GLOBAL GENERICS

Global Generics revenues were at ₹ 53,340 millions in 2010-11, versus ₹ 48,606 millions in 2009-10. **Chart C** gives the geographic distribution.

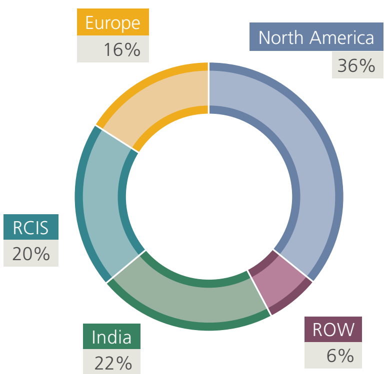
TABLE 1 Consolidated Business-Wise Performance under IFRS

₹ MILLIONS

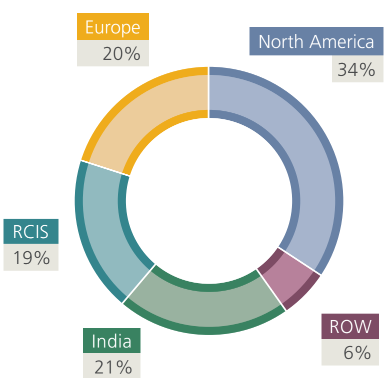
	2010-11			2009-10		
	Revenue	Gross profits[1]	% to revenue	Revenue	Gross profits[1]	% to revenue
Global Generics	53,340	34,499	65	48,606	29,146	60
Pharmaceutical Services and Active Ingredients (PSAI)	19,648	5,105	26	20,404	6,660	33
Proprietary Products and Others	1,705	659	39	1,267	534	42
Total	74,693	40,263	54	70,277	36,340	52

NOTE [1] Does not include selling, general and administrative expenses, research and development costs and foreign exchange gains and losses.

CHART C Geographical Distribution of Global Generics Revenue



2010-11



2009-10

TABLE 2 Revenues from the Top-10 Brands in India

₹ MILLIONS

Product	2010-2011	2009-2010	Growth
Omez®	1,028	892	15%
Nise™	700	690	1%
Stamlo®	507	473	7%
Reditux™	405	232	75%
Omez-DR®	377	310	22%
Stamlo Beta	328	326	0%
Razo™	285	247	15%
Atocor	278	274	2%
Mintop™	209	196	7%
Razo-D™	200	169	18%

NORTH AMERICA

Over the previous year, revenues from North America increased by 13% to ₹ 18,996 millions in 2010-11. Significant portion of this growth was led by the Company's presence in products with limited competition. As mentioned earlier, 11 new products were launched in US in 2010-11, of which five experienced limited competition. These were amlodipine benazepril, tacrolimus, lansoprazole, zafirlukast and fexofenadine-pseudoephedrine. Dr. Reddy's launched fexofenadine-pseudoephedrine on 31 January 2011 after the District Court of New Jersey lifted the preliminary injunction granted to Sanofi-Aventis.

The Company has filed 21 ANDAs in 2010-11. As of 31 March 2011, the Company has 179 cumulative ANDAs (including partnered ANDAs). Dr. Reddy's North America generics pipeline comprises 76 ANDAs pending with the USFDA. Of these 38 are Para-IV filings, with 10 in the category of 'first to file'.

INDIA

Revenues from India grew by 15% to ₹ 11,690 millions in 2010-11—driven by volume growth of 11% and new products led growth of 4%. During the year, Dr. Reddy's launched new products under 55 new brands including two biosimilars—Cresp® and Peg-Grafeel™.

Dr. Reddy's Top-10 brands accounted for revenues of ₹ 4,317 millions (37% of India formulations revenue). Some of the details are:

- Omez® and Omez DR®, the Company's brands of omeprazole, grew by 15%. Omez® now accounts for 53% market share.
- Reditux™, the Company's brand of rituximab, grew by 75%.
- Revenues from Razo™, the Company's brand of rabeprazole, grew by 15%, and had a market share of 13%.
- Mintop™, Dr. Reddy's brand of minoxidil, grew by 7%, and is ranked first with a market share of 40%.
- Stamlo®, the Company's brand of amlodipine, grew by 7%, and is ranked first with a market share of 20%.

Table 2 gives the revenues from the Company's Top 10 brands in India.

RUSSIA AND OTHER CIS COUNTRIES

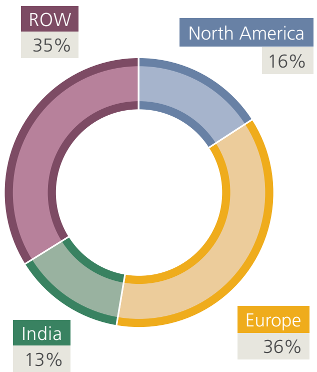
Revenues from Russia grew by 24% to ₹ 8,942 millions in 2010-11— driven by volume growth of 33% that was partially offset by a price decline of 9%. Dr. Reddy's has been outperforming the industry's growth over many years. During the year, the Company launched new products under seven new brands with some of those being in-licensed and in the OTC space. OTC sales are now 25% of the overall portfolio. Growth was led by key brands such as Nise, Cetrine, Keterol, Omez, Ciprolet and Senade.

Table 3 gives the revenues from the Company's top brands in Russia.

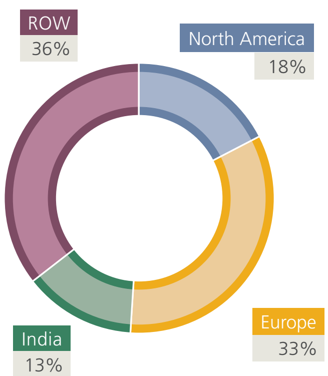
Revenue from other CIS countries increased by 2% to ₹ 1,916 millions.

CHART D

Geographical Distribution of PSAI Revenues



2010-11



2009-10

TABLE 3

Revenues from the Top Formulations in Russia

₹ MILLIONS

Product	2010-2011	2009-2010	Growth
Nise	2,311	1,862	26%
Omez	1,554	1,458	18%
Keterol	1,376	1,287	16%
Ciprolet	778	760	9%
Senade	598	–	–
Cetrine	590	408	45%

EUROPE

Revenues from Europe fell by 13% to ₹ 8,431 millions. This was largely due to revenues from Germany decreasing by 25% on account of pricing pressures due to the sick fund's tender system. Revenues from rest of Europe increased by 27% to ₹ 2,974 millions largely led by the growth from out-licensing sales.

REST OF THE WORLD (ROW)

Revenues from RoW markets increased by 17% to ₹ 3,366 millions in 2010-11. This was largely contributed by markets of Venezuela, New Zealand and South Africa.

PHARMACEUTICAL SERVICES AND ACTIVE INGREDIENTS (PSAI)

Revenues from PSAI decreased by 4% to ₹ 19,648 millions in 2010-11. International markets accounted for 87% of PSAI's revenue, amounting to ₹ 17,028 millions. For the year, the Active Ingredients business grew modestly on the back of new launches offset by pricing pressures. Revenues from the Pharmaceutical Services segment declined due to lower customer orders.

As given earlier, Dr. Reddy's filed 56 Drug Master Files (DMFs) in 2010-11 — 19 in the US, 7 in Europe, and 30 in RoW. As of 31 March 2011, the Company has filed 486 cumulative Drug Master Files (DMFs).

- Active Ingredients revenue from Europe grew by 6% to ₹ 7,020 millions in 2010-11, primarily on account of increased sale of atorvastatin, clopidogrel, escitalopram oxalate, and ramipril.
- Revenue from North America fell by 14% to ₹ 3,170 millions. This was mostly due to the decrease in sales of finasteride and rabeprazole, which was partially offset by increased sales of gemcitabine.
- Revenue from other emerging markets decreased by 8% to ₹ 6,838 millions, on account of decreased sales in South Korea, Turkey, Brazil, Japan and Australia.

PROPRIETARY PRODUCTS BUSINESS

As on 31 March 2011, Dr. Reddy's had 27 products in the pipeline, of which seven are New Chemical Entities (NCEs) and 20 are novel Differentiated Formulations (DFs). Out of these 27 products seven are in clinical development and 20 in the pre-clinical stage. The Company successfully repositioned its research activities in the year 2009-10 which resulted in creating a robust differentiated product pipeline. The Company also initiated three NCE programs in 2010-11. Details of a few Dr. Reddy's development pipeline products are given in **Table 4.**

HUMAN RESOURCES

Dr. Reddy's global employee strength crossed 14,500 in 2010-11, of which over 2,400 are based at international locations. There is a conscious effort at building diversity in the workforce, which

TABLE 4

Dr.Reddy's Development Pipeline

Compound	Therapeutic Area	Status	Remarks
New Chemical Entities (NCEs)			
DRF 2593	Metabolic disorders	Phase III	In Phase III clinical testing for Type 2 diabetes partnered with Nordic Biosciences
DRL 17822	Metabolic disorders / Cardiovascular disorders	Phase II	Targeting dyslipidemia / atherosclerosis
Novel Differentiated Formulations (DFs)			
DRL-NAB-P2	Onchomycosis	Phase III	In Phase III clinical testing for Onchomycosis
DRL-NAB-P5	Psoriasis	Clinical	Targeting Psoriasis
DRL-NAB-P6	Psoriasis	Clinical	Targeting Psoriasis
DFA-02	Anti-infectives	Clinical	Targeting bacterial infections
DFP-02	Migraine	Clinical	Targeting Migraine

has resulted in the rise of the percentage of women employees. In 2010-11, almost 46% of the campus recruits were women.

During the year, around 4,100 new employees were hired, including replacements. India field hires contributed to 31% of the hiring, while 43% was in manufacturing, quality, R&D and engineering services. Critical talent was added in the areas of safety, health and environment, formulation technology, development of differentiated formulations, global sales and marketing, OTC products, strategy, patents, quality and cell and molecular biology. The Company recruited 16 management trainees and 7 laterals from prestigious B-Schools.

As part of the Company's transition to a 'Role Based Organization', Dr. Reddy's has redefined a new set of leadership competencies. These are: (i) performance orientation, (ii) business acumen and decision making, (iii) communicating and influencing, (iv) building and leveraging relationships, (v) commitment to learning and coaching, and (vi) innovation and problem solving. This talent management process for senior management was initiated by the Management Council in 2010-11. The second phase of this process covering additional employees is scheduled to be completed in the first half of 2011-12.

A culture of continuous learning and leadership development across all levels are key to Dr. Reddy's growth aspirations. Key senior management met for their third Leadership Summit at Boston, USA with world class faculty sharing ideas on performance and execution, talent and leadership, and organizational culture. Dr. Reddy's launched several learning interventions focused on developing critical skill sets and leadership competencies. In 2010-11, there were 10,112 person-days of training.

FINANCIALS

The financials are given in two sub-sections:

- Abridged IFRS accounts for Dr. Reddy's as a consolidated entity.
- Abridged Indian GAAP stand-alone accounts for Dr. Reddy's, as statutorily required under India's Companies Act, 1956.

IFRS CONSOLIDATED FINANCIALS

Table 5 gives the abridged IFRS consolidated financial performance of Dr. Reddy's for 2010-11 and 2009-10.

REVENUES

The Company's consolidated revenues increased by 6% to ₹ 74,693 millions (US$ 1.7 billion) in 2010-11. Revenues from Global Generics increased by 10% while PSAI revenues decreased by 4%.

GROSS PROFIT

Dr. Reddy's gross profit rose by 11% to ₹ 40,263 millions in 2010-11. As a percentage of revenue, gross profit was 54% in 2010-11 versus 52% in 2009-10. The improved margin is due to a favorable product mix in the North America generics market. Gross margins for Global Generics are at 65% in 2010-11 versus 60% in 2009-10. In the PSAI segment margins are at 26% in 2010-11 versus 33% in 2009-10, largely due to price erosions in existing products.

TABLE 5 Abridged IFRS Consolidated Financial Performance

	2010-11		2009-10		Increase / (decrease)
	₹ Millions	% to sales	₹ Millions	% to sales	
Revenues	74,693	100%	70,277	100%	6%
Gross profit	40,263	54%	36,340	52%	11%
Selling, general and administrative expenses	23,689	32%	22,505	32%	5%
Research and development expenses	5,060	7%	3,793	5%	33%
Impairment loss on other intangible assets	–	–	3,456	5%	NC
Impairment loss on goodwill	–	–	5,147	7%	NC
Other expenses / (income), net	(1,115)	(2%)	(569)	(1%)	NC
Operating income / (loss)	12,629	17%	2,008	4%	NC
Finance expense	(362)	–	(372)	(1%)	NC
Finance income	173	–	369	1%	NC
Finance (expense) / income, net	(189)	–	(3)	0%	NC
Share of profit of equity accounted investees	3	–	48	0%	NC
Profit / (loss) before income tax	12,443	17%	2,053	4%	NC
Income tax benefit / (expense)	(1,403)	(2%)	(985)	(1%)	NC
Profit / (loss) for the year	11,040	15%	1,068	3%	NC

Note: NC = Not Comparable

R&D expenses grew by 33% to ₹ 5,060 millions. As a share of total revenue, R&D expenditure was at 7% in 2010-11, compared to 5% in 2009-10.

TABLE 6 Consolidated Cash Flow under IFRS ₹ MILLIONS

	2010-11	2009-10
Opening cash & cash equivalents	6,545	5,378
Cash flows from:		
(a) Operating activities	8,009	13,226
(b) Investing activities	(8,658)	(6,998)
(c) Financing activities	(377)	(5,307)
Effect of exchange rate changes	141	246
Closing cash & cash equivalents	5,660	6,545

TABLE 7 Dr. Reddy's Consolidated Working Capital ₹ MILLIONS

	As on 31 March 2011	As on 31 March 2010	Change
Accounts receivable (A)	17,615	11,960	5,655
Inventories (B)	16,059	13,371	2,688
Trade accounts payable (C)	8,480	9,322	(842)
Working capital (A+B-C)	25,194	16,009	9,185
Other current assets (D)	13,919	16,732	(2,813)
Total current assets (A+B+D)	47,593	42,063	5,530
Short and long term loans and borrowings, current portion (E)	18,301	9,310	8,991
Other current liabilities (F)	14,234	10,390	3,844
Total current liabilities (C+E+F)	41,015	29,022	11,993

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, General and Administrative (SG&A) expenses increased by 5% to ₹ 23,689 millions in 2010-11. Most of it was on account of legal expenses in the US, OTC-related marketing spend in Russia and the CIS and new field force expenditure in India. Part of this has been offset by the savings in manpower and related costs due to the restructuring of betapharm in Germany.

R&D EXPENSES

R&D expenses grew by 33% to ₹ 5,060 millions. As a share of total revenue, R&D expenditure was at 7% in 2010-11, compared to 5% in 2009-10. The increase was due to significant scaling up of R&D activities in biosimilars, generics and differentiated formulations.

OTHER EXPENSE / (INCOME), NET

In 2010-11, net other income amounted to ₹ 1,115 millions compared to ₹ 569 millions in 2009-10. This was primarily on account of profit from sale of land. During the year the Company also recorded an amount of ₹ 73 millions towards negative goodwill under 'Other Income'.

FINANCE EXPENSES / (INCOME), NET

Finance costs (net) are at ₹ 189 millions in 2010-11 versus ₹ 3 millions in 2009-10. The change is mainly on account of: (i) net foreign exchange (forex) loss of ₹ 57 millions in 2010-11 versus a net forex gain of ₹ 72 millions in 2009-10; (ii) net interest expense of ₹ 199 millions in 2010-11 versus ₹ 123 millions in 2009-10 — largely due to an increase in the outstanding amount of short term loans and lower interest income from fixed deposits; and (iii) profit on sale of investments of ₹ 68 millions in 2010-11 versus ₹ 48 millions in 2009-10.

TABLE 8 Dr. Reddy's Debt-Equity Position ₹ MILLIONS

	As on 31 March 2011	As on 31 March 2010	Change
Total stockholders' equity	45,990	42,915	3,075
Long-term debt (non-current)	5,271	5,385	(114)
Long-term debt (current)	12	3,706	(3,694)
Short term borrowings	18,289	5,604	12,685
Total debt	23,572	14,695	8,877

INCOME TAX

Provision for income tax for 2010-11 amounted to ₹ 1,403 millions compared to ₹ 985 millions in 2009-10.

NET INCOME

Dr. Reddy's net profit was ₹ 11,040 millions in 2010-11, versus a net profit of ₹ 1,068 millions in 2009-10.

LIQUIDITY AND CAPITAL RESOURCES

Table 6 gives the Company's consolidated cash flow for 2010-11 and 2009-10 based on IFRS.

Cash generated from operating activities in 2010-11 is ₹ 8,009 millions. Investing activities includes net investment in property, plant and equipment of ₹ 8,768 millions to meet the business growth, compared to ₹ 4,068 millions in 2009-10. Sale proceeds in mutual funds net of investments amounted to ₹ 3,642 millions. Net cash outflow from financing activities in 2010-11 mainly represents the repayment of ₹ 8,942 millions of long term debt, and payment of dividends amounting to ₹ 8,089 millions. **Table 7** gives the Company's consolidated working capital.

DEBT-EQUITY

The Debt – Equity position of the Company as on 31 March 2011 and 2010 is given in **Table 8**. Stockholders' equity increased in 2010-11. Long-term debt, including the current and non-current portions, decreased by ₹ 3,808 millions in 2010-11 due to repayments of loan taken on account of betapharm acquisition. The Company's ratio of total debt-to-stockholders' equity increased to 0.51 as on 31 March 2011 from 0.34 on 31 March 2010.

INDIAN GAAP STAND-ALONE FINANCIALS

INTERNAL CONTROLS AND RISK MANAGEMENT

Dr. Reddy's has a comprehensive system of internal controls with the objective of safeguarding the Company's assets, ensuring that transactions are properly authorized, and provide significant assurance at reasonable cost, of the integrity, objectivity and reliability of financial information. The management of Dr. Reddy's duly considers and takes appropriate action on recommendations made by the statutory auditors, internal auditors, and the independent Audit Committee of the Board of Directors. More on internal controls is given in the chapter on Corporate Governance.

In a dynamic business environment, the traditional base business model in pharmaceuticals is exposed to considerable volatility, both upwards and downwards. While the upsides create non-linear value for the organization, there is a conscious attempt to protect it against the downsides.

TABLE 9 Indian GAAP Stand-alone Financial ₹ MILLIONS

	2010-11	2009-10	Increase / (Decrease)
Gross sales	52,537	44,327	19%
Less: Excise duty	356	316	13%
Net sales	52,181	44,011	19%
License fees and service income	310	1,111	(72%)
Other income	1,750	2,124	(18%)
Total Income	54,241	47,246	15%
Expenditure			
Material consumed	17,323	15,245	14%
Research and development expenses, net	5,128	3,643	41%
Personnel costs	7,012	5,100	37%
Selling expenses	4,771	4,485	6%
Other expenditure	6,399	5,269	21%
Depreciation and amortization	2,479	2,224	11%
Interest expense	53	111	(51%)
Provision for decline in the value of long term investments	557	321	
Total expenditure	43,722	36,398	20%
Profit / (loss) before tax	10,519	10,848	(3%)
Tax expense	1,585	2,387	
Net profit	8,934	8,461	6%

Dr. K Anji Reddy receiving the 'Padma Bhushan' from Her Excellency, the Hon'ble President of India, Smt. Pratibha Devisingh Patil. The 'Padma Bhushan' is the third highest civilian award given by the Government of India.

Dr. Reddy's was recognized as one of the "Best of Asia-Pacific's biggest listed companies"in 'Forbes 2010 Asia Fabulous 50 companies' list.

Dr. Reddy's won the Scrip award for "Best Company in an Emerging Market".

ICSI National Award (The Institute of Company Secretaries of India) for Excellence in corporate governance.

Golden Peacock Award for Excellence in corporate governance.

ENTERPRISE-WIDE RISK MANAGEMENT [ERM] IN DR. REDDY'S

Risk management at Dr. Reddy's is modeled around the COSO (Committee of Sponsoring Organizations) ERM framework. It operates with the following objectives:

- Proactively identify and highlight risks to the right stakeholders.
- Facilitate discussions around risk prioritization and risk mitigation.
- Provide a framework to assess risk capacity and risk appetite and develop systems to warn when the appetite is getting breached.
- Provide an analysis that a formal and focused risk management process is facilitating reduction in residual risks.

The central ERM team connects with each business unit and function. These units / functions are the primary source for risk identification.

Risk identification and mitigation at the business unit / function level: The ERM team conducts interviews, facilitates polls that helps prioritize risks at the unit and function level. While there are independent assurance processes for compliance and Sarbanes-Oxley Act (SOX) related financial risks, the ERM team focuses on identifying business risks, both operational and strategic. Mitigation plans for key business risks are identified with timelines and owners. While the responsibility for risk mitigation lies with the risk owners, the ERM team periodically ensures oversight of the mitigation process through formal reviews and updates are provided to the Management Risk Committee.

Risk aggregation, prioritization and mitigation at the Organization level: Risks are aggregated at the unit, function and organization level by risk groups. There are approximately 60 such groups, organized into strategic, operational, financial and compliance categories. The Management Risk Committee comprising business segment heads, finance, legal, HR, safety, medical and quality is entrusted with organization wide risk prioritization and mitigation in line with the Company's risk capacity and appetite.

Reviewing the status of mitigation projects and residual risk: The ERM function's responsibility is to provide a periodic review of (i) risks identified and prioritized across the Company, (ii) breaches in risk appetite and how these are being mitigated, and (iii) the magnitude of post-mitigation residual risks.

Update to and review by the Risk Management Committee: The Chief Risk Officer provides periodic updates to the Risk Management Committee of the Board. The Committee is updated quarterly on the status of key de-risking initiatives; and annually on the key risks and their movement compared to the previous year, along with their residual risk.

THREATS, RISKS AND CONCERNS

Given below are some key threats, risks and concerns.

Health care reforms across the globe: Increasingly, healthcare expenses, especially public expenditure, have been the subject of policy-makers' attention across the globe. Both private and government entities are seeking ways to contain healthcare costs. The consequence has been unanticipated reductions, especially in generics and active ingredient prices.

Russia reference pricing: The Russian government's health care prioritization plan for the pharmaceutical market is making a slow transition from a largely out-of-pocket market to the western European model of centralized reimbursements. Through this, the government will play an active role in regulating market access, particularly for high-cost medicines. The Russian government is extremely focused on regulating price of essential drugs by way of reference pricing, which may impact the Company's revenues from Russia.

Price controls in India: The Government of India through its Drugs (Prices Control) Order, 1995 (DPCO) imposes price controls for specified pharmaceutical products under certain circumstances. Adverse changes in the DPCO list or a widening of the span of price control can affect pricing, and hence, revenues from India.

Regulatory and compliance (i.e. rising audit burdens, inspections and fines): In the recent past, the pharmaceutical industry has witnessed rising regulatory and compliance barriers, as seen in increased inspections and warning letters from USFDA. While the Company continues to give top priority to compliance and quality Year-on-Year, an increasing audit burden could impact the business.

Proprietary products: Dr. Reddy's long term research efforts will depend, to a large extent, upon the Company's ability to successfully patent and commercialize our own NCE molecules and differentiated formulations. There are significant risks of execution, as the process of development; and commercialization of new molecules is time consuming as well as costly.

Generics: The Company's generic business remains challenging due to increased competition in India and Eastern Europe. The segment has inherent risks with regard to patent litigation, product liability, pricing pressure, increasing regulation and compliance related issues. The business could be negatively impacted if innovator pharmaceutical companies are successful in limiting the use of generics through aggressive legal defense as well as authorized generics deals, development of combination products and over-the-counter switching. In view of the number of patent expiries coming up in the near future, sales of patent expiry drugs in the US as well as in Europe represent significant opportunity for all generics and API manufacturers. However, obtaining 180-days exclusivity is getting increasingly difficult in the US, and the generics market is rapidly becoming commoditized.

Foreign exchange fluctuations: Being a global company, the income is exposed to currency rate fluctuations. In 2010-11, the Indian rupee appreciated by approximately 4% vis-à-vis the US dollar, from ₹ 47.44 per US$ for the year ending 31 March 2010 to ₹ 45.56 per US$ for the year ending 31 March 2011. Appreciation of the Indian rupee may impact top-line growth for Indian companies with higher exposure to the US dollar. The Company has adopted a conservative hedge strategy to protect receivables and part of its anticipated income.

Launch at risk: At times, the Company seeks approval to market generic products before the expiration of patents — based on sufficient data that such patents are invalid, unenforceable, or would not be infringed by the Company's products. As a result, the Company is involved in patent litigation, the negative outcome of which could adversely affect the business.

In April 2006, the Company launched, and continues to sell fexofenadine, the generic version of Allegra®. This is despite the fact that there is an ongoing litigation with the Company that holds the patents for and sells this branded product. In the European Union, the Company also had generic launches that involve ongoing patent litigation, negative outcome of which could adversely affect the business. In Germany, the Company had a launch at risk of oxycodon. A cost sharing agreement has been entered to with the supplier to reimburse part of the losses resulting from any damage claim by innovator.

FCPA and other worldwide anti-bribery laws: The Company is subject to the US Foreign Corrupt Practices Act, the UK Bribery Act and similar worldwide anti-bribery laws, which impose restrictions and may carry substantial penalties. These laws generally prohibit companies and their intermediaries from making improper payments to officials for the purpose of obtaining or retaining business, and require not only accurate books and records, but also sufficient controls, policies and processes to ensure business is conducted without the influence of bribery and corruption. The penalties are substantial, including fines, prosecution, potential debarment from public procurement and reputational damage. The Company's policies mandate strict compliance with these anti-bribery laws. However, given the high level of complexity of these laws, there is a risk that some provisions may be inadvertently breached.

OUTLOOK

The Company believes our focus on profitable growth and targeting a leadership position in Global Generics and PSAI will create significant value in the near term. The Company is addressing the need for infrastructure and capacity increases to meet future growth.

In the Global Generics segment, improving depth through portfolio expansion, consistent delivery of limited competition products and supply chain

THE COMPANY'S NEW CORPORATE OFFICE AT HYDERABAD ANDHRA PRADESH, INDIA

Artist impression

THE COMPANY'S SECOND FTO AT BADDI, HIMACHAL PRADESH INDIA

THE EXPANDED CHIROTECH TECHNOLOGY CENTRE IN CAMBRIDGE, UK

THE ORAL PENICILLIN MANUFACTURING FACILITY IN BRISTOL, TENNESSEE, USA THAT WAS ACQUIRED FROM GSK

excellence should lead to a leadership position in key markets. In the PSAI segment, the objective is to be the partner of choice by creating compelling value for customers through leveraging IP, technology and cost leadership. In the Proprietary business, the aim is to create a viable business by calibrating investments to produce a self sustainable model.

The Company expects a positive outlook for the next year. The largest increment of growth is expected to be contributed by the North America generics business. The Company also expects continued momentum from its key emerging markets.

CAUTIONARY STATEMENT

The management of Dr. Reddy's has prepared and is responsible for the financial statements that appear in this report. These financial statements are in conformity with International Financial Reporting Standards, as issued by the International Accounting Standards Board and accounting principles generally accepted in India and therefore include amounts based on informed judgments and estimates. The management also accepts responsibility for the preparation of other financial information that is included in this report.

This write-up includes some forward-looking statements, as defined in the US Private Securities Litigation Reform Act of 1995. The management has based these forward-looking statements on its current expectations and projections about future events. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially. These factors include, but are not limited to, changes in local and global economic conditions, the Company's ability to successfully implement its strategy, the market's acceptance of and demand for its products, growth and expansion, technological change and exposure to market risks. By their nature, these expectations and projections are only estimates and could be materially different from actual results in the future.

board of directors

STANDING LEFT TO RIGHT

MR. G V PRASAD
DR. OMKAR GOSWAMI
MR. ANUPAM PURI
DR. J P MOREAU
DR. BRUCE L A CARTER
MR. RAVI BHOOTHALINGAM
MR. SATISH REDDY

SITTING LEFT TO RIGHT

DR. ASHOK SEKHAR GANGULY
DR. K ANJI REDDY
MS. KALPANA MORPARIA

DR. K ANJI REDDY
CHAIRMAN

is the Founder-Chairman of Dr. Reddy's. He served in the state-owned Indian Drugs and Pharmaceuticals Limited from 1969 to 1975; he was Founder-Managing Director of Uniloids Ltd from 1976 to 1980 and Standard Organics Limited from 1980 to 1984, before founding Dr. Reddy's in 1984. Under Dr. Reddy's leadership, the Company became a pioneer in the Indian Pharmaceutical industry. It turned the Indian bulk drug industry from import-dependent in the mid-80s to self-reliant in the mid-90s and, finally, into the export-oriented industry that it is today. Dr. Reddy's was the first company to initiate drug discovery research in India in 1993 and has led the industry in turning from 'immitators' into innovators.

Dr. Reddy is a recipient of the 'Padma Shri' and the 'Padma Bhushan', two of India's prestigious civilian honours.

Dr. Reddy holds a Bachelor of Science degree in Pharmaceuticals and Fine Chemicals from Bombay University and a Ph.D. in Chemical Engineering from National Chemical Laboratory, Pune.

MR. G V PRASAD
VICE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

joined the Board in 1986 and leads the core team that drives the growth and performance of Dr. Reddy's. He has been Vice-Chairman & CEO of Dr. Reddy's since 2001, when Cheminor Drugs Ltd, the company of which he was then Managing Director, merged with Dr. Reddy's. Prasad has played a key role in the evolution of Dr. Reddy's from a mid-sized pharmaceutical company into a globally respected pharmaceutical major. He is widely credited as the architect of Dr. Reddy's successful global generics strategy. He is dedicated to building the innovation side of the business and drives the Sustainability agenda at Dr. Reddy's.

He nurtured new lines of business, helped to build a high-talent organization, and was instrumental in introducing best-in-class practices in corporate governance.

Prasad holds a degree in Chemical Engineering from the Illinois Institute of Technology, Chicago, USA and a Masters in Industrial Administration from Purdue University, USA.

MR. SATISH REDDY
MANAGING DIRECTOR AND CHIEF OPERATING OFFICER

joined Dr. Reddy's in 1993 as Executive Director. He played an instrumental role in the company's transition from a bulk drugs manufacturer to a global player in the branded generics space by spearheading the Company's entry into emerging markets. Satish steers Dr. Reddy's Pharmaceutical Services and Active Ingredients (PSAI) and Global Generics businesses, two of the company's core revenue generating streams. In 1997, he was appointed Managing Director. In the mid-90s, as the company prepared for its global foray, Satish anchored the establishment of key systems and initiatives that positioned Dr. Reddy's for rapid expansion and helped build the Company's brand and corporate identity. He was the major force behind the successful acquisition of American Remedies Limited (1999). Besides, he was instrumental in setting up wholly owned subsidiaries in Russia and Latin America and joint ventures in China and South Africa.

Satish graduated in Chemical Engineering from Osmania University, Hyderabad, and holds a Masters in Medicinal Chemistry from Purdue University, USA.

DR. OMKAR GOSWAMI
INDEPENDENT DIRECTOR

joined the Company's Board in 2000. Since April 2004, he has been the Founder and Chairman of CERG Advisory Private Limited, a consulting and advisory firm. He taught and researched Economics for 18 years at Oxford University, Delhi School of Economics, Harvard University, Tufts University, Jawaharlal Nehru University, Rutgers University and the Indian Statistical Institute, New Delhi. In March 1997, he moved away from formal academics to become the Editor of Business India, one of India's prestigious business magazines. From August 1998 up to March 2004, Dr. Goswami served as the Chief Economist of the Confederation of Indian Industry – the premier apex industry organization of India. He is also an Independent Director on the Boards of: Infosys Technologies Limited, Crompton Greaves Limited, IDFC Limited, Ambuja Cements Limited, Cairn India Limited, DSP Black Rock Investment Managers Private Limited, Godrej Consumer Products Limited, Max New York Life Insurance Company Limited, Max India Limited, and Avantha Power and Infrastructure Limited.

A professional economist, Dr. Goswami did his Masters in Economics from the Delhi School of Economics and his D.Phil. (Ph.D.) from Oxford University.

MR. RAVI BHOOTHALINGAM
INDEPENDENT DIRECTOR

joined the Company's Board in 2000.

Mr. Bhoothalingam has served as the President of The Oberoi Group of Hotels and was responsible for the operations of the Group worldwide. He has also served as Head of Personnel at British American Tobacco (BAT) Plc, Managing Director of VST Industries Limited and as a Director of ITC Limited. He is also a Director of Sona Koyo Steering Systems Limited.

Mr. Bhoothalingam holds a Bachelor of Science degree in Physics from St. Stephens College, Delhi and Master's degree in Experimental Psychology from Gonville and Caius College, Cambridge University.

MR. ANUPAM PURI
INDEPENDENT DIRECTOR

joined the Company's Board in 2002. From 1970 to 2000, Mr. Anupam Puri was with McKinsey & Company, a leading management consultancy firm. He worked globally with corporate clients in several industries on strategy and organizational issues, and also served several governments and multilateral institutions on public policy.

Mr. Anupam Puri spearheaded the development of McKinsey's India practice, oversaw the Asian and Latin American offices, and was an elected member of the Board. He is currently a management consultant. He is also on the Boards of: Mahindra & Mahindra Limited, Tech Mahindra Limited, Mumbai Mantra Media Limited and Dr. Reddy's Laboratories Inc., USA.

Mr. Anupam Puri holds a M. Phil. in Economics from Nuffield College, Oxford University, UK, an MA in Economics from Balliol College, Oxford University, and a BA in Economics from Delhi University, India.

DR. J P MOREAU
INDEPENDENT DIRECTOR

joined the Company's Board in 2007. He founded Biomeasure Incorporated based near Boston and has been its President and CEO. Prior to that he was working as Executive Vice-President and Chief Scientific Officer of the IPSEN Group and was responsible for the Group's Discovery and Innovation with facilities in Paris, London, Barcelona and Boston. He was Vice-President, Research from April 1994 and has been a member of the Executive Committee of IPSEN Group since that date. He has published over 50 articles in scientific journals and is named as an inventor of more than 30 patents. He is a regular speaker at scientific conferences and a member of Nitto Denko Scientific Advisory Board. Dr. Moreau was also responsible for establishing Kinerton Limited in Ireland in March 1989, a wholesale manufacturer of therapeutic peptides. Dr. Moreau is also on the Board of Phytomedics Inc. USA.

Dr. Moreau has a degree in Chemistry from the University of Orleans and a D.Sc. in biochemistry. He has also conducted post-doctorate research at the École Polytechnique.

MS. KALPANA MORPARIA
INDEPENDENT DIRECTOR

joined the Company's Board in 2007. She is the Chief Executive Officer of J P Morgan, India, where she leads their Business Groups (investment banking, asset management, treasury services and principal investment management) & Service Groups (global research, finance, technology and operations). She is also a member of J P Morgan's global strategy team headquartered in New York and the J P Morgan Asia Pacific Executive Committee.

Prior to becoming CEO of J P Morgan India, Ms. Morparia served as Vice Chair on the Boards of ICICI Group. She joined the ICICI Group in 1975 and was the Joint Managing Director of ICICI Group from 2001 to 2007. She was named one of `The 50 Most Powerful Women' in `International Business' by Fortune magazine in 2008; one of the 25 most powerful women in Indian business by Business Today, a leading Indian business journal, in 2004, 2005, 2006 and 2008; and one of 'The 100 most Powerful Women' by Forbes magazine in 2006. She also serves on the Boards of: Bennett, Coleman & Co. Limited and CMC Limited. She is also a member of the Governing Board of Bharti Foundation.

A graduate in law from Bombay University, Ms. Morparia has served on several committees constituted by the Government of India.

DR. BRUCE L A CARTER
INDEPENDENT DIRECTOR

joined the Company's Board in 2008. He was the Chairman of the Board and Chief Executive Officer of ZymoGenetics, Inc. USA. Dr. Carter was appointed Chairman of the Board of ZymoGenetics in April 2005. From April 1998 to January 2009, he served as Chief Executive Officer of ZymoGenetics. Dr. Carter first joined ZymoGenetics in 1986 as Vice President of Research and Development. In 1988 Novo Nordisk acquired ZymoGenetics and, in 1994, Dr. Carter was promoted to Corporate Executive Vice President and Chief Scientific Officer for Novo Nordisk A/S, the then parent company of ZymoGenetics. Dr. Carter led the negotiations that established ZymoGenetics as an independent company from Novo Nordisk in 2000. Dr. Carter held various positions of increasing responsibility at G D Searle & Co., Ltd. from 1982 to 1986 and was a Lecturer at Trinity College, University of Dublin from 1975 to 1982. Dr. Carter is the Executive Chairman of Immune Design Corp., USA, and is also on the Boards of: QLT Inc., Canada, TB Alliance, USA, and Xencor, USA.

Dr. Carter received a B.Sc. with Honors in Botany from the University of Nottingham, England, and a Ph.D. in Microbiology from Queen Elizabeth College, University of London.

DR. ASHOK SEKHAR GANGULY
INDEPENDENT DIRECTOR

was appointed as Director on the Board of the Company in 2009. He is currently the Chairman of ABP Private Limited (Ananda Bazar Patrika Group) and was a Director on the Central Board of Reserve Bank of India, from 2001 to 2009. He is a member of the Prime Minister's Council on Trade and Industry as well as the Investment Commission and the India-USA CEO Council, set up by the Prime Minister of India and the President of the US. He is also a member of the National Knowledge Commission to the Prime Minister of India. He was the Chairman of Hindustan Lever Limited from 1980 to 1990, and member of the Unilever Board from 1990 to 1997 with responsibility for world-wide research and technology.

He also serves as a non-Executive Director of Mahindra & Mahindra and Wipro Limited.

He is a recipient of the 'Padma Bhushan' as well as 'Padma Vibhushan, two of India's prestigious civilian honours. At present, he serves as a member of the Rajya Sabha, the upper house of the Parliament of India.

management council

STANDING LEFT TO RIGHT BACK ROW

DR. R ANANTHANARAYANAN
DR. CARTIKEYA REDDY
AMIT PATEL
K B SANKARA RAO
UMANG VOHRA
VILAS M DHOLYE
ABHIJIT MUKHERJEE

SITTING LEFT TO RIGHT MID ROW

DR. RAGHAV CHARI
SAUMEN CHAKRABORTY

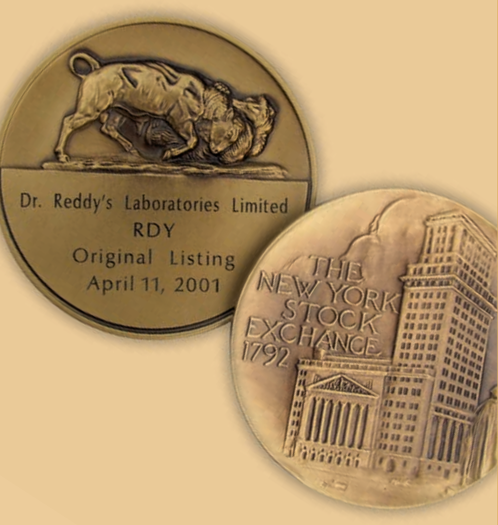
SITTING LEFT TO RIGHT FRONT ROW

SATISH REDDY
G V PRASAD

Management Council

Name	Designation	Qualification	Age	Date of joining the Company
G V PRASAD	VICE CHAIRMAN AND CHIEF EXECUTIVE OFFICER	B.SC. (CHEM. ENG.), M.S. (INDL. ADMN.)	51	30-JUN-90
SATISH REDDY	MANAGING DIRECTOR AND CHIEF OPERATING OFFICER	B.TECH., M.S. (MEDICINAL CHEMISTRY)	44	18-JAN-93
ABHIJIT MUKHERJEE	PRESIDENT, GLOBAL GENERICS	B. TECH. (CHEM.)	53	15-JAN-03
AMIT PATEL	SENIOR VICE-PRESIDENT, NORTH AMERICA GENERICS	B.S., B.A.S., M.B.A.	36	06-AUG-03
DR. CARTIKEYA REDDY	SENIOR VICE-PRESIDENT, BIOLOGICS	B.TECH., M.S., PH.D.	41	20-JUL-04
K B SANKARA RAO	EXECUTIVE VICE-PRESIDENT, INTEGRATED PRODUCT DEVELOPMENT	M.PHARM.	57	29-SEP-86
DR. R ANANTHANARAYANAN	PRESIDENT, PHARMACEUTICAL SERVICES AND ACTIVE INGREDIENTS	M.S. (PHYSICS), PH.D.	46	06-AUG-10
DR. RAGHAV CHARI	SENIOR VICE PRESIDENT, PROPRIETARY PRODUCTS	M.S. (PHYSICS), PH.D.	41	25-SEP-06
SAUMEN CHAKRABORTY	PRESIDENT AND GLOBAL HEAD OF QUALITY, HR AND IT	B.SC. (H), MBA – IIM	50	02-JUL-01
UMANG VOHRA	SENIOR VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER	B.E., M.B.A.	40	18-FEB-02
VILAS M DHOLYE	EXECUTIVE VICE-PRESIDENT, FORMULATIONS MANUFACTURING	B. TECH. (CHEM.)	62	18-DEC-00

corporate governance



Dr. Reddy's Laboratories Limited ('the Company' or 'Dr. Reddy's') has a philosophy of corporate governance which stems from the belief that timely disclosures, transparent accounting policies and a strong and independent Board go a long way preserving shareholders trust while maximizing long-term corporate value.

Keeping in view the Company's size and complexity in operations, Dr. Reddy's corporate governance framework is based on the following main principles:

- Appropriate composition and size of the Board, with each Director bringing in key expertise in different areas.
- Proactive flow of information to the members of the Board and Board Committees to enable effective discharge of fiduciary duties.
- Ethical business conduct by the Board, management and employees.
- Well developed systems and processes for internal controls on all operations, risk management and financial reporting.
- Timely and accurate disclosure of all material operational and financial information to the stakeholders.

The Securities and Exchange Board of India (SEBI) regulates corporate governance for listed companies through Clause 49 of the Listing Agreement. Dr. Reddy's is in full compliance with Clause 49. It is also in compliance with the applicable corporate Governance standards of the New York Stock Exchange (NYSE). This chapter of the annual report, the information given under the chapters, *Management Discussion and Analysis and Additional Shareholders' Information* together constitute the compliance report of the Company on corporate governance during the year 2010-11.

BOARD OF DIRECTORS

COMPOSITION

As on 31 March 2011, the Board of Dr. Reddy's had 10 Directors, comprising of three Executive Directors (including the Chairman) and seven Independent Directors as defined under the Listing Agreement with Indian Stock Exchanges and the Corporate Governance Guidelines of the NYSE Listed Company Manual. Detailed profiles of the Directors have been discussed in this annual report.

The Directors have expertise in the fields of strategy, management, finance, operations, technology, human resource development and economics. The Board provides leadership, strategic guidance, objective and independent view to the Company's management while discharging its fiduciary responsibilities, thereby ensuring that the management adheres to high standards of ethics, transparency and disclosure.

TABLE 1 Composition of Dr. Reddy's Board and directorships held as on 31 March 2011

Name	Position	Relationship with other Directors	Date of Joining	Directorships in India u / s. 275 of the Companies Act, 1956	Other Directorships[1]	Committee membership[2]	Chairmanship in Committees[2]
Dr. K Anji Reddy[3]	Executive Chairman	Father of Mr. Satish Reddy and father-in-law of Mr. G V Prasad	24 February 1984	5	32	–	–
Mr. G V Prasad[4]	Vice Chairman and CEO	Son-in-law of Dr. K Anji Reddy and brother-in-law of Mr. Satish Reddy	8 April 1986	11	38	2	2
Mr. Satish Reddy	Managing Director and COO	Son of Dr. K Anji Reddy and brother-in-law of Mr. G V Prasad	18 January 1993	10	45	3	–
Dr. Omkar Goswami	Independent Director	None	30 October 2000	10	2	4	4
Mr. Ravi Bhoothalingam	Independent Director	None	30 October 2000	2	–	1	2
Mr. Anupam Puri	Independent Director	None	4 June 2002	4	1	2	–
Dr. J P Moreau	Independent Director	None	18 May 2007	1	1	–	–
Ms. Kalpana Morparia	Independent Director	None	5 June 2007	3	2	2	1
Dr. Bruce L A Carter	Independent Director	None	21 July 2008	1	4	–	–
Dr. Ashok S Ganguly	Independent Director	None	23 October 2009	3	1	–	–

(1) Other Directorships are those, which are not covered under Section 275 of the Companies Act, 1956.
(2) Membership / Chairmanship in Audit and Shareholders' Grievance Committees of all public limited companies, whether listed or not, including Dr. Reddy's are considered. Foreign companies, private limited companies and companies under Section 25 of the Companies Act, 1956 have been excluded.
(3) Dr. K Anji Reddy has been reappointed as Whole-time Director designated as Chairman for a further period of 5 years by the Board of Directors at their meeting held on 25 January 2011 effective from 13 July 2011 subject to the approval of shareholders.
(4) Mr. G V Prasad has been reappointed as Whole-time Director designated as Vice Chairman and Chief Executive Officer for a further period of 5 years by the Board of Directors at their meeting held on 25 January 2011 effective from 30 January 2011 subject to the approval of shareholders.

Each Director informs the Company on an annual basis about the Board and Board Committee positions he / she occupies in other companies including Chairmanships and notifies changes during the term of their directorship in the Company.

Table 1 gives the composition of Dr. Reddy's Board, their positions, relationship with other Directors, date of joining the Board, other Directorships and memberships of Committees held by each of them.

TERM OF BOARD MEMBERSHIP

As per the provisions of the Companies Act, 1956, one-third of the Board members (other than Executive Directors) who are subjected to retire by rotation, retire every year; and approval of the shareholders is sought for the reappointment of such retiring members who are so eligible. Executive Directors are appointed by the shareholders for a maximum period of five years at a time, but are eligible for re-appointment upon completion of the term. The Board, on the recommendations of the Nomination, Governance and Compensation Committee, considers the appointment and re-appointment of Directors.

SELECTION AND APPOINTMENT OF NEW DIRECTORS

Induction of any new member on the Board of Directors is the responsibility of the Nomination, Governance and Compensation Committee, which is entirely composed of Independent Directors. Taking into account the existing composition and organization of the Board, and the requirement of new skill sets, if any, the Nomination, Governance and Compensation Committee reviews potential candidates in terms of their expertise, skills, attributes, personal and professional backgrounds and their ability to attend meetings in India. The Nomination, Governance and Compensation Committee places the candidates that meet these criteria to the Board of Directors for their consideration. If the Board approves, the person is appointed as an Additional Director, subject to his / her appointment being ratified by the shareholders in the Company's Annual General Meeting.

TABLE 2 Shares, debentures and stock options held by the Directors as on 31 March 2011

Name	No. of shares held	No. of debentures held[1]	Stock options held[2]
Dr. K Anji Reddy[3]	600,956	3,605,736	–
Mr. G V Prasad	1,365,840	8,195,040	–
Mr. Satish Reddy	1,205,832	7,324,992	–
Dr. Omkar Goswami	18,000	108,000	2,400
Mr. Ravi Bhoothalingam	18,000	108,000	2,400
Mr. Anupam Puri (ADRs)	16,498	–	2,402[4]
Dr. J P Moreau (ADRs)	6,000	–	2,400[4]
Ms. Kalpana Morparia	6,000	36,000	2,400
Dr. Bruce L A Carter (ADRs)	7,000	–	2,400[4]
Dr. Ashok S Ganguly	–	–	2,400

[1] Unsecured, Redeemable, Non-Convertible, Fully Paid-up Debentures of ₹ 5/- each (Bonus Debentures) were allotted on 24 March 2011 pursuant to the Scheme of Arrangement.
[2] Stock Options held were granted to Independent Directors in the Board meeting held on 6 May 2010 and / or 18 May 2009.
[3] Shares held in individual capacity. In addition, Dr. K Anji Reddy owns 40% of Dr. Reddy's Holdings Limited, which in turn owns 39,128,328 shares of Dr. Reddy's Laboratories Limited. Various members of his family own the balance shares in Dr. Reddy's Holdings Limited.
[4] Stock Options held pursuant to ADR Stock Option Scheme, 2007.

DIRECTORS' SHARE AND DEBENTURE HOLDING IN THE COMPANY

Table 2 gives details of shares, debentures and stock options held by each of the Directors as on 31 March 2011.

MEETINGS OF THE BOARD

The Company plans and prepares the schedule of the Board and Board Committee meetings a year in advance to assist the Directors in scheduling their program. The schedule of meetings and agenda for meeting is finalized in consultation with the Directors of the Company. The agenda of the meeting is pre-circulated with presentations, detailed notes, supporting documents and executive summary.

Under Indian laws, the Board of Directors must meet at least four times a year, with a maximum time gap of four months between two Board meetings. Dr. Reddy's Board met five times during the financial year under review: on 6 May 2010, 22 July 2010, 23 October 2010, 25 January 2011 and 8 March 2011. The Company held a minimum of one Board meeting in each quarter as required under the Companies Act, 1956.

Details of Directors and their attendance in Board meetings and Annual General Meeting are given in **Table 3**.

The Board and its Committee meetings at Dr. Reddy's extended for either one or two days sessions. In the course of these meetings, the business unit heads and key management personnel made presentations to the Board.

The Board is updated on the discussion at the Committee Meetings and the recommendations through the Chairman of the respective Committee.

INFORMATION GIVEN TO THE BOARD

The Company provides the following information to the Board and the Board Committees. Such information is submitted either as part of the agenda papers in advance of the meetings or by way of presentations and discussion material during the meetings.

- Annual operating plans and budgets, capital budgets, updates and all variances;
- Quarterly, half yearly and annual results of the Company and its operating divisions or business segments;
- Detailed presentations on the progress in Research and Development and new drug discoveries;
- Minutes of meetings of Audit Committee and other Committees;
- Information on recruitment and remuneration of key executives below the Board level;
- Significant regulatory matters concerning Indian or Foreign regulatory authorities;
- Issues which involves possible public or product liability claims of a substantial nature;
- Risk analysis of various products, markets and businesses;
- Detailed analysis of potential acquisition targets or possible divestments;
- Details of any Joint Venture or collaboration agreements;
- Transactions that involve substantial payment towards goodwill, brand equity or intellectual property;
- Significant sale of investments, subsidiaries, assets, which are not in the normal course of business;

TABLE 3 Directors' attendance at Dr. Reddy's Board meetings and AGM held during the financial year 2010-11

Name	Meetings held in Director's tenure	Number of Board meetings attended	Attendance at last AGM on 23 July 2010
Dr. K Anji Reddy	5	4[(1)]	Present
Mr. G V Prasad	5	5	Present
Mr. Satish Reddy	5	4[(1)(2)]	Present
Dr. Omkar Goswami	5	5	Present
Mr. Ravi Bhoothalingam	5	5	Present
Mr. Anupam Puri	5	5	Present
Dr. J P Moreau	5	4[(1)(2)]	Present
Ms. Kalpana Morparia	5	4[(1)]	Present
Dr. Bruce L A Carter	5	4[(1)(2)]	Present
Dr. Ashok S Ganguly	5	3[(1)]	Present

[(1)] *Were given leave of absence on request.*
[(2)] *One meeting was attended through teleconference. No sitting fee was paid for participation through teleconference.*

- Contracts in which Director(s) are deemed to be interested;
- Materially important show cause, demand, prosecution and penalty notices;
- Fatal or serious accidents or dangerous occurrences, if any;
- Significant effluent or pollution problems;
- Materially relevant default in financial obligations to and by the Company or substantial non-payment for goods sold by the Company;
- Significant labor problems and their proposed solutions;
- Significant development in the human resources and industrial relations fronts;
- Quarterly details of foreign exchange exposure and the steps taken by management to limit the risks of adverse exchange rate movement;
- Non-compliance of any regulatory or statutory nature or listing requirements as well as shareholder services such as non-payment of dividend and delays in share transfer;
- Subsidiary companies minutes, financial statements, significant investments; and
- Significant transactions and arrangements.

MEETINGS OF INDEPENDENT DIRECTORS IN EXECUTIVE SESSION

During the financial year, the Independent Directors of Dr. Reddy's met four times without the management in executive sessions. The Company intends to further facilitate such sessions as and when required by the Independent Directors. An Independent Director, with or without other Independent Directors, takes the lead to provide structured feedback to the Board about the key elements that emerge out of these executive sessions.

ANNUAL BOARD RETREAT

During the financial year, the Annual Board Retreat was organized at Princeton, USA on 23 and 24 August 2010. In the Retreat the Board discussed various business strategy and governance matters. Presentations were made on topics covering global pharmaceutical trends. Furthermore, as a part of agenda of the retreat, the Board conducted a strategy review of the Company's business segments.

DIRECTOR'S REMUNERATION

Executive Directors are appointed by shareholders' resolution for a period of five years. No severance fees is payable to the Executive Directors. Except the commission payable, all other components of remuneration to the Executive Directors are fixed and in line with the Company's policies.

The remuneration for the three Executive Directors, including the commission based on net profits of the Company, is recommended by the Board's Nomination, Governance and Compensation Committee to the Board for consideration. The commission to be paid each year to the Executive Directors is decided by the Board, within the limits approved by the shareholders.

The Independent Directors receive sitting fees for attending meetings of the Board and its Committees, and commission based on the net profits of the Company. The remuneration including commission payable to the Directors during the year under review was in conformity with the applicable provisions of the Companies Act, 1956, duly considered and approved by the Board and the shareholders. The remuneration paid or payable to the Directors for their services rendered during 2010-11 is given in **Table 4**.

The criteria for making payments to the Executive Directors are:

- Salary, as recommended by the Nomination, Governance and Compensation Committee and approved by the Board and the shareholders. Perquisites and retirement benefits are also paid

TABLE 4

Remuneration paid or payable to the Directors for the financial year 2010-11

IN ₹ THOUSANDS

Name of Directors	Sitting fees[1]	Commission[2]	Salaries	Perquisites[3]	Total	Stock Options[4]
Dr. K Anji Reddy	–	100,000	5,400	484	105,884	–
Mr. G V Prasad	–	72,500	4,065	750	77,315	–
Mr. Satish Reddy	–	72,500	3,600	685	76,785	–
Dr. Omkar Goswami	70	3,189	–	–	3,259	2,400
Mr. Ravi Bhoothalingam	95	3,166	–	–	3,261	2,400
Mr. Anupam Puri	55	3,233	–	–	3,288	2,400[5]
Dr. J P Moreau	50	3,077	–	–	3,127	2,400[5]
Ms. Kalpana Morparia	60	2,809	–	–	2,869	2,400
Dr. Bruce L A Carter	50	3,233	–	–	3,283	2,400[5]
Dr. Ashok S Ganguly	25	2,966	–	–	2,991	2,400

NOTE

[1] Sitting fees include fees for Board as well as Board Committee meetings @ ₹ 5,000 per meeting.

[2] Payment of commission is variable, and based on percentage of net profit calculated according to Sections 198 / 349 of the Companies Act, 1956. The commission would be paid after the Annual General Meeting, scheduled on 21 July 2011. The Board of Directors recommended for a fixed commission of ₹ 2,675,700 (US$ 60,000) per Independent Director, a specific commission of ₹ 445,950 (US$ 10,000) to the Chairman of Audit Committee, ₹ 222,975 (US$ 5,000) to the respective Chairman of other Committees and ₹ 66,893 (US$ 1,500) to the members of the Committees. Other than the above, a specific compensation of ₹ 66,893 (US$ 1,500) per meeting was paid towards foreign travel to the Directors residing outside India.

[3] Perquisites include medical reimbursement for self and family according to the rules of the Company, leave travel assistance, personal accident insurance, Company's vehicle for official use with driver, telephone at residence and mobile phone, contribution to Provident Fund and Superannuation Scheme. All these benefits are fixed in nature.

[4] The Company granted stock options to Independent Directors on 13 May 2011. The exercise price of such options is ₹ 5/- each. The options vest at the end of one year from the date of grant. The exercise period of options is five years from the date of vesting.

[5] Stock Options granted under ADR Stock Options Scheme, 2007.

in accordance with the Company's compensation policies, as applicable to all employees.

- Shareholders of the Company have approved the payment of commission on the net profits calculated in accordance with Sections 198 / 349 of the Companies Act, 1956 to all Executive Directors.
- The Nomination, Governance and Compensation Committee decide the amount of commission payable every year within the overall limit, as approved by the shareholders.
- Remuneration paid to the Executive Directors is determined keeping in view the industry benchmarks.

The criteria for making payments to the Independent Directors are given below:

- Independent Directors are paid sitting fees for each meeting of the Board or Board Committee @ ₹ 5,000 per meeting attended by them.
- Shareholders of the Company have approved the payment of commission up to 0.5 percent of net profits calculated in accordance with Sections 198 / 349 of the Companies Act, 1956 collectively to all the Independent Directors.
- The Board decides the amount of commission payable to Independent Directors every year, within the overall limit of 0.5 per cent of net profits and in line with the Company's performance. The compensation is also benchmarked with some top Indian companies.
- Remuneration paid to Independent Directors is determined by keeping in view the industry benchmarks, and also on the basis of their memberships in various committees of the Board.
- Shareholders of the Company approved granting of up to 200,000 stock options in aggregate at any point of time during the financial years starting from 2006–07 and ending with 2010-11 to all the Directors (except the three Executive Directors). Of this, up to 60,000 stock options can be granted in a single financial year to the Directors, as aforesaid, under any of the stock option plans, either existing or to be framed in future, on such terms and conditions as the Nomination, Governance and Compensation Committee / Board of Directors may think fit.

INDEPENDENT DIRECTORS

The Independent Directors of the Company head the following governance and / or Board Committee functions:

- **Mr. Anupam Puri** – Governance, corporate strategy and driving agenda for Board and Board Committee meetings and its improvement.
- **Dr. Bruce L A Carter** – Enterprise risk management.
- **Dr. Ashok S Ganguly** – Science, technology and operations.
- **Ms. Kalpana Morparia** – Internal audit and control.
- **Dr. Omkar Goswami** – Finance, internal controls and financial risk management.
- **Mr. Ravi Bhoothalingam** – Compliance and Ombudsperson for the Whistle Blower Policy of the Company; and
- **Dr. J P Moreau** – Pharmaceutical regulatory compliance.

RISK MANAGEMENT

The Company has an enterprise-wide risk management (ERM) system in place. Increasing its focus on risk management, an independent Risk Management Committee of the Board was constituted during the year, to oversee and review in greater detail, the risk management framework, assessment of risks and management and minimization procedures. The Risk Management Committee reports its findings / observations to the Board. During the year, detailed presentations were made to the Risk Management Committee on ERM.

A section on risk management and practices of the Company in minimizing the risk is part of Management Discussion & Analysis section of this annual report.

COMPLIANCE REVIEWS

Dr. Reddy's has a dedicated team under an identified Chief Compliance Officer (other than such an officer under the Listing Agreement) for overseeing compliance activities including monitoring and a defined framework to review the compliances with all laws applicable to the Company. The compliance status is periodically updated to the senior management team including the CEO and COO through periodic forums and review meetings. Presentations are scheduled periodically in the Audit Committee meetings regarding the status on compliance.

CODE OF BUSINESS CONDUCT AND ETHICS AND OMBUDSPERSON PROCEDURE

The Company has adopted a Code of Business Conduct and Ethics (the 'Code'), which permeates throughout the organization and applies to all its Directors and employees of the Company, its subsidiaries and affiliates. It is the responsibility of all Directors and employees to familiarize themselves with this Code and comply with its standards.

An Ombudsperson procedure has also been made under this Code, which (i) describes the Ombudsperson framework (ii) takes into account procedures for investigation and communication of any report on any violation or suspected violation of the Code (iii) accepts appeal against any decision taken by Ombudsperson and (iv) encourages the submission of complaint against any retaliation action against any employee. An Independent Director is the Ombudsperson and the reports and complaints submitted to the Company and their resolution status are reported to the Audit Committee.

The Code of Business Conduct and Ethics and Ombudsperson Procedure has been posted on the Company's website – www.drreddys.com

The Board and the senior management across the globe affirm compliance with the Code of Business Conduct and Ethics annually. A certificate of the Vice-Chairman and Chief Executive Officer of the Company to this effect is enclosed as **Exhibit 1** to this section.

RELATED PARTY TRANSACTIONS

The details of related party transactions are discussed in detail in page no. 121 of this annual report.

All related party transactions during the year, whether in the ordinary course of business or not, were placed before the Audit Committee and subsequently before the Board. All related party transactions were on arm's length basis.

SUBSIDIARY COMPANIES

The Audit Committee of the Company reviews the financial statements of the subsidiary companies. During the year, the Audit Committee also reviewed the investments made by the subsidiary companies, minutes of the Board meetings of the subsidiary companies and statement of all significant transactions and arrangements entered into by the subsidiary companies. No Indian subsidiary of the Company falls under the term 'material non-listed Indian subsidiary' as defined under Clause 49 of the Listing Agreement.

DISCLOSURE ON ACCOUNTING TREATMENT

In the preparation of financial statements for 2010-11, there is no treatment of any transaction different from that prescribed in the Accounting Standards notified by the Government of India under Section 211(3C) of the Companies Act, 1956.

BONUS DEBENTURES

During the year under review, the Company had issued and allotted 1,015,516,392 unsecured, redeemable non-convertible fully paid up debentures of ₹ 5/- each (Bonus Debentures) amounting to ₹ 5,078 millions, out of its general reserve to the shareholders of the Company in the ratio of six Bonus Debentures for every equity share of ₹ 5/- each held as on Record Date (i.e. 18 March 2011) pursuant to the Scheme of Arrangement approved by the Hon'ble High Court of Andhra Pradesh at Hyderabad vide order dated 19 July 2010, which came into effect from 1 February 2011. These Bonus Debentures carry a coupon rate of 9.25% per annum payable annually at the end of 12, 24 and 36 months from the date of allotment and are redeemable at par in full at the end of 36 months from the date of allotment.

COMMITTEES OF THE BOARD

The Board Committees focus on specific areas and make informed decisions within the authority delegated. Each Committee of the Board is guided by its Charter, which defines the composition, scope and powers of the Committee.

The Committees also make specific recommendations to the Board on various matters from time-to time. All observations, recommendations and decisions of the Committees are placed before the Board for information or for approval.

The Company has seven Board-level Committees, namely:

- Audit Committee
- Nomination, Governance and Compensation Committee
- Science, Technology and Operations Committee
- Risk Management Committee
- Shareholders' Grievance Committee
- Investment Committee and
- Management Committee

Audit Committee

The management is responsible for the Company's internal controls and the financial reporting process while the statutory auditors are responsible for performing independent audits of the Company's financial statements in accordance with generally accepted auditing practices and for issuing reports based on such audits. The Board of Directors has entrusted the Audit Committee to supervise these processes and thus ensure accurate and timely disclosures that maintain the transparency, integrity and quality of financial control and reporting. The primary responsibilities of the Audit Committee are to:

- Supervise the financial reporting process;
- Review the quarterly and annual financial results before placing them to the Board along with related disclosures and filing requirements;
- Review the adequacy of internal controls in the Company, including the plan, scope and performance of the internal audit function;
- Discuss with management the Company's major policies with respect to risk assessment and risk management;
- Hold discussions with statutory auditors on the nature and scope of audits and any views that they have about the financial control and reporting processes;
- Ensure compliance with accounting standards and with listing requirements with respect to the financial statements;
- Recommend the appointment and removal of external auditors and their fees;
- Recommend the appointment of cost auditors;
- Review the independence of auditors;
- Ensure that adequate safeguards have been taken for legal compliance both for the Company and its other Indian as well as foreign subsidiaries;
- Review related party transactions;
- Review the functioning of Whistle Blower mechanism; and
- Implementation of the applicable provisions of the Sarbanes-Oxley Act, 2002.

The Audit Committee is entirely composed of Independent Directors. All members of the Audit Committee are financially literate and bring in expertise in the fields of finance, economics, human resource development, strategy and management.

Presently the Committee consists of Dr. Omkar Goswami (Chairman), Mr. Ravi Bhoothalingam and Ms. Kalpana Morparia and all have accounting and/or related financial management expertise.

The Audit Committee met five times during the year: 5 May 2010, 22 July 2010, 22 October 2010, 24 January 2011 and 24 March 2011. The Committee also met the key members of finance team and internal audit team along with COO and CFO to discuss matters relating to audit, compliance and accounting. The Committee also met Statutory Auditors without the presence of the management on more than one occasion, during the year.

The Company is in compliance with the provisions of the amended Clause 49 of the Listing Agreement on the time gap between any two Audit Committee meetings. In addition, the Chairman of the Audit Committee and the other members of the Audit Committee met additionally to review other processes, particularly the progress on internal control mechanisms to prepare for certification under Section 404 of the Sarbanes-Oxley Act, 2002.

Table 5 gives the composition and attendance record of the Audit Committee.

The Managing Director & COO, CFO and Chief Internal Auditor are permanent invitees to all Audit Committee meetings. The statutory auditors of the Company are present in the Audit Committee meetings during the year. The Company Secretary officiates as the secretary of the Committee.

Audit Committee meetings are generally preceded by pre-Audit Committee conference calls with the Audit Committee members, the CFO, the internal audit and compliance teams, the external auditors and other key personnel from the Company. These calls discuss major audit related matters and identify items that need further discussion in the formal face-to-face Audit Committee meetings.

The agenda for the Audit Committee included the following items:

- Review of financial performance, including business level financial performance;
- Internal audit, control matters and risk management, including action-taken reports;
- Status on the implementation of the compliance with Section 404 of the Sarbanes-Oxley Act, 2002 and its sustenance;
- Discussion with statutory auditors, including new accounting policies relating to Indian Generally Accepted Accounting Principles (IGAAP) as well as IFRS; and
- Operational and financial risk appraisals, as well as risks relating to legal compliance.

The internal and statutory auditors of the Company discuss their audit findings and updates with the Audit Committee and submit their views directly to the Committee. Separate meetings

TABLE 5 Audit Committee attendance during the Financial Year 2010-11

Committee members	Position	Meetings held	Meetings attended
Dr. Omkar Goswami	Chairman	5	5
Mr. Ravi Bhoothalingam	Member	5	5
Ms. Kalpana Morparia	Member	5	4[(1)]

[(1)] *was given leave of absence on request.*

are held with the internal auditors to focus on compliance issues and to conduct detailed reviews of the processes and internal controls in the Company.

The report of the Audit Committee is enclosed as **Exhibit 2** to this chapter.

Nomination, Governance and Compensation Committee

The Board of Directors of the Company at their Annual Board Retreat held on 23 and 24 August 2010 reconstituted the Governance and Compensation Committee and renamed it as Nomination, Governance and Compensation Committee, which entirely comprises of Independent Directors. The primary functions of the Nomination, Governance and Compensation Committee are to:

- Examine the structure, composition and functioning of the Board, and recommend changes, as necessary, to improve the Board's effectiveness;
- Assess the Company's policies and processes in key areas of corporate governance, other than those explicitly assigned to other Board Committees, with a view to ensuring the Company is at the forefront of good corporate governance; and
- Regularly examine ways to strengthen the Company's organizational health, by improving the hiring, retention, motivation, development, deployment and behavior of management and other employees. In this context, the Committee also reviews the framework and processes for motivating and rewarding performance at all levels of the organization, reviews the resulting compensation awards, and makes appropriate proposals for Board approval. In particular, it recommends all forms of compensation to be granted to Directors, executive officers and senior management employees of the Company.

The Committee also administers Dr. Reddy's Employees Stock Option Scheme, 2002, and Dr. Reddy's Employees ADR Stock Option Scheme, 2007. The details of stock options granted by the Committee have been discussed in the Directors' Report.

The official heading the Human Resources (HR) makes periodic presentations to the Committee on organization structure, performance appraisals, increments, performance bonus recommendations and other HR matters.

In addition to two meeting of erstwhile Governance and Compensation Committee on 5 May 2010 and 22 July 2010, the Nomination, Governance and Compensation Committee met twice during the year: on 22 October 2010 and 24 January 2011.

Table 6 gives the composition and attendance record of the Nomination, Governance and Compensation Committee.

The Vice-Chairman & CEO is permanent invitee to the Committee meetings. The Corporate officer heading the Human Resource function is the secretary of the Committee. The report of the Nomination, Governance and Compensation Committee is enclosed as **Exhibit 3** to this chapter.

Science, Technology and Operations Committee

Science, Technology and Operations Committee of the Board was constituted by the Board of Directors of the Company at their Annual Board Retreat held on 23 and 24 August 2010 which entirely comprises of Independent Directors. The primary functions of the Science, Technology and Operations Committee are to:

- Advise the Board and management on scientific, medical and technical matters and operations involving the company's development and discovery programs (generic and proprietary), including major internal projects, business development opportunities, interaction with academic and other outside research organizations;
- Assist the Board and management to stay abreast of novel scientific and technologies developments and innovations and anticipate emerging concepts and trends in therapeutic

TABLE 6 Nomination, Governance and Compensation Committee attendance during the financial year 2010-11

Committee members	Position	Meetings held[1]	Meetings attended
Mr. Anupam Puri	Chairman	4	4
Dr. Omkar Goswami[2]	Member	2	2
Mr. Ravi Bhoothalingam	Member	4	4
Ms. Kalpana Morparia	Member	4	4
Dr. J P Moreau[2]	Member	2	2
Dr. Bruce L A Carter[2]	Member	2	2
Dr. Ashok S Ganguly[3]	Member	2	1[4]

[1] Meetings held during tenure of Committee's membership
[2] Ceased to be a member effective 24.08.2010.
[3] Became a member effective 24.08.2010.
[4] Was given leave of absence on request.

TABLE 7 Science, Technology and Operations Committee attendance during the financial year 2010-11

Committee members	Position	Meetings held	Meetings attended
Dr. Ashok S Ganguly	Chairman	2	1[(1)]
Mr. Anupam Puri[(2)]	Member	2	2
Dr. J P Moreau	Member	2	2
Dr. Bruce L A Carter	Member	2	2

[(1)] Was given leave of absence on request.
[(2)] Became a member effective 22.10.2010.

research and development, to help assure the Company makes well-informed choices in committing its resources;

- Assist the Board and the management in creation of valuable Intellectual Property (IP);
- Review the status of non-infringement patent challenges; and
- Assist the Board and the management in building and nurturing science in the organization in tune with its business strategy.

The Vice-Chairman & CEO is permanent invitee to the Committee meetings. The Corporate officers heading IPDO, Proprietary Products and Biologics are the secretary of the Committee with regard to their respective business. The Committee met twice during the year: on 22 October 2010 and 24 January 2011. The report of the Science, Technology and Operations Committee is enclosed as **Exhibit 4** to this chapter.

Table 7 gives the composition and attendance record of the Science, Technology and Operations Committee.

Risk Management Committee

A Risk Management Committee of the Board was constituted by the Board of Directors of the Company at their Annual Board Retreat held on 23 and 24 August 2010 which entirely comprises of Independent Directors. The primary functions of the Risk Management Committee are to:

- Discuss with senior management, the Company's Enterprise Risk Management (ERM) and provide oversight as may be needed;
- Ensure it is apprised of the most significant risks along with the action management is taking and how it is ensuring effective ERM;
- Reviewing risk disclosure statements in any public documents or disclosures.

The Managing Director & COO is permanent invitee to the Committee meetings. The Chief Financial Officer acts as secretary of the Committee. The Committee met twice during the year: on 22 October 2010 and 24 January 2011. The report of the Risk Management Committee is enclosed as **Exhibit 5** to this chapter.

Table 8 gives the composition and attendance record of the Risk Management Committee.

Shareholders' Grievance Committee

The Shareholders' Grievance Committee is empowered to perform all the functions of the Board in relation to handling of Shareholders' Grievances. It primarily focuses on:

- Review of investor complaints and their redressal;
- Review of queries received from investors;
- Review of work done by the Share Transfer Agent; and
- Review of corporate actions related to shareholder issues.

The Shareholders' Grievance Committee consists of three Directors, including two Executive Directors.

The Chairman of the Committee is an Independent Director. The Committee met four times during the year: on 6 May 2010, 22 July 2010, 22 October 2010 and 24 January 2011.

Table 9 gives the composition and attendance record of the Shareholders' Grievance Committee.

The Company Secretary officiates as the secretary of the Committee.

The Company Secretary has been designated as Compliance Officer of the Company in terms of the Listing Agreement with the Stock Exchanges.

An analysis of investor queries and complaints received during the year and pending disposal is given in this annual report in the chapter on Additional Shareholders' Information.

Investment Committee

The Investment Committee reviews the Company's capital investment proposals and ongoing projects. It approve loans to subsidiaries or other entities/ persons up to an overall limit of ₹ 250 millions; and approve borrowings from any person up to an overall limit of ₹ 250 millions. It consists of three Directors, including two Executive Directors. The Chairman of the Committee is an Independent Director.

The Committee met once during the year on 27 July 2010 and all the members of the Committee were present at the meeting. The Company Secretary officiates as the secretary of the Committee.

TABLE 8 Risk Management Committee attendance during the financial year 2010-11

Committee members	Position	Meetings held	Meetings attended
Dr. Bruce L A Carter	Chairman	2	2
Dr. Omkar Goswami	Member	2	2
Dr. J P Moreau	Member	2	2

TABLE 9 Shareholders' Grievance Committee attendance during the financial year 2010-11

Committee members	Position	Meetings held	Meetings attended
Mr. Ravi Bhoothalingam	Chairman	4	4
Mr. G V Prasad	Member	4	4
Mr. Satish Reddy	Member	4	4

Management Committee

The role of Management Committee is to authorize Directors and officers of the Company to deal with day-to-day business operations such as banking, treasury, insurance, excise, custom, administrative and dealing with other government/ non-government authorities. The Management Committee consists of three Directors including one Independent Director. The Chairman of the Committee is an Executive Director. The Committee met nine times during the year: on 7 April 2010, 6 May 2010, 22 July 2010, 6 September 2010, 22 October 2010, 23 December 2010, 25 January 2011, 8 March 2011 and 24 March 2011. The Company Secretary officiates as the secretary of the Committee.

MANAGEMENT

The management of Dr. Reddy's has developed and implemented policies, procedures and practices that attempt to translate the Company's core purpose and mission into reality. The management also identifies, measures, monitors and minimizes risk factors in the business and ensures safe, sound and efficient operation. These are internally supervised and monitored through the Management Council.

Management Council

Dr. Reddy's Management Council consists of senior management members from the business and corporate functions. It has a balanced representation from the Indian as well as its overseas offices. Page no. 52 of this annual report give details of the members of the Management Council.

The Management Council meets once in a quarter for two to three full-day sessions. Background notes for the meetings are circulated in advance to facilitate decision-making. Listed below are some of the key issues that were considered by the Management Council during the year under review:

- Company's long term strategy, growth initiatives and priorities;
- Monitoring overall Company performance, including those of various business units;
- Decision on major corporate policies;
- Discussion and sign-off on annual plans, budgets, investments and other major initiatives; and
- Discussion on business alliances proposals and organizational design.

Management Discussion and Analysis

This chapter of the annual report constitutes the Company's Management Discussion and Analysis.

Management Disclosures

Senior management of the Company (employees at Senior Director level and above, as well as certain identified key employees) make annual disclosures to the Board relating to all material financial and commercial transactions in which they may have personal interest, and which may have a potential conflict with the interest of the Company. Transactions with key managerial personnel have been discussed in financials sections of this annual report under Related Party Transactions.

Prohibition of Insider Trading

The Company has a policy prohibiting Insider Trading in conformity with applicable regulations of the Securities and Exchange Board of India (SEBI) and Securities Exchange Commission (SEC) of the USA. Necessary procedures have been laid down for Directors, officers and designated employees, for trading in the securities of the Company. The policy and the procedures are periodically communicated to the employees who are considered as insiders of the Company. Trading window closure / blackouts/ quiet periods, when the employees are not permitted to trade in the securities of the Company, are intimated to all employees, in advance, whenever required.

INTERNAL CONTROL SYSTEMS

Dr. Reddy's has both external and internal audit systems in place. Auditors have access to all records and information of the Company. The Board and the management periodically review the findings and recommendations of the auditors and take necessary corrective actions whenever necessary. The Board recognizes the work of the auditors as an independent check on the information received from the management on the operations and performance of the Company.

Internal Controls

The Company maintains a system of internal controls designed to provide reasonable assurance regarding:

- Effectiveness and efficiency of operations;
- Adequacy of safeguards for assets;
- Reliability of financial controls; and
- Compliance with applicable laws and regulations.

The integrity and reliability of the internal control systems are achieved through clear policies and procedures, process automation, careful selection, training and development of employees and an organization structure that segregates responsibilities.

Internal Audit at Dr. Reddy's is an independent and objective assurance function, responsible for evaluating and improving the effectiveness of risk management, control and governance processes.

The internal audit department prepares annual audit plans based on risk assessment, and conducts extensive reviews covering financial, operational and compliance controls and risk mitigation. Areas requiring specialized knowledge are reviewed in partnership with external experts. Suggested improvement in processes are identified during reviews, and communicated to the management on an on-going basis.

The Audit Committee of the Board monitors the performance of internal audit department on a periodic basis through review of audit plans, audit findings and speed of issue resolution through follow ups. Each year, there are at least four meetings held, where the Audit Committee reviews internal audit findings, in addition to special meetings and teleconferences.

CEO & CFO Certification

A certificate of the Vice-Chairman and Chief Executive Officer as well as the Chief Financial Officer of the Company on financial statements and applicable internal controls as stipulated under Clause 49 of the Listing Agreement is enclosed as **Exhibit 6** to this chapter.

Statutory and IFRS Audits

For 2010-11, B S R & Co. audited the financial statements prepared under the Indian GAAP. The Company had appointed KPMG as independent auditors for the purpose of issuing opinion on the financial statements prepared under IFRS.

While auditing the operations of the Company, the external auditors recorded their observations and findings with the management. These were then discussed by the management and the auditors at Audit Committee meetings as well as conference calls with members of the Audit Committee. Remedial measures suggested by the auditors and the Audit Committee have been either implemented or taken up for implementation by the management. Independent auditors render an opinion regarding the fair presentation in the financial statements of the Company's financial condition and operating results. Their audits are made in accordance with generally accepted auditing standards, and include a review of the internal controls, to the extent necessary, to determine the audit procedures required to support their opinion.

Auditors' Fees

During the year, the Company paid ₹ 9 millions to B S R & Co. the statutory auditors as auditors' fees.

INFORMATION TO STAKEHOLDERS

Dissemination of Information

The Company has established systems and procedures to disseminate relevant information to its stakeholders, including shareholders, analysts, suppliers, customers, employees and the society at large. It also conducts earning calls with analysts and investors and also communicates the financial results to the shareholders through their registered email address. The primary source of information regarding the operations of the Company is the corporate website: www.drreddys.com.

All official news releases and presentations made to institutional investors and analysts are posted on the Company's website. An analysis of the various means of dissemination of information in the year under review is produced in **Table 10**.

Quarterly and Annual results of the Company are published in widely circulated national newspapers such as "The Business Standard" and the local vernacular daily "Andhra Prabha". These are also disseminated internationally through Business Wire.

In addition to the corporate website, the Company maintains various portals such as www.customer2drl.com, www.vikreta2drl.com and www.housecallsindia.com which have proved to be effective and widely appreciated tools for information dissemination.

ADDITIONAL INFORMATION OF DIRECTORS RECOMMENDED FOR APPOINTMENT OR SEEKING REAPPOINTMENT AT THE ENSUING ANNUAL GENERAL MEETING

Mr. Anupam Puri

Mr. Anupam Puri was appointed as Director on the Board of the Company in June 2002. From 1970 to 2000, Mr. Puri was with McKinsey & Company, a

TABLE 10 Details of communication made during the financial year 2010-11

Means of communication	Frequency
Press releases / statements	16
Earnings calls	4
Publication of results	4

leading management consultancy firm. He worked globally with corporate clients in several industries on strategy and organizational issues, and also served several governments and multilateral institutions on public policy.

Mr. Puri spearheaded the development of McKinsey's India practice, oversaw the Asian and Latin American offices, and was an elected member of the Board. He is currently a management consultant.

Mr. Anupam Puri holds a M. Phil. in Economics from Nuffield College, Oxford University, UK, an MA in Economics from Balliol College, Oxford University, and a BA in Economics from Delhi University, India.

Mr. Anupam Puri also holds directorship in Mahindra & Mahindra Limited, Tech Mahindra Limited, Mumbai Mantra Media Limited and Dr. Reddy's Laboratories Inc. USA.

In addition to the Committee chairmanship/ membership in the Company, he also holds positions in the Board Committees of other companies – refer to **Table 11**.

Mr. Anupam Puri holds 16,498 ADRs having 16,498 underlying equity shares in the Company as on 31 March 2011.

Dr. Bruce L A Carter

Dr. Bruce L A Carter was appointed as Director on the Board of the Company in July 2008. He was the Chairman of the Board and Chief Executive Officer of ZymoGenetics, Inc. USA. Dr. Carter was appointed as Chairman of the Board of ZymoGenetics in April 2005. From April 1998 to January 2009, he served as Chief Executive Officer of ZymoGenetics. Dr. Carter first joined ZymoGenetics in 1986 as Vice President of Research and Development. In 1988, Novo Nordisk acquired ZymoGenetics and in 1994, Dr. Carter was promoted to Corporate Executive Vice President and Chief Scientific Officer for Novo Nordisk A/S, the then parent company of ZymoGenetics. Dr. Carter led the negotiations that established ZymoGenetics as an independent company from Novo Nordisk in 2000. Dr. Carter held various positions of increasing responsibility at G D Searle & Co., Ltd. from 1982 to 1986 and was a Lecturer at Trinity College, University of Dublin from 1975 to 1982.

Dr. Carter received a B.Sc. with Honors in Botany from the University of Nottingham, England, and a Ph.D. in Microbiology from Queen Elizabeth College, University of London.

Dr. Carter also holds directorship in QLT Inc., Canada, TB Alliance, USA, Immune Design Corp., USA, and Xencor, USA.

In addition to the Committee chairmanship/ membership in the Company, he also holds positions in the Board Committee of another company – refer to **Table 12.**

Dr. Carter holds 7,000 ADRs having 7,000 underlying equity shares in the Company as on 31 March 2011.

COMPLIANCE REPORT ON NYSE CORPORATE GOVERNANCE GUIDELINES

Pursuant to Section 303A.11 of the NYSE Listed Company Manual, Dr. Reddy's which is a foreign private issuer as defined by SEC, must make its US investors aware of the significant ways in which the corporate governance practices differ from those required of domestic companies under NYSE listing standards. A detailed analysis of this is posted on Dr. Reddy's website www.drreddys.com.

COMPLIANCE REPORT ON NON-MANDATORY REQUIREMENTS UNDER CLAUSE 49

1. The Board: The Chairman of Dr. Reddy's is an Executive Director and he maintains the Chairman's office at the Company's expenses.

2. Remuneration Committee: The Board of Directors has a Nomination, Governance and Compensation Committee, which is composed of only Independent Directors. This Committee also discharges the duties and responsibilities of Remuneration Committee as contemplated under non-mandatory requirements of Clause 49. Details of the Nomination, Governance and Compensation Committee and its powers have been discussed in this chapter.

TABLE 11 Chairmanship / Membership held by Mr. Anupam Puri in other companies

Name of the Company	As Chairperson	As Member
Tech Mahindra Ltd.	–	Audit Committee
	–	Compensation Committee
Mumbai Mantra Media Ltd.	–	Audit Committee

TABLE 12 Chairmanship / Membership held by Dr. Bruce L A Carter in other companies

Name of the Company	As Chairperson	As Member
QLT Inc., Canada	–	Science Committee
		Compensation Committee

3. Shareholders Rights: The Company did not send half yearly results to each household of the shareholders in 2010-11. However, in addition to displaying its quarterly and half-yearly results on its website www.drreddys.com and publishing in widely circulated newspapers, it sends the quarterly financial results and press release to the registered e-mail addresses of the shareholders.

4. Audit Qualifications: The auditors have not qualified the financial statements of the Company.

5. Training of Board Members: The Company believes that the Board be continuously empowered with the knowledge of the latest developments in the Company's businesses and the external environment affecting the industry as a whole. To this end, the Directors were given presentations on the global business environment, as well as all business areas of the Company including business strategy, risks and opportunities. The Directors also visited manufacturing and research locations of the Company.

6. Mechanism for Evaluating Non-executive Board Members: A Director among the Independent Directors has been identified to provide structured feedback to the Board on the functioning and performance of the Board, and to encourage healthy discussions and openness amongst the members of the Board.

The Company also conducted an independent review of its Board processes, functioning and contribution of individual Board members in enhancing overall Board's effectiveness.

7. Whistle Blower Policy: The Company has a Whistle Blower policy.

ADDITIONAL SHAREHOLDERS' INFORMATION

The chapter on Additional Shareholders' Information forms a part of this annual report.

AWARDS AND ACCOLADES

A testament to our corporate governance and disclosure practices is the receipt of a series of coveted awards:

- Golden Peacock Award for Excellence in Corporate Governance 2010 for the second year in a row.
- The Institute of Company Secretaries of India (ICSI) National Award for Excellence in Corporate Governance 2010.
- Merit Award for Annual Report 2009 in manufacturing sector by the South Asian Federation of Accountants (SAFA).
- Gold Shield for 'Annual Report 2010' under 'Manufacturing sector-turnover equal to or more than INR 5 billion' category by the Institute of Chartered Accountants of India (ICAI) for Excellence in Financial Reporting.

EXHIBIT 1

Declaration of the Chief Executive Officer on Compliance with Code of Business Conduct and Ethics

Dr. Reddy's Laboratories Limited has adopted a Code of Business Conduct and Ethics ("the Code") which applied to all employees and Directors of the Company, its subsidiaries and affiliates. Under the Code, it is the responsibility of all employees and Directors to familiarize themselves with the Code and comply with its Standards.

I hereby certify that the Board members and senior management personnel of Dr. Reddy's have affirmed compliance with the Code of the Company for the financial year 2010-11.

G V PRASAD
VICE-CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

Place: Hyderabad
Date: 13 May 2011

EXHIBIT 2

Report of the Audit Committee

To the shareholders of Dr. Reddy's Laboratories Limited

The Audit Committee of the Board of Directors comprises three Directors. Each member of the Committee is an Independent Director as defined under Indian laws, Clause 49 of the Listing Agreement and the New York Stock Exchange Corporate Governance Guidelines. The Committee operates under a written charter adopted by the Board of Directors, and has been vested with all the powers necessary to effectively discharge its responsibilities.

Dr. Reddy's management has primary responsibility for the financial statements and reporting process, including the systems of internal controls. During the year 2010-11, the Audit Committee met five times. It discussed with the Company's internal auditors and statutory auditors the scope and plans for their respective audits. It also discussed the results of their examination, their evaluation of the Company's internal controls, and overall quality of the Company's financial reporting.

In fulfilling its oversight responsibilities, the Committee reviewed and discussed the Company's quarterly unaudited and annual audited financial statements with the management. B S R & Co., the Company's independent auditors for Indian GAAP, and KPMG, the Company's independent auditors for IFRS financial statements, are responsible for expressing their opinion on the conformity of the Company's audited financial statements with Generally Accepted Accounting Principles.

Relying on the review and discussions with the management and the Independent auditors, the

Audit Committee believes that the Company's financial statements are fairly presented in conformity with Generally Accepted Accounting Principles and the IFRS in all material aspects.

To ensure that the accounts of the Company are properly maintained and that accounting transactions are in accordance with the prevailing laws and regulations, the Committee reviewed the internal controls put in place by the Company. And in conducting such reviews, the Committee found no material discrepancy or weakness in the Company's internal control systems.

In 2005-06, the Company became the first Indian manufacturing company to comply with Section 404 of the US Sarbanes-Oxley Act (SOX), in advance of the mandatory deadline of 31 March 2007 which was applicable to foreign private issuers. During the year 2010-11, the Committee devoted considerable time and effort towards the compliance with Section 404 of SOX.

The Committee has also reviewed the non-audited services being provided by the Statutory Auditors and concluded that such services were not in conflict with the independence of the Statutory Auditors.

The Committee also devoted time towards enterprise-wide risk management processes and discussed the risk profiles of the Company as well as their mitigation plans.

The Committee ensures that the Company's Code of Business Conduct and Ethics has a mechanism such that no personnel intending to make a compliant relating to securities and financial reporting shall be denied access to the Audit Committee.

The Audit Committee has recommended to the Board of Directors:

1. That the audited Standalone and Consolidated financial statements prepared as per Indian GAAP of Dr. Reddy's Laboratories Limited for the year ended 31 March 2011, be accepted by the Board as a true and fair statement of the financial status of the Company.
2. That the financial statements prepared as per International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) for the year ended 31 March 2011, be accepted by the Board and included in the Company's annual report on Form 20-F, to be filed with the US Securities and Exchange Commission.

Further, the Committee has recommended to the Board the re-appointment of B S R & Co., Chartered Accountants, and KPMG, India as statutory Independent auditors for Indian GAAP and IFRS respectively for the fiscal year ending 31 March 2012.

AUDIT COMMITTEE

Place: Hyderabad
Date: 12 May 2011

EXHIBIT 3
Report of the Nomination, Governance and Compensation Committee

To the shareholders of Dr. Reddy's Laboratories Limited

The Nomination, Governance and Compensation Committee of the Board of Directors comprises of four Directors. Each member of the Committee is an Independent Director as defined under Indian laws and New York Stock Exchange Corporate Governance Guidelines. The Committee operates under a written charter (as amended) adopted by the Board of Directors. It has been vested with all the powers necessary to effectively discharge its responsibilities.

The Committee believes that its principal objective is to designing a reward system for executive performance that will lead to long-term enhancement of shareholder value. The compensation policies are vital elements in the Company's drive to identify, develop and motivate high-potential leaders to create and sustain outstanding performance. The Committee is responsible for overseeing performance appraisal, approving compensation levels for Executive Directors and senior executives and overseeing the administration of the Employees Stock Option Plans.

As on 31 March 2011, the Company had 842,720 outstanding stock options, which amounts to 0.50% of total equity capital. These stock options have been granted to 449 employees (including Independent Directors) of the Company and its subsidiaries under Dr. Reddy's Employees Stock Options Scheme, 2002 and Dr. Reddy's Employees ADR Stock Options Scheme, 2007. Out of the total 842,720 stock options, 21,000 stock options are exercisable at fair market value and 821,720 stock options are exercisable at par value i.e. ₹ 5/-.

The Committee also devoted considerable time discussing the organization health, design and succession planning for critical positions within the Company. It also monitors the Company's system for hiring, developing and retaining talent.

A second objective of the Committee is to ensure that the Board adopts and implements the best principles of corporate governance. It oversees functioning and evaluation of the effectiveness of the Board and considers Board structure, composition and recommend appointment of additional Directors.

The Nomination, Governance and Compensation Committee also recommends to the Board, changes in committee structure and membership and other steps that would improve the Board's effectiveness in overseeing the Company.

NOMINATION, GOVERNANCE AND COMPENSATION COMMITTEE

Place: Hyderabad
Date: 12 May 2011

EXHIBIT 4
Report of the Science, Technology and Operations Committee

To the Shareholders of Dr. Reddy's Laboratories Limited

The Science, Technology and Operations Committee of the Board of Directors comprises of four independent Directors, as defined under Indian laws and New York Stock Exchange Corporate Governance Guidelines. The Committee operates under a written charter adopted by the Board of Directors. It has been vested with all the powers necessary to effectively discharge its responsibilities.

The Committee primary responsibilities are to:

- Advise the Board and management on scientific, medical and technical matters and operations involving the Company's development and discovery programs (generic and proprietary), including major internal projects, business development opportunities, interaction with academic and other outside research organizations;
- Assist the Board and management to stay abreast of novel scientific and technologies developments and innovations and anticipate emerging concepts and trends in therapeutic research and development, to help assure the Company makes well-informed choices in committing its resources;
- Assist the Board and the management in creation of valuable Intellectual Property (IP)
- Review the status of non-infringement patent challenges; and
- Assist the Board and the management in building and nurturing science in the organization in tune with its business strategy.

The Committee met twice during the financial year.

The Science, Technology and Operations Committee apprised the Board on the key discussions and recommendations made at the Committee meetings.

SCIENCE, TECHNOLOGY AND OPERATIONS COMMITTEE

Place: Hyderabad
Date: 12 May 2011

EXHIBIT 5
Report of the Risk Management Committee

To the Shareholders of Dr. Reddy's Laboratories Limited

The Risk Management Committee of the Board of Directors comprises of three independent Directors, as defined under Indian laws and New York Stock Exchange Corporate Governance Guidelines. The Committee operates under a written charter adopted by the Board of Directors. It has been vested with all the powers necessary to effectively discharge its responsibilities.

The Committee believes its primary responsibilities are to:

- Discuss with senior management, the Company's Enterprise Risk Management (ERM) and provide oversight as may be needed;
- Ensure it is apprised of the most significant risks along with the action management is taking and how it is ensuring effective ERM;
- Reviewing risk disclosure statements in any public documents or disclosures.

The Committee met twice during the financial year to review the enterprise wide risks, review the status of mitigation of the key risks and evaluate the residual risk thereof, propose suitable thrust areas to focus on and recommend interventions from time to time.

The Risk Management Committee also apprised the Board on the key discussions and recommendations made at the Committee meetings and shared information on enterprise wide risks.

RISK MANAGEMENT COMMITTEE

Place: Hyderabad
Date: 12 May 2011

EXHIBIT 6
CEO & CFO Certificate to the Board pursuant to clause 49 of the listing Agreement

We, G V Prasad, Vice-Chairman and Chief Executive Officer, and Umang Vohra, Chief Financial Officer, to the best of our knowledge and belief, certify that:

a. We have reviewed the financial statements including cash flow statement (standalone and consolidated) for the financial year ended 31 March 2011 and that these statements:
   i. do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
   ii. together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

b. There are no transactions entered into by the Company during the year, which are fraudulent, illegal or violative of the Company's Code of Business Conduct and Ethics.

c. We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to address these deficiencies.

d. We have disclosed, wherever applicable, to the auditors and the Audit Committee:
   i. the significant deficiencies in the internal controls over financial reporting and corrective actions taken;
   ii. that there are no material weaknesses in the internal controls over financial reporting;
   iii. that there are no significant changes in internal control over financial reporting during the year;
   iv. all significant changes in the accounting policies during the year, if any, and the same have been disclosed in the notes to the financial statements; and
   v. that there are no instances of significant fraud of which they have become aware of and involvement therein of the management or an employee having a significant role in the Company's internal control system over financial reporting.

G V PRASAD
VICE-CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

UMANG VOHRA
CHIEF FINANCIAL OFFICER

Place: Hyderabad
Date: 13 May 2011

AUDITORS' CERTIFICATE OF CORPORATE GOVERNANCE

To the shareholders of Dr. Reddy's Laboratories Limited

We have examined the compliance of conditions of Corporate Governance by Dr. Reddy's Laboratories Limited ("the Company"), for the year ended on 31 March 2011, as stipulated in Clause 49 of the Listing Agreement of the Company with the Bombay Stock Exchange and the National Stock Exchange.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company. In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

for B S R & CO.
CHARTERED ACCOUNTANTS
Firm Registration No.: 101248W

S SETHURAMAN
PARTNER
Membership No.: 203491

Place: Hyderabad
Date: 13 May 2011

additional shareholders' information

CONTACT INFORMATION

Registered and Corporate Office

Dr. Reddy's Laboratories Limited
8-2-337, Road No. 3, Banjara Hills,
Hyderabad 500 034, Andhra Pradesh, India
T +91-40-4900 2900
F +91-40-4900 2999
http://www.drreddys.com

Representing Officers

Correspondence to the following officers may be addressed at the registered and corporate office of the Company.

Compliance Officer Under Listing Agreement

Sandeep Poddar
Company Secretary
T +91-40-4900 2105
F +91-40-4900 2999
E spoddar@drreddys.com

ADR Investors / Institutional Investors / Financial Analysts

Kedar Upadhye
Investor Relations
T +91-40-6683 4297
F +91-40-2373 1955
E kedaru@drreddys.com

Media

S Rajan
Corporate Communications
T +91-40-4900 2445
F +91-40-4900 2999
E rajans@drreddys.com

Indian Retail Investors

Sandeep Poddar
Company Secretary
T +91-40-4900 2105
F +91-40-4900 2999
E shares@drreddys.com

Annual General Meeting

Date	Thursday, 21 July 2011
Time	11.30 A.M.
Venue	Grand Ball Room, Hotel Taj Krishna, Road No. 1, Banjara Hills, Hyderabad 500 034

Last date for receipt of proxy forms – Tuesday, 19 July 2011 before 11.30 AM.

Dividend

The Board of Directors of the Company has proposed a dividend of ₹ 11.25 per share (225%) on equity shares of ₹ 5/- each. The dividend, if declared by the shareholders at the Annual General Meeting scheduled on 21 July 2011, will be paid on or after 28 July 2011.

Book Closure Date

The dates of book closure are from Tuesday, 5 July 2011 to Saturday, 9 July 2011 (both days inclusive) for the purpose of payment of dividend.

CUSIP NUMBER FOR ADRS

The Committee on Uniform Security Identification Procedures ("CUSIP") of the American Bankers Association has developed a numbering system for securities. A CUSIP number uniquely identifies a security and its issuer and this is recognized globally by organizations adhering to standards issued by the International Securities Organization. The Company's ADRs carry the CUSIP number **256135203**.

Financial Calendar

Tentative Calendar for Declaration of Financial Results in 2011-12	
For the quarter ending 30 June 2011	Last week of July 2011
For the quarter and half year ending 30 September 2011	Last week of October 2011
For the quarter and nine months ending 31 December 2011	Last week of January 2012
For the year ending 31 March 2012	Second week of May 2012
AGM for the year ending 31 March 2012	Second fortnight of July 2012

Notes:

1. *Listing fees to Indian Stock Exchanges for listing of equity shares and bonus debentures have been paid for the financial year 2011-12.*
2. *Listing fees to NYSE for listing of ADRs has been paid for the calendar year 2011.*
3. *Shares are also traded at other stock exchanges as permitted securities.*
4. *The Stock Code on Reuters is REDY.BO and on Bloomberg is DRRD@IN.*

Listing on Stock Exchanges and Stock Codes	Equity shares	Bonus debentures
Bombay Stock Exchange Limited ("BSE")	500124	934809
National Stock Exchange of India Limited ("NSE")	DRREDDY-EQ	DRREDDY-N1

American Depository Receipts ("ADRs")	
New York Stock Exchange Inc. ("NYSE")	RDY

INTERNATIONAL SECURITIES IDENTIFICATION NUMBER (ISIN)

ISIN is an unique identification number of traded scrip. This number has to be quoted in each transaction relating to the dematerialised securities of the Company.

Security	ISIN No.
– Equity shares of ₹ 5/- each	INE089A01023
– Unsecured, redeemable, non-convertible fully paid up debentures of ₹ 5/- each (Bonus Debentures)	INE089A08051

DEPOSITORIES

Overseas Depository of ADRs

J P Morgan Chase & Co.
P.O. Box 64504, St. Paul,
MN 55164-0504
T (651) 453-2128

Indian Custodian of ADRs

JP Morgan Chase Bank NA
India Sub-Custody, 6th Floor, Paradigm B Wing
Mindspace, Malad (West), Mumbai – 400 064
Maharashtra, India
T +91-22-6649 2500
F +91-22-6649 2509 / 2880 1117
E india.custody.client.service@jpmorgan.com

Registrar For Indian Shares / Debentures (Common Agency for Demat and Physical Shares / Debentures)

Bigshare Services Private Limited
G-10 Left Wing, Amrutha Ville,
Opp. Yashoda Hospital, Raj Bhavan Road,
Hyderabad 500 082
T +91-40-2337 4967
F +91-40-2337 0295
E bsshyd@bigshareonline.com

PERSONS HOLDING OVER 1% OF THE SHARES

Table 1 gives the names of the persons who hold more than 1 per cent shares of the Company as on 31 March 2011[(1)].

EQUITY HISTORY OF THE COMPANY

Table 2 on page no. 72 lists equity history of the Company since incorporation of the Company up to 31 March 2011.

DESCRIPTION OF VOTING RIGHTS

All shares issued by the Company carry the equal voting rights. The Bonus Debentures issued by the Company do not confer any right to its holders to attend and vote at the general meeting of the shareholders.

STOCK DATA

Table 3 on page no. 73 gives the monthly high, low and the total number of shares / ADRs traded per month on the BSE, NSE and the NYSE during the financial year 2010-11.

TABLE 1 Persons holding 1% or more of the shares in the Company as on 31 March 2011

Sr. No.	Name	No. of shares	%
1	Dr. Reddy's Holdings Limited	39,128,328[(2)]	23.12
2	Life Insurance Corporation of India and its associates	13,579,378	8.02
3	HSBC Global Investment Funds	3,351,200	1.98
4	ICICI Prudential Life Insurance Co.	2,651,415	1.57
5	Abu Dhabi Investment Authority	2,622,549	1.55
6	FID Funds (Mauritius) Limited	2,103,884	1.24
7	Morgan Stanley Investment Management	2,027,171	1.20
8	HDFC Trustee Company Limited	1,962,766	1.16
9	PCA India Equity Open Limited	1,848,946	1.09

(1) Does not include ADR holding
(2) Out of the above, 2,100,000 equity shares were under pledge.

TABLE 2 Equity history of the Company since incorporation of the Company up to 31 March 2011

Date	Particulars	Issued	Cancelled	Cumulative
24-Feb-84	Issue to Promoters	200		200
22-Nov-84	Issue to Promoters	243,300		243,500
14-Jun-86	Issue to Promoters	6,500		250,000
9-Aug-86	Issue to Public	1,116,250		1,366,250
30-Sep-88	Forfeiture of 100 shares		100	1,366,150
9-Aug-89	Rights Issue	819,750		2,185,900
16-Dec-91	Bonus Issue (1:2)	1,092,950		3,278,850
17-Jan-93	Bonus Issue (1:1)	3,278,850		6,557,700
10-May-94	Bonus Issue (2:1)	13,115,400		19,673,100
10-May-94	Issue to Promoters	2,250,000		21,923,100
26-Jul-94	GDR underlying Equity Shares	4,301,076		26,224,176
29-Sep-95	SEFL Shareholders on merger	263,062		26,487,238
30-Jan-01	CDL Shareholders on merger	5,142,942		31,630,180
30-Jan-01	Cancellation of shares held in CDL		41,400	31,588,780
11-Apr-01	ADR underlying Equity Shares	6,612,500		38,201,280
9-Jul-01	GDR conversion into ADR			38,201,280
24-Sep-01	ARL Shareholders on merger	56,694		38,257,974
25-Oct-01	Sub division of equity shares*			76,515,948
30-Jan-04	Allotment pursuant to exercise of Stock Options	3,001		76,518,949
29-Apr-05	Allotment pursuant to exercise of Stock Options	20,000		76,538,949
13-Feb-06	Allotment pursuant to exercise of Stock Options	68,048		76,606,997
24-Mar-06	Allotment pursuant to exercise of Stock Options	12,573		76,619,570
31-Mar-06	Allotment pursuant to exercise of Stock Options	75,000		76,694,570
11-May-06	Allotment pursuant to exercise of Stock Options	7,683		76,702,253
1-Jul-06	Allotment pursuant to exercise of Stock Options	34,687		76,736,940
16-Aug-06	Allotment pursuant to exercise of Stock Options	20,862		76,757,802
30-Aug-06	Bonus Issue (1:1)	76,757,802		153,515,604
22-Nov-06	ADR underlying Equity Shares	12,500,000		166,015,604
29-Nov-06	ADR underlying Equity Shares (Green Shoe option)	1,800,000		167,815,604
19-Dec-06	Allotment pursuant to exercise of Stock Options	13,958		167,829,562
16-Feb-07	Allotment pursuant to exercise of Stock Options	70,782		167,900,344
20-Mar-07	Allotment pursuant to exercise of Stock Options	11,836		167,912,180
21-Jun-07	Allotment pursuant to exercise of Stock Options	137,672		168,049,852
10-Jul-07	Allotment pursuant to exercise of Stock Options	47,590		168,097,442
5-Oct-07	Allotment pursuant to exercise of Stock Options	34,700		168,132,142
4-Jan-08	Allotment pursuant to exercise of Stock Options	3,510		168,135,652
21-Feb-08	Allotment pursuant to exercise of Stock Options	37,094		168,172,746
21-April-08	Allotment pursuant to exercise of Stock Options	10,866		168,183,612
03-May-08	Allotment pursuant to exercise of Stock Options	2,870		168,186,482
03-May-08	Allotment pursuant to exercise of ADR Stock Options	17,604		168,204,086
17-June-08	Allotment pursuant to exercise of Stock Options	93,297		168,297,383
02-July-08	Allotment pursuant to exercise of ADR Stock Options	15,970		168,313,353
27-Aug-08	Allotment pursuant to exercise of Stock Options	65,575		168,378,928
23-Sep-08	Allotment pursuant to exercise of ADR Stock Options	21,800		168,400,728
02-Dec-08	Allotment pursuant to exercise of Stock Options	21,109		168,421,837
02-Dec-08	Allotment pursuant to exercise of ADR Stock Options	300		168,422,137
17-Dec-08	Allotment pursuant to exercise of ADR Stock Options	7,000		168,429,137
09-Mar-09	Allotment pursuant to exercise of Stock Options	29,888		168,459,025
09-Mar-09	Allotment pursuant to exercise of ADR Stock Options	9,752		168,468,777
17-Jun-09	Allotment pursuant to exercise of Stock Options	150,058		168,618,835
17-Jun-09	Allotment pursuant to exercise of ADR Stock Options	48,435		168,667,270
3-Sep-09	Allotment pursuant to exercise of Stock Options	69,519		168,736,789
3-Sep-09	Allotment pursuant to exercise of ADR Stock Options	8,490		168,745,279

TABLE 2

Equity history of the Company since incorporation of the Company up to 31 March 2011

Date	Particulars	Issued	Cancelled	Cumulative
5-Oct-09	Allotment pursuant to exercise of Stock Options	41,140		168,786,419
5-Oct-09	Allotment pursuant to exercise of ADR Stock Options	15,282		168,801,701
8-Dec-09	Allotment pursuant to exercise of Stock Options	21,884		168,823,585
8-Dec-09	Allotment pursuant to exercise of ADR Stock Options	1,450		168,825,035
26-Feb-10	Allotment pursuant to exercise of Stock Options	19,850		168,844,885
26-Feb-10	Allotment pursuant to exercise of ADR Stock Options	500		168,845,385
1-Jun-10	Allotment pursuant to exercise of Stock Options	128,410		168,973,795
28-Jun-10	Allotment pursuant to exercise of Stock Options	134,825		169,108,620
28-Jun-10	Allotment pursuant to exercise of ADR Stock Options	35,643		169,144,263
30-Aug-10	Allotment pursuant to exercise of Stock Options	53,304		169,197,567
30-Aug-10	Allotment pursuant to exercise of ADR Stock Options	4,008		169,201,575
30-Oct-10	Allotment pursuant to exercise of Stock Options	22,472		169,224,047
30-Oct-10	Allotment pursuant to exercise of ADR Stock Options	3,260		169,227,307
8-Jan-11	Allotment pursuant to exercise of Stock Options	5,300		169,232,607
8-Jan-11	Allotment pursuant to exercise of ADR Stock Options	1,140		169,233,747
11-Mar-11	Allotment pursuant to exercise of Stock Options	18,985		169,252,732

**Subdivision of one equity share of ₹ 10 face value into two equity shares of ₹ 5 face value.*

TABLE 3

High, low and number of shares traded per month on BSE, NSE and NYSE in 2010-11

Month	BSE			NSE			NYSE		
	High (₹)	Low (₹)	No. of Shares	High (₹)	Low (₹)	No. of Shares	High (US$)	Low (US$)	No. of ADRs[(1)]
Apr 2010	1,294.85	1,160.00	1,305,712	1,318.00	1,158.30	7,889,414	29.37	26.17	8,985,140
May 2010	1,413.75	1,160.75	1,631,103	1,417.50	1,145.35	10,154,799	29.21	24.17	11,962,675
Jun 2010	1,515.00	1,326.65	1,232,760	1,517.00	1,379.00	11,505,992	33.14	28.95	14,945,410
Jul 2010	1,511.00	1,304.50	2,181,299	1,515.00	1,277.15	11,800,992	31.95	27.55	11,672,747
Aug 2010	1,385.40	1,305.00	874,338	1,395.00	1,305.15	8,995,691	29.90	27.90	9,163,177
Sept 2010	1,558.00	1,356.50	883,438	1,559.90	1,353.60	8,722,042	33.59	29.00	5,771,914
Oct 2010	1,670.00	1,445.00	879,549	1,674.00	1,445.00	8,441,382	38.06	32.92	6,987,448
Nov 2010	1,814.00	1,666.05	396,273	1,813.50	1,666.00	7,582,165	40.25	37.73	7,472,445
Dec 2010	1,855.00	1,618.00	776,945	1,854.00	1,616.10	9,044,587	41.80	34.85	11,508,755
Jan 2011	1,728.90	1,526.00	665,761	1,728.00	1,525.30	7,908,416	38.10	33.93	8,647,378
Feb 2011	1,640.00	1,451.25	335,922	1,658.80	1,470.15	5,434,034	35.64	32.58	8,484,844
Mar 2011	1,675.00	1,492.00	500,488	1,677.90	1,490.00	6,329,816	37.53	33.52	6,679,349

[(1)] One ADR is equal to one equity share

Chart 1 gives the movement of the Company's share price on NSE vis-à-vis S&P CNX Nifty during the financial year 2010-11.

Notes:

1. All values are indexed to 100 as on 1 April 2010.

2. S&P CNX Nifty is a well diversified 50 stock index accounting for 23 sectors of the Indian economy. It is owned and managed by India Index Services and Products Ltd. (IISL), which is a joint venture between NSE and CRISIL.

CHART 1

Movement of the Company's share price during 2010-11 on NSE

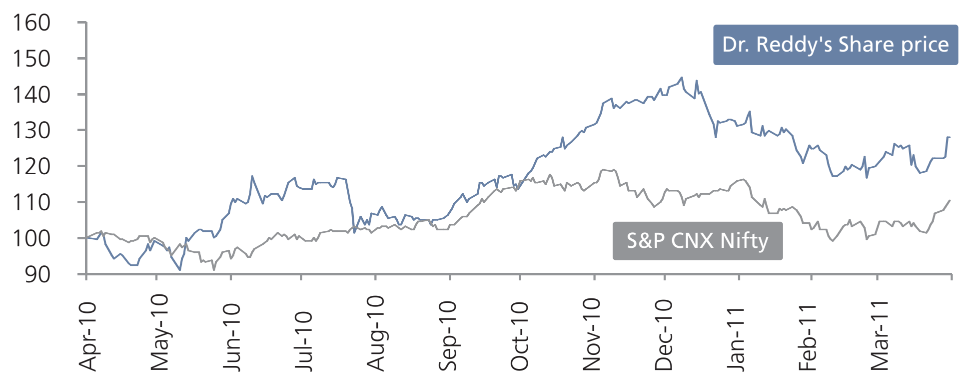


Chart 2 gives the movement of Dr. Reddy's ADR prices on NYSE vis-à-vis S&P ADR index during the financial year 2010-11 and **Chart 3** gives premium in per cent on ADR traded at NYSE compared to price quoted at NSE.

SHAREHOLDING PATTERN AS ON 31 MARCH 2011

Tables 4 and 5 give the data on shareholding classified on the basis of ownership and shareholders' class, respectively.

DIVIDEND HISTORY

Chart 4 gives the dividend history of the Company from financial year 1996-97.

NOMINATION FACILITY

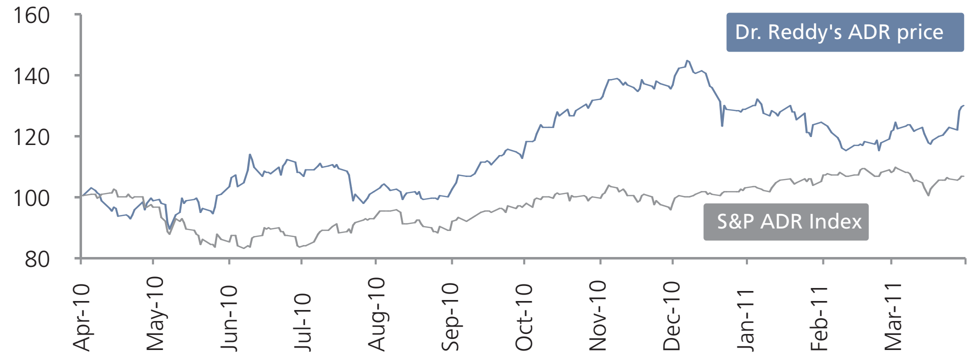
Shareholders holding physical shares may, if they so desire, may send their nominations in Form 2B of the Companies (Central Governments) General Rules and Forms, Rules, 1956 to the Registrars & Transfer Agents of the Company. Those holding shares in dematerialised form may contact their respective Depository Participant (DP) to avail nomination facility.

Notes:

1. All values are indexed to 100 as on 1 April 2010.

2. The S&P ADR Index is based on the non-US stocks comprising the S&P Global 1200. For details of the methodology used to compute this index please visit www.adr.com.

CHART 2 Movement of ADR prices and S&P ADR Index during 2010-11



Note: Premium has been calculated on a daily basis using RBI reference exchange rate

CHART 3 Premium on ADR traded on NYSE versus price quoted at the NSE

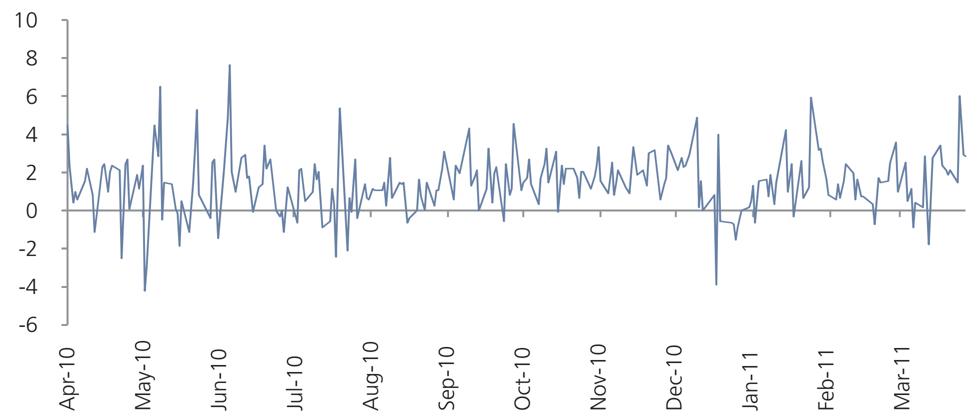


CHART 4 Dividend history of the Company from financial year 1996-97

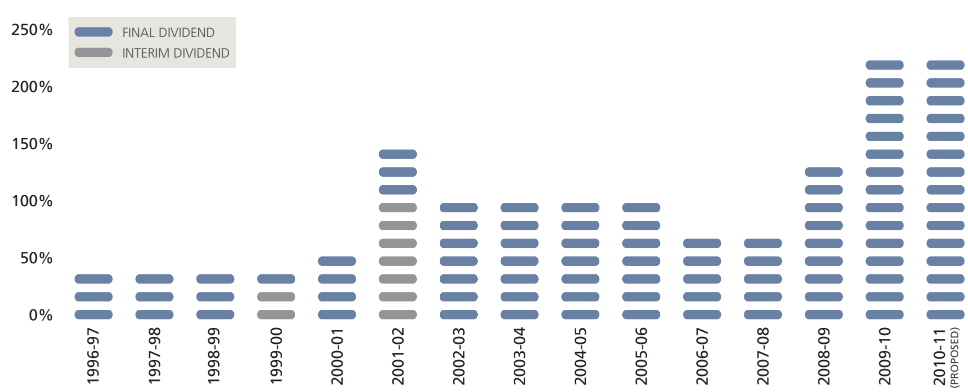


TABLE 4 Distribution of shareholding on the basis of ownership

	As on 31 March 2011		As on 31 March 2010		
	No. of shares	% of total	No. of shares	% of total	% change
Promoter's Holding					
– Individuals	4,289,484	2.53	4,389,484[1]	2.60	(0.07)
– Companies	39,128,328[2]	23.12	39,128,328[2]	23.17	(0.05)[3]
Sub-Total	43,417,812	25.65	43,517,812	25.77	(0.12)
Indian Financial Institutions	13,863,468	8.19	19,471,018	11.53	(3.34)
Banks	400,722	0.24	47,519	0.03	0.21
Mutual Funds	9,451,142	5.58	10,928,678	6.47	(0.89)
Foreign holdings					
– Foreign Institutional Investors	43,834,909	25.90	46,044,755	27.27	(1.37)
– Non Resident Indians	2,750,434	1.63	2,917,229	1.73	(0.10)
– ADRs / Foreign Nationals	31,712,668	18.74	24,551,369	14.54	4.20
Sub total	102,013,343	60.28	103,960,568	61.57	(1.29)
Indian Public and Corporate	23,821,577	14.07	21,367,005	12.66	1.41
Total	169,252,732	100.00	168,845,385	100.00	0.00

[1] Out of the above, 125,000 equity shares were under pledge.
[2] Out of the above, 2,100,000 equity shares were under pledge.
[3] Change in percentage, due to further ESOP allotment

TABLE 5 Distribution of shareholding according to shareholders' class on 31 March 2011

Shares held	No. of shareholders	% of shareholders	No. of shares held	% of shareholding
1 – 5,000	78,700	98.63	11,853,628	7.00
5,001 – 10,000	473	0.59	3,228,570	1.91
10,001 – 20,000	234	0.29	3,245,945	1.92
20,001 – 30,000	94	0.12	2,330,674	1.38
30,001 – 40,000	43	0.05	1,518,881	0.90
40,001 – 50,000	24	0.03	1,102,899	0.65
50,001 – 100,000	70	0.09	4,918,071	2.91
100,001 and above	151	0.19	109,343,896	64.60
Total, excluding ADRs	79,789	100.00	137,542,564	81.27
Equity shares underlying ADRs[1]	1	0.00	31,710,168	18.73
Total	79,790	100.00	169,252,732	100.00

[1] Held by beneficial owners outside India

SHARE / DEBENTURE TRANSFER SYSTEM

All services relating to share / debenture transfers / transmissions and information may be addressed to our Registrar and Transfer Agents:

Bigshare Services Private Limited
G-10 Left Wing, Amrutha Ville,
Opp. Yashoda Hospital, Raj Bhavan Road,
Hyderabad 500 082
T +91-40-2337 4967
F +91-40-2337 0295
E bsshyd@bigshareonline.com

The Company periodically audits the operations of Registrar and Transfer Agent. The number of shares transferred / transmitted in physical form during the last two financial years are given in **Table 6** on page no. 77.

Dematerialization of Shares

The Company's scrip forms part of the compulsory dematerialization segment for all investors with effect from 15 February 1999. To facilitate easy access of the dematerialized system to the investors, the Company has signed up with both the depositories — namely the National Securities Depository Limited ("NSDL") and the Central Depository Services (India) Limited ("CDSL") — and has established connectivity with the depositories through its Registrar, Bigshare Services Private Limited.

Chart 5 on page no. 76 gives the breakup of dematerialized shares and shares in certificate form as on 31 March 2011 as compared with that of 31 March 2010. Dematerialization of shares is done through Bigshare Services Private Limited and on an average the dematerialization process is completed within 10 days from the date of receipt of a valid dematerialization request along with the relevant documents.

Secretarial Audit

For each quarter of the financial year 2010-11, a qualified practicing Company Secretary carried out audits to reconcile the total admitted share capital with NSDL and CDSL, total issued and listed share capital. The reports confirm that the total issued / paid up share capital is in agreement with the total number of shares in physical form and the total number of dematerialized shares held with NSDL and CDSL.

OUTSTANDING ADRS AND THEIR IMPACT ON EQUITY SHARES

The Company's ADRs are traded in the US on New York Stock Exchange ("NYSE") under the ticker symbol 'RDY'. Each ADR is represented by one equity share. As on 31 March 2011, there were approximately 14,272 record holders of ADRs evidencing 31,710,168 ADRs.

QUERIES AND REQUESTS RECEIVED FROM SHAREHOLDERS IN 2010-11

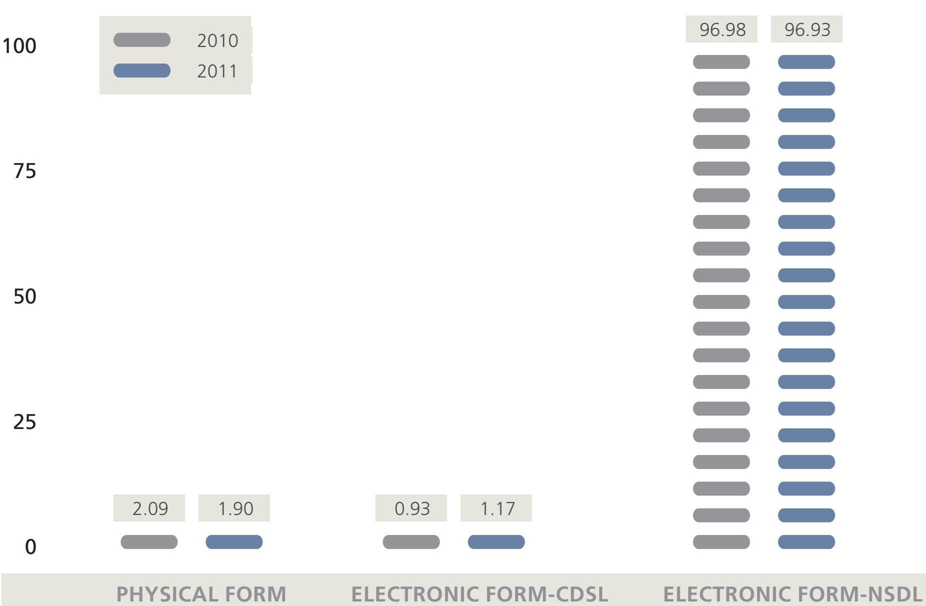
Table 7 gives details of types of shareholder queries received and replied to during 2010-11. Pending queries and requests were either received during the last week of March 2011, or were pending due to non-receipt of information / documents from the shareholders.

DATES AND VENUE OF LAST THREE ANNUAL GENERAL MEETINGS

Table 8 gives the date, time, location and business transacted at last three Annual General Meetings.

There is no proposal to conduct postal ballot for any matter in ensuing Annual General Meeting.

CHART 5 Break up of shares in electronic and physical form as on 31 March 2011 and 31 March 2010



DISCLOSURE ON LEGAL PROCEEDINGS PERTAINING TO SHARES

There are four pending cases relating to disputes over title of the shares, in which the Company has been made a party. These cases, however, are not material in nature.

UNCLAIMED DIVIDENDS

Pursuant to section 205A of the Companies Act, 1956, unclaimed dividends up to and including for the financial year 2002-03 have been transferred to the general revenue account of the Central Government / Investor Education and Protection Fund.

The dividends for the following years, which remain unclaimed for seven years will be transferred to Investor Education and Protection Fund established by the Central Government under Section 205C of the Companies Act, 1956. **Table 9** gives the transfer dates in this regard. Shareholders who have not claimed these dividends are, therefore, requested to do so before they are statutorily transferred to the Investor Education and Protection Fund. Shareholders who have not encashed their dividend warrants relating to the dividends specified in **Table 9** are requested to immediately approach M/s. Bigshare Services Private Limited, Hyderabad for the issue of duplicate warrants / demand drafts in lieu of the dividend warrants.

NON-COMPLIANCE ON MATTERS RELATING TO CAPITAL MARKETS

There has been no instance of non-compliance relating to capital markets for the last three years.

FINANCIAL RESULTS ON COMPANY'S WEBSITE

The quarterly, half yearly and annual results of the Company are displayed on its website www.drreddys.com. Presentations to analysts, as and when made, are immediately placed on the website for the benefit of the shareholders and public at large. Apart from the above, the Company also regularly provides relevant information to the stock exchanges as per the requirements of the listing agreements.

The Company also send the financial results and other major press releases to the shareholders, at their email addresses registered with the Company.

PUBLIC, RIGHTS AND OTHER ISSUES

During the year under review, the Company issued unsecured, redeemable, non-convertible fully paid up debentures of ₹ 5/- each, amounting to ₹ 5,078 millions out of its general reserve to the existing shareholders of the Company in the ratio of 6:1 pursuant to the Scheme of Arrangement approved by the Andhra Pradesh High Court by its order dated 19 July 2010.

TABLE 6 Shares transferred / transmitted in physical form

	2010-11	2009-10
Number of transfers / transmissions	136	92
Number of shares	31,604	20,704

TABLE 7 Shareholder queries and requests received and replied to in 2010-11

Sl. No.	Nature of Letters	Opening balance	Received	Replied	Closing balance[1]
1	Change of address	–	144	144	–
2	Revalidation and issue of duplicate dividend warrants	15	1543	1534	24
3	Sub-division of shares (Exchange)	1	171	166	6
4	Share transfers	7	177	178	6
5	Transmission of shares	–	51	49	2
6	Split / Consolidation of shares	–	2	2	–
7	Stop transfers	–	11	11	–
8	Power of attorney registration	–	–	–	–
9	Change of bank mandate	–	63	63	–
10	Correction of name	–	–	–	–
11	Dematerialization of shares	22	735	743	14
12	Rematerialization of shares	–	1	1	0
13	Issue of duplicate share certificates of Dr. Reddy's	2	32	28	6
14	Issue of duplicate share certificates of ARL / SEFL / CDL	–	28	27	1
15	Letters & emails received from shareholders	–	746	738	8
16	Complaints received from Stock Exchanges / SEBI etc.	–	16	15	1

[1]The Company has since resolved all the shareholders' complaints which were pending as on 31 March 2011.
The above table does not include those shareholders' disputes, which are pending in various courts.

TABLE 8 Last three Annual General Meetings

Year	Date and time	Location	Special resolution(s) passed
2007-08	22 July 2008 at 11.30 A.M.	Grand Ball Room, Hotel Taj Krishna, Road No. 1, Banjara Hills, Hyderabad – 500 034	• Modification to certain existing terms of the Employees Stock Options Scheme, 2002 and Employees ADR Stock Option Scheme, 2007 for recovery of fringe benefit tax on stock options from employees. • Issue of Equity Share Warrants on Preferential basis to the Promoters.
2008-09	22 July 2009 at 11.30 A.M.	Grand Ball Room, Hotel Taj Krishna, Road No. 1, Banjara Hills, Hyderabad – 500 034	No Special resolution was passed
2009-10	23 July 2010 at 11.30 A.M.	Grand Ball Room, Hotel Taj Krishna, Road No. 1, Banjara Hills, Hyderabad – 500 034	No Special resolution was passed

TABLE 9 Dates of transfer of unclaimed dividend

Financial year	Type of dividend	Date of declaration	Amount outstanding as on 31 March 2011	Due for transfer on
2003-2004	Final	28.07.2004	1,724,490	03.09.2011
2004-2005	Final	27.07.2005	1,472,365	02.09.2012
2005-2006	Final	28.07.2006	1,407,245	03.09.2013
2006-2007	Final	24.07.2007	2,628,075	30.08.2014
2007-2008	Final	22.07.2008	2,423,786	28.08.2015
2008-2009	Final	22.07.2009	3,913,407	28.08.2016
2009-2010	Final	23.07.2010	6,713,528	29.08.2017

FACILITY LOCATIONS IN INDIA

CHEMICAL TECH-OPS (CTO)

CTO – I
Plot No. 137 & 138, IDA Bollaram
Jinnaram Mandal, Medak District
Andhra Pradesh (AP), Pin: 502 325

CTO – II
Plot No. 75B, 105, 110 & 111
IDA Bollaram, Jinnaram Mandal
Medak District, AP, Pin: 502 325

CTO – III
Plot No. 116, 116A & 126C & SY No. 157
IDA Bollaram, Jinnaram Mandal
Medak District, AP, Pin: 502 325

CTO – IV
Plot No. 9/A, 9/B, 22A, 22B & 22C
Phase – III, IDA Jeedimetla
Ranga Reddy District, AP, Pin: 500 055

CTO – V
Peddadevulapally, Tripuraram Mandal
Nalgonda District, AP, Pin: 508 207

CTO – VI
IDA Pydibheemavaram
Ransthal Mandal, Srikakulam District
AP, Pin: 532 409

FORMULATIONS TECH-OPS (FTO)

FTO – I
Plot No. 146, IDA Bollaram
Jinnaram Mandal, Medak District
AP, Pin: 502 320

FTO – II
S Y No. 42, 45, 46 & 54, Bachupally
Qutubullapur Mandal, Ranga Reddy District
AP, Pin: 500 123

FTO – III
S Y No. 41, Bachupally
Qutubullapur Mandal, Ranga Reddy District
AP, Pin: 500 123

FTO – IV
Ward-F, Block-4, Adavipolam, Yanam
Pondicherry, Pin: 533 464

FTO – VI
Khol, Nalagarh, Solan, Nalagarh Road, Baddi
Himachal Pradesh, Pin: 173 205

FTO – VII
Plot No. P1-P9, Phase III, Duvvada,
VSEZ, Visakapatanam, AP, Pin: 530 046

FTO – VIII
Village Mauja Thana, Nalagarh Baddi Road
Baddi, District Solan
Himachal Pradesh, Pin: 173 205

BIOLOGICS

Survey No. 47, Bachupally Village,
Qutubullapur Mandal, Ranga Reddy District,
AP, Pin: 500 123

TECHNOLOGY DEVELOPMENT CENTRE

Technology Development Centre I
Bollaram Road, Miyapur, Hyderabad
AP, Pin: 500 049

Technology Development Centre II
Plot 31A, IDA, Jeedimetla, Hyderabad,
AP, Pin: 500 050

RESEARCH & DEVELOPMENT FACILITY

Integrated Product Development Organization (IPDO)
Bachupally Village, Qutubullapur Mandal,
Ranga Reddy District, AP, Pin: 500 123

Aurigene Discovery Technologies Limited Hyderabad
Bollaram Road, Miyapur, Hyderabad,
AP, Pin: 500 049

Aurigene Discovery Technologies Limited Bangalore
39-40, KIADB Industrial Area
Electronic City Phase II, Hosur Road, Bangalore
Karnataka, Pin: 560 100

FACILITY LOCATIONS OUTSIDE INDIA

Kunshan Rotam Reddy Pharmaceutical Co. Limited
No. 258, Huang Pu Jiang (M) Road
Kunshan Development Zone
Jiangsu Province, P. R. China, Pin: 215 300

Industrias Quimicas Falcon de Mexico SA de CV
Carretera Federal Cuernavaca-Cuautla
KM 4.5 CIVAC, Jiutepec, Morelos
Mexico 62578

Dr. Reddy's Laboratories (UK) Limited
6, Riverview Road, Beverly, East Yorkshire
HU 17 OLD, United Kingdom

Dr. Reddy's Laboratories (EU) Limited
Steanard Lane, Mirfield, West Yorkshire,
WF 14,8HZ, United Kingdom

Chirotech Technology Limited

410 Cambridge Science Park
Milton Road, Cambridge
CB4 0PE, United Kingdom

Dr. Reddy's Laboratories Louisiana LLC

8800 Line Avenue, Shreveport
Louisiana 71106, USA

Dr. Reddy's Laboratories Tennessee, LLC

P.O. Box 9002, 201 Industrial Drive
Bristol, TN 37621-9002, USA

INFORMATION ON DIRECTORS PROPOSED FOR REAPPOINTMENT

The information is given in the Chapter on Corporate Governance.

QUERIES AT ANNUAL GENERAL MEETING

Shareholders desiring any information with regard to the accounts are requested to write to the Company at an early date so as to enable the management to keep the information ready. The queries relating to operational and financial performance may be raised at the Annual General Meeting.

The Company provides the facility of Investor-Helpdesk at the Annual General Meeting. Shareholders may post their queries relating to shares, dividends etc., at this Investor-Helpdesk.

PROCEDURE FOR CONVENING AN EXTRAORDINARY GENERAL MEETING

An Extraordinary General Meeting of the Company may be called by the requisition of shareholders. Such a requisition shall set out the matters of consideration for which the meeting is to be called on, signed by the requestors and deposited at the registered office of the Company.

Pursuant to the provisions of the Companies Act, 1956, members entitled to make requisition of an Extraordinary General Meeting with regard to any matter shall be those who hold not less than one-tenth of the paid-up capital of the Company as at the date of the deposit of the requisition and carry the right of voting in that matter.

PROCEDURE FOR NOMINATING A DIRECTOR ON THE BOARD

Pursuant to Section 257 of the Companies Act, 1956, any member intending to propose a person for appointment on the Board of the Company shall leave a signed notice signifying candidature to the office of a Director, along with a deposit of ₹ 500/- at the registered office of the Company, not less than fourteen days before the shareholders' meeting. All nominations are considered by the Nomination, Governance and Compensation Committee of the Board of Directors of the Company entirely consisting of independent Directors.

INFORMATION ON MEMORANDUM AND ARTICLES OF ASSOCIATION

The Memorandum and Articles of Association of the Company are available at the corporate website of the Company, www.drreddys.com.

CERTIFICATE FROM THE COMPANY SECRETARY

I, Sandeep Poddar, Company Secretary of Dr. Reddy's Laboratories Limited, hereby confirm that the Company has:

a. Complied with provisions prescribed for Director Identification Number under Companies Act, 1956 and Director Identification Number Rules, 2006 as amended.
b. Maintained all the books of account and statutory registers prescribed under the Companies Act, 1956.
c. Filed all forms and returns and furnished all necessary particulars to the Registrar of Companies and / or Authorities as required under the Companies Act, 1956.
d. Conducted the Board Meetings and Annual General Meetings as per the Companies Act, 1956 and the minutes thereof were properly recorded in the minutes books.
e. Effected share transfers and despatched the certificates within the time limit prescribed by various authorities.
f. Not exceeded the borrowing or investment limits.
g. Paid dividend to the shareholders within the time limit prescribed and has also transferred the unpaid dividend to the Investor Education and Protection Fund within the time limit.
h. Complied with the regulations prescribed by the Stock Exchanges, SEBI and other Statutory Authorities and also the statutory requirements under the Companies Act, 1956 and other applicable statutes in force.

The certificate is given by the undersigned according to the best of his knowledge and belief, knowing fully that on the faith and strength of what is stated above, the shareholders of the Company will place full reliance on it.

SANDEEP PODDAR
COMPANY SECRETARY

Place: Hyderabad
Date: 13 May 2011

five years at a glance

ALL FIGURES IN ₹ MILLIONS EXCEPT EPS

	2011	2010	2009	2008	2007
Income Statement Data					
Revenues	74,693	70,277	69,441	50,006	65,095
Cost of revenues	34,430	33,937	32,941	24,598	34,220
Gross profit	40,263	36,340	36,500	25,408	30,876
as a % of revenues	54	52	53	51	47
Operating Expenses					
Selling, general and administrative expenses	23,689	22,505	21,020	16,835	15,622
Research and development expenses	5,060	3,793	4,037	3,533	2,463
Impairment loss on other intangible assets	–	3,456	3,167	3,011	1,770
Impairment loss on Goodwill	–	5,147	10,856	90	–
Other (income) / expenses, net	(1,115)	(569)	254	(402)	(460)
Total operating expenses, net	27,634	34,332	39,334	23,067	19,394
Operating (expense) / income	12,629	2,008	(2,834)	2,341	11,481
as a % of revenues	17	3	(4)	5	18
Finance Costs, net					
Finance expense	(362)	(372)	(1,668)	(1,080)	(1,575)
Finance income	173	369	482	1,601	657
Finance (expense) / income, net	(189)	(3)	(1,186)	521	(918)
Share of profit of equity accounted investees, net of income tax	3	48	24	2	(63)
Profit / (loss) before income tax	12,443	2,053	(3,996)	2,864	10,500
Income tax (expense) / benefit	(1,403)	(985)	(1,172)	972	(1,177)
Profit / (loss) for the year	11,040	1,068	(5,168)	3,836	9,323
as a % of revenues	15	2	(7)	8	14
Earnings / (loss) per share					
Basic	65.28	6.33	(30.69)	22.89	58.82
Diluted	64.95	6.30	(30.69)	22.80	58.56
Dividend per share	11.25	11.25	6.25	3.75	3.75
Balance Sheet Data					
Cash and cash equivalents	5,729	6,584	5,596	7,421	18,588
Working capital	6,578	13,041	12,481	14,387	18,832
Total assets	95,005	80,330	83,792	85,634	86,755
Total long-term debt, excluding current portion	5,271	5,385	10,132	12,698	17,871
Total stockholders' equity	45,990	42,915	42,045	47,350	42,627
Additional Data					
Net cash provided by / (used in):					
Operating activities	8,009	13,226	4,505	6,528	11,961
Investing activities	(8,658)	(6,998)	(3,472)	(9,367)	436
Financing activities	(377)	(5,307)	(2527)	(7865)	1754
Effect of exchange rate changes on cash	141	246	(114)	(372)	118
Expenditure on property, plant and equipment	(9,116)	(4,129)	(4,507)	(6,263)	(4,477)

Note: Figures for 2011, 2010, 2009 and 2008 are based on financials as per IFRS and for 2007 are based on financials as per US GAAP.

ratio analysis

	2011	2010
Performance Ratios		
International revenue / total revenue	80.8	81.8
Gross profit / total revenue %	53.9	51.7
– Pharmaceutical Services and Active Ingredients%	26.0	32.6
– Global Generics %	64.7	60.0
Selling, General and Administrative expenses / total revenue % [Note 1]	31.7	32.0
R&D expenses / total revenue %	6.8	5.4
EBITDA / total revenue %	22.5	22.5
Profit before tax / total revenue %	16.7	2.9
Profit after tax / total revenue %	14.8	1.5
Growth Ratios		
Total revenue %	6.3	1.2
– Pharmaceutical Services and Active Ingredients%	(3.7)	8.8
– Global Generics %	9.7	(2.4)
International revenue %	5.1	(0.9)
EBITDA %	6.1	2.8
Balance Sheet Ratios		
Fixed assets turnover ratio [Note 2]	1.8	1.8
Total assets turnover ratio	0.9	0.9
Debt / equity	0.5	0.3
Net debt / equity	0.4	0.2
Working capital turnover (Days) [Note 3]	134	130
– Debtors turnover (Days)	72	69
– Inventory turnover ratio (Days)	156	143
– Creditors turnover ratio (Days)	94	82
Current ratio	1.2	1.4
Operating RoCE (%) [Note 4]	17.5	18.1
Share Data		
Book value (₹ per share)	272	254
Dividend %	225	225
Dividend per share (₹)	11.25	11.25
Basic earnings per share	65.3	6.3
Diluted earnings per share	65.0	6.3

Notes:
1. Selling, general and administrative expenses includes amortization expenses
2. Fixed assets include PPE, Goodwill and Intangibles
3. Working capital is calculated as [Accounts Receivables + Inventories] Less [Trade Payables]
4. RoCE adjusted for extra-ordinary items

directors' report

Dear Members,
Your Directors are pleased to present the 27th annual report for the year ended 31 March 2011.

FINANCIAL HIGHLIGHTS

Table 1 gives the financial highlights of the Company for the financial year 2010-11 as compared to previous financial year on Indian GAAP standalone basis.

DIVIDEND

Your Directors are pleased to recommend a dividend of ₹ 11.25 per equity share of ₹ 5/- each (225%) for the financial year 2010-11. The dividend, if approved at the ensuing Annual General Meeting, will be paid to those shareholders whose names appear on the register of members of the Company as on 5 July 2011.

The dividend would be tax-free in the hands of the shareholders.

SHARE CAPITAL

The paid up share capital of your Company increased by ₹ 2.04 millions in the financial year ended 31 March 2011, due to allotment of 407,347 equity shares on exercise of stock options by the eligible employees under Dr. Reddy's Employees Stock Option Scheme, 2002 and Dr. Reddy's Employees ADR Stock Option Scheme, 2007.

ISSUE OF UNSECURED, REDEEMABLE, NON-CONVERTIBLE BONUS DEBENTURES

During the financial year, the Scheme of Arrangement between the Company and its members for issuance of unsecured, redeemable, non-convertible, fully paid up debentures of ₹ 5/- each (Bonus Debentures) from the general reserve, was approved by the Hon'ble High Court of Judicature, Andhra Pradesh at Hyderabad vide order dated 19 July 2010. The Scheme came into effect on 1 February 2011.

TABLE 1 Financial highlights for the financial year ended 31 March (₹ MILLIONS)

	2011	2010
Income	54,241	47,246
Gross profit	12,998	13,072
Depreciation	2,479	2,224
Profit before tax	10,519	10,848
Taxation		
– Current tax	(1,585)	(2,387)
Net profit for the year	8,934	8,461
Add: Profit and loss brought forward	25,541	20,391
Add: Adjustment on merger of Perlecan Pharma Private Ltd.	–	(248)
Add: Transfer from General Reserve	5,972	–
Total available for appropriation	40,447	28,604
Appropriations:		
Proposed dividend on equity shares	1,904	1,900
Tax on proposed dividend	309	316
Dividend of previous years (including tax)	4	1
Debenture Redemption Reserve	19	–
Issuance of Bonus Debentures as per scheme	5,078	–
Dividend Distribution Tax on distribution as per scheme	843	–
Transfer to General Reserve	893	846
Balance carried forward	31,397	25,541

Accordingly, 1,015,516,392 Bonus Debentures amounting to ₹ 5,078 millions were issued to the members, in the ratio of six debentures for every equity share held by them on the record date i.e. 18 March 2011. These Bonus Debentures have since been listed on Bombay Stock Exchange and National Stock Exchange and rated LAA+ by ICRA.

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION TO SHAREHOLDERS

A detailed report on the corporate governance systems and practices of the Company are given in a separate section of the annual report 2010-11. Detailed information for the shareholders is given in Additional Shareholders' Information section.

MANAGEMENT DISCUSSION AND ANALYSIS

A detailed report on the Management Discussion and Analysis is provided as a separate section in the annual report.

SUBSIDIARY COMPANIES

The Company has 45 subsidiaries as on 31 March 2011.

During the year, Idea2Enterprises (India) Private Limited, Dr. Reddy's Laboratories Romania SRL, I-Ven Pharma Capital Limited, Dr. Reddy's Laboratories Tennessee LLC and Dr. Reddy's Venezuela C.A. became wholly-owned subsidiaries of the Company. Further, Dr. Reddy's Laboratories (Proprietary) Limited also became wholly-owned subsidiary by virtue of purchase of its balance 40% stake by the Company.

During the year, Macred India Private Limited ceased to be a subsidiary of the Company.

As per Section 212 of the Companies Act, 1956, we are required to attach the Directors' Report, Balance Sheet and Profit and Loss Account of our subsidiaries to our annual report. The Ministry of Corporate Affairs, Government of India vide its circular no. 2/2011 dated 8 February 2011 has provided an exemption to companies from complying with Section 212, provided such companies publish the audited consolidated financial statements in the annual report. Accordingly, the annual report 2010-11 does not contain the financial statements of our subsidiaries. The audited annual accounts and related information of our subsidiaries, where applicable, will be made available for inspection during business hours at our registered office in Hyderabad, India. The same will also be published on our website, www.drreddys.com.

The consolidated financial statements, in terms of Clause 32 of the Listing Agreement and prepared in accordance with Accounting Standard 21 as specified in Companies (Accounting Standards) Rules, 2006 also form part of this annual report.

The members, if desire, may write to Company Secretary at Dr. Reddy's Laboratories Limited, 8-2-337, Road No. 3, Banjara Hills, Hyderabad – 500034 to obtain a copy of the financials of the subsidiary companies.

FIXED DEPOSITS

Your Company has not accepted any fixed deposit under Section 58A of the Companies Act, 1956 from the public.

However, pursuant to the provisions of Section 58A of the Companies Act, 1956, read with Companies (Acceptance of Deposit) Rules, 1975, the unsecured, redeemable, non-convertible, fully paid-up bonus debentures amounting to ₹ 5,078 millions, issued by the Company pursuant to the Scheme of Arrangement, approved by the Hon'ble High Court of Judicature, Andhra Pradesh, may be classified as deposit. No amount of principal or interest on such debentures was due as at the Balance Sheet date.

DIRECTORS

As per Article 113 of the Articles of Association of the Company, Mr. Anupam Puri and Dr. Bruce L A Carter retire by rotation at the forthcoming Annual General Meeting scheduled on 21 July 2011 and being eligible, seek re-appointment. The brief profiles of Mr. Anupam Puri and Dr. Bruce L A Carter are given in the Corporate Governance section of the annual report for reference of the members.

The Board of Directors in their meeting held on 25 January 2011 had re-appointed Dr. K Anji Reddy as Whole Time Director designated as Chairman of the Company for a further period of five years effective 13 July 2011 and Mr. G V Prasad as Whole Time Director designated as Vice-Chairman and Chief Executive Officer of the Company for a further period of five years effective 30 January 2011. These re-appointments are subject to the shareholders' approval and the resolutions to this effect have accordingly been included in the notice convening 27th Annual General Meeting scheduled on 21 July 2011.

AUDITORS

The Statutory Auditors of the Company M/s. B S R & Co., Chartered Accountants, retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office of the Statutory Auditors, if reappointed. The Audit Committee and the Board of Directors recommend the reappointment of M/s. B S R & Co. as Statutory Auditors of the Company for the financial year 2011-12 for shareholders' approval.

COST AUDIT

Pursuant to Section 233B of the Companies Act, 1956, the Central Government has prescribed cost audit of the Company's bulk drug division and formulation division.

Based on the recommendations of the Audit Committee, and subject to the approval of the Central Government the Board of Directors had appointed M/s. Sagar & Associates as Cost Auditors of the Company for the financial year 2010-11. The cost audit report would be filed with the Central Government as per timeline.

The relevant cost audit reports for the financial year 2009-10 for bulk drug division and formulation division were filed within the due date on September 16 and 17, 2010. The due date for filing these reports was 27 September 2010.

DIRECTORS' RESPONSIBILITY STATEMENT

In terms of Section 217 (2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. Accounting policies have been selected and applied consistently and judgments and estimates made, are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2010-11 and of profit of the Company for that period;
3. Proper and sufficient care has been taken to maintain adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. Annual accounts have been prepared on an on-going concern basis.

TRANSFER OF UNPAID AND UNCLAIMED AMOUNTS TO IEPF

Pursuant to the provisions of Section 205A(5) of the Companies Act, 1956, the declared dividends, which remained unpaid or unclaimed for a period of seven years have been transferred by the Company to the Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the said Act.

EMPLOYEES STOCK OPTION SCHEMES

Pursuant to the provisions of Guideline 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme), Guidelines, 1999, as amended, the details of stock options as on 31 March 2011 under the "Dr. Reddy's Employees Stock Option Scheme, 2002" and the "Dr. Reddy's Employees ADR Stock Option Scheme, 2007" are set out in the **Annexure – 1** to the Directors' Report.

PARTICULARS OF EMPLOYEES

Pursuant to the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of employees are set out in the **Annexure – 2** to the Directors' Report.

CONSERVATION OF ENERGY, RESEARCH AND DEVELOPMENTS, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNING AND OUTGO

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rule, 1988 are set out in the **Annexure – 3** to the Directors' Report.

GROUP FOR INTER SE TRANSFER OF SHARES

Based on the information received from the Promoters and as required under Clause 3(1)(e)(i) of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeover) Regulations, 1997, persons constituting 'Group' as defined in the Monopolies and Restrictive Trade Practices Act, 1969, for the purpose of Regulation 3(1)(e)(i) of the aforesaid SEBI Takeover Regulations comprises:

Dr. Reddy's Holdings Limited, Dr. Reddy's Investments and Advisory LLP, Dr. Reddy's Income Advisory LLP, APS Invest Advisory LLP, ASP Income Advisory LLP, APS Trust, Dr. Kallam Anji Reddy, Mr. Gunupati Venkateswara Prasad, Mr. Gunupati Venkateswara Prasad (HUF), Mr. Kallam Satish Reddy, Mr. Kallam Satish Reddy (HUF), Mrs. K Samrajyam, Mrs. G Anuradha, Mrs. K Deepti Reddy, Miss. G Vani Sanjana Reddy and Miss. G Mallika Reddy.

ACKNOWLEDGEMENT

Your Directors place on record their sincere appreciation for significant contribution made by the employees through their dedication, hard work and commitment and the trust reposed on us by the medical fraternity and the patients. We also acknowledge the support and wise counsel extended to us by the analysts, bankers, government agencies, shareholders and investors at large. We look forward to having the same support in our endeavor to help people lead healthier lives.

For Dr. Reddy's Laboratories Limited

DR. K ANJI REDDY
CHAIRMAN

Place: Hyderabad
Date: 13 May 2011

ANNEXURE TO THE DIRECTORS' REPORT

ANNEXURE – 1

Pursuant to the provisions of Guideline 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme), Guidelines, 1999, as amended, the details of stock options as on 31 March 2011 under the Dr. Reddy's Employees Stock Option Scheme, 2002 and the Dr. Reddy's Employees ADR Stock Option Scheme, 2007 are as under:

Sl. No	Description	Details	
		Dr. Reddy's Employees Stock Option Scheme, 2002	Dr. Reddy's Employees ADR Stock Option Scheme, 2007
1	Options granted	5,995,106	414,478
2	The pricing formula	Dr. Reddy's Employees Stock Option Scheme, 2002 provides for the grant of options in two categories:	Dr. Reddy's Employees ADR Stock Option Scheme, 2007 provides for the grant of options in two categories:
		Category A: 600,000 stock options out of the total of 4,590,956 reserved for grant of options having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and	Category A: 382,695 shall be available for grant of Stock Options at the fair market value; and
		Category B: 3,990,956 stock options out of the total of 4,590,956 reserved for grant of options having an exercise price equal to the par value of the underlying equity shares (i.e., ₹ 5 per option).	Category B: 1,148,084 Options shall be available for grant of Stock Options at par value of the shares i.e. ₹ 5 per option.
		The fair market value of a share on each grant date falling under Category A above is defined as the weighted average closing price for 30 days prior to the grant, in the stock exchange where there is highest trading volume during that period.	The fair market value of a share on each grant date falling under Category A above is defined as the closing price of the Company's equity shares on the trading day immediately preceding the date of grant, in the stock exchange where there is highest trading volume during that period.
3	Options vested	63,106	3,364
4	Options exercised	1,730,202	190,634
5	The total number of shares arising as a result of exercise of option	1,730,202	190,634
6	Options lapsed	3,546,743	99,285
7	Variation of terms of Options	1. Members of the Company approved the amendment in Dr. Reddy's Employees Stock Option Scheme, 2002 at the Annual General Meeting held on 28 July 2004.	Members of the Company approved the amendment in Dr. Reddy's Employees ADR Stock Option Scheme, 2007, at the Annual General Meeting held on 22 July 2008, to exercise the right to recover from the relevant employees, the fringe benefit tax, in respect of options granted to or vested or exercised by the eligible employees under provisions of the Income Tax Act, 1961.
		The amendment enabled the Company to grant Stock Options in two categories as discussed below. Before this amendment Dr. Reddy's Employees Stock Option Scheme, 2002 provided for grant of options at fair market value only.	
		2. Category A: 1,721,700 stock options out of the total of 2,295,478 reserved for grant of options having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and	
		Category B: 573,778 stock options out of the total of 2,295,478 reserved for grant of options having an exercise price equal to the par value of the underlying equity shares (i.e., ₹ 5 per option).	
		Members of the Company approved the amendment in Dr. Reddy's Employees Stock Option Scheme, 2002 at the Annual General Meeting held on 28 July 2004. The amendment enabled the Company to grant Stock Options in two categories as discussed in para 2 above. Before this amendment Dr. Reddy's Employees Stock Option Scheme, 2002 provided for grant of options at fair market value only.	
		3. Members of the Company approved the amendment in Dr. Reddy's Employees Stock Option Scheme, 2002, at the Annual General Meeting held on 22 July 2008, to exercise the right to recover from the relevant employees, the fringe benefit tax, in respect of options granted to or vested or exercised by the eligible employees under provisions of the Income Tax Act, 1961. Further, pursuant to changes in the work levels in the organization structure of the Company approved removing the grades and designations prescribed in the Scheme.	

<table>
<tr><th rowspan="2">Sl. No</th><th rowspan="2">Description</th><th colspan="2">Details</th></tr>
<tr><th>Dr. Reddy’s Employees Stock Option Scheme, 2002</th><th>Dr. Reddy’s Employees ADR Stock Option Scheme, 2007</th></tr>
<tr><td></td><td></td><td>During the last year the Government of India has abolished fringe benefit tax through the Finance Act 2009. Under this Act the fringe benefit tax payable by the employer as a result of share based payments would be replaced by an income tax payable by the employees as a “perquisite” (as defined in the Indian Income Tax Act, 1961) based on the value of the underlying share as on the date of exercise of the options. Consequent to this abolishment and in furtherance of the resolution passed by the Company on 22 July 2008, management resolved to absorb the consequent perquisite tax for the options granted on or prior to 18 May 2008.</td><td></td></tr>
<tr><td>8</td><td>Money realised by exercise of options</td><td>₹ 155,992,184</td><td>₹ 953,170</td></tr>
<tr><td>9</td><td>Total number of options in force</td><td>718,161</td><td>124,559</td></tr>
<tr><td>10</td><td>Employee wise details as on 31 March 2011 of options granted to</td><td></td><td></td></tr>
<tr><td></td><td>(i) Senior Managerial Personnel</td><td><table>
<tr><th>Name</th><th>Exercise price</th><th>No. of options</th></tr>
<tr><td>Mr. Abhijit Mukherjee</td><td>Par Value</td><td>20,000</td></tr>
<tr><td>Mr. K B Sankara Rao</td><td>Par Value</td><td>11,250</td></tr>
<tr><td>Mr. Saumen Chakraborty</td><td>Par Value</td><td>18,500</td></tr>
<tr><td>Mr. Umang Vohra</td><td>Par Value</td><td>10,750</td></tr>
<tr><td>Dr. Cartikeya Reddy</td><td>Par Value</td><td>11,750</td></tr>
<tr><td>Mr. Vilas Dholye</td><td>Par Value</td><td>8,750</td></tr>
</table></td><td><table>
<tr><th>Name</th><th>Exercise price</th><th>No. of options</th></tr>
<tr><td>Mr. Amit Patel</td><td>Par Value</td><td>13,375</td></tr>
<tr><td>Dr. Raghav Chari</td><td>Par Value</td><td>9,500</td></tr>
</table></td></tr>
<tr><td></td><td>(ii) Any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year.</td><td>Nil</td><td>Nil</td></tr>
<tr><td></td><td>(iii) Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant;</td><td>Nil</td><td>Nil</td></tr>
<tr><td>11</td><td>Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20 ‘Earnings Per Share’</td><td colspan="2">₹ 52.51</td></tr>
<tr><td>12</td><td>The difference between the employee compensation cost computed under Intrinsic Value Method and the employee compensation cost that shall have been recognized if the Company had used the Fair Value Method and its impact on profits and on EPS of the Company</td><td colspan="2">The employee Compensation Cost on account of ESOP in the financial year 2010-11 based on Intrinsic Value Method is ₹ 268 millions. Had the Company used the Fair Value Method, the ESOP cost in the financial year would have been ₹ 265 millions, which would have a consequential impact on profit.

However, there would not have been any significant adverse effect on the Profit and EPS, on using fair value method of accounting.</td></tr>
<tr><td>13</td><td>Weighted-average exercise prices and weighted-average fair values of options for options whose exercise price either equals or exceeds or is less than the market price of the stock</td><td colspan="2">Weighted average exercise price of the outstanding Fair Market Value options as on 31 March 2011 was ₹ 444.45
Weighted average exercise price of the outstanding Par Value options as on 31 March 2011 was ₹ 5.
The weighted average fair value of the outstanding options as on 31 March 2011 was ₹ 193.</td></tr>
<tr><td>14</td><td>Description of the method and significant assumptions used during the year to estimate the fair values of options:</td><td colspan="2">The Company has opted Intrinsic Value Method for accounting of Compensation Cost arising out of ESOP. However for disclosures in para 12 above the following assumptions have been used:</td></tr>
<tr><td></td><td>(i) Risk-free interest rate</td><td colspan="2">4.96% – 7.04%</td></tr>
<tr><td></td><td>(ii) Expected life</td><td colspan="2">12 months to 48 months</td></tr>
<tr><td></td><td>(iii) Expected volatility</td><td colspan="2">31.68% – 37.75%</td></tr>
<tr><td></td><td>(iv) Expected dividends</td><td colspan="2">0.82%</td></tr>
<tr><td></td><td>(v) The price of the underlying share in market at the time of option grant</td><td colspan="2">₹ 612.95</td></tr>
</table>

ANNEXURE – 2

Information required under Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1976 and forming part of the Directors Report for the year ended 31 March 2011

Sl. No.	Name of the Employee	Age	Designation	Gross Remuneration	Qualification	Experience in years	Date of Commencement	Particulars of last employment
Employed for the full year and in receipt of remuneration more than ₹ 60 lacs per annum								
1	Dr. K Anji Reddy	72	Chairman	105,884,350	B.Sc. (Tech.), Ph.D.	41	24.02.1984	Managing Director, Standard Organics Ltd.
2	G V Prasad	51	Vice-Chairman and CEO	64,815,225	B. Sc. (Chem. Eng.), M.S. (Indl. Admn.)	27	30.06.1990	Promoter Director, Benzex Labs Pvt. Ltd.
3	Satish Reddy	44	Managing Director and COO	64,284,650	B.Tech., M.S. (Medicinal Chemistry)	19	18.01.1993	Director, Globe Organics Ltd.
4	Abhijit Mukherjee	53	President	19,309,042	B.Tech. (Chem.)	31	15.01.2003	President, Atul Ltd.
5	Saumen Chakraborty	50	President	17,316,234	B.Sc. (H), MBA-IIM	27	02.07.2001	Vice President, Tecumseh Products India Pvt. Ltd.
6	K B Sankara Rao	57	Executive Vice President	12,015,788	M.Pharm.	33	29.09.1986	Production Executive, Cipla Ltd.
7	Vilas M Dholye	62	Executive Vice President	10,799,483	B.Tech. (Chem.)	37	18.12.2000	VP, Pidilite Industries Ltd.
8	Dr. Cartikeya Reddy	41	Senior Vice President	11,572,614	B.Tech., M.S., Ph.D.	20	20.07.2004	Senior Engineer, Genetech Inc.
9	Dr. Julius Anthony Vaz	50	Senior Vice President	7,320,216	M.B.B.S., M.D.	21	01.07.2009	Medical Director, Novo Nordisk Pharma India Ltd.
10	Ritha Chandrachud	47	Senior Vice President	8,601,105	B.Sc., M.M.S.	25	14.07.2003	Sr. Director, Fulford (India) Ltd.
11	Umang Vohra	40	Senior Vice President	10,687,224	B.E., M.B.A.	16	18.02.2002	Manager, Pepsico, India
12	Dr. Darshan B Makhey	44	Vice President	7,875,788	M. Pharm., Ph.D.	21	01.02.2008	Vice President, Mayne Pharma (USA) Inc.
13	Dr. Harshal P Bhagwatwar	48	Vice President	6,012,466	M.Pharm., M.S., Ph.D.	18	02.08.2004	Associate Director, Wockhardt Ltd.
14	Dr. K V S Ram Rao	48	Vice President	6,654,582	B.Tech, M.E., Ph.D.	18	03.04.2000	Sr.Manager, Vam Organic Chemicals Ltd.
15	K P Gopala Krishnan	54	Vice President	6,786,522	B.E., P.G.D.P.M.	28	16.04.2003	General Manager, Sanmar Speciality Chemicals Ltd.
16	Singhai Sunil Chand	56	Vice President	6,737,571	M.Pharm.	33	19.02.2001	General Manager, Ranbaxy Laboratories Ltd.
Employed for the part of the year and in receipt of average remuneration above ₹ 5 lacs per month								
17	Dr. R Ananthnarayanan	46	President	9,136,573	B. Pharm., Ph.D.	23	06.08.2010	President, Autosource, USA
18	Dr. Sanjay Chaturvedi	41	Vice President	6,351,048	M.Sc., Ph.D.	19	03.05.2010	General Manager, Dow Advanced Materials Divn.
19	V S Vasudevan	60	President	32,281,381	B.Com., ACA	38	01.04.1984	Finance Head, Standard Equity Fund Ltd.
20	Prabir Kumar Jha	44	Senior Vice President	6,869,048	M.A., P.G.D.M. (XLRI)	22	29.11.2002	Regional Head HR, Mahindra British Telecom
21	C V Narayan Rao	56	Vice President	3,685,935	B.Tech., P.G.D.M.	33	07.01.1994	Associate Director, Parke Davis (India) Ltd.
22	Rajesh Kumar	41	Vice President	4,054,926	B.Tech., P.G.D.M.M.	14	15.04.2002	Country Manager, Ranbaxy Laboratories Ltd.
23	Atul Dhavle	41	Senior Director	3,723,015	B.E., P.G.C.B.M (XLRI)	19	07.06.1999	Deputy Manager, Du Pont Fibres Ltd.
24	K V V Raju	51	Senior Director	2,418,224	M.Pharm., P.G.D.M.M.	26	01.11.1994	Deputy Manager, Biological E.
25	Nikhil Dilip Shah	34	Senior Director	2,793,022	MBA, ACS	12	20.09.1999	–

Notes:

1) All the above employments are contractual.

2) Dr. K Anji Reddy, Mr. G V Prasad and Mr. Satish Reddy are relatives within the meaning of Section 6 of the Companies Act, 1956.

3) Dr. K Anji Reddy, Mr. G V Prasad and Mr. Satish Reddy are also eligible for commission on the net profits of the Company. The commission has been included in the remuneration specified above.

4) No individual employee is holding equivalent to or more than 2% of the shareholding of the Company as on 31 March 2011.

5) The remuneration ceiling for above disclosure have been revised to ₹ 60 lacs per annum / ₹ 5 lacs per month vide notification of the Ministry of Corporate Affairs, published in Gazzette of India vide GSR No. GSR 289(E) on 31 March 2011.

Form A

Form for Disclosure of Particulars with respect to Conservation of Energy.

A Power and fuel consumption		
1. Electricity	**2010-11**	**2009-10**
Purchased		
Unit	198,235,693	164,337,783
Total amount (₹)	781,856,344	570,867,152
Rate / unit (₹)	3.94	3.47
Own generation – through diesel generator set		
Unit	20,325,433	20,119,308
Units per ltr. of diesel oil	3.45	3.35
Rate / unit (₹)	11.34	10.61
2. Coal (used in boiler)		
Quantity (tonnes)	64,612	48,326
Total Cost (₹)	266,439,286	167,494,337
Average rate (₹)	4,124	3,466
3. Furnace Oil		
Quantity (K Lts.)	6,838	5,392
Total Cost (₹)	202,897,905	142,533,434
Rate / unit (₹)	29,670	26,436

Form B

Research and development (R&D)

1. **Specific areas in which R&D activities were carried out by the Company are:** Our research and development activities can be classified into several categories, which run parallel to the activities in our principal areas of operations:

- **Global Generics**, where our research and development activities are directed at the development of product formulations, process validation, bioequivalence testing and other data needed to develop the drugs that are equivalent to brand name products for sale in the emerging markets or whose patents and regulatory exclusivity periods have expired or are nearing expiration in the highly regulated markets of the United States and Europe. Global Generics also include our biologics business, where research and development activities are directed at the development of biologics products for the emerging as well as highly regulated markets. Our new biologics research and development facility caters to the highest development standards, including cGMP, Good Laboratory Practices and bio-safety level IIA.

- **Pharmaceutical Services and Active Ingredients,** where our research and development activities concentrate on development of chemical processes for the synthesis of active pharmaceutical ingredients and intermediates ("API") for use in our Global Generics segment and for sales in the emerging and developed markets to third parties. Our research and development activities also support our custom pharmaceutical line of business, where we continue to leverage the strength of our process chemistry and finished dosage development expertise to target innovator as well as emerging pharmaceutical companies.

  The research and development is directed towards providing services to support the entire pharmaceutical value chain — from discovery all the way to the market.

- **Proprietary Products,** where we are actively pursuing discovery and development of new molecules, sometimes referred to as "New Chemical Entity" or "NCEs" and Differentiated Formulations. Our research programs focus on the following therapeutic areas:
  - Pain
  - Anti-infectives
  - Dermatology

  We are focusing on an integrated research strategy to build a coherent pipeline of New Chemical Entities and Differentiated Formulations with critical mass and demonstrate repeated success in the chosen therapeutic area.

2. Benefits derived as a result of the R&D

- Commercial production of the new products.
- Modification of existing manufacturing processes for some of the products and significant savings in cost of production.
- Modification of existing manufacturing processes to reduce the time cycle.
- Indian patents and US patents filings for protection of Intellectual Property generated during R&D.

3. Future plan of action

Commercialisation of new products for which the products are under trials at development stage. Several new products have been identified after a thorough study of the market and the processes to manufacture these products will be developed in the R&D lab.

4. Expenditure on R & D

	For the year ended March 31	2011	2010
A	Capital (₹ millions)	790	254
B	Recurring (₹ millions)	5,128	3,643
C	Total (₹ millions)	5,918	3,897
	Total R&D expenditure as a percentage of total turnover	11.26%	8.79%

	Technology absorption, adaptation and innovation	
1	Efforts, in brief, made towards technology absorption, adaptation and innovation	The Company has a full-fledged R&D Division continuously engaged in research on new products and on process development of existing products. The Company has developed indigenous technology in respect of the products manufactured by it. As soon as the technology is developed for a product, it is tested in Pilot Plant and thereafter commercial production is taken up. It is our philosophy to continuously upgrade the technology.
2	Benefits derived as a result of the above efforts, e.g., product improvement, cost reduction, product development, import substitution, etc.	Product quality improvements, cost reduction, product development, import substitution etc. The continuous up gradation and adoption of new technology has benefited the Company in the form of better production process, better yields, better quality of the end product and cost reduction.
3	In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished: a) Technology imported b) Year of import c) Has technology been fully absorbed d) If not fully absorbed, areas where this has not taken place, reasons therefore and future plans of action.	No Imported technology

FORM C

FOREIGN EXCHANGE EARNINGS AND OUTGO

Please refer information given in the note nos. 15 and 16 in Schedule 20 – Notes to the accounts.

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IGAAP Standalone Financials

Auditors' Report to The Members of Dr. Reddy's Laboratories Ltd.

We have audited the attached Balance Sheet of Dr. Reddy's Laboratories Limited ("the Company") as at 31 March 2011, the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditor's Report) Order, 2003 ('the Order'), as amended, issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to above, we report that:

(a) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

(b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

(c) the Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;

(d) in our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956, to the extent applicable;

(e) on the basis of written representations received from the directors, and taken on record by the Board of Directors, we report that none of the directors are disqualified as at 31 March 2011 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956; and

(f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

   (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2011;

   (ii) in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date; and

   (iii) in the case of Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

for **B S R & Co.**
Chartered Accountants
Firm Registration No.: 101248W

S Sethuraman
Partner
Membership No.: 203491

Place: Hyderabad
Date: 13 May 2011

The Annexure referred to in the auditors' report to the members of Dr. Reddy's Laboratories Limited ("the Company") for the year ended 31 March 2011. We report that:

i. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets. The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner over a period of 3 years. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.

(b) Fixed assets disposed off during the year were not substantial and therefore do not affect the going concern assumption.

ii. (a) The inventory, except goods-in-transit and stocks lying with third parties, has been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable. For stocks lying with third parties at the year-end, written confirmations have been obtained.

(b) In our opinion, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

(c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.

iii. (a) The Company has granted loans to thirteen companies (of which 6 loans are interest free) covered in the register maintained under Section 301 of the Companies Act, 1956. The maximum amount outstanding during the year was ₹ 12,559 millions and the year-end balance of such loans was ₹ 8,638 millions.

(b) In our opinion, the rate of interest and other terms and conditions on which loans have been granted to companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956 are not, prima facie, prejudicial to the interest of the Company.

(c) In the case of loans granted to companies, firms or other parties listed in the register maintained under Section 301, where stipulations have been made, the borrowers have been regular in repaying the principal amounts as stipulated and in the payment of interest.

(d) There is no overdue amount of more than Rupees one lakh in respect of loans granted to any of the companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956.

(e) The Company has not taken loans secured or unsecured from any companies, firms and other parties covered in the register maintained under Section 301 of the Companies Act, 1956.

iv. In our opinion and according to the information and explanations given to us, and having regard to the explanation that purchases of certain items of inventories are for the Company's specialized requirements and similarly certain goods sold are for the specialized requirements of the buyers and suitable alternative sources are not available to obtain comparable quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventories and fixed assets and with regard to the sale of goods and services. We have not observed any major weakness in the internal control system during the course of the audit.

v. (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that section.

(b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred to in point (a) above and exceeding the value of ₹ 5 lakh with any party during the year, have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time except for the purchases of certain items of inventories which are for Company's specialized requirements and similarly for sale of certain goods for the specialized requirements of the buyers and for which suitable alternative sources are not available to obtain comparable quotations. However, on the basis of information and explanations provided, the same appear reasonable.

vi. In our opinion, and according to the information and explanations given to us, the Company has complied with the provisions of Section 58A, Section 58AA or other relevant provisions of the Companies Act, 1956 and the rules framed thereunder / the directives issued by the Reserve Bank of India (as applicable) with regard to deposits accepted from the public. Accordingly, there have been no proceedings before the Company Law Board or National Company Law Tribunal (as applicable) or Reserve Bank of India or any Court or any other Tribunal in this matter and no order has been passed by any of the aforesaid authorities.

vii. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

viii. We have broadly reviewed the books of account maintained by the Company pursuant to the rules prescribed by the Central Government for maintenance of cost records under Section 209(1) (d) of the Companies Act, 1956, and are of the opinion that prima facie the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the records.

ix. (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted / accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs duty, Excise duty and other material statutory dues have been generally regularly deposited during the year by the Company with the appropriate authorities.

(b) According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs duty, Excise duty and other material statutory dues were in arrears as at 31 March 2011 for a period of more than six months from the date they became payable.

(c) Further, there were no dues on account of Cess under Section 441A of the Companies Act, 1956, since the date from which the aforesaid section comes into force has not yet been notified by the Central Government.

(d) According to the information and explanations given to us, the dues set out in Appendix 1 in respect of Income tax, Sales tax, Service tax, Customs duty and Excise duty have not been deposited with the appropriate authorities on account of disputes.

x. The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses during the financial year and in the immediately preceding financial year.

xi. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to its bankers or to any financial institutions or to debenture holders.

xii. The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

xiii. In our opinion and according to the information and explanations given to us, the Company is not a chit fund / nidhi / mutual fund / society.

xiv. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, clause 4(xiv) of the Order is not applicable.

xv. In our opinion and according to the information and explanations given to us, the terms and conditions on which the Company has given guarantees for loans taken by others from banks or financial institutions are not prejudicial to the interests of the Company.

xvi. In our opinion and according to the information and explanations given to us, the term loans taken by the company have been applied for the purpose for which they were raised.

xvii. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we are of the opinion that no funds raised on short-term basis have been used for long-term investment.

xviii. The Company has not made any preferential allotment of shares to companies, firms or parties covered in the register maintained under Section 301 of the Companies Act, 1956.

xix. During the year ended 31 March 2011, the Company has issued unsecured debentures in accordance with the scheme of arrangement approved by the High Court of Andhra Pradesh, India. Accordingly, no security or charge in respect of such debentures has been created.

xx. The Company has not raised any money through public issue.

xxi. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit. However, an attempt to embezzle inventories amounting to ₹ 6 millions was detected and rendered unsuccessful by the Company.

for **B S R & Co.**
Chartered Accountants
Firm Registration No.: 101248W

S Sethuraman
Partner
Membership No.: 203491

Place: Hyderabad
Date: 13 May 2011

NAME OF THE STATUTE	NATURE OF THE DUES	AMOUNT (₹ '000)	PERIOD TO WHICH THE AMOUNT RELATED	FORUM WHERE DISPUTE IS PENDING
Income Taxes				
Income Tax Act,1961	Tax & Interest	378	1991-92	High Court, Andhra pradesh
Income Tax Act,1961	Tax & Interest	1,410	1992-93	High Court, Andhra pradesh
Income Tax Act,1961	Tax & Interest	1,870	1993-94	High Court, Andhra pradesh
Income Tax Act,1961	Tax & Interest	4,614	1994-95	High Court, Andhra pradesh
Income Tax Act,1961	Tax & Interest	16,385	1999-00	Commissioner Appeals
Income Tax Act,1961	Tax & Interest	804	1993-94	Income Tax Appellate Tribunal
Income Tax Act,1961	Tax & Interest	27,654	1993-95	High Court, Andhra pradesh
Sales Tax (Including Central Sales Tax and Local Sales Tax)				
Andhra Pradesh General Sales Tax Act, 1957	Tax	335	2002-03	Sales Tax Tribunal
Andhra Pradesh Central Sales Tax Act, 1956	Tax	2,310	2003-04	Sales Tax Tribunal
Andhra Pradesh Central Sales Tax Act, 1956	Tax	1,905	2005-06	Sales Tax Tribunal
Andhra Pradesh Central Sales Tax Act, 1956	Tax	6,071	2006-07	Appellate Deputy Commissioner
Andhra Pradesh Central Sales Tax Act, 1956	Tax	3,119	2007-08	Sales Tax Tribunal
Andhra Pradesh Central Sales Tax Act, 1956	Tax	6,493	2008-09	Assessment not yet completed
Andhra Pradesh Central Sales Tax Act, 1956	Tax	13,778	2009-10	Assessment not yet completed
Andhra Pradesh Central Sales Tax Act, 1956	Tax	52,215	2010-11	Current Year (upto Q3)
Andhra Pradesh Value Added Tax Act, 2005	Tax	23	2006-07	Sales Tax Tribunal
Andhra Pradesh Value Added Tax Act, 2005	Tax	54	2007-08	Sales Tax Tribunal
Andhra Pradesh Value Added Tax Act, 2005	Tax	59	2008-09	Sales Tax Tribunal
Andhra Pradesh Value Added Tax Act, 2005	Tax	65,893	2006-07 to 2008-09	Appellate Deputy Commissioner
Andhra Pradesh Value Added Tax Act, 2005	Penalty	6,589	2006-07 to 2008-09	Assessing Officer
Andhra Pradesh Value Added Tax Act, 2005	Tax	4,484	2009-10	Appellate Deputy Commissioner
Andhra Pradesh Value Added Tax Act, 2005	Tax	8,328	2009-10	Appellate Deputy Commissioner
Andhra Pradesh Value Added Tax Act, 2005	Tax	7,715	2009-10	Appellate Deputy Commissioner
Andhra Pradesh Value Added Tax Act, 2005	Tax	8,375	2009-10	Assessing Officer
Andhra Pradesh Value Added Tax Act, 2005	Penalty	448	2009-10	Appellate Deputy Commissioner
Andhra Pradesh Value Added Tax Act, 2005	Penalty	833	2009-10	Appellate Deputy Commissioner
Andhra Pradesh Value Added Tax Act, 2005	Penalty	777	2009-10	Appellate Deputy Commissioner
Gujarat Central Sales Tax Act, 1969 (API)	Tax	181	2002-03	Sales Tax Tribunal
Gujarat Central Sales Tax Act, 1969 (API)	Tax	4,159	2004-05	Sales Tax Tribunal
Gujarat Central Sales Tax Act, 1969 (API)	Tax	3,218	2005-06	Sales Tax Tribunal
Gujarat Central Sales Tax Act, 1969 (API)	Tax	364	2006-07	Appellate Deputy Commissioner
Kerala-Central Sales Tax Act, 1956 (ARL)	Tax	66	1998-99	Assessing Officer
Kerala General Sales Tax Act, 1963 (DRL)	Tax	840	2001-02	Assessing Officer
West Bengal Sales Tax Act, 1994 GST	Tax	240	2006-07	Appellate Deputy Commissioner
Uttar Pradesh Sales Tax Act	Tax	350	2008-09	Assessing Officer
Himachal Pradesh Central Sales Tax Act	Tax	2,000	2006-07 & 2007-08	Sales Tax Tribunal
Service Tax				
Finance Act, 1994	Cenvat Credit of Service Tax	296	2006-07	High Court, Andhra Pradesh
Finance Act, 1994	Cenvat Credit of Service Tax	338	2007-08	High Court, Andhra Pradesh
Finance Act, 1994	Cenvat Credit of Service Tax	357	2006-07	High Court, Andhra Pradesh
Finance Act, 1994	Cenvat Credit of Service Tax	1,043	2008-09	Additional Commissioner of Customs & Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	672	2008-09	High Court, Andhra Pradesh
Finance Act, 1994	Cenvat Credit of Service Tax	836	2007-08	High Court, Andhra Pradesh
Finance Act, 1994	Cenvat Credit of Service Tax	1,015	2006-08	Customs, Excise & Service Tax Appellate Tribunal (CESTAT), Bangalore
Finance Act, 1994	Cenvat Credit of Service Tax	626	2008-09	Additional Commissioner of Customs & Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	192	2009-10	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	3,176	2006-07	Commissioner of Customs & Central Excise (Appeals)
Finance Act, 1994	Cenvat Credit of Service Tax	428	2009-10	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	481	2009-10	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	421	2010-11	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	285	2008-09	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	465	2009-10	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	117	2009-10	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	303	2009-10	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	3,050	2006-08	CESTAT, Bangalore
Finance Act, 1994	Cenvat Credit of Service Tax	468	2008-10	CESTAT, Bangalore
Finance Act, 1994	Cenvat Credit of Service Tax	336	2008-10	Commissioner of Customs & Central Excise (Appeals)
Finance Act, 1994	Cenvat Credit of Service Tax	272	2009-10	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	983	2006-09	Commissioner of Customs & Central Excise (Appeals)
Finance Act, 1994	Cenvat Credit of Service Tax	451	2008-10	Commissioner of Customs & Central Excise (Appeals)
Finance Act, 1994	Cenvat Credit of Service Tax	272	2009-10	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	2,178	2005-10	Additional Commissioner of Customs & Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	411	2009-10	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	2,134	2006-08	CESTAT, Bangalore
Finance Act, 1994	Cenvat Credit of Service Tax	94	2008-09	CESTAT, Bangalore

NAME OF THE STATUTE	NATURE OF THE DUES	AMOUNT (₹ '000)	PERIOD TO WHICH THE AMOUNT RELATED	FORUM WHERE DISPUTE IS PENDING
Finance Act, 1994	Cenvat Credit of Service Tax	278	2008-09	CESTAT, Bangalore
Finance Act, 1994	Cenvat Credit of Service Tax	78	2009-10	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	346	2009-10	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	276	2008-09	Commissioner of Customs & Central Excise (Appeals)
Finance Act, 1994	Cenvat Credit of Service Tax	536	2006-08	Commissioner of Customs & Central Excise (Appeals)
Finance Act, 1994	Cenvat Credit of Service Tax	95	2009-10	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	149	2009-10	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	239	2009-10	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	228	2010-11	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	359	2006-08	High Court, Andhra Pradesh
Finance Act, 1994	Cenvat Credit of Service Tax	398	2007-09	High Court, Andhra Pradesh
Finance Act, 1994	Cenvat Credit of Service Tax	251	2008-09	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	368	2008-09	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	186	2009-10	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	171	2010-11	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	148	2010-11	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	3,139	2006-11	Additional Commissioner of Customs & Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	72	2006-07	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	393	2006-07	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	695	2006-07	CESTAT, Bangalore
Finance Act, 1994	Cenvat Credit of Service Tax	970	2006-07	CESTAT, Bangalore
Finance Act, 1994	Cenvat Credit of Service Tax	216	2008-10	Commissioner of Customs & Central Excise (Appeals)
Finance Act, 1994	Cenvat Credit of Service Tax	71	2009-11	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	94	2006-07	CESTAT, Bangalore
Finance Act, 1994	Cenvat Credit of Service Tax	3	2006-07	High Court, Andhra Pradesh
Finance Act, 1994	Cenvat Credit of Service Tax	7	2008-10	Commissioner of Customs & Central Excise (Appeals)
Finance Act, 1994	Cenvat Credit of Service Tax	12	2010-11	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	1,230	2006-08	CESTAT, Bangalore
Finance Act, 1994	Cenvat Credit of Service Tax	131	2008-09	CESTAT, Bangalore
Finance Act, 1994	Cenvat Credit of Service Tax	783	2009-11	Additional Commissioner of Customs & Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	480	2006-08	High Court, Andhra Pradesh
Finance Act, 1994	Cenvat Credit of Service Tax	313	2007-08	CESTAT, Bangalore
Finance Act, 1994	Cenvat Credit of Service Tax	891	2009-10	Additional Commissioner of Customs & Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	1,038	2009-11	Additional Commissioner of Customs & Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	2,069	2006-10	CESTAT, Banglore
Finance Act, 1994	Cenvat Credit of Service Tax	689	2009-11	Additional Commissioner of Customs & Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	3,605	2006-10	Additional Commissioner of Customs & Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	2,502	2006-10	Additional Commissioner of Customs & Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	1,028	2010-11	Additional Commissioner of Customs & Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	4,326	2006-10	Additional Commissioner of Customs & Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	686	2006-08	CESTAT, Bangalore
Finance Act, 1994	Cenvat Credit of Service Tax	141	2009-10	Additional Commissioner of Customs & Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	14	2008-09	Assistant Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	634	2009-10	Additional Commissioner of Customs & Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	102,423	2008-10	Commissioner of Central Excise
Finance Act, 1994	Cenvat Credit of Service Tax	10,909	2004-09	Commissioner of Central Excise
Finance Act, 1994	Service Tax	1,897	2007-09	Additional Commissioner of Customs & Central Excise
Finance Act, 1994	Service Tax	21,758	2006-07	Commissioner of Central Excise
Finance Act, 1994	Service Tax	9,029	2003-06	Commissioner of Central Excise
Customs Duty				
Customs Act, 1962	Duty	258	2003-04	Commissioner of Central Excise, Hyderabad-II
Customs Act, 1962	Duty	142	2003-04	CESTAT, Bangalore
Customs Act, 1962	Duty	8,936	2007-08	Additional Commissioner of Central Excise, Bangalore
Customs Act, 1962	Duty	152	2008-09	Deputy Commissioner of Central Excise, Mumbai Customs
Customs Act, 1962	Duty	22,531	2006-10	Assistant Commissioner of Central Excise, Hyderabad Customs
Customs Act, 1962	Excess DEPB	11,010	2003-07	CESTAT, Bangalore
Customs Act, 1962	Duty	97,194	2009-10	Assistant Commissioner of Customs& Central excise
Excise Duty				
Central Excise Act, 1944	Duty	1,973	2008-09	Additional Commissioner, Hyderabad-I
Central Excise Act, 1944	Duty	1,224	2008-10	Additional Commissioner, Hyderabad-I
Central Excise Act, 1944	Duty	1,665	2008-09	Additional Commissioner, Hyderabad-I
Central Excise Act, 1944	Duty	1,521	2010-11	Additional Commissioner, Hyderabad-I
Central Excise Act, 1944	Interest	6,908	2005-09	Commissioner Appeals – Hyderabad
Central Excise Act, 1944	Duty	5,106	2009-10	Commissioner of Central Excise – Hyderabad-I
Central Excise Act, 1944	Duty	6,971	2009-11	Commissioner of Central Excise – Hyderabad-I
Central Excise Act, 1944	Duty	41,360	2006-09	Commissioner of Central Excise – Hyderabad-I
Central Excise Act, 1944	Duty	43,690	2009-10	Commissioner of Central Excise – Hyderabad-I
Central Excise Act, 1944	Duty	24,112	2010-11	Commissioner of Central Excise – Hyderabad-I

NAME OF THE STATUTE	NATURE OF THE DUES	AMOUNT (₹ '000)	PERIOD TO WHICH THE AMOUNT RELATED	FORUM WHERE DISPUTE IS PENDING
Central Excise Act, 1944	Duty	19,286	2006-09	Commissioner of Central Excise – Hyderabad-I
Central Excise Act, 1944	Duty	10,646	2008-10	Commissioner of Central Excise – Hyderabad-I
Central Excise Act, 1944	Duty	11,689	2010-11	Commissioner of Central Excise – Hyderabad-I
Central Excise Act, 1944	Duty	27,380	2006-09	Commissioner of Central Excise – Hyderabad-I
Central Excise Act, 1944	Duty	418	2009-10	Additional Commissioner, Hyderabad-B Division
Central Excise Act, 1944	Duty	1,667	2009-10	Additional Commissioner, Hyderabad-I
Central Excise Act, 1944	Duty	742	2006-10	Additional Commissioner, Hyderabad-I
Central Excise Act, 1944	Duty	116	2010-11	Additional Commissioner, Hyderabad-B Division
Central Excise Act, 1944	Duty	1,980	2010-11	Additional Commissioner, Hyderabad-I
Central Excise Act, 1944	Duty	575	1999-00	Assistant Commissioner of Central Excise Nalgonda
Central Excise Act, 1944	Duty	2,779	2007-09	Commissioner of Central Excise – Hyderabad-III
Central Excise Act, 1944	Duty	7,464	2009-10	Commissioner of Central Excise – Hyderabad-III
Central Excise Act, 1944	Duty	8,265	2010-11	Commissioner of Central Excise – Hyderabad-III
Central Excise Act, 1944	Duty	113	2000-01	Assistant Commissioner of Central Excise, Vizianagaram
Central Excise Act, 1944	Duty	29,572	2006-10	Commissioner of Central Excise – Visakhapatnam
Central Excise Act, 1944	Duty	988	2007-09	Additional Commissioner of Central Excise, Visakhapatnam
Central Excise Act, 1944	Duty	1,400	2009-10	Additional Commissioner of Central Excise, Visakhapatnam
Central Excise Act, 1944	Duty	4,279	2010-11	Additional Commissioner of Central Excise, Visakhapatnam
Central Excise Act, 1944	Duty	7,450	2006-08	CESTAT, Bangalore
Central Excise Act, 1944	Duty	7,099	2008-10	Commissioner of Central Excise – Hyderabad-I
Central Excise Act, 1944	Duty	3,070	2009-10	Commissioner of Central Excise – Hyderabad-I
Central Excise Act, 1944	Duty	2,013	2010-11	Additional Commissioner, Hyderabad-I
Central Excise Act, 1944	Interest	2,660	2006-08	CESTAT, Bangalore
Central Excise Act, 1944	Duty	892	2002-03	Commissioner of Central Excise – Hyderabad
Central Excise Act, 1944	Duty	3,250	2007-10	Additional Commissioner, Hyderabad-I
Central Excise Act, 1944	Interest	58	2006-08	
Central Excise Act, 1944	Duty	1,706	2006-09	Additional Commissioner of Central Excise – Hyderabad-IV
Central Excise Act, 1944	Duty	2,974	2010-11	Additional Commissioner of Central Excise – Hyderabad-IV
Central Excise Act, 1944	Duty	2,059	2006-09	Additional Commissioner of Central Excise – Hyderabad-IV
Central Excise Act, 1944	Duty	5	2009-10	Superintendent – Hyderabad – L Division
Central Excise Act, 1944	Duty	225	2005-06	CESTAT, Mumbai
Central Excise Act, 1944	Duty	5,925	2007-10	Commissioner of Central Excise – Visakhapatnam-II
Central Excise Act, 1944	Duty	6,839	2009-10	Commissioner of Central Excise – Visakhapatnam-II
Central Excise Act, 1944	Duty	4,125	2004-06	CESTAT, Bangalore
Central Excise Act, 1944	Duty	8,491	2005-07	Commissioner of Central Excise – Hyderabad-IV
Central Excise Act, 1944	Duty	6,462	2006-08	Commissioner of Central Excise – Hyderabad-IV
Central Excise Act, 1944	Duty	1,972	2007-08	Commissioner of Central Excise – Hyderabad-IV
Central Excise Act, 1944	Duty	14,700	2007-09	Commissioner of Central Excise – Hyderabad-IV
Central Excise Act, 1944	Duty	4,594	2008-10	Commissioner of Central Excise – Hyderabad-IV
Central Excise Act, 1944	Duty	6,215	2009-10	Commissioner of Central Excise – Hyderabad-IV
Central Excise Act, 1944	Duty	423	2004-05	Assistant Commissioner of Central Excise
Central Excise Act, 1944	Duty	469	2004-05	Assistant Commissioner of Central Excise
Central Excise Act, 1944	Duty	11,786	2005-06	Commissioner of Central Excise – Hyderabad-IV
Central Excise Act, 1944	Duty	18,398	2006-07	Commissioner of Central Excise – Hyderabad-IV
Central Excise Act, 1944	Duty	10,547	2007-08	Commissioner of Central Excise – Hyderabad-IV
Central Excise Act, 1944	Duty	8,158	2007-09	Commissioner of Central Excise – Hyderabad-IV
Central Excise Act, 1944	Duty	9,981	2008-09	Commissioner of Central Excise – Hyderabad-IV
Central Excise Act, 1944	Duty	26,824	2009-10	Commissioner of Central Excise – Hyderabad-IV
Central Excise Act, 1944	Duty	4,715	2004-09	Additional Commissioner, Hyderabad-IV
Central Excise Act, 1944	Duty	1,191	2008-10	Additional Commissioner, Hyderabad-IV
Central Excise Act, 1944	Duty	128	2010-11	Asst. Commissioner – Hyderabad – L Division
Central Excise Act, 1944	Duty	1,969	2008-09	Asst. Commissioner – Hyderabad – L Division
Central Excise Act, 1944	Duty	662	2008-09	Asst. Commissioner – Hyderabad – L Division
Central Excise Act, 1944	Duty	2,723	1999-05	Commissioner of Central Excise – Hyderabad-III
Central Excise Act, 1944	Duty	4,349	2004-05	Commissioner of Central Excise – Hyderabad-III
Central Excise Act, 1944	Duty	1,476	2004-05	Assistant Commissioner of Central Excise
Central Excise Act, 1944	Duty	9,219	2003-05	CESTAT, Chennai
Central Excise Act, 1944	Duty	368	2003-05	Assistant Commissioner of Central Excise, Palghar
Central Excise Act, 1944	Duty	10,001	2001-05	Assistant Commissioner of Central Excise, Thane-II
Central Excise Act, 1944	Duty	398	2004-06	CESTAT, Chennai
Central Excise Act, 1944	Duty	6,913	2001-05	Commissioner of Central Excise – Hyderabad-III
Central Excise Act, 1944	Duty	334	2006-08	Assistant Commissioner of Central Excise – Hyderabad
Central Excise Act, 1944	Duty	310	2006-08	Assistant Commissioner of Central Excise – Hyderabad
Central Excise Act, 1944	Duty	16	2006-10	Assistant Commissioner of Central Excise – Hyderabad
Central Excise Act, 1944	Duty	49	2010-11	Assistant Commissioner of Central Excise – Hyderabad
Central Excise Act, 1944	Duty	21,225	2003-08	Assistant Commissioner of Central Excise – Hyderabad

Balance Sheet AS AT 31 MARCH 2011

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	SCHEDULE	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	846	844
Reserves and surplus	2	59,356	58,302
		60,202	**59,146**
Loan funds			
Secured loans	3	7	8
Unsecured loans	4	14,441	5,624
		14,448	**5,632**
Deferred tax liability, net	20(3)	1,008	750
		75,658	**65,528**
APPLICATION OF FUNDS			
Fixed assets	5		
Gross block		30,250	24,257
Less: Accumulated depreciation and amortization		(13,340)	(11,101)
Net block		16,910	13,156
Capital work-in-progress (including capital advances)		5,704	7,454
		22,614	**20,610**
Investments	6	24,620	25,551
Current assets, loans and advances			
Inventories	7	10,632	8,974
Sundry debtors	8	17,705	10,605
Cash and bank balances	9	662	3,680
Loans and advances	10	16,401	13,001
		45,400	**36,260**
Current liabilities and provisions			
Current liabilities	11	14,407	14,475
Provisions	12	2,569	2,418
		16,976	**16,893**
Net current assets		**28,424**	**19,367**
		75,658	**65,528**
Notes to the accounts	20		
The schedules referred to above form an integral part of the Balance Sheet			

As per our report attached
for **B S R & Co.**
Chartered Accountants
Firm Registration No.: 101248W
S Sethuraman
Partner
Membership No.: 203491
Place: Hyderabad
Date: 13 May 2011

for **DR. REDDY'S LABORATORIES LIMITED**

Dr. K Anji Reddy Chairman
G V Prasad Vice Chairman and CEO
K Satish Reddy Managing Director and COO
Umang Vohra Chief Financial Officer
Sandeep Poddar Company Secretary

Profit and Loss Account FOR THE YEAR ENDED 31 MARCH 2011

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	SCHEDULE	FOR THE YEAR ENDED 31 MARCH 2011		FOR THE YEAR ENDED 31 MARCH 2010	
INCOME					
Sales, gross			52,537		44,327
Less: Excise duty on sales			(356)		(316)
Sales, net			**52,181**		**44,011**
License fees, net			2		752
Service income			308		359
Other income	13		1,750		2,124
			54,241		**47,246**
EXPENDITURE					
Material cost	14		16,705		14,821
Conversion charges			276		325
Excise duty			617		424
Personnel costs	15		7,012		5,100
Operating and other expenses	16		10,895		9,429
Research and development expenses	17		5,128		3,643
Provision for decline in the value of long-term investments	6(7)		557		321
Finance charges	18		53		111
Depreciation and amortization	5		2,479		2,224
			43,722		**36,398**
Profit before taxation			**10,519**		**10,848**
Income tax expense	19		(1,585)		(2,387)
Profit after taxation			**8,934**		**8,461**
Balance in profit and loss account brought forward		25,541		20,391	
Less: Adjustment on account of merger of					
Perlecan Pharma Private Limited	20(23)	–		248	
Add: Transfer from General Reserve	20(29)	5,972	31,513	–	20,143
Amount available for appropriations			**40,447**		**28,604**
APPROPRIATIONS:					
Proposed dividend on equity shares			1,904		1,900
Tax on proposed dividend			309		316
Dividend of previous years (including tax)			4		1
Debenture Redemption Reserve	20(29)		19		–
Issuance of Bonus Debentures as per scheme	20(29)		5,078		–
Dividend Distribution Tax on distribution as per scheme	20(29)		843		–
Transferred to General Reserve			893		846
Balance carried forward			31,397		25,541
			40,447		**28,604**
Earnings per share	20(4)				
Basic – Par value ₹ 5 per share			52.82		50.15
Diluted – Par value ₹ 5 per share			52.51		49.81
Notes to the accounts	20				

The schedules referred to above form an integral part of the Profit and Loss Account

As per our report attached
for **B S R & Co.**
Chartered Accountants
Firm Registration No.: 101248W
S Sethuraman
Partner
Membership No.: 203491
Place: Hyderabad
Date: 13 May 2011

for **DR. REDDY'S LABORATORIES LIMITED**

Dr. K Anji Reddy Chairman
G V Prasad Vice Chairman and CEO
K Satish Reddy Managing Director and COO
Umang Vohra Chief Financial Officer
Sandeep Poddar Company Secretary

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	10,519	10,848
Adjustments:		
Depreciation and amortization	2,479	2,224
Provision for wealth tax	3	3
Dividend from mutual fund units	(58)	(48)
Amortization of deferred stock compensation expense, net	268	193
Unrealised foreign exchange (gain) / loss	(820)	960
(Profit) / loss on sale of investments, net	(10)	–
Provision for decline in the value of long-term investments	557	321
Reversal of provision for decline in the value of long-term investments	–	(713)
Interest income	(455)	(579)
Finance charges	53	111
Cost of issuance of bonus debentures	51	–
(Profit) / loss on sale of fixed assets, net	12	5
Provision for inventory obsolescence	731	1,077
Provision for doubtful debts	(2)	79
Provision for doubtful advances	(438)	(81)
Bad debts written off	–	6
Operating cash flows before working capital changes	**12,890**	**14,406**
(Increase) / Decrease in sundry debtors	(6,913)	2,711
(Increase) / Decrease in inventories	(2,389)	(2,700)
(Increase) / Decrease in loans and advances	(1,511)	(1,073)
Increase / (Decrease) in current liabilities and provisions	2,498	1,390
Cash generated from operations	**4,575**	**14,734**
Income taxes paid	(2,112)	(2,202)
Net cash provided by operating activities	**2,463**	**12,532**
CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		
Purchase of fixed assets	(6,964)	(3,830)
Proceeds from sale of fixed assets	29	187
Purchase of investments	(11,624)	(26,958)
Proceeds from sale of investments	12,602	21,102
Dividend from mutual fund units	58	48
Loans and advances given to subsidiaries, joint ventures & associates	(704)	(2,227)
Interest received	473	567
Net cash (used in) investing activities	**(6,130)**	**(11,111)**
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES		
Proceeds from issue of share capital	29	17
Repayment of long-term borrowings	(5)	(22)
Proceeds from long-term borrowings	5,078	–
Repayment of short-term borrowings	(12,213)	(7,469)
Proceeds from short-term borrowings	15,955	7,305
Interest paid	(42)	(121)
Cost of issuance of bonus debentures	(51)	–
Dividend paid (including bonus debentures and dividend distribution tax)	(8,141)	(1,232)
Net cash from / (used in) financing activities	**610**	**(1,522)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,057)	(101)
Cash and cash equivalents at the beginning of the period (Refer Schedule 9)	3,680	3,844
Effect of exchange gain on cash and cash equivalents	39	(63)
	662	**3,680**

As per our report attached
for **B S R & Co.**
Chartered Accountants
Firm Registration No.: 101248W
S Sethuraman
Partner
Membership No.: 203491
Place: Hyderabad
Date: 13 May 2011

for **DR. REDDY'S LABORATORIES LIMITED**

Dr. K Anji Reddy Chairman
G V Prasad Vice Chairman and CEO
K Satish Reddy Managing Director and COO
Umang Vohra Chief Financial Officer
Sandeep Poddar Company Secretary

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	AS AT 31 MARCH 2011		AS AT 31 MARCH 2010	
SCHEDULE 1: SHARE CAPITAL				
Authorised				
240,000,000 (previous year: 240,000,000) equity shares of ₹ 5/- each (Refer Note 23, Schedule 20)		1,200		1,200
Issued				
169,252,932 (previous year: 168,845,585) equity shares of ₹ 5/- each fully paid-up		846		844
Subscribed and paid-up				
169,252,732 (previous year: 168,845,385) equity shares of ₹ 5/- each fully paid-up	846		844	
Add: Forfeited share capital (Note 2)	–	846	–	844
		846		**844**

NOTES:

1. Subscribed and paid-up share capital includes:

(a) 111,732,202 (previous year: 111,732,202) equity shares of ₹ 5/- each fully paid-up, allotted as bonus shares. Out of total, 34,974,400 shares were allotted by capitalisation of General Reserve and 76,757,802 equity shares allotted as bonus shares by capitalisation of the Securities Premium Account in earlier years.

(b) 1,052,248 (previous year: 1,052,248) equity shares of ₹ 5/- each allotted pursuant to a scheme of amalgamation with Standard Equity Fund Limited without payments being received in cash.

(c) 20,571,768 (previous year: 20,571,768) equity shares of ₹ 5/- each allotted and 82,800 (previous year: 82,800) equity shares of ₹ 5/- each extinguished pursuant to a scheme of amalgamation with erstwhile Cheminor Drugs Limited (CDL) without payments being received in cash.

(d) 40,750,000 (previous year: 40,750,000) equity shares of ₹ 5/- each allotted against American Depository Shares (ADS).

(e) 17,204,304 (previous year: 17,204,304) equity shares of ₹ 5/- each allotted against Global Depository Receipts (GDR) that were converted into ADS during the year ended 31 March 2002.

(f) 226,776 (previous year: 226,776) equity shares of ₹ 5/- each allotted to the erstwhile members of American Remedies Limited (ARL) pursuant to a scheme of amalgamation with ARL without payments being received in cash.

(g) 1,548,579 (previous year: 1,185,283) equity shares of ₹ 5/- each allotted to the eligible employees of the Company and its subsidiaries on exercise of the vested stock options in accordance with the terms of exercise under the "Dr. Reddy's Employees Stock Option Plan, 2002". (Refer Note 9, Schedule 20)

(h) 190,634 (previous year: 146,583) equity shares of ₹ 5/- each allotted to the eligible employees of the Company and its subsidiaries on exercise of the vested stock options in accordance with the terms of exercise under the "Dr. Reddy's Employees Stock Option Plan, 2007". (Refer Note 9, Schedule 20)

2. Represents 200 (previous year: 200) equity shares of ₹ 5/- each, amount paid-up ₹ 500/- (rounded off in millions in the Schedule above) forfeited due to non-payment of allotment money.

3. 718,161 (previous year: 885,007) stock options are outstanding to be issued by the Company on exercise of the vested stock options in accordance with the terms of exercise under the "Dr. Reddy's Employees Stock Option Plan, 2002" and 124,559 (previous year: 112,390) stock options are outstanding to be issued by the Company on exercise of the vested stock options in accordance with the terms of exercise under the "Dr. Reddy's Employees ADR Stock Option Plan 2007" (Refer Note 9, Schedule 20).

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 2: RESERVES AND SURPLUS		
Capital reserve		
Balance at the beginning of the year	267	7
On account of amalgamation of Perlecan Pharma Private Limited (Refer note 23, Schedule 20)	–	260
	267	**267**
Securities premium account		
Balance at the beginning of the year	18,038	17,814
Add: Received during the year on exercise of employee stock options	241	224
	18,279	**18,038**
Employee stock options outstanding		
Balance at the beginning of the year	564	591
Add: Options granted during the year	424	264
Less: Options forfeited / expired during the year	(67)	(82)
Less: Options exercised during the year	(214)	(209)
Balance at the end of the year (A)	707	564
Deferred stock compensation cost		
Balance at the beginning of the year	225	236
Add: Options granted during the year	424	264
Less: Amortization during the year, net of forfeiture	(268)	(193)
Less: Options forfeited during the year	(67)	(82)
Balance at the end of the year (B)	314	225
(A-B)	**393**	**339**
General Reserve		
Balance at the beginning of the year	14,019	13,173
Add: Transferred from profit and loss account	893	846
Less: Transferred to profit and loss account (Refer Note 29, Schedule 20)	5,972	–
	8,940	**14,019**
Foreign currency translation reserve		
Balance at the beginning of the year	(169)	246
Additions / deductions during the year (See Note 1 below)	205	(415)
	36	**(169)**
Hedging Reserve		
Balance at the beginning of the year	267	(237)
Additions / deductions during the year (Refer Note 18, Schedule 20)	(242)	504
	25	**267**
Debenture Redemption Reserve		
Balance at the beginning of the year	–	–
Add: Transferred from profit and loss account (Refer Note 29, Schedule 20)	19	–
	19	**–**
Profit and loss account		
Balance in profit and loss account	**31,397**	**25,541**
	59,356	**58,302**

NOTE:

1. The foreign currency translation reserve comprises exchange difference on monetary items that in substance form part of the net investment in Industrias Quimicas Falcon de Mexico, SA de CV (Mexico) and Lacock Holdings Limited, Cyprus, non-integral foreign operations as defined in Accounting Standard (AS)-11 (Revised 2003) on "Accounting for the Effects of Changes in Foreign Exchange Rates".

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 3: SECURED LOANS		
From other than banks		
Loan from Indian Renewable Energy Development Agency Limited (Note 1)	–	1
Finance lease obligations (Note 2)	7	7
	7	**8**

NOTES:

1. Loan from Indian Renewable Energy Development Agency Limited is secured by way of hypothecation of specific movable assets pertaining to the Solar Grid Interactive Power Plant. The loan was repayable in quarterly installments of ₹ 1.48 each quarter and carried an interest rate of 2% per annum. This loan has been repaid during the year.

2. Finance lease obligations represent present value of minimum lease rentals payable for the vehicles leased by the Company and is secured by hypothecation of those vehicles. (Refer Note 27, Schedule 20).

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 4: UNSECURED LOANS		
9.25% Redeemable Non-convertible Debentures (Note 1)	5,078	–
Sales tax deferment loan from the Government of Andhra Pradesh (interest free) (Note 2)	52	55
Short-term loans from banks		
Packing credit loans (Note 3)	9,242	5,530
Bank overdraft (Note 4)	69	39
	14,441	**5,624**

NOTES:

1. Refer Note No 29 of Schedule 20. Amount repayable in 12 months is ₹ Nil.

2. Amount repayable in 12 months is ₹ 2.

3. Foreign Currency Packing Credit comprises loans from J.P. Morgan Chase, The Bank of Tokyo-Mitsubishi UFJ LTD, BNP Paribas and HSBC carrying interest rates of LIBOR plus 52 – 80 bps; loan from Credit Agricole Corporate & Investment Bank and The Bank of Nova Scotia carrying a fixed rate of interest of 1.120% – 2.085% per annum, which are repayable on expiry of 6 months from the date of drawdown; Rupee packing credit from State Bank of India carrying interest rate of 8.75% per annum. Packing Credit loans for the previous year comprised foreign currency packing credit loan that were taken from Standard Chartered Bank, The Bank of Nova Scotia, BNP Paribas, ABN Amro Bank and HSBC carrying interest rates of LIBOR plus 40 – 75 bps, repayable on expiry of 6 months from the date of drawdown and Rupee packing credit from State Bank of India carrying interest rate of 5% per annum.

4. Bank overdraft is on the current accounts with Citibank, State Bank of India, HDFC and HSBC bank carrying interest rates of 10.50%, 11.00%, 12.00% and 10.50% per annum, respectively. (Bank Overdraft in the previous year was on current accounts with Citibank, State Bank of India and HDFC Bank carrying interest rates of 10.50%, 10.25% and 14.50% per annum, respectively).

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 5: FIXED ASSETS

	GROSS BLOCK				DEPRECIATION / AMORTIZATION				NET BLOCK	
DESCRIPTION	AS AT 1 APRIL 2010	ADDITIONS	DELETIONS	AS AT 31 MARCH 2011	AS AT 1 APRIL 2010	FOR THE YEAR	DELETIONS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Land – freehold	1,054	91	–	1,145	–	–	–	–	1,145	1,054
Buildings	4,554	1,397	21	5,930	840	203	13	1,030	4,900	3,714
Plant and machinery (Note 1)	11,765	2,978	133	14,610	5,901	1,404	119	7,186	7,424	5,864
Electrical equipment	1,648	459	11	2,096	722	208	10	920	1,176	926
Laboratory equipment	2,336	766	4	3,098	1,399	274	1	1,672	1,426	937
Furniture, fixtures and office equipment	1,343	426	26	1,743	936	243	22	1,157	586	407
Vehicles	417	146	86	477	236	90	75	251	226	181
Intangibles										
Customer contracts	243	–	–	243	243	–	–	243	–	–
Technical know–how	459	–	–	459	428	17	–	445	14	31
Non–compete fees	228	–	–	228	227	1	–	228	–	1
Patents, trademarks, etc. (including marketing / distribution rights)	181	–	–	181	144	34	–	178	3	37
	24,228	**6,263**	**281**	**30,210**	**11,076**	**2,474**	**240**	**13,310**	**16,900**	**13,152**
Assets taken on finance lease										
Vehicles	29	11	–	40	25	5	–	30	10	4
Total	**24,257**	**6,274**	**281**	**30,250**	**11,101**	**2,479**	**240**	**13,340**	**16,910**	**13,156**
Previous year	**21,573**	**3,464**	**780**	**24,257**	**9,465**	**2,224**	**588**	**11,101**	**13,156**	

NOTES:

1. The Company owns treated effluent discharge pipeline with a cost of ₹ 9 (previous year: ₹ 9) and net book value of ₹ Nil (previous year: ₹ Nil) in equal proportion jointly with a third party in Pydibheemavaram pursuant to a mutual agreement.
2. Depreciation for the year includes depreciation amounting to ₹ 329 (previous year: ₹ 374) on assets used for Research and Development (R&D). During the year, Company incurred ₹ 790 (previous year ₹ 254) towards capital expenditure for R&D.
3. Please refer note 24, Schedule 20 for details of R&D assets included above.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 6: INVESTMENTS		
Long-term at cost, unless otherwise specified		
I. QUOTED INVESTMENTS		
Trade		
(a) Equity shares (fully paid-up)		
12,000 (previous year: 12,000) equity shares of ₹ 10 each of State Bank of India (Note 1)	3	3
TOTAL QUOTED LONG-TERM INVESTMENTS (I)	**3**	**3**
II. UNQUOTED INVESTMENTS		
Non-trade		
Equity and preference shares (fully paid-up)		
In Subsidiary Companies		
50,000 (previous year: 50,000) equity shares of ₹ 10/- each of DRL Investments Limited, India	1	1
11,625,000 (previous year: 11,625,000) ordinary shares of HK$ 1 each of Reddy Pharmaceuticals Hong Kong Limited, Hong Kong	58	58
Equity shares of OOO JV Reddy Biomed Limited, Russia (Note 2)	7	7
500,000 (previous year: 500,000) equity shares of US$ 1 each of Reddy Antilles NV, Netherlands	18	18
26,699,230 (previous year: 6,059,231) shares of Real $ 1 each of Dr. Reddy's Farmaceutica Do Brasil Ltda., Brazil	634	97
400,750 (previous year: 400,750) ordinary shares of US$ 10 each of Dr. Reddy's Laboratories Inc., USA	175	175
134,513 (previous year: 134,513) equity shares of ₹ 10/- each of Cheminor Investments Limited, India	1	1
2,500 (previous year: 2,500) ordinary shares of FF 100 each of Reddy Cheminor SA, France	2	2
90,544,104 (previous year: 90,544,104) equity shares of ₹ 10/- each of Aurigene Discovery Technologies Limited, India	974	974
14,750,000 (previous year: 14,750,000) 8% cumulative redeemable preference shares of ₹ 10/- each of Aurigene Discovery Technologies Limited, India	147	147
34,476 (previous year: 34,476) ordinary A shares of GBP 0.01 each of Dr. Reddy's Laboratories (EU) Limited, UK	142	142
98,124 (previous year: 98,124) ordinary shares of GBP 0.01 each of Dr. Reddy's Laboratories (EU) Limited, UK	493	493
360,000 (previous year: 360,000) preference shares of GBP 0.0001 each of Dr. Reddy's Laboratories (EU) Limited, UK	23	23
34,022,070 (previous year: 34,022,070) equity shares of ₹ 10/- each of Dr. Reddy's Bio-sciences Limited, India	266	266
Equity shares of OOO Dr. Reddy's Laboratories Limited, Russia (Note 2)	72	72
100 (previous year: 60) ordinary shares of Rand 1 each of Dr. Reddy's Laboratories (Proprietory) Limited, South Africa (Note 3)	512	–
206 (previous year: 206) equity shares of US$ 0.01 each of Trigenesis Therapeutics Inc., USA	497	497
16,033 (previous year: 23,028 shares of Euro 1 each) equity shares of Euro 1.71 each resepctively, of Lacock Holdings Limited, Cyprus (Refer Note 25, Schedule 20)	16,146	15,428
140,526,270 (previous year: 140,526,270) Series "A" shares of Peso 1 each of Industrias Quimicas Falcon de Mexico, SA de CV, Mexico	709	709
5,566,000 (previous year: 5,566,000) ordinary shares of Euro 1 each of Reddy Pharma Iberia, Spain	321	321
1,000,000 (previous year: 1,000,000) ordinary shares of Aus $ 1 each of Dr. Reddy's Laboratories (Australia) Pty. Limited., Australia	51	64
75,640,410 (previous year: 75,640,410) ordinary shares of CHF 1 each of Dr. Reddy's Laboratories SA, Switzerland	2,951	2,951
Equity shares of Dr. Reddy's Laboratories ILAC TICARET Limited SIRKETI, Turkey (Note 2 and 4)	–	–
50,000 (previous year: 50,000) equity shares of ₹ 1/- each of Dr. Reddy's Pharma SEZ Limited, India	1	1
2,377,826 (previous year: Nil) equity shares of ₹ 10/- each of Idea2Enterprises India Private Limited, India	1,447	–
Nil (previous year: 49,999) ordinary shares of Macred India Private Limited, India (Note 6)	–	1
Carried forward	**25,648**	**22,448**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 6: INVESTMENTS (CONTINUED)

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Brought forward	25,648	22,448
Unquoted Non-trade investments (continued)		
Trade		
In joint venture		
Equity shares held in Kunshan Rotam Reddy Pharmaceutical Co. Limited, China (Note 2)	429	429
In associates		
9,999 (previous year: Nil) ordinary shares of Macred India Private Limited, India (Note 6)	–	–
In other companies		
Ordinary shares of Biomed Russia Limited, Russia (Note 2)	66	66
In capital of partnership firm (a subsidiary)		
Globe Enterprises, India	–	2
(A partnership firm with Dr. Reddy's Holdings Limited organised under the Indian Partnership Act, 1932 wherein the Company and Dr. Reddy's Holdings Limited share the profit / loss for the year in the ratio of 95:5, respectively)		
Non-trade		
In Equity Shares		
200,000 (previous year: 200,000) ordinary shares of ₹10/- each of Altek Engineering Limited, India	2	2
8,859 (previous year: 8,859) equity shares of ₹ 100/- each of Jeedimetla Effluent Treatment Limited, India	1	1
24,000 (previous year: 24,000) equity shares of ₹ 100/- each of Progressive Effluent Treatment Limited, India	2	2
20,000 (previous year: 20,000) equity shares of ₹ 10/- each of Shivalik Solid Waste Management Limited, India (Note 5)	–	–
TOTAL UNQUOTED LONG-TERM INVESTMENTS (II)	**26,148**	**22,950**
Current Investments at cost or fair value which ever is less		
UNQUOTED INVESTMENTS		
In Certificate of deposits		
Nil (previous year: 3,000) Certificate of deposits of ₹ 99,481.1 each of State Bank of Mysore	–	298
In Mutual Fund		
Nil (previous year: 44,779,190.82) units of SBNPP Flexible Fund ST Inst.	–	450
Nil (previous year: 145,559.06) units of HDFC Cash Management Fund – Treasury Adv Plan	–	1
Nil (previous year: 50,449,814.27) units of IDFC Money Manager Fund – Inv Plan	–	505
Nil (previous year: 46,224,480.00) units of IDFC Fixed Maturity Plan – Half Yearly Series 9	–	462
Nil (previous year: 50,275,881.37) units of Kotak Quarterly Interval Plan Series 6	–	503
Nil (previous year: 49,972,515.12) units of Reliance Monthly Interval Fund – Inst Div Plan	–	500
Nil (previous year: 1,999.75) units of Reliance Money Manage Fund – Inst Option	–	2
Nil (previous year: 44,502,902.58) units of SBI-SHDF-Short-term – Inst Plan	–	451
Nil (previous year: 40,225,374.32) units of UTI-Fixed Income Interval Fund – Series II	–	402
TOTAL UNQUOTED CURRENT INVESTMENTS (III)	**–**	**3,574**
TOTAL INVESTMENTS (I+II+III)	**26,151**	**26,527**
Less: Provision for decline, other than temporary, in the value of long-term investments (Refer Note 7)	(1,531)	(976)
Total investments, net	**24,620**	**25,551**

SCHEDULE 6: INVESTMENTS (CONTINUED)

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Aggregate cost of quoted investments	3	3
Aggregate cost of unquoted investments	26,148	26,524
Market value of quoted investments	33	25
Market value of mutual funds	–	3,277
Market value of Certificate of deposits	–	299

NOTES:

1. In respect of shares of State Bank of India, the share certificates were misplaced during transfer / lost in transit. The Company has initiated necessary legal action at the appropriate courts.
2. Shares held in Kunshan Rotam Reddy Pharmaceutical Co. Limited, China (Reddy Kunshan), OOO JV Reddy Biomed Limited, Russia, OOO Dr. Reddy's Laboratories Limited, Russia, Dr. Reddy's Laboratories ILAC TICARET Limited SIRKETI, Turkey and Biomed Russia Limited, Russia are not denominated in number of shares as per the laws of the respective countries.
3. Represents 100 (previous year: 60) ordinary shares of Rand 1 each of Dr. Reddy's Laboratories (Proprietary) Limited, South Africa amounting to ₹ 512,213 thousands; previous year: ₹ 3 thousands (rounded off in millions in the Schedule above). During the year the company has acquired the remaining minority interest (40%) in Dr. Reddy's Laboratories (Proprietary) Limited, South Africa for an amount of ₹ 512,210 thousands.
4. Represents equity shares of Dr. Reddy's Laboratories ILAC TICARET Limited SIRKETI, Turkey amounting to ₹ 161 thousands (previous year: ₹ 161 thousands) (rounded off in millions in the Schedule above).
5. Represents 20,000 (previous year: 20,000) equity shares of ₹ 10/- each of Shivalik Solid Waste Management Limited, India amounting to ₹ 200 thousands (previous year: ₹ 200 thousands) (rounded off in millions in the Schedule above).
6. Represents 9,999 (previous year: 49,999) ordinary shares of Macred India Private Limited, India amounting to ₹ 100 thousands (previous year: ₹ 500 thousands) (rounded off in millions in the Schedule above). During the year the company has sold 80% of its stake in Macred India Private Limited and accordingly it has now been classified as an associate instead of subsidiary as shown previous year.
7. During the current year, the company has converted its advance to Dr. Reddy's Farmaceutica Do Brasil Ltda, Brazil to equity and a corresponding provision for decline for ₹ 499, other than temporary, in the value of long-term investment. Further, the company has provided ₹ 58 for decline other than temporary, in the value of investment of Reddy Pharmaceuticals Hong Kong Limited, Hong Kong and ₹ 2 has been written off on dissolution of partnership in Globe Enterprises, India.
8. The following mutual funds were purchased and sold during the year:

PARTICULARS	UNITS PURCHASED AND SOLD (IN NO. OF UNITS)		COST PRICE	
	31 MARCH 2011	31 MARCH 2010	31 MARCH 2011	31 MARCH 2010
Reliance Money Manager Fund Institutional Option Daily Dividend Plan	474,686	–	475	–
Reliance Money Manager Fund Institutional Option Growth Plan	1,044,618	–	1,355	–
Reliance Money Interval Fund Series I Institutional Dividend Plan	7,998,000	–	80	–
ICICI Prudential Flexible Income Plan Premium-Growth	1,109,339	–	195	–
ICICI Prudential Liquid Super Institutional Plan-Growth	685,327	–	95	–
ICICI Prudential Ultra Short-term Plan Super Premium Daily Dividend	50,048,994	–	500	–
ICICI Prudential Flexible Income Plan Premium-Daily Dividend	13,372,685	–	1,410	–
ICICI Prudential Flexible Liquid Super Institutional Plan-Daily-Dividend	4,999,567	–	500	–
Birla Sun Life Saving Fund-Institutional-Daily Dividend Reinvestment	53,073,644	–	530	–
Birla Sun Life Cash Plus Retail Daily Dividend Reinvestment	5,817,428	–	95	–
Birla Sun Life Medium Term Plan Institutional-Weekly Dividend Reinvestment	50,252,437	–	500	–
Templeton Floating Rate Income Fund Super Institutional Option – Daily Dividend Reinvestment	40,073,165	–	400	–
IDFC Saving advantage Fund Plan A Daily Dividend	511,573	–	507	–
UTI Treasury Advantage Fund – Institutional Plan (Daily Dividend Option) – Reinvestment	462,198	–	460	–
UTI-Floating Rate Fund – Short-term Plan – Institutional Daily Dividend Plan – Reinvestment	273,315	–	270	–
SBNPP Flexible Fund ST Institutional – Daily Dividend	40,467,845	–	400	–
HDFC Liquid Fund – Premium Plan – Growth	25,358,736	–	480	–
HDFC Liquid Fund-Dividend-Daily-Option Reinvestment	28,977,330	445,589,313	295	4,517

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 6: INVESTMENTS (CONTINUED)

8. The following mutual funds were purchased and sold during the year (continued)

PARTICULARS	UNITS PURCHASED AND SOLD (IN NO. OF UNITS)		COST PRICE	
	31 MARCH 2011	31 MARCH 2010	31 MARCH 2011	31 MARCH 2010
HDFC Cash Management Fund-Treasury Advantage Plan-Wholesale Daily Dividend Option Reinvestment	72,832,128	115,551,364	730	2,050
HDFC Cash Management Fund-Treasury Advantage Plan-Wholesale Growth Option	18,907,048	–	395	–
TATA Floater Fund – Daily Dividend	–	9,964,526	–	100
TATA Liquid Super High Investment Daily Dividend	–	430,679	–	480
Birla Sun Life Saving Fund-Institutional Daily Dividend Reinvestment	–	111,446,960	–	1,115
Birla sun life Saving Fund-Retail Daily Dividend Reinvestment	–	198,943,862	–	1,991
Birla Sun Life Cash Plus-Retail Daily Dividend Reinvestment	–	195,547,790	–	3,201
Birla Sun Life Cash Plus-Institutional. Daily Dividend Reinvestment	–	36,566,287	–	395
Kotak Flexi Debt Scheme Institutional-Daily Dividend	–	104,503,608	–	1,050
ICICI Liquid Plan-Institutional-Daily Dividend	–	2,447,216	–	290
ICICI Prudential Flexible Income Plan Premium-Daily Dividend	–	45,786,540	–	881
ICICI Prudential Institutional Liquid Plan-Daily Dividend Option	–	184,385,074	–	2,185
HDFC Cash Management Fund-Treasury Advantage Plan-Retail Daily Dividend Option Reinvestment	–	102,676,569	–	1,600
Reliance Money Manager FUND Institutional Option-Daily Dividend Plan	–	1,058,797	–	1,060

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 7: INVENTORIES		
Stores, spares and packing materials	769	687
Raw materials	3,980	3,194
Work-in-process	3,578	3,508
Finished goods	2,305	1,585
	10,632	**8,974**

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 8: SUNDRY DEBTORS		
(Unsecured)		
Debts outstanding for a period exceeding six months		
Considered good	1,923	449
Considered doubtful	139	229
Other debts		
Considered good	15,782	10,156
	17,844	**10,834**
Less: Provision for doubtful debts	(139)	(229)
	17,705	**10,605**

NOTE:

Refer Note No. 5 (d) (i) of Schedule 20 for details of balances receivable from the companies under the same management.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 9: CASH AND BANK BALANCES		
Cash in hand	5	8
Balances with scheduled banks		
In current accounts	523	235
In EEFC current accounts	22	4
In deposit accounts	–	3,201
In unclaimed dividend accounts	20	17
In unclaimed fractional share pay order accounts	1	1
Balances with non-scheduled banks outside India		
In current accounts	91	214
	662	**3,680**

NOTES:

1. Deposits with scheduled and non-scheduled banks include ₹ 300 thousands (previous year: ₹ 1,068 thousands) representing margin money for letters of credit and bank guarantees.

2. Closing balances and maximum amounts outstanding at any time during the year on current accounts with banks outside India:

	MAXIMUM BALANCE		BALANCE AS AT	
	31 MARCH 2011	31 MARCH 2010	31 MARCH 2011	31 MARCH 2010
Citibank, New York [Note (i)]	–	382	–	–
Credit Bank of Moscow, Moscow [Note (i)]	2	54	1	1
ABN Amro Bank, Romania	15	45	4	5
Royal Bank of Scotland, Almaty	21	10	21	8
Prior Bank, Belarus	8	10	4	2
Exim Bank HCMC, Vietnam	2	3	2	1
Standard Chartered Grindlays Bank, Sri Lanka	2	2	1	1
Citibank, Malaysia	–	1	–	–
Citibank NA, China	7	9	3	4
Ukreximbank, Ukraine	21	7	12	5
National Bank of Dubai, UAE	8	8	4	7
Union Bank of Switzerland, Basel	3	3	–	3
PJSCB "ALP JAMOL BANK", Uzbekistan	1	2	1	1
Myanmar Investment And Commercial Bank, Yangoon [Note (i)]	3	2	–	2
Citibank, Moscow	92	67	1	28
Bank of Shanghai, China [Note (i)]	2	–	–	–
Banco Canarias, Venezuela	1	54	1	1
Banco de Venezuela	91	165	5	89
Banco Mercantil, Venezuela	261	49	25	49
Banco Santander, Venezuela	–	11	–	–
Mercantil Commerce Bank, Venezuela	7	11	3	7
Citibank, Beijing	7	–	3	–
			91	**214**

NOTE:

(i) Amounts in ₹ Thousands (rounded off in millions in the Schedule above)

	MAXIMUM BALANCE		BALANCE AS AT	
	31 MARCH 2011	31 MARCH 2010	31 MARCH 2011	31 MARCH 2010
Citibank, New York	26	382,240	–	26
Credit Bank of Moscow, Moscow	1,724	54,000	73	463
Myanmar Investment And Commercial Bank, Yangoon	2,911	–	38	–
Bank of Shanghai, China	2,000	170	13	16
			124	**505**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 10: LOANS AND ADVANCES		
(Unsecured)		
Considered good		
Loans and advances to wholly owned subsidiary companies, step down subsidiary companies, joint venture and associates	9,452	8,269
Advances to material suppliers	386	515
Staff loans and advances	33	38
Advance towards investment (Note 4)	–	–
Interest accrued but not due	–	18
Other advances recoverable in cash or in kind or for value to be received	3,777	2,130
Advance tax (net of provision for income taxes ₹ 9,663, previous year: ₹ 7,504)	32	81
MAT credit entitlement	831	–
Balances with customs, central excise etc.	1,598	1,698
Deposits	292	252
Considered doubtful		
Advance towards investment	8	8
Loans and advances to a wholly owned subsidiary companies, step down subsidiaries, joint venture and associates	307	763
Other advances recoverable in cash or in kind or for value to be received	47	58
	16,763	13,830
Less: Provision for doubtful loans and advances	(362)	(829)
	16,401	**13,001**

Loans and advances to wholly owned subsidiary companies, step down subsidiary companies, joint ventures and associates comprise:

	BALANCE AS AT		MAXIMUM AMOUNT OUTSTANDING AT ANY TIME DURING THE YEAR ENDED	
	31 MARCH 2011	31 MARCH 2010	31 MARCH 2011	31 MARCH 2010
Aurigene Discovery Technologies Limited, India	75	391	396	555
DRL Investments Limited, India	2,712	9	2,712	9
Cheminor Investments Limited, India (Note 3)	–	–	–	–
Reddy Antilles NV, Netherlands	246	247	247	247
Dr. Reddy's Farmaceutica Do Brasil Ltda., Brazil	231	757	797	761
Dr. Reddy's Bio-sciences Limited, India	69	62	69	62
Dr. Reddy's Laboratories Inc., USA	–	9	18	33
Dr. Reddy's Laboratories (Proprietary) Limited, South Africa	9	8	9	8
APR LLC, USA	380	120	380	120
Lacock Holdings Limited, Cyprus (Refer Note 24, Schedule 20)	3,687	3,640	3,927	3,995
Industrias Quimicas Falcon de Mexico, SA de CV, Mexico	1,464	1,424	1,518	1,517
Dr. Reddy's Laboratories SA, Switzerland	512	2,112	2,198	2,321
Dr. Reddy's Laboratories (Australia) Pty Limited, Australia	349	221	349	221
Idea2Enterprises (India) Private Limited, India	4	–	4	–
Macred India Private Limited, India	–	–	7	180
Dr. Reddy's Laboratories Romania SRL, Romania	20	–	20	–
Dr. Reddy's Laboratories (EU) Limited, UK	–	16	21	16
Chirotech Technology Limited, UK	–	15	16	16
Dr. Reddy's Laboratories (UK) Ltd., UK	1	1	1	1
Dr. Reddy's Pharma SEZ Limited, India (Note 3)	–	–	–	–
	9,759	**9,032**		

SCHEDULE 10: LOANS AND ADVANCES (CONTINUED)

NOTES:

1. The loans and advances in the nature of loans to the subsidiaries and step down subsidiaries are repayable on demand except for Dr. Reddy's Farmaceutica Do Brasil Ltda., Brazil, Dr. Reddy's Laboratories (Proprietary) Limited, South Africa, Lacock Holdings Limited, Cyprus and DRL Investments Limited, India where the repayment schedule is beyond seven years. In respect of amounts receivable from Industrias Quimicas Falcon de Mexico, SA de CV, Mexico and Lacock Holdings Limited, Cyprus settlement is neither planned nor likely to occur in foreseeable future. All these loans are interest free loans except for the following loans:

LOAN TO	INTEREST RATE PER ANNUM
Dr. Reddy's Laboratories (Proprietary) Limited, South Africa	6%
Dr. Reddy's Laboratories SA, Switzerland	LIBOR plus 200 bps
Lacock Holdings Limited, Cyprus	4.75% – 5%
Industrias Quimicas Falcon de Mexico, SA de CV (Falcon)	MXN TIIE 28d plus 1.5%
DRL Investments Limited	2%
Dr. Reddy's Laboratories (Australia) Pty Limited, Australia	NAB Overdraft rate
Dr. Reddy's Farmaceutica Do Brasil Ltda., Brazil	6%

2. There are no investments made by the loanees in the Company and in any of its subsidiaries except in respect of Aurigene Discovery Technologies Limited, Dr. Reddy's Laboratories Inc., Reddy Antilles NV, Reddy Holding GmbH, Dr. Reddy's Laboratories SA, Switzerland, Dr. Reddy's Laboratories (EU) Limited, DRL Investments Limited, Reddy Pharma Italia, Eurobridge Consulting BV and Lacock Holdings Limited which have made investments in their wholly owned subsidiaries or subsidiaries.

3. Amounts in ₹ Thousands (rounded off in millions in the Schedule above)

	BALANCE AS AT		MAXIMUM AMOUNT OUTSTANDING AT ANYTIME DURING THE YEAR ENDED	
	31 MARCH 2011	31 MARCH 2010	31 MARCH 2011	31 MARCH 2010
Cheminor Investments Limited, India	7	7	7	7
Dr. Reddy's Pharma SEZ Limited, India	175	–	175	–
	182	**7**		

4. Includes advance towards share application money for Shivalik Solid Waste Management Limited, India pending allotment ₹ 3 thousands (previous year; ₹ Nil)

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 11: CURRENT LIABILITIES		
Sundry creditors		
Due to medium and small enterprises (Note 1-3)	230	166
Others	10,977	11,777
Payable to subsidiary companies, step down subsidiaries, joint ventures and associates	2,937	2,385
Interest accrued but not due on loan	11	–
Unclaimed dividends *	20	17
Trade deposits	48	50
Other Liabilities	184	80
	14,407	**14,475**

* Investor Protection and Education Fund is being credited by the amounts of unclaimed dividends after seven years from the due date.

NOTES:

1. The principal amount paid and that remaining unpaid as at 31 March 2011 in respect of enterprises covered under the "Micro, Small and Medium Enterprises Development Act, 2006" (MSMDA) are ₹ 2,215 (previous year: ₹ 2,960) and ₹ 218 (previous year: ₹ 154) respectively. The interest amount computed based on the provisions under Section 16 of the MSMDA ₹ 12 (previous year: ₹ 12) is remaining unpaid as of 31 March 2011. The interest that remained unpaid as at 31 March 2010 was paid to the extent of ₹ 9 during the current year.

2. The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act is ₹ Nil (previous year: ₹ Nil).

3. The list of undertakings covered under MSMDA were determined by the Company on the basis of information available with the Company and have been relied upon by the auditors.

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 12: PROVISIONS		
Proposed dividend	1,904	1,900
Tax on proposed dividend	309	316
Provision for		
Gratuity (Refer Note 20, Schedule 20)	94	3
Compensated absences	193	146
Long service award benefits (Refer Note 20, Schedule 20)	69	53
	2,569	**2,418**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
SCHEDULE 13: OTHER INCOME		
Interest income		
On fixed deposits (gross, tax deducted at source: ₹ 8; previous year: ₹ 24)	83	188
On loans to subsidiaries and joint venture	362	351
On other deposits	10	41
Dividend from mutual funds	58	48
Sale of spent chemicals	254	209
Profit on sale of investments	10	–
Royalty from subsidiary	13	10
Reversal of provision for decline in the value of long-term investments	–	713
Foreign exchange gain, net	574	340
Miscellaneous income	386	224
	1,750	**2,124**

		FOR THE YEAR ENDED 31 MARCH 2011		FOR THE YEAR ENDED 31 MARCH 2010	
SCHEDULE 14: MATERIAL COST					
(a)	Net (increase) / decrease in stock				
	Opening				
	Work-in-process	3,508		2,599	
	Finished goods	1,585	5,093	1,321	3,920
	Closing				
	Work-in-process	3,578		3,508	
	Finished goods	2,305	5,883	1,585	5,093
	Net (increase)		(790)		(1,173)
(b)	Raw materials consumed		10,654		11,005
(c)	Stores, chemicals, spares and packing materials consumed		3,531		2,534
(d)	Purchase of traded goods		3,310		2,455
			16,705		**14,821**

NOTES:

1. Raw materials consumed include ₹ 731 (previous year: ₹ 1,077) being provision created on inventory obsolescence, ₹ 326 (previous year: ₹ 170) being cost of samples issued and is net of ₹ 2,887 (previous year: ₹ 2,596) being sale of raw materials.

2. Raw material consumption is net of credit availed under Duty Entitlement Pass Book Scheme, Focus Market Scheme and Market Linked Focus Product Scheme amounting to ₹ 1,491 (previous year: ₹ 573).

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
SCHEDULE 15: PERSONNEL COSTS		
Salaries, wages and bonus	5,661	4,156
Contribution to provident and other funds	395	234
Workmen and staff welfare expenses	688	517
Amortization of deferred stock compensation cost	268	193
	7,012	**5,100**

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
SCHEDULE 16: OPERATING AND OTHER EXPENSES		
Advertisements	210	77
Commission on sales	155	290
Carriage outward	1,594	1,282
Other selling expenses	2,811	2,789
Repairs and maintenance		
Buildings	45	58
Plant and machinery	1,019	848
Others	540	525
Power and fuel	1,446	1,041
Legal and professional	1,412	773
Travelling and conveyance	527	395
Directors' remuneration	283	257
Directors' sitting fees (₹ 409 thousands; previous year: ₹ 339 thousands, rounded off in millions)	–	–
Communication	210	140
Rent	140	116
Rates and taxes	138	89
Donations	130	139
Printing and stationery	90	79
Insurance	76	91
Bank charges	46	49
Loss on sale of fixed assets, net	12	5
Auditors' remuneration	11	16
Bad debts written-off (is net of adjustment against provision for doubtful debts of ₹ 88; previous year: ₹ 34)	–	6
Provision for doubtful debts, net	(2)	79
Advances written off (is net of adjustment against provision for doubtful advances ₹ 29; previous year: ₹ Nil)	–	–
Provision for doubtful advances, net (Refer Note 7 of Schedule 6)	(438)	(81)
Miscellaneous	440	366
	10,895	**9,429**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
SCHEDULE 17: RESEARCH AND DEVELOPMENT EXPENSES		
Personnel costs	1,341	1,088
Clinical trials	1,194	615
Consumables	1,562	1,083
Legal and professional	181	81
Power and fuel	86	91
Other expenses	764	685
	5,128	**3,643**

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
SCHEDULE 18: FINANCE CHARGES		
Interest on packing credit loans	38	41
Interest on debentures	10	–
Other finance charges	5	70
	53	**111**

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
SCHEDULE 19: INCOME TAXES		
Current taxes		
Domestic taxes	2,159	2,565
MAT credit entitlement	(831)	–
Deferred taxes		
Domestic taxes	257	(154)
Fringe benefit tax	–	(24)
	1,585	**2,387**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial statements of Dr. Reddy's Laboratories Limited ("DRL" or "the Company") have been prepared and presented in accordance with Indian Generally Accepted Accounting Principles (GAAP) under the historical cost convention on the accrual basis. GAAP comprises accounting standards notified by the Central Government of India under Section 211 (3C) of the Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India, the provisions of Companies Act, 1956 and guidelines issued by Securities and Exchange Board of India. The financial statements are rounded off to the nearest million.

b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in the current and future periods.

c) Fixed assets and depreciation

Fixed assets are carried at the cost of acquisition or construction less accumulated depreciation. The cost of fixed assets includes non-refundable taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised.

Advances paid towards the acquisition of fixed assets outstanding at each balance sheet date and the cost of fixed assets not ready for their intended use before such date are disclosed under capital work-in-progress.

Depreciation on fixed assets is provided using the straight-line method at the rates specified in Schedule XIV to the Companies Act, 1956 or based on the useful life of the assets as estimated by Management, whichever is higher. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed. Individual assets costing less than ₹ 5,000/- are depreciated in full in the year of acquisition. Assets acquired on finance leases are depreciated over the period of the lease agreement or the useful life whichever is shorter.

The Management's estimates of the useful lives for various categories of fixed assets are given below:

	Years
Buildings	
– Factory and administrative buildings	20 to 30
– Ancillary structures	3 to 10
Plant and machinery	3 to 15
Electrical equipment	5 to 15
Laboratory equipment	5 to 15
Furniture, fixtures and office equipment (other than computer equipment)	4 to 8
Computer equipment	3
Vehicles	4 to 5
Library	2
Leasehold vehicles	3

d) Intangible assets and amortization

Intangible assets are recorded at the consideration paid for acquisition. Intangible assets are amortised over their estimated useful lives on a straight-line basis, commencing from the date the asset is available to the Company for its use. The management estimates the useful lives for the various intangible assets as follows:

	Years
Customer contracts	2 to 5
Technical know-how	10
Non-compete fees	1.5 to 10
Patents, trademarks, etc	3 to 10
(including marketing / distribution rights)	

e) Investments

Long-term investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment. The reduction in the carrying amount is reversed when there is a rise in the value of the investment or if the reasons for the reduction no longer exist.

Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The methods of determining cost of various categories of inventories are as follows:

Raw materials	First-in-first-out (FIFO)
Stores and spares and packing materials	Weighted average method
Work-in-process and finished goods (manufactured)	FIFO and including an appropriate share of production overheads
Finished goods (traded)	Specific identification method

g) Research and development

Revenue expenditure on research and development is expensed as incurred. Capital expenditure incurred on research and development is capitalised as fixed assets and depreciated in accordance with the depreciation policy of the Company.

h) Employee benefits

Contributions payable to an approved gratuity fund (a defined benefit plan), determined by an independent actuary at the balance sheet date, are charged to the profit and loss account. Provision for compensated absences is made on the basis of actuarial valuation at the balance sheet date, carried out by an independent actuary. Contributions payable to the recognised provident fund and approved superannuation scheme, which are defined contribution schemes, are charged to the profit and loss account. All actuarial gains and losses arising during the year are recognized in the profit and loss account of the year.

i) Foreign currency transactions and balances

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the profit and loss account.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date, not covered by forward exchange contracts, are translated at year-end rates. The resultant exchange differences are recognised in the profit and loss account. Non-monetary assets are recorded at the rates prevailing on the date of the transaction.

Income and expenditure items at representative offices are translated at the respective monthly average rates. Monetary assets at representative offices at the balance sheet date are translated using the year-end rates. Non-monetary assets are recorded at the rates prevailing on the date of the transaction.

Forward contracts are entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date. The premium or discount on all such contracts is amortized as income or expense over the life of the contract. Any profit or loss arising on the cancellation or renewal of forward contracts is recognised as income or expense for the period.

In relation to the forward contracts entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date, the exchange difference is calculated and recorded in accordance with AS-11 (revised). The exchange difference on such a forward exchange contract is calculated as the difference of the foreign currency amount of the contract translated at the exchange rate at the reporting date, or the settlement date where the transaction is settled during the reporting period and the corresponding foreign currency amount translated at the later of the date of inception of the forward exchange contract and the last reporting date. Such exchange differences are recognized in the profit and loss account in the reporting period in which the exchange rates change.

Exchange differences arising on a monetary item that, in substance, forms part of an enterprise's net investment in a non-integral foreign operation has been accumulated in a foreign currency translation reserve in the enterprise's financial statements until the disposal of the net investment, at which time they should be recognised as income or as expense.

j) Derivative instruments and hedge accounting

The Company uses foreign exchange forward contracts and options to hedge its movements in foreign exchange rates and does not use the foreign exchange forward contracts and options for trading or speculative purposes.

Pursuant to ICAI Announcement "Accounting for Derivatives" on the early adoption of Accounting Standard AS-30 "Financial Instruments: Recognition and Measurement", the Company has adopted the Standard, to the extent that the adoption does not conflict with existing mandatory accounting standards and other authoritative pronouncements, Company law and other regulatory requirements.

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company classifies foreign currency options in respect of the forecasted transactions at the inception of each contract meeting the hedging criterion, as cash flow hedges. Changes in the fair value of options classified as cash flow hedges are recognised directly in reserves and surplus (under the head "Hedging Reserves") and are reclassified into the profit and loss account upon the occurrence of the hedged transaction. The gains / losses on options designated as cash flow hedges are included along with the underlying hedged forecasted transactions. The exchange differences relating to options not designated as cash flow hedges are recognised in the profit and loss account as they arise. Further, the changes in fair value relating to the ineffective portion of the cash flow hedges are recognised in the profit and loss account as they arise.

Fair value of foreign currency option contracts is determined based on the appropriate valuation techniques considering the terms of the contract.

In addition to the use of derivative financial instruments to hedge foreign currency exposure, the Company designates certain non-derivative financial liabilities, denominated in foreign currencies, as hedges against foreign currency exposures associated with forecasted transactions. Accordingly, exchange differences arising on re-measurement of such non-derivative liabilities are recognized directly as part of 'hedging reserve' included as part of reserves and surplus, to the extent that the hedge is effective.

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 hedging reserve remains there until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, then the balance in hedging reserve is recognized immediately in profit and loss account. In other cases the amount recognized in hedging reserve is transferred to profit and loss account in the same period that the hedged item affects profit and loss account.

k) Revenue recognition

Revenue from sale of goods is recognised when significant risks and rewards in respect of ownership of products are transferred to customers. 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.

Revenue from product sales is stated exclusive of returns, sales tax and applicable trade discounts and allowances.

Service income is recognised as per the terms of contracts with customers when the related services are performed, or the agreed milestones are achieved.

Dividend income is recognised when the unconditional right to receive the income is established. Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

Export entitlements are recognised as income when the right to receive credit as per the terms of the scheme is established in respect of the exports made and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.

The Company enters into certain dossier sales, licensing and supply arrangements with certain third parties. These arrangements include certain performance obligations by the Company. Revenue from such arrangements is recognized in the period in which the Company completes all its performance obligations.

l) Income-tax expense

Income tax expense comprises current tax and deferred tax charge or credit.

Current tax

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

Deferred tax

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets. Deferred tax assets are reviewed at each balance sheet date and is written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised. The break-up of the major components of the deferred tax assets and liabilities as at balance sheet date has been arrived at after setting off deferred tax assets and liabilities where the Company has a legally enforceable right to set-off assets against liabilities and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Earnings per share

The basic earnings per share ("EPS") is computed by dividing the net profit after tax for the year by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, net profit after tax for the year and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. The dilutive potential equity shares are deemed converted as of the beginning of the period, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares).

n) Employee stock option schemes

In accordance with the Securities and Exchange Board of India guidelines, the excess of the market price of shares, at the date of grant of options under the Employee stock option schemes, over the exercise price is treated as employee compensation and amortised over the vesting period.

o) Provisions and contingent liabilities

The Company creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

p) Impairment of assets

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

q) Leases

Assets taken on lease where the company acquires substantially the entire risks and rewards incidental to ownership are classified as finance leases. The amount recorded is the lesser of the present value of minimum lease rental and other incidental expenses during the lease term or the fair value of the assets taken on lease. The rental obligations, net of interest charges, are reflected as secured loans. Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases and recorded as expense as and when the payments are made over the lease term.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

2. COMMITMENTS AND CONTINGENT LIABILITIES

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
i) Commitments / contingent liabilities:		
(a) Guarantees issued by banks	119	94
(b) Guarantees issued by the Company on behalf of subsidiaries, associates and joint venture	11,070	16,527
(c) Letters of credit outstanding	437	20
(d) Contingent consideration payable in respect of subsidiaries acquired	12	12
ii) Claims against the Company not acknowledged as debts in respect of:		
(a) Income tax matters, pending decisions on various appeals made by the Company and by the Department	431	521
(b) Excise matters (including service tax), under dispute	127	6
(c) Custom matters, under dispute	97	97
(d) Sales tax matters, under dispute	170	151
(e) The company has received demand for payment to the credit of the Drug Prices Equalisation Account under Drugs (Price Control) Order, 1995 for few of its products which is being contested. The Company has provided fully against the potential liability in respect of the principal amount demanded and believes that possibility of any liability that may arise on account of interest (including accumulated demand to date approximately of ₹167) and penalty on this demand is remote.		
iii) Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	3,365	2,859
iv) Commitment under Export Promotion Capital Goods (EPCG) scheme	9,054	3,835
v) The Company is also involved in other lawsuits, claims, investigations and proceedings, including patent and commercial matters, which arise in the ordinary course of business. However, there are no material claims on such cases.		

3. DEFERRED TAXATION

Deferred tax liability, net included in the balance sheet comprises the following:

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Deferred tax assets		
Current liabilities and Provisions	222	190
Current assets, loans and advances	15	23
	237	**213**
Deferred tax liability		
Sundry debtors	(194)	(56)
Excess of depreciation allowable under Income tax law over depreciation provided in accounts	(1,051)	(907)
	(1,245)	**(963)**
Deferred tax liability, net	**(1,008)**	**(750)**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

4. EARNINGS PER SHARE (EPS)

The computation of EPS is set out below:

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Earnings		
Net profit for the year	**8,934**	**8,461**
Shares		
Number of shares at the beginning of the year	168,845,385	168,468,777
Add: Equity shares issued on exercise of vested stock options	407,347	376,608
Total number of equity shares outstanding at the end of the year	169,252,732	168,845,385
Weighted average number of equity shares outstanding during the year – Basic	**169,128,649**	**168,706,977**
Add: Weighted average number of equity shares arising out of outstanding stock options (net of the stock options forfeited) that have dilutive effect on the EPS	993,394	1,152,320
Weighted average number of equity shares outstanding during the year – Diluted	**170,122,043**	**169,859,297**
Earnings per share of par value ₹ 5 – Basic (₹)	52.82	50.15
Earnings per share of par value ₹ 5 – Diluted (₹)	52.51	49.81

5. RELATED PARTY DISCLOSURES

a. The related parties where control exists are the subsidiaries, step down subsidiaries, joint ventures and the partnership firms.

b. Related parties where control exists or where significant influence exists and with whom transactions have taken place during the year:

Subsidiaries including step down subsidiaries

- DRL Investments Limited, India;
- Reddy Pharmaceuticals Hong Kong Limited, Hong Kong;
- OOO JV Reddy Biomed Limited, Russia;
- Reddy Antilles NV, Netherlands;
- Reddy Netherlands BV, Netherlands;
- Reddy US Therapeutics Inc., USA;
- Dr. Reddy's Laboratories Inc., USA;
- Reddy Cheminor SA, France;
- Dr. Reddy's Farmaceutica Do Brasil Ltda., Brazil;
- Cheminor Investments Limited, India;
- Aurigene Discovery Technologies Limited, India;
- Aurigene Discovery Technologies Inc., USA;
- Dr. Reddy's Laboratories (EU) Limited, UK;
- Dr. Reddy's Laboratories (UK) Limited, UK;
- Dr. Reddy's Laboratories (Proprietary) Limited, South Africa;
- OOO Dr. Reddy's Laboratories Limited, Russia;
- Promius Pharma LLC (formerly Reddy Pharmaceuticals LLC, USA);
- Dr. Reddy's Bio-sciences Limited, India;
- Globe Enterprises (a partnership firm in India) (dissolved on 1 July 2010);

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

5. RELATED PARTY DISCLOSURES (CONTINUED)

- Trigenesis Therapeutics Inc., USA;
- Industrias Quimicas Falcon de Mexico, SA de CV, Mexico;
- betapharm Arzneimittel GmbH, Germany;
- beta Healthcare Solutions GmbH, Germany;
- beta institute fur sozialmedizinische Forschung und Entwicklung GmbH, Germany;
- Reddy Holding GmbH, Germany;
- Lacock Holdings Limited, Cyprus;
- Reddy Pharma Iberia SA, Spain;
- Reddy Pharma Italia SPA, Italy;
- Dr. Reddy's Laboratories (Australia) Pty. Limited, Australia;
- Dr. Reddy's Laboratories SA, Switzerland;
- Eurobridge Consulting BV, Netherlands;
- OOO DRS LLC, Russia;
- Aurigene Discovery Technologies (Malaysia) Sdn Bhd;
- Dr. Reddy's New Zealand Limited, New Zealand (formerly Affordable Health Care Limited);
- Dr. Reddy's Laboratories ILAC TICARET Limited SIRKETI, Turkey;
- Dr. Reddy's SRL, Italy (formerly Jet Generici SRL);
- Dr. Reddy's Laboratories Lousiana LLC, USA;
- Chirotech Technology Limited, UK;
- Dr. Reddy's Pharma SEZ Limited, India (from 8 July 2009);
- Dr. Reddy's Laboratories International SA, Switzerland (from 24 March 2010);
- Idea2Enterprises (India) Private Limited, India (from 30 June 2010);
- Dr. Reddy's Laboratories Romania SRL, Romania (from 7 June 2010);
- I-VEN Pharma Capital Limited, India (from 6 October 2010);
- Dr. Reddy's Laboratories Tennessee, LLC, USA (from 7 October 2010);
- Dr. Reddy's Venezuela, CA, Venezuela (from 20 October 2010);
- Macred India Private Limited, India (till 18 July 2010); and
- Perlecan Pharma Private Limited, India (Amalgamated with the Company vide order dated 12 June 2009 by the High Court of Judicature, Andhra Pradesh, Hyderabad)

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

5. RELATED PARTY DISCLOSURES (CONTINUED)

Associates

APR LLC, USA	100% Holding in class 'B' equity shares
Macred India Private Limited, India (from 19 July 2010)	20% Holding in equity shares

Joint venture

Kunshan Rotam Reddy Pharmaceutical Company Limited ("Reddy Kunshan"), China	Enterprise over which the Company exercises joint control with other joint venture partners and holds 51.33 % equity stake

Enterprises where principal shareholders have control or significant influence ("Significant interest entities")

Dr. Reddy's Research Foundation ("Research Foundation")	Enterprise over which the principal shareholders have significant influence
Dr. Reddy's Holdings Limited	Enterprise owned by principal shareholders
Institute of Life Sciences	Enterprise over which principal shareholders have significant influence

Others

Green Park Hotels and Resorts Limited (formerly Diana Hotels Limited)	Enterprise owned by relative of a director
Ms. K Samrajyam	Spouse of Chairman
Ms. G Anuradha	Spouse of Vice Chairman and Chief Executive Officer
Ms. Deepti Reddy	Spouse of Managing Director and Chief Operating Officer
Dr. Reddy's Heritage Foundation	Enterprise in which the Chairman is a director
Dr. Reddy's Foundation for Human and Social development	Enterprise where principal shareholders are trustees
S R Enterprises	Enterprise in which relative of a director has significant influence
K K Enterprises	Enterprise in which relative of a director has significant influence
A.R. Life Sciences Private Limited	Enterprise in which relative of a director has significant influence

Key Management Personnel represented on the Board

Dr. K Anji Reddy	Chairman
Mr. G V Prasad	Vice Chairman and Chief Executive Officer
Mr. K Satish Reddy	Managing Director and Chief Operating Officer

Non-Executive and Independent Directors on the Board

Dr. Omkar Goswami

Mr. Ravi Bhoothalingam

Mr. Anupam Puri

Dr. J P Moreau

Ms. Kalpana Morparia

Dr. Bruce L A Carter

Dr. Ashok Sekhar Ganguly

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

5. RELATED PARTY DISCLOSURES (CONTINUED)

c. Particulars of related party transactions

The following is a summary of significant related party transactions:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
i. Sales to:		
Subsidiaries including step down subsidiaries and joint ventures:		
Dr. Reddy's Laboratories Inc., USA	13,280	11,011
OOO Dr. Reddy's Laboratories Limited, Russia	3,659	3,013
Dr. Reddy's Laboratories (UK) Limited, UK	1,407	1,131
Dr. Reddy's Laboratories SA, Switzerland	3,687	1,529
betapharm Arzneimittel GmbH, Germany	1,342	913
Others	851	573
Total	**24,226**	**18,170**
Others:		
A.R. Life Sciences Private Limited	391	156
ii. Interest income from subsidiary including step down subsidiaries:		
Lacock Holdings Limited, Cyprus	166	155
Industrias Quimicas Falcon de Mexico, SA de CV, Mexico	97	150
DRL Investments Limited, India	26	–
Dr. Reddy's Farmaceutica Do Brasil Ltda, Brazil	37	11
Dr. Reddy's Laboratories (Australia) Pty. Limited, Australia	27	13
Dr. Reddy's Laboratories SA, Switzerland	9	22
Total	**362**	**351**
iii. Royalty income from subsidiary:		
Dr. Reddy's Laboratories (Proprietary) Limited, South Africa	13	10
iv. Service Income:		
Dr. Reddy's Laboratories Inc., USA	134	139
Dr. Reddy's Laboratories (UK) Limited, UK	1	6
Dr. Reddy's Laboratories (EU) Limited, UK	6	–
Total	**141**	**145**
v. Licence fees, net:		
Dr. Reddy's Laboratories Inc., USA	2	649
Dr. Reddy's Laboratories (Proprietary) Limited, South Africa	–	4
Total	**2**	**653**
vi. Commission on Guarantee:		
Dr. Reddy's Laboratories SA, Switzerland	24	–
vii. Purchases from:		
Subsidiaries:		
Dr. Reddy's Laboratories SA, Switzerland	344	253
Dr. Reddy's Laboratories (EU) Limited, UK	37	–
Others	33	–
Total	**414**	**253**
Others:		
A.R. Life Sciences Private Limited	486	275
Institute of Life Sciences	37	–
Others	1	1
Total	**524**	**276**

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

5. RELATED PARTY DISCLOSURES (CONTINUED)

c. Particulars of related party transactions

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
viii. Royalty		
I-VEN Pharma Capital Limited	200	–
ix. Operating expenses paid / reimbursed to Subsidiaries:		
Industrias Quimicas Falcon de Mexico, SA de CV, Mexico	–	3
Dr. Reddy's Laboratories Inc., USA	945	172
Dr. Reddy's Laboratories SA, Switzerland	163	15
Promius Pharma LLC	212	–
Others	41	19
Total	**1,361**	**209**
x. Contributions made to others for social development:		
Dr. Reddy's Foundation for Human and Social development	88	97
Dr. Reddy's Research Foundation	–	1
Total	**88**	**98**
xi. Contribution made to subsidiaries and others for research:		
Reddy US Therapeutics Inc., USA	22	–
Others	–	4
Total	**22**	**4**
xii. Hotel expenses paid to:		
Green Park Hotels & Resorts Limited (formerly Diana Hotels Limited)	20	13
xiii. Rent paid to:		
Key management personnel:		
Mr. K Satish Reddy	14	13
Total	**14**	**13**
Others:		
Ms. G Anuradha	12	11
Ms. Deepti Reddy	2	2
Ms. K Samrajyam	1	1
Total	**15**	**14**
Rent deposit repaid:		
Dr. K Anji Reddy	–	1
xiv. Executive Directors' remuneration	262	236
Directors' sitting fees (₹ 409 thousands; previous year: ₹ 339 thousands, rounded off in millions)	–	–
xv. Investment in subsidiaries, joint venture and associates during the year:		
Lacock Holdings Limited, Cyprus	718	2,524
Dr. Reddy's Laboratories SA, Switzerland	–	2,948
Perlecan Pharma Private Limited, India (Also refer Note 23 of Schedule 20)	–	(927)
Dr. Reddy's Farmaceutica Do Brasil Ltda, Brazil	536	–
Dr. Reddy's Laboratories (Proprietary) Limited, South Africa	512	–
Dr. Reddy's Laboratories (Australia) Pty. Limited, Australia	–	38
Aurigene Discovery Technologies Limited, India	–	235
Dr. Reddy's Pharma SEZ Limited, India	–	1
Idea2Enterprises (India) Private Limited, India	1,447	–
Total	**3,213**	**4,819**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

5. RELATED PARTY DISCLOSURES (CONTINUED)

c. Particulars of related party transactions

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
xvi. Sale of assets to subsidiaries:		
Aurigene Discovery Technologies Limited, India	–	147
xvii. Provision for decline in the value of long-term investments:		
Dr. Reddy's Farmaceutica Do Brasil Ltda, Brazil	499	–
Reddy Pharma Iberia, Spain	–	321
Reddy Pharmaceuticals Hong Kong Limited, Hong Kong	58	–
xviii. Reversal of provision for decline in the value of long-term investments:		
Aurigene Discovery Technologies Limited, India	–	713
Perlecan Pharma Private Limited, India (Refer Note 23 of Schedule 20)	–	245
Provision for decline in the value of long-term investments written off:		
Globe Enterprises (a partnership firm in India)	2	–
xix. Provision for loans given to subsidiary and associate:		
APR LLC, USA	133	–
xx. Reversal of provision for loans given to subsidiary and associate:		
Aurigene Discovery Technologies Limited, India	–	64
Dr. Reddy's Farmaceutica Do Brasil Ltda., Brazil	581	–
xxi. Provision created towards dues from subsidiaries / including step down subsidiaries, associates and joint ventures (included in sundry debtors)		
OOO Dr. Reddy's Laboratories Limited, Russia	2	–
Reddy Cheminor SA, France	5	–
xxii. Advance made to Dr. Reddy's Holdings Limited towards acquisition of land	–	367
xxiii. Guarantee given / (released) on behalf of a subsidiary / joint venture:		
Dr. Reddy's Laboratories SA, Switzerland	8,795	782
Dr. Reddy's Laboratories Inc., USA	–	(59)
Lacock Holdings Limited, Cyprus	(14,388)	(1,663)
Aurigene Discovery Technologies Limited, India	–	(224)
Dr. Reddy's Laboratories (EU) Limited, UK	83	–
Others	53	(58)
Total	**(5,457)**	**(1,222)**
xxiv. Reimbursement of operating and other expenses by an subsidiary / associate:		
Dr. Reddy's Laboratories SA, Switzerland	866	1,331
Dr. Reddy's Laboratories Inc., USA	11	–
Others	22	48
Total	**899**	**1,379**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

5. RELATED PARTY DISCLOSURES (CONTINUED)

c. Particulars of related party transactions

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
xxv. Advances given to / (received) from subsidiary / associate / joint venture:		
Aurigene Discovery Technologies Limited, India	(316)	32
Reddy Antilles NV, Netherlands	(1)	(48)
Dr. Reddy's Farmaceutica Do Brasil Ltda., Brazil	(526)	72
Dr. Reddy's Laboratories Inc., USA	(9)	9
Dr. Reddy's Laboratories (Proprietary) Limited, South Africa	1	1
APR LLC, USA	260	14
Lacock Holdings Limited, Cyprus	46	285
Industrias Quimicas Falcon de Mexico, SA de CV, Mexico	41	(39)
Dr. Reddy's Laboratories SA, Switzerland	(1,600)	(1,718)
Dr. Reddy's Laboratories (Australia) Pty Limited, Australia	128	171
Macred India Private Limited, India	–	(180)
Dr. Reddy's Laboratories (EU) Limited, UK	(16)	16
Chirotech Technologies Limited, UK	(15)	15
Dr. Reddy's Laboratories (UK) Limited, UK	–	1
DRL Investments Limited, India	2,703	–
Dr. Reddy's Bio-sciences Limited, India	7	–
Idea2Enterprises (India) Private Limited, India	4	–
Dr. Reddy's Laboratories Romania SRL, Romania	20	–
Total	**727**	**(1,369)**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

5. RELATED PARTY DISCLOSURES (CONTINUED)

d. The Company has the following amounts dues from / to related parties:

PARTICULARS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
i. Due from related parties:		
Subsidiaries including step down subsidiaries, associates and joint ventures (included in sundry debtors):		
betapharm Arzneimittel GmbH, Germany	643	438
Dr. Reddy's Laboratories SA, Switzerland	1,965	1,039
Dr. Reddy's Laboratories (UK) Limited, UK	242	479
Dr. Reddy's Laboratories Inc., USA	6,587	1,778
OOO Dr. Reddy's Laboratories Limited, Russia	1,572	1,267
Dr. Reddy's Laboratories (Proprietary) Limited, South Africa	264	–
Others	374	577
Total	**11,647**	**5,578**
Significant interest entity:		
Dr. Reddy's Holdings Limited, India (included in capital work-in-progress)	**–**	**1,447**
Others (included in sundry debtors):		
A.R. Life Sciences Private Limited	114	–
Total	**114**	**–**
ii. Provision outstanding at the end of the year towards dues from subsidiaries including step down subsidiaries, associates and joint ventures (included in sundry debtors):		
OOO Dr. Reddy's Laboratories Limited, Russia	9	7
Reddy Cheminor SA, France	5	–
Total	**14**	**7**
iii. Due to related parties (included in current liabilities):		
Subsidiaries including step down subsidiaries, associates and joint ventures:		
Dr. Reddy's Laboratories SA, Switzerland	1,944	1,907
Dr. Reddy's Laboratories Inc., USA	634	195
Promius Pharma LLC, USA	62	135
Reddy US Therapeutics Inc., USA	23	23
I-VEN Pharma Capital Limited, India	147	–
Dr. Reddy's Laboratories (EU) Limited, UK	43	6
Others	79	98
Total	**2,932**	**2,364**
Significant interest entities:		
Dr. Reddy's Research Foundation	21	21
Others:		
A.R. Life Sciences Private Limited	81	20

e. Refer Note 6 of Schedule 20 for details of remuneration paid to the whole-time and non-whole-time directors.

f. Equity held in subsidiaries, associates and a joint venture have been disclosed under "Investment", (Schedule 6). Loans and advances to subsidiaries, joint venture and an associate have been disclosed under "Loans and advances", (Schedule 10).

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

6. PARTICULARS OF MANAGERIAL REMUNERATION

The remuneration paid to managerial personnel during the year:

PARTICULARS	CHAIRMAN		VICE-CHAIRMAN & CEO		MANAGING DIRECTOR & COO		NON-EXECUTIVE / INDEPENDENT DIRECTORS	
	FOR THE YEAR ENDED 31 MARCH		FOR THE YEAR ENDED 31 MARCH		FOR THE YEAR ENDED 31 MARCH		FOR THE YEAR ENDED 31 MARCH	
	2011	2010	2011	2010	2011	2010	2011	2010
Salaries and allowances	5	5	4	4	4	4	–	–
Commission	100	100	73	60	73	60	21	21
Other perquisites	1	1	1	1	1	1	–	–
	106	**106**	**78**	**65**	**78**	**65**	**21**	**21**

The executive directors are covered under the Company's gratuity policy along with the other employees of the Company. Proportionate amount of gratuity is not included in the aforementioned disclosure.

Computation of net profit and directors' commission under section 309(5) of the Companies Act, 1956 and commission payable to directors:

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Profit after taxation as per profit and loss account	8,934	8,461
Add:		
Income tax expense	1,585	2,541
Provision for wealth tax	3	3
Managerial remuneration to directors	283	257
Director sitting fee (₹ 409 thousands; previous year: ₹ 250 thousands)	–	–
Depreciation as per books of account	2,479	2,224
Loss on sale of fixed assets, net	12	5
	13,296	**13,491**
Less:		
Depreciation as envisaged under Section 350 of the Companies Act, 1956 (Refer Note 1 below)	2,479	2,224
Profit on sale of fixed assets, net	–	–
Profit for the purpose of calculating directors' commission as per the provisions of the Companies Act, 1956	**10,817**	**11,267**
Commission payable to whole-time directors @ 2.27% (previous year: @ 1.95%)	**246**	**220**
Commission payable to non-whole-time directors:		
Maximum allowed as per the Companies Act, 1956 (1%)	108	113
Maximum approved by the shareholders (0.5 %)	54	56
Commission approved by the Board	**21**	**21**

NOTES:

1. The Company depreciates fixed assets based on estimated useful lives that are lower than those implicit in Schedule XIV to the Companies Act, 1956. Accordingly, the rates of depreciation used by the Company are higher than the minimum rates prescribed by Schedule XIV.

2. Stock compensation cost amounting to ₹ 24 (previous year: ₹ 11) pertaining to stock options issued to non-whole-time directors have not been considered as remuneration in the table above. The stock options were issued pursuant to shareholders' resolutions on various dates.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

7. AUDITOR'S REMUNERATION

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
a) Audit fees	9	8
b) Other charges		
Taxation matters	–	4
Other matters	–	3
c) Reimbursement of out of pocket expenses	2	1
	11	**16**

8. INTEREST IN JOINT VENTURE

The Company has a 51.33 percent interest in Reddy Kunshan, a joint venture in China. Reddy Kunshan is engaged in manufacturing and marketing of active pharmaceutical ingredients and intermediates and formulations in China. The contractual arrangement between shareholders of Reddy Kunshan indicates joint control as the minority shareholders, along with the Company, have significant participating rights such that they jointly control the operations of Reddy Kunshan. The aggregate amount of assets, liabilities, income and expenses related to the Company's share in Reddy Kunshan as at and for the year ended 31 March 2011 are given below:

PARTICULARS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Balance Sheet		
Secured loan	39	22
Fixed assets, net	85	82
Deferred tax assets, net	4	11
Current assets, loans and advances		
Inventories	77	32
Sundry debtors	106	118
Cash and bank balances	22	10
Loans and advances	52	29
Current liabilities		
Current liabilities	141	97
Net current assets	116	92
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	1	2

PARTICULARS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Income statement		
Income		
Sales	420	405
Other income	3	13
Expenditure		
Material costs	116	130
Personnel costs	103	83
Operating and other expenses	186	135
Research and development expenses	5	5
Finance charges	2	3
Depreciation	4	2
Profit / (Loss) before taxation	7	60
Provision for taxation		
– Deferred tax (expense) / benefit	(4)	13
Profit / (Loss) after taxation	3	73

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

9. EMPLOYEE STOCK OPTION SCHEME

Dr. Reddy's Employees Stock Option Plan-2002 (the DRL 2002 Plan): The Company instituted the DRL 2002 Plan for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on 24 September 2001. The DRL 2002 Plan covers all employees of DRL and its subsidiaries and directors (excluding promoter directors) of DRL and its subsidiaries (collectively, "eligible employees"). Under the Scheme, the Compensation Committee of the Board ('the Committee') shall administer the Scheme and grant stock options to eligible directors and employees of the Company and its subsidiaries. The Committee shall determine the employees eligible for receiving the options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for the options issued on the date of the grant. The options issued under the DRL 2002 plan vests in periods ranging between one and four years and generally have a maximum contractual term of five years.

The DRL 2002 Plan was amended on 28 July 2004 at the Annual General Meeting of shareholders to provide for stock options grants in two categories:

Category A: 1,721,700 stock options out of the total of 2,295,478 reserved for grant of options having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 573,778 stock options out of the total of 2,295,478 reserved for grant of options having an exercise price equal to the par value of the underlying equity shares (i.e., ₹ 5 per option).

The DRL 2002 Plan was further amended on 27 July 2005 at the Annual General Meeting of shareholders to provide for stock option grants in two categories:

Category A: 300,000 stock options out of the total of 2,295,478 reserved for grant of options having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 1,995,478 stock options out of the total of 2,295,478 reserved for grant of options having exercise price equal to the par value of the underlying equity shares (i.e., ₹ 5 per option).

The fair market value of a share on each grant date falling under Category A above is defined as the average closing price (after adjustment of Bonus issue) for 30 days prior to the grant, in the stock exchange where there is highest trading volume during that period. Notwithstanding the foregoing, the Compensation Committee may, after getting the approval of the shareholders in the Annual General Meeting, grant options with a per share exercise price other than fair market value and par value of the equity shares.

As the number of shares that an individual employee is entitled to receive and the price of the option are known at the grant date, the scheme is considered as a fixed grant.

In the case of termination of employment, all non-vested options would stand cancelled. Options that have vested but have not been exercised can be exercised within the time prescribed under each option agreement by the Committee or if no time limit is prescribed, within three months of the date of employment termination, failing which they would stand cancelled.

During the current year, the Company under the DRL 2002 Plan has issued 284,070 options to eligible employees. The vesting period for the options granted varies from 12 to 48 months.

The date of grant, number of options granted, exercise price fixed by the Compensation Committee for respective options and the market price of the shares of the Company on the date of grant is given below:

DATE OF GRANT	NUMBER OF OPTIONS GRANTED	EXERCISE PRICE (RUPEES)	MARKET PRICE (RUPEES) (AS PER SEBI GUIDELINES)
06 May 2010	284,070	5.00	1,240.80

The Compensation Committee may, after obtaining the approval of the shareholders in the Annual General Meeting, grant options with a per share exercise price other than fair market value and par value of the equity shares.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

9. EMPLOYEE STOCK OPTION SCHEME (CONTINUED)

Stock option activity under the DRL 2002 Plan was as follows:

Stock option activity under the DRL 2002 Plan for the two categories of options was as follows:

CATEGORY A – FAIR MARKET VALUE OPTIONS	YEAR ENDED 31 MARCH 2011			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (MONTHS)
Outstanding at the beginning of the year	100,000	₹ 362.50-531.51	₹ 403.02	38
Grants during the year	–	–	–	–
Expired / forfeited during the year	(9,000)	373.50-531.51	443.73	–
Exercised during the year	(70,000)	362.50-442.50	385.36	–
Outstanding at the end of the year	**21,000**	₹ 373.50-448.00	₹ 444.45	67
Exercisable at the end of the year	**11,000**	₹ 373.50-448.00	₹ 441.23	55

CATEGORY A – FAIR MARKET VALUE OPTIONS	YEAR ENDED 31 MARCH 2010			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (MONTHS)
Outstanding at the beginning of the year	136,410	₹ 362.50-531.51	₹ 417.51	42
Grants during the year	–	–	–	–
Expired / forfeited during the year	(3,670)	442.50-531.51	512.11	–
Exercised during the year	(32,740)	373.50-531.51	451.17	–
Outstanding at the end of the year	**100,000**	₹ 362.50-531.51	₹ 403.02	38
Exercisable at the end of the year	**80,000**	₹ 362.50-531.51	₹ 391.78	27

CATEGORY B – PAR VALUE OPTIONS	YEAR ENDED 31 MARCH 2011			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (MONTHS)
Outstanding at the beginning of the year	785,007	₹ 5.00	₹ 5.00	72
Granted during the year	284,070	5.00	5.00	91
Forfeited during the year	(78,620)	5.00	5.00	–
Exercised during the year	(293,296)	5.00	5.00	–
Outstanding at the end of the year	**697,161**	₹ 5.00	₹ 5.00	72
Exercisable at the end of the year	**52,106**	₹ 5.00	₹ 5.00	41

CATEGORY B – PAR VALUE OPTIONS	YEAR ENDED 31 MARCH 2010			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (MONTHS)
Outstanding at the beginning of the year	778,486	₹ 5.00	₹ 5.00	72
Granted during the year	359,840	5.00	5.00	91
Forfeited during the year	(83,608)	5.00	5.00	–
Exercised during the year	(269,711)	5.00	5.00	–
Outstanding at the end of the year	**785,007**	₹ 5.00	₹ 5.00	72
Exercisable at the end of the year	**79,647**	₹ 5.00	₹ 5.00	41

Dr. Reddy's Employees ADR Stock Option Plan-2007 ("the DRL 2007 Plan"):

The Company instituted the DRL 2007 Plan for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on 27 July 2005. The DRL 2007 Plan came into effect on approval of the Board of Directors on 22 January 2007. The DRL 2007 Plan covers all employees of DRL and its subsidiaries and directors (excluding promoter directors) of DRL and its subsidiaries (collectively, "eligible employees"). Under the DRL 2007 Plan, the Compensation Committee of the Board (the "Compensation Committee") shall administer the DRL 2007 Plan and grant stock options to eligible employees of the Company and its subsidiaries. The Compensation Committee shall determine the employees eligible for receiving the options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for all options issued on the date of the grant. The options issued under the DRL 2007 plan vest in periods ranging between one and four years and generally have a maximum contractual term of five years.

The Compensation Committee may, after obtaining the approval of the shareholders in the Annual General Meeting, grant options with a per share exercise price other than fair market value and par value of the equity shares.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

9. EMPLOYEE STOCK OPTION SCHEME (CONTINUED)

During the current year, the Company under the DRL 2007 Plan has issued 58,660 options to eligible employees. The vesting period for the options granted varies from 12 to 48 months.

The date of grant, number of options granted, exercise price fixed by the Committee for respective options and the market price of the shares of the Company on the date of grant is given below:

DATE OF GRANT	NUMBER OF OPTIONS GRANTED	EXERCISE PRICE (RUPEES)	MARKET PRICE (RUPEES) (AS PER SEBI GUIDELINES)
06 May 2010	58,660	5.00	1,240.80

Stock option activity under the DRL 2007 Plan was as follows:

CATEGORY B – PAR VALUE OPTIONS	YEAR ENDED 31 MARCH 2011			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (MONTHS)
Outstanding at the beginning of the year	112,390	₹ 5.00	₹ 5.00	74
Granted during the year	58,660	5.00	5.00	89
Forfeited during the year	(2,440)	5.00	5.00	–
Exercised during the year	(44,051)	5.00	5.00	–
Outstanding at the end of the year	**124,559**	₹ 5.00	₹ 5.00	74
Exercisable at the end of the year	**3,364**	₹ 5.00	₹ 5.00	49

CATEGORY B – PAR VALUE OPTIONS	YEAR ENDED 31 MARCH 2010			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (MONTHS)
Outstanding at the beginning of the year	156,577	₹ 5.00	₹ 5.00	71
Granted during the year	74,600	5.00	5.00	91
Forfeited during the year	(44,630)	5.00	5.00	–
Exercised during the year	(74,157)	5.00	5.00	–
Outstanding at the end of the year	**112,390**	₹ 5.00	₹ 5.00	74
Exercisable at the end of the year	**2,250**	₹ 5.00	₹ 5.00	47

The Company has followed intrinsic method of accounting based on which a compensation expense of ₹ 268 (previous year: ₹ 193) has been recognized in the Profit and Loss Account (Refer Schedule 15).

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

The information required as per clause 4C and 4D and notes thereon of Part II of Schedule VI to the Companies Act, 1956.

10. CAPACITY AND PRODUCTION

Installed capacity and production

CLASS OF GOODS	UNIT	AS AT 31 MARCH 2011		AS AT 31 MARCH 2010	
		INSTALLED CAPACITY (ii)	ACTUAL PRODUCTION	INSTALLED CAPACITY (ii)	ACTUAL PRODUCTION
Formulations (iii)	Million units	6,363	4,759	5,581*	4,282
Active pharmaceutical ingredients and intermediates (API) (iv)	Tonnes	4,087	3,560	3,831	3,267
Generics	Million Units	11,727	6,656	10,014	6,578
Biotechnology**	Grams	–	13,426	–	6,951

* On single shift basis

** Exempted from the licensing provisions of industries (Development and Regulation) Act, 1951 in terms of notification No. S.O.477(E) dated July 25, 1991. Installed capacities are variable and subject to changes in product mix, and utilisation of manufacturing facilities given the nature of production

NOTES:

(i) In terms of press Note no 4 (1994 series) dated October 25, 1994 issued by the department of Industrial Development, Ministry of Industry, Government of India and Notification no. S.O. 137 (E) dated March 01, 1999 issued by the Department of Industrial Policy and Promotion, Ministry of Industry, Government of India, Industrial licencing has been abolished in respect of bulk drugs and formulations. Hence there are no registered / Licenced capacities for these bulk drugs and formulations.

(ii) Installed capacities are as certified by Management and have not been verified by the auditors as this is a technical matter.

(iii) Actual production of Formulations includes 118 million units (previous year: 292 million units) produced on loan licensing basis from outside parties.

(iv) Actual production of API includes 443 tonnes (previous year: 822 tonnes) produced on loan licensing basis from outside parties.

11. PARTICULARS OF PRODUCTION, PURCHASES, SALES AND STOCK

CLASS OF GOODS	OPENING STOCK		PRODUCTION	PURCHASES		SALES**		CLOSING STOCK	
	QUANTITY	VALUE	QUANTITY	TRADED GOODS (UNITS)	VALUE	QUANTITY	VALUE	QUANTITY	VALUE
Formulations (Million units)	633	778	4,759	1,032	2,066	5,482	19,599	942	1,098
	(601)	(792)	(4,282)	(606)	(1,384)	(4,856)	(16,932)	(633)	(778)
Active pharmaceutical ingredients and intermediates (Tonnes)	178	321	3,560	1,143	876	4,621*	20,003	260	539
	(79)	(215)	(3,267)	(626)	(818)	(3,794)*	(17,319)	(178)	(321)
Generics (Million units)	470	356	6,656	–	–	6,454	15,187	672	500
	(70)	(110)	(6,578)	–	–	(6,178)	(11,363)	(470)	(356)
Biotechnology (Grams)	145	6	13,426	–	–	11,983	834	1,588	25
	(564)	(6)	(6,951)	–	–	(7,370)	(504)	(145)	(6)
Custom Pharmaceutical Services (Kgs)	90,520	124	–	1,311,450	368	12,60,974	2,226	140,996	143
	(172,220)	(198)	–	(918,963)	(253)	(1,000,663)	(1,846)	(90,520)	(124)
Total		**1,585**			**3,310**		**57,849**		**2,305**
							(47,964)		
Less: Inter unit sales							5,312		
							(3,637)		
Sales (Gross of excise duty) as per profit and loss account							52,537		
Previous year		(1,321)			(2,455)		(44,327)		(1,585)

* Includes captive consumption of active pharmaceutical ingredients 1,492 tonnes (previous year: 1,215 tonnes)

** Sales are net of samples, rejections and damages but include inter unit sales.

Figures in brackets represent the numbers for the previous year.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

12. RAW MATERIALS CONSUMED DURING THE YEAR

RAW MATERIALS	2011		2010	
	QUANTITY (KGS)	VALUE	QUANTITY (KGS)	VALUE
Ethyl Acetate	3,197,495	153	4,412,668	209
2 4-Dichloro-5-Fluoro Acetophenone	174,035	84	439,986	176
98% 3-Oxo-4-Aza-5-Androstane-17-Carboxyl	6,794	347	9,570	516
2-Acetyl-6-Methoxy Naphthalene	1,738,800	716	915,200	390
Methanol	9,560,967	144	10,691,128	149
Toluene	4,691,732	227	4,079,487	179
Isopropyl Alcohol IP	2,298,655	120	2,057,419	109
Fluoro Quinolonic Acid	360,910	316	524,245	425
(S,S,S) Azabicyclo (3,3,0) Octane 3	13,230	265	9,253	236
Aceto Nitrile	963,987	102	726,935	194
(4R-Cis-1,1Dimethylethyl, 1-6-Cynaomethyl)	23,507	241	8,493	101
Others		7,939		8,221
Total		**10,654**		**11,005**

'Others' include no item which in value individually accounts for 10 percent or more of the total value of raw materials consumed.

13. DETAILS OF IMPORTED AND INDIGENOUS RAW MATERIALS, SPARE PARTS, CHEMICALS, PACKING MATERIALS AND COMPONENTS CONSUMED

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011		FOR THE YEAR ENDED 31 MARCH 2010	
	VALUE	% OF TOTAL CONSUMPTION	VALUE	% OF TOTAL CONSUMPTION
Raw materials				
Imported	4,566	43%	3,342	30%
Indigenous	6,098	57%	7,663	70%
	10,654		**11,005**	
Stores, chemicals, spares and packing materials				
Imported	524	15%	332	13%
Indigenous	3,007	85%	2,202	87%
	3,531		**2,534**	

14. CIF VALUE OF IMPORTS

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Raw materials	5,337	4,864
Capital equipment (including spares and components)	2,773	1,107
	8,110	**5,971**

15. EARNINGS IN FOREIGN CURRENCY

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Export on FOB basis	36,718	30,138
Interest on loan to subsidiaries	336	351
Service income and license fees	310	1,111
Royalty income	13	10
Guarantee Commission	24	–
Others	76	4
	37,477	**31,614**

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

16. EXPENDITURE IN FOREIGN CURRENCY

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Travelling	51	60
Legal and professional fees	1,131	666
Bio-studies expenses	229	206
Interest on Loan	75	78
Others	3,617	3,233
	5,103	**4,243**

17. HEDGING AND DERIVATIVES

The following are the outstanding forward exchange contracts entered into by the Company:

AS AT 31 MARCH 2011

CATEGORY	CURRENCY	CROSS CURRENCY	AMOUNTS IN MILLIONS	BUY / SELL	PURPOSE
Forward Contract	USD	INR	USD 4.5	Buy	Hedging
Forward Contract	USD	INR	USD 232	Sell	Hedging

AS AT 31 MARCH 2010

CATEGORY	CURRENCY	CROSS CURRENCY	AMOUNTS IN MILLIONS	BUY / SELL	PURPOSE
Forward Contract	USD	INR	USD 166	Sell	Hedging

The following are the outstanding foreign currency options, which are classified as cash flow hedges and effective:

AS AT 31 MARCH 2011

CURRENCY	CROSS CURRENCY	NO OF CONTRACTS	AMOUNTS IN MILLIONS	GAIN / (LOSS)
USD	INR	NIL	NIL	NIL

AS AT 31 MARCH 2010

CURRENCY	CROSS CURRENCY	NO OF CONTRACTS	AMOUNTS IN MILLIONS	GAIN / (LOSS)
USD	INR	6	USD 180	₹ 267

The year-end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below:

UNHEDGED FOREIGN CURRENCY EXPOSURE AS ON 31ST MARCH 2011				
PARTICULARS	CURRENCY	FOREIGN CURRENCY IN MILLIONS	CLOSING RATE	AMOUNT
Sundry debtors	RUB	809	1.57	1,270
	GBP	4	71.80	287
	BRL	1	27.46	27
	VEB	14	10.37	145
	ZAR	40	6.57	263
Loans and advances	USD	31	44.60	1,382
	EUR	3	63.38	190
	AUD	4	46.11	184
	ZAR	1	6.57	7
	MXN	19	3.74	71
	RON	1	15.40	15
Current liabilities and provisions	USD	89	44.60	3,969
	EUR	3	63.38	127
	GBP	2	71.80	144
	CHF	3	48.75	146
	JPY	6	53.82	323
	VEB	4	10.37	41
	ZAR	1	6.57	7
Unsecured Loan (Packing Credit loan)	USD	21	44.60	937

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

17. HEDGING AND DERIVATIVES (CONTINUED)

UNHEDGED FOREIGN CURRENCY EXPOSURE AS ON 31ST MARCH 2010				
PARTICULARS	CURRENCY	FOREIGN CURRENCY IN MILLIONS	CLOSING RATE	AMOUNT
Sundry debtors	EUR	18	60.45	1,088
	GBP	8	67.96	544
	BRL	9	25.16	226
	VEB	9	17.27	155
	ZAR	36	6.12	220
Loans and advances	USD	74	44.90	3,323
	EUR	5	60.45	302
	MXN	3	3.63	11
	AUD	4	41.16	165
	ZAR	1	6.12	6
Current liabilities and provisions	USD	83	44.90	3,143
	EUR	2	60.45	121
	CHF	3	42.33	127
	AUD	1	41.16	41
	VEB	2	17.27	35
	MXN	3	3.63	11
	JPY	1	48.05	48
Unsecured Loan (Packing Credit loan)	USD	102	44.90	4,580

18. FINANCIAL INSTRUMENTS

During the year ended 31 March 2011, the Company adopted the Accounting Standard (AS)-32 "Financial Instruments: Disclosures" as issued by ICAI, to the extent that the adoption does not conflict with existing mandatory accounting standards and other authoritative pronouncements, Company law and other regulatory requirements. The objective of this standard is to provide information relating to various financial instruments that the Company holds along with the nature and extent of risks arising from financial instruments to which the Company is exposed to. Further, the standard requires disclosure for the risk management strategies that management adopts to address the specific risk factors to the extent they are considered to be material.

Cash flow hedges

The Company designates certain non-derivative financial liabilities and derivative financial instruments, denominated in foreign currencies, as hedges against foreign currency exposures associated with forecasted foreign currency sales transactions.

Exchange differences arising on re-measurement of such non-derivative liabilities and changes in the fair value of derivative hedging instruments designated as a cash flow hedges are recognized directly in hedging reserve and presented within reserves and surplus, to the extent that hedging relationship is considered effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit and loss account. 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 hedging reserve, remains there until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, then the balance in hedging reserve is recognized immediately in profit and loss account. In other cases the amount recognized in hedging reserve is transferred to profit and loss account in the same period that the hedged item affects profit and loss account.

During the year 31 March 2011, the Company has designated certain non-derivative financial liabilities as hedging instruments for hedging of foreign currency risk associated with forecasted transactions and accordingly, has applied cash flow hedge accounting for such relationships. Consequently foreign exchange differences amounting to ₹ 25 arising on re-measurement of these non-derivative financial liabilities from their initial recognized value to the value in INR terms as at the reporting dates has been disclosed as part of 'Hedging reserve'. The carrying value of these non-derivative financial liabilities amounts to ₹ 3,493 as at 31 March 2011 (as compared to ₹ Nil as at 31 March 2010), and has been disclosed as a part of "Unsecured Loans" in the Balance Sheet.

During the year 31 March 2010, the Company has designated foreign currency options as hedging instruments against foreign currency risk associated with forecasted transactions and accordingly, applies cash flow hedge accounting for such relationships. The changes in the fair value of these foreign currency options amounting to ₹ 267 have been disclosed as part of "Hedging reserve". The notional amount of the foreign currency options and fair value of these foreign currency options amounted to ₹ 8,082 and ₹ 295 as at 31 March 2010 respectively.

The ineffective portion of the cash flow hedges amounting to ₹ Nil and ₹ 28 have been recognised in the profit and loss account for the year ended 31 March 2011 and 31 March 2010 respectively.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

18. FINANCIAL INSTRUMENTS (CONTINUED)

In respect of foreign currency derivative contracts designated as cash flow hedges, the Company has transferred ₹ 263 and ₹ 75 from the hedging reserve into sales for the year ended 31 March 2011 and 31 March 2010 respectively.

The table below summarises the periods when the cash flows associated with hedging instruments are expected to occur between one to twelve months:

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
In US Dollars		
Not later than one month	669	674
Later than one month and not later than three months	758	1,347
Later than three month and not later than six months	1,115	2,020
Later than six months and not later than one year	–	4,041
	2,542	**8,082**
In Euro		
Later than one month and not later than three months	380	–
Later than three month and not later than six months	571	–
	951	**–**

Fair value hedges

The Company does not apply hedge accounting to certain derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognized in profit and loss account as part of foreign currency gains and losses.

The Company uses derivative financial instruments such as foreign exchange option contracts to mitigate the risk of changes in foreign exchange rates on trade receivables and certain other assets denominated in certain foreign currencies. The counterparty for these contracts is generally a bank or a financial institution.

The Company recognized a net foreign exchange gain on derivative financial instruments of ₹ 661 and ₹ 658 for the year ended 31 March 2011 and 31 March 2010 respectively. These amounts are included in other income.

Fair Value

Fair values of the foreign currency options are determined under the Black Scholes Merton technique by using inputs from market observable data and other relevant terms of the contract with counter parties which are banks or financial institutions.

19. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk. The Company's primary risk management focus is to minimize potential adverse effects of market risk on its financial performance. The Company's risk management assessment and policies and processes are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor such risks and compliance with the same. Risk assessment and management policies and processes are reviewed regularly to reflect changes in market conditions and the Company's activities. The Board of Directors and the Audit Committee is responsible for overseeing Company's risk assessment and management policies and processes.

Reconciliation of the allowance account for credit losses

The details of changes in provision for doubtful debts during the year ended 31 March 2011 and 31 March 2010 are as follows:

PARTICULARS	2010-11	2009-10
Balance as at 1 April	229	184
Provision made during the year	–	85
Debtors written off during the year	(88)	(40)
Provision reversed during the year	(2)	–
Balance as at 31 March	**139**	**229**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

The details of changes in provision for doubtful loans and advances to subsidiaries during the year ended 31 March 2011 and 31 March 2010 are as follows:

PARTICULARS	2010-11	2009-10
Balance as at 1 April	763	827
Provision made during the year	133	–
Loans and advances written off during the year	–	–
Provision reversed during the year	(581)	(64)
Balance as at 31 March	**315**	**763**

a. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the credit worthiness of customers to which the Company grants credit terms in the normal course of business. The Company establishes an allowance for doubtful debts and impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the customer, including the default risk of the industry and country, in which the customer operates, also has an influence on credit risk assessment. Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the creditworthiness of customers to which the Company grants credit terms in the normal course of business. As at 31 March 2011 and 31 March 2010 the maximum exposure to credit risk in relation to trade and other receivables is ₹ 17,705 and ₹ 10,605 respectively (net of allowances).

Financial assets that are neither past due nor impaired

None of the Company's cash equivalents, including time deposits with banks, are past due or impaired. Of the total trade receivables, ₹ 14,196 as at 31 March 2011 and ₹ 8,167 as at 31 March 2010 consists of customers balances which were neither past due nor impaired.

Financial assets that are past due but not impaired

The Company's credit period for customers generally ranges from 20 – 180 days. The age analysis of the trade receivables has been considered from the due date of the invoice. The aging of trade receivables that are past due, net of allowance for doubtful receivables, is given below:

PERIOD (IN DAYS)	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
1-90	3,232	1,644
90-180	208	485
More than 180	69	309
Total	**3,509**	**2,438**

Financial assets that are impaired

The age analysis of the trade receivables that are impaired is given below:

PERIOD (IN DAYS)	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
1-90	–	1
90-180	–	9
More than 180	139	219
Total	**139**	**229**

Loans and advances

Loans and advances are predominantly given to subsidiaries for the purpose of working capital and capital expansions; and the Company does not consider any significant exposure to credit risks associated with such financial assets.

b. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by ensuring, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk to the Company's reputation.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Liquidity risk (continued)

As at 31 March 2011 and 2010, the Company had unutilized credit limits from banks of ₹ 13,089 and ₹ 7,850, respectively.

As at 31 March 2011, the Company had working capital of ₹ 23,456 including cash and cash equivalents of ₹ 662 and current investments of ₹ 3. As at 31 March 2010, the Company had working capital of ₹ 14,604, including cash and cash equivalents of ₹ 3,680 and current investments of ₹ 3,577.

The table below provides details regarding the contractual maturities of significant financial liabilities (other than obligations under finance leases which have been disclosed in Note 27 and Bonus Debentures which have been disclosed in Note 29).

AS AT 31 MARCH 2011

PARTICULARS	2012	2013	2014	2015	THEREAFTER	TOTAL
Trade payables	6,479	–	–	–	–	6,479
Short-term loan from banks	9,311	–	–	–	–	9,311
Other liabilities and provisions	7,744	–	–	–	–	7,744

The table below provides details regarding the contractual maturities of significant financial liabilities (other than obligations under finance leases which have been disclosed in Note 27).

AS AT 31 MARCH 2010

PARTICULARS	2012	2013	2014	2015	THEREAFTER	TOTAL
Trade payables	8,239	–	–	–	–	8,239
Short-term loan from banks	5,569	–	–	–	–	5,569
Other liabilities and provisions	6,157	–	–	–	–	6,157

Financial guarantees

Financial guarantees disclosed in Note 2 of Schedule 20 have been provided as counter corporate guarantees to financial institutions and banks that have extended credits and other financial assistance to the Company's subsidiaries. In this regard, the Company does not foresee any significant credit risk exposure.

c. Market risk

Market risk is the risk of loss of future earnings or fair values or future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rates and other market changes that affect market risk-sensitive instruments. Market risk is attributable to all market risk-sensitive financial instruments including foreign currency receivables and payables and long-term debt. The Company is exposed to market risk primarily related to foreign exchange rate risk, interest rate risk and the market value of its investments. Thus, the Company's exposure to market risk is a function of investing and borrowing activities and revenue generating and operating activities in foreign currencies.

Foreign exchange risk

The Company's exchange risk arises from its foreign operations, foreign currency revenues and expenses, (primarily in U.S. dollars, British pound sterling and euros) and foreign currency borrowings (in U.S. dollars and euros). A significant portion of the Company's revenues are in these foreign currencies, while a significant portion of its costs are in Indian rupees. As a result, if the value of the Indian rupee appreciates relative to these foreign currencies, the Company's revenues measured in rupees may decrease. The exchange rate between the Indian rupee and these foreign currencies has changed substantially in recent periods and may continue to fluctuate substantially in the future. Consequently, the Company uses derivative financial instruments, such as foreign exchange forward and option contracts, to mitigate the risk of changes in foreign currency exchange rates in respect of its forecasted cash flows and trade receivables.

The details in respect of the outstanding foreign exchange forward and option contracts are given in Note 17 above.

In respect of the Company's forward, option contracts and non-derivative financial liabilities, a 10% decrease / increase in the respective exchange rates of each of the currencies underlying such contracts would have resulted in an approximately ₹ 349 increase / decrease in the Company's hedging reserve and an approximately ₹ 1,014 increase / decrease in the Company's net profit as at 31 March 2011.

In respect of the Company's forward and option contracts, a 10% decrease / increase in the respective exchange rates of each of the currencies underlying such contracts would have resulted in an approximately ₹ 821 increase / decrease in the Company's hedging reserve and an approximately ₹ 745 increase / decrease in the Company's net profit as at 31 March 2010.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Market risk (continued)

The following table analyzes foreign currency risk from financial instruments as at 31 March 2011:

	US DOLLARS	EURO	OTHERS(1)	TOTAL
Assets:				
Cash and cash equivalents	58	–	54	112
Sundry debtors	12,691	1,490	2,050	16,231
Loans and advances	1,382	187	307	1,876
Total	**14,131**	**1,677**	**2,411**	**18,219**
Liabilities:				
Trade payables	2,567	139	228	2,934
Secured loans	7	–	–	7
Unsecured loans	3,278	1,521	–	4,799
Other liabilities and provisions	1,584	72	430	2,086
Total	**7,436**	**1,732**	**658**	**9,826**

(1) Others include currencies such as Russian roubles, British pound sterling, Australian dollars, Venezuela bolivars etc.

The following table analyzes foreign currency risk from financial instruments as at 31 March 2010:

	US DOLLARS	EURO	OTHERS(1)	TOTAL
Assets:				
Cash and cash equivalents	78	–	139	217
Sundry debtors	7,258	1,094	1,167	9,519
Loans and advances	3,307	303	199	3,809
Total	**10,643**	**1,397**	**1,505**	**13,545**
Liabilities:				
Trade payables	2,553	75	77	2,705
Secured loans	8	–	–	8
Unsecured loans	4,580	–	–	4,580
Other liabilities and provisions	1,158	34	178	1,370
Total	**8,299**	**109**	**255**	**8,663**

(1) Others include currencies such as Russian roubles, British pounds sterling, Australian dollars, Venezuela bolivars etc.

For the year ended 31 March 2011 and 2010, every 10% depreciation / appreciation in the exchange rate between the Indian rupee and the respective currencies in the above mentioned financial assets / liabilities would affect the Company's net loss / profit by approximately ₹ 839 and ₹ 488 respectively.

Interest rate risk

As at 31 March 2011 and 31 March 2010, the Company had foreign currency loans of ₹ 5,758 carrying an interest rate of LIBOR plus 52-80 bps and ₹ 4,580 carrying an interest rate of LIBOR plus 40-75 bps respectively. Also as at 31 March 2011 and 31 March 2010 the company had an INR loan of ₹ 950 carrying an interest rate of 8.75% and ₹ Nil respectively. Since these are short-term loans, the Company does not consider any significant changes in the interest rates and hence, has not entered into any interest rate swaps to hedge its interest rate risk.

For the years ended 31 March 2011 and 2010, every 10 basis points increase or decrease in the interest rate applicable to its short-term loan from banks would affect the Company's net loss / profit by approximately ₹ 16 and ₹ 2, respectively

The Company's investments in time deposits with banks and short-term liquid mutual funds are for short durations, and therefore do not expose the Company to significant interest rates risk.

Commodity rate risk

Exposure to market risk with respect to commodity prices primarily arises from the Company's purchases and sales of active pharmaceutical ingredients, including the raw material components for such active pharmaceutical ingredients. These are commodity products, whose prices may fluctuate significantly over short periods of time. The prices of the Company's raw materials generally fluctuate in line with commodity cycles, although the prices of raw materials used in the Company's active pharmaceutical ingredients business are generally more volatile. Cost of raw materials forms the largest portion of the Company's operating expenses. Commodity price risk exposure is evaluated and managed through operating procedures and sourcing policies. The Company has historically not entered into any derivative financial instruments or futures contracts to hedge exposure to fluctuations in commodity prices.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

20. EMPLOYEE BENEFIT PLANS

The following table set out the status of the gratuity plan as required under AS-15 (Revised)

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Opening defined benefit obligation	452	398
Current service cost	58	48
Interest cost	36	29
Actuarial losses / (gain)	81	17
Liabilities assumed on account of acquisition / (Settled on Divestiture)	–	(10)
Benefits paid	(43)	(30)
Closing defined benefit obligation	**584**	**452**

Change in the Fair value of assets

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Opening fair value of plan assets	449	334
Expected return on plan assets	33	25
Actuarial gains / (losses)	5	26
Contributions by employer	46	94
Benefits paid	(43)	(30)
Closing fair value of plan assets	**490**	**449**

Amount recognized in Balance Sheet

PARTICULARS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Present value of funded obligations	584	452
Fair value of plan assets	(490)	(449)
Net Liability	**94**	**3**
Amounts in the balance sheet		
Provision for gratuity	94	3
Net liability / (asset)	**94**	**3**

Expense recognized in statement of profit and loss Account

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Current service cost	58	49
Interest on defined benefit obligation	36	29
Expected return on plan assets	(33)	(26)
Net actuarial losses / (gains) recognized in year	77	(9)
Amount, included in "Employee benefit expense"	**138**	**43**
Actual return on plan assets	38	52

Asset Information

CATEGORY OF ASSETS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Government of India securities	0%	2%
Corporate bonds	0%	1%
Insurer managed funds	99%	96%
Others	1%	1%
Total	**100%**	**100%**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

20. EMPLOYEE BENEFIT PLANS (CONTINUED)

The approximate market value of the assets as at 31 March 2011 was ₹ 490 (Previous Year: ₹ 449), a breakup of the same is as follows:

CATEGORY OF ASSETS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Government of India securities	–	10
Corporate bonds	–	4
Insurer managed funds	483	433
Others	7	2
Total	**490**	**449**

Summary of Actuarial Assumptions

Financial assumptions at the valuation date:

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Discount Rate	7.95% p.a.	7.50% p.a.
Expected Rate of Return on Plan Assets	7.50% p.a.	7.50% p.a.
Salary Escalation Rate	9% p.a. for next 2 years & 8% p.a. thereafter	8% p.a. for next 2 years & 6% p.a. thereafter

Discount Rate: The discount rate is based on the prevailing market yields of Indian government securities as at the balance sheet date for the estimated term of the obligations.

Expected Rate of Return on Plan Assets: This is based on the expectation of the average long-term rate of return expected on investments of the fund during the estimated term of the obligations.

Salary Escalation Rate: The estimates of future salary increases considered takes into account the inflation, seniority, promotion and other relevant factors.

Experience Adjustments

PARTICULARS	FOR THE YEAR ENDED 31 MARCH				
	2011	2010	2009	2008	2007
Defined Benefit Obligation	584	452	398	319	258
Plan Assets	490	449	334	289	236
Surplus / (Deficit)	(94)	(3)	(64)	(30)	(22)
Experience Adjustment on Plan Liabilities	28	27	18	36	32
Experience Adjustment on Plan Assets	5	27	(7)	14	1

The following table set out the status of the long service award benefit plan as required under AS-15 (Revised)

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Opening defined benefit obligation	53	–
Current service cost	6	–
Interest cost	4	–
Actuarial losses / (gain)	8	–
Past service cost	–	53
Benefits paid	(2)	–
Closing defined benefit obligation	**69**	**53**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

20. EMPLOYEE BENEFIT PLANS (CONTINUED)

Amount recognized in Balance Sheet

PARTICULARS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Present value of funded obligations	–	–
Fair value of plan assets	–	–
Present value of unfunded obligations	69	53
Net Liability	**69**	**53**
Amounts in the balance sheet		
Net liability / (asset)	**69**	**53**

Expense recognized in statement of Profit and Loss Account

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Current service cost	6	–
Interest on defined benefit obligation	4	–
Expected return on plan assets	–	–
Net actuarial losses / (gains) recognized in year	8	–
Past service cost	–	53
Amount, included in "Employee benefit expense"	**18**	**53**
Actual return on plan assets	–	–

Summary of Actuarial Assumptions

Financial assumptions at the valuation date:

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Discount Rate	7.95% p.a.	7.50% p.a.
Salary Escalation Rate	9% p.a. for first 2 years and 8% p.a. thereafter	8% p.a. for first 2 years and 6% p.a. thereafter

Discount Rate: The discount rate is based on the prevailing market yields of Indian government securities as at the balance sheet date for the estimated term of the obligations.

Salary Escalation Rate: The estimates of future salary increases considered takes into account the inflation, seniority, promotion and other relevant factors.

Experience Adjustments

PARTICULARS	FOR THE YEAR ENDED 31 MARCH				
	2011	2010	2009	2008	2007
Defined Benefit Obligation	69	53	–	–	–
Plan Assets	–	–	–	–	–
Surplus / (Deficit)	(69)	(53)	–	–	–
Experience Adjustment on Plan Liabilities	1	–	–	–	–
Experience Adjustment on Plan Assets	–	–	–	–	–

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

21. DIVIDEND REMITTANCE IN FOREIGN CURRENCY

The Company does not make any direct remittances of dividends in foreign currencies to American Depository Shares (ADS) holders. The Company remits the equivalent of the dividends payable to the ADS holders in Indian Rupees to the depositary bank, which is the registered shareholder on record for all owners of the Company's ADS. The depositary bank purchases the foreign currencies and remits dividends to the ADS holders.

22. RESEARCH AND DEVELOPMENT ARRANGEMENTS

I-VEN Pharma arrangement

During the year ended 31 March 2005, the Company had entered into an agreement with I-VEN Pharma Capital Limited ("I-VEN") for the joint development and commercialization of a portfolio of 36 generic drug products. As per the terms of the agreement, I-VEN has a right to fund up to 50% of the project costs (development, registration and legal costs) related to these products and the related US Abbreviated New Drug Applications ("ANDA") filed or to be filed, subject to a maximum contribution of US$ 56 millions. Upon successful commercialization of these products, the Company is required to pay I-VEN a royalty on net sales at agreed rates for a period of 5 years from the date of commercialization of each product.

As per the agreement, in April 2010 and upon successful achievement of certain performance milestones specified in the agreement (e.g. successful commercialization of a specified number of products, and achievement of specified sales milestones), I-VEN has a one-time right to require the Company to pay I-VEN a portfolio termination value amount for such portfolio of products. In the event I-VEN exercises this portfolio termination value option, then it will not be entitled to the sales-based royalty payment for the remaining contractual years.

The Company and I-VEN reached an agreement to settle the portfolio termination value option available to I-VEN at a consideration of ₹ 2,680 to be paid by the Company.

On 1 October 2010, the Company, DRL Investments Limited (a wholly owned subsidiary of Dr Reddy's) and I-VEN entered into an agreement regarding the medium of settlement for the portfolio termination value. Pursuant to such arrangement, controlling interest in I-VEN has been acquired by DRL Investments Limited; thereby making I-VEN a wholly owned subsidiary of the Company as of 1 October 2010. In connection with the transaction, the Company has advanced an amount of ₹ 2,680 to DRL Investments Limited and which has been disclosed as part of 'loans and advances' as of 31 March 2011.

23. SCHEME OF AMALGAMATION OF PERLECAN PHARMA PRIVATE LIMITED WITH THE COMPANY UNDER SECTION 391 AND 394 OF THE COMPANIES ACT, 1956

In October 2008, the Board of Directors approved a scheme of amalgamation ('the Scheme') of Perlecan Pharma Private Limited ("transferor Company") with the Company ("transferee Company") under section 391 and 394 of the Companies Act, 1956. In January 2009, the Company filed a petition for approvals of the Scheme with the Hon'ble High Court of Andhra Pradesh ('the Court'). The Court approved the Scheme vide its order dated 12 June 2009 with the appointed date as 1 January 2006.

From the effective date, the authorised share capital of the transferor Company shall stand combined with the authorised share capital of the transferee Company. Upon the Scheme becoming fully effective, the authorised share capital of the Company would be ₹ 1,200 divided into 240,000,000 equity shares of ₹ 5/- each.

The amalgamation which was in the nature of a merger was accounted for as prescribed by the Accounting Standard 14 – Accounting for Amalgamation (hereinafter referred to as 'AS-14') and in accordance with the requirements of the approved Scheme in the previous year 2009-10.

Although the scheme of amalgamation required retrospective accounting from the period 1 January 2006, since the court approvals were received after the earlier year financial statements were authorised, the amalgamation was accounted in 2009-10 and in accounting for such amalgamation the net results of transactions of the transferor Company for the years ended 31 March 2006, 31 March 2007, 31 March 2008 and 31 March 2009 were included in 2009-10 financial statements of the Company as a single line item. The profit and loss account of the Company for the aforesaid years would have been as disclosed below, had the effect of the Scheme been given in the respective years:

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

23. SCHEME OF AMALGAMATION OF PERLECAN PHARMA PRIVATE LIMITED WITH THE COMPANY UNDER SECTION 391 AND 394 OF THE COMPANIES ACT, 1956 (CONTINUED)

PARTICULARS	FOR THE YEAR ENDED 31 MARCH			
	2006	2007	2008	2009
Income				
Sales, gross	20,955	38,280	33,865	40,419
Less: Excise duty on sales	(911)	(779)	(558)	(422)
Sales, net	20,044	37,501	33,307	39,997
License fees	30	1,745	216	1,600
Service income	61	308	376	379
Other income	1,231	1,224	1,952	1,018
	21,366	**40,778**	**35,851**	**42,994**
Expenditure				
Material costs	7,562	11,216	12,535	14,699
Conversion charges	514	1,132	558	298
Excise duty	76	117	287	387
Personnel costs	2,129	2,798	3,686	4,133
Operating and other expenses	5,205	7,200	7,875	10,086
Research and development expenses	1,956	2,830	3,309	3,847
Loss on sale of non-trade investments, net	19	–	–	–
Provision for decline in the value of long-term investments	175	472	–	–
Investments written off	–	–	–	–
Finance charges	214	480	102	185
Depreciation and amortization	1,113	1,335	1,620	1,937
	18,963	**27,580**	**29,972**	**35,572**
Profit before taxation	2,403	13,198	5,879	7,422
Income tax expense	(516)	(1,672)	(1,030)	(1,691)
Profit after taxation	**1,887**	**11,526**	**4,849**	**5,731**
Profit after tax before effect of merger	**2,111**	**11,769**	**4,752**	**5,609**
Difference	**(a) (224)**	**(b) (243)**	**(c) 97**	**(d) 122**
Cumulative difference (a) + (b) + (c) + (d)				**(248)**

The effect of the merger on the balances in the profit and loss account as on 31 March 2009 was as follows:

PARTICULARS	(EXPENSE) / INCOME
Research and development expenses recognised	(693)
Operating and other expenses recognised	(32)
Intra group service income derecognised	(179)
Interest income recognised	130
Provision for decline in investment in Perlecan Pharma de-recognised on account of amalgamation	245
Income tax benefit arising on account of the above transactions	281
Total	**(248)**

The investment in equity shares of the transferor Company held by shareholders other than DRL (hereinafter referred as 'Partners') aggregated to ₹ 1,018. During 2009-10, the Company purchased the shares (all except two shares) from the Partners for an aggregate consideration of ₹ 758. The excess of the investment in equity shares by Partners in Perlecan Pharma over the aggregate consideration paid was credited to capital reserve. The details are as follows:

PARTICULARS	AMOUNT
Investment in equity shares of Perlecan Pharma by Partners	1,018
Less: Consideration paid to partners	(758)
Excess credited to capital reserve	**260**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

24. RESEARCH AND DEVELOPMENT FIXED ASSETS (INCLUDED IN SCHEDULE 5)

DESCRIPTION	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	AS AT 1 APRIL 2010	ADDITIONS	DELETIONS	AS AT 31 MARCH 2011	AS AT 1 APRIL 2010	FOR THE YEAR	DELETIONS	31 MARCH 2011	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Land – freehold	70	–	–	70	–	–	–	–	70	70
Buildings	774	50	27	797	120	27	5	142	655	654
Plant and machinery	1,066	191	119	1,138	639	86	114	611	527	427
Electrical equipment	203	16	7	212	96	20	7	109	103	107
Laboratory equipment	1,237	455	5	1,687	796	140	2	934	753	441
Furniture, fixtures and office equipment	243	78	5	316	147	54	5	196	120	96
Vehicles	15	–	4	11	13	2	4	11	–	2
Grand Total	**3,608**	**790**	**167**	**4231**	**1,811**	**329**	**137**	**2003**	**2228**	**1,797**
Previous year	3,962	254	608	3,608	1,840	374	403	1,811	1,797	

25. Investments include an equity investment of ₹ 16,146 (previous year: ₹ 15,428) in Lacock Holdings Limited, Cyprus ('Lacock'), a wholly-owned subsidiary of the Company. As at 31 March 2011, the Company has also extended advances aggregating to ₹ 3,687 (previous year: ₹ 3,640) to Lacock. The Company participates in the German generics business through step-down subsidiaries of Lacock, i.e. Reddy Holdings GmbH and betapharm Arzneimittel GmbH ('betapharm').

Pursuant to the significant changes in the German generics market over the past 2 years, the Company had initiated various measures in the previous year to improve the profitability. The German business has benefited from the positive growth arising out of the significant cost saving measures undertaken in the previous year. Further, the business had a steady growth in the tender driven market and is expected to continue this trend.

In view of the above, the Company believes that advances granted to Lacock would be recovered and there is no diminution other than temporary in the value of investment in Lacock as at 31st March 2011. Accordingly, the Company's advances to and investment in Lacock have been carried at cost.

26. SEGMENT INFORMATION

In accordance with AS-17 "Segment Reporting", segment information has been given in the consolidated financial statements of DRL and therefore no separate disclosure on segment information is given in these financial statements.

27. FINANCE LEASE

The Company has acquired vehicles on finance lease. The future minimum lease payments and their present values as at 31 March 2011 are as follows.

	PRESENT VALUE OF MINIMUM LEASE PAYMENTS	FUTURE INTEREST	MINIMUM LEASE PAYMENTS
Not later than 1 year	4	2	6
Later than 1 year and not later than 5 years	3	5	8
Total	**7**	**7**	**14**

The future minimum lease payments and their present values as at 31 March 2010 are as follows:

	PRESENT VALUE OF MINIMUM LEASE PAYMENTS	FUTURE INTEREST	MINIMUM LEASE PAYMENTS
Not later than 1 year	7	1	8
Later than 1 year and not later than 5 years	–	–	–
Total	**7**	**1**	**8**

28. OPERATING LEASE

The Company has taken vehicles on non-cancellable operating lease. The total future minimum lease payments under this non-cancellable lease are as follows:

	31 MARCH 2011	31 MARCH 2010
Not later than 1 year	48	97
Later than 1 year and not later than 5 years	79	198
Total	**127**	**295**

Lease rentals on the said lease amounting to ₹ 41 (previous year: ₹ 69) has been charged to the profit and loss account. Lease rent under cancellable lease amounts to ₹ 99 (previous year: ₹ 47).

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 20: NOTES TO THE ACCOUNTS (CONTINUED)

29. ISSUANCE OF BONUS DEBENTURES

Pursuant to a scheme of arrangement sanctioned by the High Court of Andhra Pradesh, Hyderabad, India on 19 July 2010 and subsequent approval of the Reserve Bank of India (on 18 January 2011) and no-objection from the Indian income-tax authorities (on 1 February 2011), the Company has, on 24 March 2011, allotted 1,015,516,392, 9.25% Unsecured Redeemable Non-convertible Bonus Debentures (aggregating to ₹ 5,078) in the ratio of 6 debentures of the face value of ₹ 5/- each fully paid up for every equity share of ₹ 5/- each held as on the record date i.e. 18 March 2011. The interest is payable at the end of 12, 24 and 36 months from the initial date of issuance. The bonus debentures are redeemable at the end of 36 months from the initial date of issuance. These debentures have been listed on the Bombay Stock Exchange Limited and National Stock Exchange of India Limited.

In terms of the scheme, the Company delivered the aggregate value of the debentures to an on-shore escrow account of a merchant banker appointed by the Board of Directors. The merchant banker received the aforesaid amount in the escrow account for and on behalf of and in trust for the members entitled to receive the debentures as deemed dividend within the meaning of section 2 (22) of the Income-tax Act, 1961. The merchant banker has also immediately following the receipt of funds in the escrow account, for and on behalf of the members, paid by way of subscription for allotment of the requisite number of debentures issued under the scheme.

In terms of accounting treatment set out in the scheme, the issuance of the aforesaid debentures (with an aggregate face value of ₹ 5,078) and the dividend distribution tax paid thereon (aggregating to ₹ 843) have been reflected by transferring the corresponding amounts from the General Reserve of the Company. The costs associated in relation to the aforesaid scheme (primarily comprising directly attributable transaction costs aggregating to ₹ 51) have been expensed along with a corresponding transfer from the General Reserve account. Pursuant to the scheme and as per the requirements of the Companies Act, 1956, the Company has also created a Debenture Redemption Reserve aggregating to ₹ 19 for the year ended 31 March 2011.

30. VENEZUELA CURRENCY DEVALUATION

The Company's Venezuela operations are conducted as an extension of the parent company. On 30 December 2010, the Foreign Exchange Administration Commission of Venezuela (commonly referred to as the "CADIVI") enacted a decree (exchange agreement No.14) to unify the official exchange rates at a single rate of 4.3 Venezuela Bolivars ("VEB") per US$ by abolishing the preferential rate of 2.6 VEB per US$ effective from 1 January 2011.

Further, on 13 January 2011, the CADIVI issued another decree to interpret the transitional requirements for the use of the new official exchange rate and described that if the following conditions were to be satisfied, the use of the pre-devaluation rate of 2.6 VEB per US$ would be permissible:

- For fund repatriation – to the extent the CADIVI has issued approvals in the form of approvals of Autorización de Liquidación de Divisas ('ALD') and which have been sent to and received by the Banco Central de Venezuela by 31 December 2010;
- For foreign currency acquisition – to the extent the CADIVI had issued an Authorization of Foreign Currency Acquisition ('AAD') by 31 December 2010 and the approval relates to imports for the health and food sectors or certain other specified purposes.

Based on the authorizations received by the Company, and in light of the above announcements, the Company believes that it is eligible for the usage of the preferential rate of 2.6 VEB per US$ in relation to the total value of monetary items denominated in VEB as on 31 March 2011. Accordingly, all monetary items in the Company's Venezuelan operations are translated into the reporting currency at the preferential rate of 2.6 VEB per US$.

31. COMPARATIVE FIGURES

Previous year's figures have been regrouped / reclassified wherever necessary to conform to current year's classification.

As per our report attached
for **B S R & Co.**
Chartered Accountants
Firm Registration No.: 101248W
S Sethuraman
Partner
Membership No.: 203491
Place: Hyderabad
Date: 13 May 2011

for **DR. REDDY'S LABORATORIES LIMITED**

Dr. K Anji Reddy	Chairman
G V Prasad	Vice Chairman and CEO
K Satish Reddy	Managing Director and COO
Umang Vohra	Chief Financial Officer
Sandeep Poddar	Company Secretary

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

1. Registration details

Registration No.:	4507	State Code:	01
Balance Sheet Date:	31 03 11 (Date Month Year)		

2. Capital raised during the year (Amount in ₹ millions)

Public Issue:	NIL	Rights Issue:	NIL
Bonus Issue:	NIL	Private Placement:	NIL
Preferential offer of shares under Employees Stock Option Scheme			2.04

3. Position of Moblisation and Deployment of Funds (Amount in ₹ millions)

Total Liabilities:	75658	Total Assets:	75658
Sources of Funds:			
Paid-up Capital:	846	Reserves and Surplus:	59356
Secured Loans:	7	Unsecured Loans:	14441
Deferred tax liability, net:	1008		
Application of Funds:			
Net Fixed Assets:	22614	Investments:	24620
Net Current Assets:	28424	Miscellaneous Exp.:	NIL

4. Performance of the Company (Amount in ₹ millions)

Turnover (net):	52181	Other Income:	1750
License Fees & Service Income	310	Total Expenditure:	43722
Profit Before Tax:	10519	Profit After Tax:	8934
Earning Per Share in ₹	52.82	Dividend Rate %	225

5. Generic Names of Three Principal Products / Services of Company (as per the monetary terms)

Item Code No.: (ITC Code)	29419003
Product Description:	Ciprofloxacin Hydrochloride
Item Code No.: (ITC Code)	29420001
Product Description:	Norfloxacin
Item Code No.: (ITC Code)	30049038
Product Description:	Omeprazole

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IGAAP Consolidated Financials

Auditors' Report to the Board of Directors of Dr. Reddy's Laboratories Limited on the Consolidated Financial Statements of Dr. Reddy's Laboratories Limited and its Subsidiaries

1. We have audited the attached Consolidated Balance Sheet of Dr. Reddy's Laboratories Limited ("the Company") and its subsidiaries (collectively referred to as the "Dr. Reddy's Group") as at 31 March 2011 and also the Consolidated Profit and Loss account and the Consolidated Cash Flow Statement for the year ended on that date, annexed thereto. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. We did not audit the financial statements and other financial information of certain subsidiaries, which have been audited by other auditors whose reports have been furnished to us, and our opinion is based on the report of other auditors. The attached consolidated financial statements include net assets of ₹ 6,129 millions as at 31 March 2011, revenues of ₹ 14,203 millions and net cash outflows amounting to ₹ 90 millions in respect of the aforementioned subsidiaries for the year then ended.

4. The consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard 21 – Consolidated Financial Statements, Accounting Standard 23 – Accounting for Investments in Associates in Consolidated Financial Statements and Accounting Standard 27 – Financial Reporting of Interests in Joint Ventures, issued by the Companies (Accounting Standard) Rules, 2006.

5. In our opinion and to the best of our information and according to the explanations given to us, the said consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

   (i) in the case of the Consolidated Balance Sheet, of the consolidated state of affairs of Dr. Reddy's Group as at 31 March 2011;

   (ii) in the case of Consolidated Profit and Loss Account, of the consolidated results of operations of Dr. Reddy's Group for the year ended on that date; and

   (iii) in the case of Consolidated Cash Flow Statement, of the consolidated cash flows of Dr. Reddy's Group for the year ended on that date.

for **B S R & Co.**
Chartered Accountants
Firm Registration No.: 101248W

S Sethuraman
Partner
Membership No.: 203491

Place: Hyderabad
Date: 13 May 2011

Consolidated Balance Sheet AS AT 31 MARCH 2011

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	SCHEDULE	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	846	844
Reserves and surplus	2	39,472	36,924
		40,318	**37,768**
Loan funds			
Secured loans	3	295	269
Unsecured loans	4	23,410	14,571
		23,705	**14,840**
Deferred tax liabilities	19(8)	999	750
		65,022	**53,358**
APPLICATION OF FUNDS			
Fixed assets	5		
Gross block		79,751	64,468
Less: Accumulated depreciation		(45,896)	(40,946)
Net block		33,855	23,522
Capital work-in-progress (including capital advances)		6,045	7,622
		39,900	**31,144**
Deferred tax assets	19(8)	1,224	680
Investments	6	9	3,580
Current assets, loans and advances			
Inventories	7	15,992	13,394
Sundry debtors	8	16,507	11,599
Cash and bank balances	9	5,751	6,600
Loans and advances	10	9,267	6,609
		47,517	38,202
Current liabilities and provisions			
Current liabilities	11	20,188	16,746
Provisions	12	3,440	3,502
		23,628	20,248
Net current assets		23,889	17,954
		65,022	**53,358**
Notes to the consolidated accounts	19		
The schedules referred to above form an integral part of the Consolidated Balance Sheet			

As per our report attached
for **B S R & Co.**
Chartered Accountants
Firm Registration No.: 101248W
S Sethuraman
Partner
Membership No.: 203491
Place: Hyderabad
Date: 13 May 2011

for **DR. REDDY'S LABORATORIES LIMITED**

Dr. K Anji Reddy Chairman
G V Prasad Vice Chairman and CEO
K Satish Reddy Managing Director and COO
Umang Vohra Chief Financial Officer
Sandeep Poddar Company Secretary

Consolidated Profit and Loss Account FOR THE YEAR ENDED 31 MARCH 2011

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	SCHEDULE		FOR THE YEAR ENDED 31 MARCH 2011		FOR THE YEAR ENDED 31 MARCH 2010
INCOME					
Sales, gross			72,724		68,833
Less: Excise duty and other similar duties and taxes on sales			(356)		(316)
Sales, net			**72,368**		**68,517**
Service income			1,741		1,658
License fees			124		135
Other income	13		1,259		1,014
			75,492		**71,324**
EXPENDITURE					
Material costs	14		21,987		23,297
Conversion charges			962		811
Excise duty and other similar duties and taxes			617		424
Personnel costs	15		12,786		11,832
Operating and other expenses	16		18,008		16,020
Research and development expenses			5,077		3,731
Finance charges	17		246		312
Depreciation and amortization			3,981		4,131
			63,664		**60,558**
Profit before exceptional item, taxation and minority interest			**11,828**		**10,766**
Exceptional item (Refer Note 18 of Schedule 19)					
– Impairment of Goodwill and Intangibles			–		4,583
Profit / (loss) before taxation and minority interest			**11,828**		**6,183**
Income tax expense	18		1,839		2,668
Profit / (loss) before minority interest			**9,989**		**3,515**
Minority interest			–		–
Equity in loss of associates			–		–
Profit / (loss) for the year			**9,989**		**3,515**
Balance in profit and loss account brought forward		1,162		1,036	
Less: Adjustment on account of merger of					
Perlecan Pharma Private Limited	19(22)	–		326	
Add: Transfer from General Reserve	19(23)	5,972	7,134	–	710
Amount available for appropriation			**17,123**		**4,225**
Appropriations:					
Proposed dividend on equity shares			1,904		1,900
Tax on proposed dividend			309		316
Dividend of previous years (including tax)			4		1
Debenture Redemption Reserve	19(23)		19		–
Issuance of Bonus Debentures as per scheme	19(23)		5,078		–
Dividend Distribution Tax on distribution as per scheme	19(23)		843		–
Transferred to General Reserve			893		846
Balance carried forward			8,073		1,162
			17,123		**4,225**
Earnings per share	19(9)				
Basic – Par value ₹ 5 per share			59.06		20.83
Diluted – Par value ₹ 5 per share			58.72		20.69
Notes to the consolidated accounts	19				

The schedules referred to above form an integral part of the Consolidated Profit and Loss Account

As per our report attached
for **B S R & Co.**
Chartered Accountants
Firm Registration No.: 101248W
S Sethuraman
Partner
Membership No.: 203491
Place: Hyderabad
Date: 13 May 2011

for **DR. REDDY'S LABORATORIES LIMITED**

Dr. K Anji Reddy Chairman
G V Prasad Vice Chairman and CEO
K Satish Reddy Managing Director and COO
Umang Vohra Chief Financial Officer
Sandeep Poddar Company Secretary

Consolidated Cash Flow Statement

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before taxation	11,828	6,183
Adjustments:		
Depreciation and amortization	3,981	4,131
Provision for wealth tax	1	3
Profit from sale of investments	(10)	–
Dividend from mutual fund units	(58)	(47)
Unrealized foreign exchange (gain) / loss	(992)	807
Impairment of Goodwill and intangibles	–	4,583
Amortization of deferred stock based compensation expense	268	198
Allowance for sales returns	730	249
Interest income	(105)	(249)
Interest expense	246	312
Cost of issuance of bonus debentures	51	–
(Profit) / loss on sale of fixed asset, net	(251)	24
Inventory write-downs	1,237	1,011
Bad debts written-off	84	91
Provision for doubtful debts, net	75	77
Advances written off	48	–
Provision for doubtful advances, net	(4)	(17)
Operating cash flows before working capital changes	**17,129**	**17,356**
(Increase) / decrease in sundry debtors	(4,675)	2,467
(Increase) / decrease in inventories	(3,535)	(1,154)
(Increase) / decrease in loans and advances	156	(1,076)
Increase / (decrease) in current liabilities and provisions	1,467	(1,612)
Cash generated from operations	**10,542**	**15,981**
Income taxes paid	(2,988)	(2,831)
Net cash (used) / provided by operating activities	**7,554**	**13,150**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets and intangibles	(11,539)	(4,305)
Proceeds from sale of fixed assets	348	60
Purchase of investments	(8,963)	(24,112)
Proceeds from sale of investments	12,602	21,102
Interest received	127	233
Cash paid for acquisition, net of cash acquired	(1,038)	–
Acquisition of Minority Interest	(525)	(80)
Net cash (used) / provided in investing activities	**(8,988)**	**(7,102)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	29	17
Proceeds from long-term borrowings	5,078	–
Repayment of long-term borrowings	(8,638)	(3,646)
Proceeds from short-term borrowings	24,731	7,537
Repayment of short-term borrowings	(12,256)	(7,672)
Interest paid	(307)	(321)
Cost of issuance of bonus debentures	(51)	–
Dividends paid (including bonus debentures and dividend distribution tax)	(8,141)	(1,232)
Net cash (used) / provided in financing activities	**445**	**(5,317)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	(989)	731
Cash and cash equivalents at the beginning of the year (Refer Schedule 9)	6,600	5,623
Effect of exchange gain on cash and cash equivalents	140	246
Cash and cash equivalents at the end of the year (Refer schedule 9)	**5,751**	**6,600**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
NOTES:		
1. Cash and cash equivalents comprise:		
Cash in hand	6	9
Balances with banks:		
In current accounts	5,150	3,298
In EEFC current accounts	25	4
In deposit accounts	549	3,271
In unclaimed dividend accounts	20	17
In unclaimed fractional share pay order accounts	1	1
	5,751	**6,600**

2. The Group has undrawn borrowing facilities of ₹ 13,089 (previous year: ₹ 7,850). These facilities are essentially for funding working capital requirements of the Group.
3. The Group entered into an agreement with Coria Laboratories Limited for acquisition of New Drug Application, intellectual property rights and license to use trademarks with respect to product Cloderm. The Group has recorded this as an intangible asset amounting to ₹ 1,777 as at 31 March 2011. However the consideration is not yet paid as on 31 March 2011.
4. Balances in current accounts include an amount of ₹ 150 set aside in an escrow account (Refer Note 14 of Schedule 19).
5. Previous year's figures have been regrouped / reclassified, wherever necessary to conform to the current year's classification.

As per our report attached
for **B S R & Co.**
Chartered Accountants
Firm Registration No.: 101248W
S Sethuraman
Partner
Membership No.: 203491
Place: Hyderabad
Date: 13 May 2011

for **DR. REDDY'S LABORATORIES LIMITED**

Dr. K Anji Reddy Chairman
G V Prasad Vice Chairman and CEO
K Satish Reddy Managing Director and COO
Umang Vohra Chief Financial Officer
Sandeep Poddar Company Secretary

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	AS AT 31 MARCH 2011		AS AT 31 MARCH 2010	
SCHEDULE 1: SHARE CAPITAL				
Authorised				
240,000,000 (previous year: 240,000,000) equity shares of ₹ 5/- each (Refer Note 22 of Schedule 19)		1,200		1,200
Issued				
169,252,932 (previous year: 168,845,585) equity shares of ₹ 5/- each fully paid-up		846		844
Subscribed and paid-up				
169,252,732 (previous year: 168,845,385) equity shares of ₹ 5/- each fully paid-up	846		844	
Add: Forfeited share capital (Note 2)	–	846	–	844
		846		**844**

NOTES:

1. Subscribed and paid-up share capital includes:

    (a) 111,732,202 (previous year: 111,732,202) equity shares of ₹ 5/- each fully paid-up, allotted as bonus shares. Out of total, 34,974,400 shares were allotted by capitalisation of General Reserve and 76,757,802 equity shares allotted as bonus shares by capitalisation of the Securities Premium Account in earlier years.

    (b) 1,052,248 (previous year: 1,052,248) equity shares of ₹ 5/- each allotted pursuant to a scheme of amalgamation with Standard Equity Fund Limited without payments being received in cash.

    (c) 20,571,768 (previous year: 20,571,768) equity shares of ₹ 5/- each allotted and 82,800 (previous year: 82,800) equity shares of ₹ 5/- each extinguished pursuant to a scheme of amalgamation with erstwhile Cheminor Drugs Limited (CDL) without payments being received in cash.

    (d) 40,750,000 (previous year: 40,750,000) equity shares of ₹ 5/- each allotted against American Depository Shares (ADS).

    (e) 17,204,304 (previous year: 17,204,304) equity shares of ₹ 5/- each allotted against Global Depository Receipts (GDR) that were converted into ADS during the year ended 31 March 2002.

    (f) 226,776 (previous year: 226,776) equity shares of ₹ 5/- each allotted to the erstwhile members of American Remedies Limited (ARL) pursuant to a scheme of amalgamation with ARL without payments being received in cash.

    (g) 1,548,579 (previous year: 1,185,283) equity shares of ₹ 5/- each allotted to the eligible employees of the Company and its subsidiaries on exercise of the vested stock options in accordance with the terms of exercise under the "Dr. Reddy's Employees Stock Option Plan, 2002" (Refer Note 13 of Schedule 19).

    (h) 190,634 (previous year: 146,583) equity shares of ₹ 5/- each allotted to the eligible employees of the Company and its subsidiaries on exercise of the vested stock options in accordance with the terms of exercise under the "Dr. Reddy's Employees Stock Option Plan, 2007" (Refer Note 13 of Schedule 19).

2. Represents 200 (previous year: 200) equity shares of ₹ 5/- each, amount paid-up ₹ 500/- (rounded off in millions in the Schedule above) forfeited due to non-payment of allotment money.

3. 718,161 (previous year: 885,007) stock options are outstanding to be issued by the Company on exercise of the vested stock options in accordance with the terms of exercise under the "Dr. Reddy's Employees Stock Option Plan, 2002" and 124,559 (previous year: 112,390) stock options are outstanding to be issued by the Company on exercise of the vested stock options in accordance with the terms of exercise under the "Dr. Reddy's Employees ADR Stock Option Plan 2007" (Refer Note 13 of Schedule 19).

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 2: RESERVES AND SURPLUS		
Capital Reserve		
Balance at the beginning of the year	274	14
On account of amalgamation of Perlecan Pharma Private Limited (Refer Note 22 of Schedule 19)	–	260
	274	**274**
Securities premium account		
Balance at the beginning of the year	18,037	17,813
Add: Received during the year on exercise of employee stock options	241	224
	18,278	**18,037**
Employees stock options outstanding		
Balance at the beginning of the year	573	628
Add: Options granted during the year	424	264
Less: Options forfeited / expired during the year	(67)	(82)
Less: Options exercised during the year	(214)	(237)
Balance at the end of the year (A)	716	573
Deferred stock compensation cost		
Balance at the beginning of the year	223	239
Add: Options granted during the year	424	264
Less: Amortization during the year, net of forfeiture	(268)	(198)
Less: Options forfeited during the year	(68)	(82)
Balance at the end of the year (B)	311	223
(A) – (B)	**405**	**350**
General reserve		
Balance at the beginning of the year	14,058	13,212
Add: Transferred from profit and loss account	893	846
Less: Transferred to profit and loss account (Refer Note 23 of Schedule 19)	5,972	–
	8,979	**14,058**
Hedge Reserve		
Balance at the beginning of the year	508	(237)
Movement for the year (Refer Note 19 and 20 of Schedule 19)	38	745
	546	**508**
Foreign Currency Translation Reserve		
Balance at the beginning of the year	2,535	2,192
Movement for the year	363	343
	2,898	**2,535**
Debenture Redemption Reserve		
Balance at the beginning of the year	–	–
Add: Transferred from profit and loss account (Refer Note 23 of Schedule 19)	19	–
	19	**–**
Balance in consolidated profit and loss account	**8,073**	**1,162**
	39,472	**36,924**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 3: SECURED LOANS		
Loans from banks (Note 1)	39	15
Loans from institutions		
Finance lease obligations (Note 2)	256	253
Loan from Indian Renewable Energy Development Agency Limited (Note 3)	–	1
	295	**269**

NOTES:

1. Loan from Kunsham Rural Commercial Bank taken by Kunshan Rotam Reddy Pharmaceutical Company Limited ("Reddy Kunshan"), a consolidated joint venture carries an interest rate of 5.045% – 5.757% per annum and also loan taken from State Bank of India carries an interest rate of 3.793% per annum.

2. Finance lease obligations represent present value of minimum lease rental payable for the building and vehicles taken by the Company and its subsidiary companies respectively (Refer note 16 of Schedule 19).

3. Loan from Indian Renewable Energy Development Agency Limited is secured by way of hypothecation of specific movable assets pertaining to the Solar Grid Interactive Power Plant. The loan was repayable in quarterly installments of ₹ 1.48 each quarter and carried an interest rate of 2% per annum. This loan has been repaid during the year.

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 4: UNSECURED LOANS		
Sales tax deferment loan from the Government of Andhra Pradesh (interest free) (Note 1)	52	55
From Banks		
Packing credit loans (Note 2)	9,242	5,530
Long-term foreign currency loan (Note 3)	–	8,899
Bank overdraft (Note 4)	69	38
Other short-term loans (Note 5 and 6)	8,969	49
9.25% Redeemable Non-convertible Debentures (Note 7)	5,078	–
	23,410	**14,571**

NOTES:

1. Amount repayable in 12 months is ₹ 2.

2. Foreign Currency Packing Credit comprises loans from J.P.Morgan Chase, The Bank of Tokyo-Mitsubishi UFJ LTD, BNP Paribas and HSBC carrying interest rates of LIBOR plus 52 – 80 bps; loan from Credit Agricole Corporate & Investment Bank and The Bank of Nova Scotia carrying a fixed rate of interest of 1.120% – 2.085% per annum, which are repayable on expiry of 6 months from the date of drawdown; Rupee packing credit from State Bank of India carrying interest rate of 8.75% per annum. Packing Credit loans for the previous year comprised foreign currency packing credit loan that were taken from Standard Chartered Bank, The Bank of Nova Scotia, BNP Paribas, ABN Amro Bank and HSBC carrying interest rates of LIBOR plus 40 – 75 bps, repayable on expiry of 6 months from the date of drawdown and Rupee packing credit from State Bank of India carrying interest rate of 5% per annum.

3. Long-term foreign currency loan was guaranteed by the Company and certain subsidiaries of the Group. The loan carried an interest rate of EURIBOR plus 150 basis points. Effective 24 November 2006 the interest rate was changed to EURIBOR plus 70 basis points on euro portion of the loan and LIBOR plus 70 basis points on dollar portion of the loan. During the year the Group repaid the balance outstanding amount through three new short-term borrowings aggregating to ₹ 5,972.

4. Bank overdraft is on the current accounts with Citibank, State Bank of India, HDFC and HSBC bank carrying interest rates of 10.50%, 11.00%, 12.00% and 10.50% per annum, respectively. (Bank overdraft in the previous year was on current accounts with Citibank, State Bank of India and HDFC Bank carrying interest rates of 10.75%, 10.25% and 14.50% per annum, respectively).

5. Short-term loan taken by subsidiary from Citibank carrying interest rates of 1.95% – 8% per annum, from Bank of America carrying interest rate of 1.61% – 1.79% per annum and from Royal Bank of Scotland carrying interest rate of 5.38% per annum.

6. Loan from the State Bank of India taken by Aurigene Discovery Technologies Limited is covered by way of Corporate Guarantee given by Parent Company. The loan carried an interest rate of 11.75% per annum. This loan was fully repaid during the year.

7. Refer Note No 23 of Schedule 19. Amount repayable in 12 months is ₹ Nil.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

DESCRIPTION	GROSS BLOCK					DEPRECIATION / AMORTIZATION / IMPAIRMENT						NET BLOCK	
	AS AT 1 APRIL 2010	ADDITIONS (NOTE 8)	DELETIONS	FOREIGN EXCHANGE ADJUSTMENTS (NOTE 3)	AS AT 31 MARCH 2011	AS AT 1 APRIL 2010	DEPRECIATION / AMORTIZATION FOR THE YEAR	IMPAIRMENT (NOTE 4)	DELETIONS	FOREIGN EXCHANGE ADJUSTMENTS (NOTE 3)	AS AT 31 MARCH 2011	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Land – freehold (Note 1)	2,000	1,598	55	13	3,556	–	–	–	–	–	–	3,556	2,000
Land – leasehold	158	–	–	5	163	6	2	–	–	1	9	154	152
Buildings	5,665	1,883	24	9	7,533	1,078	269	–	13	2	1,336	6,197	4,587
Plant and machinery (Note 2)	13,869	3,336	138	56	17,123	6,500	1,626	–	128	23	8,021	9,102	7,369
Electrical equipment	1,767	459	11	–	2,215	794	208	–	10	–	992	1,223	973
Laboratory equipment	3,097	854	4	1	3,948	1,866	362	–	1	–	2,227	1,721	1,231
Furniture, fixtures and office equipment	2,070	540	142	13	2,481	1,434	351	–	142	11	1,654	827	636
Vehicles	465	166	94	1	538	247	106	–	79	1	275	263	218
Intangibles													
Customer contracts	602	–	–	(2)	600	521	15	–	–	(2)	534	66	81
Goodwill (Note 5 and 6)	24,059	3,205	–	1,055	28,319	20,792	531	–	–	937	22,260	6,059	3,267
Patents, trademarks and designs (including Marketing Know-how) (Note 7)	9,750	2,089	3	436	12,272	6,990	475	–	1	368	7,832	4,440	2,760
Technical know-how	459	14	–	–	473	428	21	–	–	–	449	24	31
Non-compete fees	228	–	–	–	228	228	–	–	–	–	228	–	–
	64,189	**14,144**	**471**	**1,587**	**79,449**	**40,884**	**3,966**	**–**	**374**	**1,341**	**45,817**	**33,632**	**23,305**
Assets taken on lease													
Buildings	250	–	–	12	262	38	9	–	–	2	49	213	212
Vehicles	29	11	–	–	40	24	6	–	–	–	30	10	5
Total	**64,468**	**14,155**	**471**	**1,599**	**79,751**	**40,946**	**3,981**	**–**	**374**	**1,343**	**45,896**	**33,855**	**23,522**
Previous year	**65,027**	**4,067**	**889**	**(3,737)**	**64,468**	**35,757**	**4,131**	**4,583**	**457**	**(3,068)**	**40,946**	**23,522**	

NOTES:

1. In pursuance of an allotment letter ("the letter") dated 16 October 2001, received from Karnataka Industrial Area Development Board, Aurigene Discovery Technologies Limited, a consolidated subsidiary, acquired land located at Electronics City, Bangalore, on a lease-cum-sale basis. In terms of the letter, the lease shall be converted into a sale at the end of six years subject to fulfillment of all the terms and conditions of the allotment. Pending completion of the period of six years and fulfillment of the terms and conditions of the allotment, the amount incurred on the land acquisition aggregating to ₹ 50 (previous year: ₹ 50) has been accounted as leasehold land. Since the period of six years has been completed, converting lease into sale is under process.
2. The Group owns a treated effluent discharge pipeline with a cost of ₹ 9 (previous year: ₹ 9) and net book value of ₹ Nil (previous year: ₹ Nil) in equal proportion jointly with a third party in Pydibheemavaram pursuant to a mutual agreement.
3. Foreign exchange adjustments represents exchange differences resulting from translation of fixed assets relating to non-integral foreign operations.
4. The details of impairment losses have been set out in the Note 18 of Schedule 19.
5. During the year, the Group acquired the minority interest of 40 percent in Dr. Reddy's Laboratories (Proprietary) Limited from Calshelf Investments 214 (Proprietary) Limited. The total purchase consideration amounting to ₹ 525 (or, in South African Rand, ZAR 81 millions), which has been recorded as Goodwill.
6. During the year, the Group acquired the controlling interest in I-VEN Pharma Capital Limited for a consideration of ₹ 2,680 (Refer Note 14 of Schedule 19).
7. The Group entered into an agreement with Coria Laboratories Limited for acquisition of New Drug Application, intellectual property rights and license to use trademarks with respect to product Cloderm. The Group has recorded this as an intangible asset amounting to ₹ 1,777 as at 31 March 2011. This amount includes royalty amount of ₹ 171 payable over a period of 8 years.
8. The details of the assets acquired on acquisition of GSK's manufacturing facility is set out in Note 7 of Schedule 19.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 6: INVESTMENTS		
Long-term, unless otherwise specified		
Investment in associates (Refer Note 5 of Schedule 19)	–	–
Other investments (at cost)		
Aggregate cost of quoted investments (Note 1)	3	3
Aggregate cost of unquoted investments	71	71
Current Investments, at cost or fair value whichever is less		
Mutual funds	–	3,276
Certificate of deposits	–	298
	74	3,648
Less: Provision for decline, other than temporary, in the value of investments	(65)	(68)
	9	**3,580**
Market value of quoted investments	33	25
Market value of mutual funds	–	3,277
Market value of Certificate of deposits	–	299

NOTES:

1. In respect of shares of State Bank of India, the share certificates were misplaced during transfer / lost in transit. The Company has initiated necessary legal action at the appropriate courts.

2. The following mutual funds were purchased and sold during the year:

PARTICULARS	UNITS PURCHASED AND SOLD (IN NO. OF UNITS)		COST PRICE	
	31 MARCH 2011	31 MARCH 2010	31 MARCH 2011	31 MARCH 2010
Reliance Money Manager Fund Institutional Option Daily Dividend Plan	474,686	–	475	–
Reliance Money Manager Fund Institutional Option Growth Plan	1,044,618	–	1,355	–
Reliance Money Interval Fund Series I Institutional Dividend Plan	7,998,000	–	80	–
ICICI Prudential Flexible Income Plan Premium-Growth	1,109,339	–	195	–
ICICI Prudential Liquid Super Institutional Plan-Growth	685,327	–	95	–
ICICI Prudential Ultra Short-term Plan Super Premium Daily Dividend	50,048,994	–	500	–
ICICI Prudential Flexible Income Plan Premium-Daily Dividend	13,372,685	–	1,410	–
ICICI Prudential Flexible Liquid Super Institutional Plan-Daily-Dividend	4,999,567	–	500	–
Birla Sun Life Saving Fund-Institutional-Daily Dividend Reinvestment	53,073,644	–	530	–
Birla Sun Life Cash Plus Retail Daily Dividend Reinvestment	5,817,428	–	95	–
Birla Sun Life Medium Term Plan Institutional-Weekly Dividend Reinvestment	50,252,437	–	500	–
Templeton Floating Rate Income Fund Super Institutional Option – Daily Dividend Reinvestment	40,073,165	–	400	–
IDFC Saving advantage Fund Plan A Daily Dividend	511,573	–	507	–
UTI Treasury Advantage Fund – Institutional Plan (Daily Dividend Option) – Reinvestment	462,198	–	460	–
UTI-Floating Rate Fund – Short-term Plan – Institutional Daily Dividend Plan – Reinvestment	273,315	–	270	–
SBNPP Flexible Fund ST Institutional – Daily Dividend	40,467,845	–	400	–
HDFC Liquid Fund – Premium Plan – Growth	25,358,736	–	480	–
HDFC Liquid Fund-Dividend-Daily-Option Reinvestment	28,977,330	445,589,313	295	4,517
HDFC Cash Management Fund-Treasury Advantage Plan-Wholesale Daily Dividend Option Reinvestment	72,832,128	115,551,364	730	2,050
HDFC Cash Management Fund-Treasury Advantage Plan-Wholesale Growth Option	18,907,048	–	395	–
TATA Floater Fund – Daily Dividend	–	9,964,526	–	100
TATA Liquid Super High Investment Daily Dividend	–	430,679	–	480
Birla Sun Life Saving Fund-Institutional Daily Dividend Reinvestment	–	111,446,960	–	1,115
Birla sun life Saving Fund-Retail Daily Dividend Reinvestment	–	198,943,862	–	1,991
Birla Sun Life Cash Plus-Retail Daily Dividend Reinvestment	–	195,547,790	–	3,201
Birla Sun Life Cash Plus-Institutional. Daily Dividend Reinvestment	–	36,566,287	–	395

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 6: INVESTMENTS (CONTINUED)

2. The following mutual funds were purchased and sold during the year (continued)

PARTICULARS	UNITS PURCHASED AND SOLD (IN NO. OF UNITS)		COST PRICE	
	31 MARCH 2011	31 MARCH 2010	31 MARCH 2011	31 MARCH 2010
Kotak Flexi Debt Scheme Institutional-Daily Dividend	–	104,503,608	–	1,050
ICICI Liquid Plan-Institutional-Daily Dividend	–	2,447,216	–	290
ICICI Prudential Flexible Income Plan Premium-Daily Dividend	–	45,786,540	–	881
ICICI Prudential Institutional Liquid Plan-Daily Dividend Option	–	184,385,074	–	2,185
HDFC Cash Management Fund-Treasury Advantage Plan-Retail Daily Dividend Option Reinvestment	–	102,676,569	–	1,600
Reliance Money Manager FUND Institutional Option-Daily Dividend Plan	–	1,058,797	–	1,060

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 7: INVENTORIES		
Stores, spares and packing materials	1,119	988
Raw materials	4,799	4,051
Work-in-process	4,091	3,901
Finished goods	5,983	4,454
	15,992	**13,394**

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 8: SUNDRY DEBTORS		
(Unsecured)		
Debts outstanding for a period exceeding six months		
Considered good	642	789
Considered doubtful	494	419
Other debts		
Considered good	15,865	10,810
	17,001	**12,018**
Less: Provision for doubtful debts	(494)	(419)
	16,507	**11,599**

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 9: CASH AND BANK BALANCES		
Cash in hand	6	9
Balances with banks		
In current accounts	5,150	3,298
In EEFC current accounts	25	4
In deposit accounts (Note 1)	549	3,271
In unclaimed dividend accounts	20	17
In unclaimed fractional share pay order accounts	1	1
	5,751	**6,600**

NOTE:

1. Deposits with banks include deposits with scheduled and non-scheduled banks include ₹ 300 thousands (previous year: ₹ 1,068 thousands) representing margin money for letters of credit and bank guarantees.
2. Balances in current accounts include an amount of ₹ 150 set aside in an escrow account (Refer Note 14 of Schedule 19).

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 10: LOANS AND ADVANCES		
(Unsecured)		
Considered good		
Advances to material suppliers	481	567
Staff loans and advances	44	47
Interest accrued but not due	–	22
Other advances recoverable in cash or in kind or for value to be received	5,490	3,439
Advance tax, net of provision for current taxes	926	221
Balances with statutory authorities	1,978	1,995
Deposits	348	318
	9,267	**6,609**
Considered doubtful		
Advances towards investment	8	8
Other advances recoverable in cash or in kind or for value to be received	47	51
	9,322	**6,668**
Less: Provision for doubtful loans and advances	(55)	(59)
	9,267	**6,609**

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 11: CURRENT LIABILITIES		
Sundry creditors and accrued expenses (Note 1-3)	20,109	16,679
Interest accrued but not due on loan	11	–
Unclaimed dividends *	20	17
Trade deposits	48	50
	20,188	**16,746**

* Investor Protection and Education Fund is being credited by the amounts of unclaimed dividends after seven years from the due date.

NOTES:

1. The principal amount paid and that remaining unpaid as at 31 March 2011 in respect of enterprises covered under the "Micro, Small and Medium Enterprises Development Act, 2006" (MSMDA) are ₹ 2,215 (previous year: ₹ 2,960) and ₹ 218 (previous year: ₹ 154) respectively. The interest amount computed based on the provisions under Section 16 of the MSMDA ₹ 12 (previous year: ₹ 12) is remaining unpaid as of 31 March 2011. The interest that remained unpaid as at 31 March 2010 was paid to the extent of ₹ 9 during the current year.

2. The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act is ₹ Nil (previous year: ₹ Nil).

3. The list of undertakings covered under MSMDA were determined by the Company on the basis of information available with the Company and have been relied upon by the auditors.

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
SCHEDULE 12: PROVISIONS		
Proposed dividend	1,904	1,900
Tax on proposed dividend	309	316
Provision for		
Gratuity (Refer Note 17 of Schedule 19)	119	26
Long service award benefit plan (Refer Note 17 of Schedule 19)	69	53
Pension, Seniority and Severence Indemnity plan (Refer Note 17 of Schedule 19)	95	59
Compensated absences	185	151
Taxation, net of advance taxes	759	997
	3,440	**3,502**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
SCHEDULE 13: OTHER INCOME		
Interest Income:		
On fixed deposits (gross, tax deducted at source: ₹ 8; previous year: ₹ 24)	86	197
On others	19	52
Profit on sale of fixed assets, net	251	–
Dividend from mutual fund units	58	47
Sale of spent chemicals	254	209
Profit on sale of investments	10	–
Foreign exchange gain, net	–	73
Miscellaneous income	581	436
	1,259	**1,014**

	FOR THE YEAR ENDED 31 MARCH 2011		FOR THE YEAR ENDED 31 MARCH 2010	
SCHEDULE 14: MATERIAL COSTS				
(a) Net (increase) / decrease in stock				
Opening				
Work-in-process	3,901		2,989	
Finished goods	4,454	8,355	5,613	8,602
Closing				
Work-in-process	4,091		3,901	
Finished goods	5,837		4,454	
Add: Stocks acquired on acquisition (Note 1)	146	10,074	–	8,355
Net (increase) / decrease		(1,719)		247
(b) Raw materials consumed (Note 2 and 3)		11,895		14,557
(c) Stores, chemicals, spares and packing material consumed		4,713		2,680
(d) Purchase of traded goods		7,098		5,813
		21,987		**23,297**

NOTES:

1. During the year, stock added on acquisition include ₹ 146 on acquisition of GSK's manufacturing facility in Bristol, Tennessee (Refer Note 7 of Schedule 19).
2. Raw materials consumed include ₹ 1,237 (previous year: ₹ 1,011) being provision created on inventory obsolescence, ₹ 326 (previous year: ₹170) being cost of samples issued and is net of ₹ 2,887 (previous year: ₹ 2,596) being sale of raw materials.
3. Raw material consumption is net of credit availed under Duty Entitlement Pass Book Scheme, Focus Market Scheme and Market Linked Focus Product Scheme amounting to ₹ 1,491 (previous year: ₹ 573).

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
SCHEDULE 15: PERSONNEL COSTS		
Salaries, wages and bonus	10,827	9,477
Contribution to provident and other funds	654	614
Workmen and staff welfare expenses	1,037	1,543
Amortization of deferred stock compensation cost	268	198
	12,786	**11,832**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
SCHEDULE 16: OPERATING AND OTHER EXPENSES		
Advertisements	851	477
Commission on sales	338	401
Carriage outwards	2,025	1,703
Other selling expenses	4,235	4,329
Legal and professional charges	2,345	1,688
Power and fuel	1,833	1,415
Repairs and maintenance		
Buildings	56	68
Plant and machinery	1,193	1,015
Others	877	913
Insurance	265	262
Travelling and conveyance	963	760
Rent	419	519
Communication	330	273
Rates and taxes	300	243
Printing and stationery	136	117
Donations	132	152
Bad debts written-off (is net of adjustment against provision for doubtful debts of ₹ 138; previous year: ₹ 34)	84	91
Provision for doubtful advances, net	(4)	(17)
Provision for doubtful debts, net	75	77
Advances written off (is net of adjustment against provision for doubtful advances ₹ (19); previous year: ₹ Nil)	48	–
Directors' sitting fees (₹ 409 thousands; previous year: ₹ 339 thousands, rounded off in millions)	–	–
Directors' remuneration	283	257
Auditors' remuneration	11	16
Bank charges	77	73
Loss on sale of fixed assets, net	–	24
Foreign exchange loss, net	46	–
Settlement of legal claim from Innovator (Refer Note 4 of Schedule 19)	80	48
Miscellaneous	1,010	1,116
	18,008	**16,020**

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
SCHEDULE 17: FINANCE CHARGES		
Interest on packing credit loans	38	41
Interest on long-term loans	99	249
Interest on short-term loans	87	–
Interest on debentures	10	–
Other finance charges	12	22
	246	**312**

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
SCHEDULE 18: INCOME TAX		
Current taxes		
Domestic taxes	2,253	2,565
MAT credit entitlement	(862)	–
Foreign taxes	715	687
	2,106	**3,252**
Deferred taxes		
Domestic taxes	213	(154)
Foreign taxes	(480)	(406)
	(267)	**(560)**
Fringe benefit tax	**–**	**(24)**
	1,839	**2,668**

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared and presented in accordance with the Indian Generally Accepted Accounting Principles ("GAAP") under the historical cost convention on the accrual basis. GAAP comprises accounting standards notified by the Central Government of India under Section 211 (3C) of the Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India, the provisions of Companies Act, 1956 and guidelines issued by Securities and Exchange Board of India.

b) Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the consolidated financial statements and reported amounts of revenues and expenses for the year. Actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in the current and future periods.

c) Principles of consolidation

The consolidated financial statements include the financial statements of Dr. Reddy's Laboratories Limited ("DRL or "the Company"), the parent company and all of its subsidiaries (collectively referred to as "the Group" or "Dr. Reddy's Group"), in which the Company has more than one-half of the voting power of an enterprise or where the Company controls the composition of the board of directors. In accordance with AS-27 – "Financial Reporting of Interests in Joint Ventures", issued under Companies (Accounting Standards) Rules, 2006, the Group has accounted for its proportionate share of interest in a joint venture by the proportionate consolidation method. The joint venture arrangement has been more fully described in Note 6 below.

The consolidated financial statements have been prepared on the following basis:

- The financial statements of the parent company and the subsidiaries have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances / transactions and resulting unrealised profits in full. Unrealised losses resulting from intra-group transactions have also been eliminated except to the extent that recoverable value of related assets is lower than their cost to the group. The amounts shown in respect of reserves comprise the amount of the relevant reserves as per the balance sheet of the parent company and its share in the post-acquisition increase in the relevant reserves of the subsidiaries.
- The Group accounts for investments by the equity method of accounting where it is able to exercise significant influence over the operating and financial policies of the investee. Inter company profits and losses have been proportionately eliminated until realised by the investor or investee.
- Pursuant to the adoption of AS-27 "Financial Reporting of Interest in Joint Ventures", the Group does not consolidate entities where, regardless of the share of capital contributions, the minority shareholders have significant participating rights jointly with the Group, that provide for effective involvement in significant financial and operating decisions in the ordinary course of business.
- The proportionate share of Group's interest in Joint Ventures is combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses after eliminating intra-group transactions and resulting unrealised profits, to the extent it pertains to the Group.
- The excess / deficit of cost to the parent company of its investment in the subsidiaries, joint ventures and associates over its portion of equity at the respective dates on which investment in such entities were made is recognised in the financial statements as goodwill / capital reserve. The parent company's portion of equity in such entities is determined on the basis of the book values of assets and liabilities as per the financial statements of such entities as on the date of investment and if not available, the financial statements for the immediately preceding period adjusted for the effects of significant transactions, up to the date of investment. Goodwill / capital reserve arising on the acquisition of an associate by the parent company is included in the carrying amount of investment in the associate but is disclosed separately.
- The consolidated financial statements are presented, to the extent possible, in the same format as that adopted by the parent company for its separate financial statements.
- The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

d) Fixed assets and depreciation

Fixed assets are carried at the cost of acquisition or construction, less accumulated depreciation. The cost of fixed assets includes non-refundable taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised.

Advances paid towards the acquisition of the fixed assets outstanding at each balance sheet date and the cost of fixed assets not ready for their intended use before such date are disclosed under capital work-in-progress.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Fixed assets and depreciation (continued)

Depreciation on fixed assets is provided using the straight-line method at the rates specified in schedule XIV to the Companies' Act, 1956 or based on the useful lives of the assets as estimated by Management, whichever is higher. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000/- are depreciated in full in the year of acquisition.

The Management's estimates of the useful lives for various categories of fixed assets are given below:

	YEARS
Buildings	
– Factory and administrative buildings	20 to 30
– Ancillary structures	3 to 10
Plant and machinery	3 to 15
Electrical equipment	5 to 15
Laboratory equipment	5 to 15
Furniture, fixtures and office equipment (other than computer equipment)	4 to 8
Computer equipment	3
Vehicles	4 to 5
Library	2
Leased vehicles	3

Leasehold land and buildings are being amortised over the primary period of the lease. Vehicles acquired on finance leases are depreciated over the period of the lease agreement or the useful life, whichever is shorter.

e) Intangible assets and amortization

Intangible assets are recorded at the consideration paid for acquisition. Intangible assets are amortised over their estimated useful lives on a straight-line basis, commencing from the date the asset is available to the Group for its use. The management estimates the useful lives for the various intangible assets as follows:

	YEARS
Goodwill	5 to 20
Patents, trademarks, etc. (including marketing / distribution rights)	3 to 10
Customer contracts	2 to 10
Technical know-how	10
Non-compete fees	1.5 to 10

f) Investments

Long-term investments, other than investments in associates, are stated at cost. A provision for diminution is made to recognise a decline, other than temporary, in the value of long-term investments. Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

Investments in associates, accounted under the equity method of accounting, are initially recorded at cost, identifying any goodwill / capital reserve at the time of acquisition. The carrying amount of such investments is adjusted thereafter for the post acquisition change in the Group's share of net assets of the investee unless there is an agreement to the contrary. The carrying amount of investment in an associate is reduced to recognise a decline, other than temporary, in the value of the investment, such reduction being determined and made for each investment individually.

g) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of inventories comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The methods of determining cost of various categories of inventories are as follows:

Raw materials	First in first out (FIFO)
Stores and spares and packing materials	Weighted average method
Work-in-process and finished goods (manufactured)	FIFO and including an appropriate share of production overheads
Finished goods (traded)	Specific identification method

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Research and development

Revenue expenditure on research and development is expensed as incurred. Capital expenditure incurred on research and development is capitalised as fixed assets and depreciated in accordance with the depreciation policy of the Group.

i) Employee benefits

Contributions payable to an approved gratuity fund (a defined benefit plan) and certain defined benefit plans at overseas subsidiaries determined by independent actuaries at the balance sheet date are charged to the profit and loss account. Provision for compensated absences cost is made on the basis of actuarial valuation at the balance sheet date, carried out by an independent actuary.

Contributions payable to recognised provident funds, approved superannuation scheme, employee pension and social security schemes in certain overseas subsidiaries, which are defined contribution schemes, are charged to the profit and loss account.

All actuarial gains and losses arising during the year are recognized in the profit and loss account for the year.

j) Foreign currency transactions, balances and translation of financial statements of foreign subsidiaries and joint venture

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the profit and loss account.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date not covered by forward exchange contracts are translated at year-end rates. The resultant exchange differences are recognised in the profit and loss account. Non-monetary assets are recorded at the rates prevailing on the date of the transaction.

Forward contracts are entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date. The premium or discount on all such contracts arising at the inception of each contract is amortised as expense or income over the life of the contract. Any profit or loss arising on the cancellation or renewal of forward contracts is recognised as income or expense for the period.

In relation to the forward contracts entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date, the exchange difference is calculated and recorded in accordance with AS-11 (revised). The exchange difference on such a forward exchange contract is calculated as the difference of the foreign currency amount of the contract translated at the exchange rate at the reporting date, or the settlement date where the transaction is settled during the reporting period, and the corresponding foreign currency amount translated at the later of the date of inception of the forward exchange contract and the last reporting date. Such exchange differences are recognized in the profit and loss account in the reporting period in which the exchange rates change.

The financial statements of the foreign integral subsidiaries, representative offices and 'collectively referred to as the 'foreign integral operations' are translated into Indian rupees as follows:

- Revenue items, except depreciation are translated at the respective monthly average rates. Depreciation is translated at the rates used for the translation of the values of the assets on which depreciation is calculated.
- Monetary items are translated using the closing rate.
- Non-monetary items are translated using the exchange rate at the date of transaction i.e. the date when they were acquired.
- The net exchange difference resulting from the translation of items in the financial statements of foreign integral operations is recognised as income or as expense for the year.
- Contingent liabilities are translated at the closing rate.

The following consolidated foreign subsidiaries and joint venture have been identified as non-integral operations in accordance with the requirements of AS-11 (Revised 2003):

- Reddy US Therapeutics Inc.
- Dr. Reddy's Laboratories (EU) Limited
- Dr. Reddy's SRL (formerly Jet Generici SRL)
- Aurigene Discovery Technologies Inc.
- Industrias Quimicas Falcon de Mexico SA de CV
- Reddy Holding GmbH

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Foreign currency transactions, balances and translation of financial statements of foreign subsidiaries and joint venture (continued)

- betapharm Arzneimittel GmbH
- beta institut fur sozialmedizinische Forschung und Entwicklung GmbH
- beta Healthcare Solutions GmbH
- Lacock Holdings Limited
- Reddy Pharma Iberia SA
- Reddy Pharma Italia SpA
- Kunshan Rotam Reddy Pharmaceutical Company Limited
- Chirotech Technology Limited
- Dr. Reddy's Laboratories Louisiana LLC
- Promius Pharma LLC (formerly Reddy Pharmaceuticals LLC)
- Dr. Reddy's Laboratories Tennessee LLC

In accordance with AS-11 (Revised 2003) "The Effect of Changes in Foreign Exchange rates", the financial statements of such non-integral foreign operations are translated into Indian rupees as follows:

- All assets and liabilities, both monetary and non-monetary, are translated using the closing rate.
- Revenue items are translated at the respective monthly average rates.
- The resulting net exchange difference is credited or debited to a foreign currency translation reserve. However, an exchange difference arising out of intragroup monetary item, whether short-term or long-term is recognised in the profit and loss account.
- Contingent liabilities are translated at the closing rate.

k) Derivative instruments and hedge accounting

The Group uses foreign exchange forward contracts and options to hedge its movements in foreign exchange rates and does not use the foreign exchange forward contracts and options for trading or speculative purposes.

Pursuant to ICAI Announcement ''Accounting for Derivatives" on the early adoption of Accounting Standard AS-30 ''Financial Instruments: Recognition and Measurement", the Group has adopted the Standard to the extent that the adoption does not conflict with existing mandatory accounting standards and other authoritative pronouncements, Company law and other regulatory requirements.

The Group classifies foreign currency options in respect of the forecasted transactions at the inception of each contract meeting the hedging criterion, as cash flow hedges. Changes in the fair value of options classified as cash flow hedges are recognised directly in reserves and surplus (under the head "Hedging Reserves") and are reclassified into the profit and loss account upon the occurrence of the hedged transaction. The gains / losses on options designated as cash flow hedges are included along with the underlying hedged forecasted transactions. The exchange differences relating to options not designated as cash flow hedges are recognised in the profit and loss account as they arise. Further, the changes in fair value relating to the ineffective portion of the cash flow hedges are recognised in the profit and loss account as they arise.

Fair value of foreign currency option contracts is determined based on the appropriate valuation techniques considering the terms of the contract.

In addition to the use of derivative financial instruments to hedge foreign currency exposure, the Company designates certain non-derivative financial liabilities, denominated in foreign currencies, as hedges against foreign currency exposures associated with forecasted transactions. Accordingly, exchange differences arising on re-measurement of such non-derivative liabilities are recognized directly as part of 'hedging reserve' included as part of reserves and surplus, to the extent that the hedge is effective.

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 hedging reserve remains there until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, then the balance in hedging reserve is recognized immediately in profit or loss account. In other cases the amount recognized in hedging reserve is transferred to profit or loss account in the same period that the hedged item affects profit or loss account.

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Revenue recognition

Revenue from sale of goods is recognised when significant risks and rewards in respect of ownership of products are transferred to customers. 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.

Revenue from product sales is stated exclusive of returns, sales tax and applicable trade discounts and allowances.

Accrual 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. Accrual for such chargeback are accrued and estimated based on historical average chargeback rate actually claimed over a period of time, current contract prices with wholesalers / other customers and estimated inventory holding by the wholesaler. Such provisions are presented as a reduction of trade receivable.

Revenue from services rendered, which primarily relate to contract research, is recognized in profit or loss as the underlying services are performed. Upfront non-refundable payments received under these arrangements are deferred and recognised as revenue over the expected period over which the related services are expected to be performed.

Dividend income is recognised when the unconditional right to receive the income is established. Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

Export entitlements are recognised as income when the right to receive credit as per the terms of the scheme is established in respect of the exports made and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.

m) Income tax expense

Income tax expense comprises current tax and deferred tax charge or credit.

Current tax

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the entities in the Group.

Deferred tax

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets. Deferred tax assets are reviewed at each balance sheet date and written-down or written-up to reflect the amount that is reasonably or virtually certain (as the case may be) to be realised.

The break-up of the major components of the deferred tax assets and liabilities as at the balance sheet date have been arrived at after setting off deferred tax assets and liabilities where the Group has a legally enforceable right to set-off assets against liabilities, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

n) Earnings per share

The basic earnings per share ("EPS") is computed by dividing the net profit after tax for the year by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, net profit after tax for the year and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. The dilutive potential equity shares are deemed converted as of the beginning of the year, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares).

o) Employee stock option schemes

In accordance with the Securities and Exchange Board of India guidelines, the excess of the market price of shares, at the date of grant of options under the Employee stock option schemes, over the exercise price is treated as employee compensation and amortised over the vesting period.

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Impairment of assets

The Group assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

q) Provisions and contingent liabilities

The Group creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

r) Leases

Assets taken on lease where the Group acquires substantially the entire risks and rewards incidental to ownership are classified as finance leases. The amount recorded is the lesser of the present value of the minimum lease rental and other incidental expenses during the lease term or the fair value of the assets taken on lease. The rental obligations, net of interest charges, are reflected in secured loan. Leases that do not transfer substantially all of the risks and rewards of ownership are classified as operating leases and recorded as expenses as and when payments are made over the lease term.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

2. DESCRIPTION OF THE GROUP

The Dr. Reddy's Group is a leading India-based pharmaceutical group headquartered in Hyderabad, India. The Group's principal areas of operation are pharmaceutical services and active ingredients, global generics, custom pharmaceutical services and proprietary products. The Group's principal research and development facilities are located in Andhra Pradesh, India and in the United States; its principal manufacturing facilities are located in Andhra Pradesh, India, Himachal Pradesh, India, Cuernavaca-Cuautla, Mexico, Mirfeild, the United Kingdom and Louisiana, the United States; and its principal marketing facilities are located in India, Russia, the United States, the United Kingdom and Germany. The Group's shares trade on the Bombay Stock Exchange and the National Stock Exchange in India and, since 11 April 2001, also on the New York Stock Exchange in the United States. The Group debentures are listed on Bombay Stock Exchange and National Stock Exchange since 7 April 2011.

Dr. Reddy's subsidiaries, step-down subsidiaries, associates and joint venture are listed below:

ENTITY	COUNTRY OF INCORPORATION	PERCENTAGE HOLDING (%)
Subsidiaries		
OOO JV Reddy Biomed Limited ("RBL")	A Company organised under the laws of Russia	100
Reddy Pharmaceuticals Hong Kong Limited	A Company organised under the laws of Hong Kong	100
Reddy Cheminor SA	A Company organised under the laws of Chartres, France	100
Reddy Antilles NV ("RANV")	A Company organised under the laws of Antilles, Netherlands	100
Dr. Reddy's Farmaceutica Do Brasil Ltda.	A Company organised under the laws of Brazil	100
Aurigene Discovery Technologies Limited	A Company organised under the laws of India	100
Cheminor Investments Limited	A Company organised under the laws of India	100
DRL Investments Limited	A Company organised under the laws of India	100
OOO Dr. Reddy's Laboratories Limited	A Company organised under the laws of Russia	100
Dr. Reddy's Laboratories (Proprietary) Limited	A Company organised under the laws of the Republic of South Africa	100
Dr. Reddy's Bio-Sciences Limited	A Company organised under the laws of India	100
Trigenesis Therapeutics Inc.	A Company organised under the laws of New Jersey, USA	100
Industrias Quimicas Falcon de Mexico SA de CV ("Falcon")	A Company organised under the laws of Mexico	100
Dr. Reddy's Laboratories (Australia) Pty. Limited	A Company organised under the laws of Australia	100
Reddy Pharma Iberia SA	A Company organised under the laws of Spain	100
Lacock Holdings Limited ("Lacock")	A Company organised under the laws of Cyprus	100
Dr. Reddy's Laboratories SA	A Company organised under the laws of Switzerland	100
Dr. Reddy's Laboratories ILAC TICARET Limited SIRKETI	A Company organised under the laws of Turkey	100
Dr. Reddy's Pharma SEZ Limited	A Company organised under the laws of India	100
Idea2Enterprises (India) Private Limited (from 30 June 2010)	A Company organised under the laws of India	100
Step-down subsidiaries		
Reddy Netherlands BV	A subsidiary of Reddy Antilles NV, organised under the laws of Netherlands	100
Reddy US Therapeutics Inc. ("Reddy US")	A subsidiary of Reddy Antilles NV, organised under the laws of Atlanta, USA	100
Dr. Reddy's Laboratories Inc. ("DRLI")	A subsidiary of Dr. Reddy's Laboratories SA, organised under the laws of New Jersey, USA	100
Promius Pharma LLC (formerly Reddy Pharmaceuticals LLC)	A subsidiary of Dr. Reddy's Laboratories Inc., organised under the laws of Delaware, USA	100
Dr. Reddy's Laboratories (EU) Limited ("DREU")	A subsidiary of Dr. Reddy's Laboratories SA, organised under the laws of United Kingdom	100
Dr. Reddy's Laboratories (UK) Limited ("DRUK")	A subsidiary of Dr. Reddy's Laboratories (EU) Limited, organised under the laws of the United Kingdom	100
Aurigene Discovery Technologies Inc. ("AI")	A subsidiary of Aurigene Discovery Technologies Limited, organised under the laws of Massachusetts, USA	100
Reddy Holding GmbH ("RHG")	A subsidiary of Lacock Holdings Limited organised under the laws of Germany	100
betapharm Arzneimittel GmbH	A subsidiary of Reddy Holding GmbH organised under the laws of Germany	100
beta Healthcare Solutions GmbH	A subsidiary of Reddy Holding GmbH organised under the laws of Germany	100
beta institut fur sozialmedizinische Forschung und Entwicklung GmbH	A subsidiary of Reddy Holding GmbH organised under the laws of Germany	100
Reddy Pharma Italia SPA	A subsidiary of Lacock Holdings Limited organised under the laws of Italy	100
Eurobridge Consulting BV	A subsidiary of Reddy Antilles NV organised under the laws of Netherlands	100
OOO DRS LLC	A subsidiary of Eurobridge Consulting BV organised under the laws of Russia	100

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

2. DESCRIPTION OF THE GROUP (CONTINUED)

ENTITY	COUNTRY OF INCORPORATION	PERCENTAGE HOLDING (%)
Aurigene Discovery Technologies (Malaysia) Sdn bhd	A subsidiary of Aurigine Discovery Technologies Limited organised under the laws of Malaysia	100
Dr. Reddy's New Zealand Limited (formerly Affordable Health Care Limited)	A subsidiary of Dr. Reddy's Laboratories SA organised under laws of New Zealand	100
Dr. Reddy's SRL (formerly Jet Generici SRL)	A subsidiary of Reddy Pharma Italia SPA organised under the laws of Italy	100
Chirotech Technology Limited	A subsidiary of Dr. Reddy's Laboratories (EU) Limited organised under the laws of United Kingdom	100
Dr. Reddy's Laboratories Louisiana LLC	A subsidiary of Dr. Reddy's Laboratories Inc. organised under the laws of New Jersey, USA	100
Dr. Reddy's Laboratories International SA	A subsidiary of Reddy Holding GmbH and Dr. Reddy's Laboratories SA organised under laws of Switzerland	100
Dr. Reddy's Laboratories Romania – SRL (from 7 June 2010)	A subsidiary of Dr. Reddy's Laboratories SA organised under laws of Romania	100
I-VEN Pharma Capital Limited (from 6 October 2010)	A subsidiary of DRL Investments Limited organised under laws of India	100
Dr. Reddy's Venezuela, CA (from 20 October 2010)	A subsidiary of Dr. Reddy's Laboratories SA organised under laws of Switzerland	100
Dr. Reddy's Laboratories Tennessee, LLC (from 7 October 2010)	A subsidiary of Dr. Reddy's Laboratories Inc. organised under the laws of Bristol, USA	100
Partnership firms		
Globe Enterprises (dissolved on 1 July 2010)	A Partnership firm with Dr. Reddy's Holding limited organised under the laws of India, wherein the Company and Dr. Reddy's Holding Limited share the profits in the ratio of 95:5	
Joint Venture		
Kunshan Rotam Reddy Pharmaceutical Company Limited ("Reddy Kunshan" or "KRRP"), China	A Company organised under the laws of China	51.33
Associates		
APR LLC, USA	Enterprise over which the Group has significant influence, through 100% of Class B interest	
Macred India Private Limited, India (from 19 July 2010)	20% Holding in equity shares	20
Perlecan Pharma Private Limited, India (till 30 July 2008)	Enterprise over which the Company had significant influence through 14.31% shareholding and through representation on the Board of Directors of Perlecan Pharma Private Limited. (Refer Note 22)	

3. COMMITMENTS AND CONTINGENT LIABILITIES

		AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
(i)	Commitments / contingent liabilities:		
	(a) Guarantees issued by banks	119	94
	(b) Guarantees issued by the Company on behalf of subsidiaries, associates and joint venture	83	–
	(c) Letters of credit outstanding	437	20
	(d) Contingent consideration payable in respect of subsidiaries acquired	12	12
(ii)	Claims against the Group not acknowledged as debts in respect of:		
	(a) Income tax matters, pending decisions on various appeals made by the Group and by the Department	431	521
	(b) Excise matters (including service tax), under dispute	127	6
	(c) Customs matters, under dispute	97	97
	(d) Sales tax matters, under dispute	170	151

(e) The Group has received demand for payment to the credit of the Drug Prices Equalisation Account under Drugs (Price Control) Order, 1995 for few of its products which is being contested. The Group has provided fully against the potential liability in respect of the principal amount demanded and believes that possibility of any liability that may arise on account of interest (including accumulated demand to date approximately of ₹ 167) and penalty on this demand is remote.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

3. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

		AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
(iii)	Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	3,460	2,950
(iv)	Commitment under Export Promotion Capital Goods (EPCG) Scheme	9,054	3,835

(v) In April 2006, the Group launched its fexofenadine hydrochloride 30 mg, 60 mg and 180 mg tablet products, which are generic versions of Sanofi-Aventis' ("Aventis") Allegra® tablets. The Group is presently defending patent infringement actions brought by Aventis in the United States District Court for the District of New Jersey. There are three formulation patents, three use patents, and two active pharmaceutical ingredients ("API") patents which are at issue in the litigation. The Company has obtained summary judgment in respect of each of the formulation patents. Teva Pharmaceuticals Industries Limited ("Teva") and Barr Pharmaceuticals, Inc. ("Barr") have been defending a similar action in the same court. In September 2005, pursuant to an agreement with Barr, Teva launched its fexofenadine hydrochloride 30 mg, 60 mg and 180 mg tablet products, which are AB-rated (bioequivalent) to Aventis' Allegra® tablets. Aventis has brought patent infringement actions against Teva and its API supplier in the United States District Court for the District of New Jersey. There are three formulation patents, three use patents, and two API patents at issue in the litigation. Teva has obtained summary judgment in respect of each of the formulation patents. On 27 January 2006, the District Court denied Aventis' motion for a preliminary injunction against Teva and its API supplier on the three use patents, finding those patents likely to be invalid, and one of the API patents, finding that patent likely to be not infringed. The issues presented during Teva's hearing are likely to be substantially similar to those which will be presented with respect to Group's tablet products.

Subsequent to the preliminary injunction hearing, Aventis sued Teva and Barr for infringement of a new patent claiming polymorphic forms of fexofenadine. The Group utilizes an internally developed polymorph and has not been sued for infringement of the new patent. On 18 November 2008, Teva and Barr announced settlement of their litigation with Aventis. Litigation between the Group and Aventis continues. No trial has been scheduled at this time. On 9 September 2009, AMR added a new process patent to the litigation. This new process patent is related to the manufacturing of the active ingredient contained in the group of tablets being sold under the Allegra® franchise (which include Allegra®, Allegra-D 12® and Allegra-D 24®). Subsequent to the receipt of the US FDA approval in March 2010 for the Group's ANDA relating to fexofenadine-pseudoephedrine higher strength (the generic version of Allegra-D 24®), AMR and Aventis sought a preliminary injunction against the Company in the District Court of New Jersey to withhold the launch of the Group's product.

Subsequent to the receipt of the US FDA approval in March 2010 for the Group's ANDA relating to fexofenadine-pseudoephedrine higher strength (the generic version of Allegra-D 24®), AMR and Aventis sought a preliminary injunction against the Group in the District Court of New Jersey to withhold the launch of the Group's generic version of Allegra D24® product in the US market, arguing that they were likely to prevail on their claim that the Group infringed AMR's US Patent No. 7,390,906. In June 2010, the District Court of New Jersey issued the requested preliminarily injunction against the Group. Sanofi-Aventis and AMR posted security of US$ 40 with the District Court of New Jersey towards the possibility that the injunction had been wrongfully granted. The security posted shall remain in place until further order of the Court. Pending the final outcome of the case, the Group has not recorded any asset in the unaudited condensed consolidated financial statements in this respect.

On 28 January 2011, the District Court of New Jersey held that, based on Sanofi-Aventis and AMR's admittance of non-provability of infringement for the Group's products, the preliminary injunction issued in June 2010 will automatically dissolve. However, Aventis and AMR have the right to appeal this order in the Federal Circuit of the United States Court of Appeals. The Group subsequently launched sales of its generic version of Allegra-D 24®. Although the preliminary injunction has been removed, all such sales are at risk pending final resolution of the litigation. Additionally on 27 April 2011 a trial was held regarding two of the listed formulation patents 6039974 and 5738872 (on the single entity and D-12 products) that were asserted against the Group. The Group made non-infringement and invalidity arguments for both. Decision on this trial is not expected until July, 2011. If Aventis and AMR are ultimately successful in their allegation of patent infringement, the Group could be required to pay damages related to fexofenadine hydrochloride and fexofenadine-pseudoephedrine tablet sales made by the Group, and could also be prohibited from selling these products in the future.

(vi) Additionally, the Group 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. The Group believes that there are no such pending matters that are expected to have any material adverse effect on its financial statements in any given accounting period.

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

4. OLANZAPINE, CANADA LITIGATION

The Group supplies certain generic products, including olanzapine tablets (the generic version of Eli Lilly's Zyprexa® tablets), to Pharmascience, Inc. for sale in Canada. Several generic pharmaceutical manufacturers have challenged the validity of the Zyprexa® patents in Canada. In June 2007, the Canadian Federal Court held that the invalidity allegation of one such challenger, Novopharm Ltd., was justified and denied Eli Lilly's request for an order prohibiting sale of the product. Eli Lilly responded by suing Novopharm for patent infringement. Eli Lilly also sued Pharmascience for patent infringement, but that litigation was dismissed after the parties agreed to be bound by the final outcome in the Novopharm case. As reflected in Eli Lilly's regulatory filings, the settlement allows Pharmascience to market olanzapine tablets subject to a contingent damages obligation should Eli Lilly be successful in its litigation against Novopharm. The Group's agreement with Pharmascience includes a provision under which the Group shares a portion of all cost and expense incurred as a result of settling lawsuits or paying damages that arise as a consequence of selling the products.

For the preceding reasons, the Group is exposed to potential damages in an amount that may equal the Group's profit share derived from sale of the product. During October 2009, the Canadian Federal Court decided, in the Novopharm case, that Eli Lilly's patent for Zyprexa is invalid. This decision was, however, reversed in part by the Federal Court of Appeal on 21 July 2010 and remanded for further consideration. Pending the final decision, the Group continues to sell the product to Pharmascience and remains exposed to potential damages in an amount that may equal the Group's profit share derived from sale of the product. The Group has recorded ₹ 80 (previous year: ₹ 48) as the best estimate of the probable liability towards the potential claim in the year ended 31 March 2011.

5. ACCOUNTING FOR ASSOCIATES

The details of the accounting for its investments under the equity method as per AS-23 – "Accounting for Investments in Associates in Consolidated Financial Statements" are as below:

APR LLC ("APR")

The Group exercises significant influence over the financial and operating policy decisions of this entity. On 30 January 2004, the Group invested ₹ 21 in the Class B Interest of APR. APR is a development stage Company in the process of developing an active pharmaceutical ingredient. In accordance with a Development and Supply Agreement between the Group and APR, the Group has agreed to fund APR's development expenses, provided certain milestones are achieved. Such funding is repayable by APR upon successful commercialisation of the product in the future. In addition to its equity investment of ₹ 21 the Group has advanced ₹ 380 to APR through 31 March 2011 including ₹ 274 for the year ended 31 March 2011. The Group's investment and advances were adjusted against the Group's share of losses, thereby reducing the Group's investment to ₹ Nil as at 31 March 2011.

6. ACCOUNTING FOR INTEREST IN A JOINT VENTURE (JV)

Kunshan Rotam Reddy Pharmaceuticals Company Limited ("Reddy Kunshan")

The Group has a 51.33 % interest in Reddy Kunshan, a joint venture (JV) in China. Reddy Kunshan is engaged in manufacturing and marketing of active pharmaceutical ingredients and intermediates and formulations in China. The contractual arrangement between shareholders of Reddy Kunshan indicates joint control as the minority shareholders, along with the Group, have significant participating rights such that they jointly control the financial and operating policies of Reddy Kunshan in the ordinary course of business.

The Group has, in accordance with AS-27 "Financial Reporting of Interests in Joint Ventures" issued under the Companies (Accounting Standards) Rules 2006, accounted for its 51.33% interest in the JV by the proportionate consolidation method. Thus the Group's income statement, balance sheet and cash flow statement incorporate the Group's share of income, expenses, assets, liabilities and cash flows of the JV on a line-by-line basis.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

6. ACCOUNTING FOR INTEREST IN A JOINT VENTURE (JV) (CONTINUED)

The aggregate amount of the assets, liabilities, income and expenses related to the Group's share in the JV included in these financial statements as of and for the year ended 31 March 2011 are given below:

PARTICULARS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
BALANCE SHEET		
Secured loan	39	22
Fixed assets, net	85	82
Deferred tax assets, net	4	11
Current assets, loans and advances		
Inventories	77	32
Sundry debtors	106	118
Cash and bank balances	22	10
Loans and advances	52	29
Current liabilities and provisions		
Current liabilities	141	97
Net current assets	116	92
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	1	2

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
INCOME STATEMENT		
Income		
Sales	420	405
Other income	3	13
Expenditure		
Material costs	116	130
Personnel costs	103	83
Operating and other expenses	186	135
Research and development expenses	5	5
Finance charges	2	3
Depreciation	4	2
Profit / (Loss) before taxation	7	60
Provision for taxation		
– Deferred tax (expense) / benefit	(4)	13
Profit / (Loss) after taxation	3	73

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

7. ACQUISITIONS

Acquisition of GlaxoSmithKline's (GSK) manufacturing facility in Bristol, Tennessee, USA and certain product rights

On 29 March 2011, the Group concluded an acquisition of GSK's penicillin manufacturing facilities (the "Property plant and equipment") in Bristol, Tennessee and the product rights for the Augmentin (branded and generic) and Amoxil brands in the United States ("US") for a total consideration of US$ 20 millions. The Group had also acquired certain raw material and finished goods inventory associated with Augmentin for US$ 3.74 millions. In addition to the above the Group agreed to pay US$ 2.9 millions towards transitional services to be provided by GSK upon successful completion of the acquisition.

The business involves manufacturing of penicillin based antibiotics (Augmentin and Amoxil) including single – and bi-layer tablets, capsules, and oral suspensions. The acquisition will enable the Group to enter into the US penicillin-containing antibacterial market segment as well as scaling up and broadening the Group's generics portfolio in North America.

The financial results of this acquired business for the period from 29 March 2011 to 31 March 2011 have been included in the consolidated financial statements of the Group.

The details of the acquired assets and liabilities are as follows:

PARTICULARS	RECOGNIZED VALUES ON ACQUISITION
Fixed assets	₹ 608
Intangible assets	284
Inventories	146
Consideration paid in cash	₹ 1,038

In addition to the assets acquired and liabilities assumed as specified above, the Group agreed to pay an amount of ₹ 132 towards transitional services.

The estimated useful lives of intangibles acquired are as follows:

Product-related intangibles 5 years

8. DEFERRED TAXATION

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Deferred Tax Asset (DTA)		
Tax losses carried forward	495	380
Sundry debtors	33	–
Provisions	257	191
Inventories	94	70
Loans and advances	280	259
Current liabilities	319	174
	1,478	**1,074**
Deferred Tax Liability (DTL)		
Sundry debtors	–	(59)
Stock based compensation cost	(93)	(76)
Excess of depreciation allowable under Income tax law over depreciation provided in accounts	(1,160)	(1,009)
	(1,253)	**(1,144)**
Net DTA / (DTL)	**225**	**(70)**

The net DTA / (DTL) of ₹ 225 (previous year: ₹ (70)) has the following breakdown:

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Deferred tax asset	1,224	680
Deferred tax liabilities	(999)	(750)
Net DTA / (DTL)	**225**	**(70)**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

9. EARNINGS PER SHARE (EPS)

The computation of EPS is set out below:

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Earnings		
Net profit / (loss) for the year	**9,989**	**3,515**
Shares		
Number of shares at the beginning of the year	168,845,385	168,468,777
Add: Equity shares issued on exercise of vested stock options	407,347	376,608
Total number of equity shares outstanding at the end of the year	169,252,732	168,845,385
Weighted average number of equity shares outstanding during the year – Basic	**169,128,649**	**168,706,977**
Add: Weighted average number of equity shares arising out of outstanding stock options (net of the stock options forfeited) that have dilutive effect on the EPS	993,394	1,152,320
Weighted average number of equity shares outstanding during the year – Diluted	**170,122,043**	**169,859,297**
Earnings per share of par value ₹ 5/- – Basic (₹)	59.06	20.83
Earnings per share of par value ₹ 5/- – Diluted (₹)	58.72	20.69

10. RELATED PARTY DISCLOSURES

a. The related parties where control exists are the subsidiaries, step down subsidiaries and partnership firms as described in Note 2. There are no other parties over which the Group has control.

b. Other related parties with whom transactions have taken place during the year:

Associates

APR LLC, USA	Enterprise over which the Group has significant influence, through 100% of Class B interest.
Macred India Private Limited, India (from 19 July 2010)	20% Holding in equity shares

Joint Venture

Kunshan Rotam Reddy Pharmaceutical Company Limited ("Reddy Kunshan"), China	Enterprise over which the group exercises joint control with other joint venture partners and holds 51.33% equity stake

Enterprises where principal shareholders have control or significant influence ("Significant interest entities")

Dr. Reddy's Research Foundation ("Research Foundation")	Enterprise over which the principal shareholders have significant influence
Dr. Reddy's Holdings Limited	Enterprise owned by principal shareholders
Institute of Life Sciences	Enterprise over which principal shareholders having significant influence

Others

Green Park Hotels and Resorts Limited (formerly Diana Hotels Limited)	Enterprise owned by relative of a director
Ms. K Samrajyam	Spouse of the Chairman
Ms. G Anuradha	Spouse of the Vice-Chairman and Chief Executive Officer
Ms. Deepti Reddy	Spouse of the Managing Director and Chief Operating Officer
Dr. Reddy's Heritage Foundation	Enterprise in which the Chairman is a director
Dr. Reddy's Foundation for Human and Social development	Enterprise where principal shareholders are trustees
S R Enterprises	Enterprise in which relative of a director has significant influence
K K Enterprises	Enterprise in which relative of a director has significant influence
A.R. Life Sciences Private Limited	Enterprise in which relative of a director has significant influence

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

10. RELATED PARTY DISCLOSURES (CONTINUED)

Key management personnel represented on the Board

Dr. K Anji Reddy	Chairman
Mr. G V Prasad	Vice Chairman and Chief Executive Officer
Mr. K Satish Reddy	Managing Director and Chief Operating Officer

Non-Executive and Independent directors on the Board

Dr. Omkar Goswami

Mr. Ravi Bhoothalingam

Mr. Anupam Puri

Ms. Kalpana Morparia

Dr. J P Moreau

Dr. Bruce L A Carter

Dr. Ashok Sekhar Ganguly

c. Particulars of related party transactions

The following is a summary of significant related party transactions:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
i. Sales to:		
A.R. Life Sciences Private Limited	391	156
ii. Service income from:		
Institute of Life Sciences	–	4
iii. Purchases from:		
A.R. Life Sciences Private Limited	486	275
Others	1	1
iv. Contributions made to others for social development:		
Dr. Reddy's Foundation for Human and Social development	88	97
Research Foundation	–	1
v. Contribution made for research		
Institute of Life Sciences	37	50
vi. Hotel expenses paid to:		
Green Park Hotel and Resorts Limited (formerly Diana Hotels Limited)	20	13
vii. Rent paid to:		
Key management personnel		
Mr. K Satish Reddy	14	13
Others		
Ms. G Anuradha	12	11
Ms. Deepti Reddy	2	2
Ms. K Samrajyam	1	1
Rent deposit repaid:		
Dr. K Anji Reddy	–	1
viii. Executive Directors' Remuneration	262	236
Directors' sitting fees (₹ 409 thousands; previous year: ₹ 339 thousands, rounded off in millions) (See Note 1)	–	–
ix. Advance made to Dr. Reddy's Holding Limited towards acquisitions of land	–	367
x. Loss pickup of associates	–	–
xi. Provision for decline in the value of long-term investments written off: Globe Enterprises (a partnership firm in India)	2	–
xii. Advance made to associate	274	–

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

10. RELATED PARTY DISCLOSURES (CONTINUED)

d. The Group has the following amounts due from / to related parties:

PARTICULARS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
i. Due from related parties (included in loans and advances and sundry debtors):		
Significant interest entities:		
Dr. Reddy's Holdings Limited, India (included in capital work-in-progress)	–	1,447
Institute of Life Sciences	–	3
Others:		
A.R. Life Sciences Private Limited	114	–
APR LLC, USA	380	106
ii. Due to related parties (included in current liabilities):		
Research Foundation	21	21
A.R. Life Sciences Private Limited	81	20

NOTE 1: Details of remuneration paid to the whole-time and non-whole-time directors are given in Note 12 of Schedule 19.

11. SEGMENT REPORTING

The primary and secondary reportable segments are business and geographic segments, respectively.

Business segments:

The Group is organised on a worldwide basis into the following businesses which are reportable segments:

- Pharmaceutical services and Active Ingredients ("PSAI");
- Global Generics; and
- Proprietary Products.

Pharmaceutical Services and Active Ingredients: This segment includes active pharmaceutical ingredients and intermediaries, also known as active pharmaceutical products or bulk drugs, which are the principal ingredients for finished pharmaceutical products. Active pharmaceutical ingredients and intermediaries become finished pharmaceutical products when the dosages are fixed in a form ready for human consumption such as a tablet, capsule or liquid using additional inactive ingredients. This segment also includes contract research services and the manufacture and sale of active pharmaceutical ingredients and steroids in accordance with the specific customer requirements. This segment was formed by aggregating our former Active pharmaceutical ingredients and intermediates segment and Custom pharmaceutical services segment.

Global Generics: This segment consists of finished pharmaceutical products ready for consumption by the patient, marketed under a brand name (branded formulations) or as generic finished dosages with therapeutic equivalence to branded formulations (generics). This segment includes the Group's former formulations and generics segments.

Proprietary Products: This segment involves the discovery of new chemical entities for subsequent commercialization and out-licensing. It also involves the Group's speciality pharmaceuticals business which has launched and marketing operations for in-licensed and co-developed dermatology products.

Geographic segments:

The Group's business is organised into five key geographic segments. Revenues are attributable to individual geographic segments based on the location of the customer.

Segment revenues and expenses: All segment revenues and expenses are directly attributable to the segments.

Segment assets and liabilities: All segment assets are directly attributable to segments. According to the internal organisation and management structure of the Group and its system of internal financial reporting, the Chief Operating Decision Maker does not review the liabilities for each reportable segment. These liabilities are not fully identifiable with / allocable to individual reportable segments. Consequently, the Management believes that it is not practicable to provide segmental disclosures relating to total liabilities by primary segments.

Inter-segment transfers: Segment revenue, segment expenses and segment result include transfers between business segments. Inter-segment transfers are accounted for at cost to the transferring segment. Such transfers are eliminated on consolidation.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

11. SEGMENT REPORTING (CONTINUED)

Accounting policies: The accounting policies consistently used in the preparation of the financial statements are also applied to items of revenues and expenditure in individual segments.

Unallocable and Head office expenses: General administrative expenses, head-office expenses, and other expenses that arise at the corporate level and relate to the Group as a whole, are shown as unallocable items.

Segment information for the year ended 31 March 2011

PARTICULARS	PSAI	GLOBAL GENERICS	PROPRIETARY PRODUCTS	OTHERS	ELIMINATIONS	UNALLOCABLE ITEMS	TOTAL
External sales (Gross)	19,043	53,159	522	–	–	–	72,724
Inter-segment sales	3,146	9	–	–	(3,155)	–	–
Less: Excise duty and other similar duties and taxes on sales	(191)	(165)	–	–	–	–	(356)
Total Sales	**21,998**	**53,003**	**522**	**–**	**(3,155)**	**–**	**72,368**
Income from services	568	–	–	1,173	–	–	1,741
License fees	–	124	–	–	–	–	124
Sale of spent chemicals	254	–	–	–	–	–	254
Miscellaneous income	253	262	2	64	–	–	581
Segment revenues	**23,073**	**53,389**	**524**	**1,237**	**(3,155)**	**–**	**75,068**
Interest income						105	105
Other unallocable income						319	319
Total Revenues							**75,492**
Segment result	**3,325**	**12,299**	**(1,857)**	**1,559**	**–**	**–**	**15,326**
Unallocated expense						(3,252)	(3,252)
Finance charges						(246)	(246)
Profit / (loss) before taxation							**11,828**
Income tax expense							1,839
Profit / (loss) before minority interest and equity in loss of associates							**9,989**
Equity in loss of associates							–
Minority Interest							–
Profit for the year							**9,989**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

11. SEGMENT REPORTING (CONTINUED)

Segment information for the year ended 31 March 2010

PARTICULARS	PSAI	GLOBAL GENERICS	PROPRIETARY PRODUCTS	OTHERS	ELIMINATIONS	UNALLOCABLE ITEMS	TOTAL
External sales (Gross)	19,324	48,988	521	–	–	–	68,833
Inter-segment sales	2,780	17	–	–	(2,797)	–	–
Less: Excise duty and other similar duties and taxes on sales	(169)	(147)	–	–	–	–	(316)
Total sales	**21,935**	**48,858**	**521**	**–**	**(2,797)**	**–**	**68,517**
Income from services	904	–	–	754	–	–	1,658
License fees	–	135	–	–	–	–	135
Sale of spent chemicals	209	–	–	–	–	–	209
Miscellaneous income	202	208	3	22	–	–	435
Segment revenues	**23,250**	**49,201**	**524**	**776**	**(2,797)**	**–**	**70,954**
Interest income	–	–	–	–	–	249	249
Other unallocable income	–	–	–	–	–	121	121
Total revenue							**71,324**
Segment result	**4,186**	**5,305**	**(1,641)**	**(75)**	**–**	**–**	**7,775**
Unallocated expense						(1,280)	(1,280)
Finance charges						(312)	(312)
Profit / (loss) before taxation							**6,183**
Income tax expense							2,668
Profit / (loss) before minority interest and equity in loss of associates							**3,515**
Equity in loss of associates							–
Minority Interest							–
Profit for the year							**3,515**

Analysis of assets by business segments

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
PSAI	31,557	26,746
Global Generics	52,842	37,402
Proprietary Products	1,460	103
Others	5,795	9,355
	91,654	**73,606**

Analysis of depreciation and amortization by business segments

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
PSAI	1,352	1,287
Global Generics	2,282	2,453
Proprietary Products	93	125
Others	254	266
	3,981	**4,131**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

11. SEGMENT REPORTING (CONTINUED)

The following table shows the distribution of the Group's sales by geographical markets, based on the location of the customer:

Sales by markets:

Sales by geographic markets (Gross of excise and other similar duties)

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
India	12,961	11,559
North America	22,556	20,852
Russia and other CIS countries	10,858	9,119
Europe	15,774	16,604
Others	10,575	10,699
	72,724	**68,833**

Analysis of assets by geography

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
India	51,352	45,001
North America	19,615	10,819
Russia and other CIS countries	4,849	3,613
Europe	14,159	13,051
Others	1,679	1,122
	91,654	**73,606**

Cost of tangible and intangible fixed assets acquired by geography

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
India	10,542	3,616
North America	2,901	290
Russia and other CIS countries	12	11
Europe	142	130
Others	558	20
	14,155	**4,067**

12. PARTICULARS OF MANAGERIAL REMUNERATION

The remuneration paid to managerial personnel during the year:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Remuneration and Commission to whole-time directors		
Salaries and allowances	13	13
Commission	246	220
Other perquisites or benefits	3	3
	262	**236**
Commission to non-whole-time directors	21	21
	283	**257**

The executive directors are covered under the Company's gratuity policy along with the other employees of the Company. Proportionate amount of gratuity is not included in the aforementioned disclosure.

NOTE: Computation of Net Profits under Section 309(5) of the Companies Act, 1956 ("the Act") and the computation of limit on commission payable to non-whole-time directors have not been disclosed as the limits prescribed under the Act do not apply to the consolidated financial statements of the Company.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

13. EMPLOYEE STOCK OPTION SCHEME

Dr. Reddy's Employees Stock Option Plan-2002 (the DRL 2002 Plan):

The Company instituted the DRL 2002 Plan for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on 24 September 2001. The DRL 2002 Plan covers all employees of DRL and its subsidiaries and directors (excluding promoter directors) of DRL and its subsidiaries (collectively, "eligible employees"). Under the Scheme, the Compensation Committee of the Board ('the Committee') shall administer the Scheme and grant stock options to eligible directors and employees of the Company and its subsidiaries. The Committee shall determine the employees eligible for receiving the options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for the options issued on the date of the grant. The options issued under the 2002 plan vests in periods ranging between one and four years and generally have a maximum contractual term of five years.

The DRL 2002 Plan was amended on 28 July 2004 at the Annual General Meeting of shareholders to provide for stock options grants in two categories:

Category A: 1,721,700 stock options out of the total of 2,295,478 reserved for grant of options having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 573,778 stock options out of the total of 2,295,478 reserved for grant of options having an exercise price equal to the par value of the underlying equity shares (i.e. ₹ 5/- per option).

The DRL 2002 Plan was further amended on 27 July 2005 at the Annual General Meeting of shareholders to provide for stock option grants in two categories:

Category A: 300,000 stock options out of the total of 2,295,478 reserved for grant of options having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 1,995,478 stock options out of the total of 2,295,478 reserved for grant of options having exercise price equal to the par value of the underlying equity shares (i.e. ₹ 5/- per option).

The fair market value of a share on each grant date falling under Category A above is defined as the average closing price (after adjustment of Bonus issue) for 30 days prior to the grant, in the stock exchange where there is highest trading volume during that period. Notwithstanding the foregoing, the Compensation Committee may, after getting the approval of the shareholders in the Annual General Meeting, grant options with a per share exercise price other than fair market value and par value of the equity shares.

As the number of shares that an individual employee is entitled to receive and the price of the option are known at the grant date, the scheme is considered as a fixed grant.

In the case of termination of employment, all non-vested options would stand cancelled. Options that have vested but have not been exercised can be exercised within the time prescribed under each option agreement by the Committee or if no time limit is prescribed, within three months of the date of employment termination, failing which they would stand cancelled.

During the current year, the Company under the DRL 2002 Plan has issued 284,070 options to eligible employees. The vesting period for the options granted varies from 12 to 48 months.

The date of grant, number of options granted, exercise price fixed by the Committee for respective options and the market price of the shares of the Company on the date of grant is given below:

DATE OF GRANT	NUMBER OF OPTIONS GRANTED	EXERCISE PRICE (RUPEES)	MARKET PRICE (RUPEES) (AS PER SEBI GUIDELINES)
06 May 2010	284,070	5.00	1240.80

The Compensation Committee may, after obtaining the approval of the shareholders in the annual general meeting, grant options with a per share exercise price other than fair market value and par value of the equity shares.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

13. EMPLOYEE STOCK OPTION SCHEME (CONTINUED)

Stock option activity under the DRL 2002 Plan was as follows:

Stock Options activity under the DRL 2002 Plan for the two categories of options was as follows:

CATEGORY A – FAIR MARKET VALUE OPTIONS	YEAR ENDED 31 MARCH 2011			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (MONTHS)
Outstanding at the beginning of the year	100,000	₹ 362.50-531.51	₹ 403.02	38
Grants during the year	–	–	–	–
Expired / forfeited during the year	(9,000)	373.50-531.51	443.73	–
Exercised during the year	(70,000)	362.50-442.50	385.36	–
Outstanding at the end of the year	**21,000**	₹ 373.50-448.00	₹ 444.45	67
Exercisable at the end of the year	**11,000**	₹ 373.50-448.00	₹ 441.23	55

CATEGORY A – FAIR MARKET VALUE OPTIONS	YEAR ENDED 31 MARCH 2010			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (MONTHS)
Outstanding at the beginning of the year	136,410	₹ 362.50-531.51	₹ 417.51	42
Grants during the year	–	–	–	–
Expired / forfeited during the year	(3,670)	442.50-531.51	512.11	–
Exercised during the year	(32,740)	373.50-531.51	451.17	–
Outstanding at the end of the year	**100,000**	₹ 362.50-531.51	₹ 403.02	38
Exercisable at the end of the year	**80,000**	₹ 362.50-531.51	₹ 391.78	27

CATEGORY B – PAR VALUE OPTIONS	YEAR ENDED 31 MARCH 2011			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (MONTHS)
Outstanding at the beginning of the year	785,007	₹ 5.00	₹ 5.00	72
Granted during the year	284,070	5.00	5.00	91
Forfeited during the year	(78,620)	5.00	5.00	–
Exercised during the year	(293,296)	5.00	5.00	–
Outstanding at the end of the year	**697,161**	₹ 5.00	₹ 5.00	72
Exercisable at the end of the year	**52,106**	₹ 5.00	₹ 5.00	41

CATEGORY B – PAR VALUE OPTIONS	YEAR ENDED 31 MARCH 2010			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (MONTHS)
Outstanding at the beginning of the year	778,486	₹ 5.00	₹ 5.00	72
Granted during the year	359,840	5.00	5.00	91
Forfeited during the year	(83,608)	5.00	5.00	–
Exercised during the year	(269,711)	5.00	5.00	–
Outstanding at the end of the year	**785,007**	₹ 5.00	₹ 5.00	72
Exercisable at the end of the year	**79,647**	₹ 5.00	₹ 5.00	41

Dr. Reddy's Employees ADR Stock Option Plan-2007 ("the DRL 2007 Plan"):

The Company instituted the DRL 2007 Plan for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on 27 July 2005. The 2007 Plan came into effect on approval of the Board of Directors on 22 January 2007. The DRL 2007 Plan covers all employees of DRL and its subsidiaries and directors (excluding promoter directors) of DRL and its subsidiaries (collectively,"eligible employees"). Under the DRL 2007 Plan, the Compensation Committee of the Board (the "Compensation Committee") shall administer the DRL 2007 Plan and grant stock options to eligible employees of the Company and its subsidiaries. The Compensation Committee shall determine the employees eligible for receiving the options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for all options issued on the date of the grant. The options issued under the DRL 2007 plan vest in periods ranging between one and four years and generally have a maximum contractual term of five years.

The Compensation Committee may, after obtaining the approval of the shareholders in the Annual General Meeting, grant options with a per share exercise price other than fair market value and par value of the equity shares.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

13. EMPLOYEE STOCK OPTION SCHEME (CONTINUED)

During the current year, the Company under the DRL 2007 Plan has issued 58,660 options to eligible employees. The vesting period for the options granted varies from 12 to 48 months.

The date of grant, number of options granted, exercise price fixed by the Compensation Committee for respective options and the market price of the shares of the Company on the date of grant is given below:

DATE OF GRANT	NUMBER OF OPTIONS GRANTED	EXERCISE PRICE (RUPEES)	MARKET PRICE (RUPEES) (AS PER SEBI GUIDELINES)
06 May 2010	58,660	5.00	1,240.80

Stock option activity under the 2007 Plan was as follows:

CATEGORY B – PAR VALUE OPTIONS	YEAR ENDED 31 MARCH 2011			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (MONTHS)
Outstanding at the beginning of the year	112,390	₹ 5.00	₹ 5.00	74
Granted during the year	58,660	5.00	5.00	89
Forfeited during the year	(2,440)	5.00	5.00	–
Exercised during the year	(44,051)	5.00	5.00	–
Outstanding at the end of the year	**124,559**	₹ 5.00	₹ 5.00	74
Exercisable at the end of the year	**3,364**	₹ 5.00	₹ 5.00	49

CATEGORY B – PAR VALUE OPTIONS	YEAR ENDED 31 MARCH 2010			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (MONTHS)
Outstanding at the beginning of the year	156,577	₹ 5.00	₹ 5.00	71
Granted during the year	74,600	5.00	5.00	91
Forfeited during the year	(44,630)	5.00	5.00	–
Exercised during the year	(74,157)	5.00	5.00	–
Outstanding at the end of the period	**112,390**	₹ 5.00	₹ 5.00	74
Exercisable at the end of the year	**2,250**	₹ 5.00	₹ 5.00	47

The Company has followed intrinsic method of accounting based on which a compensation expense of ₹ 268 (previous year: ₹ 193) has been recognized in the profit and loss account (Schedule 15).

Aurigene Discovery Technologies Ltd. Employee Stock Option Plan (the "Aurigene ESOP Plan"):

In fiscal 2004, Aurigene Discovery Technologies Limited ("Aurigene"), a consolidated subsidiary, adopted the Aurigene ESOP Plan to provide for issuance of stock options to employees. Aurigene has reserved 4,550,000 of its ordinary shares for issuance under this plan. Under the Aurigene ESOP Plan, stock options may be granted at a price per share as may be determined by the Compensation Committee. The options vest from a period ranging from 1 to 3 years, including certain options which vest immediately on grant.

Stock option activity under the Aurigene ESOP Plan was as follows:

	YEAR ENDED 31 MARCH 2011			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (MONTHS)
Outstanding at the beginning of the year	1,012,332	₹ 10.00-14.99	₹ 11.95	34
Exercised during the year	–	–	–	–
Expired / forfeited during the year	(3,242)	10.00	–	–
Outstanding at the end of the year	**1,009,090**	₹ 10.00-14.99	₹ 11.94	21
Exercisable at the end of the year	**1,009,090**	₹ 10.00-14.99	₹ 11.94	21

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

13. EMPLOYEE STOCK OPTION SCHEME (CONTINUED)

	YEAR ENDED 31 MARCH 2010			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (MONTHS)
Outstanding at the beginning of the year	2,916,263	₹ 10.00-14.99	₹ 13.99	33
Exercised during the year	(1,899,943)	10.00-14.99	10.00	–
Expired / forfeited during the year	(3,988)	10.00-14.99	11.63	–
Outstanding at the end of the year	**1,012,332**	₹ 10.00-14.99	₹ 11.95	34
Exercisable at the end of the year	**850,237**	₹ 10.00-14.99	₹ 11.36	31

Aurigene has followed intrinsic method of accounting based on which a compensation expense of ₹ Nil (previous year: ₹ 5) has been recognized in the profit and loss account (Schedule 15 – Deferred stock compensation cost).

Aurigene Discovery Technologies Ltd. Management Group Stock Grant Plan (the "Management Plan"):

In fiscal 2004, Aurigene adopted the Aurigene Discovery Technologies Limited Management Group Stock Grant Plan (the "Aurigene Management Plan") to provide for issuance of stock options to management employees of Aurigene and its subsidiary Aurigene Discovery Technologies Inc. Aurigene has reserved 2,950,000 of its ordinary shares for issuance under this plan. Under the Aurigene Management Plan, stock options may be granted at an exercise price as determined by Aurigene's Compensation Committee. The plan was closed by a resolution of the shareholders in January 2008. Accordingly, as of 31 March 2011, there were no stock options outstanding under the Aurigene Management Plan.

Aurigene Discovery Technologies Ltd. Employee Long-term incentive plan ("the Aurigene LTI plan")

During the year ended 31 March 2011, the Aurigene Discovery Technologies Limited introduced a new long-term employment defined benefit scheme under which all eligible employees of the company will be incentivized based on the year on year growth in the profitability of the Company. Payment to all the eligible employees will be made three years after they fall due. Accordingly the Company has valued the liability through an independent actuary. During the year ended 31 March 2011 the Company recorded a liability of ₹ 40 under the scheme.

14. RESEARCH AND DEVELOPMENT ARRANGEMENT

I-VEN Pharma arrangement

During the year ended 31 March 2005, the Company had entered into an agreement with I-VEN Pharma Capital Limited ("I-VEN") for the joint development and commercialization of a portfolio of 36 generic drug products. As per the terms of the agreement, I-VEN has a right to fund up to 50% of the project costs (development, registration and legal costs) related to these products and the related US Abbreviated New Drug Applications ("ANDA") filed or to be filed, subject to a maximum contribution of US$ 56 millions. Upon successful commercialization of these products, the Company is required to pay I-VEN a royalty on net sales at agreed rates for a period of 5 years from the date of commercialization of each product.

As per the agreement, in April 2010 and upon successful achievement of certain performance milestones specified in the agreement (e.g. successful commercialization of a specified number of products, and achievement of specified sales milestones), I-VEN has a one-time right to require the Company to pay I-VEN a portfolio termination value amount for such portfolio of products. In the event I-VEN exercises this portfolio termination value option, then it will not be entitled to the sales-based royalty payment for the remaining contractual years.

On 1 October 2010, the Company, DRL Investments Limited (a wholly owned subsidiary of Dr. Reddy's) and I-VEN's beneficial interest holders entered into an agreement restructuring the portfolio termination value option exercise. Pursuant to such agreement, the controlling interest in I-VEN was acquired by DRL Investments, as a result of which I-VEN became a wholly owned subsidiary of DRL Investments as of 1 October 2010. In consideration for such transfer of the controlling interest in I-VEN, the Company paid the I-VEN beneficial interest holders consideration in an aggregate amount of ₹ 2,680, including an amount of ₹ 150 set aside in an escrow fund for a period of 15 months for the purpose of funding certain indemnification obligations of such beneficial interest holders.

Further, an amount of consideration of ₹ 150 continues to be disclosed as a liability in the financial statements. The associated cash flow has been disclosed as a part of investing activities.

The amount of purchase consideration has been recorded as an addition to Goodwill as part of the consolidated financial statements for the year ended 31 March 2011.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

15. OPERATING LEASE

The Group leases offices, residential facilities and vehicles under operating lease agreements that are renewable on a periodic basis at the option of both the lessor and the lessee. Rental expense under those leases was ₹ 419 (previous year ₹ 519).

The schedule of future minimum rental payments in respect of non-cancellable operating leases is set out below:

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Not later than 1 year	216	154
Later than 1 year and not later than 5 years	415	332
Beyond 5 years	–	–
	631	**486**

16. FINANCE LEASE

The Company has taken buildings and vehicles under finance lease. Future minimum lease payments under finance leases as at 31 March 2011 are as follows:

PARTICULARS	PRESENT VALUE OF MINIMUM LEASE PAYMENTS	FUTURE INTEREST	MINIMUM LEASE PAYMENTS
Not later than 1 year	12	2	14
Later than 1 year and not later than 5 years	51	6	57
Beyond 5 years	193	1	194
	256	**9**	**265**

Future minimum lease payments under finance leases as at 31 March 2010 are as follows:

PARTICULARS	PRESENT VALUE OF MINIMUM LEASE PAYMENTS	FUTURE INTEREST	MINIMUM LEASE PAYMENTS
Not later than 1 year	15	1	16
Later than 1 year and not later than 5 years	43	–	43
Beyond 5 years	195	1	196
	253	**2**	**255**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

17. EMPLOYEE BENEFIT PLANS

17.1 GRATUITY PLAN OF DR. REDDY'S LABORATORIES LIMITED

The disclosure particulars of Dr. Reddy's Laboratories Limited are shown in the tables below:

Reconciliation of opening and closing balance of the present value of the defined benefit obligation

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Opening defined benefit obligation	452	398
Current service cost	58	48
Interest cost	36	29
Actuarial losses / (gains)	81	17
Liabilities assumed on account of acquisition	–	(10)
Benefits paid	(43)	(30)
Closing defined benefit obligation	**584**	**452**

Change in the Fair value of assets:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Opening fair value of plan assets	449	334
Expected return on plan assets	33	25
Actuarial gains / (losses)	5	26
Contributions by employer	46	94
Benefits paid	(43)	(30)
Closing fair value of plan assets	**490**	**449**

Amount recognized in Balance Sheet

PARTICULARS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Present value of funded obligations	584	452
Fair value of plan assets	(490)	(449)
Net liability	**94**	**3**
Amounts in the balance sheet		
Provision for gratuity	94	3
Net liability / (asset)	**94**	**3**

Expense recognized in statement of Profit and Loss Account

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Current service cost	58	49
Interest on defined benefit obligation	36	29
Expected return on plan assets	(33)	(26)
Net actuarial losses / (gains) recognized in the year	77	(9)
Amount, included in employee benefit expense	**138**	**43**
Actual return on plan assets	38	52

Asset Information

CATEGORY OF ASSETS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Government of India securities	–	2%
Corporate bonds	–	1%
Insurer managed funds	99%	96%
Others	1%	1%
Total	**100%**	**100%**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

17. EMPLOYEE BENEFIT PLANS (CONTINUED)

17.1 GRATUITY PLAN OF DR. REDDY'S LABORATORIES LIMITED (CONTINUED)

The approximate market value of the assets as at 31 March 2011 was ₹ 490 (previous year: ₹ 449), breakup of the same is as follows:

CATEGORY OF ASSETS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Government of India securities	–	10
Corporate bonds	–	4
Insurer managed funds	483	433
Others	7	2
Total	**490**	**449**

Summary of Actuarial Assumptions

Financial assumptions at the valuation date:

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Discount rate	7.95% p.a.	7.50% p.a.
Expected rate of return on plan assets	7.50% p.a.	7.50% p.a.
Salary escalation rate	9% p.a. for next 2 years and 8% p.a. thereafter	8% p.a. for next 2 years and 6% p.a. thereafter

Discount rate: The discount rate is based on the prevailing market yields of Indian government securities as at the balance sheet date for the estimated term of the obligations.

Expected rate of return on plan assets: This is based on the expectation of the average long-term rate of return expected on investments of the fund during the estimated term of the obligations.

Salary escalation rate: The estimates of future salary increases considered takes into account the inflation, seniority, promotion and other relevant factors.

Experience Adjustments

PARTICULARS	FOR THE YEAR ENDED 31 MARCH				
	2011	2010	2009	2008	2007
Defined Benefit Obligation	584	452	398	319	258
Plan Assets	490	449	334	289	236
Surplus / (Deficit)	(94)	(3)	(64)	(30)	(22)
Experience Adjustment on Plan Liabilities	28	27	18	36	32
Experience Adjustment on Plan Assets	5	27	(7)	14	1

17.2 GRATUITY PLAN OF AURIGENE DISCOVERY TECHNOLOGIES LIMITED

The disclosure particulars of Aurigene Discovery Technologies Limited are shown in the below tables:

Reconciliation of opening and closing balance of the present value of the defined benefit obligation

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Opening defined benefit obligation	21	6
Current service cost	4	3
Interest cost	2	1
Actuarial losses / (gain)	(1)	1
Liabilities assumed on account of acquisition	–	11
Benefits paid	(1)	(1)
Closing defined benefit obligation	**25**	**21**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

17. EMPLOYEE BENEFIT PLANS (CONTINUED)

17.2 GRATUITY PLAN OF AURIGENE DISCOVERY TECHNOLOGIES LIMITED (CONTINUED)

Amount recognized in Balance Sheet

PARTICULARS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Present value of unfunded obligations	25	21
Net liability	**25**	**21**
Amounts in the balance sheet		
Provision for gratuity	25	21
Net liability / (asset)	**25**	**21**

Expense recognized in statement of Profit and Loss Account

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Current service cost	4	3
Interest on defined benefit obligation	2	1
Net actuarial losses / (gains) recognized in the year	(1)	1
Amount, included in employee benefit expense	**5**	**5**

Summary of Actuarial Assumptions

Financial assumptions at the valuation date:

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Discount rate	7.95% p.a.	7.50% p.a.
Salary escalation rate	8.00% p.a.	8.00% p.a.

Discount rate: The discount rate is based on the prevailing market yields of Indian Government Securities as at the balance sheet date for the estimated term of the obligations.

Salary escalation rate: The estimates of future salary increases considered takes into account the inflation, seniority, promotion and other relevant factors.

Experience Adjustments

PARTICULARS	FOR THE YEAR ENDED 31 MARCH				
	2011	2010	2009	2008	2007
Defined Benefit Obligation	25	21	6	3	2
Plan Assets	–	–	–	–	–
Surplus / (Deficit)	(25)	(21)	(6)	(3)	(2)
Experience Adjustment on Plan Liabilities	–	2	–	–	–
Experience Adjustment on Plan Assets	–	–	–	–	–

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

17. EMPLOYEE BENEFIT PLANS (CONTINUED)

17.3 LONG SERVICE AWARD BENEFIT PLAN OF DR. REDDY'S LABORATORIES LIMITED

The disclosure particulars of Dr. Reddy's Laboratories Limited are shown in the below tables:

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Opening defined benefit obligation	53	–
Current service cost	6	–
Interest cost	4	–
Actuarial losses / (gain)	8	–
Past service cost	–	53
Benefits paid	(2)	–
Closing defined benefit obligation	**69**	**53**

Amount recognized in Balance Sheet

PARTICULARS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Present value of funded obligations	–	–
Fair value of plan assets	–	–
Present value of unfunded obligations	69	53
Net Liability	**69**	**53**
Amounts in the balance sheet		
Net liability / (asset)	**69**	**53**

Expense recognized in statement of Profit and Loss Account

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Current service cost	6	–
Interest on defined benefit obligation	4	–
Expected return on plan assets	–	–
Net actuarial losses / (gains) recognized in year	8	–
Past service cost	–	53
Amount, included in "Employee benefit expense"	**18**	**53**
Actual return on plan assets	–	–

Summary of Actuarial Assumptions

Financial assumptions at the valuation date:

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Discount Rate	7.95% p.a.	7.50% p.a.
Salary Escalation Rate	9% p.a. for first 2 years and 8% p.a. thereafter	8% p.a. for first 2 years and 6% p.a. thereafter

Discount Rate: The discount rate is based on the prevailing market yields of Indian government securities as at the balance sheet date for the estimated term of the obligations.

Salary escalation rate: The estimates of future salary increases considered takes into account the inflation, seniority, promotion and other relevant factors.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

17. EMPLOYEE BENEFIT PLANS (CONTINUED)

17.3 LONG SERVICE AWARD BENEFIT PLAN OF DR. REDDY'S LABORATORIES LIMITED (CONTINUED)

Experience Adjustments

PARTICULARS	FOR THE YEAR ENDED 31 MARCH				
	2011	2010	2009	2008	2007
Defined Benefit Obligation	69	53	–	–	–
Plan Assets	–	–	–	–	–
Surplus / (Deficit)	(69)	(53)	–	–	–
Experience Adjustment on Plan Liabilities	1	–	–	–	–
Experience Adjustment on Plan Assets	–	–	–	–	–

17.4 EMPLOYEE BENEFIT PLAN OF INDUSTRIAS QUIMICAS FALCON DE MEXICO SA DE CV

17.4. (A) PENSION PLAN

One of the Subsidiaries provides for seniority, a defined benefit retirement plan covering certain categories of employees.

The disclosure particulars of Industrias Quimicas Falcon de Mexico are shown in the below tables:

Reconciliation of opening and closing balance of the present value of the defined benefit obligation

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Opening defined benefit obligation	270	209
Current service cost	14	11
Interest cost	22	21
Actuarial losses / (gains)	19	33
Benefits paid	(18)	(4)
Closing defined benefit obligation	**307**	**270**

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Opening fair value of plan assets	238	168
Expected return on plan assets	26	19
Actuarial gains / (losses)	(15)	36
Contributions by employer	16	19
Benefits paid	(18)	(4)
Closing fair value of plan assets	**247**	**238**

Amount recognized in Balance Sheet

PARTICULARS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Present value of funded obligations	307	270
Fair value of plan assets	(247)	(238)
Net liability	**60**	**32**
Amounts in the balance sheet		
Provision for pension	60	32
Net liability / (asset)	**60**	**32**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

17. EMPLOYEE BENEFIT PLANS (CONTINUED)

17.4. (A) PENSION PLAN (CONTINUED)

Expense recognized in statement of Profit and Loss Account

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Current service cost	14	11
Interest on defined benefit obligation	22	21
Expected return on plan assets	(26)	(19)
Net actuarial losses / (gains) recognized in the year	42	(3)
Amount not recognised as an asset	–	–
Amount, included in employee benefit expense	**52**	**10**
Actual return on plan assets	3	55

Asset Information

CATEGORY OF ASSETS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Corporate bonds	49%	49%
Equity shares of listed companies	51%	51%
Total	**100%**	**100%**

The approximate market value of the assets as at 31 March 2011 was ₹ 247 (previous year: ₹ 238), a breakup of the same is as follows:

CATEGORY OF ASSETS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Corporate bonds	121	116
Equity shares of listed companies	126	122
Total	**247**	**238**

Summary of actuarial assumptions

Financial assumptions at the valuation date:

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Discount rate	7.75% p.a.	7.91% p.a.
Expected rate of return on plan assets	9.75% p.a.	10.50% p.a.
Salary escalation rate	4.50% p.a.	4.50% p.a.

Discount rate: The discount rate is based on the market yields prevailing in Mexico as at the balance sheet date for the estimated term of the obligations.

Expected rate of return on plan assets: This is based on our expectation of the average long-term rate of return expected on investments of the Fund during the estimated term of the obligations.

Salary escalation rate: The estimates of future salary increases considered takes into account the inflation, seniority, promotion and other relevant factors.

Experience Adjustments

PARTICULARS	FOR THE YEAR ENDED 31 MARCH				
	2011	2010	2009	2008	2007
Defined Benefit Obligation	307	270	209	189	203
Plan Assets	247	238	168	203	264
Surplus / (Deficit)	(60)	(32)	(42)	(14)	(61)
Experience Adjustment on Plan Liabilities	16	2	70	28	20
Experience Adjustment on Plan Assets	(23)	36	(38)	(19)	37

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

17. EMPLOYEE BENEFIT PLANS (CONTINUED)

17.4. (B) SENIORITY PAY PLANS

One of the Subsidiaries provides for seniority, a defined benefit retirement plan covering certain categories of employees.

The disclosure particulars of Industrias Quimicas Falcon de Mexico are shown in the below tables:

Reconciliation of opening and closing balance of the present value of the defined benefit obligation

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Opening defined benefit obligation	12	10
Current service cost	–	1
Interest cost	1	1
Actuarial losses / (gains)	–	1
Benefits paid	–	(1)
Closing defined benefit obligation	**13**	**12**

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Opening fair value of plan assets	10	9
Expected return on plan assets	1	1
Actuarial gains / (losses)	–	(1)
Contributions by employer	1	1
Benefits paid	–	–
Closing fair value of plan assets	**12**	**10**

Amount recognized in Balance Sheet

PARTICULARS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Present value of funded obligations	13	12
Fair value of plan assets	(12)	(10)
Net liability	**1**	**2**
Amounts in the balance sheet		
Provision for seniority pay	1	2
Net liability / (asset)	**1**	**2**

Expense recognized in the statement of Profit and Loss Account

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Current service cost	1	1
Interest on defined benefit obligation	1	1
Expected return on plan assets	(1)	(1)
Net actuarial losses / (gains) recognized in the year	–	1
Total, included in employee benefit expense	**1**	**2**
Actual return on plan assets	1	–

Asset Information

CATEGORY OF ASSETS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Corporate bonds	50%	53%
Equity shares of listed Companies	50%	47%
Total	**100%**	**100%**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

17. EMPLOYEE BENEFIT PLANS (CONTINUED)

17.4. (B) SENIORITY PAY PLANS (CONTINUED)

The approximate market value of the assets as at 31 March 2011 was ₹ 12 (previous year: ₹ 10), a breakup of the same is as follows:

CATEGORY OF ASSETS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Corporate bonds	6	5
Equity shares of listed Companies	6	5
Total	**12**	**10**

Summary of actuarial assumptions

Financial assumptions at the valuation date:

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Discount rate	7.75% p.a.	7.91% p.a.
Expected rate of return on plan assets	9.75% p.a.	10.50% p.a.
Salary escalation rate	4.50% p.a.	4.50% p.a.

Discount rate: The discount rate is based on the market yields prevailing in Mexico as at the balance sheet date for the estimated term of the obligations.

Expected rate of return on plan assets: This is based on the expectation of the average long-term rate of return expected on investments of the fund during the estimated term of the obligations.

Salary escalation rate: The estimates of future salary increases considered takes into account the inflation, seniority, promotion and other relevant factors.

Experience Adjustments

PARTICULARS	FOR THE YEAR ENDED 31 MARCH				
	2011	2010	2009	2008	2007
Defined Benefit Obligation	13	12	10	14	12
Plan Assets	12	10	9	10	11
Surplus / (Deficit)	(1)	(2)	2	(4)	–
Experience Adjustment on Plan Liabilities	(1)	(1)	(3)	3	1
Experience Adjustment on Plan Assets	–	(1)	(2)	(1)	2

17.4 (C) SEVERANCE PAY PLAN

One of the subsidiaries has a scheme of severance pay for the employees who are dismissed from the services of the Employer without any justifiable reason.

The disclosure particulars of Industrias Quimicas Falcon de Mexico are shown in the below tables:

Reconciliation of opening and closing balance of the present value of the defined benefit obligation

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Opening defined benefit obligation	25	25
Current service cost	2	2
Interest cost	2	2
Actuarial losses / (gains)	(3)	(2)
Benefits paid	–	(2)
Closing defined benefit obligation	**26**	**25**

Amount recognized in Balance Sheet

PARTICULARS	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
Present value of unfunded obligations	26	25
Net liability	**26**	**25**
Amounts in the balance sheet		
Provision for severance pay	26	25
Net liability / (asset)	**26**	**25**

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

17. EMPLOYEE BENEFIT PLANS (CONTINUED)

17.4 (C) SEVERANCE PAY PLAN (CONTINUED)

Expense recognized in the statement of Profit and Loss Account

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Current service cost	2	2
Interest on defined benefit obligation	2	2
Net actuarial losses / (gains) recognized in the year	(3)	(2)
Amount, included in employee benefit expense	**1**	**2**

The severance pay scheme liabilities of the company are unfunded and hence there are no assets held to meet the liabilities.

Summary of Actuarial Assumptions

Financial assumptions at the valuation date:

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010
Discount rate	7.75% p.a.	7.91% p.a.
Salary escalation rate	4.50% p.a.	4.50% p.a.

Discount rate: The discount rate is based on the market yields prevailing in Mexico as at the balance sheet date for the estimated term of the obligations.

Salary escalation rate: The estimates of future salary increases considered takes into account the inflation, seniority, promotion and other relevant factors

Experience Adjustments

PARTICULARS	FOR THE YEAR ENDED 31 MARCH				
	2011	2010	2009	2008	2007
Defined Benefit Obligation	26	25	25	50	56
Plan Assets	–	–	–	–	–
Surplus / (Deficit)	(26)	(25)	(25)	(50)	(56)
Experience Adjustment on Plan Liabilities	(4)	(3)	6	9	56
Experience Adjustment on Plan Assets	–	–	–	–	–

18. EXCEPTIONAL ITEM – IMPAIRMENT OF GOODWILL AND INTANGIBLES

The Group had tested the carrying values of betapharm's intangibles (primarily product related) and goodwill for impairment as at 31 March 2010. The recoverable amount was determined to be the Value-In-Use ("ViU"). The impairment testing indicated that the carrying value of certain product related intangibles was higher than its recoverable amount and accordingly, the Group has recorded an impairment loss with respect to such intangible assets amounting to ₹ 887 as at 31 March 2010. Additionally, as regards goodwill, the carrying value of the betapharm CGU was also higher than the recoverable amount resulting in a goodwill impairment of ₹ 3,696 as at 31 March 2010.

The aforesaid impairment losses (computed with the assistance of independent valuers) in the consolidated profit and loss account for the year ended 31 March 2010 relate to the Group's Global Generics segment.

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

19. HEDGING AND DERIVATIVES

The following are the outstanding forward exchange contracts entered into by the Group:

AS AT 31 MARCH 2011

CATEGORY	CURRENCY	CROSS CURRENCY	AMOUNTS IN MILLIONS	BUY / SELL	PURPOSE
Forward Contract	USD	INR	USD 4.5	Buy	Hedging
Forward Contract	USD	INR	USD 232	Sell	Hedging
Forward Contract	EUR	USD	EUR 5	Sell	Hedging

AS AT 31 MARCH 2010

CATEGORY	CURRENCY	CROSS CURRENCY	AMOUNTS IN MILLIONS	BUY / SELL	PURPOSE
Forward Contract	USD	INR	USD 166	Sell	Hedging

The following are the outstanding foreign currency options, which are classified as cash flow hedges and effective:

AS AT 31 MARCH 2011

CURRENCY	CROSS CURRENCY	NO OF CONTRACTS	AMOUNTS IN MILLIONS	GAIN / (LOSS)
USD	INR	9	USD 345	₹ 508

AS AT 31 MARCH 2010

CURRENCY	CROSS CURRENCY	NO OF CONTRACTS	AMOUNTS IN MILLIONS	GAIN / (LOSS)
USD	INR	12	USD 410	₹ 508

20. FINANCIAL INSTRUMENTS

During the year ended 31 March 2011, the Group adopted the Accounting Standard (AS)-32 "Financial Instruments: Disclosures" as issued by ICAI, to the extent that the adoption does not conflict with existing mandatory accounting standards and other authoritative pronouncements, Company law and other regulatory requirements. The objective of this standard is to provide information relating to various financial instruments that the Group holds along with the nature and extent of risks arising from financial instruments to which the Group is exposed to. Further, the standard requires disclosure for the risk management strategies that management adopts to address the specific risk factors to the extent they are considered to be material.

Cash flow hedges

The Group designates certain non-derivative financial liabilities and derivative financial instruments, denominated in foreign currencies, as hedges against foreign currency exposures associated with forecasted foreign currency sales transactions.

Exchange differences arising on re-measurement of such non-derivative liabilities and changes in the fair value of derivative hedging instruments designated as a cash flow hedges are recognized directly in hedging reserve and presented within reserves and surplus, to the extent that hedging relationship is considered effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit and loss account. 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 hedging reserve, remains there until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, then the balance in hedging reserve is recognized immediately in profit and loss account. In other cases the amount recognized in hedging reserve is transferred to profit and loss account in the same period that the hedged item affects profit and loss account.

During the year ended 31 March 2011, the Group has designated certain non-derivative financial liabilities as hedging instruments for hedging of foreign currency risk associated with forecasted transactions and accordingly, has applied cash flow hedge accounting for such relationships. Consequently foreign exchange differences amounting to ₹ 37 arising on re-measurement of these non-derivative financial liabilities from their initial recognized value to the value in INR terms as at the reporting dates has been disclosed as part of 'Hedging reserve'. The carrying value of these non-derivative financial liabilities amounts to ₹ 8,398 as at 31 March 2011 (as compared to ₹ Nil as at 31 March 2010), and has been disclosed as a part of "Unsecured Loans" in the Balance Sheet.

The Group has designated foreign currency options as hedging instruments against foreign currency risk associated with forecasted transactions and accordingly, applies cash flow hedge accounting for such relationships. The changes in the fair value of these foreign currency options amounting to ₹ 508 has been disclosed as part of "Hedging reserve" as at 31 March 2011 and 31 March 2010.

The notional amount and fair value of these foreign currency options amounted to ₹ 15,385 and ₹ 515 as at 31 March 2011 and ₹ 18,589 and ₹ 550 as at 31 March 2010 respectively.

The ineffective portion of the cash flow hedges amounting to ₹ 7 and ₹ 42 have been recognised in the profit and loss account for the year ended 31 March 2011 and 31 March 2010 respectively.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

20. FINANCIAL INSTRUMENTS (CONTINUED)

In respect of foreign currency derivative contracts designated as cash flow hedges, the Group has transferred ₹ 497 and ₹ 75 from the hedging reserve into sales for the year ended 31 March 2011 and 31 March 2010 respectively.

The table below summarises the periods when the cash flows are expected to occur between one to twelve months:

	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
In US Dollars		
Not later than one month	1,784	1,527
Later than one month and not later than three months	2,988	3,053
Later than three month and not later than six months	4,460	4,580
Later than six months and not later than one year	13,601	9,429
	22,833	**18,589**
In Euro		
Later than one month and not later than three months	380	–
Later than three month and not later than six months	571	–
	951	**–**

Fair value hedges

The Group does not apply hedge accounting to certain derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognized in profit and loss account as part of foreign currency gains and losses.

The Group uses derivative financial instruments such as foreign exchange option contracts to mitigate the risk of changes in foreign exchange rates on trade receivables and certain other assets denominated in certain foreign currencies. The counterparty for these contracts is generally a bank or a financial institution.

The Group recognized a net foreign exchange gain on derivative financial instruments of ₹ 661 and ₹ 658 for the year ended 31 March 2011 and 31 March 2010 respectively. These amounts are included in foreign exchange, net under Schedule 16 "Operating and other expenses" respectively.

Fair Value

Fair values of foreign currency options are determined under the Black Scholes Merton technique by using inputs from market observable data and other relevant terms of the contract with counter parties which are banks or financial institutions.

21. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk. The Group's primary risk management focus is to minimize potential adverse effects of market risk on its financial performance. The Group's risk management assessment and policies and processes are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor such risks and compliance with the same. Risk assessment and management policies and processes are reviewed regularly to reflect changes in market conditions and the Group's activities. The Board of Directors and the Audit Committee is responsible for overseeing Group's risk assessment and management policies and processes.

Reconciliation of the allowance account for credit losses

The details of changes in provision for bad debts during the year ended 31 March 2011 and 31 March 2010 are as follows:

PARTICULARS	2010-11	2009-10
Balance as at 1 April	419	342
Provision made during the year	213	111
Debtors written off during the year	(138)	(34)
Balance as at 31 March	**494**	**419**

a. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the credit worthiness of customers to which the Group grants credit terms in the normal course of business. The Group establishes an allowance for doubtful debts and impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the customer, including the default risk of the industry and country, in which the customer operates, also has an influence on credit risk assessment. Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the creditworthiness of customers to which the Group grants credit terms in the normal course of business. As at 31 March 2011 and 31 March 2010 the maximum exposure to credit risk in relation to trade and other receivables is ₹ 16,507 and ₹ 11,599 respectively.

Financial assets that are neither past due nor impaired

None of the Group's cash equivalents, including time deposits with banks, are past due or impaired. Of the total trade receivables, ₹ 13,023 as at 31 March 2011 and ₹ 8,596 as at 31 March 2010 consists of customers balances which were neither past due nor impaired.

Financial assets that are past due but not impaired

The Group's credit period for customers generally ranges from 20 – 180 days. The age analysis of the trade receivables has been considered from the due date of the invoice. The aging of trade receivables that are past due, net of allowance for doubtful receivables, is given below:

PERIOD (IN DAYS)	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
1-90	3,158	2,633
90-180	214	241
More than 180	112	129
Total	**3,484**	**3,003**

Financial assets that are impaired

The age analysis of the trade receivables that are either past due or impaired is given below:

PERIOD (IN DAYS)	AS AT 31 MARCH 2011	AS AT 31 MARCH 2010
1-90	–	1
90-180	–	9
More than 180	494	409
Total	**494**	**419**

b. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they become due. The Group manages its liquidity risk by ensuring, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk to the Group's reputation.

As at 31 March 2011 and 2010, the Group had unutilized credit limits from banks of ₹ 13,089 and ₹ 7,850, respectively.

As at 31 March 2011, the Group had working capital of ₹ 23,889 including cash and cash equivalents of ₹ 5,751 and current investments of ₹ 3. As of 31 March 2010, the Group had working capital of ₹ 17,954, including cash and cash equivalents of ₹ 6,600 and current investments of ₹ 3,577.

The table below provides details regarding the contractual maturities of significant financial liabilities (other than obligations under finance leases which have been disclosed in Note 16 and Bonus Debentures which have been disclosed in Note 23) as at 31 March 2011:

PARTICULARS	2012	2013	2014	2015	THEREAFTER	TOTAL
Trade payables	6,179	–	–	–	–	6,179
Short-term loan from banks	18,319	–	–	–	–	18,319
Other liabilities and provisions	13,439	–	–	–	234	13,673

The table below provides details regarding the contractual maturities of significant financial liabilities (other than obligations under finance leases which have been disclosed in Note 16) as at 31 March 2010:

PARTICULARS	2012	2013	2014	2015	THEREAFTER	TOTAL
Trade payables	7,547	–	–	–	–	7,547
Short-term loan from banks	5,632	–	–	–	–	5,632
Other liabilities and provisions	8,911	–	–	–	83	8,994

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial guarantees

Financial guarantees disclosed in Note 3 of Schedule 19 have been provided as counter corporate guarantee to the financial institutions and banks that have extended credits and other financial assistance to the Company's subsidiaries. The Group does not foresee any significant credit risk exposure.

a. Market risk

Market risk is the risk of loss of future earnings or fair values or future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rates and other market changes that affect market risk-sensitive instruments. Market risk is attributable to all market risk-sensitive financial instruments including foreign currency receivables and payables and long-term debt. The Group is exposed to market risk primarily related to foreign exchange rate risk, interest rate risk and the market value of its investments. Thus, the Group's exposure to market risk is a function of investing and borrowing activities and revenue generating and operating activities in foreign currencies.

Foreign exchange risk

The Group's exchange risk arises from its foreign operations, foreign currency revenues and expenses, (primarily in U.S. dollars, British pound sterling and Euros) and foreign currency borrowings (in U.S. dollars and euros). A significant portion of the Group's revenues are in these foreign currencies, while a significant portion of its costs are in Indian rupees. As a result, if the value of the Indian rupee appreciates relative to these foreign currencies, the Group's revenues measured in rupees may decrease. The exchange rate between the Indian rupee and these foreign currencies has changed substantially in recent periods and may continue to fluctuate substantially in the future. Consequently, the Group uses derivative financial instruments, such as foreign exchange forward and option contracts, to mitigate the risk of changes in foreign currency exchange rates in respect of its forecasted cash flows and trade receivables.

The details in respect of the outstanding foreign exchange forward and option contracts are given in Note 19 above.

In respect of the Group's forward, option contracts and non-derivative financial liabilities, a 10% decrease / increase in the respective exchange rates of each of the currencies underlying such contracts would have resulted in an approximately ₹ 2,432 increase / decrease in the Group's hedging reserve and an approximately ₹ 1,047 increase / decrease in the Group's net profit as at 31 March 2011.

In respect of the Group's forward and option contracts, a 10% decrease / increase in the respective exchange rates of each of the currencies underlying such contracts would have resulted in an approximately ₹ 1,888 increase / decrease in the Group's hedging reserve and an approximately ₹ 745 increase / decrease in the Group's net profit as at 31 March 2010.

The following table analyzes foreign currency risk from financial instruments as at 31 March 2011:

	US DOLLARS	EURO	OTHERS(1)	TOTAL
Assets:				
Cash and cash equivalents	3,022	49	976	4,047
Sundry debtors	7,754	977	4,409	13,140
Loans and advances	75	8	186	269
Total	**10,851**	**1,034**	**5,571**	**17,456**
Liabilities:				
Trade payables	273	19	295	587
Secured loans	7	–	–	7
Unsecured loans	9,977	1,521	2,271	13,769
Other liabilities and provisions	756	–	1,246	2,002
Total	**11,013**	**1,540**	**3,812**	**16,365**

(1) Others include currencies such as Russian roubles, British pound sterling, Swiss franc, New Zealand dollars, Venezuela bolivars, etc.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table analyzes foreign currency risk from financial instruments as at 31 March 2010:

	US DOLLARS	EURO	OTHERS(1)	TOTAL
Assets:				
Cash and cash equivalents	551	2	1,232	1,785
Sundry debtors	4,571	666	3,662	8,899
Loans and advances	56	7	173	236
Total	**5,178**	**675**	**5,067**	**10,920**
Liabilities:				
Trade payables	937	93	163	1,193
Secured loans	8	–	–	8
Unsecured loans	4,933	8,546	–	13,479
Other liabilities and provisions	630	–	669	1,299
Total	**6,508**	**8,639**	**832**	**15,979**

(1) Others include currencies such as Russian roubles, British pound sterling, Swiss franc, New Zealand dollars, Venezuela bolivars, etc.

For the year ended 31 March 2011 and 2010, every 10% depreciation / appreciation in the exchange rate between the Indian rupee and the respective currencies in the above mentioned financial assets / liabilities would affect the Group's net loss / profit by approximately ₹ 109 and ₹ 506 respectively.

Interest rate risk

As of 31 March 2011 and 31 March 2010, the Group had a loan of ₹ 5,758 carrying an interest rate of LIBOR plus 52-80 bps and ₹ 13,479 carrying an interest rate of EURIBOR plus 70 basis points and LIBOR plus 40-75 basis points. These loans expose the Group to risk of changes in interest rates. The Group's treasury department monitors the interest rate movement and manages the interest rate risk based on its policies, which include entering into interest rate swaps as considered necessary. As of 31 March 2011, the Group had not entered into any interest rate swaps to hedge its interest rate risk.

For the year ended 31 March 2011 and 2010, every 10 basis points increase or decrease in the interest rate applicable to its loans and borrowings would affect the Group's net loss / profit by approximately ₹ 16 and ₹ 13, respectively.

The Group's investments in time deposits with banks and short-term liquid mutual funds are for short durations, and therefore do not expose the Group to significant interest rates risk.

Commodity rate risk

Exposure to market risk with respect to commodity prices primarily arises from the Group's purchases and sales of active pharmaceutical ingredients, including the raw material components for such active pharmaceutical ingredients. These are commodity products, whose prices may fluctuate significantly over short periods of time. The prices of the Group's raw materials generally fluctuate in line with commodity cycles, although the prices of raw materials used in the Group's active pharmaceutical ingredients business are generally more volatile. Cost of raw materials forms the largest portion of the Group's operating expenses. Commodity price risk exposure is evaluated and managed through operating procedures and sourcing policies. The Group has historically not entered into any derivative financial instruments or futures contracts to hedge exposure to fluctuations in commodity prices.

22. SCHEME OF AMALGAMATION OF PERLECAN PHARMA PRIVATE LIMITED ("PERLECAN PHARMA") WITH THE COMPANY UNDER SECTION 391 AND 394 OF THE COMPANIES ACT, 1956

In October 2008, the Board of Directors of DRL approved a scheme of amalgamation ('the Scheme') of Perlecan Pharma ("transferor Company") with the Company ("transferee Company") under section 391 and 394 of the Companies Act, 1956. In January 2009, the Company filed a petition for approvals of the Scheme with the Hon'ble High Court of Andhra Pradesh ('the Court'). The Court approved the Scheme vide its order dated 12 June 2009 with the appointed date as 1 January 2006.

From the effective date, the authorised share capital of the transferor Company shall stand combined with the authorised share capital of the transferee Company. Upon the Scheme becoming fully effective, the authorised share capital of the Company would be ₹ 1,200 divided into 240,000,000 equity shares of ₹ 5/- each.

The amalgamation which was in the nature of a merger was accounted for as prescribed by the Accounting Standard 14 – Accounting for Amalgamation (hereinafter referred to as 'AS-14') and in accordance with the requirements of the approved Scheme.

Although the scheme of amalgamation required retrospective accounting from the period 1 January 2006, since the court approvals were received after the earlier year financial statements were authorised, the amalgamation was accounted in 2009-10 and in accounting for such amalgamation the net results of transactions of the transferor Company for the years ended 31 March 2006, 31 March 2007, 31 March 2008 and 31 March 2009 included in 2009-10 financial statements of the Company as a single line item.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

22. SCHEME OF AMALGAMATION OF PERLECAN PHARMA PRIVATE LIMITED ("PERLECAN PHARMA") WITH THE COMPANY UNDER SECTION 391 AND 394 OF THE COMPANIES ACT, 1956 (CONTINUED)

The effect of the merger on the balances in the profit and loss account as on 31 March 2009 was as follows:

PARTICULARS	(EXPENSE) / INCOME
Research and development expenses recognised	(693)
Operating and other expenses recognised	(32)
Intra group service income de-recognised	(179)
Interest income recognised	130
Reversal of the loss pick up of the prior years	109
Reversal of amortized goodwill in earlier periods	58
Income tax benefit arising on account of the above transactions	281
Total	**(326)**

The investment in equity shares of the transferor Company held by shareholders other than DRL (hereinafter referred as 'Partners') aggregated to ₹ 1,018. During the year, the Company purchased the shares (all except two shares) from the Partners for an aggregate consideration of ₹ 758. The excess of the investment in equity shares by Partners in Perlecan Pharma over the aggregate consideration paid was credited to capital reserve. The details are as follows:

PARTICULARS	AMOUNT
Investment in equity shares of Perlecan Pharma by Partners	1,018
Less: Consideration paid to partners	(758)
Excess credited to capital reserve	260

23. ISSUANCE OF BONUS DEBENTURES

Pursuant to a scheme of arrangement sanctioned by the High Court of Andhra Pradesh, Hyderabad, India on 19 July 2010 and subsequent approval of the Reserve Bank of India (on 18 January 2011) and no-objection from the Indian income-tax authorities (on 1 February 2011), the Company has, on 24 March 2011, allotted 1,015,516,392, 9.25% Unsecured Redeemable Non-convertible Bonus Debentures (aggregating to ₹ 5,078) in the ratio of 6 debentures of the face value of ₹ 5/- each fully paid up for every equity share of ₹ 5/- each held as on the record date i.e. 18 March 2011. The interest is payable at the end of 12, 24 and 36 months from the initial date of issuance. The bonus debentures are redeemable at the end of 36 months from the initial date of issuance. These debentures have been listed on the Bombay Stock Exchange Limited and National Stock Exchange of India Limited.

In terms of the scheme, the Company delivered the aggregate value of the debentures to an on-shore escrow account of a merchant banker appointed by the Board of Directors. The merchant banker received the aforesaid amount in the escrow account for and on behalf of and in trust for the members entitled to receive the debentures as deemed dividend within the meaning of section 2 (22) of the Income-tax Act, 1961. The merchant banker has also immediately following the receipt of funds in the escrow account, for and on behalf of the members, paid by way of subscription for allotment of the requisite number of debentures issued under the scheme.

In terms of accounting treatment set out in the scheme, the issuance of the aforesaid debentures (with an aggregate face value of ₹ 5,078) and the dividend distribution tax paid thereon (aggregating to ₹ 843) have been reflected by transferring the corresponding amounts from the General Reserve of the Company. The costs associated in relation to the aforesaid scheme (primarily comprising directly attributable transaction costs aggregating to ₹ 51) have been expensed along with a corresponding transfer from the General Reserve account. Pursuant to the scheme and as per the requirements of the Companies Act, 1956, the Company has also created a Debenture Redemption Reserve aggregating to ₹ 19 for the year ended 31 March 2011.

24. VENEZUELA CURRENCY DEVALUATION

The Company's Venezuela operations are conducted as an extension of the parent company. On 30 December 2010, the Foreign Exchange Administration Commission of Venezuela (commonly referred to as the "CADIVI") enacted a decree (exchange agreement No.14) to unify the official exchange rates at a single rate of 4.3 Venezuela Bolivars ("VEB") per US$ by abolishing the preferential rate of 2.6 VEB per US$ effective from 1 January 2011.

Further, on 13 January 2011, the CADIVI issued another decree to interpret the transitional requirements for the use of the new official exchange rate and described that if the following conditions were to be satisfied, the use of the pre-devaluation rate of 2.6 VEB per US$ would be permissible:

- For fund repatriation – to the extent the CADIVI has issued approvals in the form of approvals of Autorización de Liquidación de Divisas ('ALD') and which have been sent to and received by the Banco Central de Venezuela by 31 December 2010;
- For foreign currency acquisition – to the extent the CADIVI had issued an Authorization of Foreign Currency Acquisition ('AAD') by 31 December 2010 and the approval relates to imports for the health and food sectors or certain other specified purposes.

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

SCHEDULE 19: NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

24. VENEZUELA CURRENCY DEVALUATION (CONTINUED)

Based on the authorizations received by the Company, and in light of the above announcements, the Company believes that it is eligible for the usage of the preferential rate of 2.6 VEB per US$ in relation to the total value of monetary items denominated in VEB as on 31 March 2011. Accordingly, all monetary items in the Company's Venezuelan operations are translated into the reporting currency at the preferential rate of 2.6 VEB per US$.

25. COMPARATIVE FIGURES

Previous year's figures have been regrouped / reclassified wherever necessary, to conform to current year's classification.

As per our report attached
for **B S R & Co.**
Chartered Accountants
Firm Registration No.: 101248W
S Sethuraman
Partner
Membership No.: 203491
Place: Hyderabad
Date: 13 May 2011

for **DR. REDDY'S LABORATORIES LIMITED**

Dr. K Anji Reddy	Chairman
G V Prasad	Vice Chairman and CEO
K Satish Reddy	Managing Director and COO
Umang Vohra	Chief Financial Officer
Sandeep Poddar	Company Secretary

IFRS Consolidated Financials

Extract of Consolidated IFRS Financial Statements

We have adopted IFRS as issued by International Accounting Standards Board (IASB) for preparing our financial statements for the purpose of filings with SEC. We have furnished all our interim financial reports of fiscal 2011 with SEC which were prepared under IFRS. The Annual Report in Form 20-F will also be made available at the Company's website. A hard copy of such Annual Report in Form 20-F will be made available to the shareholders, free of charge, upon request. For details visit www.drreddys.com

The extract of the consolidated financial statements prepared under IFRS has been provided here under.

Consolidated Statement of Financial Position

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND PER SHARE DATA

PARTICULARS	AS OF 31 MARCH 2011	AS OF 31 MARCH 2010
ASSETS		
Current assets		
Cash and cash equivalents	₹ 5,729	₹ 6,584
Other investments	33	3,600
Trade receivables, net	17,615	11,960
Inventories	16,059	13,371
Derivative financial instruments	784	573
Current tax assets	442	530
Other current assets	6,931	5,445
Total current assets	**₹ 47,593**	**₹ 42,063**
Non-current assets		
Property, plant and equipment	29,642	22,459
Goodwill	2,180	2,174
Other intangible assets	13,066	11,799
Investment in equity accounted investees	313	310
Deferred income tax assets	1,935	1,282
Other non-current assets	276	243
Total non-current assets	**₹ 47,412**	**₹ 38,267**
Total assets	**₹ 95,005**	**₹ 80,330**
LIABILITIES AND EQUITY		
Current liabilities		
Trade payables	₹ 8,480	₹ 9,322
Current income tax liabilities	1,231	1,432
Bank overdraft	69	39
Short-term borrowings	18,220	5,565
Long-term borrowings, current portion	12	3,706
Provisions	1,314	1,094
Other current liabilities	11,689	7,864
Total current liabilities	**₹ 41,015**	**₹ 29,022**
Non-current liabilities		
Long-term loans and borrowings, excluding current portion	₹ 5,271	₹ 5,385
Provisions	41	39
Deferred tax liabilities	2,022	2,720
Other liabilities	666	249
Total non-current liabilities	**₹ 8,000**	**₹ 8,393**
Total liabilities	**₹ 49,015**	**₹ 37,415**
Equity		
Share capital	₹ 846	₹ 844
Equity shares held by controlled trust	(5)	(5)
Share premium	20,683	20,429
Share based payment reserve	729	692
Retained earnings	20,411	18,035
Other components of equity	3,326	2,920
Total equity attributable to:		
Equity holders of the Company	**₹ 45,990**	**₹ 42,915**
Non-controlling interests	–	–
Total equity	**₹ 45,990**	**₹ 42,915**
Total liabilities and equity	**₹ 95,005**	**₹ 80,330**

Consolidated Income Statement

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND PER SHARE DATA

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010	FOR THE YEAR ENDED 31 MARCH 2009
Revenues	₹ 74,693	₹ 70,277	₹ 69,441
Cost of revenues	34,430	33,937	32,941
Gross profit	**₹ 40,263**	**₹ 36,340**	**₹ 36,500**
Selling, general and administrative expenses	23,689	22,505	21,020
Research and development expenses	5,060	3,793	4,037
Impairment loss on other intangible assets	–	3,456	3,167
Impairment loss on goodwill	–	5,147	10,856
Other (income) / expense, net	(1,115)	(569)	254
Total operating expenses, net	**₹ 27,634**	**₹ 34,332**	**₹ 39,334**
Results from operating activities	**12,629**	**2,008**	**(2,834)**
Finance expense	(362)	(372)	(1,668)
Finance income	173	369	482
Finance (expense) / income, net	**(189)**	**(3)**	**(1,186)**
Share of profit of equity accounted investees, net of income tax	3	48	24
Profit / (loss) before income tax	**12,443**	**2,053**	**(3,996)**
Income tax (expense) / benefit	(1,403)	(985)	(1,172)
Profit / (loss) for the year	**₹ 11,040**	**₹ 1,068**	**₹ (5,168)**
Attributable to:			
Equity holders of the Company	11,040	1,068	(5,168)
Non-controlling interests	–	–	–
Profit / (loss) for the year	**₹ 11,040**	**₹ 1,068**	**₹ (5,168)**
Earnings / (loss) per share			
Basic	₹ 65.28	₹ 6.33	₹ (30.69)
Diluted	₹ 64.95	₹ 6.30	₹ (30.69)
Weighted average number of equity shares used in computing earnings / (loss) per equity share			
Basic	169,128,649	168,706,977	168,349,139
Diluted	169,964,727	169,615,943	168,349,139

Consolidated Statement of Comprehensive Income

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND PER SHARE DATA

	FOR THE YEAR ENDED 31 MARCH 2011	FOR THE YEAR ENDED 31 MARCH 2010	FOR THE YEAR ENDED 31 MARCH 2009
Profit / (loss) for the year	₹ 11,040	₹ 1,068	₹ (5,168)
Other comprehensive income / (loss)			
Changes in fair value of available for sale financial instruments	₹ 8	₹ 13	₹ 18
Foreign currency translation adjustments	420	241	642
Effective portion of changes in fair value of cash flow hedges, net	37	745	(227)
Income tax on other comprehensive income	(59)	(102)	32
Other comprehensive income / (loss) for the year, net of income tax	**₹ 406**	**₹ 897**	**₹ 465**
Total comprehensive income / (loss) for the year	**₹ 11,446**	**₹ 1,965**	**₹ (4,703)**
Attributable to:			
Equity holders of the Company	11,446	1,965	(4,703)
Non-controlling interests	–	–	–
Total comprehensive income / (loss) for the year	**₹ 11,446**	**₹ 1,965**	**₹ (4,703)**

Statement pursuant to Section 212 of the Companies Act, 1956

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

NAME OF THE SUBSIDIARY	THE FINANCIAL YEAR OF THE SUBSIDIARY COMPANY ENDED ON	NUMBER OF SHARES IN THE SUBSIDIARY COMPANY HELD BY DR. REDDY'S LABORATORIES LIMITED AT THE ABOVE DATE				THE NET AGGREGATE OF PROFITS (LOSSES) OF THE SUBSIDIARY COMPANY FOR IT'S FINANCIAL YEAR SO FAR AS THEY CONCERN THE MEMBERS OF DR. REDDY'S LABORATORIES LIMITED [3]		THE NET AGGREGATE OF PROFITS (LOSSES) OF THE SUBSIDIARY COMPANY FOR IT'S PREVIOUS FINANCIAL YEARS SO FAR AS THEY CONCERN THE MEMBERS OF DR. REDDY'S LABORATORIES LIMITED [3]		CHANGES IN THE INTEREST OF RIES LIMITED, BETWEEN THE END OF THE LAST FINANCIAL YEAR AND 31ST MARCH 2011	MATERIAL CHANGES BETWEEN THE END OF THE LAST FINANCIAL YEAR AND 31ST MARCH 2011
		EQUITY SHARES	PREFERENCE SHARES	EQUITY HOLDING %	PREFERENCE HOLDING %	A) DEALT WITH IN THE ACCOUNT OF DR. REDDY'S LABORATORIES LIMITED FOR THE YEAR ENDED 31.03.2011	B) NOT DEALT WITH IN THE ACCOUNT OF DR. REDDY'S LABORATORIES LIMITED FOR THE YEAR ENDED 31.03.2011	A) DEALT WITH IN THE ACCOUNT OF DR. REDDY'S LABORATORIES LIMITED FOR THE YEAR ENDED 31.03.2010	B) NOT DEALT WITH IN THE ACCOUNT OF DR. REDDY'S LABORATORIES LIMITED FOR THE YEAR ENDED 31.03.2010		
DRL Investments Limited	31.03.2011	50,000	–	100	–	–	63	–	(3)	–	–
Reddy Pharmaceuticals Hong Kong Limited	31.03.2011	11,625,000	–	100	–	–	–	–	(88)	–	–
OOO JV Reddy Biomed Limited	31.03.2011	[2]	–	100	–	–	1	–	37	–	–
Reddy Antilles NV	31.03.2011	500,000	–	100	–	–	1	–	(5)	–	–
Dr. Reddy's Farmaceutica Do Brasil Ltda.	31.03.2011	26,699,230	–	100	–	–	(78)	–	(157)	–	Advance converted to Equity
Dr. Reddy's Laboratories Inc.	31.03.2011	[1]	–	–	–	–	445	–	1,399	–	–
Reddy US Therapeutics Inc.	31.03.2011	[1]	–	–	–	–	18	–	(89)	–	–
Reddy Cheminor SA	31.03.2011	2,500	–	100	–	–	–	–	10	–	–
Cheminor Investments Limited	31.03.2011	134,513	–	100	–	–	–	–	–	–	–
Aurigene Discovery Technologies Limited	31.03.2011	90,544,104	14,750,000	100	100	–	243	–	77	–	–
Kunshan Rotam Reddy Pharmaceutical Co. Limited	31.03.2011	[2]	–	51.33	–	–	5	–	133	–	–
Reddy Netherlands BV	31.03.2011	[1]	–	–	–	–	(3)	–	(11)	–	–
Aurigene Discovery Technologies Inc.	31.03.2011	[1]	–	–	–	–	(1)	–	(1)	–	–
Dr. Reddy's Laboratories (EU) Limited	31.03.2011	[1]	–	–	–	–	21	–	195	–	–
Dr. Reddy's Laboratories (UK) Limited	31.03.2011	[1]	–	–	–	–	207	–	39	–	–
Dr. Reddy's Laboratories (Proprietary) Limited	31.03.2011	100	–	100	–	–	2	–	30	Acquisition of non-controlling interest	–
Promius Pharma LLC (formerly Reddy Pharmaceuticals LLC)	31.03.2011	[1]	–	–	–	–	(812)	–	(852)	–	–
OOO Dr. Reddy's Laboratories Limited	31.03.2011	[2]	–	–	–	–	(8)	–	(328)	–	–
Dr. Reddys Bio-Sciences Limited	31.03.2011	34,022,070	–	100	–	–	–	–	–	–	–
Trigenesis Therapeutics Inc.	31.03.2011	206	–	100	–	–	(1)	–	(1)	–	–
Industrias Quimicas Falcon de Mexico, SA de CV	31.03.2011	140,526,270	–	100	–	–	39	–	176	–	–
Lacock Holdings Limited	31.03.2011	16,033	–	100	–	–	287	–	359	–	–
betapharm Arzneimettal GmbH	31.03.2011	[1]	–	–	–	–	384	–	(1,635)	–	–
beta Healthcare Solutions GmbH	31.03.2011	[1]	–	–	–	–	(9)	–	(9)	–	–
beta institut fur soziaimedizinsche Forschung and Entwicklung GmbH	31.03.2011	[1]	–	–	–	–	–	–	–	–	–
Reddy Holding GmbH	31.03.2011	[1]	–	–	–	–	(825)	–	(666)	–	–
Dr. Reddys Pharma Italia SPA	31.03.2011	[1]	–	–	–	–	(11)	–	(14)	–	–
Dr. Reddys Pharma Iberia SA	31.03.2011	5,566,000	–	100	–	–	72	–	(164)	–	–
Dr. Reddys Laboratories (Australia) Pty. Limited	31.03.2011	1,000,000	–	100	–	–	(132)	–	(152)	–	–
Aurigene Discovery Technologies (Malaysia) SDN BHD	31.03.2011	[1]	–	–	–	–	(15)	–	(12)	–	–
Eurobridge Consulting BV	31.03.2011	[1]	–	–	–	–	(1)	–	(1)	–	–
OOO DRS LLC	31.03.2011	[1]	–	–	–	–	(6)	–	(10)	–	–
Dr. Reddy's New Zealand Limited (formerly Affordable Healthcare Limited)	31.03.2011	[1]	–	–	–	–	8	–	12	–	–
Dr. Reddys Laboratories SA	31.03.2011	75,640,410	–	100	–	–	2,989	–	3,048	–	–
Dr. Reddy's Laboratories Louisiana LLC	31.03.2011	[1]	–	–	–	–	(191)	–	(513)	–	–
Dr. Reddy's Laboratories ILAC TICARET Limited	31.03.2011	[2]	–	100	–	–	–	–	–	–	–
Dr. Reddy's SRL (formerly Jet Generici SRL)	31.03.2011	[1]	–	–	–	–	(138)	–	(161)	–	–
Chirotech Technology Limited	31.03.2011	[1]	–	–	–	–	(135)	–	(44)	–	–
Dr. Reddy's Pharma SEZ Limited	31.03.2011	50,000	–	100	–	–	–	–	–	–	–
Dr. Reddy's Laboratories International SA	31.03.2011	[1]	–	–	–	–	(1)	–	–	–	–
Idea2Enterprises (India) Private Limited	31.03.2011	2,377,826	–	100	–	–	–	–	–	New Subsidiary	–
Dr. Reddy's Laboratories Romania – SRL	31.03.2011	[1]	–	–	–	–	6	–	–	New Subsidiary	–
I-VEN Pharma Capital Limited	31.03.2011	[1]	–	–	–	–	(144)	–	–	New Subsidiary	–
Dr. Reddy's Venezuela, CA	31.03.2011	[1]	–	–	–	–	–	–	–	New Subsidiary	–
Dr. Reddy's Laboratories Tennessee, LLC	31.03.2011	[1]	–	–	–	–	(32)	–	–	New Subsidiary	–

(1) Step down subsidiary (2) No concept of share capital (3) The amounts shown in this column represent the net aggregate amount of profits (losses) of the subsidiary attributable to the direct holding of the company. (4) Idea2Enterprises (India) Private Limited was incorporated on 30th June 2010. (5) Dr. Reddy's Laboratories Romania – SRL was incorporated on 07th June 2010. (6) I-Ven Pharma Capital Limited was incorporated on 06th October 2010. (7) Dr. Reddy's Venezuela, CA was incorporated on 20th October 2010. (8) Dr. Reddy's Laboratories Tennessee, LLC was incorporated on 07th October 2010.

for **Dr. Reddy's Laboratories Limited**

Place: Hyderabad
Date: 13 May 2011

Dr. K Anji Reddy
Chairman

G V Prasad
Vice Chairman and CEO

K Satish Reddy
Managing Director and COO

Umang Vohra
Chief Financial Officer

Sandeep Poddar
Company Secretary

Information on the Financials of Subsidiaries (Prepared as per IGAAP)

ALL AMOUNTS IN INDIAN RUPEES MILLIONS, EXCEPT SHARE DATA AND WHERE OTHERWISE STATED

NAME OF THE SUBSIDIARY	CAPITAL	RESERVES	TOTAL ASSETS	TOTAL LIABILITIES	INVESTMENTS (EXCL.INVESTMENT IN SUBSIDIARIES)	TURNOVER	PROFIT BEFORE TAX	PROVISION FOR TAX	PROFIT AFTER TAX	PROPOSED DIVIDEND
DRL Investments Limited	1	60	2,964	2,964	–	–	102	39	63	–
Reddy Pharmaceuticals Hong Kong Limited	58	(50)	10	10	–	–	–	–	–	–
OOO JV Reddy Biomed Limited	5	23	27	27	–	–	1	–	1	–
Reddy Antilles NV	18	174	450	450	–	–	1	–	1	–
Dr. Reddy's Farmaceutica Do Brasil Ltda.	634	(1,013)	187	187	–	118	(81)	(3)	(78)	–
Dr. Reddy's Laboratories Inc.	580	5,180	18,175	18,175	–	19,814	55	(390)	445	–
Reddy US Therapeutics Inc.	94	(84)	25	25	–	–	18	–	18	–
Reddy Cheminor SA	2	(2)	5	5	–	–	–	–	–	–
Cheminor Investments Limited	1	–	1	1	–	–	–	–	–	–
Aurigene Discovery Technologies Limited	1,053	(90)	1,396	1,396	–	1,173	208	(35)	243	–
Kunshan Rotam Reddy Pharmaceutical Co. Limited	791	(465)	676	676	–	818	13	8	5	–
Reddy Netherlands BV	2	(25)	2	2	–	–	(3)	–	(3)	–
Aurigene Discovery Technologies Inc.	210	(221)	11	11	–	–	(1)	–	(1)	–
Dr. Reddy's Laboratories (EU) Limited	723	420	1,953	1,953	–	535	18	(3)	21	–
Dr. Reddy's Laboratories (UK) Limited	–	419	1,166	1,166	–	2,319	234	27	207	–
Dr. Reddy's Laboratories (Proprietary) Limited	–	(39)	384	384	–	694	11	9	2	–
Promius Pharma LLC (Formerly Reddy Pharmaceuticals Inc)	123	(1,854)	2,127	2,127	–	523	(812)	–	(812)	–
OOO Dr. Reddy's Laboratories Limited	72	82	5,201	5,201	–	8,885	7	15	(8)	–
Dr. Reddys Bio-Sciences Limited	362	(154)	268	268	–	–	–	–	–	–
Trigenesis Therapeutics Inc.	–	19	19	19	–	–	(1)	–	(1)	–
Industrias Quimicas Falcon de Mexico, SA de CV	594	76	2,754	2,754	–	2,059	80	41	39	–
Lacock Holdings Limited	1	18,344	31,359	31,359	–	–	350	63	287	–
betapharm Arzneimettal GmbH	59	2,824	6,236	6,236	–	5,325	384	–	384	–
beta Healthcare Solutions GmbH	1	(37)	–	–	–	–	(9)	–	(9)	–
beta institut fur soziaimedizinsche Forschung and Entwicklung GmbH	6	–	24	24	–	–	–	–	–	–
Reddy Holding GmbH	1	(367)	25,619	25,619	–	(8)	(726)	99	(825)	–
Dr. Reddys Pharma Italia SPA	63	(70)	829	829	–	–	(11)	–	(11)	–
Dr. Reddys Pharma Iberia SA	321	(602)	108	108	–	153	72	–	72	–
Dr. Reddy's Laboratories (Australia) Pty. Limited	35	(367)	73	73	–	98	(132)	–	(132)	–
Aurigene Discovery Technologies (Malaysia) SDN BHD	1	(35)	23	23	–	–	(15)	–	(15)	–
Eurobridge Consulting BV	31	119	156	156	–	–	(1)	–	(1)	–
OOO DRS LLC	30	107	247	247	–	–	(6)	–	(6)	–
Dr. Reddy's New Zealand Limited (formerly Affordable Healthcare Limited)	–	105	240	240	–	393	26	18	8	–
Dr. Reddy's Laboratories SA	2,951	7,980	23,482	23,482	–	11,113	3,342	353	2,989	–
Dr. Reddy's Laboratories Louisiana LLC	–	919	1,767	1,767	–	1,777	(191)	–	(191)	–
Dr. Reddy's Laboratories ILAC TICARET Limited	–	–	–	–	–	–	–	–	–	–
Dr. Reddy's SRL (formerly Jet Generici SRL)	6	(492)	286	286	–	192	(138)	–	(138)	–
Chirotech Technology Limited	67	(311)	358	358	–	467	(133)	2	(135)	–
Dr. Reddy's Pharma SEZ Limited	1	–	1	1	–	–	–	–	–	–
Dr. Reddy's Laboratories International SA	4	(1)	4	4	–	–	(1)	–	(1)	–
Idea2Enterprises (India) Private Limited	24	1,423	1,450	1,450	–	–	–	–	–	–
Dr. Reddy's Laboratories Romania – SRL	24	6	63	63	–	–	8	2	6	–
I-VEN Pharma Capital Limited	1	1,401	2,661	2,661	–	–	(120)	24	(144)	–
Dr. Reddy's Venezuela, CA	5	–	5	5	–	–	–	–	–	–
Dr. Reddy's Laboratories Tennessee, LLC	1,120	(36)	1,270	1,270	–	–	(32)	–	(32)	–

NOTES: Investments includes investment made except investments made in subsidiary companies.

Notice is hereby given that the 27th Annual General Meeting of the members of the Company will be held on Thursday, 21 July 2011 at 11.30 A.M. at the Grand Ball Room, Hotel Taj Krishna, Road No. 1, Banjara Hills, Hyderabad – 500 034 to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Balance Sheet as at 31 March 2011 and the Profit & Loss account of the Company for the year ended on that date along with the Reports of the Directors' and Auditors' thereon.
2. To declare dividend on the equity shares for the financial year 2010-11.
3. To appoint a Director in place of Mr. Anupam Puri, who retires by rotation, and being eligible, seeks re-appointment.
4. To appoint a Director in place of Dr. Bruce L A Carter, who retires by rotation, and being eligible, seeks re-appointment.
5. To appoint the Statutory Auditors and fix their remuneration. The retiring Auditors B S R & Co., Chartered Accountants are eligible for re-appointment.

SPECIAL BUSINESS:

6. **RE-APPOINTMENT OF DR. K ANJI REDDY AS WHOLE-TIME DIRECTOR DESIGNATED AS CHAIRMAN**

To consider and, if thought fit, to pass with or without modification, the following resolution as a Special Resolution:

"**RESOLVED THAT** pursuant to the provisions of Section 198, 269, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956, read with Schedule XIII of the said Act, including any statutory modification and re-enactment thereof for the time being in force, approval of the Company be and is hereby accorded to the re-appointment of Dr. K Anji Reddy as Whole-time Director designated as Chairman of the Company (not liable to retire by rotation) for a further period of five years with effect from 13 July 2011 to 12 July 2016 on the terms & conditions and remuneration as set out below:

(A) SALARY: ₹ 500,000 per month

(B) PERQUISITES:

Category A:

1. Housing: Rent Free Accommodation or House Rent Allowance of ₹ 250,000 per month.
2. Medical Reimbursement for self and family as per the rules of the Company.
3. Leave Travel Assistance, as per the rules of the Company, value not exceeding one month's salary.

Category B:

Contribution to Provident Fund as per the rules of the Company. This will not be included in the computation of the ceiling on perquisites or remuneration to the extent these either singly or put together are not taxable under the Income Tax Act, 1961. Gratuity shall be payable as per the rules of the Company.

Encashment of leave at the end of the tenure will not be included in the computation of the ceiling on perquisites.

Category C:

Car, telephone at residence and mobile phone for use on Company's business.

(C) COMMISSION:

In addition to the above salary and perquisites, commission will also be payable upto 1.0% of the net profits of the Company calculated in the manner referred to in Section 198 of the Companies Act, 1956, as may be decided by the Board of Directors of the Company.

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorized to vary, alter or modify the different components of the above-stated remuneration as may be agreed to between the Board of Directors and Dr. K Anji Reddy.

RESOLVED FURTHER THAT in the event of any loss or inadequacy of profits in any financial year during his tenure, the Company shall pay Dr. K Anji Reddy, the remuneration by way of salary, perquisites, commission or any other allowances as specified above and in accordance with the limits specified under the Companies Act, 1956 or such other limits as may be prescribed by the Government from time to time in this regard, as minimum remuneration."

7. **RE-APPOINTMENT OF MR. G V PRASAD AS WHOLE-TIME DIRECTOR DESIGNATED AS VICE-CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

To consider and, if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

"**RESOLVED THAT** pursuant to the provisions of Section 198, 269, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956, read with Schedule XIII of the said Act, including any statutory modification and re-enactment thereof for the time being in force, approval of the Company be and is hereby accorded to the reappointment of Mr. G V Prasad as Whole-time Director designated as Vice-Chairman and Chief Executive Officer of the Company (not liable to retire by rotation) for a further period of five years with effect from 30 January 2011 to 29 January 2016 on the terms & conditions and remuneration as set out below:

(A) SALARY: ₹ 350,000 per month

(B) PERQUISITES:

Category A:

1. Housing: Rent Free Accommodation or House Rent Allowance of ₹ 175,000 per month.
2. Medical Reimbursement for self and family as per the rules of the Company.
3. Leave Travel Assistance, as per the rules of the Company; value not exceeding one month's salary.

Category B:

Contribution to Provident Fund, Superannuation Fund or Annuity Fund as per the rules of the Company. These will not be included in the computation of the ceiling on perquisites or remuneration to the extent these either singly or put together are not taxable under the Income Tax Act, 1961. Gratuity shall be payable as per the rules of the Company.

Encashment of leave at the end of the tenure will not be included in the computation of the ceiling on perquisites.

Category C:

Car, telephone at residence and mobile phone for use on Company's business.

(C) COMMISSION:

In addition to the above salary and perquisites, commission will also be payable upto 0.75% of the net profits of the Company calculated in the manner referred to in Section 198 of the Companies Act, 1956, as may be decided by the Board of Directors of the Company.

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorized to vary, alter or modify the different components of the above-stated remuneration as may be agreed to between the Board of Directors and Mr. G V Prasad.

RESOLVED FURTHER THAT in the event of any loss or inadequacy of profits in any financial year during his tenure, the Company shall pay Mr. G V Prasad, the remuneration by way of salary, perquisites, commission or any other allowances as specified above and in accordance with the limits specified under the Companies Act, 1956 or such other limits as may be prescribed by the Government from time to time in this regard, as minimum remuneration."

8. **REMUNERATION TO DIRECTORS OTHER THAN THE MANAGING / WHOLE-TIME DIRECTORS**

To consider and, if thought fit, to pass with or without modification, the following resolution as a Special Resolution:

(a) "**RESOLVED THAT** pursuant to the provisions of Section 309 and other applicable provisions of the Companies Act, 1956, including any statutory modification and re-enactment thereof for the time being in force, the Directors of the Company, other than the Managing / Whole-time Directors, be collectively paid a commission upto 0.50% of the net profits of the Company, calculated in the manner referred to in Section 198 of the Companies Act, 1956 and as may be decided by the Board of Directors of the Company for each of the financial years starting from financial year 2011-12 and ending with financial year 2015-16."

(b) "**RESOLVED THAT** the Directors of the Company, other than the Managing / Whole-time Directors, be collectively granted upto 200,000 stock options in aggregate at any point of time during the financial years starting from financial year 2011-12 and ending with financial year 2015-16 and out of which upto 60,000 stock options be granted in a financial year to all the said Directors collectively under any of the Company's Stock Option Schemes, either existing or to be framed in future and on such terms and conditions as the Nomination, Governance and Compensation Committee / Board of Directors may in its absolute discretion deem fit."

NOTES:

1. An explanatory statement pursuant to Section 173 (2) of the Companies Act, 1956 in respect of the special business is annexed hereto.
2. **A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself/herself and the proxy need not be a member of the Company. The instrument of proxy in order to be effective, must be deposited at the Registered Office of the Company, duly completed and signed not less than 48 hours before the meeting.**
3. The register of members and the share transfer books of the Company will remain closed from Tuesday, 5 July 2011 to Saturday, 9 July 2011 (both days inclusive).
4. The Board of Directors at their meeting held on May 13, 2011 has recommended a dividend of ₹ 11.25 per share on equity share of ₹ 5/- each as final dividend for the financial year 2010-11. Dividend, if declared, at the annual general meeting, will be paid on or after 28 July 2011.
5. The shareholders are requested to intimate immediately, any change in their address or bank mandates to their depository participants with whom they are maintaining their demat accounts or to the Company's Share Transfer Agent, M/s. Bigshare Services Private Limited, if the shares are held by them in certificate form.
6. Shareholders desiring any information relating to the accounts are requested to write to the Company at an early date so as to enable the management to keep the information ready.
7. For the convenience of members and for proper conduct of the meeting, entry to the place of meeting will be regulated by attendance slip, which is a part of the annual report. Members are requested to sign at the place provided on the attendance slip and hand it over at the entrance of the venue.
8. Members are requested to kindly bring their copy of the Annual Report with them at the Annual General Meeting, as no extra copy of Annual Report would be made available at the Annual General Meeting.
9. Consequent upon the introduction of Section 109A of the Companies Act, 1956, shareholders are entitled to make a nomination in respect of shares held by them in physical form. Shareholders desirous of making a nomination are requested to send their requests in Form No. 2B in duplicate (which will be made available on request) to the Registrar and Share Transfer Agent of the Company.
10. The brief profile of the Directors proposed to be appointed / re-appointed is given in the section on Corporate Governance.
11. **Dr. Reddy's is concerned about the environment and believes in preserving natural resources. Recently, as part of the Green Initiative in Corporate Governance, the Ministry of Corporate Affairs (MCA), Government of India, through its circular nos. 17/2011 and 18/2011, dated 21 and 29 April 2011 respectively has allowed companies to send official documents to their shareholders electronically.**

    Being a responsible Company committed to reducing the carbon footprint and conserving the environment, we recognize the underlying theme of the above circulars and henceforth propose to send documents like Notice convening the general meetings, Financial Statements, Directors' Report, Auditors' Report etc. to the email address registered by the shareholders with the depositories.

    We request shareholders to update their email address with their depository participant to ensure that the annual report and other documents reaches them on their preferred email address. Shareholders holding shares in physical form may intimate us their e-mail address along with name, address and folio no. for registration at shares@drreddys.com.

By Order of the Board of Directors

Place: **Hyderabad**
Date: **13 May 2011**

Sandeep Poddar
Company Secretary

Explanatory statement pursuant to Section 173(2) of the Companies Act, 1956

ITEM NO. 6

Dr. K Anji Reddy (aged 72 years) is the Founder-Chairman of Dr. Reddy's Laboratories Limited ('Dr. Reddy's' or the 'Company'). He served in the state-owned Indian Drugs and Pharmaceuticals Limited from 1969 to 1975, was Founder-Managing Director of Uniloids Limited from 1976 to 1980 and Standard Organics Limited from 1980 to 1984, before founding Dr. Reddy's in 1984.

Under Dr. K Anji Reddy's leadership, Dr. Reddy's has become a pioneer and a trendsetter in the Indian pharmaceutical industry. It turned the Indian bulk drug industry from import-dependent in the mid-80s to self-reliant in the mid-90s and, finally, into the export-oriented industry that it is today. Dr. Reddy's was the first Company to begin drug discovery research in India in 1993.

He is a Bachelor of Science in Pharmaceuticals & Fine Chemicals from Bombay University and a Ph.D in Chemical Engineering from the National Chemical Laboratory, Pune.

Dr. K Anji Reddy has been a recipient of several awards and honours. Notable among them are the 'Padma Shri' Award in the year 2001 and the 'Padma Bhusan' Award in the year 2011, conferred on him by the Government of India.

Dr. K Anji Reddy was re-appointed as Whole-time Director designated as Chairman of the Company at the 22nd Annual General Meeting of the members of the Company held on 28 July 2006, for a period of five years ending 12 July 2011. As part of the initiative to create enduring guidance for the Company, the Board of Directors of the Company, at their meeting held on 25 January 2011, had approved the re-appointment of Dr. K Anji Reddy as Whole-time Director designated as Chairman of the Company for a further period of five years commencing 13 July 2011 on the terms and conditions and remuneration as set out in resolution no. 6 of the accompanying notice.

Dr. K Anji Reddy holds 600,956 equity shares in the Company.

Companies (other than Dr. Reddy's Laboratories Limited) in which Dr. K Anji Reddy holds directorship in terms of section 275 of the Companies Act, 1956 and committee memberships are as under:

Directorships

1. Green Park Hotels and Resorts Limited (formerly Diana Hotels Limited)
2. Araku Originals Limited
3. Dr. Reddy's Holdings Limited
4. Idea2Enterprises (India) Private Limited

Chairperson of Board Committees

None

Member of Board Committees

None

Since, Dr. K Anji Reddy has attained the age of 70 years; approval of the members for his re-appointment is sought by a special resolution. Your Directors recommend the resolution set forth in Item No. 6 for approval of the members.

None of the Directors other than Dr. K Anji Reddy, Mr. G V Prasad and Mr. Satish Reddy are deemed to be concerned or interested in the above resolution.

ITEM NO. 7

Mr. G V Prasad (aged 51 years) leads the core team that drives the growth and performance of Dr. Reddy's. Mr. Prasad has played a key role in the evolution of Dr. Reddy's from a mid-sized pharmaceutical company into a globally respected pharmaceutical major. Mr. Prasad is widely credited as the architect of Dr. Reddy's successful global generics strategy. He envisioned new business platforms and is dedicated to building the innovation side of the business. He is also a champion of 'Sustainability Thinking' and has spearheaded efforts to reduce the Company's ecological footprint by embracing green technologies and processes.

Mr. G V Prasad has been the Vice-Chairman and CEO of Dr. Reddy's Laboratories Limited ('Dr. Reddy's' or the 'Company') since 2001, when Cheminor Drugs Limited, the Company of which he was then Managing Director, merged with Dr. Reddy's. He nurtured new lines of business, helped to build a high-talent organization, and was instrumental in introducing best-in-class practices in corporate governance.

Mr. Prasad earned his degree in Chemical Engineering from the Illinois Institute of Technology, Chicago, USA and his Masters in Industrial Administration from Purdue University, USA.

Mr. Prasad was re-appointed as Whole-time Director designated as Vice-Chairman and CEO of the Company at the 22nd Annual General Meeting of the members of the Company held on 28 July 2006, for a period of five years ending 29 January 2011. As part of the initiative to create enduring guidance for the Company, the Board of Directors of the Company, at their meeting held on 25 January 2011, had approved the re-appointment of Mr. G V Prasad as Whole-time Director designated as Vice-Chairman and CEO of the Company for a further period of five years commencing 30 January 2011 on the terms and conditions and remuneration as set out in resolution no. 7 of the accompanying notice.

Mr. G V Prasad holds 1,365,840 equity shares in the Company

Companies (other than Dr. Reddy's Laboratories Limited) in which Mr. G V Prasad holds directorship in terms of section 275 of the Companies Act, 1956 and committee memberships are as under:

Directorships

1. DRL Investments Limited
2. Cheminor Investments Limited
3. Aurigene Discovery Technologies Limited
4. Green Park Hotels and Resorts Limited (formerly Diana Hotels Limited)
5. Dr. Reddy's Bio Sciences Limited
6. Infotech Enterprises Limited
7. Dr. Reddy's Pharma SEZ Limited
8. Dr. Reddy's Holdings Limited
9. I-VEN Pharma Capital Limited
10. Idea2Enterprises (India) Private Limited

Chairperson of Board Committees

Aurigene Discovery Technologies Limited	– Remuneration Committee
	– Audit Committee
Infotech Enterprises Limited	– Investors' Grievance Committee

Member of Board Committees

Dr. Reddy's Bio Sciences Limited	– Audit Committee

Your Directors recommend the resolution set forth in Item No. 7 for approval of the members.

None of the Directors other than Dr. K Anji Reddy, Mr. G V Prasad and Mr. Satish Reddy are deemed to be concerned or interested in the above resolution.

ITEM NO. 8 (a) & (b)

With the constitution of various Committees of the Board and the increasing demand over the time of the independent and professional Directors on various matters relating to the Company, it is advisable to put in place an appropriate mechanism to compensate, attract and retain professionals on the Board. Thus it is proposed to remunerate the non-executive Directors based on the performance of the Company on yearly basis by way of commission on the net profits and grant of stock options. The commission proposed for the independent Directors is set out in the resolution no. 8(a) of the accompanying notice.

The Company has Employee Stock Option Schemes, which covers employees and Directors of the Company and its subsidiaries.

As per Clause 49 of the Listing Agreement, it is mandatory for the Companies to seek approval of the shareholders to specify the limit on the number of stock options that can be granted to non-executive Directors, including independent Directors, in any financial year and in aggregate. Resolution no. 8(b) specifies the limits for the maximum number of stock options that can be granted to independent Directors of the Company, in any financial year and in aggregate.

Your Directors recommend the resolution set forth in Item No. 8(a) and 8(b) for approval of the members.

None of the Directors other than Mr. Anupam Puri, Dr. Omkar Goswami, Mr. Ravi Bhoothalingam, Ms. Kalpana Morparia, Dr. Bruce L A Carter, Dr. J P Moreau and Dr. Ashok Ganguly as independent Directors of the Company are deemed to be concerned or interested in these resolutions except as members.

By Order of the Board of Directors

Place: **Hyderabad**
Date: **13 May 2011**

Sandeep Poddar
Company Secretary

Glossary

₹	Indian Rupees
ANDA	Abbreviated New Drug Application
AS	Accounting Standards
API	Active Pharmaceutical Ingredients and Intermediates
ADR	American Depository Receipt
ADS	American Depository Share
ARL	American Remedies Limited
AP	Andhra Pradesh
AGM	Annual General Meeting
BBS	Behavioral Based Safety
BSE	Bombay Stock Exchange Limited
C&F	Carrying and Forwarding
CDSL	Central Depository Services (India) Limited
CNS	Central Nervous System
CPDL	Centre for PwD Livelihood
CTO	Chemical Tech-Ops
CDL	Cheminor Drugs Limited
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operating Officer
CKD	Chronic Kidney Disorder
CDM	Clean Development Mechanism
COBE	Code Of Business Conduct and Ethics
COSO	Committee of Sponsoring Organizations
CIS	Commonwealth of Independent States
CAGR	Compounded Annual Growth Rate
CII	Confederation of Indian Industry
CSR	Corporate Social Responsibility
cGMP	Current Good Manufacturing Practices
CPS	Custom Pharmaceutical Services
CESTAT	Customs Excise Service Tax Appellate Tribunal
DP	Depository Participant
DF	Differentiated Formulations
DRF	Dr. Reddy's Foundation
DRFHE	Dr. Reddy's Foundation for Health Education
DMF	Drug Master File
DPCO	Drugs (Prices Control) Order, 1995
ECCE	Early Childhood Care and Education
EBIDTA	Earnings Before Interest, Taxes, Depreciation and Amortization
EPS	Earnings Per Share
ESOP	Employees Stock Option Plan
ERM	Enterprise-wide Risk Management
FY	Financial Year
FIFO	First in first out
FTO	Formulation Tech-Ops
GP	General Practitioner
GSK	GlaxoSmithKline Plc
GDR	Global Depository Receipts
GG	Global Generics
HR	Human Resources
IMS	IMS Health Inc.
ICON	Indian Co-operative Oncology Network
IGAAP	Indian Generally Accepted Accounting Principles
IPO	Initial Public Offer
ICAI	Institute of Chartered Accountants of India
IPDO	Integrated Product Development Organization
IP	Intellectual Property
IPM	Intellectual Property Management
IASB	International Accounting Standard Board
IFRS	International Financial Reporting Standards
IPA	Isopropyl Alcohol
JV	Joint Venture
KARV	Kallam Anji Reddy Vidyalaya
LAYD	Life at Your Door Step
LABS	Livelihood Advancement Business School
MC	Management Council
MDC	Methylene dichloride
MIT	Massachusetts Institute of Technology
MoU	Memorandum of Understanding
MSDF	Michael & Susan Dell Foundation
NDMA	National Disaster Management Authority
NSDL	National Securities Depository Limited
NSE	National Stock Exchange of India Limited
NCEs	New Chemical Entities
NYSE	New York Stock Exchange, Inc.
NGO	Non Government Organization
OTC	Over-the-counter
PwD	Persons with Disability
PSAI	Pharmaceuticals Services and Active Ingredients
PromOTE	Promotion of Oncology Training and Education
R&D	Research and Development
RoW	Rest of the World
RoCE	Return on Capital Employed
SHE	Safety, Health and Environment
SOX	Sarbanes Oxley Act, 2002
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission
SG&A	Selling, General and Administrative
SLP	Senior Leaders Program
SRI	Skilling Rural India
SERP	Society for Elimination of Rural Poverty
SEZ	Special Economic Zone
SEFL	Standard Equity Fund Limited
TSDF	Treatment Disposal Storage Facility
UK	United Kingdom
UNFCCC	United Nations Framework Convention on Climate Change
US$	United States Dollar
USFDA	United States Food and Drug Administration
USGAAP	United States Generally Accepted Accounting Principles
US / USA	United States of America
FCPA	US Foreign Corrupt Practices Act
ZLD	Zero Liquid Discharge

DR.REDDY'S

Dr. Reddy's Laboratories Limited

Regd. Office: 8-2-337, Road No. 3, Banjara Hills, Hyderabad – 500 034

Attendance Slip

Regd. Folio No. / Client ID :

Name & Address of
First / Sole Shareholder :

No. of Shares held :

I hereby record my presence at the 27th Annual General Meeting of the Company to be held on Thursday, 21 July 2011 at 11.30 A.M. at the Grand Ball Room, Hotel Taj Krishna, Road No.1, Banjara Hills, Hyderabad – 500 034.

Signature of the Member / Proxy

Notes:

a) **Only Member / Proxy can attend the meeting. No minors would be allowed at the meeting.**

b) Member / Proxy wish to attend the meeting must bring this attendance slip to the meeting and hand over at the entrance duly filled in and signed.

c) Member / Proxy should bring his / her copy of the Annual Report for reference at the meeting.

DR.REDDY'S

Dr. Reddy's Laboratories Limited

Regd. Office: 8-2-337, Road No. 3, Banjara Hills, Hyderabad – 500 034

Proxy Form

Regd. Folio No. / Client ID :

No. of Shares held :

I / We ____________________

of ____________________ being a member / members

of the above named Company, hereby appoint ____________________ of

____________________ or

failing him / her ____________________ of ____________________

as my / our Proxy to attend and vote for me / us on my / our behalf at the 27th Annual General Meeting of the Company to be held on Thursday, 21 July 2011 at 11.30 A.M. at the Grand Ball Room, Hotel Taj Krishna, Road No.1, Banjara Hills, Hyderabad – 500 034, and at any adjournment(s) thereof.

Revenue Stamp

Signed this ____________ day of ____________ 2011

Notes:

a) Proxy need not be a member of the Company.

b) The Proxy form duly filled in and signed by the member(s) across Revenue Stamp should reach the Company's Registered Office: Dr. Reddy's Laboratories Ltd., 8-2-337, Road No. 3, Banjara Hills, Hyderabad-500 034 at least 48 hours before the time fixed for the meeting.

c) Corporate members intending to send their authorised representative(s) to attend the meeting are requested to send a certified copy of the board resolution authorizing their representative(s) to attend and vote on their behalf at the meeting.

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